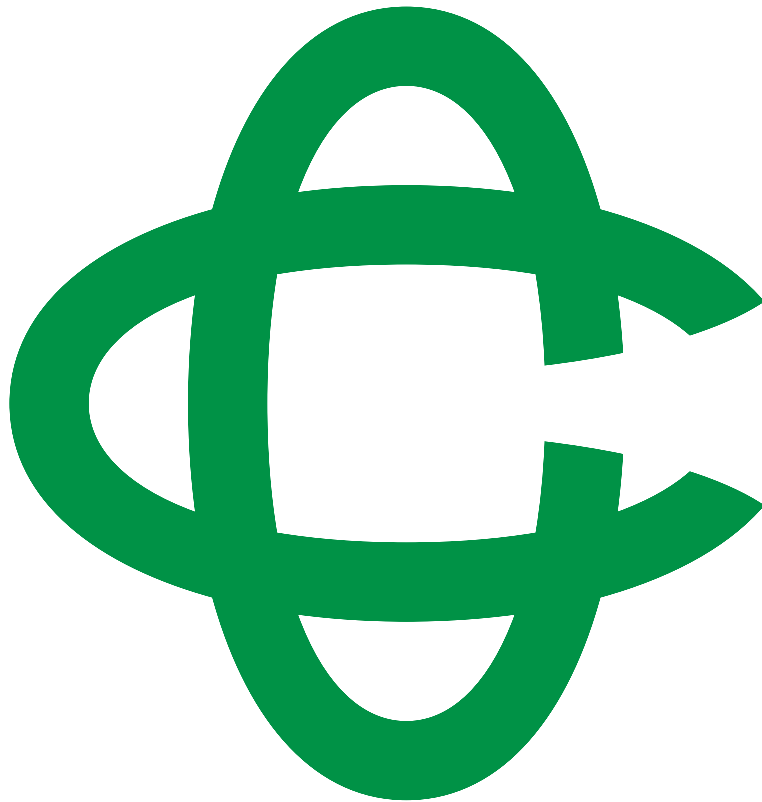
REPORTS AND CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS AT JUNE 30, 2023



GRUPPO BCC
ICCREA

Report and consolidated financial statements at June 30, 2023 of the Iccrea Cooperative Banking Group

Report and separate financial statements at June 30, 2023 of the Parent Company Iccrea Banca S.p.A.

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

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

CONSOLIDATED REPORT ON OPERATIONS

June 30, 2023

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CORPORATE BOARDS

Elected at the Ordinary Shareholders' Meeting of June 16, 2022, for the 2022-2024 term

BOARD OF DIRECTORS

MAINO Giuseppe	*Chairman*
STRA Pierpaolo	*Senior Deputy Chairman*
FIORDELISI Teresa	*Deputy Chairman*
GAMBI Giuseppe (3) (5)	
BENABDALLAH Nadia	
ALFIERI Lucio (1)	
CARRI Francesco	
OTTOBONI Roberto	
ZONI Laura* (2) (4)	
RIMOLDI Enrica* (1) (4) (5)	
LEONE Paola* (2) (3)	
MENEGATTI Luigi* (1) (3) (4)	
LONGHI Maurizio	
PIVA Flavio	
PETRINI Paola (2) (5)	

* Independent directors

(1) Member of the Risks Committee

(2) Member of the Appointments Committee

(3) Member of the Remuneration Committee

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

(5) Member of the Environmental Social Governance Committee

EXECUTIVE COMMITTEE

CARRI Francesco	*Chairman*
BENABDALLAH Nadia	
LONGHI Maurizio	
PIVA Flavio	
OTTOBONI Roberto	

BOARD OF AUDITORS

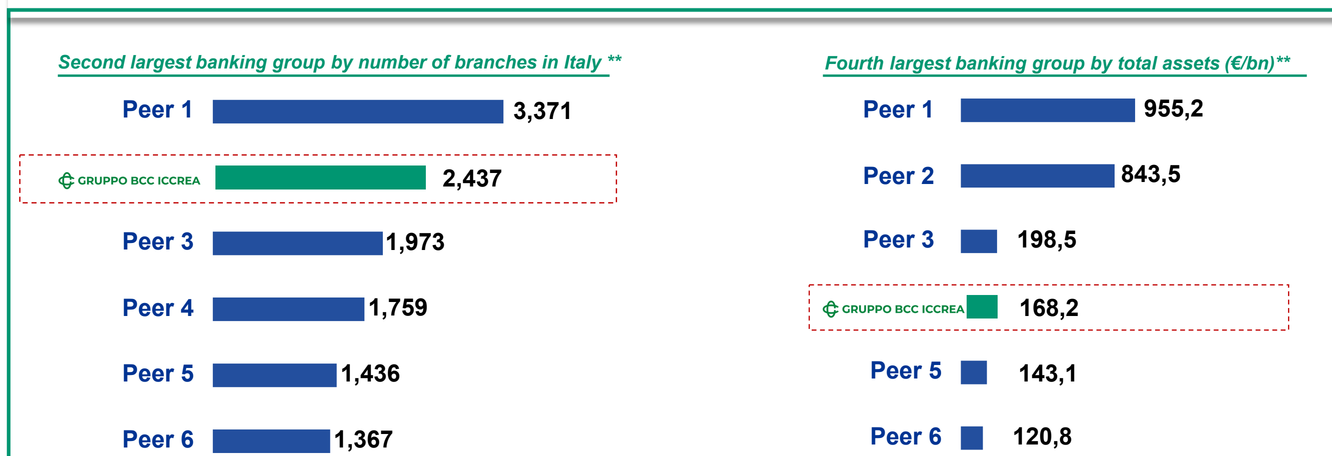
ZANARDI Barbara	*Chairman*
ANDRIOLO Riccardo	*Standing Auditor*
CAPUANO Claudia	*Standing Auditor*
ROCCHETTI Vittorio	*Alternate Auditor*
CIGNOLINI MICHELA	*Alternate Auditor*

SENIOR MANAGEMENT

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

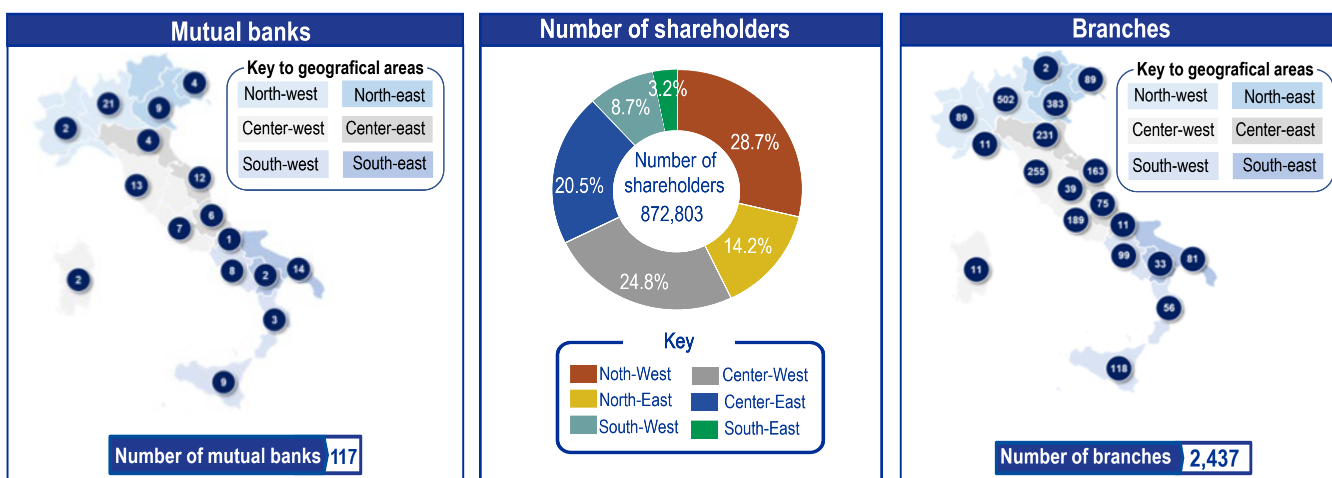
1. EXECUTIVE SUMMARY

KEY FIGURES AND MARKET POSITIONING



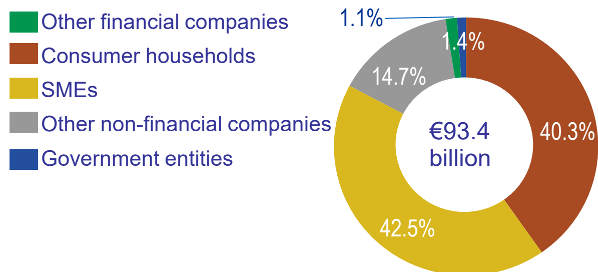
* Gross loans to customers
** Source infoproviders: figures at June 30, 2023

GEOGRAPHICAL POSITIONING OF THE GROUP RETAIL BANKS

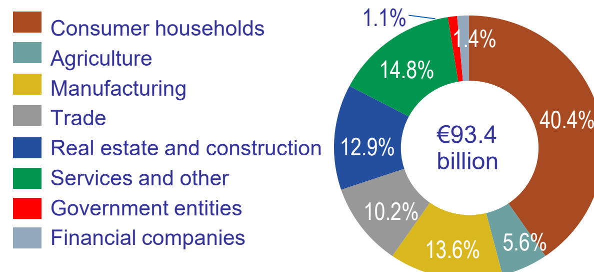


BREAKDOWN OF CUSTOMER BASE

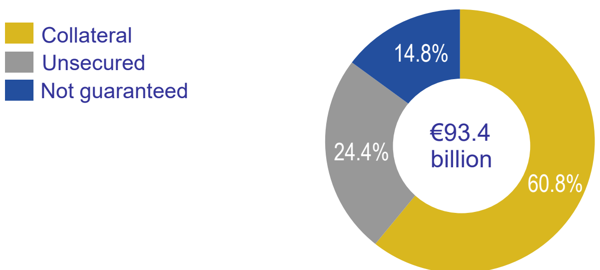
Type of counterparty



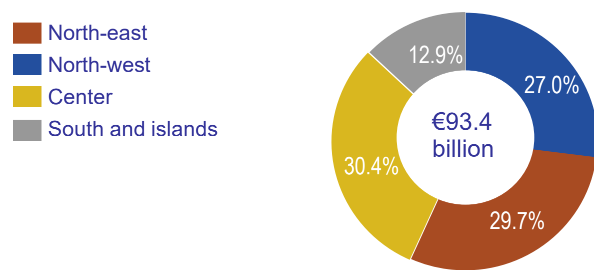
Economic activity of counterparty



Type of guarantee

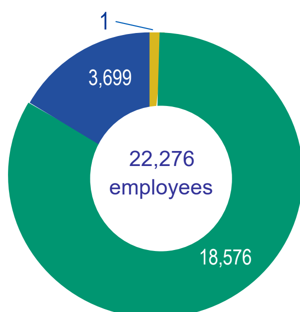


Distribution of customers by geographical area

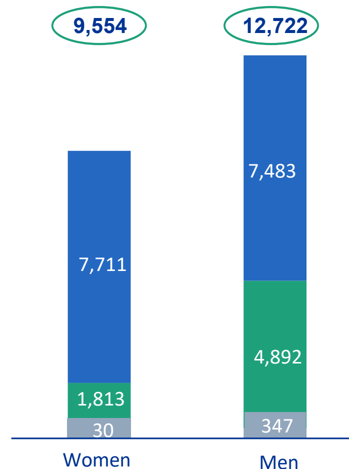


BREAKDOWN OF GROUP EMPLOYEES

Distribution of ICBG employees



Breakdown of ICBG employees by category



MAIN INDICATORS AT JUNE 30, 2023, DECEMBER 31, 2022, AND JUNE 30, 2022

PERFORMANCE INDICATORS [1] (amounts in thousands of euros)	30/06/2023	31/12/2022[2]	30/06/2022[7]
STRUCTURAL RATIOS			
Net loans to customers measured at amortized cost /total assets	53.3%	52.4%	51.1%
Direct funding from customers/total liabilities	68.8%	69.6%	68.4%
Equity (including profit/loss) /total liabilities	7.5%	6.8%	6.2%
Loan to deposit ratio	71.0%	70.8%	70.9%
Net loans to ordinary customers measured at amortized cost/direct funding from ordinary customers [3]	76.2%	74.1%	73.8%
PROFITABILITY RATIOS			
ROE (Net profit)/ net equity including the profit for the period)	6.3%	15.1%	6.2%
ROTE [Net profit/net tangible equity (Equity including profit – intangible assets]	6.4%	15.3%	6.3%
ROA (Net profit/total assets)	0.5%	1.0%	0.4%
Cost/income ratio	57.7%	59.1%	60.8%
Personnel expenses/gross income	34.5%	35.1%	34.0%
Net interest income/gross income	72.2%	71.6%	66.1%
Net fee and commission income /gross income	24.9%	27.0%	28.2%
Net interest income/Number of employees at end-period	87.4	166.8	75.4
Net fee and commission income/Number of employees at end-period	30.1	62.8	32.1
Gross income/Number of employees at end-period	121.1	232.8	114.0
RISK RATIOS			
Gross impaired loans/gross loans measured at amortized cost [4]	4.4%	4.8%	5.7%
Gross impaired loans to customers/gross loans to customers measured at amortized cost	4.5%	4.9[5]%	5.9%
Net impaired loans to customers/net loans to customers measured at amortized cost	1.4%	1.7[6]%	2.2%
Net Stage 2 loans to customers measured at amortized cost/net performing loans to customers measured at amortized cost	7.3%	8.6%	10.3%
Net bad loans/net loans to customers measured at amortized cost	0.2%	0.3%	0.5%
Net UTP loans/net loans to customers measured at amortized cost	0.9%	1.1%	1.4%
Net writedowns/(writebacks) for credit risk/net loans to customers measured at amortized cost	0.2%	0.5%	0.2%
Writedowns of impaired loans/gross impaired loans to customers measured at amortized cost	69.3%	67.8%	64.1%
Writedowns of bad loans/gross bad loans	84.2%	82.3%	81.0%
Writedowns of UTP loans/gross UTP loans	66.6%	64.4%	57.3%
Texas ratio	27.3%	31.5%	38.7%
CAPITAL RATIOS - phased-in			
Common Equity Tier 1 ratio	19.9%	19.2%	17.8%
Tier 1 ratio	19.9%	19.3%	17.9%
Total capital ratio	21.1%	20.4%	19.0%
Total own funds	13,231,919	13,025,315	12,058,058
of which: Tier 1 capital after filters and deductions	*12,527,434*	*12,315,793*	*11,337,451*
Risk-weighted assets (RWA)	62,854,154	63,890,856	63,476,153
CAPITAL RATIOS - fully loaded			
Common Equity Tier 1 ratio	19.8%	18.5%	17.0%
Tier 1 ratio	19.8%	18.6%	17.1%
Total capital ratio	21.0%	19.7%	18.2%
LEVARAGE RATIO			
Phased-in Tier 1/Total assets	7.2%	6.9%	6.2%
Fully loaded Tier 1/Total assets	7.2%	6.5%	5.9%
LIQUIDITY RATIOS			
Liquidity coverage ratio (LCR)	256.8%	230.5%	251.2%
Net stable funding ratio (NSFR)	147.6%	143.6%	139.8%
Encumbered asset ratio	24.4%	25.0%	23.6%
Counterbalancing capacity	35,788,539	33,755,600	36,898,362

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

[2] The figures at December 31, 2022 and June 30, 2022 were calculated using data reclassified by attributing the balances reported as held for sale pursuant to IFRS 5 to the relevant financial statement items.

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

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

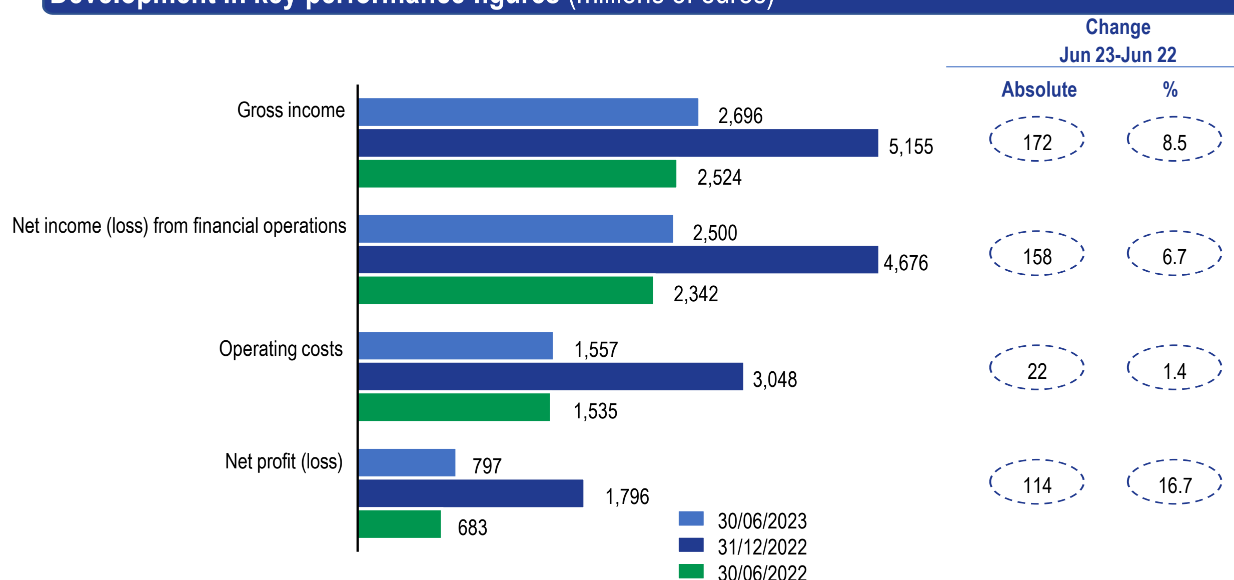
[5] Excluding loans involved in de-risking operations, which are reported under assets held for sale at December 31, 2022, the indicator would be 4.5%.

[6] Excluding loans involved in de-risking operations, which are reported under assets held for sale at December 31, 2022, the indicator would be 1.5%.

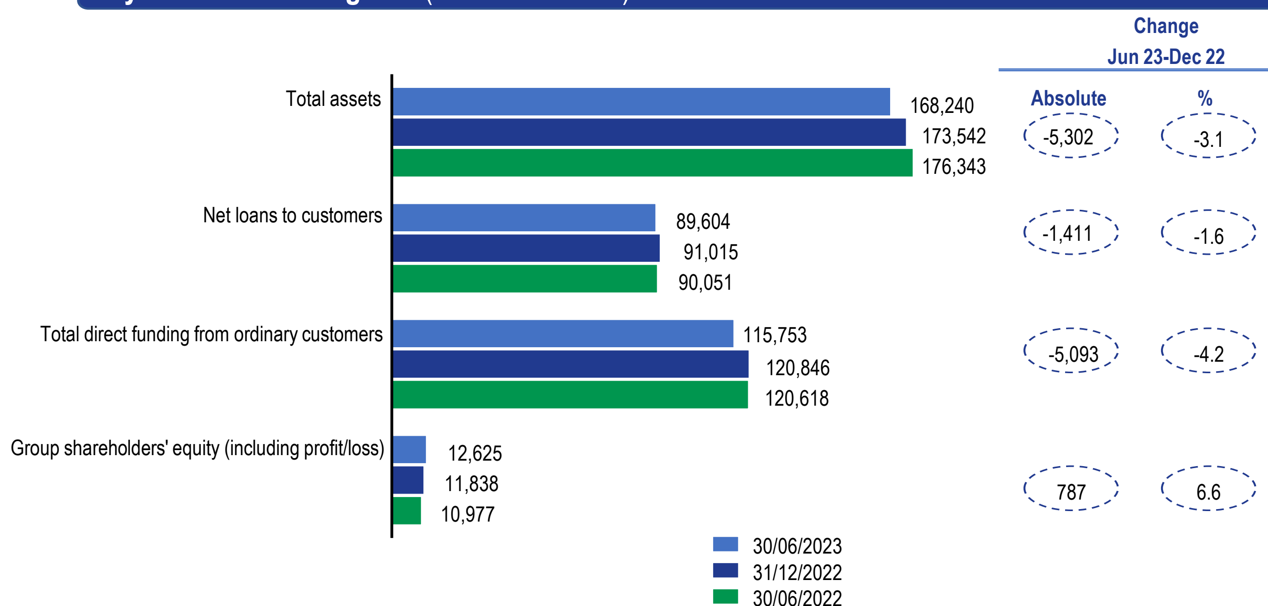
INCOME STATEMENT, BALANCE SHEET, OPERATIONAL AND STRUCTURAL DATA	30/06/2023	31/12/2022[7]	30/06/2022[5]
Profit/(loss) for the period	796.584	1.796.109	683.303
Profit/(loss) attributable to the Group	795.355	1.787.052	676.061
Gross income	2.696.840	5.154.949	2.524.251
Operating expenses	1.556.582	3.048.033	1.535.279
Net loans to customers measured at amortized cost	89.604.052	91.015.537	90.051.498
of which: Net bad loans	*214.193*	*289.272*	*422.746*
of which: Net UTP loans	*825.364*	*957.613*	*1.235.564*
Net non-performing loans	1.287.368	1.509.197	1.993.272
Total direct funding from ordinary customers	115.753.482	120.845.792	120.618.131
Equity pertaining to the Group (including profit/loss)	12.625.082	11.838.016	10.904.734
Intangible assets	157.399	167.559	164.902
Total consolidated assets	168.240.437	173.542.458	176.343.084
Number of branches	2.437	2.434	2.470
Number of Group banks	121	122	124
Number of affiliated mutual banks	117	118	120
Number of employees at end-period	22.276	22.144	22.137

[7] The figures at December 31, 2022 and June 30, 2022 were calculated using data reclassified by attributing the balances reported as held for sale pursuant to IFRS 5 to the relevant financial statement items.

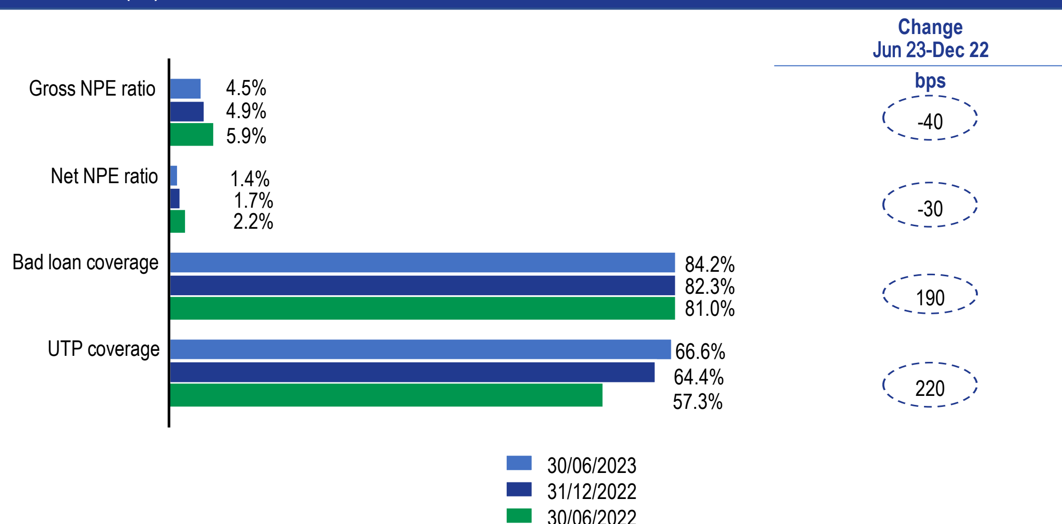
Development in key performance figures (millions of euros)



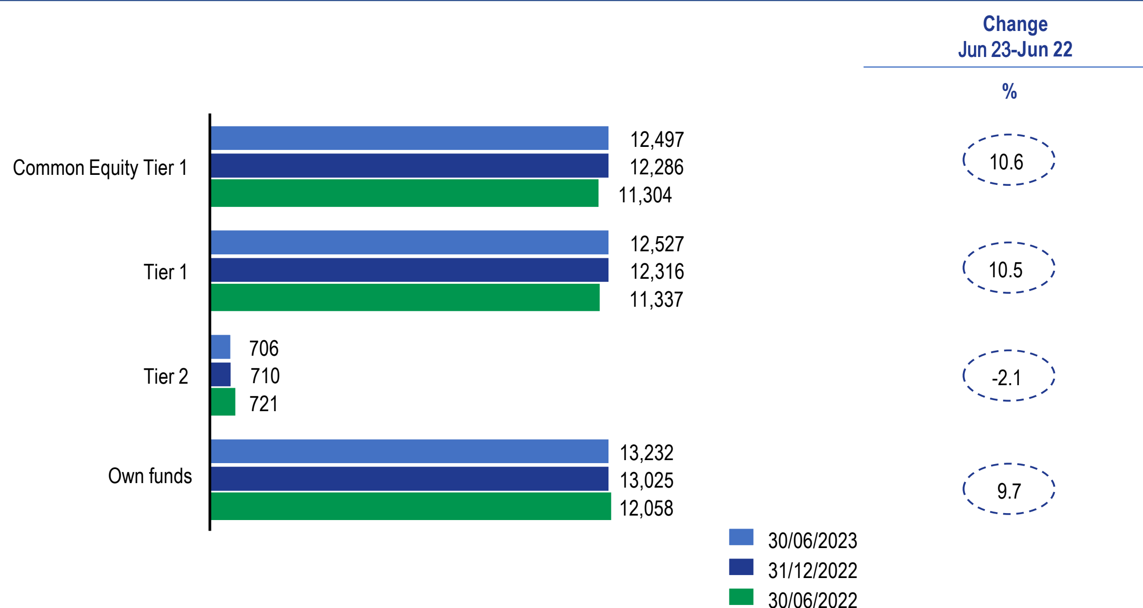
Key balance-sheet figures (millions of euros)



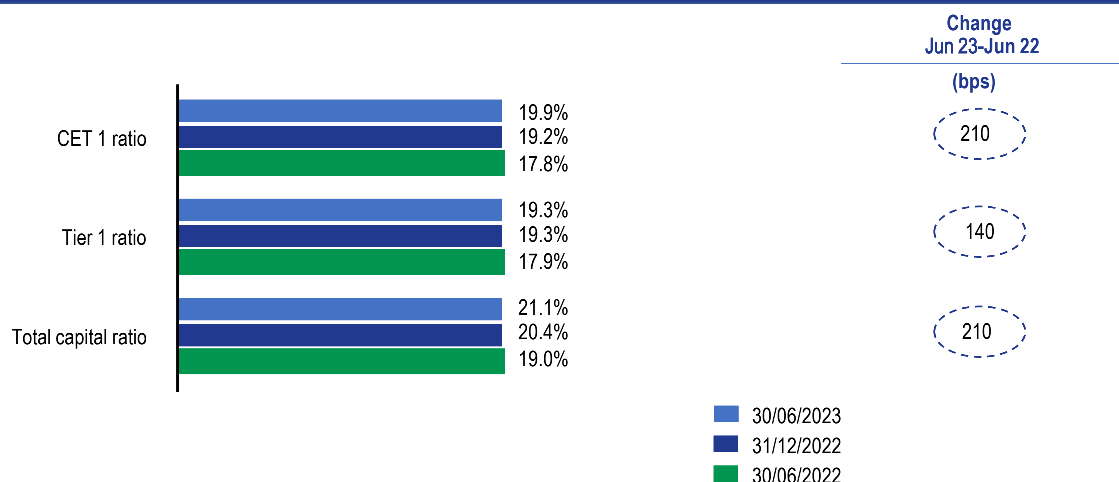
Key risk indicators (%)



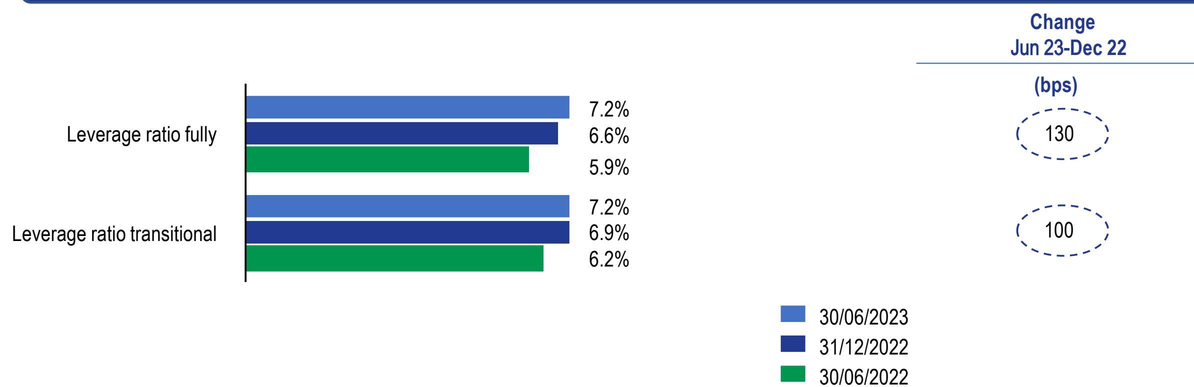
Composition of capital (millions of euros)



Capital ratios (%)



Leverage ratios (%)



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

The international and Italian macroeconomic environment

Towards the end of 2022, expectations of a recession during 2023 strengthened in the wake of the sharp increase in interest rates and expectations that this would have a significant impact on economic activity. However, the economy has displayed resilience in the first half of this year. First quarter growth in the United States was faster than expected, while the technical recession registered in the EMU at the turn of the year was smaller than expected. At the same time, China experienced a recovery after easing its Covid-related restrictions. In this environment, the main central banks signaled the need to proceed further with monetary tightening, fueling concerns about an incipient recession.

However, the evidence appears to suggest that the monetary tightening has had a limited impact on the economy. Overall inflation declined, albeit for reasons apparently only tenuously related to monetary policy. Both in the United States and the EMU, the decline was primarily driven by energy and food components. The full effects of traditional mechanisms for transmitting monetary policy had not yet fully unfolded, however, and although lending and investment were slowing, this occurred more or less in step with the overall slowdown of the economy. In the United States, financial prices also continued to rise throughout the first half of 2023, while the real estate market, despite being affected by the monetary tightening, has not yet seen a significant drop in prices.

The limited impact of monetary policy up to that point was not surprising. Despite the significant increase in policy interest rates, real rates were still at historically low levels. Furthermore, a large share of household debt bore fixed rates and had a relatively long tenor. Accordingly it was little affected by the increase in rates, while liquidity remained abundant with the balance sheets of the main central banks gradually declining from their historically very high levels.

At the same time, the Chinese economy experienced a significant rebound from the zero growth at the end of 2022 thanks to the concomitant abandonment of the zero-Covid strategy and the start of the lunar new year with the related holidays, which had led to a strong recovery in private consumption, although this was tempered by the negative contribution of real net exports. Other signs suggested that the foundations of this recovery were not very solid: despite the dynamism of demand, the depreciation of the yuan in foreign exchange markets and the high prices of raw materials in the previous months, inflation remained significantly lower than the central bank's target and was continuing to decline. In addition, youth unemployment was rising sharply and the debt situation in the real estate sector was far from reassuring.

The United States registered faster-than-expected growth in the second quarter, driven above all by developments in household consumption in the services sector and in productive investment. Exports and imports, on the other hand, tracked a strongly negative trend, reflecting the weakness of world trade, which continued to stagnate in the first half of 2023 and which only recently appears to show some signs of recovery. Inflation, which in July was 3.2% on an annual basis, up from 3% in June after more than a year of decline, is displaying unexpected resistance. Furthermore, wage growth and the weak and insufficient signs of a reduction in the imbalance in labor market supply and demand mean that the risk of a resurgence in price growth remains high, although labor market data at the end of August point to a possible deterioration, reflected in a similar slant of household confidence for both the current situation and looking forward. The President of the Fed, Jerome Powell, reiterated the central bank's determination to combat inflation, foreshadowing further increases in monetary policy rates. The overall monetary tightening, both that already implemented and prospective additional measures, is the basis of a forecast for modest GDP growth in the second half of the year, with the possibility of a contraction between the end of this year and the beginning of the next.

In the EMU, the data for the second quarter confirmed the weakness of the German economy, which showed no change on the previous quarter (-0.1% year-on-year), accompanied by northern Europe and Austria, as well as Italy, while developments were more positive in France and Spain (0.5% and 0.4% on the previous quarter respectively). At the aggregate level, the euro area posted growth of 0.3% on the previous quarter, of which one tenth substantially attributable to Ireland, which reports highly variable data from quarter to quarter, primarily reflecting its high dependence on the economic activity of multinationals based in that country. The main economic indicators for the third quarter are not comforting. For the German economy they suggest a continuation of weak performance: the PMI is at its lowest level since those registered during the pandemic, while the IFO and ZEW indices are negative. The weakness of German domestic demand is confirmed by falling imports. The government plan approved at the end of August seems insufficient to substantially change the situation. Inflation continues to decline slowly across the area. While base effects linked to the cost of energy have contributed to a rapid decline in overall inflation, core inflation is stabilizing at best (5.3% in the flash estimate for August), making the ECB's task more difficult.

All this will have a negative impact on the future growth of the EMU. In Europe, the impact of the energy crisis and the resulting increase in prices was stronger than in the United States, accompanied by the uncertainty engendered by the war on its borders and requiring significant government intervention to alleviate the burden of rising costs on families and businesses. This aid will wind down in the coming months, leaving behind higher price levels that wage negotiations appear to only partially recoup. Firms will have to deal with higher energy prices as the liquid gas that replaces Russian gas will remain more expensive. They will also have to forge ahead with the decarbonization of production processes, while the risk of possible adverse effects on trade linked to geopolitical developments following the pandemic, war and energy crises will remain.

In the absence of new strains on energy prices, and assuming that wage increases continue the gradual recovery of purchasing power recorded in the European average, the deterioration in the purchasing power of households should gradually be reversed. The difficulties

reported by firms in finding adequate manpower with appropriate training and skills will probably contribute to keeping labor market conditions strong. The average annual growth rate of EMU GDP could therefore remain around 0.7% on average this year and 1% in 2024.

In China, forecasts for the next few quarters paint a picture of protracted economic weakness, while economic policy appears increasingly less effective in supporting growth compared with the past. China is dealing with problems that are more structural in nature than linked to the current economic cycle, problems that will require broader interventions than those adopted so far. An example concerns the persistent weakness of household consumption suggested by the prolonged weak dynamics of retail sales (2.5% year on year in July, or -0.1% on the previous period) after the rebound registered at the beginning of the year, while inflation in July was negative, underscoring the notable weakness of demand. The fears of a deflationary spiral are overdone at the moment, but such a turn cannot be ruled out in the light of the fact that consumption developments are a manifestation of the high prospective uncertainty of households, who have increased their precautionary saving (as reflected in the increase in bank deposits), and have to deal with rapidly growing youth unemployment, so rapid that the statistical survey was suspended. Household uncertainty intersects with the crisis in the real estate sector, which is burdened by debt, mortgages and rising unemployment. The economic policy measures adopted so far, which increased liquidity over multiple interventions, lowered interest rates and supported the real estate industry, did not trigger the desired multiplicative effects but probably prevented a contraction of the sector for a few months, until the failure of Evergrande in the offshore markets at the end of August, which is a source of great concern. The government seems on the verge of adopting fiscal measures to support the economy (announced but not yet detailed), but the outlook for the country remains weak growth, which is unlikely to reach the government target (5% per year).

In this overall picture, the price of non-energy raw materials experienced a progressive decline after the first quarter, driven by the deterioration of the outlook for the Chinese economy and its real estate sector, a voracious user of metal products, and by weak growth expectations for the major world economies. The ebb and flow of the Russia-Ukraine war has not significantly affected the prices of agricultural products, which are declining.

In recent months, however, oil has returned to the prices seen a year earlier, at around $80 a barrel, thanks to the policy of production cuts implemented by OPEC, while gas prices remain stable at between €30 and 40/mWH, bubbling upwards only in response to episodic developments such as the strike of gas workers in Australia. In the closing days of August, announcements of support for the Chinese economy partially revived the international prices of certain commodities.

So, overall we have a scenario of moderate global growth with policy rates at high levels for a protracted period and household incomes supported by the good performance of the labor market, increasing the possibility of a soft landing. However, the absence of recession translates into the absence of a subsequent buoyant recovery, despite the potential partial recovery in international trade.

After closing 2022 with GDP growth of 3.8%, the Italian economy was among the most dynamic in the area in the first quarter of 2023 as well, posting GDP growth of 0.6% compared with the previous quarter. Despite this unexpectedly robust performance, the forecast for the second quarter of the year remained very cautious.

Recent data released by Istat confirm the slowdown in the economy in the spring months, although it was sharper than expected. GDP fell by 0.4% on the previous quarter due to the negative contribution of domestic demand net of inventories (-0.7 percentage points), compared with a zero contribution from foreign demand and a positive contribution from inventories (0.3 points).

Spending by resident households registered zero growth, while spending in Italian territory, which includes consumption by foreign tourists in Italy, increased by 0.3% compared with the previous quarter. The latter was reflected in the recovery in consumption of services (2.4%), after a particularly weak half-year. The demand for durable goods also grew, benefiting from the progressive easing of global value chains, which enabled built-up demand for cars to be satisfied. However, demand for other goods and semi-durables is decreasing. The reduction in government spending (-1.6%) is difficult to interpret, due to its high volatility.

The reduction of 1.8% in gross fixed investment reflects the divergent dynamics of the various items that compose the aggregate: machinery and equipment experienced a decline, while intangibles (R&D, software, etc.) posted an increase, in both cases of modest size. Transport equipment returned to growth due to the revival of production and deliveries of cars ordered in the last two years, while construction investment is in sharp decline (around 4%). While a reduction in activity in this sector was expected due to the progressive expiry of incentives for energy efficiency improvements to buildings (the 110% Superbonus), the scale of the contraction already during the spring may have also reflected accidental factors, such as the timing of spring holidays, which reduced the number of actual working days and, above all, adverse weather conditions in various areas of the country, including Emilia-Romagna. In fact, the climate of confidence among sector operators remained quite good and could be consistent with a small positive rebound in construction during the third quarter. This will not stem the progressive contraction in the residential sector in the following quarters, which might only be partially offset by the growth in public investment stimulated by the NRRP.

The picture that emerges is that of an economy that has ceased growing as a result of the gradual dissipation of the positive effects of the recovery of economic activity after the pandemic and the continuation of high inflation and the consequent tightening of monetary policy. An environment in which the Italian economy is also affected by the global slowdown, as underscored by the decline in merchandise exports for the second consecutive quarter. After the spring decline, indicators point to a possible modest "technical" rebound in both manufacturing and construction output in the summer months, associated with a stagnation in services. This year could therefore record average GDP growth of around 1%.

However, there are numerous factors on both the foreign and domestic fronts that could produce slower growth. The stagnation of the German economy, which represents the main market for Italian exports, could trigger a recessionary spiral, one all the more likely if inflation

does not continue its decline and the ECB raises the cost of money further. An excessively slow decline in inflation could weigh more heavily on household spending and, at the same time, greater uncertainty in the finalization of the revision of the NRRP and the consequent start of its implementation could cast more than a shadow on the growth prospects for 2024. In this regard, inflation, especially in food and in some service components, is also displaying a certain stickiness in recent data.

After reaching rates not seen since the 1980s in 2022, inflation began to slow in 2023. However, after two months in which the general consumer price index was unchanged, a month-on-month increase was recorded in August (0.4%), but the process of decline continued on an annual basis, with the aggregate registered at 5.5% in August compared with 5.9% in July. The year-on-year deceleration in the general index is mainly due to the sharp decrease in the price of regulated energy goods (-29%). The core component also decelerated, to 4.8% from 5.2% in July. Food inflation remains rapid, albeit slowing, at annual levels still close to 10%, while services inflation remained above 4% in the first two quarters of 2023 at least and probably in the following months as well, reflecting strong demand and rent adjustments. The slowdown in overall inflation is expected to continue in the coming months, thanks to the transfer of the reduction in gas prices on the international market to free market power rates. On average, inflation could be around 5.5% in 2023, a significant decline from the 8.2% posted in 2022.

In recent data, the labor market reflects the slowdown in economic activity. After seven months in which the number of persons in employment had grown steadily, there was a reversal of the trend in July. The unemployment rate increased slightly compared with the previous month, to 7.6% compared with 7.5%, which had not occurred since the beginning of the year.

Financial market developments in 2023

Since the end of 2022, the slowdown in inflation had raised hopes that the peak was now behind us and that monetary tightening could be coming to an end. However, the Fed and the ECB continued to signal their intention to keep interest rates in restrictive territory for a prolonged period in order to combat persistent inflationary pressures, in a context in which economic activity at the beginning of 2023 proved to be less weak than expected. In March 2023, the crises of SVB and Credit Suisse raised fears that rate increases could also trigger difficulties for other banking institutions and, in any case, worsen financial conditions. At subsequent meetings, the central banks continued to increase rates, confirming their focus on controlling inflation: from the beginning of the year until September, the Fed and ECB raised policy rates by 100 basis points (to 5.25- 5.50%) and 150 bps (Refi at 4.50%), respectively. The markets have gradually begun to incorporate expectations of an end to the increases and the subsequent start of a period of decreases, currently expected during 2024.

The second part of 2022 experienced a general increase in ten-year sovereign rates, reflecting expectations of more restrictive monetary policies. After the banking crises, long-term rates also fell due to market expectations of greater caution on the part of central banks. Those rates then rose in the following months, with Treasuries above 4% and Bunds above 2.50% at the end of August 2023 The slope of the yield curves became negative in the United States during the last year and then, between the end of 2022 and the beginning of 2023, in the EMU as well. This reflected expectations of economic weakness in the central quarters of this year. During 2022, with the end of net purchases of securities by the ECB and the government crisis in Italy, the BTP-Bund spread experienced several periods of strain that boosted the differential to 250bps, a level from which it then fell thanks to the tools made available by the ECB. With the stabilization of the political framework and the return of an appetite for risk on the financial markets, the BTP spread then gradually returned to below 200bps, not being affected (unlike the past) by the tensions in the banking sector in March of this year.

In the closing months of 2022, stock indices began to show a clear recovery, thanks to the publication of good data on trends in economic growth and inflation, which attenuated the losses registered during the year. At the beginning of 2023, the growth phase improved further, reflecting expectations of a less marked decline in economic activity. However, in March, the SVB and Credit Suisse crises led to a collapse in prices at the global level, which then recovered when the risk of contagion to the global banking sector receded in response to the interventions of the US authorities in support of the American banks and the reassurances of the European authorities on the soundness of the system banking and on the differences in EU regulations compared with Swiss legislation (which had allowed the cancellation of Credit Suisse's AT1 bonds). Stock prices have continued to rise since the spring and, despite a number of periods of decline, at the end of August 2023 they were about 17% higher than at the beginning of the year in the United States, thanks in particular to the strength of technology stocks. By contrast, performance since the beginning of the year was weaker in the EMU, with a gain of around 11%, reflecting the weakness of activity in certain economies. However, the Italian stock index was more robust (with a gain of over 20%).

Developments in the Italian credit system

During 2023, the credit market was largely affected by the repeated hikes of policy rates and by the significant liquidity held by households and firms, displaying the first signs of strain starting from the first quarter. Overall, bank lending decreased by 1.6% as at June 30, 2023 (excluding loans to central counterparties and net of the effect of transactions and securitizations). Lending to firms recorded the greatest contraction (-3.2% at June 30, 2023, compared with -0.4% at the end of 2022, net of the effect of transactions and securitizations). This dynamic is attributable not only to a general tightening of lending criteria but also to the decision taken of firms in response to the rapid increase in interest rates to finance their capital needs through alternative sources and, in particular, with the liquidity accumulated in recent years. Self-financing by firms is expected to continue to increase in the second part of 2023, leading to a further deceleration in credit growth. By contrast, lending to households showed greater stability in the first six months of 2023 (+0.2% at the end of June, compared with +3.3% at the end of 2022, net of the effect of transactions and securitizations). While higher interest rates and less favorable real estate

market conditions are limiting the growth of home loans, consumer credit is still showing rapid growth in line with the recovery in spending on durable goods, reflecting government incentives for the purchase of eco-sustainable furniture and household appliances (the furniture and appliance incentive schemes). The slowdown in economic activity expected for the second half of 2023 will also produce a reduction of household lending growth, due to the joint effect of the decline in purchasing power and the slowdown in investment.

In the two-year period 2024-2025, with the recovery of the economy and lower inflation, the growth of credit to families and businesses is expected to stabilize at around an average of 1% per year thanks to the impulse deriving from the investments activated by the PNRR and the recovery of the disposable income of families.

All credit risk indicators continued to remain at historically very low levels during the first half of 2023, thanks to the measures introduced by the government and institutions to counteract the impact of the pandemic first and the effects deriving of the war in Ukraine subsequently. These measures made it possible to lengthen the natural lag with which the deterioration in economic conditions manifests itself in asset quality, without which the traditional credit risk indicators would have risen to higher levels than those actually recorded. In the first quarter, the rate of credit deterioration remained historically low in aggregate (1% on an annualized basis in the first quarter of 2023, slightly below that registered in 2022), but displayed the initial signs of an increase for firms compared with the previous quarter. The increase in the volume of impaired loans was also countered by the continuation of market sales (estimated at just under €20 billion for 2023 as a whole), with the stock of bad loans falling below €30 billion at the end of June 2023 (-11% on June 2022, compared with -22% at the end of 2022), equal to 1.8% of outstanding loans (1.7% in December 2021).[8] However, the supervisory authorities continue to devote considerable attention to credit risk given the prospects of a slowdown, the impact of the inflationary surge on the balance sheets of households and firms and the increase in the burden of debt caused by the increase in monetary policy rates, all factors that are expected to produce an increase in credit deterioration rates in the second half of 2023 and in 2024.

On the funding side, in the first six months of 2023 the process of recomposition of direct funding from the more liquid components to forms with longer maturities accelerated. The increase in interest rates together with high inflation makes it increasingly less attractive for households and firms to accumulate liquidity in current accounts for precautionary purposes. In fact, compared with a reduction of 2.4% in the first six months of 2023 in overall direct funding (deposits, net of Cassa Depositi e Prestiti funding and bonds), there was a steep decline in current account funding (-9% in June compared to +5% last year) and a significant increase in fixed-term deposits (+30%, gross of the component connected with securitizations), on which returns increased the most. Overall, at the end of 2023, direct bank funding is expected to contract because the reduction in current accounts will only be partially offset by the growth in other deposits and bonds, together with a revival of interest, especially for households, in government securities. The recomposition of overall funding towards its longer-term component will also be supported by regulatory requirements to maintain stable funding indicators once all TLTRO liquidity has been repaid. It will therefore be important to bring the funding structure closer to a more "traditional" model, thus reaching new customers with products offering attractive remuneration and maturities. This gradual replacement of Eurosystem liquidity with medium and long-term direct funding may also lead to further upward pressure on the cost of funding, in addition to that caused by the increase in market rates and greater competition from government securities.

In the first half of 2023, the seven listed significant Italian commercial banks earned profits of €11 billion, up 65% compared with the €6.7 billion posted in the first half of 2022 (+95%, excluding BPER, whose performance reflects the effects of the acquisition of Carige and the related extraordinary items). Gross income grew by 19%, driven by the dynamics of net interest income, up 55% thanks in part to the widening of the spread associated with the rise in rates. Conversely, net fee and commission income decreased by 3%, penalized above all by the asset management, intermediation and advisory segments, while fees for traditional banking activity increased for several institutions. Net impairment losses on loans decreased by 63% and were affected by the extraordinary provisions recorded by Intesa SP and UniCredit in the first half of 2022 on their exposures in Russia and Ukraine (net of these extraordinary components, impairment losses were substantially unchanged in aggregate). Operating expenses show a decline of 0.6% despite a general increase in other administrative expenses (due in part to inflationary pressures). The aggregate data is influenced above all by UniCredit and MPS, which recorded a significant decrease in personnel expenses. Earnings guidance for FY 2023 has been revised upwards for all major banks.

The improvement in asset quality also continued in the first part of 2023, with the gross NPL ratio going from 2.9% to 2.8% thanks to the maintenance of a low default rate and a number of derisking transactions. The fully loaded CET1 ratio increased by about 50 points to reach 15.1% at the end of June 2023: the dynamics of the ration in the period were driven by retained earnings, the positive change in OCI reserves and the reduction in risk-weighted assets, thanks to capital management operations conducted mainly by larger groups (primarily securitizations of performing loans).

In an environment of repeated increases in monetary policy rates, the traditional profitability of the sector is expected to increase further in 2023 thanks to the widening of spreads, which will enable the industry to absorb higher operating expenses and greater impairment losses on loans. However, from 2024 net interest income is expected to reverse course as spreads narrow.

The situation outlined above shows a moderate global growth scenario overall. In this context, with the continuing uncertainty engendered by the continuation of the Russia-Ukraine conflict, various measures have been implemented by European institutions and the national government. The following provides a summary of the main measures implemented.

[8] The indicators include Cassa Depositi e Prestiti loans but exclude interbank lending and claims on central banks.

EU measures

As already discussed in depth in the annual report at December 31, 2022 (which readers are invited to consult made for further information), beginning in the spring of 2022 the European Commission has intervened on several occasions to provide national governments the flexibility necessary to support their economies in the crisis environment induced by the Russian invasion of Ukraine.

Against this background, a Temporary Crisis Framework for State aid measures to support the economy following Russia's aggression against Ukraine was adopted in March 2022 that allows Member States to: i) grant aid to firms affected by the crisis or by the related sanctions and counter-sanctions, ii) ensure that businesses have sufficient liquidity and iii) compensate firms for the additional costs incurred due to the exceptionally high prices of gas and electricity (including the possibility of measures to support the most exposed banks). The Framework was amended twice, on July 20 and October 28, 2022. The related measures were reinforced and extended to the end of 2023, and two new sections concerning measures that promote the green transition in line with the RePowerEU plan were inserted.

On March 9, 2023, the Commission intervened again with the adoption of the Temporary Crisis and Transition Framework to promote support measures in key sectors for the transition to a net-zero emissions economy, consistently with the Green Deal Industrial Plan. The new framework replaced that adopted in 2022. The methods and time limit of December 31, 2023 for limited aid to firms affected by Russian aggression against Ukraine and/or its direct or indirect repercussions have been retained, as have liquidity support in the form of public loan guarantees or loans at subsidized rates,[9] aid for additional costs resulting from exceptionally sharp increases in natural gas and electricity prices and, finally, measures to support the reduction in electricity demand.

The time limit for granting aid for the transition has been extended to December 31, 2025. Note that this aid is divided into two main categories. The first provides that, in order to accelerate the deployment of renewable energy, Member States can establish investment schemes in renewable energy, including renewable hydrogen, biogas and biomethane, storage and renewable heat, including heat pumps, with simplified tendering procedures that can be implemented quickly, while envisioning sufficient safeguards to preserve the level playing field. In particular, Member States may develop schemes relating to specific technologies that require support in light of the specificities of national energy mixes. The second category comprises measures to facilitate the decarbonization of industrial processes, in particular through electrification, energy efficiency and the shift towards the use of renewable hydrogen and electrolytic hydrogen. Member States can i) establish new tender-based schemes or ii) support projects directly, without tendering, with specified limits on the share of public support per investment. Specific additional incentives are provided for small and medium-sized firms and for especially energy-efficient solutions. Finally, the Temporary Framework establishes that Member States may grant aid to accelerate investments in key sectors for the transition, i.e. for the production of strategic equipment such as batteries, solar panels, wind turbines, heat pumps, electrolyzers and equipment for carbon capture usage and storage; as well as for the production of key components for production and the recycling of related critical raw materials.

Under the aegis of these Temporary Frameworks, the Commission approved seven Italian government measures in 2023 (in addition to the 22 measures approved in 2022[10]).

The European Commission also continued with the Community planning and regulatory effort in the energy sector that began in May 2022 with the approval of the RePoweEU[11] plan focused on energy saving, clean energy production and diversification of energy supply sources. In 2023, two further steps forward were taken along this path:

- a provisional agreement between the European Parliament and the Council to strengthen the Renewable Energy Directive. The deal raises the EU's binding renewable energy target for 2030 to a minimum of 42.5%, up from the current target of 32%, almost doubling the current share of renewable energy in the European Union. Negotiators also agreed that the EU will seek to reach 45% renewable energy by 2030 (March 2023);
- the definition of the AggregateEU mechanism for the joint purchase of gas at European level under the EU Energy Platform, which 107 companies have joined so far. The first purchase tender was launched and attracted requests from 77 European companies for a total volume of approximately 11.6 billion cubic meters of gas (April and May 2023).

Main measures taken in Italy to support the economy and bank lending

In Italy, the government's budgetary policy remained expansionary for 2023, with support measures aimed above all at mitigating the effects of the energy crisis and high inflation. The Budget Act (Law 197 of December 29, 2022) allocated additional net resources of around €20 billion to these measures to extend measures already active in 2022 to 2023 (with the exception of the reduction of excise duties on fuels, which was not retained). Furthermore, investment incentives for businesses and contribution relief measures for low-income workers have been extended. Other expansionary measures concerned the expansion of the number of beneficiaries of the flat-rate tax regime and the introduction of a flat tax for self-employed workers and small businesses.

[9] Guarantees and subsidized rates for a limited period and loan amount. More specifically, the duration of the loans is limited to a maximum of six years and the total amount per beneficiary shall not exceed: i) 15% of the beneficiary's average total annual turnover over the last three closed accounting periods; ii) 50% of energy costs over the 12 months preceding the month when the application for aid is submitted; or iii) larger amounts in case of particular liquidity needs.

[10] https://competition-policy.ec.europa.eu/system/files/2023-08/State_aid_TCTF_decisions_3.pdf

[11] Please see the annual report for more information.

While reference should be made to the annual report at December 31, 2022 for more information on measures impacting liquidity and access to credit for businesses and households included in the Budget Act, note that the continuation of the crisis has prompted the government to further strengthen the support measures introduced with that legislation by approving, between March and June 2023, three decrees containing additional measures. With regard to containing the impact of high energy prices and inflation, the measures concerning gas were initially extended to the second and then to the third quarter of the year (retaining the reduced rate of 5% and the elimination of system charges), as was the supplementary component of the social gas and electricity allowance. The grant of tax credits to offset the higher energy costs incurred by firms, however, was only retained until the second quarter of 2023. Furthermore, for the period October 1 - December 31, 2023, an allowance has been established for heating costs available to all, differentiated on the basis of climate zones, if the price of gas exceeds specific thresholds. With regard to labor policy, the May 1 decree increased the cut in the contribution wedge paid by workers and also retained for 2023 the increase in the ceiling for fringe benefits to €3,000 for employees with dependent children and that for voucher payments to occasional workers to €15 thousand.

Other measures were taken during the period regarding the regulation of tax credits: on one hand, in April the possibility of transferring credits or obtaining an upfront discount for projects executed after February 17, 2023 was abolished; on the other, in August the time limit for benefitting from the 110% tax credit on expenditure incurred in upgrading single-family buildings or independent building units was further extended from September 30 to December 31, 2023.

Monetary policy measures adopted by the ECB in 2023

During the first half of the year, the decisions of the Governing Council of the ECB were characterized by frequent interventions to raise official rates.

At the meeting of February 2, 2023, it was decided to raise the interest rates on main refinancing operations, the marginal lending facility and the deposit facility with the central bank by 50 basis points, bringing them to 3.0%, 3.25% and 2.50% respectively. The Governing Council also clarified the methods for reducing the stocks of securities held by the Eurosystem within the framework of the Asset Purchase Programme (APP): as announced in December, the pace of this reduction will be equal to an average of €15 billion per month from the beginning of March to the end of June 2023 and will then be determined over time. Partial reinvestments will be conducted on the basis of criteria of proportionality, neutrality and simplicity. In particular, within the Eurosystem's purchases of corporate bond, the remaining reinvestments will be tilted more strongly towards issuers with a better climate performance. Reinvestments under the PEPP (Pandemic Emergency Purchase Programme) will continue until at least the end of 2024.

At its meeting of March 16, the Governing Council decided to raise the three key interest rates by 50 basis points: the interest rates on main refinancing operations, the marginal lending facility and the deposit facility with the central bank were raised to 3.50%, 3.75% and 3.0% respectively. In its press release, the ECB underscored the high and continuing level of uncertainty, attributable in part to the March tensions on the financial markets.

At its meeting of May 4, the Governing Council decided to raise the three key interest rates by 25 basis points, in line with market expectations: the interest rates on main refinancing operations, the marginal lending facility and the deposit facility with the central bank were raised to 3.75%, 4.0% and 3.25% respectively.

At its meeting of June 15, the Governing Council decided to raise the three key interest rates by 25 basis points, in line with market expectations: the interest rates on main refinancing operations, the marginal lending facility and the deposit facility with the Central Bank were raised to 4.0%, 4.25% and 3.50% respectively. The Governing Council still expects to discontinue the reinvestments under the APP as of July 2023.

At its meeting of July 27, the Governing Council decided to raise the three key interest rates by 25 basis points, as announced in June: the interest rates on main refinancing operations, the marginal lending facility and the deposit facility with the central bank were raised to 4.25%, 4.50% and 3.75% respectively. At its July meeting, the Governing Council also decided to set the remuneration of banks' minimum reserves with the Eurosystem at 0%, with the aim of preserving the effectiveness of monetary policy and improving the efficiency of the transmission mechanism.

At its meeting of September 14, the Governing Council decided to raise the three key interest rates by 25 basis points. The interest rates on main refinancing operations, the marginal lending facility and the deposit facility were raised to 4.5%, 4.75% and 4.0%, with effect from September 20, 2023. The European Central Bank specified that the increase in rates reflects the Governing Council's assessment of the inflation outlook in the light of incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission. The September ECB staff macroeconomic projections for the euro area see average inflation of 5.6% in 2023, 3.2% in 2024 and 2.1% in 2025, reflecting an upward revision for 2023 and 2024 and a downward revision for 2025.

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 has its legal 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 have granted 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, with the aim of preserving the stability of the Group and its members and promoting the cooperative spirit and mutualistic function of the mutual banks and the Group. 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. 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. The guarantee also calls for intragroup financial support mechanisms under which the members of the group provide mutual support to ensure solvency and liquidity[12] in order to ensure compliance with prudential requirements and the regulations issued by 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.

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

At June 30, 2023, the Group is structured as follows:

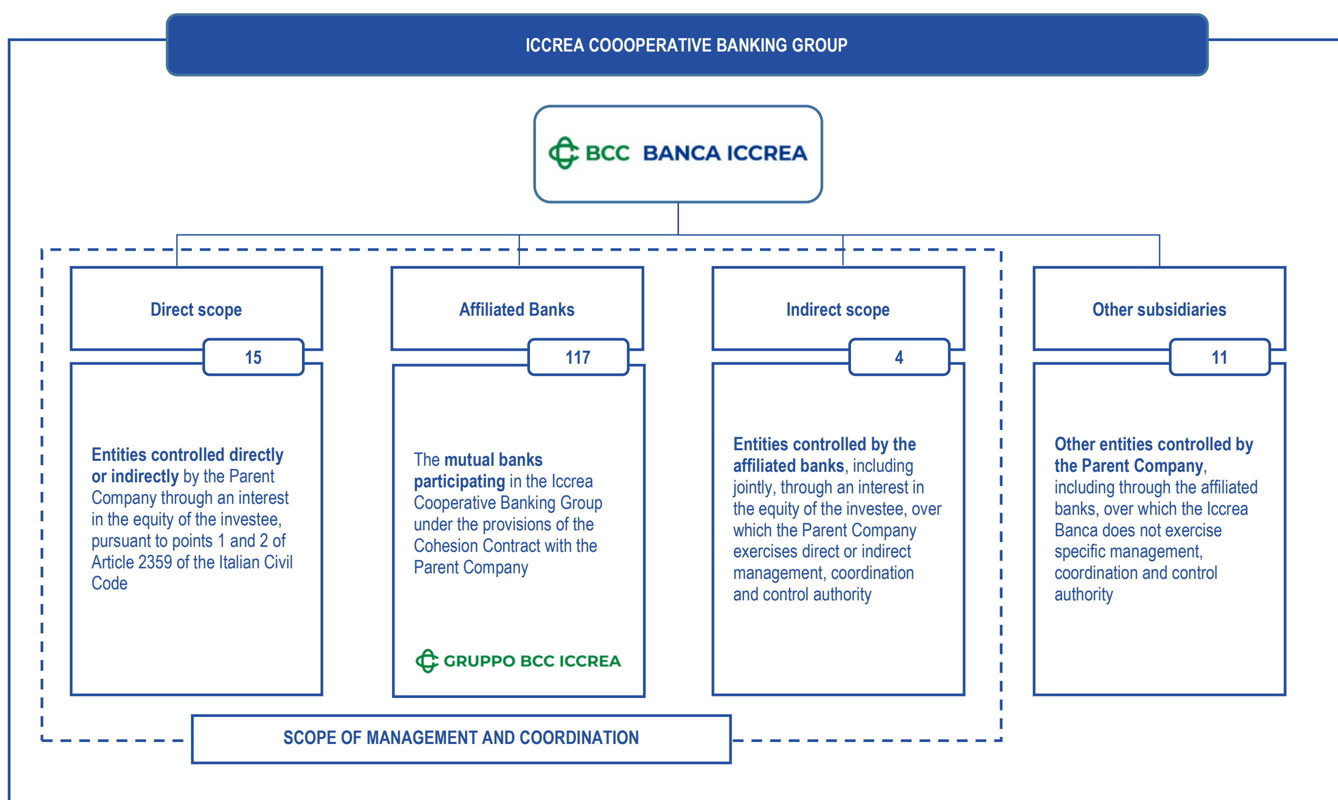
- the Parent Company, Iccrea Banca S.p.A., which plays a management and coordination role for the Group and for interacting with the supervisory authorities;
- the companies subject to the management and coordination of the Parent Company, which include:
    - the affiliated banks, participating in the Group 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.

[12] The support interventions are carried out by the Parent Company, drawing on the financial resources made available by the participants under the provisions of the Guarantee Agreement. Support actions may include: i) capitalization measures making use of the Ex Ante Share of the readily available funds (RAFs); ii) liquidity support measures, using ex ante funds or the Ex Post Quota of the readily available funds by way of special-purpose lines of credit; iii) 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 prompt availability of funds to the Guarantee Scheme 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 participants in the Scheme, 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. 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.

The financial resources that make up the Ex Ante portion of the RAFs are invested in instruments that can be readily liquidated, with a low level of risk and sufficient diversification to pursue the objective of capital conservation and the prompt availability of the financial means required to carry out guarantee interventions.



Organizational structure of the Parent Company

The organizational structure of the Parent Company 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 scope 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.

Group personnel

Total Group personnel at June 30, 2023 numbered 22,276 (21,820.5 FTE[13]), broken down as follows:

Scope	Number of employees June 2023	FTE June 2023
Mutual bank employees	18,576	18,153.5
Iccrea Banca and direct scope companies	3,699	3,666.0
Other companies	1	1.0
Total	**22,276**	**21,820.5**

Developments in hiring and terminations within the Group in the first half of 2023 produced a net increase of 132 employees at June 30, 2023 (676 new hires compared with 544 terminations, including 11 staff of Coopersystem, which has exited the scope of consolidation).

The composition of the workforce by category and gender at June 30, 2023, is reported in the following table:

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

Position	Men	Women	Total
Senior management	347	30	377
Middle management	4,892	1,813	6,705
Office staff	7,483	7,711	15,194
Total	**12,722**	**9,554**	**22,276**
of which:			
On open-ended contracts	12,445	9,304	21,749
On fixed-term contracts	277	250	527

The Parent Company's workforce showed a net increase of 4 in the first half of 2023: 61 new hires, of which 8 intragroup, and 57 departures, of which 9 intragroup.

The first half of 2023 saw the consolidation of the launch of BCC Sinergia, as it was renamed following the merger of BCC Solution (with the transfer of 526 staff). The company, which currently has 617 employees, offers the Group's banks a vast catalog of services in the areas of payment systems, lending, foreign operations, corporate treasury, finance, e-money, accounting and reporting.

During the first half of 2023, BCC POS was also established. The company - which offers payment solutions to mutual bank customers - has a staff of 32, 28 of whom were acquired from Coopersystem, which left the Group's scope of consolidation during the period.

With a view to rationalizing territorial distribution and enhancing operational efficiency, the concentration plan continued during the first half of 2023, with the implementation of a merger between the BCC di Bari and BCC di Taranto e Massafra, which involved some 75 employees.

Distinctive features of the mutual banks

Under Italian law, mutual credit activities enjoy dual constitutional recognition. As part of the wider cooperative movement, it is protected by Article 45, which recognizes "the social function of cooperation of a mutual and non-speculative nature", while in its function of intermediation of savings and credit, it falls within the particular duty that Article 47 assigns to the Italian state 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 with the Reform Law 49/2016, which introduced the rules governing cooperative banking groups).

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,[14] states that no less than 95% of all business shall be conducted within the bank's territory,[15] and at least 50% of this business shall be in favor of shareholders,[16] 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

[14] 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.

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

central government entities of the Italian Republic or other euro-area countries, the European Central Bank and the Bank of Italy;

the parent company and other companies belonging to a cooperative banking group, including commitments and guarantees undertaken in execution of the joint and several Guarantee Agreement;

guarantee systems established between mutual banks.

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

central government entities of the Italian Republic or other euro-area countries, the European Central Bank and the Bank of Italy;

the parent company and other companies belonging to a mutual banking group, including commitments and guarantees undertaken in execution of the joint and several Guarantee Agreement;

guarantee systems established between mutual banks.

business.

The branch network and strategic positioning of the Group's retail banks

At June 30, 2023 the Group had 117 affiliated mutual banks,[17] distributed in almost all regions of the country, with the exception of Valle d'Aosta, Trentino Alto Adige, Liguria and Umbria (although the Group does have branches in the latter three regions).

The Group has 2,437 branches[18]. More than 56% of branches are located in the Italian regions of Lombardy, Veneto, Tuscany and Emilia-Romagna for a nationwide branch market share of 12%.

In the first half of 2023, the affiliated bank branch network saw the closure of 16 branches, offset by the opening of new branches in locations with greater potential for business development. The result of these changes was a net increase of 3 branches compared with December 2022.

The Group has at least one branch in 1,684 of the 4,655 Italian municipalities served by banks (36.2% of the total). In 357 of these municipalities (21.2% of the total), the Group's branches are the only banking presence, consistent with the mutual banks' community-centric mission, with a local presence based on close relations with shareholder-customers. Lombardy is the region in which the Group is present in the most municipalities (395), while Marche boasts the largest share of municipalities with a banking presence with a Group branch (62.4%).

Region	Municipalities with banking services	with ICBG branch	(%)	of which ICBG is only bank	(%)
Lombardy	983	395	14.67%	103	26.08%
Veneto	459	266	10.72%	51	19.17%
Tuscany	247	144	10.37%	4	2.78%
Emilia-Romagna	304	120	10.25%	8	6.67%
Sicily	247	101	9.71%	33	32.67%
Lazio	189	94	9.60%	17	18.09%
Marche	157	98	7.26%	21	21.43%
Campania	257	82	6.60%	34	41.46%
Calabria	111	52	6.07%	26	50.00%
Piedmont	442	63	5.78%	11	17.46%
Friuli-Venezia Giulia	149	61	5.14%	10	16.39%
Puglia	195	66	4.79%	4	6.06%
Abruzzo	122	55	4.44%	13	23.64%
Basilicata	72	31	4.28%	13	41.94%
Umbria	64	23	3.47%	3	13.04%
Molise	24	10	3.09%	5	50.00%
Liguria	107	11	2.33%	1	9.09%
Sardinia	255	10	1.47%	-	0.00%
Trentino-Alto Adige	247	2	0.42%	-	0.00%
Valle d'Aosta	24	-	0.37%	-	0.00%
Total	**4,655**	**1,684**	**36.2%**	**357**	**21.20%**

Source: based on Bank of Italy data as at June 30, 2023.

With regard to competitive pressure, about 40% of the municipalities in which the Group is present have at most one branch of another bank, while 34.3% of municipalities have more than three bank competitors.

No. of other banks present in the municipalities in which ICBG has a presence	0	1	2	3	more than 3	Total
No. Municipalities	357	323	247	179	578	1,684
% of the total	21.2%	19.2%	14.7%	10.6%	34.3%	100.0%

Source: based on Bank of Italy data as at June 30, 2023.

Strategic positioning of the Group's banks

The retail banks of the Iccrea Cooperative Banking Group, the affiliated mutual banks and Banca Sviluppo have a total market share of lending to resident customers (performing loans to consumer households and firms, net of repurchase agreements and Monetary Financial Institutions) of 6.1%, with a value of about €81.7 billion.

By region, the Group has its largest market share, over 14%, of loans to customers in the Marche, followed by Tuscany, Abruzzo, Basilicata, Veneto and Friuli-Venezia Giulia with around 10%.

[17] During the first half of 2023, the number of affiliated mutual banks declined from 118 to 117 as a result of the aforementioned merger involving BCC di Bari and BCC Taranto e Massafra.

[18] Attributable to the 177 affiliated mutual banks, Banca Sviluppo and Group retail banks.

Region	Market share of lending to firms	Market share of lending to consumer households	Market share of lending to consumer households and firms	Market share of customer deposits (consumer households and firms)
Marche	14.99%	14.27%	14.67%	15.27%
Abruzzo	11.91%	9.46%	10.72%	9.27%
Basilicata	14.38%	6.36%	10.37%	6.83%
Friuli Venezia Giulia	8.72%	12.08%	10.25%	9.84%
Tuscany	9.95%	9.47%	9.71%	11.11%
Veneto	8.80%	10.70%	9.60%	10.46%
Emilia Romagna	6.20%	8.83%	7.26%	6.77%
Lazio	5.54%	7.63%	6.60%	5.36%
Calabria	9.07%	4.24%	6.07%	4.72%
Molise	7.64%	4.21%	5.78%	2.92%
Lombardy	5.09%	5.21%	5.14%	6.39%
Puglia	6.57%	3.51%	4.79%	4.43%
Umbria	4.96%	3.80%	4.44%	5.45%
Piedmont	4.62%	3.90%	4.28%	4.07%
Sicily	5.16%	2.48%	3.47%	4.73%
Campania	4.55%	1.84%	3.09%	2.95%
Sardinia	4.44%	0.89%	2.33%	1.92%
Liguria	1.70%	1.27%	1.47%	1.20%
Trentino-Alto Adige	0.55%	0.13%	0.42%	0.31%
Valle d'Aosta	0.39%	0.33%	0.37%	0.18%
Total	**6.14%**	**6.15%**	**6.14%**	**6.32%**

Source: based on supervisory and Bank of Italy data as at June 30, 2023. Loans to customers and customer deposits have been allocated on the basis of customer residence.

With regard to deposits by resident customers, market share is at 6.3%, equal to an amount of about €109 billion. Customer deposits (consumer households and firms) are also led by Marche, in which the Group has a 15% market share, followed by Tuscany, Veneto and Friuli-Venezia Giulia.

Ownership structure

The number of shareholders at June 30, 2023 totaled about 872 thousand, an increase of more 11 thousand on December 31, 2022 (+1.3%). The northern and central areas account for 43% and 45%, respectively, covering together 88% of the total shareholder base. The Center-west area made the largest contribution to the growth in the number of shareholders, with a gain of more than 4400 shareholders.

Geographical area	No. shareholders 30/06/23	(%)	No. shareholders 31/12/22	(%)	Diff Jun 23 - Dec 22
North-west	250,036	28.65%	247,154	28.70%	2,882
North-east	124,351	14.25%	123,143	14.30%	1,208
Center-west	216,513	24.81%	212,031	24.62%	4,482
Center-east	178,761	20.48%	176,159	20.46%	2,602
South-west	75,549	8.66%	75,324	8.75%	225
South-east	27,593	3.16%	27,339	3.17%	254
Total	**872,803**	**100.00%**	**861,150**	**100.00%**	**11,653**

Source: based on supervisory data as at June 30, 2023. 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, 2023. To enable a more immediate understanding of the balance sheet and income statement, the following tables are reclassified and presented in more summary form than those provided for in Circular no. 262/05 of the Bank of Italy.[19]

BALANCE SHEET

Consolidated assets

€/thousands	30/06/2023	31/12/2022
Cash and cash equivalents	1,563,766	1,189,908
Financial assets measured at fair value through profit or loss	1,798,951	1,675,821
Financial assets measured at fair value through other comprehensive income	8,249,888	8,308,596
Financial assets measured at amortized cost	146,155,988	150,601,923
a) due from banks	1,535,187	1,557,002
b) loans to customers	89,604,052	91,015,537
c) securities	55,016,749	58,029,384
Hedging derivatives and value adjustments of macro-hedged financial assets	838,618	1,016,595
Equity investments	222,845	220,460
Property, plant and equipment	2,526,219	2,556,424
Intangible assets	157,399	167,559
Tax assets	1,567,648	1,748,373
Non-current assets and disposal groups held for sale	25,294	12,307
Other assets	5,133,819	6,044,490
Total assets	**168,240,437**	**173,542,458**

The consolidated assets of the Iccrea Cooperative Banking Group, totaled €168.2 billion, down €5.3 billion (-3%) on December 31, 2022. The decrease is mainly attributable to the decrease in the exposure to debt securities with customers (-€3.2 million) and a decline in lending to customers (-€1.4 million).

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 €452 million (which mainly includes derivatives and securities held for trading), financial assets designated as at fair value in the amount of €312 million (represented by instruments in which liquidity from the Guarantee Scheme is invested, mainly European government securities), and other financial assets mandatorily measured at fair value in the amount of more than €1 billion (mainly in units of collective investment undertakings - 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).

[19] At December 31, 2022 and June 30, 2022, they are reported in reclassified form. More specifically: i) the non-performing loans sold as part of the derisking operations undertaken by the Parent Company during 2022 are reported in the financial statements under non-current assets held for sale, but here are included under loans at amortized cost; ii) funding from the BCC For Web business unit, the online branch of a Group mutual bank, is reported in the financial statements under non-current liabilities held for sale, but here are included under amounts due to customers; iii) the results of the Parent Company's e-money business, the sale of which to BCC Pay was completed in the first half of 2022, and the results of BCC Pay S.p.A., sold to Pay Holding S.p.A. on August 4, 2022, are reported in the financial statements under profit/loss on discontinued operations, but here have been allocated to the relevant income statement items.

€/thousands	L1	L2	L3	Total 30/06/2023	Total 31/12/2022
Financial assets held for trading	94,550	356,651	772	451,973	254,494
Debt securities	92,110	6,433	13	98,556	22,252
Equity securities	756	10	0	767	2,436
Units in collective investment undertakings	152	1,076	125	1,353	1,337
Financial derivatives	1,532	349,132	633	351,297	228,470
Financial assets designated as at fair value	310,300	-	1,391	311,691	251,392
Debt securities	310,300	-	-	310,300	249,872
Financing	-	-	1,391	1,391	1,519
Financial assets mandatorily measured at fair value	51,506	633,241	350,539	1,035,287	1,169,936
Debt securities	2,005	39,097	6,580	47,682	72,196
Equity securities	42,551	26,302	9,546	78,398	55,319
Units in collective investment undertakings	6,951	84,945	299,261	391,157	326,789
Financing	-	482,898	35,152	518,050	715,632
Financial assets measured at fair value through profit or loss	**456,357**	**989,892**	**352,702**	**1,798,951**	**1,675,821**

The portfolio of financial assets measured at fair value through other comprehensive income amounted to €8.2 billion, up on December 31, 2022, 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 €505 million, which are measured at fair value through other comprehensive income without recycling to profit or loss.

€/thousands	L1	L2	L3	Total 30/06/2023	Total 31/12/2022
Debt securities	7,718,484	26,576	20	7,745,079	7,811,558
Equity securities	24,609	408,488	71,712	504,809	497,038
Financial assets measured at fair value through other comprehensive income	**7,743,092**	**435,064**	**71,732**	**8,249,888**	**8,308,596**

For a breakdown of financial assets measured at amortized cost, in the amount of €146.2 billion, more than 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		Net value Total 30/06/2023
	Stages1 and 2	Stage 3	Stages1 and 2	Stage 3	
Financing	90,782,613	4,192,216	(930,751)	(2,904,840)	91,139,239
Loans to banks [20]	1,538,136	1,295	(2,957)	(1,286)	1,535,187
Loans to customers [2]	89,244,477	4,190,922	(927,793)	(2,903,554)	89,604,052
Debt securities	55,118,160	1,877	(102,052)	(1,236)	55,016,749
Total financial assets measured at amortized cost	**145,900,773**	**4,194,093**	**(1,032,802)**	**(2,906,076)**	**146,155,988**

More specifically, net loans to customers totaled more than €89.6 billion, €88.3 billion of which performing and about €1.3 billion related to impaired positions. Of this total, about 802 was in medium and long-term financing (both loans and leases). Lending to ordinary customers (-€0.8 billion) and exposures to the Clearing and Guarantee Fund (-€0.6 billion) both decreased during the period compared with December 2022).

€/thousands	Total 30/06/2023	% share	Total 31/12/2022	% share
Current accounts	6,554,139	7.3%	6,342,398	7.0%
Repurchase agreements	163,147	0.2%	778,722	0.9%
Medium/long-term loans	69,626,049	77.7%	70,032,270	76.9%
Credit cards, personal loans and salary-backed loans	2,181,348	2.4%	2,149,929	2.4%
Lease financing	3,664,743	4.1%	3,766,444	4.1%
Factoring	505,039	0.6%	648,090	0.7%
Other lending	6,909,587	7.7%	7,297,685	8.0%
Financial assets measured at amortized cost – Loans to customers	**89,604,052**	**100.0%**	**91,015,537**	**100.0%**

Gross impaired loans, which have continued to decrease thanks to robust de-risking efforts pursued in recent years, came to about €4.2 billion, or 4.4% of total gross lending (4.5% of loans to customers alone). Net impaired loans amounted to about €1.3 billion, equal to 1.4% of

[20] Source: based on consolidated Finrep data.

net lending (1.4% when considering only ordinary customers). The ratios of net bad loans and net unlikely-to-pay positions to total net lending came to 0.2% and 0.9% respectively (0.2% and 0.9% when considering only ordinary customers).

As shown in the table below, efforts to improve the Group's risk profile can also be seen in the more prudent assessment policies, which have resulted in an increase in the coverage of NPLs to 69.3%, an increase of 1.5 percentage points compared with the end of the previous year.

Type of exposure	Gross exposure	Writedowns	Net exposure	Coverage 30/06/2023	Coverage 31/12/2022
Bad loans	1,359,775	(1,145,582)	214,193	84.2%	82.3%
Unlikely-to-pay positions	2,473,086	(1,647,723)	825,364	66.6%	64.4%
Impaired past-due positions	358,060	(110,250)	247,811	30.8%	28.5%
Impaired exposures to customers at year end	**4,190,922**	**(2,903,554)**	**1,287,368**	**69.3%**	**67.8%**

The 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 €93.4 billion, have mainly gone to households and small and medium-sized enterprises (SMEs), which accounted for 40% and 43% 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 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	92,396,219	98.9%	95.4%	98.8%	4.6%	100.0%
Consumer households	37,684,376	40.3%	97.3%	41.1%	2.7%	24.6%
Small and medium-sized enterprises	39,655,730	42.5%	94.4%	42.0%	5.6%	52.5%
- Family businesses	6,997,089	7.5%	94.0%	7.4%	6.0%	9.9%
- Micro-businesses, associations and other organizations	7,290,174	7.8%	93.5%	7.6%	6.5%	11.3%
- Other SMEs	25,368,467	27.2%	94.8%	27.0%	5.2%	31.3%
Other non-financial companies	13,761,495	14.7%	93.2%	14.4%	6.8%	22.3%
Other financial companies	1,294,618	1.4%	98.3%	1.4%	1.7%	0.5%
Government entities	1,039,180	1.1%	100.0%	1.2%	0.0%	0.0%
Total loans to customers at period end	**93,435,399**	**100.0%**	**95.5%**	**100.0%**	**4.5%**	**100.0%**

In terms of geographical distribution, the Group's exposures are mainly concentrated in northern Italy (57%), where there has been a lower level of credit risk, and in central Italy (30%).

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	27,756,519	29.7%	28.6%	29.9%	3.8%	24.9%
North-west	25,266,934	27.0%	26.0%	27.2%	4.0%	24.2%
Center	28,340,614	30.4%	28.8%	30.1%	5.2%	35.1%
South and islands	12,071,332	12.9%	12.2%	12.8%	5.5%	15.9%
Total loans to customers at period end	**93,435,399**	**100.0%**	**95.5%**	**100.0%**	**4.5%**	**100.0%**

In terms of the economic segment of customers, in addition to consumer households, the segments that saw the greatest lending were services, manufacturing, real estate and construction (which has the highest level of NPLs), and trade.

Economic segment of borrowers	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	NPL ratio	Ratio to total NPL
Consumer households	37,684,376	40.4%	97.3%	41.1%	2.7%	24.6%
Primary sector	5,240,814	5.6%	95.9%	5.6%	4.1%	5.2%
Manufacturing	12,723,422	13.6%	96.0%	13.7%	4.0%	12.2%
Commerce	9,555,134	10.2%	94.5%	10.1%	5.5%	12.6%
Real estate and construction	12,071,895	12.9%	90.3%	12.2%	9.7%	28.0%
Services and other	13,825,961	14.8%	94.8%	14.7%	5.2%	17.0%
Government entities	1,039,180	1.1%	100.0%	1.2%	0.0%	0.0%
Financial companies	1,294,618	1.4%	98.3%	1.4%	1.7%	0.5%
Total loans to customers at period end	**93,435,399**	**100.0%**	**95.5%**	**100.0%**	**4.5%**	**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 (about 61%). More specifically, about 64.9% 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	NPL ratio	Ratio to total NPL
Collateral	56,820,443	60.8%	95.2%	60.6%	4.8%	64.9%
Unsecured guarantees	22,827,689	24.4%	95.5%	24.4%	4.5%	24.5%
Not guaranteed	13,787,267	14.8%	96.8%	15.0%	3.2%	10.6%
Total loans to customers at period end	**93,435,399**	**100.0%**	**95.5%**	**100.0%**	**4.5%**	**100.0%**

With regard to financial assets measured at amortized cost, amounts due from banks amounted to approximately €1.5 billion and include €0.6 billion in respect of the reserve requirement with central banks, in line with the end of the previous year.

€/thousands	Stages 1 and 2	Stage 3	Total 31/12/2022	% share	Total 31/12/2021	% share
Due from central banks – reserve requirement	583,064	-	583,064	38.0%	589,472	37.9%
Loans to banks - financing	952,115	8	952,123	62.0%	967,530	62.1%
Financial assets measured at amortized cost – Loans to banks	**1,535,179**	**8**	**1,535,187**	**100.0%**	**1,557,002**	**100.0%**

Finally, debt securities measured at amortized cost (under the HTC business model), largely represented by Italian government securities, totaled €55 billion, down €3.2 billion on December 31, 2022.

Among assets: i) equity investments (€222.8 million) represent interests in associates, the most significant of which are the investments in Pay Holding S.p.A. (€188.1 million), Pitagora S.p.A. (€11.1 million) and BCC Assicurazioni S.p.A. (€6.2 million); ii) property, plant and equipment, totaling €2.5 billion, which mainly includes property used in operations (€2 billion) as well as properties contributed to consolidated real estate investment funds in the amount of €0.4 billion; iii) intangible assets (€157.4 million) mainly include software and user licenses (€122 million) and, to a lesser extent, goodwill for the remaining €20 million, a portion of which has been recognized among assets for the affiliated banks for the acquisition of bank branches (€4.1 million) prior to creation of the Cooperative Banking Group; iv) tax assets totaling about €1.6 billion including current taxes of about €0.4 billion and deferred tax assets of about €1.2 billion, the latter of which includes about €0.8 billion referring to Law 214/2011; and v) other assets of €5 billion, which among other things include tax credits of about €3.5 billion.

Consolidated liabilities and equity

€/thousand	30/06/2023	31/12/2022
Financial liabilities measured at amortized cost	149,285,840	157,077,471
a) due to banks	23,024,983	28,518,246
b) due to customers	115,922,588	119,363,643
c) securities issued	10,338,268	9,195,582
Financial liabilities held for trading	350,502	236,482
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	233,169	349,416
Tax liabilities	47,936	75,317
Other liabilities	4,915,204	3,165,471
Post-employment benefits	219,747	225,719
Provisions for risks and charges	562,052	542,064
Equity	11,830,631	10,083,464
Profit/(loss) for the period	795,356	1,787,052
Total liabilities and equity	**168,240,437**	**173,542,458**

Total consolidated liabilities and equity amounted to more than €168 billion, down €5.3 billion (-3%) on December 31, 2022. The decrease is mainly attributable to liabilities measured at amortized cost following deleveraging transactions during the period (partial repayment of TLTRO funding).

More specifically, financial liabilities measured at amortized cost include direct funding from ordinary customers (securities issued, amounts due to customers, the latter net of institutional fundraising) totaling about €115.8 billion, a decrease on the end of 2022, attributable to the decline in current accounts and demand deposits (-€6.8 billion), partially offset by an increase in time deposits (+€0.7 billion) and new issues of securities (+€1.1 billion).

€/thousands	30/06/2023	31/12/2022
Due to customers	105,415,213	111,650,210
Current accounts and demand deposits	99,902,195	106,716,163
Time deposits	4,351,460	3,698,246
Other amounts due	1,161,559	1,235,800
Outstanding securities	10,338,268	9,195,582
Bonds	5,666,874	5,433,875
Other securities	4,671,394	3,761,707
Financial liabilities measured at amortized cost – Direct funding from ordinary customers	**115,753,482**	**120,845,792**

Amounts due to ordinary customers came to €105.4 billion, down €3.4 billion on the end of 2022. Of the total, 90% is represented by funding from consumer households and SMEs.

€/thousands	30/06/2023		31/12/2022	
	Total	Ratio to total	Total	Ratio to total
Ordinary customers	103,388,135	98.1%	109,530,991	98.1%
Consumer households	62,987,144	59.8%	67,282,974	60.3%
Small and medium-sized enterprises	31,044,071	29.4%	33,230,793	29.8%
- Producer households	6,127,263	5.8%	6,272,214	5.6%
- Micro-businesses, associations and other organizations	6,479,443	6.1%	6,665,995	6.0%
- Other SMEs	18,437,365	17.5%	20,292,584	18.2%
- Other non-financial companies	6,016,145	5.7%	5,604,557	5.0%
- Other financial companies	3,340,773	3.2%	3,412,667	3.1%
Government entities	2,027,079	1.9%	2,119,219	1.9%
Deposits and current accounts at amortized cost	**105,415,213**	**100.0%**	**111,650,210**	**100.0%**

The remainder of financial liabilities measured at amortized cost comprises funding from institutional customers (€33.5 billion) and includes: i) €9.2 billion in repurchase agreements, almost entirely with the Clearing & Guarantee Fund; ii) €23 billion in amounts due to banks, of which €20.6 billion in operations with the ECB (notably TLTROs) and €2.4 billion in other amounts due to banks outside the Group.

Amounts due to banks, of which 90% is represented by exposures to central banks, decreased by €5.5 billion. Those exposures contracted, of which €5.7 billion regarded deleveraging transactions carried out during the period (partial repayment of TLTRO funding).

€/thousands	30/06/2023	31/12/2022
Loans to customers	10,507,375	7,713,433
Repos	9,210,714	6,413,024
Other	1,296,661	1,300,409
Due to banks	23,024,983	28,518,246
Due to central banks	20,578,925	26,290,563
Due to banks	2,446,058	2,227,683
Current accounts and demand deposits	1,653,141	1,779,347
Time deposits	52,030	54,828
Loans and repurchase agreements	570,411	133,727
Other	170,477	259,781
Financial liabilities measured at amortized cost – Funding from institutional customers	**33,532,358**	**36,231,679**

Other main liabilities include the following: i) financial liabilities held for trading, in the amount of €350.5 million (+€114 million on 2022), which include the negative fair value of trading derivatives; ii) tax liabilities, totaling €47.9 million, including €19.8 million in deferred tax liabilities on temporarily non-taxable revenues; iii) other liabilities of about €4.9 billion; iv) post-employment benefits for the Group totaling €226 million and v) provisions for risks and charges of €562 million, which includes provisions for credit risk in the amount of about €300 million against commitments to disburse funds and financial guarantees issued.

Consolidated shareholders' equity

Consolidated shareholders' equity totaled about €12.6 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 about €10.9 billion and mainly included legal reserves of €12 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	30/06/2023	31/12/2022
Share capital	2,293,165	2,291,262
Equity instruments	30,139	30,139
Share premium reserve	151,334	150,835
Treasury shares	(1,381,274)	(1,380,525)
Valuation reserves	(113,650)	(205,161)
Reserves	10,850,012	9,164,414
Profit for the year	795,356	1,787,052
Equity attributable to shareholders of the Parent Company	**12,625,082**	**11,838,016**
Non-controlling interests	**905**	**32,501**
Total shareholders' equity	**12,625,987**	**11,870,517**

INCOME STATEMENT

Consolidated income statement

€/thousands	30/06/2023	30/06/2022
Net interest income	**1,947,843**	**1,669,530**
Net fee and commission income	**671,612**	**711,046**
Dividends, net gain/(loss) on trading activities, net gain/(loss) on hedging and net gain/(loss) on assets and liabilities at FVTPL	37,663	2,619
Net gain (loss) on disposals	39,722	141,056
Gross income	**2,696,840**	**2,524,251**
Net writedowns/writebacks for credit risk	(194,538)	(181,610)
- Financial assets measured at amortized cost – Loans to customers	*(194,329)*	*(178,843)*
Gains/losses from contract modifications without cancellations	(2,691)	(859)
Net income/(loss) from financial operations	**2,499,612**	**2,341,782**
Administrative expenses	(1,597,080)	(1,560,272)
a) personnel expenses	(930,657)	(858,013)
b) other administrative expenses	(666,423)	(702,259)
Depreciation, amortization and provisions	(122,613)	(136,058)
- of which provisions for guarantees issued	*(2,808)*	*(8,412)*
Other operating income/expense	163,111	161,050
Operating expenses	**(1,556,582)**	**(1,535,279)**
Profit/(loss) from equity investments	9,834	(567)
Net gain/(loss) from fair value measurement of property, plant and equipment and intangible assets	(7,538)	(6,092)
Profit/(loss) from disposal of investments	(141)	(557)
Profit/(loss) before tax on continuing operations	**945,184**	**799,287**
Income tax expense from continuing operations	(148,600)	(115,984)
Profit/(loss) for the period	**796,584**	**683,303**
Net profit/(loss) attributable to non-controlling interests	**1,228**	**7,242**
Net profit/(loss) attributable to shareholders of the Parent Company	**795,356**	**676,061**

The Group ended the first half of 2023 with net profit of €796.6 billion, up €113.3 million on the first half of 2022, of which €795.4 million attributable to the shareholders of the Parent Company.

More specifically, net interest income came to €1.9 billion, the net result of interest income of €2.8 billion (including €2 billion on loans to customers and €0.7 billion on debt securities) and interest expense of about €0.9 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 (+€278 million compared with the same period of 2022) is mainly attributable to: i) higher interest income on loans to customers (+€846 million, mainly reflecting the increase in variable rates); ii) a decrease in interest income on debt securities (-€116 million), primarily connected with a deterioration in the performance of BTPi and a contraction in the stock of securities held); iii) a decrease in negative differentials connected with hedging derivatives on hedged financial instruments (+€301 million); iv) an increase in interest accrued on tax credits resulting from tax incentive measures contained in government programs (+€51 million); v) an increase in negative interest on TLTRO financing (-€315 million); vi) a decrease in interest income on funding with negative rates (-€193 million); and vii) an increase in interest expense on customer funding (-€310 million, mainly reflecting a rate effect, while total funding from customers decreased slightly).

Interest and similar income

€/thousands	Debt securities	Loans	Other transactions	Total 30/06/2023	Total 30/06/2022
Financial assets measured at fair value through profit or loss	6,292	2,117	-	8,408	6,552
Financial assets measured at fair value through other comprehensive income	79,405	-	-	79,405	52,662
Financial assets measured at amortized cost	632,805	2,009,114	-	2,641,920	1,879,995
Hedge derivatives	-	-	(13,005)	(13,005)	(315,116)
Other assets	-	-	89,431	89,431	38,291
Financial liabilities	-	-	3,420	3,420	196,472
Interest and similar income	**718,503**	**2,011,231**	**79,846**	**2,809,580**	**1,858,856**

Interest and similar expense

€/thousands	Payables	Securities	Other transactions	Total 30/06/2023	Total 30/06/2022
Financial liabilities measured at amortized cost	(735,560)	(113,441)	-	(849,001)	(167,361)
Financial liabilities held for trading	(8)	-	-	(8)	(52)
Financial liabilities designated as at fair value	-	-	-	-	(1)
Other liabilities and provisions	-	-	(1,458)	(1,458)	(720)
Hedge derivatives	-	-	(366)	(366)	1,168
Financial assets	-	-	(10,904)	(10,904)	(22,360)
Interest and similar expense	**(735,568)**	**(113,441)**	**(12,728)**	**(861,737)**	**(189,326)**

Net fee and commission income amounted to €671.6 million in the first half of 2023, a decrease of €39 million on the same period of 2022. The figure includes commission income of about €797.8 million (mainly relating to commissions for other collection and payment services, the management of current accounts and distribution of third-party services) net of commission expense of €126.1 million.

Fee and commission income

€/thousands	30/06/2023	30/06/2022
Guarantees issued	12,725	12,467
Management, intermediation and advisory services	79,277	74,342
Management of current accounts	276,392	267,674
Other collection and payment services	241,773	442,484
Distribution of third-party services	138,030	131,647
Other services	49,577	49,976
Fee and commission income	**797,774**	**978,591**

Fee and commission expense

€/thousands	30/06/2023	30/06/2022
Guarantees received	(1,513)	(810)
Management and intermediation services	(4,707)	(6,157)
Collection and payment services	(105,725)	(249,771)
Other services	(14,216)	(10,807)
Fee and commission expense	**(126,162)**	**(267,545)**

The net gain on disposals came to €39.7 million, mainly reflecting the sale of debt securities classified at amortized cost and assets measured at fair value through other comprehensive income (totaling a net €14.1 million, a decrease on the corresponding period of the previous year) and the assignment of loans by Group banks (€25.1 million).

Net writedowns for credit risk amounted to €194.5 million, an increase (+€12.9 million) compared with the first six months of the previous year, partly reflecting the close oversight of impaired positions implemented by the Group, with a coverage ratio of 69.3% (64.1% at June 30, 2022).

Operating expenses amounted to about €1.5 billion, a slight increase on the previous year (+€21 million), reflecting in part the increase in Group personnel expenses, which mainly reflected the renewal of the national collective bargaining agreement in June 2022.

CONSOLIDATED OWN FUNDS AND CAPITAL ADEQUACY

Own funds

The following table offers a breakdown of own funds at June 30, 2023, which amounted to about €13.23 billion.

Capital and capital ratios - €/thousands	30/06/2023	31/12/2022
Share capital	2,293,164	2,291,261
Share premium reserve	151,333	150,834
Treasury shares and repurchase commitments	(1,403,975)	(1,401,557)
Reserves	11,106,037	9,420,135
Profit/(Loss) for the period	741,475	1,691,628
Other components of other comprehensive income	(369,675)	(460,880)
Transitional provisions – IFRS 9	74,890	668,033
Goodwill (net of related tax effects)	(19,388)	(19,380)
Intangible assets (net of related tax effects)	(85,851)	(85,099)
Other deductions	(27,984)	(29,678)
Prudential filters	37,269	60,359
Common Equity Tier 1 (CET 1)	**12,497,295**	**12,285,654**
Additional Tier 1 (AT1)	30,139	30,139
Tier 1 (T1)	**12,527,434**	**12,315,793**
Eligible subordinated loans	704,486	709,522
Tier 2 (T2)	**704,486**	**709,522**
Total Own Funds (TC)	**13,231,919**	**13,025,315**

In light of the special accounting rules applicable[21] 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 (€11.1 billion), in addition to share capital (mainly composed of the shareholder contributions of the affiliated banks and the associated share premiums). Group capital in the amount of about €2.3 billion decreased by about €889 million after elimination of the capital of the Parent Company held by the affiliated banks (reported under treasury shares).

CET1 at June 30, 2023, which represents 94.4% of total capital, increases with respect to December 2022 by a total of about €212 million (+1.6%), reflecting the algebraic sum of developments in a number of its main components, and specifically: i) an increase in reserves (+€1,685 million, due primarily to the capitalization of 2022 net profit;; ii) calculated net profit for the year– as per application to the ECB submitted on August 7, 2023 and approved by the ECB on August 10 – totaling €741 million; iii) the substantial reduction of the IFRS 9 phase-in, due to the elimination of the static and dynamic components of first-time application and the reduction 75% to 50% of the quick-fix changes (total reduction of about €593 million); and iv) an increase in the FVOCI reserve, equal to -€370 million (+€91 million compared with December 2022), now no longer mitigated by the prudential filter pursuant to Article 468 paragraph 1 (which had been recognized at December 2022 with a benefit of about €111 million).

Additional Tier 1 capital did not change, while the change in Tier 2 (a reduction of about €5 million) was marginal, attributable to the supervisory amortization of subordinated instruments.

Capital adequacy

Following the preliminary discussions undertaken in the second part of 2022, the supervisory authorities, with a notice received on December 14, 2022, informed the Parent Company of the results of the SREP decision, which establishes the prudential requirements to be met at the consolidated level with effect from January 1, 2023 (consisting of own funds requirements and qualitative requirements). With this decision, which replaces the previous SREP decision, the supervisory authorities established the following own funds requirements to be met for 2023:

- an additional Pillar 2 own funds requirement (P2R) of 2.80% (of which 5 bps for the NPE P2R, which is subject to reduction within the year upon the occurrence of certain conditions), of which a minimum of 56.25% to be held in the form of primary Tier 1 capital (Common Equity Tier 1, CET1) and 75% in the form of Tier 1 capital;
- a Pillar 2 capital guidance (P2G) equal to 1.75, consisting entirely of CET1, held in addition to the Overall Capital Requirement (OCR).

Given the above, for 2023 the Iccrea Cooperative Banking Group is therefore required to comply with:

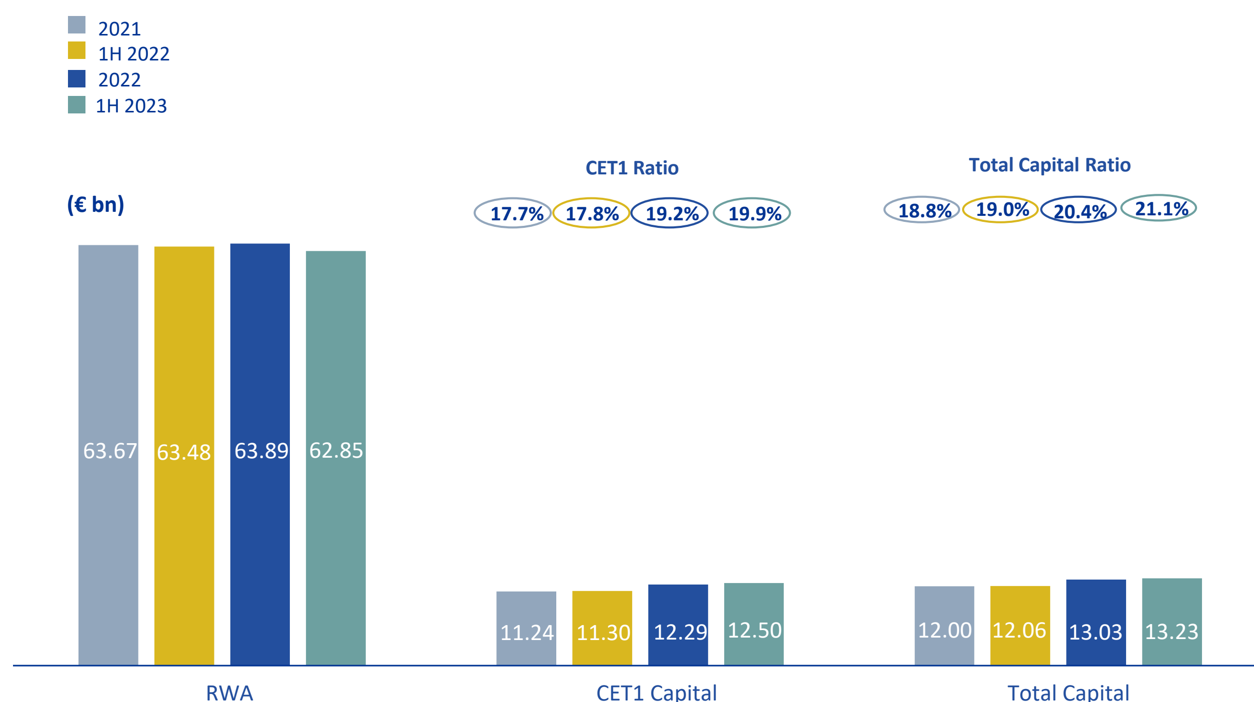
[21] Under Article 38, point 2 bis of Legislative Decree 136 of August 18, 2015, concerning bank financial statements, which establishes that in the case of the cooperative banking groups referred to in Article 37-bis of Legislative Decree 385 of September 1, 1993, the Parent Company and the mutual banks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

- a Total SREP Capital Requirement (TSCR) of 10.80%;
- an Overall Capital Requirement (OCR) of 13.30%;
- Target requirements (including P2G) equal to 15.05%.

As with the previous decisions, the SREP decision did not impose own funds requirements to be met on an individual basis by the Group's affiliated banks. Accordingly, in order to meet the above consolidated requirements, procedures for allocating them at an individual level are provided for in the main Risk Governance processes (i.e. RAF, EWS), compatibly with the capital capacity of each affiliated bank, thus ensuring that the Group's strategies and financial constraints are also reflected at the individual level.

With the dynamics in own funds noted above, RWAs declined by 1.6% compared with the end of 2022 (€62.85 billion, compared with €63.89 billion at the end of December 2022).

The CET1 ratio at June 30, 2023, came to 19.9%, while the TC ratio came to 21.1%. As shown in the figure below, both of these ratios registered a substantial increase compared with December 2022 (19.2% and 20.4%, respectively).



Minimum Requirement of Eligible Liabilities (MREL)

With regard to Pillar II capital adequacy, Directive 2014/59/EU on bank recovery and resolution (Bank Recovery and Resolution Directive - BRRD - as amended) introduced the "MREL" (Minimum Requirement of Eligible Liabilities), representing the minimum requirement for own funds and eligible liabilities with a view to ensuring the proper functioning of the bail-in mechanism and guaranteeing the continuity of critical economic functions during and after a possible crisis.

In March 2023, Iccrea Banca, as the Group Resolution Entity, received the decision of the Single Resolution Board on the determination of the minimum requirement of own funds and eligible liabilities (MREL - Minimum Requirement of Eligible Liabilities), including the subordination requirement, defined in terms of total risk exposure (RWAs) and a metric of total the leverage exposure (LRE) to be achieved on a consolidated basis by the Resolution Group.

The final mandatory level of the MREL on a consolidated basis (with which the Parent Company is compliant), to be met by January 1, 2026, is equal to 25.55% of RWAs (including the combined buffer requirement of 2.5% of RWAs) and 6.35% of the LRE. The intermediate subordination requirement, to be met on a consolidated basis starting from January 1, 2022, is equal to 20.57% of RWAs (including the combined buffer requirement of 2.5% of RWAs) and 6.35% of the LRE.

With regard to the subordination requirement on a consolidated basis (with which the Parent Company is compliant), the final mandatory target, to be met by January 1, 2026, is equal to 118.62% of RWAs (including the combined buffer requirement of 2.5% of RWA) and 6.35% of the LRE. The intermediate subordination requirement, to be met on a consolidated basis starting from January 1, 2022, is equal to 16% of RWAs (including the combined buffer requirement of 2.5% of RWAs) and 6.35% of the LRE.

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

- own funds at Group level calculated in accordance with the provisions of the CRR (Capital Requirements Regulation - Regulation (EU) no. 575/2013 as updated);
- liabilities eligible for the MREL and the subordination requirement issued by the Parent Company (as the Group Resolution Entity) with a residual maturity greater than one year.

At the reference date of June 30, 2023, the Group had, with respect to:

- the mandatory intermediate MREL on a consolidated basis, a surplus of about €2,658 million in terms of RWAs (+4.23% of consolidated RWAs) and a surplus of about €4,599 million in terms of the LRE (+2.66% of the consolidated LRE);
- the mandatory intermediate subordination requirement on a consolidated basis, a surplus of about €3,230 million in terms of RWAs (+5.14% of consolidated RWAs) and a surplus of about €2,298 million in terms of the LRE (+1.33% of the consolidated LRE).

5. THE GROUP'S STRATEGIC LINES OF BUSINESS

CONSOLIDATED BANKS AND OTHER COMPANIES

The ICBG's product and service delivery model 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. A specific segment has been retained for the mutual banks based on their unique qualities, in line with the sector regulations that distinguish and preserve the nature of cooperative banking.

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

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTERSEGMENT TRANSACTIONS	TOTAL
Financial assets	454,580	15,723,200	56,750	55,693,386	(5,213,171)	66,714,746
Due from banks	73,781	30,492,281	29,101	10,044,788	(39,104,764)	1,535,187
Due from customers	4,692,387	6,102,092	1,308,637	79,711,948	(2,211,013)	89,604,052
Funding from banks	4,403,354	36,576,263	1,329,382	26,409,579	(45,693,596)	23,024,983
Funding from customers	305,447	11,062,821	104,589	104,578,756	(129,024)	115,922,588
Securities and other financial liabilities	88,790	6,046,393	2,445	8,571,979	(3,786,907)	10,922,701

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTERSEGMENT TRANSACTIONS	TOTAL
Net interest income	59,591	40,947	30,761	1,798,583	17,960	1,947,843
Net fee and commission income	4,715	35,384	32,686	617,143	(18,315)	671,612
Other financial expense and income	2,991	137,954	(16)	41,002	(104,545)	77,385
Gross income	67,297	214,285	63,431	2,456,728	(104,900)	2,696,840
Net value adjustments	19,051	(19,736)	(5,734)	(190,809)	-	(197,229)
Net gains/(losses) from financial operations	86,349	194,548	57,697	2,265,920	(104,902)	2,499,612
Operating expenses	(32,737)	(127,309)	(26,745)	(1,374,763)	4,971	(1,556,582)
Other costs and revenues	-	3,210	-	(1,848)	794	2,155
Profit/(loss) before tax from continuing operations	53,611	70,449	30,952	889,309	(99,137)	945,184
Income tax expense from continuing operations	(17,842)	9,436	(9,919)	(129,306)	(969)	(148,600)
Profit/(loss) for the period	**35,769**	**79,885**	**21,033**	**760,003**	**(100,106)**	**796,584**
Profit/(loss) attributable to non-controlling interests	**-**	**1,238**	**(10)**	**-**	**-**	**1,228**
Profit/(loss) attributable to shareholders of the Parent Company	**35,769**	**78,647**	**21,043**	**760,003**	**(100,106)**	**795,356**

INSTITUTIONAL BUSINESS AREA

This area includes the companies that provide products and services directly to the affiliated banks and their customers. 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 Sinergia		BCC POS		Other[22]	
	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022
Cash and cash equivalents	1,421,152	960,917	366	9,814	45,456	11,385	5,010	-	273,464	274,154
Financial assets measured at fair value through profit or loss	2,589,022	2,521,624	-	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	1,110,156	1,079,476	8	8	4	2	-	-	663	2,468
Financial assets measured at amortized cost	48,642,715	51,073,505	-	-	96	-	-	-	-	-
a) due from banks	30,492,281	34,043,222	-	-	-	-	-	-	-	-
b) loans to customers	6,273,082	7,079,255	-	-	96	-	-	-	-	-
c) securities	11,877,351	9,951,029	-	-	-	-	-	-	-	-
Hedging derivatives and value adjustments of macro-hedged financial assets	505,245	569,601	-	-	-	-	-	-	-	-
Equity investments	1,596,049	1,568,623	-	-	-	-	-	-	-	-
Property, plant and equipment	2,793	2,502	38,476	41,985	106,768	105,667	9,095	-	59,965	59,749
Intangible assets	393	536	117,818	124,931	3,243	128	1,285	-	732	898
Tax assets	67,022	67,077	2,873	3,221	1,695	535	21	-	3,724	3,127
Non-current assets and disposal groups held for sale	-	5,438	-	-	-	-	-	-	-	-
Other assets	635,800	642,509	140,472	128,658	75,360	12,207	2,679	-	16,398	15,062
Total assets	**56,570,346**	**58,491,808**	**300,013**	**308,616**	**232,622**	**129,923**	**18,091**	**-**	**354,947**	**355,458**

€/thousands	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Sinergia		BCC POS		Other	
	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022
Financial liabilities measured at amortized cost	51,827,436	53,682,926	91,858	86,959	88,585	53,303	-	-	25,960	25,665
a) due to banks	36,563,102	41,593,508	82,726	76,021	74,521	39,830	-	-	25,960	25,665
b) due to customers	11,314,861	8,663,966	9,132	10,939	14,064	13,474	-	-	-	-
c) securities issued	3,949,473	3,425,452	-	-	-	-	-	-	-	-
Financial liabilities held for trading	1,643,449	1,729,244	-	-	-	-	-	-	-	-
Financial liabilities designated as at fair value	380,918	352,484	-	-	-	-	-	-	-	-
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	72,553	165,494	-	-	-	-	-	-	-	-
Liabilities associated with disposal groups held for sale	-	-	345	238	867	498	-	-	155	280
Tax liabilities	4,217	3,304	-	-	-	-	264	-	257	-
Other liabilities	390,296	403,602	93,532	105,972	51,574	12,491	12,813	-	11,160	8,158
Post-employment benefits	12,413	12,649	3,177	3,086	2,885	288	722	-	837	125
Provisions for risks and charges	50,386	40,147	785	823	2,653	59	-	-	1,711	1,658
Shareholders' equity	2,115,564	1,662,166	104,924	109,070	83,028	59,510	2,000	-	313,186	48,221
Profit/(loss) for the period (+/-)	73,113	439,793	5,391	2,468	3,029	3,775	2,292	-	1,682	2,324
Total liabilities and equity	**56,570,346**	**58,491,808**	**300,013**	**308,616**	**232,622**	**129,923**	**18,091**	**-**	**354,947**	**355,458**

[22] The item "Other" includes BCC Servizi Assicurativi, BCC Gestione Crediti, Beni Immobili and Sigest.

Income statement

€/thousands	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Sinergia		BCC POS		Other	
	30/06/2023	30/06/2022	30/06/2023	30/06/2022	30/06/2023	30/06/2022	30/06/2023	30/06/2022	30/06/2023	30/06/2022
Net interest income	37,444	116,008	554	(75)	(487)	(612)	439	-	2,765	(54)
Net fee and commission income	30,717	46,529	(1)	-	(8)	(2)	-	-	4,766	5,567
Dividends	121,848	11,902	-	-	-	-	-	-	-	-
Net gain/(loss) on trading	10,027	8,012	2	(14)	-	-	-	-	-	-
Net gain/(loss) on hedging	778	(1,988)	-	-	-	-	-	-	-	-
Net gain/(loss) on disposals	14,009	25,672	-	-	-	-	-	-	-	-
Net gain/(loss) on financial assets and liabilities at FVTPL	(4,264)	(25,084)	-	-	-	-	-	-	-	-
Gross income	**210,558**	**181,050**	**555**	**(89)**	**(494)**	**(614)**	**439**	**-**	**7,530**	**5,514**
Net writedowns/writebacks for credit risk	(19,736)	3,654	-	-	-	-	-	-	-	-
Net gains/(losses) from financial operations	**190,822**	**184,705**	**555**	**(89)**	**(494)**	**(614)**	**439**	**-**	**7,530**	**5,514**
Administrative expenses	(234,500)	(226,192)	(118,184)	(107,590)	(67,282)	4,800)	(1,625)	-	(9,950)	(7,085)
a) personnel expenses	(108,828)	(99,539)	(22,637)	(21,656)	(28,092)	(3,994)	(789)	-	(4,098)	(1,616)
b) other administrative expenses	(125,672)	(126,653)	(95,547)	(85,934)	(39,190)	(10,807)	(836)	-	(5,853)	(5,468)
Depreciation, amortization and provisions	(3,054)	1,595	(23,371)	(23,261)	(7,889)	(5,887)	(1,138)	-	(871)	(987)
Other operating expenses/income	100,731	4,719	148,671	136,480	79,968	23,664	4,879	-	5,099	3,644
Operating expenses	**(136,823)**	**(219,878)**	**7,116**	**5,629**	**4,797**	**2,976**	**2,117**	**-**	**(5,723)**	**(4,427)**
Profit/(loss) from equity investments	5,103	(240)	-	-	-	-	-	-	-	-
Profit/(loss) from disposal of investments	-	-	-	-	1	-	-	-	-	-
Net gain/(loss) from FV measurement of property, plant and equipment and intangible assets	-	-	-	-	-	-	-	-	-	-
Impairment of goodwill	-	-	-	-	-	-	-	-	-	-
Profit/(loss) before tax on continuing operations	**59,102**	**(35,414)**	**7,670**	**5,539**	**4,304**	**2,363**	**2,556**	**-**	**1,808**	**1,087**
Income tax expense from continuing operations	14,011	13,617	(2,279)	(1,622)	(1,275)	(598)	(264)	-	(126)	(345)
Profit/(loss) on discontinued operations after tax	-	7,255	-	-	-	-	-	-	-	-
Profit/(loss) for the period	**73,113**	**(14,542)**	**5,391**	**3,917**	**3,029**	**1,765**	**2,292**	**-**	**1,682**	**741**

ICCREA BANCA S.P.A.

Within the Group, Iccrea Banca performs the duties and responsibilities in respect of the affiliated banks relating to strategic and operational oversight, coordination and control and interacts with supervisory and regulatory authorities. The traditional role of the second-level bank, which, in supporting the operations of the mutual banks, provides products, services and advisory services to help them meet the needs of their shareholders, customers, households and the development of local communities, is supplemented by the addition of duties connected with the responsibilities of our role and performing the activities need to ensure the consistency of the Group's strategic policy, operational governance, risk management, pursuit of industrial and operational synergies to achieve ever-improving levels of operational efficiency and effectiveness, and the development of production and distribution models.

Financial services

In the financial services area, the Parent Company supports the affiliated banks with a variety of activities associated with investment services, including trading in equities and bonds, accessing over-the-counter (OTC) markets for unlisted securities, order execution and transmission services both for transactions connected with the management of the proprietary portfolio and for the provision of investment services to their retail and/or professional customers. In this context, it provides guidance and investment strategies; ii) assumes the role of central counterparty in the liquidity management system; iii) performs capital and money-market activities and hedging; iv) and offers a delegated risk management service to enhance the efficiency of the arrangements and techniques adopted to manage the risk profiles associated with the finance book of the affiliated banks.

With specific regard to liquidity management, in the first half of 2023 the funding activity of the affiliated banks remained mainly concentrated in the ECB's long-term auctions. During the period, advantage was taken of specific "early repayment" windows to repay resources raised in the third, fourth, fifth and sixth auctions in the total amount of €6.1 billion, lowering the amount outstanding from €26.5 billion to €20.4 billion. The use of TLTRO auctions as a proportion of collateralized funding remained at levels above 75%.

The average liquidity held by the affiliated banks on the daily settlement account was about €3.6 billion during the period. The average balance held on reserve requirement accounts was about €2.3 billion. The Group Treasury managed an average balance at the Bank of Italy of €1.3 billion, having regular recourse to the deposit facility. The closing balance at June 30, 2023 was about €0.685 billion.

With regard to forex operations, at June 30, 2023, 58 thousand contracts had been negotiated, an increase compared with the same period of 2022 (+18%), with a total volume of about €4.2 billion, of which €2.3 billion in swap operations, €1.7 billion in spot transactions and €150 million in outright transactions. The trading activity also continued, transacting a total of €110 billion, mainly in the form of swaps.

Capital market funding operations included the issue, effective January 20, 2023 of a Senior Preferred Social bond (XS2577533875) in the amount of €500 million (fixed-to-floating, with a maturity of 5 years and early redemption possible after 4 years), which has been rated "BB+" by Standard and Poor's and "BB-" by Fitch. The issue was placed with over 125 geographically diversified institutional investors. The transaction - which is part of the process of meeting the MREL requirements, carried out under the €3 billion EMTN program and the Green, Social and Sustainability Bond Framework adopted in October 2021, in line with the Green and Social Bond Principles issued by ICMA (International Capital Market Association) – is Iccrea Banca's second Social bond after the inaugural issue in November 2021. Its primary objective is to support the real economy and SMEs operating in economically disadvantaged areas of Italy.

At June 30, 2023, the value of outstanding Iccrea Banca bonds totaled €3.888 billion, with a weighted average residual maturity of 4.24 years.

With regard to Italian government securities, within market making operations on the Vorvel platform, the first six months of 2023 saw the listing of 140 securities for a total volume handled of €2.7 billion, an increase of 227% on the same period of the previous year. Trading continued on the MOT market of Borsa Italiana, with an increase of 33% in volumes compared with the previous year (totaling €4.2 billion). Trading on the MTS, BondVision and Bloomberg platforms reserved for institutional investors came to €19.2 billion. As part of market making operations for eurobonds, 357 eurobonds were listed on the Vorvel market, 266 eurobonds on the EuroTLX market and 109 eurobonds on ExtraMOT and MOT. Total volumes traded on these markets came to about €560 billion.

With regard to execution activities on national and foreign financial markets on behalf of the affiliated banks, the first half of 2023 was characterized by a modest increase in overall volumes (+11%) compared with the same period of the previous year. With a total transacted value of €8 billion, the Italian equity sector recorded a volume of €2.2 billion. Foreign equities recorded volumes of €270 million, a decrease of 35% compared with the first half of 2022. The reduction essentially reflected the strategic choices of customers, who have repositioned themselves towards the domestic market. Operations in the bond segment posted a transacted volume of €5.5 billion, an increase of 38% on the same period of 2022. The increase is mainly attributable to the rise in bond yields, continuing the rise that began in the final part of last year following the change in the ECB's monetary policy stance. In addition, financial instruments totaling €3 billion were placed, of which some €2.8 billion in Italian government securities.

In its operations in OTC derivatives, Iccrea Banca transacted a total nominal amount of about €4.5 billion.

The affiliated banks traded derivatives with a total notional value of about €851 million, a contraction of about 80% compared with the first half of the previous year. More specifically, some were involved in the unwinding (early termination) of swaps to hedge the interest rate risk on positions in securities with a notional value of €355 million. They also conducted macro-hedging operations for the interest rate risk of

fixed-rate long-term loan portfolios with a notional value of about €217 million, transactions hedging investments in fixed-rate or inflation-linked securities with a notional value of about €200 million and cash flow hedge transactions involving CCTs in the amount of €65 million.

As regards operations with BCC Leasing (formerly Iccrea BancaImpresa), transactions with a total notional amount of about €76 million were closed, a slight decrease compared with the previous year.

With regard to transactions on the Parent Company's financial portfolio, in order to manage and mitigate financial risks, new hedging and unwinding transactions were conducted carried out with a total notional amount of about €2.3 billion. At June 30, 2023, the size of the financial portfolio relating to the Parent Company's banking book was about €11.38 billion, an increase of 8.16% compared with the same period of 2022. The portfolio is diversified as follows: €10.11 billion (88.8% of the total) is represented by Italian sovereign bonds; €0.68 billion (5.96% of the total) by "financial" bonds; €0.36 billion (3.15% of the total) by European sovereign bonds; €0.12 billion (1.04% of the total) by supranational bonds; €0.11 billion by corporate bonds (0.92% of the total); and the remainder is invested in equities and funds. Overall, the financial portfolio consists of 59% variable-rate items, 4% inflation-linked items and 37% fixed-rate items (with an average maturity of 2.3 years).

The HTC business model covers 92.05% of the financial portfolio, whose securities have an average residual maturity of 6.68 years, classified on the basis of the fair value policy in force as 98.5% L1, 0.5% L2 and 1% L3. At June 30, the remaining 7.95% of the financial portfolio allocated to the HTCS category included securities with an average residual maturity of 2.53 years, classified, again on the basis of the fair value policy in force, as 96.8% L1 and 3.2% L2.

The financial portfolio also gradually accumulated a position in ESG financial instruments, which at June 30, amounted to about €0.48 billion euros or 4.2% of the overall total of the portfolio under management.

With a view to managing and mitigating the financial risks to which the portfolio is exposed, derivatives transactions were carried out in the total notional amount of about €2.4 billion.

In the first half of 2023, the bond trading portfolio registered flows (cash and listed derivatives) totaling €4.3 billion, with an average daily VAR of €167 thousand. The activity was almost entirely accounted for by Italy (41.40%), Germany (27.05%), the United States (22.80%), Spain (0.52%), France (1.25%), Portugal (0.58%) and supranational issues (3.60%).

Compared with the same period in 2022, operations experienced a contraction of 55%.

In equities segment, in the first half of 2023 the value of securities traded reached €25 million, while the value of transactions in listed derivatives was equal to €443 million euros, with an average daily VAR of €72 thousand.

Trading volumes recorded a decline of 7% compared with the same period of 2022.

Lending to firms

Financial support operations for the business segment were conditioned by the uncertainty of the economic situation and the rise in interest rates, but the presence of credit support measures drove the growth of lending, albeit to a lesser extent than expected as the propensity of companies to invest declined.

In this environment, the quality of new lending operations improved both in terms of credit quality (the average expected loss was equal to 22 bps, a reduction compared with 2022) and profitability (the average spread was 2.27 bps).

An important contribution came from specialist activities, which represented around 60% of new lending. Specifically, this included: 62 million for the agricultural segment (+4% compared with 2022), €89 million for foreign transactions (+23% compared with 2022) and €62 million for structured finance (-15% compared with 2022).

Net fee and commission income generated by advisory activities also grow as we lent our support to the mutual banks and their corporate customers, notably in the foreign sector thanks to the new agreements signed with SACE for unsecured commercial guarantees and with Simest and Finest for internationalization efforts. These agreements also favored the expansion of transactional activities with foreign counterparties (cross border payments, letters of credit and international guarantees).

Another major operational sector was subsidized lending, which has been expanded and upgraded to assist client companies in managing the measures introduced by the NRRP. This enabled:

- the acceptance of over 5,000 new guarantee applications submitted to MCC, representing €1.1 billion in new lending of which €800 million has been secured, following which the portfolio under management exceeded 165 thousand positions;
- an agreement with Cassa Depositi e Prestiti for access to the Tourism Revolving Fund (operational from March 1, 2023),
- the award of a contract to manage a fund of €118 million from the EIB tourism fund of funds, financed with NRRP resources, joining the funds dedicated to supporting the Tourism and Environment sector drawing on Cassa Depositi e Prestiti funding.

- partnerships with BIT and FINSERVICE for providing the technical support necessary for business customers to access the main national and regional subsidy measures;
- the introduction of a portal for monitoring all tenders for subsidized finance.

In addition to these activities, other new initiatives activated as part of the Parent Company's ESG strategy to enhance the sustainability of business clients through:

- the development in partnership with Crif of a platform to enable firms to measure their compliance with environmental, social and governance standards;
- the expansion of the product range with new lending products that are compliant with the new ESG taxonomy, which will be made available in the BCC SI catalog by the end of the year.

Payment systems

Iccrea Banca continued its major efforts to maintain existing services and develop new services for to the Group banks to help them ensure compliance with the evolving national and international regulatory context and expand initiatives to facilitate the acceleration of the digitalization of payment services.

The first half of 2023 registered higher volumes than the same period of 2022 (+11% in transactions handled), confirming the overall growth trend in the sector, partly reflecting the substitution of cash with electronic transactions. Segments posting double-digit growth rates included digital payment services (ordinary and instantaneous SEPA credit transfers, direct debit and PagoPA transactions), which more than offset the contraction registered by traditional paper-based products (checks, cashier's checks, bills, etc.). The main collections and payments initiatives undertaken in the first half of 2023 included:

- the migration in March of Target 2 and Swift operations to the new technical rules defined by the ECB (T2 Consolidation) and Swift (CBPR +);
- the completion of the PagoPA direct connection project for the rationalization of costs and the development of new functions;
- participation in the Bank of Italy working group on the crisis at cash management companies for the implementation of efficiency enhancement solutions for the sector, agreed by all the players involved;
- the activation of additional affiliated banks in the SEPA instant credit transfer service, partly with a view to the publication of the European Regulation, which will sanction its mandatory nature and its equivalence to ordinary SEPA credit transfers;
- the implementation of a project for the complete digitalization of the journal, which will help rationalize costs at the group level, with go-live expected in 2024;
- the start of analyses for the request-to-pay projects in the ECB's PagoPA and Euro Digital areas.
- As part of its involvement in institutional and interbank discussions, Iccrea Banca participates in the main national working groups active under the aegis of ABI, the Bank of Italy, CBI, EBA, CIPA, PagoPA, ANORC and AGID, as well as in the European banking industry association responsible for managing SEPA schemes (European Payments Council).

BCC SISTEMI INFORMATICI S.P.A.

The information technology segment of the Group in the first half of 2023 confirmed its engagement in projects: i) to ensure compliance with operational and legislative developments; ii) involving the evolution of system architecture, functionality, digitalization and innovation (e.g. digital banking and the customer relationship); iii) related to the management of core processes; and iv) regarding the management of merger processes.

RETAIL BUSINESS AREA

Balance sheet

€/thousands	RETAIL							
	BCC		BCC CreditoConsumo		BCC R&P		Banca Sviluppo	
	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022
Cash and cash equivalents	4,515,303	4,803,977	32,797	136,524	38,976	25,933	31,188	8,738
Financial assets measured at fair value through profit or loss	1,266,419	1,387,519	-	-	6,045	6,015	101	139
Financial assets measured at fair value through other comprehensive income	8,575,630	8,641,697	-	-	3	3	612	594
Financial assets measured at amortized cost	134,571,730	138,590,069	1,206,298	1,124,232	40,020	41,077	141,414	165,753
a) due from banks	10,049,901	9,417,514	20	5	348	43	28,733	34,484
b) loans to customers	79,711,948	80,029,968	1,206,279	1,124,227	39,671	41,034	62,691	76,752
c) securities	44,809,880	49,142,586	-	-	-	-	49,990	54,517
Hedging derivatives and value adjustments of macro-hedged financial assets	326,146	439,618	-	-	-	-	-	-
Equity investments	35,790	35,780	-	-	-	-	-	-
Property, plant and equipment	1,871,592	1,891,362	29	32	4,020	4,144	28,644	28,780
Intangible assets	12,500	13,989	864	1,117	3,204	4,210	671	672
Tax assets	1,234,404	1,388,628	5,378	6,345	594	1,229	41,696	42,536
Non-current assets and disposal groups held for sale	11,112	150,946	-	-	-	-	-	-
Other assets	4,290,372	4,755,745	126,355	122,806	33,987	39,480	22,215	25,898
Total assets	**156,710,998**	**162,099,329**	**1,371,721**	**1,391,056**	**126,849**	**122,090**	**266,542**	**273,108**

€/thousands	RETAIL							
	BCC		BCC CreditoConsumo		BCC R&P		Banca Sviluppo	
	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022
Financial liabilities measured at amortized cost	139,415,270	147,024,940	1,265,559	1,247,249	39,033	37,432	131,833	133,547
a) due to banks	26,423,667	29,414,181	1,264,908	1,234,600	39,007	37,375	25,472	26,417
b) due to customers	104,578,756	110,439,409	651	12,648	26	57	103,916	104,735
c) securities issued	8,412,848	7,171,350	-	-	-	-	2,445	2,395
Financial liabilities held for trading	97	339	-	-	-	-	-	-
Financial liabilities designated as at fair value	-	-	-	-	-	-	-	-
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	164,238	185,381	-	-	-	-	-	-
Tax liabilities	40,972	67,537	138	419	124	-	337	425
Liabilities associated with disposal groups held for sale	-	247,896	-	-	-	-	-	-
Other liabilities	4,405,141	2,640,449	26,232	34,188	52,284	19,808	9,040	11,546
Post-employment benefits	197,383	203,096	230	211	233	227	90	87
Provisions for risks and charges	458,551	443,200	183	172	726	1,389	4,746	5,716
Equity	11,269,343	10,030,450	65,587	82,314	25,917	46,553	121,799	125,368
Profit/(loss) for the period (+/-)	760,003	1,256,041	13,792	26,503	8,532	16,680	(1,302)	(3,580)
Total liabilities and equity	**156,710,998**	**162,099,329**	**1,371,721**	**1,391,056**	**126,849**	**122,090**	**266,542**	**273,108**

€/thousands	BCC		BCC CreditoConsumo		BCC R&P		Banca Sviluppo	
	30/06/2023	30/06/2022	30/06/2023	30/06/2022	30/06/2023	30/06/2022	30/06/2023	30/06/2022
Net interest income	1,798,572	1,461,732	29,583	25,507	1,081	-	86	751
Net fee and commission income	617,131	593,706	5,511	4,311	27,178	25,826	(5)	153
Dividends	11,113	8,822	-	-	11	11	-	21
Net gain/(loss) on trading activities	7,104	5,854	-	-	-	-	-	1
Net gain/(loss) on hedging	(688)	(1,314)	-	-	-	-	-	-
Net gain/(loss) on disposals	28,508	119,837	-	1,132	-	-	-	(29)
Net gain/(loss) on assets and liabilities at FVTPL	(6,742)	(27,821)	-		21	(265)	(49)	2
Gross income	**2,454,999**	**2,160,816**	**35,094**	**30,950**	**28,292**	**25,572**	**32**	**899**
Net writedowns/writebacks for credit risk	(190,808)	(205,458)	(5,055)	(3,030)	-	-	(679)	(1,071)
Net gains/(losses) from financial operations	**2,264,192**	**1,955,358**	**30,039**	**27,920**	**28,292**	**25,572**	**(646)**	**(172)**
Administrative expenses	(1,423,096)	(1,366,136)	(10,726)	(10,715)	(16,002)	(12,545)	(2,070)	(2,762)
a) personnel expenses	(750,561)	(692,960)	(2,468)	(2,320)	(2,833)	(2,563)	(680)	(973)
b) other administrative expenses	(672,536)	(673,176)	(8,258)	(8,395)	(13,169)	(9,982)	(1,391)	(1,789)
Depreciation, amortization and provisions	(84,962)	(99,764)	(349)	(287)	(711)	794	436	(213)
Other operating expenses/income	133,318	218,929	1,556	988	584	(83)	540	574
Operating expenses	**(1,374,740)**	**(1,246,972)**	**(9,519)**	**(10,013)**	**(16,130)**	**(11,835)**	**(1,095)**	**(2,402)**
Profit/(loss) from equity investments	-	-	-	-	-	-		-
Profit/(loss) from disposal of investments	(142)	(510)	-	-	-	-	-	-
Net gain/(loss) from FV measurement of property, plant and equipment and intangible assets	-	-	-	-	-	-		
Impairment of goodwill	-	-	-	-	-	-	-	-
Profit/(loss) before tax on continuing operations	**889,309**	**707,876**	**20,520**	**17,907**	**12,162**	**13,737**	**(1,741)**	**(2,573)**
Income tax expense from continuing operations	(129,306)	(91,146)	(6,728)	(5,845)	(3,629)	(4,209)	439	636
Profit/(loss) on discontinued operations after tax	-	-	-	-	-	-		
Profit/(loss) for the period	**760,003**	**616,730**	**13,792**	**12,062**	**8,532**	**9,528**	**(1,302)**	**(1,938)**

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 117 mutual banks belonging to the Iccrea Cooperative Banking Group as at June 30, 2023, presented in aggregate form and gross of intercompany items.

Total assets at June 30, 2023 amounted to €156.7 billion, a decrease of €5.4 billion compared with December 31, 2022.

Financial assets measured at amortized cost decreased by €4 billion to €134.6 billion and consist of:

- loans to customers totaling €79.7 billion (-€0.3 billion compared with the end of 2022), mainly represented by loans to customers (€66.7 billion), current accounts (€6.5 billion), other financing (€5.5 billion) and transactions involving credit cards, personal loans and loans repaid by automatic deductions from wages (€1 billion);
- amounts due from banks of €10 billion, an increase of €0.6 billion compared with 2022. The item consists of time deposits of (€9.7 billion) and other financing (€0.3 billion);
- debt securities amounting to about €44.8 billion (-€4.3 billion), represented by €43.8 billion in securities with customers (largely Italian government securities) and securities issued by banks in the amount of about €1 billion (essentially unchanged on 2022).

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 (43.6% and 42.2% of total lending, respectively).

The aggregate NPL ratio stood at 4.4%, while the coverage ratio for impaired loans was 68.7% (66.7% at December 31, 2022). 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 2.7% and 5.4%, respectively) thanks to our better understanding of these types of customers. The share of loans to larger firms was more limited (13% 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	98.8%	95.6%	98.7%	4.4%	100.0%	68.7%
Consumer households	43.6%	97.3%	44.3%	2.7%	27.0%	62.0%
Small and medium-sized enterprises	42.2%	94.6%	41.6%	5.4%	52.2%	68.4%
Producer households	7.8%	94.0%	7.7%	6.0%	10.6%	63.7%
Micro-enterprises, institutions and associations	8.0%	93.5%	7.8%	6.5%	11.8%	69.0%
Other SMEs	26.3%	95.0%	26.2%	5.0%	29.8%	69.9%
Large corporate	13.0%	92.3%	12.6%	7.7%	20.8%	78.1%
Government entities	1.0%	100.0%	1.1%	0.0%	0.0%	64.2%
Central banks, credit institutions and other financial companies	0.2%	99.1%	0.2%	0.9%	0.0%	99.4%
Total	**100.0%**	**95.6%**	**100.0%**	**4.4%**	**100.0%**	**68.7%**

Financial investments totaled about €51.7 billion[23] and consist almost entirely of government securities (especially those issued by the Italian State). Of these, 87% are allocated to the portfolio measured at amortized cost (Hold-to-Collect, HTC, business model) in line with the traditional business model that characterizes these banks, in order to take advantage of the coupon yield and at the same time to not expose its funds to risks associated with volatility. Consistent with the mutualistic aim, the stock of securities allocated to the accounting portfolio measured at fair value through profit or loss is very small.

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

The portfolio of financial assets measured at fair value through other comprehensive income, represented almost entirely by Italian government securities, amounted to about €8.6 billion, in line with the previous year. Financial assets measured at fair value through profit or loss amounted to €1.3 billion, in line with 2023, 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 in the amount of €16 million.

Finally, other relevant items include property, plant and equipment - which amounted to about €1.9 billion and mainly includes land and buildings for use in operations (€1.7 billion) and other capital equipment - while intangible assets amounted to just about €12.5 million, of which about €3.5 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 €139.4 billion. More specifically:

- amounts due to customers decreased by €5.8 billion compared with the end of 2022 to €104.6 billion, represented mainly by current accounts and demand deposits (€98.9 billion), fixed-term deposits (€4.3 billion) and other financing (€1.4 billion);
- amounts due to banks came to €26.4 billion, mainly attributable to loans obtained through TLTRO operations and refinancing transactions with the Parent Company. The decrease of €2.9 billion is attributable to deleveraging initiatives undertaken in the first half of 2023 (partial repayment of TLTRO funding);
- securities issued came to €8.4 billion, an increase of €1.2 billion due to the issue of new certificates of deposit. Of the total, €3.7 billion are represented by bonds and €4.7 billion by certificates of deposit.

The aggregate equity of the mutual banks amounted to €12 billion, an increase of €743 million on the end of 2022, and consists of €1 billion of share capital, with the rest made up of reserves.

Income statement

On aggregate, the mutual banks closed the first half of 2023 with a profit of €760 million, up €143 million on the same period of the previous year.

More specifically, gross income increased by €294.2 million, to €2.5 billion, as a result of:

- an increase in net interest income (+€336.8 million), due in large part to the increase in interest income on loans to customers (+€738 million) and a decrease in negative differences on hedging derivatives (+€123 million), partly offset by a rise in interest expense on funding from customers and banks (-€537 million) and on liabilities issued (-€27 million);
- an increase of €23.4 million in net fee and commission income;
- a decrease of €91 million in gains on disposal.

In 2023, writedowns for credit risk were amounted to €190.8 million, a small decrease compared with the previous year reflecting the robust monitoring of non-performing positions implemented by the Group since its establishment.

Operating expenses amounted to around €1.4 billion, a slight increase on the first six months of 2022, partly reflecting an increase in personnel expenses connected primarily with the renewal of the national collective bargaining agreement in June 2022.

BCC CREDITOCONSUMO S.P.A.

The company distributes consumer credit products through the mutual-bank branch network and the internet channel.

Balance sheet

At the end of June 2023, financial assets measured at amortized cost amounted to €1,206.2 million and consisted almost entirely of exposures to customers for consumer credit products.

The table below provides a breakdown of gross loans to customers for consumer credit at June 30, 2023, by credit quality, including an indication of associated loan loss allowance and the coverage percentage.

Classification	Gross amount €/thousands	Writedowns €/thousands	% coverage
Performing	1,232,704	32,277	2.62%
Impaired past due	10,149	5,781	56.97%
Unlikely to pay	9,815	8,763	89.29%
Bad loans	21,330	20,973	98.33%
Total	**1,273,998**	**67,794**	**5.32%**
average % coverage of impaired positions			86.01%

Income statement

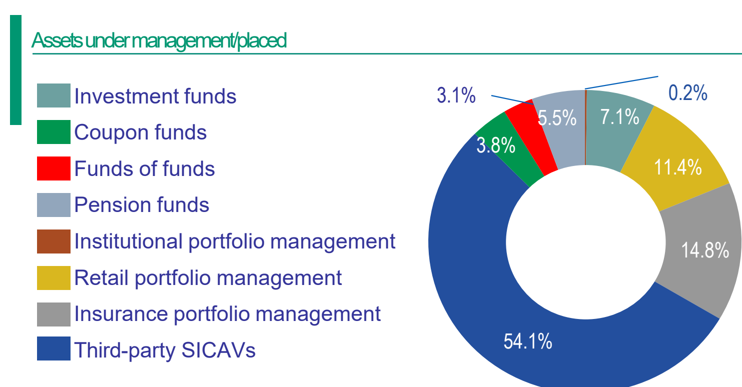
The company closed the period with net profit of €13.8 million (€12.1 million in the first half of 2022). Revenues are represented by interest and similar income in the amount of €35.2 million, fee and commission income from insurance operations and the placement of third-party "salary-backed loan" products in the amount of €13.6 million and other operating income/expenses amounting to €1.3 million.

The costs include €5.6 million in interest expense on current accounts and loans, €8.1 million in fees and commissions payable to participating mutual banks, €2.5 million in personnel expenses, €8.3 million in other administrative expenses, €5 million for the cost of risk, and €0.4 million in depreciation/amortization and other costs. Income taxes for the year period ad June 30, 2023 totaled €6.7 million.

BCC RISPARMIO&PREVIDENZA SGRPA

At June 30, 2023, total assets managed or placed by BCC Risparmio & Previdenza amounted to €22.5 billion, an increase of €1.5 billion compared with the end of 2022, the result of an increase in net funding of €0.8 billion and positive market developments that produced a gain of €0.7 billion.

The chart below shows the weight of each investment product out of total assets under management as at June 30, 2023.



Assets under management

Net funding from investment funds and funds of funds was a positive €2.7 million. Total assets under management at period end came to €2.3 billion. The number of supplementary pension contracts rose to 203,918, an increase of 5.4% on the end of 2022 (when the number of contracts was 193,449). The coupon fund segment also recorded positive net funding, closing the period with €854 million in assets under management, an increase of €76 million thanks to the placement of the Fondo Investiper Cedola Dicembre 207 Sostenibile fund.

With regard to supplementary pension funds, the company confirmed the positive trend of 2022, with net funding of €77 million and assets

under management of €1.2 billion. The number of investors in pension funds reached 167,898 (+5.8% compared with the end of 2022).

With regard to retail, institutional and insurance portfolio management, net funding was also positive at a total of €145 million (of which €66 million in the retail segment and €79 million in the insurance segment). Total assets under management at year end came to about €6 billion. The placement of new lines of retail asset management generated a total of 3,171 new accounts, to reach a total of 52,519 accounts at period end.

Assets in placement

Total assets placed by the end of the period amounted to €12.2 billion, with net funding of €456 million, including the inward migration connected with the internalization of placement agreements with third-party providers.

Income statement

The first half of the year closed with pre-tax profit of €12.2 million (and net profit of about €8.5 million), a decrease of 11.47% on the previous year (about €1.6 million). The decrease is partly attributable to lower performance fees received in the first half of 2023 (€0.2 million from €0.6 million in 2022) and the decline in reversals of the reserve for the guaranteed segment of the pension fund (€0.4 million in in the period, compared with €1.6 million in 2021).

Finance operations show a profit of €1.1 million, benefitting from both the rise in interest rates and the use of tax credits acquired by the Parent Company at the end of the year.

Operating expenses came to €16.1, an increase compared with the previous year (+36%). This reflected an increase in personnel expenses, other administrative expenses and depreciation and amortization (for a total increase of €3.8 million on 2022). The increases are partly offset by the reversal of the reserve for the guaranteed segment of the pension fund (€0.4 million in the period) as well as cost recovery items amounting to about €0.4 million.

BANCA SVILUPPO S.P.A.

Consistent with the Strategic Plan, the objective set for the 2023 financial year is the effective refocus of the Bank's corporate purpose and business on new strategies is under way. Analysis is being conducted of the evolution towards new models to be used in the rationalization of the companies belonging to the Group and for integration into the Parent Company. During the first half of the year, analysis continued uninterrupted, which will likely enable the planned transition plan to be definitively completed by the end of the year.

At June 30, 2023, the Bank operated exclusively through the Lucrezia Romana branch, continuing to provide banking services to the staff of the Parent Company and the Group companies within the direct scope.

Income statement

The period ended June 30, 2023, closed with a pre-tax loss of €1.7 million and a net loss of €1.3 million. Generally speaking, performance in the period reflected the recent increases in ECB rates, which are linked to the cost of funding and revenues on loans to customers, as well as the Bank’s overheads.

CORPORATE BUSINESS AREA

The corporate business area is composed of the Iccrea Banca S.p.A. 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 offer a wide range of products and services to meet all customer needs in the areas of 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 BCC Leasing (formerly Iccrea BancaImpresa), BCC Factoring, BCC Rent & Lease (formerly BCC Lease), and BCC Financing (formerly Banca Mediocredito del Friuli Venezia Giulia).

Balance sheet

€/thousands	CORPORATE							
	BCC Leasing		BCC Rent&Lease		BCC Factoring		BCC Financing	
	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022
Cash and cash equivalents	4,456	6,284	839	74	9,574	4,102	40,156	78,156
Financial assets measured at fair value through profit or loss	108,196	113,661	-	-	-	-	20,069	21,424
Financial assets measured at fair value through other comprehensive income	283	283	-	-	11	11	43,095	61,732
Financial assets measured at amortized cost	3,472,218	3,585,681	502,551	488,268	495,574	636,721	584,790	606,974
a) due from banks	14,462	15,121	1,078	1,252	-	89	58,927	60,190
b) loans to customers	3,418,247	3,529,575	501,473	487,016	495,574	636,631	282,956	336,618
c) securities	39,509	40,984	-	-	-	-	242,906	210,166
Hedging derivatives and value adjustments of macro-hedged financial assets	-	-	-	-	-	-	557	890
Equity investments	-	-	-	-	-	-	-	-
Property, plant and equipment	4,806	4,808	302	192	11	19	8,265	8,371
Intangible assets	-	-	265	344	770	878	90	166
Tax assets	142,564	159,385	3,003	3,602	4,826	5,538	39,937	42,777
Non-current assets and disposal groups held for sale	14,182	26,416	-	-	-	-	0	2,244
Other assets	60,271	47,986	12,210	11,015	8,334	14,137	12,069	5,907
Total assets	**3,806,978**	**3,944,504**	**519,169**	**503,496**	**519,099**	**661,406**	**749,029**	**828,641**

€/thousands	CORPORATE							
	BCC Leasing		BCC Rent&Lease		BCC Factoring		BCC Financing	
	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022
Financial liabilities measured at amortized cost	3,162,832	3,309,182	466,519	430,498	465,946	618,248	618,133	707,030
a) due to banks	3,137,118	3,276,107	463,002	425,165	463,239	612,989	339,995	337,358
b) due to customers	25,714	33,075	3,517	5,332	2,707	5,259	273,508	364,837
c) securities issued	-	-	-	-	-	-	4,630	4,835
Financial liabilities held for trading	84,022	91,715	-	-	-	-	-	-
Financial liabilities designated as at fair value	-	-	-	-	-	-	-	-
Hedging derivatives and value adjustments of macro-hedged financial liabilities	-	-	-	-	-	-	-	-
Tax liabilities	-	-	68	116	77	82	75	75
Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Other liabilities	69,822	81,016	13,924	19,804	30,270	22,038	26,213	16,577
Post-employment benefits	1,160	1,136	89	119	325	296	204	205
Provisions for risks and charges	32,057	30,665	234	318	1,133	993	8,888	12,082
Equity	430,786	392,690	32,939	41,510	19,748	18,252	93,122	90,681
Profit/(loss) for the period (+/-)	26,299	38,100	5,396	11,131	1,600	1,499	2,393	1,990
Total liabilities	**3,806,978**	**3,944,504**	**519,169**	**503,496**	**519,099**	**661,406**	**749,029**	**828,641**

Income statement

€/thousands	CORPORATE							
	BCC Leasing		BCC Rent&Lease		BCC Factoring		BCC Financing	
	30/06/2023	30/06/2022	30/06/2023	30/06/2022	30/06/2023	30/06/2022	30/06/2023	30/06/2022
Net interest income	39,876	43,180	11,572	12,107	4,079	2,722	3,661	8,917
Net fee and commission income	1,006	807	(255)	(169)	1,685	1,785	2,543	3,061
Dividends	-	-	-	-	-	-	-	-
Net gain/(loss) on trading activities	599	2,323	-	-	4	11	(45)	127
Net gain/(loss) on hedging	-	-	-	-	-	-	(10)	-
Net gain/(loss) on disposals or repurchases	41	(196)	-	-	-	-	336	979
Net gain/(loss) on financial assets and liabilities at FVTPL	2,735	(55)	-	-	-	-	(669)	(2,388)
Gross income	**44,257**	**46,059**	**11,316**	**11,938**	**5,768**	**4,518**	**5,816**	**10,696**
Net writedowns/writebacks for credit risk	16,217	17,469	(1,040)	(1,250)	1,076	1,863	2,798	5,423
Net income/(loss) from financial operations	**60,474**	**63,528**	**10,277**	**10,688**	**6,844**	**6,382**	**8,614**	**16,118**
Administrative expenses	(16,477)	(19,208)	(5,989)	(5,324)	(4,061)	(4,053)	(6,065)	(6,921)
a) personnel expenses	(5,223)	(5,223)	(1,589)	(1,440)	(1,919)	(1,831)	(2,814)	(2,777)
b) other administrative expenses	(11,254)	(13,985)	(4,400)	(3,884)	(2,142)	(2,222)	(3,252)	(4,144)
Depreciation, amortization and provisions	(2,605)	(2,830)	8	(125)	(347)	(33)	1,317	(3,268)
Other operating expenses/income	(1,383)	(1,261)	3,263	3,074	29	52	(425)	603
Operating expenses	**(20,465)**	**(23,299)**	**(2,717)**	**(2,375)**	**(4,380)**	**(4,033)**	**(5,174)**	**(9,586)**
Profit/(loss) from equity investments	-	-	-	-	-	-	-	-
Profit/(loss) from disposal of investments	-	-	-	-	-	-	-	-
Net gain/(loss) from FV measurement of property, plant, equipment and intangible assets	-	-	-	-	-	-	-	-
Goodwill impairment	-	-	-	-	-	-	-	-
Profit/(loss) before tax on continuing operations	**40,009**	**40,229**	**7,560**	**8,313**	**2,464**	**2,349**	**3,440**	**6,532**
Income tax expense from continuing operations	(13,710)	(13,065)	(2,163)	(2,141)	(864)	(603)	(1,047)	(814)
Profit/(loss) after tax on discontinued operations	-	-	-	-	-	-	-	-
Net profit/(loss) for the period	**26,299**	**27,164**	**5,396**	**6,172**	**1,600**	**1,746**	**2,393**	**5,718**

BCC LEASING S.P.A. (FORMERLY ICCREA BANCAIMPRESA)

Company operations are focused exclusively on finance leasing.

Balance sheet

New lending increased by about 1% compared with the corresponding period of 2022 and by 13% compared with the budget forecast. New contracts agreed in the period amounted to €334 million, for a total of 1,581 new contracts. Any assessment of the trend should take account of the slower growth of the Italian economy in the first half of 2023 (1.3%) than that observed in the same period of the previous year (2.6%).

In the first half of 2023, the finance lease market recorded limited growth, mainly attributable to finance leases of cars: +8% in terms of volumes and +7% in terms of the number of new contracts. Net of the automotive segment, i.e. in the market segments in which BCC Leasing[24] operates, the market recorded a contraction of 6.5% in terms of volumes and 3.9% in terms of new contracts compared with the same period of 2022.

Within this dynamic, BCC Leasing has maintained a market share of about 3.3% (with particularly positive performance in the equipment lease segment, where the share exceeds 5%) in an increasingly competitive environment, characterized by a growing emphasis on price competition. In response, BCC Leasing has launched initiatives to optimize its pricing structure, making products more flexible, especially for the size segments that are most affected by competitive pressure.

As shown in the following table, equipment leasing represents almost 67% of new output in the period.

Product line	Lease volumes							
	30/06/23		30/06/22		% 30/06/23		Annual change	
	Number	Amount	Number	Amount	% Num	% Val	% Num	% Val
Light commercial vehicle leasing	165	8,610	89	4,378	10.4%	2.6%	85.4%	96.7%
Heavy vehicle leasing	312	43,889	315	38,832	19.7%	13.2%	-1.0%	13.0%
Equipment	1,034	223,175	1,172	234,716	65.4%	66.9%	-11.8%	-4.9%
Air and nautical	2	893	2	866	0.1%	0.3%	0.0%	3.1%
Public	1	117	3	2,724	0.1%	0.0%	-66.7%	-95.7%
Property	67	56,994	85	49,384	4.2%	17.1%	-21.2%	15.4%
Total leasing	**1,581**	**333,678**	**1,666**	**330,900**	**100%**	**100%**	**-5.10%**	**0.84%**

Of the bank's lending portfolio, totaling €3.4 billion, 90% has gone to finance non-financial companies.

€/thousands	30/06/2023	31/12/2022	% change
1. Debt securities	**39,509**	**40,984**	**-3.60%**
b) Other financial companies	39,509	40,984	-3.60%
2. Financing to:	**3,418,247**	**3,529,575**	**-3.15%**
a) Government entities	161,502	156,675	3.08%
b) Other financial companies	10,612	11,663	-9.01%
of which: insurance undertakings	364	494	-26.32%
c) Non-financial companies	3,118,350	3,220,143	-3.16%
d) Households	127,782	141,094	-9.43%
Total	**3,457,756**	**3,570,559**	**-3.16%**

€/thousands	30/06/2023	31/12/2022	Delta%
Financing	**3,418,247**	**3,529,575**	**-3.15%**
- Lease financing	3,232,824	3,347,261	-3.42%
- Other financing	185,423	182,314	1.71%
Debt securities	**39,509**	**40,984**	**-3.60%**
Total	**3,457,756**	**3,570,559**	**-3.16%**

As regards impaired loans, a sale of a new portfolio of non-performing loans was conducted during the period. The portfolio had a total gross book value (GBV) of about €98 million. At the reporting date, the conditions for the application of IFRS 5 to the portfolio involved were met, with its consequent classification of loans with a total net book value of €14.2 million under non-current assets held for sale. An assignment denominated Waarde was also finalized, involving impaired loans that in the 2022 financial statements had been classified under non-current assets held for sale with a total value of €0.7 million.

[24] The company does not operate in the equipment segment below €50 thousand or in the automobile lease segment.

At June 30, 2023, the coverage ratio for non-performing loans was 77.7%, an increase on the 74.67% registered at the end of 2022. The gross NPL ratio was 6.19% (9.05% at December 31, 2022). The following table provides a comparison of the ratios for the non-performing portfolio with the associated benchmark market ratios.

	Market (Assilea figures 03/23)	BCC Leasing (06/2023)[25]	BCC Leasing (06/2023) net of loans involved in de-risking operations
Average coverage ratio for NPE portfolio	58.20%	77.74%	74.41%
Gross NPE ratio	7.40%	8.62%	6.19%
Net NPE ratio	3.30%	2.00%	1.68%

Income statement

The Bank closed the first half of 2023 with a pre-tax profit of €40 million, substantially in line with the same period of 2022 (€40.2 million). Net of taxes, the profit for the period stands at €26 million (€27 million euros at June 30, 2022).

More specifically, interest income amounted to €90 million (€52 million euros at June 30, 2022, an increase of 75%). With the increase in interest income, interest expense amounted to €50 million (€8 million at June 30, 2022, an increase of over 500%).

Net fee and commission income amounted to €1 million, substantially unchanged (€0.8 million in the corresponding period of 2022).

The net gain from other financial assets and liabilities measured at fair value through profit or loss amounts to €2.7 million and regards the adjustment to market value of fund units recognized in the balance sheet.

Administrative expenses amounted to €16 million, a decrease of around €2.7 million, entirely attributable to the decrease in "Other administrative expenses", which went from €13.9 million in the first half of 2022 to the current €11.2 million.

Writedowns and writebacks of loans show net writebacks of €16.2 million (compared with net writebacks of €19.1 million in the first half of 2022). This development reflected the improvement in macroeconomic conditions for the performing portfolio, the special prudence adopted in managing credit risk on the same portfolio, which has been implemented for some time, and the recovery of non-performing positions.

Provisions for risks and charges amounted to €2.6 million (compared with €0.8 million the previous year). Other operating income and expense showed net expenses of €1.4 million, a decrease compared with the end of June 2022 (€2.9 million).

[25] Gross of the assigned portfolio, which in accordance with the IFRS was classified under non-current assets held for sale.

BCC RENT&LEASE S.P.A. (FORMERLY BCC LEASE)

The company operates in the small-ticket lease market.

Developments in the first half of 2023 showed an increase of 14.7% in new business (10,401 contracts agreed with a total value of €134.2 million, compared with 9,480 and €116.9 million in the same period of 2022). The breakdown of new production in the period is given in the following table, with comparative figures for the previous year:

Contracts	30/06/2023		30/06/2022		Change %		Percentage share	
	No.	Amounts in €/thousands	No.	Amount €/thousands	No.	Amount	No.	Amounts
Equipment vendor								
Operating leases	4,049	34,634	3,293	27,601	23.0%	25.5%	39%	26%
Equipment leasing	2,091	33,336	2,378	38,279	-12.1%	-12.9%	20%	25%
Special-purpose financing	3,315	34,497	3,050	26,355	8.7%	30.9%	32%	26%
Total vendor	**9,455**	**102,467**	**8,721**	**92,235**	**8.4%**	**11.1%**	**91%**	**76%**
Mutual banks								
Light commercial vehicle leasing	470	18,293	317	11,315	48.3%	61.7%	5%	14%
Equipment leasing	359	8,104	284	6,108	26.4%	32.7%	3%	6%
Heavy vehicle leasing	28	1,804	27	1,761	3.7%	2.4%	0%	1%
Total mutual banks	**857**	**28,201**	**628**	**19,184**	**36.5%**	**47.0%**	**8%**	**21%**
Other								
Light commercial vehicle leasing – Agents	71	2,661	96	3,719	-26.0%	-28.5%	1%	2%
Heavy vehicle leasing – Agents	18	904	35	1,840	-48.6%	-50.9%	0%	1%
Total other	**89**	**3,565**	**131**	**5,560**	**-32.1%**	**-35.9%**	**1%**	**3%**
Total	**10,401**	**134,233**	**9,480**	**116,979**	**9.7%**	**14.7%**		

Net lending came to €503 million, an increase on the end of 2022 (€488 million). In terms of risk profile, the company closed the period with a gross NPL ratio of 3.7% (the net NPL ratio came to 1.1% thanks to a coverage ratio of 72.6%).

Income statement

Profit before tax for the period amounted to €7.6 million (€8.3 in the same period of 2022). Net profit stood at €5.4 million (€6.2 million in the same period of 2022).

More specifically, gross income totaled €11.3 million, a slight decrease on the year-earlier period, reflecting the increase in the average cost of funding, which was not fully offset by an increase in interest income. The cost of risk declined (€1,040 thousand compared with €1,250 thousand in the same period of the previous year).

BCC FACTORING S.P.A.

The period closed with a profit before tax of €2.5 million (net profit of €1.6 million), a figure that reflected the sharp rise in net interest income, which rose by more than 50% on the same period of 2022.

Turnover declined on the same period of 2022 but was in line with market developments. As a result, the decline in commission income was less than proportionate.

Balance sheet

The company's turnover decreased by 5.5% on 2022. In response to these developments, the company's total assets, almost entirely in the form of loans to customers, fell to € 495.6 million from €503.4 million in 2022. The performance was nevertheless in line with forecasts and ordinary company performance developments.

Credit quality also improved, with gross impaired loans declining to 2.31% from 3.08% in the same period of 2022.

Income statement

Gross income rose by €1.25 million on June 30, 2022, reaching €5.77 million in reflection of the increase in net interest income.

Administrative expenses were in line with budget projections and the previous year. Personnel expenses rose slightly as a result of new hiring.

The income statement benefitted from an improvement in credit risk reflected by a writeback of generic provisions for performing positions as a result of the decline in lending compared with December 31, 2022.

BCC FINANCING S.P.A. (FORMERLY BANCA MEDIOCREDITO FVG)

BCC Financing S.p.A. (Banca Mediocredito del Friuli Venezia Giulia S.p.A. until April 5, 2023) specializes in medium and long-term lending and is also responsible for the lending granted through subsidized financing instruments that the Autonomous Region of Friuli Venezia Giulia (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 2023 totaled €36.5 million, of which about €3.9 million related to non-subsidized lending with the remainder being in lending financed with third-party funds.

Balance sheet

At June 30, 2023, total assets came to €749 million, €283 million of which in loans to customers (a decrease of about €64 million from the end of 2022), about €243 million in financial assets, and the remainder in loans to banks (about €59 million) and tax assets (€40 million).

Net performing loans came to €280 million, a decrease of 15% from the end of 2022. Net impaired exposures also decreased by 60% to €3.3 million (from €8.5 million at December 31, 2022).

As a result, the net NPL ratio came to 1.2%, down from 2.4% the previous year, and the gross ratio to 8.5% (9.4% at the end of 2022).

Direct funding from customers came to €138 million, a decrease of 16% from the end of 2022.

Income statement

At June 30, 2023, the income statement reported a profit before tax of €3.4 million (€6.5 million at June 30, 2022) and a net profit of €2.4 million.

Gross income came to €5.8 million, a decrease of €4.9 million. This reflected an increase in interest expense, mainly due to the sharp increase in the cost of funding, which reduced the positive contribution of interest income, which was broadly unchanged.

Net writebacks for credit risk totaled €2.8 million.

Operating expenses decreased sharply due to a contraction in administrative expenses, which in 2022 had included one-off charges related to the IT migration implemented that year, the reversal of provisions on commitments and guarantees issued and a decrease in adjustments to property, plant and equipment (in 2022, assets connected with finance leases were written down).

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

The following provides a summary description of the main items of the Parent Company's balance sheet and income statement at June 30, 2023. In order to permit a more immediate assessment of the items, the balance sheet and income statement schedules shown below are presented in a more summary format than those provided for by Circular 262/05 of the Bank of Italy.

BALANCE SHEET

Assets

€/thousands	30/06/2023	31/12/2022	Change	% change
Cash and cash equivalents	1,421,152	960,917	460,234	47.9
Financial assets measured at amortized cost – *Due from banks – Loans and securities*	32,783,691	35,653,688	(2,869,997)	(8.0)
Financial assets measured at amortized cost –*Due from customers – Loans*	6,273,082	7,084,693	(811,610)	(11.5)
Financial assets measured at amortized cost – *Due from customers – Securities*	9,585,941	8,340,562	1,245,379	14.9
Financial assets measured at fair value through profit or loss	2,589,022	2,521,624	67,397	2.7
Financial assets measured at fair value through other comprehensive income	1,110,156	1,079,476	30,680	2.8
Equity investments	1,596,049	1,568,623	27,426	1.7
Other assets	635,800	642,509	(6,710)	(1.0)
Total interest-bearing assets	**55,994,893**	**57,852,093**	**(1,857,200)**	**(3.2)**
Other non-interest-bearing assets	575,453	639,715	(64,263)	(10.0)
Total assets	**56,570,346**	**58,491,808**	**(1,921,462)**	**(3.3)**

At June 30, 2023, total assets amounted to about €56.6 billion, a decrease on the some €58.5 billion at the ed of December 2022, mainly reflecting the following developments:

- a decrease in loans measured at amortized cost of €2.4 billion compared with the end of 2022, the result of:
  - the decrease in amounts due from banks (about -€2.9 billion), primarily reflecting the combined impact of: i) a contraction in lending connected with TLTRO operations with the mutual banks (-€6.6 billion). A similar development is recorded for "Financial liabilities measured at amortized cost"); and ii) an increase in lending to mutual banks (+€2.8 billion), granted against collateral in the form of refinanceable securities (pool collateral). An increase in the debt securities (+€0.7 billion) issued by the mutual banks and subscribed by the Parent Company to meet MREL requirements (with an analogous change in "Financial liabilities measured at amortized cost");
  - an increase in lending to customers about (+€0.4 billion), essentially attributable to an increase in investments in debt securities (about +€1.2 billion), primarily Italian government securities), only partly offset by repo transaction with the Clearing & Guarantee Fund (about -€0.6 billion) and medium/long-term lending, mainly to companies within the direct scope (about -€0.2 billion);
- financial assets measured at FVTPL amounted to €2.6 billion – broadly unchanged on the end of 2022. They include the portfolio of assets originally designated as at fair value, represented by the assets in the Guarantee Scheme, which expanded by (+€60.9 million) as a result of an increase in investments during the period. The following table provides a breakdown of financial assets at FVTPL.

€/thousands	Financial assets held for trading	Financial assets designated as at FV	Other financial assets mandatorily measured at FV	Total
Debt securities	84,935	331,756	38,795	455,485
Equity securities	465	-	66,863	67,328
Units of CIUs	129	-	408,387	408,515
Derivatives	1,657,693	-	-	1,657,693
Total 30/06/2023	**1,743,222**	**331,756**	**514,044**	**2,589,022**
Total 31/12/2022	**1,744,131**	**270,820**	**506,673**	**2,521,624**
Change	**(909)**	**60,936**	**7,371**	**67,397**

- an increase of €30.7 million in financial assets measured at fair value through other comprehensive income, which are held under the HTCS business model, mainly reflecting a shift in debt securities between "government" issues (-€105.1 million) and "bank" issues (+€136.7 million);
- an increase of €27.4 million in equity investments, mainly due to: i) the acquisition of all of the share capital of BCC Rent & Lease (+€27.5 million, previously held by BCC Leasing S.p.A.); ii) the subscription of shares pursuant to Art. 150-ter of the Consolidated Banking Act - as manager of the Guarantee Scheme – in Banca Centropadana (+€2.5 million).

The following table provides a breakdown of amounts due from banks, largely represented by loans to the mutual banks (about €27.6 billion, a significant reduction of €2.9 billion on the end of 2022). These loans, secured by securities eligible for refinancing, include about €17.3 billion in operations with the ECB (TLTRO III) and about €7.8 billion in other forms of collateralized financing.

€/thousands	30/06/2023	31/12/2022	Change	% change
Mutual banks	27,646,641	30,305,595	(2,658,954)	(8.8)
Other credit institutions	5,137,050	5,348,093	(211,043)	(3.9)
Due from banks	**32,783,691**	**35,653,688**	**(2,869,997)**	**(8.0)**

Amounts due from other credit institutions include €3.4 billion in intercompany lending (about €3.1 billion to BCC Leasing), with the remainder comprising deposits with third parties.

Loans to ordinary customers amounted to €6.3 billion, a decline on the €7.1 billion posted at the end of December 2022. Of the total, €2.4 billion regard intercompany loans. The change in the item is largely attributable to a decrease in repurchase transactions with the Clearing & Guarantee Fund (-€0.6 billion).

The following table provides a breakdown:

€/thousands	31/12/2022	31/12/2021	Change	% change
Current accounts	262,437	191,375	71,063	37.1
Medium/long-term loans	2,637,200	2,729,605	(92,405)	(3.4)
Repurchase transactions	90,972	728,304	(637,332)	(87.5)
Other transactions	3,224,989	3,392,525	(167,536)	(4.9)
Impaired assets	57,485	42,884	14,601	34.0
Loans to customers	**6,273,082**	**7,084,693**	**(811,610)**	**(11.5)**

The following table provides a breakdown of impaired positions:

€/thousands	Gross exposure	Impairment losses	Net exposure	% coverage
Bad loans	30,318	27,027	3,291	89.1
Unlikely to pay	166,339	113,642	52,697	68.3
Impaired past-due	1,993	496	1,497	24.9
Total 30/06/2023	**198,650**	**141,165**	**57,485**	**71.1**
Total 31/12/2022	**177,236**	**134,352**	**42,884**	**75.8**
Change	**21,414**	**6,813**	**14,601**	**(4.7)**

Liabilities

€/thousands	30/06/2023	31/12/2022	Change	% change
Financial liabilities measured at amortized cost – *Due to banks*	36,563,102	41,593,508	(5,030,406)	(12.1)
Financial liabilities measured at amortized cost – *Due to customers*	11,314,861	8,663,966	2,650,895	30.6
Financial liabilities measured at amortized cost – *Securities issued*	3,949,473	3,425,452	524,021	15.3
Financial liabilities held for trading	1,643,449	1,729,244	(85,795)	(5.0)
Financial liabilities designated as at fair value	380,918	352,484	28,434	8.1
Other liabilities	390,296	403,602	(13,306)	(3.3)
Total interest-bearing liabilities	**54,242,099**	**56,168,255**	**(1,926,157)**	**(3.4)**
Other non-interest-bearing liabilities	139,570	221,593	(82,023)	(37.0)
Shareholders' equity	2,115,564	1,662,166	453,398	27.3
Profit for the period	73,113	439,793	(366,680)	(83.4)
Total liabilities and equity	**56,570,346**	**58,491,808**	**(1,921,462)**	**(3.3)**

The decrease in liabilities recorded in the period compared to the figure registered at the end of 2022 is mainly attributable to a decline of about €1.9 billion in interest-bearing funding, which was the net effect of the following developments:

- a decrease of €5.0 billion in amounts due to banks to about €36.6 billion, due to the combined effect of the decrease in amounts due to central banks (-€5.7 billion) as a consequence of the repayment of TLTRO financing, partially offset by an increase in time deposits (+€0.4 billion) and repo transactions (+€0.3 billion);
- an increase of €2.7 billion in amounts due to customers, which rose to €11.3 billion, essentially reflecting an increase in repurchase agreements with the Clearing & Guarantee Fund (+€2.8 billion);
- an increase in securities issued (+€0.5 billion), due almost entirely to new senior issues to meet MREL requirements for the Group.

Amounts due to banks break down as follows:

- €13.7 billion in positions with the affiliated banks mainly in respect of term deposits (€9.7 billion, of which €3.0 billion in mutual bank deposits to meet reserve requirements) and amounts held on the daily settlement account (€3.7 billion);
- €22.8 billion in amounts due to other credit institutions, largely related to financing from the ECB under TLTRO operations (€20.6 billion).

€/thousands	30/06/2023	31/12/2022	Change	% change
Mutual banks	13,719,933	13,129,059	590,874	4.5
Other credit institutions	22,843,169	28,464,449	(5,621,280)	(19.7)
Due to banks	**36,563,102**	**41,593,508**	**(5,030,406)**	**(12.1)**

Funding with customers amounted to €11.3 billion, an increase (+€2.7 billion) on December 31, 2022. The rise mainly reflects an increase in repurchase transactions (+€2.8 billion).

€/thousands	30/06/2023	31/12/2022	Change	% change
Current accounts and deposits	1,221,465	1,258,602	(37,137)	(3.0)
Financing	9,714,555	6,975,584	2,738,971	39.3
Other payables	378,841	429,780	(50,938)	(11.9)
Due to customers	**11,314,861**	**8,663,966**	**2,650,895**	**30.6**

Equity

€/thousands	30/06/2023	31/12/2022	Change	% change
1. Capital	1,401,045	1,401,045	-	-
2. Share premium reserve	6,081	6,081	-	-
3. Reserves	675,784	236,491	439,293	185.8
4. Equity instruments	-	-	-	-
5. (Treasury shares)	-	-	-	-
6. Valuation reserves	32,653	18,548	14,104	76.0
Total	**2,115,564**	**1,662,166**	**453,398**	**27.3**

At June 30, 2023, 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 2022. Shareholders' equity, excluding profit for the period, amounted to €2.1 billion, an increase of €453.4 million compared with December 31, 2022. The main changes reflect the allocation of 2022 profit (€439.8 million, of which €44.0 million to the legal reserve and €395.3 million as retained earnings) and an increase in valuation reserves (+€14.1 million), mainly due to changes in the cash flow hedge reserve (+€8.7 million) and, for the remainder, an increase in valuations of securities in the FVOCI portfolio.

Income statement

€/thousands	30/06/2023	30/06/2022	Change	% change
Net interest income	**37,444**	**116,008**	**(78,564)**	**(67.7)**
Other gains/losses on financial transactions	20,549	6,612	13,938	210.8
Dividends	121,848	11,902	109,946	923.8
Net fee and commission income	**30,717**	**46,529**	**(15,812)**	**(34.0)**
Other operating expenses/income	**210,558**	**181,050**	**29,508**	**16.3**
Gross income	(108,828)	(99,539)	(9,289)	9.3
Personnel expenses	(125,672)	(126,653)	981	(0.8)
Other administrative expenses	(985)	(1,176)	191	(16.2)
Net adjustments of property, plant and equipment and intangible assets	100,731	4,719	96,011	2,034.5
Total operating expenses	**(134,754)**	**(222,649)**	**87,895**	**(39.5)**
Gross operating profit	**75,804**	**(41,599)**	**117,403**	**(282.2)**
Net provisions for risks and charges	(2,068)	2,771	(4,839)	(174.7)
Net losses/recoveries on impairment of loans and other financial transactions	(19,736)	3,654	(23,391)	(640.1)
Total provisions and adjustments	**(21,805)**	**6,425**	**(28,230)**	**(439.4)**
Profit/(loss) from equity investments	5,103	(240)	5,343	(2,226.3)
Profit/(loss) before tax	**59,102**	**(35,414)**	**94,516**	**(266.9)**
Income tax expense	14,011	13,617	394	2.9
Profit/(loss) after tax on discontinued operations	-	7,255	(7,255)	(100.0)
Profit/(loss) for the period	**73,113**	**(14,542)**	**87,656**	**(602.8)**

The first half of 2023 closed with a net profit of €73.1 million, compared with a loss of €14.5 million in the first half of 2022. The main factors that contributed to the result for the period are attributable to:

- an increase – totaling €29.5 million – in gross income to €210.6 million. The increase was the product of the following factors:
  - a decline in net interest income (-€78.6 million) as a consequence of rate developments, which were negative until the third quarter of 2022 - which resulted in a substantial decrease in margins as a consequence of differences in the speed of the repricing of funding and lending items. More specifically, the period saw: i) an increase in yields on securities (+€88.5 million, almost all of which are Italian government securities indexed to inflation); ii) higher returns on medium/long-term loans (+€79.2 million); iii) increased margins from other technical forms of lending, such as loans to mutual banks using pool collateral mechanisms and TLTRO financing (+€43.1 million), ECB overnight deposits (+€26 million), reserve requirements (+€21.0 million). These factors were countered by an increase in the cost of: iv) funding through bond issues (-€27.0 million); v) repo transactions (-€161.1 million); and vi) balances on current accounts and deposits (-€152.3 million);
  - a reduction in net fee and commission income (-€15.8 million), mainly due to the recognition of performance fees connected with the exclusive promotion and placement agreement for e-money products and services with the Group mutual banks (-€7.7 million) and a decrease in fee and commission income for Medio Credito Centrale servicing activities (-€3.0 million);
  - an increase in other income/(loss) from financial operations, which amounted to €20.5 million (as detailed in the following table) – a change of +€13.9 million, a consequence of the improved performance recorded by the capital securities allocated to the HTCS portfolio (+€20.8 million), the positive contribution of trading activity (+€2.0 million), mainly due to better results of the

securities segment and hedging activity (+2.8 million). Partially offsetting this was a decline in gains on disposal from sales made on the HTC portfolio compared with the corresponding period of 2022 (-€11.7 million).

€/thousands	30/06/2023	30/06/2022	Change	% change
Net gain (loss) on trading activities	10,027	8,012	2,014	25.1
Net gain (loss) on hedging activities	778	(1,988)	2,766	(139.1)
Net gain (loss) on the disposal or repurchase of:	14,009	25,672	(11,663)	(45.4)
a) financial assets measured at amortized cost	*15,356*	*30,636*	*(15,279)*	*(49.9)*
b) financial assets measured at fair value through other comprehensive income	*(1,348)*	*(4,965)*	*3,618*	*(72.9)*
c) financial liabilities	*-*	*1*	*(1)*	*(100.0)*
Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss	(4,264)	(25,084)	20,820	(83.0)
a) financial assets and liabilities measured at fair value	*(1,380)*	*(2,889)*	*1,509*	*(52.2)*
b) other financial assets mandatorily measured at fair value	*(2,884)*	*(22,194)*	*19,310*	*(87.0)*
Total "Other income/(loss) from financial operations"	**20,549**	**6,612**	**13,938**	**210.8**

- an increase of €109.9 million in dividend income, which amounted to €121.8 million. The increase reflected the distribution of profits earned in 2021 and 2022 by the companies in the direct scope (€110.6 million), as well as dividends from the interest in the Bank of Italy (+€10.6 million);
- a decrease of €87.9 million in operating expenses, which fell to €134.8 million, reflecting the following developments:
  - an increase in other operating expenses/income (+€96.0 million), mainly attributable to the impact of the recognition at June 30, 2022 of one-off charges (€90 million) connected with long-term exclusive distribution contracts and agreements for the products and services of BCC Pay between Iccrea Banca and the Group mutual banks. Excluding this component, revenues from services rendered to ICBG companies increased;
  - an increase of €9.3 million in personnel expenses, of which €8.0 million attributable to an increase in wages and salaries under the terms of the bargaining agreement renewal, salary adjustments and an expansion of the workforce and €1.6 million to costs connected with items such as the incentive scheme and early termination incentives;
  - substantially no change in administrative expenses at €125.7 million, with a reduction in the BRRD contribution (-€3.5 million) and a slight increase in running and project expenses (+€2.6 million);
- an increase in the cost of risk (see following table) with the recognition of writedowns on on-balance-sheet and off-balance-sheet exposures of €22.3 million, equal to the net effect of writebacks on stage 1 and 2 exposures (+€5.2 million) and impairment losses on non-performing stage 3 exposures (-€27.6 million).

€/thousands	30/06/2023	30/06/2022	Change	% change
A. On-balance-sheet exposures				
Stage 1 and 2	8,046	6,166	50,547	(208.2)
Stage 3	(27,783)	(2,513)	39,682	(91.5)
B. Off-balance-sheet exposures				
Stage 1 and 2	(2,818)	2,979	6,357	(164.5)
Stage 3	232	(200)	(112)	9.3
Total	**(22,323)**	**6,432**	**96,474**	**(132.7)**

- an increase in gains/losses on equity investments (+€5.3 million) to €5.1 million. This was mainly attributable to the earn-out recognized in respect of the sale of BCC Pay to FSI in 2022.

7. SIGNIFICANT EVENTS DURING THE PERIOD

Group Business Plan

On March 31, 2023, the Board of Directors of Iccrea Banca approved the Group Business Plan 2023-2025. The Plan contains an update and extension of the forecasts contained in the previous 2022-2024 Plan with the aim of incorporating both the changed macroeconomic environment and the results achieved in 2022.

The extension of the business plan horizon to 2025 keeps the Group's development and growth guidelines unchanged, confirming its evolution towards an even stronger capital situation, with asset quality in line with that of the main banks on the Italian market and sustainable profitability in the medium term buoyed by diversifying the sources of revenue, a sound liquidity position and the maintenance of a strong local and mutual approach in line with the values that inspire cooperative credit.

As regards credit quality, the consolidated business plan targets a gross NPL ratio of 3.5% in 2025 (with a net NPL ratio of 1.6% in 2025), with a higher cost of risk compared with 2022, equal to 77 bps on average over the three-year period. That target leverages the continuation of the derisking initiatives already activated by the Group since its establishment, focused on the even more proactive management of performing positions characterized by a high risk of impairment, on more attentive selection of new credit positions, and on additional measures to strengthen cure and workout activities.

On the profitability front, the consolidated plan targets an ROE of more than 5.5% over the entire period of the plan, increasing to 6.9% in 2025. With the absence of the extra returns generated in 2022 by the securities portfolio (inflation-indexed component), net interest income is expected to be close to €3.3 billion over the plan period. Profitability is supported by growth in the contribution of net fee and commission income as a consequence of development initiatives for customer services, in particular in asset management and payments and by initiatives to contain the growth of operating expenses, which had an impact of more than 2 percentage points on the cost/income ratio, which is expected to reach 62.5% in 2025, a marked improvement compared with the 2022 figure adjusted for non-recurring components.

With regard to the capital profile, the Total Capital ratio is projected at 21.8% in 2025 and MREL capacity will ensure an adequate buffer with respect to the regulatory requirements. The liquidity profile remains solid both at short term (an LCR of 229% by 2025) and on a structural basis (an NSFR of 149% by 2025).

Additional guidelines regard:

- digital transformation: the objective of the Group's 2023-2025 Plan is to implement the digital transformation program, strengthening the BCC's "omnichannel" service approach by developing digital channels to improve customer relations, reduce management costs and increase sales, targeting the Group's new competitive positioning;
- IT: the Plan seeks to forge a transformation to reconcile cost optimization, innovation and speed of realization, including through the choice of sourcing options. The Plan incorporates measures for the modernization of systems and the service model, with investments over the period covered by the plan amounting to more than €200 million.

The process for defining the corporate strategy takes Environmental, Social and Governance (ESG) factors into due consideration, an area which affects all corporate policies and processes. Taking account of regulatory developments and feedback from the supervisory authorities, analyses of the main market trends, players and outcomes and suggestions from the update of the sustainability rating, the Group has continued to integrate ESG factors into corporate processes, defining new and more challenging objectives during strategic planning along the three drivers of sustainability, setting specific quantitative targets.

Note that the 2023-2025 Plan was developed on the basis of a forecast scenario that envisaged developments in the main performance and financial indicators consistent with the forecasts for the macroeconomic scenario and banking environment developed in September 2022. The dynamics of the macroeconomic variables in the first half of 2023 and the updates of the multi-year projections differ in some aspects from those on which the Plan is based. In particular, market rates are significantly higher, both in the early months of 2023 and throughout the entire horizon of the Plan. GDP growth is stronger in 2023, but fractionally slower in the second part of the Plan, and inflation is slightly higher than the levels taken into consideration for the development of the Plan, although it continues to converge towards the ECB targets.

As part of the periodic review of the economic-financial targets under the rolling approach to strategic planning adopted by the Group, in September 2023 work will begin on preparing the 2024-2026 Plan - which will factor in the effects connected with the new macroeconomic context and the new projections for the 2024-2026 period – with completion scheduled for March 2024.

NPE Strategy

Since 2018, the Group - even before its official establishment – has undertaken a virtuous de-risking process, which in just a few years made it possible to progressively achieve a gross NPE ratio below the "significance" threshold of 5% set by EBA in 2018 (the value of the ratio at the end of 2022 was 4.5%, compared with a pro-forma figure at the end of 2017 of approximately 19%), with even better de-risking results than planned. To date, ordinary recovery actions have contributed to this dynamic, the processes of which have been gradually enhanced after the establishment of the Group and, above all, the finalization of significant assignments - largely multi-originator in which the Parent Company assumed the role of arranger - implemented through both securitizations (especially those guaranteed by the State under the GACS mechanism for bad loans) and competitive open-market procedures. Since last year these operations have also been extended to unlikely-to-pay positions.

As part of the broader strategic planning process and in compliance with the regulatory requirements that require banks to develop specific strategies to contain credit risk, the new Group NPE Plan 2023-2025 was issued in March 2023. The plan factors in the impacts of the changed macroeconomic environment and market conditions, as well as the recommendations formulated by the supervisory authorities in the annual SREP Letter.

In this context, the plan sets out the levels of asset quality and cost of risk that the Group intends to pursue over the next three years, tracing a progressive derisking path aimed at achieving the GNPL ratio target of 3.5% by the end of 2025.

The objectives of the new plan in the three-year period considered will be pursued through a gradual decrease in total non-performing exposures, which - considering the new context in which the Group has substantially reached risk levels close to the market averages - will focus above all on the further strengthening of ordinary recovery actions, facilitated by the progressive consolidation of the associated processes and procedures, evaluating the advisability of using NPE disposal operations in the presence of market conditions that enable derecognition with the achievement of a financial performance in line with Group expectations. Among other things, this approach is consistent with the new prospective scenario, which, as planned, sees a rebalancing of the different components of impaired loans, with a significant reduction in bad loans as a proportion of the overall stock of impaired positions.

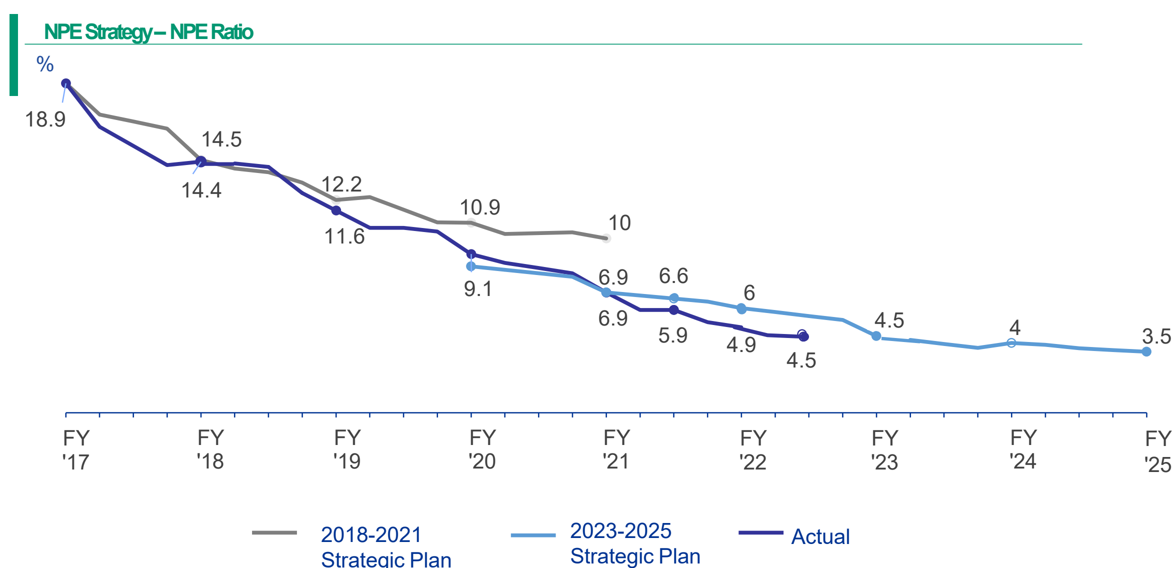
In the context outlined above, in the first quarter of 2023 - following the signing of the associated contracts and the related IT migration, which took place in February and March - the cancellation of the impaired loans in two NPE portfolios composed of bad loans and unlikely-to-pay positions was finalized (the “Mible” and “Waarde” portfolios). The portfolios have an overall gross book value of about €463 million at the consolidated level, with the individual positions held by 78 Group banks. Following the acceptance of the irrevocable offers submitted by the investors who were awarded the portfolios following a competitive procedure, these loans were classified for the purposes of the 2022 financial statements under non-current assets held for sale in application of IFRS 5 (for further details on the operation, please see the financial statements at December 31, 2022).

After another competitive process again coordinated by the Parent Company, at the end of June 2023, a binding offer from a leading investor was accepted for the non-recourse assignment of a portfolio of unlikely-to-pay positions and bad loans with a total gross book value of about €100 million (a total exposure of about €116 million), represented by real estate and non-real estate lease receivables originated by BCC Leasing (the “Project Montes”). Given the irrevocable nature of the offer selected and the acceptance formalized with the successful investor, IFRS 5 was applied as of June 30, 2023. Therefore, the exposures involved were classified as non-current assets held for sale in the individual interim report of BCC Leasing and in the consolidated report of the Group at June 30, 2023. The definitive derecognition of the receivables from the individual and consolidated financial statements, subject to the authorization of the ECB in relation to the need to carry out a demerger for part of the portfolio under Article 57 of the Consolidated Banking Act, is expected to occur by the end of this year.

In the second quarter of 2023, a competitive procedure was launched, with the coordination of the Parent Company, for a new multi-originator credit assignment by 75 Group banks. In August 2023, the Group accepted the binding offers submitted for individual sub-portfolios by the various investors who participated in the competitive procedure, with a view to the sale of ordinary impaired loans – originated by 73 affiliated mutual banks, Iccrea Banca S.p.A. and Banca Sviluppo S.p.A. - for a total exposure of €454 million (around €411 million in gross book value) attributable mainly to small and medium-sized businesses (mainly medium and long-term installment loans, largely secured by collateral) and to households (largely residential home loans). The finalization of the assignment, with derecognition of the loans from the individual financial statements of the participating banks and consequently from the consolidated financial statements of the Group, is expected to occur by October 2023.

The operation, which was based on static data as at June 30, 2023, will have a positive impact of approximately 50 bps on the Group's gross NPE ratio without negative effects on consolidated profit, underscoring the appropriate and prudent provisioning policy adopted for some time now. It represents a further strategic step in the de-risking effort undertaken by the Group and brings forward the objectives set out in the 2023-2025 Strategic Plan, lowering over time the riskiness of credit assets to levels substantially aligned with the average for significant Italian banks, also considering the prudent coverage levels which - among other things - will not be reduced as a result.

The following chart highlights the dynamics of the Group's NPE ratio in recent years and that expected in the 2023-2025 period in light of the vigorous de-risking actions performed, without considering the ongoing disposal mentioned above. This trend is compared with the 2018-2021 Strategic Plan in order to underscore the significant acceleration in the path being followed by the Group.



Implementation of commercial and marketing strategy

In the first half of 2023, the Group has continued its strong effort to enhance our model of banking in support of the local communities of the affiliated banks, maintaining a keen focus on the needs of the territory and on the satisfaction our customers and shareholders. In support of this development path, progress was achieved on numerous projects, some of which were initiated in 2022, including:

- with regard to the Private and Small Business segments:
  - the launch of new e-money products (CartaBCC Corporate, CartaBCC Green and apps dedicated to merchants on SmartPos);
  - the launch of campaigns for insurance policies, including Casa Sicura (with a focus on ESG issues) and - in the private credit area - personal loans and salary/pension-backed lending;
  - to stimulate the asset management sector and support its commercial proposition, the launch of dedicated campaigns on new window funds, including Investiper Cedola and Franklin Templeton;
- with regard to the Corporate segment, the continuation of activities linked to the NRRP to support the mutual banks and their client companies. The offer of ESG Taxonomy Aligned (private and business), Photovoltaic Leasing and Factoring products was also defined. Finally, projects dedicated to specific categories of customer (young people, firms and shareholders) were planned with the aim of fostering customer acquisition and stimulating cross-selling of existing products.

The many ongoing project initiatives include:

- Customer Relationship Management (CRM): in the first part of 2023, the development program begun in 2022 continued in order to complete the functions supporting the analysis and monitoring of commercial activities. In May 2023, the new "Data Viewer" platform was released, integrated with the CRM, which uses the Group's information bases to create new alerts/KPIs, the visualization of commercial opportunities and the development of reporting for customer analysis.
- Rationalization of the Group product catalog: the period saw the completion of the first project development phase, with the achievement of important results in terms of data quality and rationalization of the products of the 65 Group banks that have started catalog activities. The remaining banks have an estimated 1,253 products with the potential for rationalization in the coming months. In June 2023, a new rationalization phase was launched, which will involve new product categories (short-term financing, personal loans, guarantees, foreign operations, collections and payments and insurance products).

Reorganization of the Group’s Corporate segment

In order to enable the affiliated banks to develop the full commercial potential of the Group’s Corporate segment, we continued pursuing advanced strategies and positioning for the product companies within the direct scope as defined under the Transformation Plan, while work to implement these actions was completed.

During the first half of the year, in line with the broader communication and repositioning strategy of some of the Group's businesses and with the adoption of the new visual identity and naming, the corporate name of Iccrea BancaImpresa was changed to BCC Leasing, that of BCC Lease to BCC Rent&Lease and that of Banca Mediocredito del Friuli-Venezia Giulia to BCC Financing.

As regards BCC Financing, the Parent Company completed the acquisition of 100% of the shares of that organization, acquiring the 47% held by the Autonomous Region of Friuli Venezia Giulia and 1% from minority shareholders. Subsequently, on March 1, 2023, BCC Financing completed the transfer of the business unit relating to the FRIE secretariat and SME Development secretariat activities performed on behalf of the Autonomous Region of Friuli Venezia Giulia, to FVG Plus S.p.A., a newly formed company owned by the Autonomous Region of Friuli Venezia Giulia indirectly through Friulia S.p.A..

Furthermore, continuing the process of simplifying the Group's shareholder structure, following the conclusion of the authorization procedures by the supervisory authorities, on February 27, 2023 the acquisition by Iccrea Banca of 100% of the shares of BCC Rent&Lease previously held by BCC Leasing was completed.

By means of these initiatives, the Group will continue with the process undertaken to achieve better service levels for the affiliated banks and better positioning in the various business segments of the Corporate segment necessary for the development of its full commercial potential.

Reorganization of the Group’s Bancassurance segment

In line with the development of the bancassurance segment pursued by Group in recent years, work has continued on implementing the new model as defined in the Strategic Plan.

Specifically, on January 20, 2023, BCC Servizi Assicurativi: i) completed the purchase of 100% of ASSI.CRA. Veneto Srl (Territorial Reference Agency - ART del Veneto), acquiring the remaining 30% of the shares held by Federazione Veneta delle BCC for a total of about €1 million and (ii) the instrument for the merger of ASSI.CRA Veneto Srl into BCC SA was signed with legal effect from February 1, 2023 and with accounting and tax effects from January 1, 2023.

On March 1, 2023, BCC SA completed the acquisition of the insurance business of A&T Servizi assicurativi e turistici Srl, which is owned by the Federazione Marchigiana BCC (32.8%) and affiliated banks (67.2%), for a total of about €0.5 million.

Lastly, on June 22, 2023, BCC SA completed the purchase of 100% of Assicra Abruzzo e Molise S.r.l. (Territorial Reference Agency - ART of Abruzzo and Molise) previously held at 44.2% by Federazione Abruzzo e Molise delle BCC, 23.5% by affiliated banks, 25% by Assimoco and 7.3% by other shareholders, for a total of about €0.7 million. Plans call for its merger into BCC SA in September 2023, with legal effect from October 1, 2023 and with accounting and tax effects from January 1, 2023.

Eurovita

On June 30, 2023, an agreement was reached for the rescue of the insurance company Eurovita, which was placed under external administration by the supervisory authorities at the beginning of 2023. At the instigation of the Ministry for the Economy and Finance and the Ministry of Enterprise and Made in Italy, as well as with the collaboration of the Oversight Committee and the Special Administrator of Eurovita, an agreement was reached between the 25 banking groups distributing the policies, 5 leading insurance companies operating in Italy (Allianz Italia, Intesa Sanpaolo Vita, Generali Italia, Poste Vita and Unipol SAI) and a number of leading Italian banks on an operation at market conditions designed to protect Eurovita policy holders. Specifically, the entire policy portfolio distributed by the banks will be taken over by the aforementioned insurance companies, which will therefore become the new reference companies for policy holders. As an intermediate technical step, the project also envisages the initial transfer of the policies to a newly established insurance undertaking, called Cronos Vita, which will be owned by the 5 insurance companies.

As the Group parent company, Iccrea Banca has signed on to the agreement, sharing the common spirit of the initiative, i.e. guaranteeing full protection of investors. Within the Group, 39 affiliated banks have distributed former Eurovita policies with about €1 billion in technical reserves, of which approximately €0.6 billion relating to Class I products (life insurance).

Reorganization of the Group’s retail segment – Electronic money

In line with the reorganization of e-money operations in the "Retail" segment, on February 1, 2023, BCC POS acquired the business unit for the purchase, rental, sale, maintenance and assistance of POS terminals from Coopersystem SC.

On March 27 and 28, 2023 the boards of directors, respectively, of Coopersystem SC and the Federazione Toscana approved the merger of Coopersystem SC into Federazione Toscana. The merger was subsequently approved by the respective extraordinary Shareholders’

Meetings on April 18, 2023, with the merger taking effect on June 28, 2023. From the effective date of the merger, Coopersystem is no longer part of the Group, with its consequent cancellation from the Register of Banking Groups.

Reorganization of the Group's operations segment – Single Hub

As part of the "Operations Strategy" project within the Transformation Plan to create a Single Hub within the Group to provide – with increasing scope – administrative services in favor of the affiliated banks and product companies, including through the acquisition of back-office business units from the affiliated banks themselves or by mergers and acquisitions from outside the Group, as from January 1, 2023, the merger of Sinergia and BCC Solutions, giving rise to the formation of BCC Sinergia S.p.A., took effect. The operation is part of the broader efficiency-enhancing strategy of the Group and is specifically aimed at bringing out the synergies and economies of scale deriving from the complementarity of the operations of the two companies, which are both already active in the Operations segment serving the other companies within the direct scope and the affiliated banks.

Revision of the territorial organization of the affiliated banks

During the first half of 2023, the rationalization of the territorial organization of Group companies continued. The effort included the merger of Banca di Taranto e Massafra - Banca di Credito Cooperativo - Società Cooperativa into Banca di Credito Cooperativo di Bari - Società Cooperativa (new name: "Banca di Bari e Taranto - Credito Cooperativo - Società Cooperativa") with legal effect from April 24, 2023.

On March 23, 2023, an application for the authorization of the merger of Banca Patavina Credito Cooperativo di Sant'Elena e Piove di Sacco into BCC di Verona e Vicenza Credito Cooperativo - Società Cooperativa was submitted to the ECB. The merger should take legal effect in the first quarter of 2024.

With a notice of June 20, 2023, the ECB authorized the merger of Banca 2021 - Credito Cooperativo del Cilento, Vallo di Diano e Lucania into Banca di Credito Cooperativo di Buccino e dei Comuni Cilento (new name: "Banca di Credito Cooperativo Magna Grecia - Società Cooperativa"). The merger should take legal effect in November 2023.

Actions within the scope of the guarantee mechanism

During the first half of 2023, the Parent Company implemented the following support initiatives through the Guarantee Scheme:

- a capital support initiative for a total nominal amount of €2.5 million, drawing on the Ex Ante Quota of the Readily Available Funds. Specifically, the Guarantee Scheme subscribed shares issued in accordance with Article 150-ter of Legislative Decree 386/93 by the BCC Centropadana (the capitalization initiative were attributed proportionately to each participant in the Scheme.)
- a liquidity support initiative, drawing on the Ex Post Quota of the Readily Available Funds, in favor of Banca di Pisa e Fornacette. The intervention consisted in the Parent Company granting an interest-bearing bullet loan in the total amount of €100 million, with a term of 12 months at a fixed annual rate equal to 0.4% (each mutual bank established a loan, in proportion to its share, to the Parent Company with the same characteristics as the loan granted by the Parent Company to Banca di Pisa e Fornacette).

With regard to the first point, in the capitalization initiatives undertaken by the Scheme, each participating bank other than the beneficiary:

- recognized as an indirect loan in an instrument eligible for inclusion in the issuer's own funds;
- deducted, from a prudential point of view, from the component of own funds consistent with the type of initiative carried out for the beneficiary.

The COVID-19 emergency

In the first half of 2023, the positive evolution of the Covid 19 pandemic took definitive shape, with a sharp decrease in both the number of cases and the severity of the symptoms. This led to the progressive easing of pandemic containment measures at the government and, consequently, company level. On May 5, the World Health Organization declared the end of the global health emergency.

At the beginning of June 2023, following discussions with sector trade unions at the national level, the "Guidelines for the safe use of the Group's corporate offices - for Direct Scope and Affiliated Banks" relating to the Covid emergency were revoked and the corporate committees established to monitor and manage the health emergency were dissolved.

From the point of view of operational continuity, no significant events associated with the pandemic were recorded. Any such events are managed at Group and individual legal entity level with the support of a specific response plan within the Operational Continuity Plan of the individual legal of the Group.

The Russia-Ukraine conflict

Since the beginning of the Russia-Ukraine conflict in February 2022, the Group has carefully monitored the evolution of the resulting repercussions on the real economy and on the main financial variables, conducting specific scenario and stress analyses to assess the conflict's potential impact on the profitability and capital adequacy of the Group companies.

The Group has conducted specific analyses of the Group's performing enterprises portfolio in order to identify possible impacts in terms of higher expected risk of the changing macroeconomic environment created by the Russia-Ukraine conflict. This analysis was carried along two main lines i) customers operating in specific sectors in which production is highly energy intensive; ii) customers potentially impacted by the increasing prices of raw materials.

Specifically, starting from the possible evolution of the macroeconomic environment, the analytical model estimated the economic-financial impacts on various industries and the consequent segmentation of the Group's business portfolio.

At the same time, in order to support the Group banks in identifying positions considered to be at the greatest risk, specific initiatives were conducted to further enhance monitoring and guidance of credit risk mitigation actions, including preventive initiatives.

The economic environment and the related potential impact on the loan portfolio is the subject of constant monitoring, with scenario analysis targeted at identifying the potential impact on certain sectors of companies (which use gas as a primary input in production processes or which depend on products strongly impacted by a hypothetical energy crisis) of a severe deterioration in gas supplies (total interruption of supply from Russia).

The risk profile of the portfolio of firms belonging to the identified sectors (the "gas stoppage" portfolio) undergoes periodic monitoring for anomalies and potential risk, providing for specific treatment (as clarified below) within the calculation of IFRS 9 impairment losses on the Group's performing credit exposures.

Although the context is in constant evolution, excluding extreme scenarios of conflict escalation whose outcomes would be difficult to assess, the analysis confirms the Group's ability to ensure – with the possible activation of specific actions - compliance with regulatory constraints and stringent internal limits.

With regard to the international sanctions imposed on Russia, specific guidelines and safeguards have been developed to ensure the appropriate management of the risks underlying transactions with the countries involved and the application by all Group entities of the financial sanctions imposed by the competent authorities.

With regard to cybersecurity issues and those relating to energy supplies, no significant events were recorded for the Group, whose units, together with those of the companies involved (BCC Sistemi Informativi and BCC Sinergia), have continued the active monitoring of the evolution of these issues, continuing participation and information exchange with the national bodies responsible for monitoring IT risk and operational continuity for the financial sector (CERTFin and CODISE).

Refinement of the impairment model and amendments of Group policies on the assessment of credit exposures

Since the closure of the financial statements at December 31, 2022, the measures delineated in the multi-year Credit Risk Models Evolution (CRME) have been completed for the purposes of calculating the IFRS 9 impairment of the Group's performing credit exposures. The CRME concerns the evolution of the models for measuring credit risk parameters and specific measures to update the IFRS 9 framework.

More specifically, the following modifications of the credit risk measurement models have been completed:

- updating the Probability of Default (PD) models, which hinges on the development of the new version of the internal rating system (AlvinRating 6.0) through the introduction of the single behavioral model at Group level, with the associated re-estimation of the PDs and updating of the rating scale;
- development of "block" LGD models, based on the combination of parameters connected, respectively, with the pre-litigation phases (probability of reclassification as bad loans, exposure delta, performing LGD closure) and litigation (loss given bad loan);
- replacement of the "PD Satellite Models" with models developed internally using the most advanced methodologies available. This evolution enables the Group to internalize the models, reducing dependence on an external supplier of the macroeconomic scenarios and, at the same time, to respond more quickly and with greater precision to the constant demand for in-depth analysis generated by the complex and changing macroeconomic environment we are currently experiencing;
- updating of the "LGD Satellite Models" to take appropriate account of the reconstruction and updating of the historical databases of recoveries and developments in the danger rate conditioning component;
- evolution of the forward-looking conditioning framework for PD, using the Merton-Vasicek methodology.

The methodological developments concerning this project also provide for appropriate conservative adjustments to both address any weaknesses still present in the models and avoid the incorporation of possible distortions created by the pandemic.

Additional measures were implemented for the IFRS 9 impairment framework with a view to ensuring a greater level of prudence for specific sub-portfolios whose credit quality might be more vulnerable in the uncertainty of the current macroeconomic environment (which cannot be fully captured by models). These initiatives involved the introduction of a specific overlay that takes account of the uncertainty for certain segments of the loan portfolio: private individuals with variable rate mortgages, companies impacted by the energy crisis scenario, customers with an active forbearance measure and customers already involved in a loan-repayment moratorium.

On the occasion of this interim report, the measures accompanying the structural activities defined to strengthen the process of quantifying the stock of stage 2 exposures were also completed within the calculation of the IFRS 9 ECL of the Group's performing credit exposures, with special regard to the identification of positions affected by a significant increase in credit risk (SICR).

Specifically, in order to reduce volatility in the allocation of exposures to the different stages to which they belong, a temporary extension of the minimum period a position stays in stage 2 was introduced. This measure is defined as a compensatory measure, taking account of the uncertainty that characterizes the current economic environment, with a view to supporting the profiling resulting from the finalization of the developments that will occur in this area.

Furthermore, in order to enhance the guidance and support of the ordinary loan monitoring and classification processes – again bearing in mind current macroeconomic conditions - and to progressively strengthen of the related process for identifying "watchlist" positions, an analysis of a sub-group of targeted performing positions held by the affiliated banks was completed. The results of this analysis made it possible to automatically classify these exposures in stage 2 as at June 30.

The process of strengthening the Group's stage allocation system will continue during 2023 in respect of: i) the structural interventions already identified and being implemented for the identification of significant increases in credit risk and ii) the progressive fine-tuning of the process of identifying watchlist customers.

As regards the "out-of-model" component (the overlay), without prejudice to the clusters identified for the 2022 financial statements, risk assessments of prospective flows of extra defaults have been updated to take account of the latest macroeconomic scenario available, i.e. that at March 2023. This update was performed in accordance with the calculation methods and the update frequency envisaged for the overlay component. Furthermore, the scope and the associated exposure of the clusters covered by the overlay have also been appropriately updated with the current situation of exposures at June 30, 2023.

Finally, as part of the conditioning of the IFRS 9 risk parameters, the ordinary updating of the macroeconomic scenarios was applied in accordance with the most update of those scenarios (March 2023).

Inspections of the Group

The following provides an overview of the state of progress of inspections conducted or under way by the supervisory authorities, as well as those planned or just beginning:

- an on-site inspection (OSI) was conducted by the European Central Bank (ECB) at the Group level from March 31 to August 5, 2022, concerning credit and counterparty risk in the area of asset quality of commercial real estate (CRE), with the aim of assessing compliance with and implementation of IFRS 9, as well as performing a credit quality review of selected portfolios and assessing credit risk processes. The final version of the inspection report was received on July 11, 2023 and we are awaiting receipt of the Draft Follow-up Letter, which will illustrate the preliminary expectations of the supervisory authorities regarding the corrective actions to be taken in order to remedy the deficiencies found. Recommendations formulated in the course of the credit file review have already been incorporated into the accounts of the banks involved;

- an inspection of the Group initiated by the Bank of Italy on November 17, 2022 and completed on March 10, 2023 was intended to assess compliance with the legislation governing the transparency of transactions and fairness in customer relations pursuant to Articles 54, 68 and 128 of Legislative Decree 385/1993. The findings of the inspections were received on June 6, 2023, in response to which Iccrea Banca sent its feedback to the inspection report on July 14, 2023, together with responses from the two affiliated banks subject to the same inspection;

- a so-called "deep-dive" on the issue of forbearance was notified by the European Central Bank on October 4, 2022, with a specific analysis of the adequacy of policies, procedures and their implementation regarding forborne exposures, assessing both risk management tools and the appropriateness of reporting and classification. Following receipt of the Follow-up Letter on May 30, 2023 containing the definitive version of the recommendations formulated by the supervisory authorities, Iccrea Banca submitted is feedback on July 3, 2023, identifying the project initiatives under way and/or planned in response to the shortcomings identified;

- an inspection initiated by Consob on October 20, 2022 regarding procedural aspects concerning the provision of investment services, with particular regard to product governance policy as well as the methods adopted to perform regulatory compliance checks. The inspection is still in progress;

- an on-site inspection initiated by the ECB on December 5, 2022 (and completed on May 29, 2023) regarding IT risk in order to assess the management of IT operations, IT projects and IT security, including any complementary aspect relating to these issues. The final version of the inspection report is pending;
- an on-site inspection initiated by the ECB on March 14, 2023 (and completed on June 9, 2023) regarding internal governance and risk management. The preliminary version of the inspection report is pending;
- an inspection initiated on June 5, 2023 by the Bank of Italy regarding anti-money laundering. The inspection is still in progress;
- an on-site inspection conducted from June 6-8, 2023 by the Bank of Italy concerning the 'ABACO' system (acronym for "collateralized bank assets"), i.e. the procedures used to manage the bank loans pledged to guarantee the credit operations of the Eurosystem. Receipt of the letter containing the results of the inspection is pending;
- an on-site inspection conducted by the ECB regarding credit and counterparty risk, which is scheduled to start on September 25, 2023. The inspection will be conducted to assess compliance with IFRS 9, with the performance of a credit quality review of certain portfolios, and to evaluate the processes associated with credit risk.

As part of its planning of supervisory activities, in particular its activities within the Supervisory Examination Program – SEP for 2023, the European Central Bank has not provided information concerning any additional inspections to be conducted during the second half of the year in addition to those indicated above.

Environmental, Social and Governance (ESG) and climate change

The Group actively works to act as a banking engine of sustainable and socially inclusive change in the development models of local communities, in order to strengthen the social role in the territories in which it operates through the affiliated mutual banks and, together with the latter, promote a positive social impact and a sustainable transition. Reviving its historical identity, the Group has accordingly embarked on an evolutionary journey designed to achieve the progressive integration of ESG factors into corporate processes, which includes a component focused on the numerous and complex regulatory compliance actions and initiatives of a strategic nature and the provision of customer support.

As regards the regulatory component, the planning program initiated in 2021 and updated in 2022 and 2023, is intended to achieve the integration of ESG factors and risks in all corporate processes, in line with the new regulatory requirements and the expectations of the supervisory authorities. Our governance, strategy, lending, investment and financial services, ICT and data governance processes have been especially affected, as have risk management processes.

With regard to the strategic component – in view of the growing attention of the market (investors and consumers) to sustainability issues and the consequent impact on the strategic positioning of companies - the Group has developed its 2023-2025 Sustainability Plan, which is integrated into the Group's three-year Strategic Plan.

On both strands - regulatory and strategic – in 2023 the Group continued its progressive evolution on the sustainability front, directing the initiatives to integrate ESG factors into corporate processes with ever greater effectiveness.

The process undertaken, the constant effort devoted to these issues and the consequent results achieved by the Group led to an increase in the Sustainability Rating awarded by Moody's Analytics, from A2 to A1 (on a scale from D3 to A1) in January 2023. The evaluation – which brings the overall score to 60/100 (Advanced), an increase of 4 points on the previous evaluation – reflects the Group's close attention to the integration of ESG factors into the strategy, operations and risk management processes.

The ESG Program - Sustainability

In order to ensure a clear governance structure, during 2023 the ESG project program underwent further refinement and updating, providing for the coordinated management of:

- projects with regulatory ramifications intended to ensure alignment with ECB expectations and other relevant regulations;
- the strategic initiatives defined in the "2023-2025 Sustainability Plan",[26] which are designed to guide the strategic positioning of the Group in the ESG space.

With the update, six macro-project areas were identified that concern the initiatives specifically relating to the three drivers of sustainability (Environmental, Social and Governance) and the three transversal areas (IT&Data Governance, Disclosure and Investment Services), broken down into 14 projects with operational activities and tasks spread over a multi-year time horizon.

[26] Approved at the Board meeting of March 31, 2023.

With regard to the regulatory framework, and governance in particular, during the first half of 2023, activities to amend the internal regulatory framework were launched in order to strengthen, among other things, the roles and responsibilities of the Board and the corporate functions, as well as the related reporting flows with particular reference to the management of climate and environmental risks.

In relation to the project for business strategies, which includes, among others, an initiative to restructure the product catalog with the introduction of "taxonomy aligned" financing products, the approval process for seven new financing products aligned with the EU taxonomy was completed. The new products are targeted at individuals and businesses, and activities to integrate them into the Group's next commercial planning process have begun. The project also envisages evolutionary measures in the insurance and investment products area, with the introduction of new products, diversification and an expansion of ESG investments in the proprietary portfolio and asset management products.

Other developments in this project included the continuation of on-boarding of the mutual banks and customers, with the aim of implementing ESG-themed training and information courses in order to increase awareness of the importance of these issues with regard to both regulatory requirements and strategic positioning.

The Risk Strategy and risk assessment projects leveraged the materiality analysis of the Group's portfolio with respect to C&E risks in continuing work on the full integration of these risks into the main risk governance processes (ICAAP/ILAAP, RAF and Climate Stress Test) and risk management.

More specifically, in the early months of 2023, the comprehensive upgrade of the system for identifying and assessing climate and environmental risks continued, although it remains an intermediate step in the progressive construction and evolution of the system itself. The results of the application of the system at the consolidated and individual levels were formalized in a document entitled Climate & Environmental Materiality Assessment - CEMA, which was submitted to management for the purpose of analyzing the Group's positioning with respect to these types of risk.

Leveraging the C&E risk identification and assessment system mentioned above, the Group has also introduced a specific section dedicated to these types of risk within the Risk Appetite Framework, with the development of specific KRIs (with separate treatment of transition risk, counterparty physical risk and real estate physical risk) measured on a quarterly basis for monitoring purposes at the consolidated and individual levels.

Finally, during the year, the progressive integration of climate and environmental risks into the "traditional" risk management process (for credit, operational, market and liquidity risk) continued and the process of defining the Climate Stress Test Framework was begun in order to assess the impact of climate and environmental risks on the Group's portfolio in the short, medium and long term.

With regards to the Lending project, during the first half of 2023 the Group lending policy was updated (after an initial update in July 2022) in compliance with the recommendations of the EBA Guidelines on loan origination and monitoring ("LOM"). More specifically with regard to ESG issues, the latest version of the policy introduces an additional update of the model for assessing the environmental profile ("E" - Environmental) of customers and any real estate collateral supporting lending operations. This was done consistently with the development of IT applications to support the lending process that began in 2022 and continued in 2023 as a prelude to an evaluation of counterparties and real estate collateral from an environmental point of view.

With regards to Disclosure processes, in 2023 activities were implemented and/or started with a view to gap analysis and to support the development of upcoming taxonomic indicators, including the GAR - Green Asset Ratio, as well as to evolve current reporting along the trajectory set out in the reference legislation.

With regard to the Investment Services project, activities carried out in the first half of 2023 in order to meet the regulatory obligations introduced with Delegated Regulation (EU) 2022/1288 supplementing Delegated Regulation (EU) 2019/2088 (the "SFDR") included updates to:

- pre-contractual information templates for both non-ESG products (Art. 6 of the SFDR) and for those that promote environmental/social characteristics or which have sustainable investment objectives (Arts. 8/9 of the SFDR);
- periodic information on products that promote environmental/social characteristics or that have sustainable investment objectives (Art. 8/9 SFDR);
- the policy on the integration of sustainability risks in the provision of investment services, an integral part of the Group sustainability policy.

Furthermore, with specific regard to the Group banks that offer portfolio management service, steps were taken to define the statements concerning whether or not consideration had been given to the principal adverse impacts of investment decisions on sustainability factors.

Finally, a number of refinements were made to the statement, valid for all Group banks, that no consideration had been given in their investment or insurance advisory activity to the principal adverse impacts of investment decisions on sustainability factors.

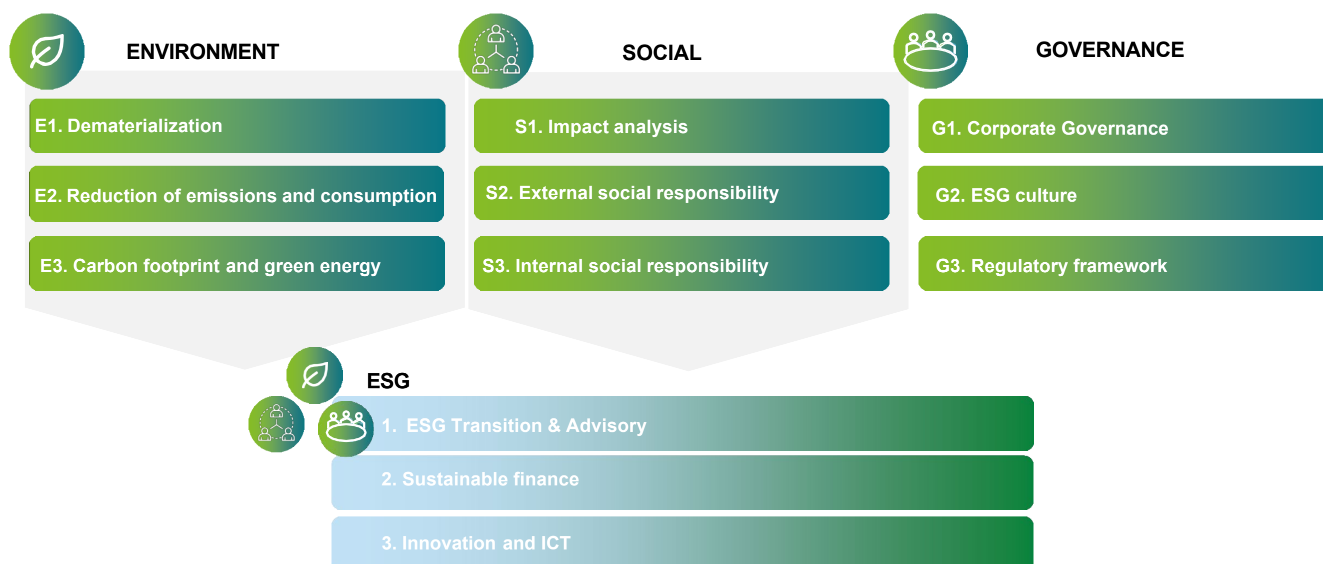
Evolutionary activities in the ICT and Data Governance areas also continued for each project, seeking to adapt applications and expand ESG information assets to support operational and control processes as well as disclosure.

On the strategic front, in 2023 the Group, which has long been committed to promoting the sustainable development of local territories, continued its work to integrate ESG factors into corporate processes, acting along the path set out in the 2022-2024 Sustainability Plan, as well as updating and expanding ESG strategies over the 2023-2025 planning horizon.

Numerous aspects were considered as relevant inputs in defining ESG strategies and the related measures to be implemented for the 2023-2025 period, including:

- the specific needs of the mutual banks and their customer base in terms of engagement and support/advisory activities;
- regulatory developments and feedback received from the supervisory authorities;
- analyses of the market context, considering the main trends and players;
- the outcomes of the updating of the sustainability rating.

The 2023-2025 Sustainability Plan sets the following macro-objectives, distinguishing among the three drivers of sustainability (Environmental, Social and Governance) while providing for certain initiatives with a transversal impact:



As regards the Environmental component, the Group has continued the work begun in 2022 to reduce carbon dioxide emissions and increase the efficiency of company premises, including the implementation of a process of converting the motorpool to hybrid and electric cars (direct impacts). In the light of the expectations of the supervisory authorities and the growing attention received from stakeholders, actions in this area were identified with a view to developing strategies for restructuring the loan portfolio in such a manner as to contain and/or reduce GHG emissions (indirect impacts), in line with the first definition of the carbon footprint baseline (Scope 3) published in the 2022 Consolidated Non-Financial Statement.

With reference to the Social component, in addition to continuing its action to enhance the territories in which it operates and support local communities, the Group has developed initiatives to enhance economic support initiatives for households and firms. A project is being developed to measure the social impact generated by the Group in terms of benefit produced with specific key performance indicators. Also continuing are, i) initiatives to support for the third sector, ii) initiatives relating to inclusion and financial education, iii) customer support activities, through the mutual banks, to provide tools for the activation of a sustainable transformation as well as facilitating access to the economic resources made available under the NRRP, thanks in part to the development of an ecosystem for the development of advisory services for businesses.

Finally, on the Governance front, the Sustainability Plan envisages - following the initial measures implemented, which included the introduction of an internal Board Committee dedicated to ESG issues - initiatives to intensify the involvement of top management, including the formalization of ESG responsibilities for the Operations Committee, as well as objectives to further evolve the ESG culture at all levels of the organizational structure, with particular regard to the ESG Ambassadors and the professionals who manage customer relationships in the lending and asset management sectors.

The main initiatives with a transversal impact on the three sustainability drivers include actions to diversify the property portfolio from an ESG perspective as well as those intended to expand the distribution of products with an ESG focus in the lending and asset management areas and insurance products to protect against climate and environmental risks for households and firms.

In order to monitor the effective implementation of the planned initiatives for each objective, key performance indicators have been defined in order to assess the state of progress and effectiveness of actions, distinguished into implementation, process and result KPIs.

Banking crises

With regard to the events that occurred during the first half of March 2023 concerning the crisis of two US banks and, subsequently, of the Swiss bank Credit Suisse, note that the Group has 4 derivative contracts (interest rate swaps) entered into with the latter between 2008 and 2012 and expiring between 2027 and 2038, subject to bilateral netting. At June 30, 2023, These transactions had a total negative mark-to-market for the Group of €0.97 million and an overall EAD (calculated using the SA-CCR method) of €0.69 million.

With regard to treasury operations with the Credit Suisse Group, at June 30, 2023, Iccrea Banca had a current account with deposits of €2.1 million.

In addition, with regard to the Group securities position, at June 30, 2023, two mutual banks held with two bonds for a total of €2.5 million, both classified as HTCS (with an MTM of €2.2 million).

Finally, it should be noted that the Group does not have any exposures in either securities or loans to Silicon Valley Bank or Signature Bank.

BCC del Crotonese – Judicial administration

With decree of 19 April 2023, notified to BCC della Calabria Ulteriore on April 21, 2023, Court of Catanzaro, acting on the basis of the report of the judicial administrators and the opinion of the Public Prosecutor's Office, ordered the definitive revocation of judicial administration and, as a result, the termination of the preventive measures adopted against the BCC della Calabria Ulteriore without applying any other measure.

Main developments in the regulatory and supervisory framework

In the first half of 2023 the Banking Package 2021, the package of rules[27] issued by the European Commission in October 2021 in order to complete the transposition into European legislation of the international standards issued by the Basel Committee at the end of 2017 ("Basel 3 Finalisation"), passed a first key step in the complex legislative process. On June 27, 2023, the Swedish Presidency of the European Council announced the achievement of a provisional agreement during the Trilogue. The political agreement will have to be approved by the European Parliament (first in the Econ Committee and then in the plenary session) and by the Council. It is likely that the final version of the legislation will be published in the Official Journal of the EU by the first quarter of 2024.

In the broader context of an extensive revision of prudential regulations, the Banking Package legislation supplements the revision of the standard method defined by the Basel Committee with provisions that take account of the specific European context and that mitigate the adverse impact on capital ratios.[28] The deviations from the Basel standard mainly regard the retention of rules already present in the prudential framework (such as, for example, the SME supporting factor under Art. 501 of the CRR2 and the infrastructure factor under Art.501 bis of the CRR2), the expansion of the transitional mechanisms (through the deferral, in some cases beyond 2030, of the full application of certain treatments with greater impact) and the introduction of permanent features (such as the indefinite extension of the so-called Danish compromise, or the capital benefit on insurance investments, in addition to the possibility of disregarding of historical losses for the purposes of calculating the requirements for operational risk, which are valid only for reporting and second pillar purposes). Another deviation of particular interest for Italian banks is the possibility of completely sterilizing unrealized gains and losses (accumulated since the end of 2019) on FVOCI (Fair Value through Other Comprehensive Income) government debt securities until 2025. The legislation essentially proposes a transitional measure that had already been included both in the first version of the CRR (until 2017) and, more recently, in the amendments in response to the Covid-19 pandemic (with application until 2022). Most of the rules on capital requirements contained in the CRR3 will be binding starting from 2025 (albeit with a phase-in period), except for some measures, including the temporal extension of the filter on government securities that will apply from date of entry into force of the new Capital Requirements Regulation (so-called CRR3).

[27] The package was composed of three legislative proposals for the revision of the Single Rulebook, i.e. an amendment to the Capital Requirements Directive (CRD6) and the Capital Requirements Regulation (CRR3) and a proposal for a regulation on the subsidiary chain ("daisy chain"), which introduces targeted adjustments that improve bank resolutions by amending the CRR and the BRRD Directive. The daisy-chain proposal is already definitive following the publication of Regulation (EU) 2022/2036, which applies from November 14, 2022.

[28] Very briefly, the main amendments of the standardized approach for credit risk in terms of potential impacts on the Group's capital ratios and/or processes, organization and procedures concern:

- the new structure of credit conversion factors applicable to off-balance-sheet exposures, with a minimum weight of 10% applicable to unconditionally cancellable commitments and with the introduction of new and more detailed definitions of the various types of cases associated with the different levels of risk;
- the elimination of the current option of risk weighting exposures to banks based on the ratings of their sovereign issuers and the introduction of a granular approach to weighting unrated exposures based on the classification of exposures by credit quality grade defined on the basis of qualitative and quantitative criteria;
- risk weights for corporate lending based on the concomitant consideration of the possible assignment of an external rating, the size of the corporate borrower, the purpose/nature of the financing (with specific regard to specialized lending);
- the introduction into the retail portfolio of the category of "transactors", for which a preferential risk weight of 45% is applicable if a number of repayment or use conditions that significantly lower the risk profile are satisfied;
- with regard to the use of external ratings, the provision for greater diversification of the applicable weights (with the introduction of new credit quality classes that benefit from more favorable weights) but also a requirement to implement adequate internal due diligence processes for the use of external ratings and for determining the applicable risk weighting;
- an entirely new and extremely granular treatment of the class of exposures secured by real estate, which has been modified to significantly increase the level of detail and the applicable risk weights (which differ significantly from existing weights and therefore could potentially improve or worsen capital requirements depending on the credit policies adopted for new lending);
- a generalized and significant tightening (with limited exceptions) of the weightings applicable to investments in subordinated debt securities and capital instruments.

The projects to adapt to the new rules within the relevant deadlines are currently under way.

On April 18, 2023, the European Commission published four legislative proposals to reform the regulatory framework for the management of banking crises, the CMDI framework (Crisis Management and Deposit Insurance). More specifically, the proposals concern amendments to the BRRD (Directive 2014/59/EU), the DGSD (Directive 2014/49/EU), the SRM Regulation (Regulation (EU) no. 806/2014).

The key points of the reform can be summarized as follows: i) increasing the applicability of resolution procedures through a review of the public interest assessment; ii) facilitate the intervention of Deposit Guarantee Schemes (DGS) in the asset transfer procedures for banks in crisis; iii) modify the hierarchy of creditors in the event of insolvency to enable the use of DGS resources; iv) review the MREL calculation rules to distinguish the calibration of the ratio for "transfer" strategies from that for "bail-in" situations. In particular, the revision of the public interest test should lead to a greater use of resolution procedures and therefore to the more frequent use of bail-in or sale of the business as crisis management tools for a bank. The new regulatory arrangements, accompanied by the safeguards for the intervention of DGSs and the new methods of calculating the MREL, must be able to ensure efficient management of the crises of smaller banks, without creating a higher probability of loss for depositors.

The proposed legislation will be submitted to the European Parliament and the Council, who will have to agree on a shared position. However, the banking industry has already expressed concerns about the complexity of certain procedural aspects that could delay rescue interventions, in particular those of the DGSs, which in recent years have proved to be a key factor in managing crises at smaller banks.

On June 9, 2023, Regulation (EU) 2023/1114 on markets in crypto-assets (the MiCAR) was published in the Official Journal of the European Union at the end of a legislative process that lasted over two and a half years. It contains a set of rules designed to bring crypto-asset markets into the regulated space to protect consumers, market integrity and financial stability. MiCAR is based on a taxonomy of crypto-assets divided into three distinct types based on whether the crypto-assets seek to stabilize their value by reference to other assets: i) “asset-referenced tokens” (ART), or a crypto-asset that seeks to maintain a stable value by referring to the value of various official currencies, one or more commodities or one or more crypto-assets, or a combination of such assets; ii) “electronic money tokens” (EMT), the main purpose of which is to be used as a means of exchange and which seeks to maintain a stable value by referencing only one official currency; and i) crypto-assets other than "asset-linked tokens" and "electronic money tokens", which include utility tokens intended to provide digital access to a good or service, available through distributed ledger technology (DLT), and which are accepted only by the issuer of that token.

MiCAR regulates the offer or issue of crypto-assets to the public (specifying different measures for the three types of crypto-assets defined by in the regulation), governs the activity of crypto-asset service providers (CASP) and dictates the rules on the prevention of market abuse and on the role of the supervisory authorities (ESMA and the EBA) who will be called upon to produce the second-level legislation necessary for the application of the new rules. Crypto-asset service providers can be either legal entities that have received an authorization (granted by the competent national authorities) or financial entities (credit institutions, central securities depositories, investment firms, market operators, electronic money institutions, asset management companies or alternative investment fund managers). In the case of financial entities, authorization is not necessary but ad hoc rules are envisaged (Art. 60): for example, a credit institution must notify marketing information to the competent authority (in accordance with the principles of clarity and correctness referred to in Art. 7) 40 days before providing the services for the first time, while investment firms can provide services equivalent to the investment services for which they are already authorized under MiFID II. MiCAR will take effect from December 30, 2024, with the exception of the rules on the public offering of ARTs and EMTs, which apply from June 30, 2024. The legislation also provides for transitional measures. For example CASPs that have provided their services in accordance with applicable law before December 30, 2024 may continue to do so until July 1, 2026 or until an authorization has been granted or refused.

8. INTERNAL CAPITAL AND LIQUIDITY ADEQUACY ASSESSMENT PROCESS

The ICAAP and ILAAP processes have been implemented in all their respective phases - i.e. risk identification, risk measurement and assessment in both baseline and adverse scenarios, self-assessment, etc. – and providing for the assessment and certification of capital adequacy (Capital Adequacy Statement - CAS) and liquidity adequacy (Liquidity Adequacy Statement - LAS).

The analyses conducted to assess adequacy were developed in line with system expectations for ICAAP/ILAAP packages for SREP 2023[29] purposes transmitted by the ECB on January 23, 2023 to all bank/banking groups subject to the Single Supervisory Mechanism (SSM) and with the other specific requests/expectations communicated by the supervisory authorities.

At the consolidated level, the assessments conducted within the ICAAP in the various perspectives considered (regulatory/internal and economic) showed full compliance with overall capital adequacy requirements over the entire time horizon of the baseline scenario.

With regard to the regulatory/internal rules perspective, the CET1 ratio, Tier 1 ratio and Total Capital ratios, in both the phase-in and fully-loaded versions, are positioned over the entire time horizon considered stably above the thresholds established at the regulatory level and in the main risk governance processes (i.e. Risk Tolerance and Risk Capacity), with substantial capital buffers over the entire time horizon considered. In particular, the analyses show that at the end of 2025, the year in which the phase-in ends and only the fully-loaded version is considered, in the baseline scenario:

[29] ECB explanatory guide on ICAAP and ILAAP and on the transmission of the associated files.

- for the CET 1 ratio, the capital buffer over OCR+P2G stands at around €6.3 billion, while the capital buffer with respect to the Risk Tolerance threshold is equal to about €5.6 billion;
- for the Tier 1 ratio, the capital buffer over OCR+P2G stands at around €5.3 billion, while the capital buffer with respect to the Risk Tolerance threshold is equal to about €4.6 billion;
- for the Total Capital ratio, the capital buffer over OCR+P2G stands at around €4.6 billion, while the capital buffer with respect to the Risk Tolerance threshold is equal to about €3.9 billion;
- the leverage ratio, in both the phase-in and fully-loaded versions, is positioned stably above the thresholds envisaged at the regulatory and management levels, with sizeable buffers over the horizon considered. More specifically, the analyses performed showed that at the end of 2025, in the baseline scenario, the capital buffer over the minimum regulatory requirement stood at about €8.9 billion, while the capital buffer with respect to the Risk Tolerance threshold is equal to about €6.3 billion;
- the regulatory MREL indicators (MREL and MREL subordinated calculated on the basis of overall risk exposures and overall leverage exposures), in the phase-in version, are positioned - over the entire time horizon considered - above the targets set in the 2023 MREL decision and the levels provided for in the main risk governance processes (i.e. Risk Tolerance and Risk Capacity).

With regard to the economic perspective, the key indicator (Risk Taking Capacity[30]) shows that our capital determined on a going concern basis is amply sufficient to absorb potential unexpected losses on the Group's exposures. In particular:

- at the point-in-time reference date of December 31, 2022, the analyses show an indicator of 189.23%, giving a capital buffer of around €5.3 billion to cover potential unexpected losses on the Group's exposures:
- over the lifetime of the plan (baseline scenario) the Group complies with capital requirements, with an estimated RTC ratio above the management threshold. Specifically, the ratio is equal to 213.01% in 2025, giving a capital buffer of about €7.3 billion to cover potential unexpected losses on the Group's exposures.

The assessments conducted using the integrated approach between the various perspectives in adverse conditions showed full compliance with overall capital adequacy requirements at the consolidated level over the entire time horizon. In particular, given the adoption by the Group of sufficiently severe but plausible adverse scenarios, which could produce a significant deterioration in its capital position, with regard to the regulatory/internal rules perspective:

- the CET1 ratio, Tier 1 ratio and Total Capital ratio indicators, both in the phase-in and fully-loaded versions, exceed - over the entire time horizon - the thresholds envisaged at the regulatory level and in the main risk governance processes (i.e. Risk Tolerance and Risk Capacity). In particular, the analyses conducted show that at the end of 2025, the year in which the phase-in ends and only the fully-loaded version is considered, in an adverse scenario:
  - for the CET 1 ratio, the capital buffer over OCR+P2G stands at around €3.3 billion, while the capital buffer with respect to the Risk Tolerance threshold is equal to about €2.6 billion;
  - for the Tier 1 ratio, the capital buffer over OCR+P2G stands at around €2.3 billion, while the capital buffer with respect to the Risk Tolerance threshold is equal to about €1.6 billion;
  - for the Total Capital ratio, the capital buffer over OCR+P2G stands at around €1.6 billion, while the capital buffer with respect to the Risk Tolerance threshold is equal to about €1 billion.
- the leverage ratio indicator, both in the phase-in and fully-loaded version, exceeds regulatory and management thresholds even in adverse scenario;

With regard to the economic perspective, including in adverse conditions, the Group complies with capital requirements, with an estimated RTC ratio above the management threshold. Specifically, the ratio is equal to 150.61% in 2025, giving a capital buffer of about €3.6 billion to cover potential unexpected losses on the Group's exposures.

The assessments conducted for the ILAAP showed that for the entire time horizon the overall liquidity profile of the ICBG is adequate in the short and medium-long term, taking into consideration both normal operating conditions and adverse conditions. In particular, the estimated evolution of the LCR and NSFR indicators over the period of the plan did not reveal any critical issues in terms of the adequacy of the operational and structural liquidity profiles, as:

[30] The indicator is given by the ratio between the amount of capital resources readily available to absorb unexpected losses while preserving business continuity (Total Capital - TC) and the value of Total Internal Capital - TIC estimated internally for all relevant measurable risks for both first and second pillar aggregated through a "building block" type approach. The associated value is compared with the management threshold of 100%.

- in the baseline scenario, the LCR and NSFR indicators exceed the regulatory and management thresholds (i.e. Risk Tolerance and Risk Capacity) over the time horizon considered. More specifically, the analyses show that at the end of 2025 the LCR stands at 246% and the NSFR at 150%;
- in the stress scenario, given the adoption by the Group of sufficiently severe but plausible adverse scenarios, which could produce a significant deterioration in its liquidity position, the LCR exceeds the regulatory levels and maximum risk allowed over the time horizon considered, standing at 146% at the end of 2025. The NSFR exceeds the regulatory and management levels (i.e. Risk Tolerance and Risk Capacity) over the time horizon considered, standing at 132% at the end of 2025.

9. MAIN RISKS AND UNCERTAINTIES

Geopolitical crisis and outlook

In the introduction of this Report, we provided the normal summary overview of the macroeconomic environment, with the main risks associated with the international situation and its repercussions on the national economy. While referring a discussion of these issues to an in-depth analysis, here we note that the overall macroeconomic situation continues to be characterized by substantial uncertainty. The Russia-Ukraine conflict and the heightening of geopolitical tensions on a larger scale are factors of instability, with potential adverse effects on growth linked to the fragmentation of international trade. Weaker global growth could further dampen economic activity in the euro area. While inflationary pressures, generated largely by rising prices for commodities and intermediate goods and shocks to global value chains, may have peaked in recent months, their persistence presents upward risks associated with the incomplete transmission of the fall in energy prices and the effects of the restrictive monetary policy stance adopted by the monetary authorities.
The Group is paying close attention to the timely assessment and adoption of measures to contain the potential impact of the various risks and uncertainties on our operations and to the consequent adaptation of strategies as the current landscape evolves. These risks and uncertainties are also subject to constant observation through our framework of risk policies, the updating of these policies, and monitoring efforts aimed at verifying their implementation and adequacy.

Even within this constantly evolving environment, excluding any potentially extreme escalations of the conflict and geopolitical tensions that could lead to outcomes that are difficult to assess at present, the Group, in facing this challenging economic context, is nonetheless operating on a more than adequate foundation of capital resources and a robust liquidity position and appears to be fully capable of ensuring compliance not only with regulatory requirements but also the much more stringent limits that have been set internally.

As always, more detailed information on risks in general, and on financial risks (credit risk and market risk) and operational risks more specifically, is provided in the relevant sections of Part E of the explanatory notes.

As regards capital soundness, on the other hand, see the information provided the section specifically dedicated to capital and capital adequacy. Additional details are also provided in conjunction with updates to Basel 3 third-pillar disclosures.

Finally, as regards the going-concern assumption, the directors affirm that they are reasonably certain that both the Company and the Group will continue as a going concern into the foreseeable future and, consequently, the financial statements at June 30, 2023 have been drawn up in accordance with this assumption. It should be noted in this regard that no evidence has been found in the consolidated financial statements or in the operating performance of the Group that could give rise to uncertainty concerning the going-concern assumption.

10. OTHER SIGNIFICANT INFORMATION

Iccrea rating

Despite the continuing uncertainty of market conditions, the rating agencies conducted an annual review of their ratings (between the end of 2022 and the start of 2023), increasing those for the Parent Company and the Group. More specifically:

- on November 23, 2022, S&P Global Rating raised its rating of the medium/long-term debt of Iccrea Banca and the Group from “BB” to “BB+”, keeping the outlook at “stable”.
- on November 28, 2022, DBRS Morningstar confirmed its rating of the medium/long-term debt of Iccrea Banca at “BB (high)”, revising the outlook from “stable” to positive;
- on February 1, 2023, Fitch Ratings raised its rating of the medium/long-term debt of Iccrea Banca and the Group from “BB-” to “BB+”, with a “stable” outlook.

These increases reflect the significant improvement in the Group's asset quality (thanks to the implementation of the risk reduction strategy and NPE disposal plan), the strengthening of its capital position and the maintenance of a sound liquidity position, as well as the progress achieved in improving the operating and business model.

Treasury shares

At June 30, 2023, Iccrea Banca S.p.A. did not hold any treasury shares.

EWS and mutual banks under administration

During the first half of 2023, the Early Warning System continued to continuously monitor the risk profile of the affiliated banks and the related quarterly reporting to the corporate bodies. These activities found that the affiliated banks exhibited overall balance in their financial position, performance and operations. Affiliated banks that reveal imbalances undergo the procedures envisaged in the Cohesion Contract,

which provide for the definition of rebalancing and de-risking initiatives. More specifically, mutual banks under administration or similar arrangements are the subject of specific directives containing the remedial actions and plans to be adopted or the cure objectives to be achieved in order to improve their risk profile. On the basis of the assessment of the technical situation conducted as at March 31, 2023, six affiliated banks are considered to be in an overall "critical" risk situation. For these banks, positioning gaps are mainly attributable to profitability and structural efficiency and to the overall structure in the "Internal Governance & ICS" area. For the affiliates in question, following the preliminary evaluation and decision-making phase conducted by the Parent Company, appropriate corrective measures have been defined and are being implemented.

EBA EU-wide Stress Test

During the first half of 2023, the Group participated in the 2023 EBA EU-wide Stress Test conducted by the European Banking Authority (EBA) in collaboration with the Bank of Italy, the European Central Bank and the European Systemic Risk Board (ESRB).

The Group's fully-loaded Common Equity Tier 1 ratio (CET1r) at the end of the time horizon considered for the simulation (2025) stood at:

- 20.89% in the baseline scenario, an increase of about 255 basis points compared with the figure at December 2022;
- 14.00% in an adverse scenario,[31] a reduction of about 435 basis points compared with the figure at December 2022, but exceeding the prudential requirement for own funds, including the Pillar 2 Guidance supervisory expectation.

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 reliability, accuracy and timeliness of financial reporting.

The control system is based upon two primary guidelines.

- the information on transactions handled by different subsystems is entered in the accounting system. The line control processes are therefore incorporated either within IT and transaction management procedures 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 units. 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 appropriate units 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 Italia S.p.A., 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, loans granted to company officers and their related parties pursuant to Article 88 of the CRD-V Directive, transactions whose counterparties are senior personnel and, where applicable, conflicts of interest connected with the application of the Early Warning System. The policy 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.

[31] The adverse stress test scenario was defined by the ECB/ESRB and covers a three-year time horizon (2023-2025). The stress test was conducted assuming a static balance sheet at the end of December 2022 and, therefore, does not factor in business strategies and other managerial actions, nor is it an indication of the Group's future profits.

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.

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.

11. SUBSEQUENT EVENTS

Extraordinary bank windfall profit tax

On August 7, 2023, the Council of Ministers approved Decree Law 104/2023[32] containing, inter alia, the introduction of an extraordinary levy on banks' windfall profits.
Specifically, Article 26 ("Extraordinary tax on increase in net interest income") introduces a one-off tax of 40% on the greater of:

- the amount of net interest income for the financial year prior to the year in progress as at January 1, 2023 that exceeds by at least 5% the amount of net interest income for the financial year prior to the year in progress as at January 1, 2022;
- the amount of net interest income for the financial year prior to the year in progress as at January 1, 2024 that exceeds by at least 10% the amount of net interest income for the financial year prior to the year in progress as at January 1, 2022.

The measure – levied for 2023 only – establishes a ceiling on the tax of 0.1% of total assets on the balance sheet for the financial year prior to the year in progress at January 1, 2023. This extraordinary levy is not deductible for the purposes of income tax or the regional business tax and must be paid by the end of the first half of 2024.

The decree must be ratified into law within 60 days of publication. The initial publication of the decree triggered an extensive debate, including within the government majority itself, and numerous proposals for amendment have been advanced, including allowing the deductibility of the tax, excluding interest income on government securities from the tax base, and exempting smaller and local banks from the tax; As things stand, therefore, amendments during the ratification process that could have a significant impact on the amount of the tax the Group must pay cannot be ruled out.

[32] Published in the *Gazzetta Ufficiale* on August 10, entering force the following day.

New insurance partnerships

In view of the expiry of the insurance partnership with Società Cattolica di Assicurazioni S.p.A. (now Generali Italia S.p.A.) on December 31, 2022, in compliance with the provisions of existing agreements, Iccrea Banca initiated the process, including requesting authorization from the supervisory authorities, for the repurchase of 70% of the shares of BCC Vita and BCC Assicurazioni, which concluded with the transfer on September 28, 2023.

As part of the process of selecting new insurance partners, in June and July 2023, Iccrea Banca received binding offers from leading Italian and international groups for the purchase of a majority of the shares of BCC Vita and BCC Assicurazioni and the signing of new commercial agreements for insurance distribution. The Board of Directors of Iccrea Banca decided to hold confidential and exclusive discussions with BNP Paribas Cardif and Assimoco to specify the details of a new insurance partnerships for the life and non-life sectors respectively.

On September 14, 2023, a partnership agreement for non-life business was signed with Assimoco. Following the completion of the process, including receipt of authorization from the supervisory authorities, which is expected to occur between the end of this year and the first quarter of 2024, the agreement establishes, among other provisions, for the purchase by Assimoco of 51% of BCC Assicurazioni and the possibility, upon achieving performance indicators, to extend the duration of the commercial agreements up to a total of 15 years as well as to transfer a further 19% of BCC Assicurazioni to Assimoco. In line with our commercial targets, the sale of 70% of BCC Assicurazioni could generate up to €275 million for the Group, which could increase in the event of certain conditions, as well as the more than €1.6 billion in commission income expected over the 15 years.

In the life sector, discussions are under way with BNP Paribas Cardif for the sale of a majority stake in BCC Vita and the signing of multi-year commercial agreements for insurance distribution.

For the Group, the new partnerships will make it possible to strengthen and standardize the offer of the affiliated mutual banks in the bancassurance segment, ensuring the continuity of the efforts of BCC Vita, present on the market since 2004, and BCC Assicurazioni, founded in 2008, in promoting life and non-life insurance services respectively.

Partnership with Banco BPM and FSI SGR S.p.A. in the e-money business

On July 14, 2023, Iccrea Banca, Banco BPM and FSI entered a partnership to develop a new independent Italian company in the digital payments sector, with important synergies expected for the Banco BPM and the Iccrea Cooperative Banking Group.

Upon completion of the process, including receipt of authorization from the supervisory authorities, the agreement envisages the transfer of Banco BPM's e-money operations to BCC Pay, at an overall valuation of up to €600 million. Banco BPM will be paid in cash and in shares issued by the Pay Holding vehicle, which in turn controls the entire capital of BCC Pay. The latter will also receive a new visual identity and naming. Upon completion of the operation, Pay Holding will be owned by FSI with about 43% and Iccrea Banca and Banco BPM about 28.6% each.

Reorganization of the Group's Asset Management segment

On July 28, 2023, Iccrea Banca and Allfunds Group Plc, one of the world's leading B2B WealthTech platforms in the funds industry, signed a memorandum of understanding under which Allfunds will acquire the payment, agent bank and placement support operations of Iccrea Banca, forging a ten-year exclusive partnership in services for asset management.

The agreement is part of the Group's strategy to support development projects in its area of operations, to which the business area involved in the transaction is closely linked, and to enhance the level of services connected with accessing financial markets provided to the affiliated banks of the Group and their customers. This operation will also enable us to capitalize on the value of these assets and further increase the Group's already solid capital ratios.

Reorganization of the Group’s Operations segment – Single Hub

As part of the reorganization of the "Operations" segment of the Group, the transfer of the Lucrezia Romana property from BCC Sinergia to Iccrea Banca took effect from October 2023. The objective of the initiative is to reorganize and reallocate assets and activities between the two companies, enabling BCC Sinergia to specialize more effectively in the provision of services to the other entities of the Group. The operation also enables Iccrea Banca to control an asset instrumental to the performance of its activities and in which its registered office is already established.

Repurchase of 100% of the capital of Banca Sviluppo

At June 30, 2023, 99.26% (52,610,567 ordinary shares) of the share capital of Banca Sviluppo was held by the Parent Company, while the remaining 0.74% (394,106 preferred shares) was held by the preferred shareholders. In recent months, certain conditions have been met for the redemption of the aforementioned preference shares provided for in the Banca Sviluppo articles of association to encourage greater

involvement of the preference shareholders in the life of the company.

On July 31, 2023, the Board of Directors of the Parent Company therefore resolved to exercise of the option provided for in the articles of association to purchase all the preference shares of Banca Sviluppo, for a total of about €900 thousand. The purchase will be completed following receipt of authorization from the supervisory authorities.

Outlook for operations

As discussed previously in this Report, the macroeconomic environment, characterized by persistent geopolitical tensions, appears complex, presenting financial intermediaries with new challenges, but also significant opportunities.

A slowdown in the growth of household financial wealth and the recomposition of liquidity are expected for financial intermediaries over the remainder of 2023, with nominal growth in bank lending supported by higher inflation.

The acceleration of rate increases by the ECB has made a significant contribution to the traditional profitability of banks, with net interest income resuming significant growth in the first half of 2023. The dynamics of fees and commissions from indirect funding are expected to be less favorable, penalized by the effect of high inflation on household purchasing power.

Special attention will have to be paid to credit risk and pressures on operating costs, reflecting price pressures and the growing need for investment in technology and human capital necessary to continue the digital and green transformation. In general, efficiency improvements remain crucial for the banking sector.

Very briefly, the expectation is that the boost imparted by the increase in rates - which continued in September as well - to net interest income should counter the greater pressures on the cost of risk and on operating costs, fostering a significant reduction in the cost/income ratio and an improvement in the sector's ROE in the medium term.

In that context and consistent with its strategic priorities, the Group confirms the strategic importance of its derisking objectives, which will be pursued not only by lending further impetus to the ordinary management of impaired and defaulted positions but also by taking advantage of appropriate market opportunities to dispose of portions of the non-performing portfolio, with the goal of further improving its asset quality indicators and maintaining the cost of risk will increase at levels compatible with our profit targets.

The progressive easing of the effects of the expansionary monetary policy should be amply offset by the benefits of the growth in the interest rate spread. Net interest income is therefore forecast to positioned at structurally higher levels than those registered by the Group in recent years. In this environment, the Group will continue to implement actions to improve profitability: the latter will continue to be driven by initiatives to expand net fee and commission income and contain costs, including with the implementation of specific efficiency enhancement measures and progress on the actions taken to rationalize the branch network and the companies within the direct scope of consolidation.

The Group will continue to strengthen its capital position and issue financial instruments designed to ensure compliance with MREL requirements with an appropriate margin of safety.

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 S.p.A. financial statements	**1,401,045**	**681,866**	**32,653**	**-**	**73,113**	**2,188,677**
Financial statements of fully consolidated company	1,009,919	10,537,984	(48,369)	30,139	830,355	**12,360,028**
Financial statements of companies accounted for using equity method		(26,372)	(82,176)		4,731	**(103,817)**
Elimination of Group company dividends		110,757			(110,757)	**-**
Adjustment of intercompany writedowns (revaluations)		166,815				**166,815**
Goodwill		15,426				**15,426**
Other consolidation adjustments	(117,800)	(1,866,402)	(15,759)		(2,085)	**(2,002,046)**
Consolidated shareholders' equity	**2,294,156**	**9,618,757**	**(113,649)**	**30,139**	**796,584**	**12,625,987**
Non-controlling interests	**992**	**(1,317)**	**2**	**-**	**1,228**	**905**
Group shareholders' equity	**2,293,164**	**9,620,074**	**(113,651)**	**30,139**	**795,356**	**12,625,082**

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.[33]
- 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.
- Cost/Income Ratio: the measure is calculated as the ratio between operating costs and gross income 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.

[33] Determined as the difference between the Group's book equity and intangible assets.

GROUP FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Assets		30/06/2023	31/12/2022
10.	Cash and cash equivalents	1,563,766	1,189,908
20.	Financial assets measured at fair value through profit or loss	1,798,951	1,675,821
	a) financial assets held for trading	451,973	254,493
	b) financial assets designated as at fair value	311,691	251,392
	c) other financial assets mandatorily measured at fair value	1,035,287	1,169,936
30.	Financial assets measured at fair value through other comprehensive income	8,249,888	8,308,596
40.	Financial assets measured at amortized cost	146,155,988	150,454,937
	a) due from banks	2,821,528	2,691,287
	b) loans to customers	143,334,460	147,763,650
50.	Hedging derivatives	1,649,158	1,891,822
60.	Value adjustments of financial assets hedged generically (+/-)	(810,540)	(875,227)
70.	Equity investments	222,845	220,460
90.	Property, plant and equipment	2,526,219	2,556,424
100.	Intangible assets	157,399	167,559
	- goodwill	19,689	19,689
110.	Tax assets	1,567,648	1,748,374
	a) current	346,063	381,210
	b) deferred	1,221,585	1,367,164
120.	Non-current assets and disposal groups held for sale	25,294	159,293
130.	Other assets	5,133,821	6,044,491
	Total assets	**168,240,437**	**173,542,458**

Liabilities and shareholders' equity		30/06/2023	31/12/2022
10.	Financial liabilities measured at amortized cost	149,285,840	156,829,575
	a) due to banks	23,024,984	28,518,246
	b) due to customers	115,922,588	119,115,747
	c) securities issued	10,338,268	9,195,582
20.	Financial liabilities held for trading	350,502	236,482
40.	Hedging derivatives	233,930	350,237
50.	Value adjustments of financial liabilities hedged generically (+/-)	(761)	(821)
60.	Tax liabilities	47,936	75,317
	a) current	28,087	52,120
	b) deferred	19,849	23,197
70.	Liabilities associated with assets held for sale	-	247,896
80.	Other liabilities	4,915,205	3,165,472
90.	Employee termination benefits	219,747	225,719
100.	Provisions for risks and charges	562,052	542,064
	a) commitments and guarantees issued	299,664	298,309
	c) other provisions for risk and charges	262,388	243,755
120.	Valuation reserves	(113,650)	(205,161)
140.	Equity instruments	30,139	30,139
150.	Reserves	10,850,013	9,164,416
160.	Share premium reserves	151,333	150,834
170.	Share capital	2,293,164	2,291,261
180.	Treasury shares (-)	(1,381,274)	(1,380,525)
190.	Non-controlling interests (+/-)	905	32,501
200.	Net profit (loss) for the period (+/-)	795,356	1,787,052
	Total liabilities and shareholders' equity	**168,240,437**	**173,542,458**

CONSOLIDATED INCOME STATEMENT

		30/06/2023	30/06/2022
10.	Interest and similar income	2,809,580	1,858,856
	of which: interest income calculated using effective interest rate method	2,691,953	1,962,537
20.	Interest and similar expense	(861,737)	(189,073)
30.	**Net interest income**	**1,947,843**	**1,669,783**
40.	Fee and commission income	797,774	755,552
50.	Fee and commission expense	(126,162)	(96,620)
60.	**Net fee and commission income (expense)**	**671,612**	**658,932**
70.	Dividends and similar income	22,216	20,179
80.	Net gain (loss) on trading activities	16,193	20,028
90.	Net gain (loss) on hedging activities	1,259	10,582
100.	Net gain (loss) on the disposal or repurchase of:	39,722	141,056
	a) financial assets measured at amortized cost	48,368	137,795
	b) financial assets measured at fair value through other comprehensive income	(9,179)	2,969
	c) financial liabilities	533	292
110.	Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss	(2,004)	(48,170)
	a) financial assets and liabilities designated as at fair value	871	(10,082)
	b) other financial assets mandatorily measured at fair value	(2,875)	(38,089)
120.	**Gross income**	**2,696,840**	**2,472,389**
130.	Net losses/recoveries for credit risk in respect of:	(194,538)	(181,610)
	a) financial assets measured at amortized cost	(198,546)	(180,946)
	b) financial assets measured at fair value through other comprehensive income	4,008	(664)
140.	Gains/losses from contractual modifications without derecognition	(2,691)	(859)
150.	**Net income (loss) from financial operations**	**2,499,612**	**2,289,920**
180.	**Net income (loss) from financial and insurance operations**	**2,499,612**	**2,289,920**
190.	Administrative expenses:	(1,597,080)	(1,525,217)
	a) personnel expenses	(930,657)	(854,520)
	b) other administrative expenses	(666,423)	(670,697)
200.	Net provisions for risks and charges	(8,791)	(19,589)
	a) commitments and guarantees issued	(2,808)	(8,412)
	b) other net provisions	(5,983)	(11,177)
210.	Net adjustments of property, plant and equipment	(91,419)	(94,523)
220.	Net adjustments of intangible assets	(22,404)	(21,608)
230.	Other operating expenses/income	163,111	152,585
240.	**Operating costs**	**(1,556,582)**	**(1,508,353)**
250.	Profit (loss) from equity investments	9,834	(567)
260.	Net gain (loss) from valuation at fair value of property, plant and equipment and intangible assets	(7,538)	(6,092)
280.	Profit (loss) from disposal of investments	(141)	(557)
290.	**Profit (loss) before tax on continuing operations**	**945,184**	**774,351**
300.	Income tax expense from continuing operations	(148,600)	(108,223)
310.	**Profit (loss) after tax on continuing operations**	**796,584**	**666,128**
320.	Profit (loss) after tax on discontinued operations	-	17,175
330.	**Net profit (loss) for the period**	**796,584**	**683,303**
340.	Net profit (loss) for the period – non-controlling interests	1,228	7,242
350.	**Net profit (loss) for the period – shareholders of the Parent Company**	**795,356**	**676,061**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

		30/06/2023	30/06/2022
10.	**Net profit (loss) for the period**	**796,584**	**683,303**
	Other comprehensive income net of taxes not recyclable to profit or loss	**3,618**	**25,208**
20.	Equity securities designated as at fair through other comprehensive income	5,485	(703)
70.	Defined-benefit plans	(1,867)	25,912
	Other comprehensive income net of taxes recyclable to profit or loss	**86,926**	**(303,689)**
130.	Cash-flow hedges	20,733	(33,296)
150.	Financial assets (other than equity investments) measured at fair value through other comprehensive income	66,003	(217,279)
170.	Share of valuation reserves of equity investments accounted for with equity method	190	(53,114)
200.	**Total other comprehensive income net of taxes**	**90,545**	**(278,480)**
210.	**Comprehensive income (Item 10+170)**	**887,128**	**404,823**
220.	**Comprehensive income - non-controlling interests**	1,228	6,568
230.	**Comprehensive income - shareholders of the Parent Company**	**885,900**	**398,255**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT JUNE 30, 2023

				Allocation of net profit of previous period		Change in the period										
							Equity transactions									
	As at 31/12/2022	Change in opening balance	As at 1/1/2023	Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Change in equity holdings	Comprehensive income as at 30/6/2023	Shareholders' equity at 30/6/2023	Shareholders equity attributable to shareholders of the Parent Company	Non-controlling interests
Share capital																	
- ordinary shares	2,293,857		2,293,857	9,013			4,279	(13,978)							2,293,171	2,293,164	7
- other shares	985		985												985		985
Share premium reserve	150,838		150,838	(743)			1,241								151,336	151,333	3
Reserves																	
- earnings	9,213,484		9,213,484	1,691,951		(27,991)									10,877,444	10,878,861	(1,417)
- other	(29,210)		(29,210)			460									(28,750)	(28,847)	97
Valuation reserves	(205,160)		(205,160)			967								90,544	(113,649)	(113,651)	2
Equity instruments	30,139		30,139												30,139	30,139	
Treasury shares	(1,380,525)		(1,380,525)				1,886	(2,634)							(1,381,273)	(1,381,273)	
Net profit (loss) for the period	1,796,109		1,796,109	(1,700,221)	(95,888)									796,584	796,584	795,356	1,228
Total shareholders' equity	**11,870,517**		**11,870,517**		**(95,888)**	**(26,564)**	**7,406**	**(16,612)**						**887,128**	**12,625,987**	**12,625,082**	**905**
Shareholders' equity - shareholders' of Parent Company	**11,838,016**		**11,838,016**		**(95,888)**	**6,260**	**7,406**	**(16,612)**						**885,900**	**12,625,082**		
Shareholders' equity - non-controlling interests	**32,501**		**32,501**			**(32,824)**								**1,228**	**905**		

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT JUNE 30, 2022

				Allocation of net profit of previous period		Change in the period											
							Equity transactions										
	As at 31/12/2021	Change in opening balance	As st1/1/2022	Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Change in equity holdings	Comprehensive income as 30/06/2022	Shareholders' equity at 30/06/2022	Shareholders equity attributable to shareholders of the Parent Company	Non-controlling interests
Share capital																	
- ordinary shares	2,360,652		2,360,652				5,594	(13,120)							2,353,125	2,295,243	57,882
- other shares	985		985												985		985
Share premium reserve	152,345		152,345	(804)			1,802								153,343	149,344	3,999
Reserves																	
- earnings	8,769,369		8,769,369	412,312		2,732									9,184,413	9,173,562	10,851
- other	(35,389)		(35,389)			(1,121)									(36,510)	(28,048)	(8,462)
Valuation reserves	219,450		219,450			672								(278,480)	(58,358)	(58,470)	112
Equity instruments	30,139		30,139												30,139	30,139	
Treasury shares	(1,263,218)		(1,263,218)				1,999	(71,877)							(1,333,096)	(1,333,096)	
Net profit (loss) for the period	460,571		460,571	(411,508)	(49,063)									683,303	683,303	676,061	7,242
Total shareholders' equity	**10,694,904**		**10,694,904**		**(49,063)**	**2,283**	**9,395**	**(84,997)**						**404,823**	**10,977,344**	**10,904,734**	**72,610**
Shareholders' equity - shareholders' of Parent Company	**10,628,703**		**10,628,703**		**(48,999)**	**2,378**	**9,394**	**(84,997)**						**398,255**	**10,904,734**		
Shareholders' equity - non-controlling interests	**66,201**		**66,201**		**(64)**	**(95)**								**6,568**	**72,610**		

CONSOLIDATED STATEMENT OF CASH FLOWS: INDIRECT METHOD

	30/06/2023	30/06/2022
A. OPERATING ACTIVITIES		
1. Operations	**1,090,155**	**956,307**
- net profit (loss) for the period (+/-)	796,584	683,303
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	64,599	(15,781)
- gains (losses) on hedging activities (-/+)	(395)	(6,272)
- net losses/recoveries on impairment (+/-)	154,652	133,693
- net adjustments of property, plant and equipment and intangible assets (+/-)	113,823	116,132
- net provisions for risks and charges and other costs/revenues (+/-)	18,563	(27,741)
- taxes, duties and tax credits to be settled (+/-)	(52,359)	107,594
- other adjustments (+/-)	(5,312)	(34,621)
2. Net cash flows from/used in financial assets	**5,510,739**	**1,798,086**
- financial assets held for trading	(254,759)	37,283
- financial assets designated as at fair value	(60,299)	11,214
- other assets mandatorily measured at fair value	127,329	29,758
- financial assets measured at fair value through other comprehensive income	134,873	(1,060,681)
- financial assets measured at amortized cost	4,402,824	3,392,057
- other assets	1,160,770	(611,546)
3. Net cash flows from/used in financial liabilities	**(6,077,928)**	**(2,796,494)**
- financial liabilities measured at amortized cost	(7,791,631)	(5,615,344)
- financial liabilities held for trading	114,020	21,348
- financial liabilities designated as at fair value	-	(256)
- other liabilities	1,599,683	2,797,757
Net cash flows from/used in operating activities	**522,966**	**(42,100)**
B. INVESTING ACTIVITIES		
1. Cash flow from	**5,958**	**31,377**
- sales of equity investments	-	12,011
- dividends on equity investments	-	4,373
- sales of property, plant and equipment	5,714	16,538
- sales of intangible assets	244	(1,545)
2. Cash flow used in	**(58,430)**	**(23,529)**
- purchase of equity investments	(10)	54,462
- purchases of property, plant and equipment	(47,696)	(67,181)
- purchases of intangible assets	(10,724)	(10,810)
Net cash flows from/used in investing activities	**(52,472)**	**7,848**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	(748)	(68,979)
- dividend distribution and other	(95,888)	(49,063)
Net cash flows from/used in investing activities	**(96,636)**	**(118,042)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**373,858**	**(152,294)**

Key:
(+) generated
(-) used in

RECONCILIATION

	30/06/2023	30/06/2022
Cash and cash equivalents at beginning of period	1,189,908	1,674,568
Net increase/decrease in cash and cash equivalents	373,858	(152,294)
Cash and cash equivalents at end of period	1,563,766	1,522,274

NOTES TO THE FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

SECTION 1 – DECLARATION OF CONFORMITY WITH INTERNATIONAL ACCOUNTING STANDARDS

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, the interim consolidated 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 "Bank financial statements: formats and rules of preparation"– 8th update of November 17, 2022 – 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 March 14, 2023 – 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.

These interim consolidated financial statements were prepared using the same accounting standards as those used for the consolidated financial statements at December 31, 2022.

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, 2023:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
2036/2021	**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
357/2022	**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.
357/2022	**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.
1392/2022	**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.
1491/2022	**Amendment of transition requirements of IFRS 17** The amendment of the transition requirements of IFRS 17 allows entities to eliminate one-off classification differences in comparative information for the previous period at the date of initial application of IFRS 17 and IFRS 9 Financial Instruments.	Annual reporting periods beginning on or after January 1, 2023.

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
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, 2024.
To be determined	**Amendments to IFRS 16 on sale and leaseback arrangements** The amendments are intended to clarify how to account for a sale and leaseback arrangement that provides for variable payments based on the performance or use of an underlying asset.	Annual reporting periods beginning on or after January 1, 2024.
To be determined	**Amendments to IAS 7 Statement of cash flows and IFRS 7 Financial instruments: disclosures** The amendments require additional disclosures on reverse factoring arrangements that enable users of the financial statements to evaluate how supplier finance arrangements can affect the liabilities and cash flows of the entity and to understand the effect of such arrangements on the entity's exposure to liquidity risk	Annual reporting periods beginning on or after January 1, 2024.

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.

SECTION 2: GENERAL PREPARATION PRINCIPLES

These interim consolidated financial statements, prepared in condensed form pursuant to IAS 34, 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.

The financial statements also comply with the following general principles of preparation:

- accrual basis accounting;
- understandability of information;
- materiality of information (relevance);
- reliability of information (faithful representation; prevalence of economic substance over legal form; neutrality of information; completeness of information; prudence in estimation to avoid overestimating revenues/assets or underestimating costs/liabilities);
- comparability over time.

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 explanatory notes to the financial statements include the information required by international accounting standards, in particular IAS 34 Interim Financial Reporting, using the tables provided for in Bank of Italy Circular no. 262/2005 – 8th update of November 17, 2022.

SECTION 3 – SCOPE AND METHODS OF CONSOLIDATION

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

- the financial statements of Iccrea Banca S.p.A. in its capacity as Parent Company and Central Body;
- the financial statements of the 117 affiliated mutual banks, which together with Iccrea Banca S.p.A. comprise the Consolidating Entity;
- the financial statements of the companies over which, in application of IFRS 10, IFRS 11 and IAS 28, Iccrea Banca and the affiliated mutual banks exercise control, joint control or significant influence.

Please see "Assessments and significant assumptions in determining the scope of consolidation" 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 S.p.A.	Rome				
2	BCC di Bari e Taranto S.C.	Bari				
3	Banca dell'Elba - Credito Cooperativo S.C.	Portoferraio				
4	Credito Cooperativo Mediocrati S.C.	Rende				
5	BCC di Buccino e dei Comuni Cilentani S.C.	Agropoli				
6	Credito Cooperativo Romagnolo - BCC di Cesena E Gatteo - S.C.	Cesena				
7	Emil Banca - Credito Cooperativo S.C.	Bologna				
8	Banca Cremasca e Mantovana - Credito Cooperativo S.C.	Crema				
9	Banca della Marca Credito Cooperativo S.C.	Orsago				
10	Credito Cooperativo Friuli (CrediFriuli) S.C.	Udine				
11	BCC dell'Adriatico Teramano S.C.	Atri				
12	Banca di Credito Cooperativo della Calabria Ulteriore - Società Cooperativa	Crotone				
13	BCC di Cagliari S.C.	Cagliari				
14	Banca di Andria Di Credito Cooperativo S.C.	Andria				
15	BCC Agrigentino S.C.	Agrigento				
16	BCC di Naples S.C.	Naples				
17	BCC di Putignano S.C.	Putignano				
18	Banca di Ancona e Falconara Marittima Credito Cooperativo S.C.	Ancona				
19	BCC di Montepaone S.C.	Montepaone				
20	BCC di Basciano S.C.	Basciano				
21	BANCA 2021 — Credito Cooperativo del Cilento, Vallo di Diano e Lucania S.C.	Vallo Della Lucania				
22	BCC della Valle del Trigno S.C.	San Salvo				
23	Valpolicella Benaco Banca Credito Cooperativo S.C.	Costermano Sul Garda				
24	Banca Veronese Credito Cooperativo di Concamarise S.C.	Bovolone				
25	Banca Centropadana Credito Cooperativo S.C.	Lodi				
26	Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	Firenzuola				
27	BCC di Rome S.C.	Rome				
28	BCC Brianza e Laghi S.C.	Lesmo				
29	BCC di Altofonte e Caccamo S.C.	Altofonte				
30	Banca di Anghiari E Stia - Credito Cooperativo S.C.	Anghiari				
31	BCC di Avetrana S.C.	Avetrana				
32	BCC Pordenonese e Monsile S.C.	Azzano Decimo				
33	Banca di Pescia e Cascina - Credito Cooperativo S.C.	Pescia				
34	BCC di Arborea S.C.	Arborea				
35	BCC Campania Centro - Cassa Rurale e Artigiana S.C.	Battipaglia				
36	BCC di Bellegra S.C.	Bellegra				

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

		Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
89	Cassa Rurale e Artigiana dell'Agro Pontino - BCC S.C.	Pontinia				
90	BCC di Pratola Peligna S.C.	Pratola Peligna				
91	Centromarca Banca - Credito Cooperativo di Treviso e Venezia, S.C.	Treviso				
92	BCC di Recanati e Colmurano S.C.	Recanati				
93	Banca di Ripatransone e Del Fermano - Credito Cooperativo S.C.	Ripatransone				
94	Cassa Rurale e Artigiana di Rivarolo Mantovano Credito Cooperativo S.C.	Rivarolo Mantovano				
95	BCC della Provincia Romana S.C.	Riano				
96	Banca di Verona e Vicenza - Credito Cooperativo S.C.	Fara Vicentino				
97	Banca del Valdarno - Credito Cooperativo S.C.	San Giovanni Valdarno				
98	Banca di Pesaro Credito Cooperativo S.C.	Pesaro				
99	BCC di Santeramo In Colle S.C.	Santeramo In Colle				
100	Banca TEMA - Terre Etrusche di Valdichiana e di Maremma S.C.	Chiusi				
101	BCC di Scafati e Cetara S.C.	Scafati				
102	BCC Appulo Lucana S.C.	Spinazzola				
103	BCC di Staranzano e Villesse S.C.	Staranzano				
104	Banca Centro Credito Cooperativo Toscana - Umbria S.C.	Sovicille				
105	Cassa Rurale - BCC di Treviglio S.C.	Treviglio				
106	BCC di Triuggio e della Valle del Lambro S.C.	Triuggio				
107	BCC della Valle del Fitalia S.C.	Longi				
108	Banca Alta Toscana Credito Cooperativo S.C.	Quarrata				
109	BCC Bergamasca e Orobica S.C.	Cologno Al Serio				
110	Banca Don Rizzo - Credito Cooperativo della Sicilia Occidentale S.C.	Alcamo				
111	BCC dei Colli Albani S.C.	Genzano Di Rome				
112	BCC G. Toniolo di San Cataldo S.C.	San Cataldo				
113	Banca San Francesco Credito Cooperativo S.C.	Canicattì				
114	BCC delle Madonie S.C.	Petralia Sottana				
115	BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	Casagiove				
116	BCC degli Ulivi - Terra di Bari S.C.	Palo Del Colle				
117	RivieraBanca Credito Cooperativo di Rimini e Gradara S.C.	Rimini				
118	BCC di San Marco Dei Cavoti e Del Sannio - Calvi S.C.	San Marco Dei Cavoti				
119	BCC Risparmio&Previdenza SGrpA	Milan	1	Iccrea Banca S.p.A.	100.0	100.0
120	BCC Leasing S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.0	100.0
121	BCC Factoring S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.0	100.0
122	Banca Sviluppo S.p.A.	Rome	1	Iccrea Banca S.p.A.	99.3	99.3
123	BCC Financing S.p.A.	Udine	1	Iccrea Banca S.p.A.	100.0	100.0
124	BCC Gestione Crediti S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.0	100.0
125	BCC Sinergia S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.0	100.0
126	BCC Beni Immobili S.r.l.	Rome	1	Iccrea Banca S.p.A.	100.0	100.0
127	BCC Rent&Lease S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.0	100.0
128	BCC CreditoConsumo S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.0	100.0
129	BCC Sistemi Informatici S.p.A.	Milan	1	Iccrea Banca S.p.A.	99.4	99.4
				Banca Sviluppo S.p.A.	0.0	0.0
130	BCC Servizi Assicurativi S.r.l.	Milan	1	Iccrea Banca S.p.A.	100.0	100.0
131	BCC POS S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.0	100.0
132	Sigest S.r.l.	Calcinaia	1	BCC Pisa e Fornacette Credito Cooperativo S.C.	100.0	100.0
133	Fondo Securis Real Estate	Rome	4	Iccrea Banca S.p.A.	78.0	78.0
				BCC Brianza e Laghi S.C.	1.2	1.2
134	Fondo Securis Real Estate II	Rome	4	Iccrea Banca S.p.A.	84.8	84.8
135	Fondo Securis Real Estate III	Rome	4	Iccrea Banca S.p.A.	79.5	79.5
136	Fondo Il Ruscello	Milan	4	BCC di Milan S.C.	100.0	100.0
137	Fondo Sistema BCC	Rome	4	BCC di Milan S.C.	44.4	44.4
				Credito Cooperativo Di Caravaggio Adda e Cremasco - Cassa Rurale S.C.	8.9	8.9
				BCC del Garda - BCC Colli Morenici Del Garda S.C.	29.4	29.4
				BCC di San Marco Dei Cavoti e Del Sannio - Calvi S.C.	10.6	10.6

		Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
138	Asset Bancari V	Rome	4	BCC di Milan S.C.	16.0	16.0
				Banca di Anghiari e Stia - Credito Cooperativo S.C.	16.0	16.0
				BCC del Garda - BCC Colli Morenici Del Garda S.C.	19.3	19.3
				Cassa Rurale e Artigiana di Binasco - Credito Cooperativo S.C.	4.0	4.0

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

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

- the commitments of the central body and the affiliated institutions are joint and several liabilities;
- the solvency and liquidity of 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[34] 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;

[34] 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"].

- 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;
- that the 2019 Budget Act, in introducing paragraph 2-bis of Article 38 of Legislative Decree 136/2015 (in implementation of Directive 86/635) as a special rule, prevails and specifies the generic reference of Article 37 bis, paragraph 1 of the Consolidated Banking Act to control for the purposes of the accounting standards.

The consolidated financial statements of the Iccrea Cooperative Banking Group have been prepared on the basis of the following procedures:

- the entity required to draw up the consolidated financial statements is represented by the aggregation of the central body and the affiliated mutual banks (hereinafter the “consolidating entity”);
- in the consolidated financial statements, the accounting entries of the Parent Company and the affiliated mutual banks are recorded at the same values;
- in the consolidated financial statements, the accounting entries of the Parent Company and the affiliated mutual banks are recorded at the existing value reported in the individual financial statements;
- the provisions of IFRS 10 are applied for the purpose of identifying the scope of consolidation of the consolidating entity (subsidiaries of the Parent Company and the affiliated mutual banks);
- IFRS 3 is applicable only for any business combinations between the single consolidating entity and third parties;
- balance sheet and income statement positions between companies included in the scope of consolidation are eliminated in full;
- Parent Company shares held by the affiliated mutual banks are eliminated in full and accounted for as treasury shares of the consolidating entity.

Scope and methods of consolidation

In view of the foregoing, the scope of consolidation of the Iccrea Cooperative Banking Group includes:

- the financial statements of Iccrea Banca S.p.A. in its capacity as Parent Company and Central Body;
- the financial statements of the 117 affiliated mutual banks, which together with Iccrea Banca S.p.A. comprise the Consolidating Entity;
- the financial statements of the companies over which, in application of IFRS 10, IFRS 11 and IAS 28, Iccrea Banca and the affiliated mutual banks exercise control, joint control or significant influence.

Subsidiaries

Subsidiaries are those entities over which the consolidating entity has the power to direct the relevant activities as a result of a legal right or a mere situation of fact and is exposed to the variable returns resulting from that power.

More specifically, pursuant to IFRS 10 the control requirement is met when an investor simultaneously has:

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

The carrying amount of equity interests in companies either consolidated on a line-by-line basis, held by the Consolidating Entity or other companies within the Group, is eliminated – as the subsidiaries’ assets and liabilities are absorbed into those of the Group – offsetting the corresponding percentage of the subsidiaries’ equity pertaining to the Group.

Asset and liability items, off-balance sheet transactions, expenses and income, as well as profits and losses which occur between companies falling within the scope of consolidation are eliminated.

Costs and revenues of a subsidiary are included in consolidation from the date on which control is acquired. Costs and revenues from a

subsidiary disposed of are included in the consolidated income statement up to the date of disposal, which is to say up to the point at which control over the subsidiary is lost. The difference between the payment received on disposal of the subsidiary and the carrying amount of its net assets at the same date is recognized in profit or loss under item 280 "Gain/(loss) from the disposal of investments". Any residual interest 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.[35] Their exclusion from the scope of consolidation does not have a material impact on Group equity.

Associates

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.

[35] 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.

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, 2023 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

This section has not been prepared as at June 30, 2023 the Group had no investments in subsidiaries with significant non-controlling interests.

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, 2023, 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.

SECTION 4 – EVENTS SUBSEQUENT TO THE REPORTING DATE

In the period between the reporting date of the financial statements and their approval by the Board of Directors on September 27, 2023 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 explanatory notes.

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.

Assignment of loan portfolios classified as bad loans and/or unlikely to pay

With regard to impaired loans, de-risking activities continued in the first half of 2023 mainly through disposals of NPLs. During the period, the sale of a new portfolio of non-performing loans with a GBV of about €98 million was finalized. In view of the irrevocable nature of the selected offer, IFRS 5 applies to the portfolio involved in the operation, with the consequent classification of the associated loans under non-current assets held for sale, with a total value of €14.2 million. The transaction closed during the third quarter of the year.

During the period, the assignment of bad and unlikely-to-pay loans that had been classified as held for sale at the end of the previous year was completed (the "Mible" and "Waarde" transactions).

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. Interest is settled in arrears.

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 reports on operations accompanying these and the previous financial statements, which readers are invited to consult for further information.

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.[36]

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 and an "additional special interest rate period" from June 24, 2021 to June 23, 2022;
- in the event of achievement of the target for the "special reference period" (from March 1, 2020 to March 31, 2021) and the "additional special interest rate period" (from October 1, 2020 to December 31, 2021), the structure of the transaction changes as follows:
  - the benchmark rate becomes the rate on the ECB's deposit facility (DF), at -50bp until July 26, 2022, which can be modified by the ECB during the term of the respective loans;
  - for the "special interest rate period" and the "additional 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, three different mechanisms will be applied depending on achievement of the secondary objective (growth of 1.15% between April 1, 2019 and March 31, 2021):
- in the event the target for the "additional special reference period" is not achieved:
  - for the first 7 auctions from June 23, 2021, the rate provided for the three different levels of growth in eligible lending in the period between April 1, 2019 and March 31, 2021 will be applied;
  - for the subsequent 3 auctions, the average MRO rate will be applied for the entire term of the loan, with the exception of the additional special interest rate period (June 24, 2021 – June 23, 2022), during which the average MRO rate less 50 basis points 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, or in case of positive performance, the average deposit facility rate;
- a fixed spread, in favor of Iccrea Banca, equal to 4.5 bp, which can be reduced or reset to zero under certain conditions;
- the possible performance of the TLTRO Group as a whole and the individual performance of each mutual bank.

On September 10, 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. The application of the most favorable rate, equal to -1% (DF rate + spread – 0.5%) is definitive. The rates for the additional special interest rate period were announced by the Bank of Italy on June 10, 2022, confirming full achievement of the target for that period as well.

[36] 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)".

On October 27, 2022, the ECB again amended the conditions applicable to the TLTRO III program to ensure consistency with the monetary policy normalization process, helping to address the unexpected and extraordinary increase in inflation.

From November 23, 2022, the rate applicable to transactions still outstanding is indexed to the reference interest rate applicable during this period, maintaining the previous rules for the earlier periods with the application of an average rate for the period.

In the light of the ECB's changes in the interest rate applicable to TLTRO funding and as a consequence of the method of calculating interest, the directors, in line with the guidelines set by the Parent Company, deemed it appropriate, in accordance with the provisions of paragraph 3.3.2 of IFRS 9, as at 23 November 2022, to derecognize the financial liability in question, since the aforementioned interventions by the ECB can be considered as substantial modification of the contractual terms, and therefore to re-recognize the item in accordance with the new lending terms and subsequent valuation in compliance with paragraph B.5.4.5 of IFRS 9.

Three additional early repayment dates for TLTRO III loans have also been introduced, respectively November 23, 2022, January 25, 2023 and February 22 2023.

Interest accrued at June 30, 2023, recognized in the income statement under item "20. Interest and similar expense", amounted to a total of €54 million.

Purchase of tax credits

Among the urgent measures deployed in response to the COVID 19 pandemic and to support the real economy, Decree Law 18/2020 (the "Cure Italy Decree") and Decree Law 34/2020 (the "Revival Decree") introduced specific tax incentives into Italian law in the form of tax credits.

In view of the economic substance of these transactions, their accounting treatment is based - by analogy and where applicable - on the provisions of IFRS 9 on financial instruments.

More specifically, at the time of initial recognition, the tax credit is recognized at the purchase price - comparable to a Level 3 fair value, given that there are no official markets or comparable transactions - satisfying the condition established under IFRS 9 according to which financial assets and liabilities must be initially recognized at fair value. Subsequent measurement of these assets - in line with the requirements of IAS 8 concerning the imperative to provide reliable and relevant information on all transactions and other events, including "atypical" cases, reflecting the economic substance of the credits – assuming classification within an HTC business model – shall be based on the rules in IFRS 9 governing financial assets at amortized cost. Accordingly, this shall consider: i) the time value of money; ii) the use of an effective interest rate and iii) the use of the tax credit through offsets. The effective interest rate is originally determined so that the discounted cash flows associated with the expected future offsets estimated over the expected term of the tax credit - taking account of the fact that the tax credit not used in each period cannot be recovered – shall equal the purchase price of the tax credits.

With regard to the use of the amortized cost method, IFRS 9 requires a periodic review of the estimated cash flows, adjusting the gross carrying amount of the financial asset to reflect the actual and revised cash flows. In making these adjustments, in accordance with paragraph B5.4.6 of IFRS 9, the new cash flows shall be discounted at the original effective interest rate.

Therefore, if during the period in which the credits are being offset it is necessary to revise the initial estimates concerning the offsetting of the tax credit or if the actual offsets differ from the estimates, the gross carrying amount of the tax credit (revised on the basis of the present value of the reformulated estimates/actual uses of the tax credit, discounted at the original effective interest rate) is adjusted to correctly reflect the use of the tax credit.

In terms of presentation in the financial statements, the tax credits shall be classified under "Other assets", given that under the applicable international accounting standards they do not represent tax assets, government grants, intangible assets or financial assets and therefore cannot be classified under more specific aggregates of bank balance sheet.

Credits subject to assignment are designated and measured at fair value through profit or loss.

The interest income on credits for which periodic sales of portions of the portfolio are possible (credits not already identified for transfer at the time of purchase) is recognized in profit or loss in the same manner as receivables at amortized cost. Changes in fair value are initially recognized in OCI. When the tax credit is derecognized, the changes in fair value previously recognized in OCI and accumulated in equity are reclassified to profit or loss.

Securities obtained against assets transferred in non-cash transactions

In compliance with applicable accounting standards and the guidelines set out in Document no. 8 of the Bank of Italy, CONSOB and IVASS coordination group, investment fund units acquired in return for the transfer of impaired loans (bad loans or unlikely-to-pay positions), having verified the absence of any obligation to consolidate the fund and the possibility of derecognizing the transferred loans (given failure to pass the SPPI test) are classified as instruments measured at FVTPL.

For the purposes of determining the fair value of these instruments, both at initial recognition and in subsequent measurement, the analysis of cash flows, the discount rates applied and the other assumptions adopted are consistent with the characteristics of the impaired loans transferred. Finally, if the NAV calculated by the fund does not represent a fair value measure in compliance with the provisions of IFRS 13, the Group uses its own valuation policies and, where necessary, applies liquidity discounts to the NAV of the units held.

Interest rate benchmarks – Benchmarks Regulation

On the basis of the regulatory framework defined by Regulation (EU) no. 2016/1011 Regulation (EU) no. 2016/1011 of the European Parliament and of the Council of June 8, 2016 (the "Benchmarks Regulation – BMR")[37], the European Money Market Institute - EMMI - the administrator of the EURIBOR and EONIA indices, concluded that none of the benchmarks it administers was compliant with the BMR. Consequently, it was decided to:

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

In the finance area, the impact of the benchmark rate reform on the affiliated banks have mainly concerned transactions in OTC derivatives in euros subject to netting, which are carried out for hedge accounting purposes and can be summarized as follows:

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

With regard to the finance area, and in particular OTC derivatives transactions carried out with market counterparties, the entire contractual framework was revised by adopting the new ISDA Master Agreement (ISDA) protocol and implementing the corrective actions envisaged to manage the transition. Significant activities, for example for operations in euros, include a revision of the overnight discount curve (which for this currency was the EONIA curve) used as part of collateral management activities envisaged in the contractual documentation supplementing ISDA contracts, notably Credit Support Annexes (CSAs) at the supervised intermediary level.

Following the discontinuation of EONIA as of January 3, 2022, the Parent Company initiated renegotiations with the counterparties in outstanding CSAs, primarily opting to use the €STR Flat discount curve (€STR Discounting).

Since most of the quotations of "LIBOR" benchmark rates have no longer been available since January 1, 2022, the Banking Group has adopted the "IBOR ISDA fallback rates" for GBP, JPY, CHF and USD as substitutes for LIBOR. These rates, which comply with the Benchmarks Regulation, are determined by Bloomberg on behalf of the ISDA and are published daily on Bloomberg's FBAK page.

In this regard, the new risk free rates available on the market (SONIA, TONAR, SARON and SOFR) within the various currency areas are overnight rates determined daily on the basis of transactions conducted on the money market, whereas the various LIBOR rates, which have been terminated, instead had a range of maturities. Obtaining replacement rates for LIBOR with a term of more than one day, starting from one of the aforementioned risk-free overnight rates, can adopt two different approaches: backward-looking or forward-looking.

As regards the issue of contractual fallback language and the clauses necessary for informing customers of decisions regarding the benchmark indices, Iccrea Banca has drafted a standard fallback clause, which has been incorporated into existing MCD and CCD contracts, sending customers a specific notice of the change, and been integrated into standard contracts for new customers, in line with the mechanism envisaged under the BMR regulations. Contracts with non-consumer counterparties have long contained a specific clause concerning the management of changes affecting the benchmarks.

With regard to the quantification of the exposure to the LIBOR USD rate, at the reporting date of these financial statements the negligible number of remaining derivatives contracts indexed to that rate were terminated early.

[37] The regulation set out the new regulatory framework governing the benchmark rates EURIBOR, LIBOR and EONIA, aligning market indices and the methodology with which they are calculated with international principles in order to ensure the integrity of the reference parameters used in the euro area (including benchmark interest rates), reducing the scope for discretion, improving governance controls and addressing conflicts of interest.

Windfall tax

As described in the Report on Operations, which readers are invited to read for further information, the Italian government introduced, with Article 26 of Legislative Decree 104 of August 10, 2023 ("Decree 104"), an extraordinary tax for the 2023 financial year on the windfall profits earned by banks authorized to operate in Italy following the increase in interest rates.

Decree 104 must be ratified in law by the Italian Parliament by October 9, 2023 (60 days from publication in the Official Journal). If the legislation is not ratified by that deadline, the decree will lose effect retroactively.

During ratification into law by Parliament, the measure could be subject to amendments of a substantive nature. Proposed amendments include, for example, the deductibility of the tax, the exclusion from the tax base of interest on investments in government securities and the exemption of small credit institutions from the tax. The potential amendments to the legislation are therefore likely to significantly affect the amount of the tax in question.

From an accounting point of view, in application of IAS 10 - Events after the reporting date, the provision is configured as an event subsequent to 30 June 2023 of a non-adjusting nature, without transposition into the balances on the same date of the consequent accounting effects.

Consolidated tax mechanism option

Iccrea Banca S.p.A. 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

These interim consolidated financial statements, drafted in condensed form, have been audited by Mazars Italia S.p.A., 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[38] 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:

[38] 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.

- 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.

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.

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 tax assets.

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 entity 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 be 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

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 and recognition of income components

After initial recognition, financial liabilities reported under this item are measured at fair value in accordance with the following rules:

- if the change in fair value is attributable to a change in the credit risk of the liability, it shall be recognized in other comprehensive income (equity) and is not subsequently recycled through profit or loss;
- all other changes in fair value shall be recognized through profit or loss under “Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss: a) financial assets and liabilities designated as at fair value”.

Pursuant to IFRS 9, this accounting method shall not be applied if would create or enlarge an accounting mismatch in the income statement.

In this case, the gains or losses related to the liability falling under this item shall be recognized through profit or loss.

Derecognition

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

14 - Foreign currency transactions

Classification

In addition to those explicitly denominated in a currency other than the euro, foreign currency assets and liabilities also include those that have indexing clauses linked to the exchange rate of the euro with a specific currency or with a certain basket of currencies.

Recognition

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

For the purposes of translation, foreign currency assets and liabilities are divided into monetary items (classified under current items) and non-monetary items (classified under non-current items). Monetary items comprise cash and assets and liabilities to be received or paid in fixed or determinable amounts of money. Non-monetary items are characterized by the absence of a right to receive, or an obligation to deliver, a 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 – Insurance assets and liabilities

There are no insurance undertakings in the scope of consolidation.

16 – 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.

With particular regard to inflation-linked BTPs - the overall performance of which does not depend solely on its real components but also on

the developments in inflation, to which these bonds are indexed[39] - the measurement method adopted provides for the sterilization of the inflation effect in the calculation of the IRR and its inclusion in amortized cost, so as to generate a perfect adjustment of the value of holdings to changes in inflation. Accordingly, the value of the holding increases (or decreases) in proportion to the inflation coefficient, so that at the maturity of the security its value is equal to the redemption value.

More specifically, the methodology applied makes it possible to adjust the average carrying price of the security to the presumable redemption value by varying the associated value of the holdings in a manner consistent with the indexing parameter. In this way, the effect of inflation is accounted for in the year in which it occurs, in line with the accrual principle, and is summed with the real yield on the securities.

Net interest income reflects the contribution linked to both the real yield of the security (coupons and accrued interest) and the inflation component, the latter through the recognition of the portion at amortized cost deriving from the periodic revaluation of the value of the holdings of the securities.

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.

[39] The overall performance of inflation-linked BTPs depends on two components: an a priori element, i.e. the real yield, and another linked to inflation, which determines the revaluation of coupons and principal. The value of the security is therefore made to evolve as a function of both effects.

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 PD less than or equal to a specified threshold 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.

Insurance contracts

The following areas were the main focus of the provisions of IFRS 17:

- initial recognition of the insurance liability;
- grouping of contracts through the identification of "portfolios" of insurance contracts (i.e. groups of contracts that share similar risks and are managed together);
- measurement models applicable to contracts;
- transition rules upon first application;
- subsequent measurement of the insurance liability;
- measurement of insurance revenue;
- performance measurement.

With reference to the presentation of IFRS 17 in the consolidated financial statements of banks, on November 17, 2022 the Bank of Italy published the 8th update of Circular no. 262 of December 22, 2005 applicable to financial statements closed or in progress as at December 31, 2023. In particular, in the consolidated balance sheet, the items "insurance liabilities" and "insurance assets" report the insurance contracts issued and reinsurance cessions. With regard to the consolidated income statement, the interim result on insurance operations distinguishes between insurance service revenues/expenses and net insurance finance income/expense on insurance contracts issued and reinsurance cessions.

Business combinations

The transfer of control of an entity (or a group of integrated activities and assets, conducted and managed together) is a business combination.

IFRS 3 requires that an acquirer be identified for all business combinations. The acquirer is the entity that obtains control over another entity or group of activities. If it is not possible to identify a controlling entity using the definition of control described earlier, such as for example in the case of an exchange of equity interests, the acquirer must be identified using other factors such as: the entity whose fair value is significantly greater, the entity that possibly pays cash or the entity that issues new equity instruments.

The acquisition (and therefore the first consolidation of the acquired entity) must be accounted for on the date on which the acquirer actually obtains control over the entity or the assets acquired. When the business combination is achieved in a single exchange transaction, the date of exchange normally coincides with the acquisition date. However, it is always necessary to check for any agreements between the parties that may involve a transfer of control before the exchange date.

The consideration transferred as part of a business combination is determined as the sum of the fair value, at the exchange date, of the assets transferred, the liabilities incurred or assumed and the equity instruments issued by the acquirer in exchange for control.

In transactions involving payment in cash (or when payment is made using financial instruments comparable to cash) the consideration is the agreed price, possibly discounted if payment will be made in installments over a period longer than short term. If payment is made using an instrument other than cash, such as through the issue of equity instruments, the price is equal to the fair value of the means of payment net of costs directly attributable to the equity issue.

The consideration in a business combination at the acquisition date includes adjustments subordinated to future events if envisaged in the transfer agreements and only if they are probable, reliably determinable and made within the twelve months following the date of acquisition of control, while indemnities for a reduction in the value of the assets used are not included as they are already considered in the fair value of the equity instruments or as a reduction in the premium or increase in the discount on the initial issue of debt instruments, where applicable.

The costs related to the acquisition are charges that the acquirer incurs to carry out the business combination. By way of example, these include professional fees paid to auditors, experts, legal consultants, fees for appraisals and the auditing of accounts, preparation of information documents required by regulations, as well as consulting costs incurred to identify potential targets for acquisition if it is contractually established that payment is made only in the event of a successful combination, as well as the costs of registration and the issue of debt or equity securities.

The acquirer must account for the costs related to the acquisition as charges in the periods in which these costs are incurred and the services are received, with the exception of the costs of issuing equity or debt securities, which must be recognized in accordance with the provisions of IAS 32.

Business combinations are accounted for using the acquisition method, under which the identifiable assets acquired (including any intangible assets previously not recognized by the acquiree) and the identifiable liabilities assumed (including contingent liabilities) must be recognized at their respective fair values on the acquisition date. Furthermore, for each business combination, any non-controlling interests in the acquiree can be recognized at fair value (with a consequent increase in the consideration transferred) or as a proportion of the share of the non-controlling interests in the identifiable net assets of the acquiree.

If control is obtained in stages, the acquirer shall recalculate the interest previously held in the acquiree at its respective fair value on the acquisition date and record any difference with respect to the previous carrying amount through profit or loss. The excess of the consideration transferred (represented by the fair value of the assets transferred, the liabilities incurred or the equity instruments issued by the acquirer), increased by the value of any non-controlling interest (determined as indicated above), and the fair value of the interest previously held by the acquirer, over the fair value of the assets and liabilities acquired must be recognized as goodwill. However, if the latter exceed the sum of the consideration, non-controlling interest and the fair value of the interest previously held, the difference is recognized in profit or loss.

Following initial recognition, goodwill is measured at cost net of accumulated impairment losses. For the purpose of impairment testing, the goodwill acquired in a business combination is allocated, from the acquisition date, to each cash generating unit of the Group that is expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to those units.

If goodwill has been allocated to a cash-generating unit and the entity disposes of part of the assets of the unit, the goodwill associated with the transferred asset is included in the carrying amount of the asset when determining the gain or loss on disposal. The goodwill associated with the transferred asset is determined on the basis of the relative values of the transferred asset and the part retained by the cash-generating unit.

Business combinations can be accounted for provisionally by the end of the reporting period in which the combination occurs, with the accounting to be completed within twelve months of the acquisition date.

If the business combination is carried out for reorganizational purposes, i.e. between two or more entities or businesses that already belong to the same group and the combination does not involve a change in control regardless of the extent of non-controlling interests before and after the business combination (business combinations of entities under common control), the transaction is considered to be without economic substance. Accordingly, in the absence of specific instructions in the IASs/IFRSs and in compliance with the presumptions of IAS 8 which require that - in the absence of a specific standard – an entity shall use of its judgment in applying an accounting policy that provides relevant, reliable, prudent information that reflects the economic substance of the transaction, such combinations are accounted for preserving the values in the financial statements of the acquiree in those of the acquirer.

Mergers are the form of business combination that represents the most complete form of combination, as they involve both the legal and economic unification of the participating parties.

Mergers, whether they are mergers of equals, i.e. with the establishment of a new legal entity following the combination, or the combination of one entity into another surviving entity, are treated in accordance with the criteria illustrated previously, and in particular:

if the transaction involves the transfer of control of an entity, it is treated as a business combination within the scope of IFRS 3;
if the transaction does not involve the transfer of control, it is accounted for by preserving the values in the financial statements of the merged entity in the surviving entity.

A. 3 – DISCLOSURES ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

In execution of shareholders' resolutions passed in December 2018 and following the establishment and launch of the Iccrea Cooperative Banking Group , at the beginning of 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 years following 2019.

The following table reports the reclassified carrying amount at January 1, 2019 of the reclassified assets as at that date and still recognized at the reporting date as they 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 fair value through other comprehensive income	Financial assets measured at amortized cost	31/12/2019	1,842,805	-

A.4 – FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURES

This section provides the disclosures on the fair value of financial instruments as requested under IFRS 13, in particular paragraphs 91 and 92.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the “exit price”) on the principal (or most advantageous) market, regardless of whether that price is directly observable or is estimated using a valuation technique.

Prices on an active market are the best indication of the fair value of financial instruments (Level 1 in the fair value hierarchy). In the absence of an active market or where prices are affected by forced transactions, fair value is determined on the basis of the prices of financial instruments with similar characteristics (Level 2 inputs – the comparable approach) or, in the absence of such prices as well, with the use of valuation techniques that use market inputs to the greatest extent possible (Level 2 inputs – model valuation - mark to model). Where market data is not available, inputs not drawn from the market and estimates and model forecasts may be used (Level 3 inputs – model valuation - mark to model). Where market data is not available, inputs not drawn from the market and estimates and model forecasts may be used (Level 3 inputs – model valuation - mark to model).

For financial instruments measured at fair value, the Group assigns maximum priority to prices quoted on active markets and lower priority to the use of unobservable inputs, as the latter are more discretionary, in line with the fair value hierarchy noted above and discussed in greater detail in section A.4.3 below. The policy establishes the order of priority, the criteria and general conditions used to determine the choice of one of the following valuation techniques:

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

Mark to market

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

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

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

The 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 measured 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. The discount rule based on the guarantor's yield curve is applied to these securities, failing which the sectoral curve corresponding to the rating of the security (or of the guarantor in case of unavailability) and the guarantor's product sector is used. The inputs used include yield curves and any illiquidity spread;
- structured bonds are measured using a discounted cash flow model that incorporates valuations from option pricing models, adjusted for the credit risk of the issuer. The discount rule based on the guarantor's yield curve is applied to these securities, failing which the sectoral curve corresponding to the rating of the security (or of the guarantor in case of unavailability) and the guarantor's product sector is used. The inputs used include yield curves and any illiquidity spread, as well volatility surfaces and the correlation matrix for the underlyings;
- asset backed securities (ABS) are measured using the discounted sum of expected future cash flows. The cash flow model estimates future developments in the underlying asset portfolio, taking account of payment reports, market data and model input parameters, applying the priority of payments to obtain the expected future cash flows for the notes (interest and principal). Once the expected cash flows have been obtained, the PV of each individual note is obtained by discounting these flows using the discount margin method for variable-rate securities, or the discount yield for fixed-rate securities. The inputs used include, in addition to the government securities yield curve, the illiquidity spread and yield curves;
- derivatives on interest rates are measured using discounted cash flow models, within the multi-curve framework based on OIS discounting;
- derivatives involving options on rates, such as caps/floors and European swaptions, are measured using the Bachelier model, which uses the volatility matrix for these instruments and interest rates as market input parameters, in accordance with the multi-curve measurement 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 matrix, as well as the inclusion of dividends. The inputs used are the price of the underlying equity, the volatility surface and the interest rate dividend curve. The estimate of the value uses the OIS/BC discounting approach;
- 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. The estimate of the value uses the OIS/BC discounting approach;
- inflation derivatives, such as zero-coupon indexed inflation swaps and CPI swaps, are measured using a discounted cash flow approach, which in turn are measured on the basis of the term structure of inflation and seasonal factors (CPI Cash Flow Model), a in accordance with the multi-curve measurement framework based on OIS discounting;
- equity securities are measured 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 where necessary with a specific liquidity adjustment 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, bond funds and loan-based funds (impaired and performing);
- 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.

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;
- the liquidity spreads used in the mark-to-model measurement of ABS.

The Group also provides for the possibility of applying valuation adjustments to the prices of financial instruments when the valuation technique used does not capture factors that market participants would use in estimating fair value, for example when it is necessary to ensure that the fair value reflects the value of a transaction that could actually be carried out in a market.

The factors impacting the need for an adjustment include the complexity of the financial instrument; the credit standing of the counterparty; and the presence of any collateral agreements. In particular, the Group uses a method for calculating the CVA/DVA (Credit Value Adjustments/Debt Value Adjustments) in order to adjust the calculation of the fair value of uncollateralized derivatives in order to take account of counterparty risk (non-performance risk). The CVA/DVA is not calculated when collateral agreements have been formalized and are operational for derivatives positions.

With particular regard to units held in unlisted alternative investment funds (so-called AIFs),a liquidity adjustment is determined 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 4.66% for real estate funds, 9.50% for private debt–bad loan funds,, 5.70% for private debt – NPL UTP funds, 3.27% for private debt – Performing loan funds, 1.44% for private debt – bond funds and 8.65% for *private equity funds*.

A.4.2 VALUATION PROCESSES AND SENSITIVITY

The Group conducted an analysis 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.

Level 3 exposures to financial instruments are mainly represented by units in CIUs, property, plant and equipment and equity securities.

The sensitivity analysis of unobservable inputs is conducted through a stress test of all significant unobservable inputs for the different types of assets. The tests are used to determine the potential changes in the fair value by category of asset attributable to changes in the determination of unobservable inputs (such as the volatility and the correlation of the recovery rates of the clusters for the NPL component of funds and the distribution haircut for the real estate component.

This analysis demonstrated that the sensitivity impacts 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 CIUs whose prices are provided by the issuing entity (the so-called “soft NAV”) or whose fair value is adjusted using pricing models based on observable market inputs;
- insurance policies and interest-bearing postal bonds whose fair value is approximated, respectively, by the surrender and redemption value, which under applicable regulations represent the exit prices for those instruments.

Finally, the following are normally considered Level 3:

- debt securities not listed on an active market and measured using approaches that mainly employ unobservable inputs;
- debt securities whose fair value is equal to the prices provided by brokers/market makers determined with a valuation model based on unobservable inputs;
- equity securities and issued financial liabilities for which there are no prices quoted on active markets at the valuation date and which are mainly valued using techniques based on unobservable market data;
- OTC financial derivatives entered into with institutional counterparties and measured using pricing models similar to those used for Level 2 valuations but from which they differ in the degree of observability of the inputs used in the pricing techniques;
- financial derivatives entered into with customers for which the fair value adjustment taking account of default risk is significant with respect to the total value of the financial instrument;

- units of CIUs whose prices are provided by the issuing entity (the so-called “soft NAV”) or whose fair value is adjusted using pricing models not based entirely on observable market 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.

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

	30/06/2023			31/12/2022		
	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	456,356	989,893	352,702	335,378	1,057,325	283,118
a) financial assets held for trading	94,550	356,651	772	26,022	227,989	482
b) financial assets designated as at fair value	310,300	-	1,391	249,872	-	1,519
c) other financial assets mandatorily measured at fair value	51,506	633,242	350,539	59,483	829,336	281,116
2. Financial assets measured at fair value through comprehensive income	7,743,092	435,064	71,732	7,794,642	445,992	67,962
3. Hedging derivatives	288	1,648,870	-	788	1,891,034	-
4. Property, plant and equipment	-	-	393,965	-	-	404,527
5. Intangible assets	-	-	-	-	-	-
Total	8,199,737	3,073,826	818,399	8,130,809	3,394,351	755,606
1. Financial liabilities held for trading	9,210	341,292	-	5,093	231,389	-
2. Financial liabilities designated as at fair value	-	-	-	-	-	-
3. Hedging derivatives	204	233,726	-	159	350,078	-
Total	9,414	575,018	-	5,252	581,467	-

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 30/06/2023	Total 31/12/2022
a) Cash		703,966	739,346
b) Current accounts and demand deposits with central banks		604,026	144,164
c) Current accounts and demand deposits with banks		255,774	306,398
	Total	**1,563,766**	**1,189,908**

The item “Demand deposits with central banks”, an increase compared with the end of the previous year, includes deposits with the Bank of Italy, including €500 million attributable to overnight deposits, €12 million attributable to the Guarantee Scheme operated by Parent Company and €92 million connected with the instant payments service.

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 30/06/2023			Total 31/12/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**92,110**	**6,433**	**14**	**21,986**	**70**	**196**
1.1 structured securities	4,517	1	10	3,556	-	10
1.2 other debt securities	87,593	6,432	4	18,430	70	186
2. Equity securities	**756**	**10**	**-**	**2,435**	**-**	**-**
3. Units in collective investment undertakings	**152**	**1,076**	**125**	**705**	**505**	**127**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	**93,018**	**7,519**	**139**	**25,126**	**575**	**323**
B. Derivatives						
1. Financial derivatives	**1,532**	**349,132**	**633**	**896**	**227,414**	**159**
1.1 trading	1,532	349,132	633	896	227,414	159
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)	**1,532**	**349,132**	**633**	**897**	**227,414**	**159**
Total (A+B)	**94,550**	**356,651**	**772**	**26,022**	**227,989**	**482**

The sub-item A.1 – 1.2 “other debt securities” mainly includes government securities held for trading in the amount of about €75 million, an increase of €61 million compared with the end of the previous year.

The sub-item B.1 – 1.1 reports the market value of the derivatives originated by Group operations, in the amount of €351 million, which increased on the end of the previous year.

2.3 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/06/2023			Total 31/12/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**310,300**	**-**	**-**	**249,872**	**-**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	310,300	-	-	249,872	-	-
2. Loans	**-**	**-**	**1,391**	**-**	**-**	**1,519**
2.1 structured	-	-	-	-	-	-
2.2 other	-	-	1,391	-	-	1,519
Total	**310,300**	**-**	**1,391**	**249,872**	**-**	**1,519**

The item 1.2 “other debt securities”, up by about €60 million compared with the end of the previous year, reports the balance for securities in which the liquidity from the Guarantee Scheme operated by Parent Company is invested.

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

	Total 30/06/2023			Total 31/12/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**2,005**	**39,097**	**6,580**	**26,581**	**38,915**	**6,699**
1.1 structured securities	1,062	7,295	2,072	6,774	7,428	2,031
1.2 other debt securities	943	31,802	4,508	19,807	31,487	4,668
2. Equity securities	**42,551**	**26,302**	**9,546**	**21,468**	**24,061**	**9,790**
3. Units in collective investment undertakings	**6,950**	**84,945**	**299,261**	**9,432**	**93,839**	**223,519**
4. Loans	**-**	**482,898**	**35,152**	**2,003**	**672,521**	**41,108**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	482,898	35,152	2,003	672,521	41,108
Total	**51,506**	**633,242**	**350,539**	**59,484**	**829,336**	**281,116**

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).

In particular, “Units in collective investment undertakings” showed an increase of about €64 million compared with the end of the previous year, primarily reflecting the assignment of non-performing loans during the period to an alternative investment fund.

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 €378 million (down by €191 million compared with the end of 2022 following disinvestments to direct resources to forms of lending with greater returns) and interest-bearing postal bonds of around €82 million, broadly unchanged on the end of 2022.

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 30/06/2023			Total 31/12/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**7,718,484**	**26,576**	**20**	**7,772,098**	**39,427**	**33**
1.1 structured securities	207,300	323	-	125,518	4,116	-
1.2 other debt securities	7,511,184	26,253	20	7,646,580	35,311	33
2. Equity securities	**24,608**	**408,488**	**71,712**	**22,544**	**406,565**	**67,929**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	7,743,092	435,064	71,732	7,794,642	445,992	67,962

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 €375 million, unchanged from December 31, 2022. 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				
		Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Purchased or originated credit-impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired	Total partial writeoffs *
Debt securities		7,626,501	7,606,388	124,172	20	-	(1,639)	(3,974)	-	-	-
Loans		-	-	-	-	-	-	-	-	-	-
Total	30/06/2023	7,626,501	7,606,388	124,172	20	-	(1,639)	(3,974)	-	-	-
Total	31/12/2022	7,681,808	7,645,574	139,985	33	-	(1,941)	(8,327)	-	-	-

* 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 30/06/2023						Total 31/12/2022					
	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	**583,064**	**-**	**-**	**-**	**-**	**583,064**	**589,471**	**-**	**-**	**-**	**-**	**589,472**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	583,054	-	-	X	X	X	589,459	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	10	-	-	X	X	X	12	-	-	X	X	X
B. Due from banks	**2,238,456**	**8**	**-**	**1,113,732**	**127,007**	**937,892**	**2,101,780**	**36**	**-**	**903,406**	**193,808**	**866,993**
1. Financing	952,115	8	-	96,600	16,850	838,403	967,494	36	-	-	51,922	832,482
1.1 Current accounts and demand deposits	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Fixed-term deposits	110,098	-	-	X	X	X	94,909	-	-	X	X	X
1.3. Other financing:	842,017	8	-	X	X	X	872,585	36	-	X	X	X
- Repurchase agreements	100,916	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	283	-	-	X	X	X	256	-	-	X	X	X
- Other	740,818	8	-	X	X	X	872,329	36	-	X	X	X
2. Debts securities	1,286,341	-	-	1,017,132	110,428	99,579	1,134,286	-	-	903,406	141,886	34,511
2.1 Structured securities	265,811	-	-	250,587	3,557	-	204,433	-	-	186,388	3,598	-
2.2 Other debt securities	1,020,530	-	-	766,545	106,871	99,579	929,853	-	-	717,018	138,288	34,511
Total	**2,821,520**	**8**	**-**	**1,113,732**	**127,007**	**1,521,046**	**2,691,251**	**36**	**-**	**903,406**	**193,808**	**1,456,465**

“Claims on central banks” total €0.6 billion (substantially unchanged compared with the end of the previous year) and include the balance of the Group banks’ reserve requirement managed on behalf of the mutual banks by the Parent Company.

The sub-item “debt securities” comes to €1.3 billion, slightly up from the end of the previous year, and is attributable to bank bonds held by the Group.

4.2 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN BY PRODUCT OF LOANS AND RECEIVABLES WITH CUSTOMERS

	Total 30/06/2023						Total 31/12/2022					
	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	**88,313,315**	**1,285,672**	**5,065**	**-**	**277,269**	**91,765,195**	**89,503,163**	**1,359,113**	**6,275**	**-**	**374,094**	**92,652,517**
1.1. Current accounts	6,409,434	144,705	-	X	X	X	6,196,570	140,974	-	X	X	X
1.2. Repurchase agreements	163,147	-	-	X	X	X	778,722	-	-	X	X	X
1.3. Medium/long term loans	68,596,469	1,025,736	3,845	X	X	X	68,820,820	1,064,835	4,483	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from wage	2,164,950	16,399	-	X	X	X	2,131,577	18,351	-	X	X	X
1.5. Finance leases	3,604,153	60,590	-	X	X	X	3,675,801	91,373	-	X	X	X
1.6. Factoring	498,351	6,688	-	X	X	X	638,789	9,301	-	X	X	X
1.7. Other loans	6,876,812	31,554	1,220	X	X	X	7,260,884	34,279	1,792	X	X	X
2. Debt securities	**53,729,767**	**641**	**-**	**49,978,120**	**215,892**	**1,362,279**	**56,894,942**	**157**	**-**	**52,008,919**	**235,926**	**1,502,579**
2.1. Structured securities	436,731	44	-	465,547	44,406	89,852	398,422	44	-	400,981	44,790	98,574
2.2. Other debt securities	53,293,036	597	-	49,512,573	171,486	1,272,427	56,496,520	112	-	51,607,939	191,136	1,404,006
Total	**142,043,082**	**1,286,313**	**5,065**	**49,978,120**	**493,160**	**93,127,474**	**146,398,105**	**1,359,270**	**6,275**	**52,008,919**	**610,019**	**94,155,097**

Loans to customers classified here came to €143.3 billion, down €4.4 billion on the previous year.

The balance of “loans” declined by €1.3 billion on the end of 2022. The item “Repurchase agreements” came to €0.2 billion and mainly reports amounts connected with transactions with the Clearing & Guarantee Fund, down from €0.8 billion at the end of 2022. Medium/long-term loans, amounting to €69.6 billion, are mainly granted to households and non-financial companies and decreased by about €0.3 billion on the end of 2022. “Other loans” also decreased by €0.4 billion on the end of the previous year.

"Debt securities” classified here came to €53.7 billion, down €3.2 billion on the end of the previous year, and include €51.6 billion of government securities.

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

		Gross amount					Total writeoffs				Total and partial writeoffs *
		Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	purchased or originated credit-impaired	Stage 1	Stage 2	Stage 3	purchased or originated credit-impaired	
Debts securities		54,574,791	54,212,273	543,369	1,877	-	(11,818)	(90,234)	(1,236)	-	-
Loans		83,833,384	942,044	6,945,817	4,182,745	12,883	(482,204)	(448,504)	(2,897,064)	(7,818)	(413,147)
Total	**30/06/2023**	**138,408,175**	**55,154,317**	**7,489,186**	**4,184,622**	**12,883**	**(494,022)**	**(538,738)**	**(2,898,300)**	**(7,818)**	**(413,147)**
Total	**31/12/2022**	**141,746,148**	**56,667,285**	**8,440,679**	**4,220,991**	**14,143**	**(511,947)**	**(585,524)**	**(2,861,685)**	**(7,868)**	**(479,567)**

* Value to be reported for information purposes

4.4A LOANS MEASURED AT AMORTIZED COST INVOLVED IN COVID-19 SUPPORT MEASURES: GROSS AMOUNT AND TOTAL WRITEOFFS

		Gross amount					Total writeoffs				Total and partial writeoffs *
		Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	purchased or originated credit-impaired	Stage 1	Stage 2	Stage 3	purchased or originated credit-impaired	
New loans		7,016,567	-	747,940	216,602	-	(15,972)	(21,403)	(95,250)	-	(543)
Total	**30/06/2023**	**7,016,567**	**-**	**747,940**	**216,602**	**-**	**(15,972)**	**(21,403)**	**(95,250)**	**-**	**(543)**
Total	**31/12/2022**	**7,838,247**	**-**	**812,892**	**247,363**	**-**	**(19,036)**	**(33,718)**	**(119,961)**	**-**	**(7,361)**

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

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

	FV 30/06/2023			NV 30/06/2023	FV 31/12/2022			NV 31/12/2022
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair value	288	1,648,870	-	14,017,448	788	1,886,805	-	13,782,102
2. Cash flows	-	-	-	-	-	4,229	-	40,000
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**288**	**1,648,870**	**-**	**14,017,448**	**788**	**1,891,034**	**-**	**13,822,102**

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 30/06/2023	Total 31/12/2022
1. Positive adjustments	**1,299**	**895**
1.1 of specific portfolios:	1,299	895
a) financial assets measured at amortized cost	1,299	895
b) financial assets measured at fair value through comprehensive income	-	-
1.2 comprehensive	-	-
2. Negative adjustments	**(811,839)**	**(876,122)**
2.1 of specific portfolios:	(811,839)	(876,122)
a) financial assets measured at amortized cost	(810,788)	(875,021)
b) financial assets measured at fair value through comprehensive income	(1,050)	(1,101)
2.2 comprehensive	-	-
Total	**(810,540)**	**(875,227)**

The item refers to the negative value adjustment of macro-hedged assets and is correlated with the positive fair value of macro-hedging derivatives shown in Table 5.1 - Hedging derivatives.

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						
BCC Vita S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	30.0%	30.0%
BCC Assicurazioni S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	30.0%	30.0%
Pitagora S.p.A.	Turin	Turin	Significant influence	Iccrea Banca S.p.A.	9.9%	9.9%
Pay Holding S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	40.0%	40.0%
Vorvel SIM S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	20.0%	20.0%
Polo Verde S.r.l.	Cremona	Cremona	Significant influence	Credito Padano Banca di Credito Cooperativo S.C.	25.0%	25.0%
Foro Annonario Gest S.r.l.	Cesena	Cesena	Significant influence	Credito Cooperativo Romagnolo BCC di Cesena e Gatteo S.C.	25.0%	25.0%
Solaria S.r.l.	Grosseto	Grosseto	Significant influence	Banca TEMA - Terre Etrusche di Valdichiana e di Maremma S.C.	40.0%	40.0%
HBenchmark S.r.l.	Altavilla Vicentina	Altavilla Vicentina	Significant influence	Iccrea Banca S.p.A.	10.0%	10.0%
BDP Assicura S.r.l.	Calcinaia	Calcinaia	Significant influence	BCC Pisa e Fornacette	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			
BCC Vita S.p.A.	-	-	-
BCC Assicurazioni S.p.A.	6,250	-	-
Pitagora S.p.A.	11,092	-	189
Pay Holding S.p.A.	188,104	-	

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 30/06/2023	Total 31/12/2022
1. Owned assets	**1,689,012**	**1,712,944**
a) land	308,751	308,878
b) buildings	1,157,821	1,174,881
c) movables	56,604	57,686
d) electronic systems	82,493	90,428
e) other	83,343	81,071
2. Assets acquired under finance leases	**245,522**	**235,888**
a) land	1,838	1,845
b) buildings	225,164	212,428
c) movables	1,107	1,636
d) electronic systems	12,890	15,767
e) other	4,523	4,212
Total	**1,934,534**	**1,948,832**
of which: obtained through enforcement of guarantees received	1,248	1,254

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 30/06/2023				Total 31/12/2022			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level3		Level 1	Level 2	Level3
1. Owned assets	**142,699**	**-**	**1,377**	**152,766**	**144,909**	**-**	**1,361**	**147,887**
a) land	28,428	-	413	28,178	28,381	-	408	26,873
b) buildings	114,271	-	964	124,588	116,528	-	953	121,014
2. Right-of-use assets acquired under leases	**7,324**	**-**	**-**	**7,324**	**7,324**	**-**	**-**	**7,324**
a) land	-	-	-	-	-	-	-	-
b) buildings	7,324	-	-	7,324	7,324	-	-	7,324
Total	**150,023**	**-**	**1,377**	**160,090**	**152,233**	**-**	**1,361**	**155,211**
of which: obtained through enforcement of guarantees received	36,056	-	-	34,377	37,580	-	-	37,764

9.4 INVESTMENT PROPERTY: COMPOSITION OF ASSETS AT FAIR VALUE

	Total 30/06/2023			Total 31/12/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Owned assets	**-**	**-**	**393,965**	**-**	**-**	**404,527**
a) land	-	-	-	-	-	907
b) buildings	-	-	393,965	-	-	403,620
2. Right-of-use assets acquired under leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**-**	**393,965**	**-**	**-**	**404,527**
of which: obtained through enforcement of guarantees received	-	-	-	-	-	-

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

		Total 30/06/2023	Total 31/12/2022
1. Inventories of property, plant and equipment obtained through enforcement of guarantees received		**32,946**	**35,447**
a) land		14,640	15,114
b) buildings		13,623	15,778
c) movables		-	-
d) electronic systems		-	-
e) other		4,683	4,555
2. Other inventories of property, plant and equipment		**14,751**	**15,385**
	Total	47,697	50,832
of which: measured at fair value net of selling costs		-	-

SECTION 10 – INTANGIBLE ASSETS – ITEM 100

10.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 30/06/2023		Total 31/12/2022	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**19,689**	**X**	**19,689**
A.1.1 pertaining to the Group	X	19,689	X	19,689
A.1.2 pertaining to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**137,705**	**5**	**147,865**	**5**
of which software	122,462	-	131,538	-
A.2.1 Assets carried at cost	137,705	5	147,865	5
a) internally generated intangible assets	5,641	-	5,641	-
b) other assets	132,064	5	142,224	5
A.2.2 Assets designated at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	137,705	19,694	147,865	19,694

Item A.1.1 includes goodwill paid in the acquisition of bank branches by the Group banks (€4.1 million) and goodwill recognized upon first-time consolidation of certain controlling interests (€15.6 million) prior to the formation of the Mutual Banking Group.

Intangible assets mainly comprise software and licenses.

10.3 OTHER INFORMATION

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.[40]

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, 2022, 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, 2023.

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, 2022;
- 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, 2023 and the expected profit forecasts in the 2023 budget for investee companies undergoing assessment.

The analysis performed found no evidence of impairment for the assets involved.

[40] In the financial statements at December 31, 2022, 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 (€5.6 million gross of impairment of €15 million recognized at the end of the year) 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

	30/06/2023		Total	31/12/2022		Total
	IRES	IRAP		IRES	IRAP	
1) Recognized in income statement:	**974,972**	**108,830**	**1,083,802**	**1,063,555**	**124,225**	**1,187,780**
a) DTAs pursuant to Law 214/2011	**707,875**	**75,086**	**782,961**	**785,175**	**88,126**	**873,302**
Writedowns of loans to customers	644,650	74,081	718,731	769,447	88,022	857,469
Goodwill and other intangible assets at December 31, 2014	290	52	342	315	57	372
Tax losses/negative value of production pursuant to Law 214/2011	62,935	953	63,888	15,413	48	15,461
b) Other	**267,097**	**33,744**	**300,841**	**278,380**	**36,098**	**314,478**
Writedowns of amounts due from banks	1,730	-	1,730	1,436	-	1,436
Writedowns of loans to customers	32,123	11,251	43,374	37,337	12,853	50,190
Goodwill and other intangible assets	4,182	837	5,019	4,498	895	5,393
Tax losses	24,260	-	24,260	22,030	-	22,030
Writedowns of financial instruments	434	298	732	470	329	800
Writedowns from impairment of guarantees issued recognized under liabilities	57,414	18	57,432	56,922	20	56,942
Provisions for risks and charges	88,480	11,075	99,555	87,334	11,023	98,357
Costs of predominantly administrative nature	1,942	24	1,966	2,161	6	2,167
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	30,755	5,111	35,866	30,803	5,118	35,921
Other	25,777	5,130	30,907	35,389	5,853	41,242
2) Recognized in shareholders' equity:	**115,210**	**22,572**	**137,783**	**149,896**	**29,488**	**179,384**
a) Valuation reserves	**95,277**	**18,772**	**114,049**	**121,491**	**24,025**	**145,516**
Capital losses on financial assets measured through OCI	95,277	18,772	114,049	121,491	24,025	145,516
b) Other:	**19,934**	**3,800**	**23,734**	**28,405**	**5,463**	**33,868**
Actuarial gains/losses on provisions for employees	357	-	357	1,042	101	1,143
Other	19,577	3,800	23,377	27,363	5,362	32,725
A. Total deferred tax assets	**1,090,183**	**131,402**	**1,221,585**	**1,213,451**	**153,713**	**1,367,164**
B. Offsetting with deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets - Total item 110 b)	**1,090,183**	**131,402**	**1,221,585**	**1,213,451**	**153,713**	**1,367,164**

The DTAs referred to in Law 214/2011, equal to a total of almost €783 million, declined compared with the end of the previous year and 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.

DTAs recognized in the income statement other than those referred to in Law 214/2011 amount to a total €301 million. Among these, the sub-item "Provisions for risks and charges", which amounts to €99 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 €43 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 were deducted in tenths.

The decrease in deferred tax assets recognized in equity (€42 million) is mainly attributable to the reversal of the sign of the comprehensive income on securities measured at fair value through other comprehensive income compared with the end of the previous year.

11.2 DEFERRED TAX LIABILITIES: COMPOSITION

	30/06/2023		Total	31/12/2022		Total
	IRES	IRAP		IRES	IRAP	
1) Deferred tax liabilities recognized in income statement	**4,612**	**373**	**4,985**	**11,451**	**386**	**11,837**
Writedowns of loans to customers deducted in tax return	-	-	-	-	-	-
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	1,362	250	1,612	1,381	255	1,636
Other	3,250	123	3,373	10,070	131	10,201
2) Deferred tax liabilities recognized in shareholders' equity	**12,437**	**2,427**	**14,864**	**9,523**	**1,837**	**11,361**
Valuation reserves						
Capital gains on financial assets measured through OCI	11,045	2,200	13,245	4,765	955	5,721
Revaluation of property	500	86	586	500	86	586
Other	892	141	1,033	4,258	796	5,054
A. Total deferred tax liabilities	**17,049**	**2,800**	**19,849**	**20,974**	**2,223**	**23,197**
B. Offsetting with deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax liabilities	**17,049**	**2,800**	**19,849**	**20,974**	**2,223**	**23,197**

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

		30/06/2023	31/12/2022
A. Assets held for sale			
A.1 Financial assets		14,182	146,986
A.2 Equity investments		-	-
A.3 Property, plant and equipment		11,112	12,305
of which obtained through enforcement of guarantees received		8,115	7,844
A.4 Intangible assets		-	-
A.5 Other non-current assets		-	-
	Total A	**25,294**	**159,293**
	of which carried at cost	23,669	157,667
	of which measured at fair value level 1	-	-
	of which measured at fair value level 2	1,624	1,624
	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		-	2
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	**-**	**2**
	of which carried at cost	-	2
	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		-	247,836
D.2 Financial liabilities held for trading		-	-
D.3 Financial liabilities designated as at fair value		-	-
D.4 Provisions		-	-
D.5 Other liabilities		-	60
	Total D	**-**	**247,896**

At June 30, 2023 the Group reports the impaired loans involved in an assignment carried out as part of de-risking operations by a Group companies completed in the third quarter of the year as non-current assets held for sale under item A.1 Financial assets. The period also saw the completion of an assignment of bad debts and unlikely-to-pay positions that had been classified as held for sale at the end of the previous year.

SECTION 13 - OTHER ASSETS – ITEM 130

13.1 OTHER ASSETS: COMPOSITION

	Total 30/06/2023	Total 31/12/2022
- Shortfalls, embezzlement and robberies	1,294	1,214
- Trade receivables	51,561	52,547
- Stamp duty and other valuables	1,025	987
- Gold, silver and other precious metals	1,971	2,086
- Receivables for future premiums on derivatives	8,498	7,474
- Fees and commissions and interest to be received	32,395	26,356
- Tax receivables due from central govt. tax authorities and other tax agencies	403,057	431,133
- Receivables from social security institutions	1,128	5,681
- Tax receivables	3,508,334	3,150,324
- Receivables from employees	3,658	3,486
- Non-recurring transactions (acquisitions)	12,115	15,734
- Items in transit between branches and items being processed	613,208	478,256
- Financial liabilities in respect of loans granted for a specific transaction	10,404	8,217
- Accrued income not attributable to separate line item	11,749	7,127
- Prepaid expenses not attributable to separate line item	122,242	43,958
- Leasehold improvements	41,614	39,377
- Other (security deposits, assets not attributable to other items)	210,271	261,917
- Balance of illiquid portfolio items	1,796	931,798
- Consolidation adjustments	97,501	576,819
Total	5,133,821	6,044,491

The item declined by a total of €911 million compared with the end of the previous year, mainly reflecting the decrease in illiquid portfolio items and consolidation adjustments, partly offset by an increase in tax credits.

More specifically, “Tax receivables” reports tax credits connected with the Revival Decree acquired by Group banks following assignment by the direct beneficiaries (the so-called Superbonus 110% program) in the amount of €3.5 billion, an increase on the end of the previous year as a result of new acquisitions during the period.

The item “Balance of illiquid portfolio items” includes differences between the value dates applied in the various accounts, which are generated during the accounting elimination of the items in respect of the crediting and debiting of portfolios under reserve and after collection, whose settlement date is after the reporting date.

“Items in transit between branches and items being processed” reports assets that for technical/procedural reasons will be allocated definitively in the early days of the subsequent period, such as checks, incoming bank transfers pending or items in transit between banks.

LIABILITIES

SECTION 1 - FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST – ITEM 10

1.1 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST – DUE TO BANKS: COMPOSITION BY TYPE

	Total 30/06/2023				Total 31/12/2022			
	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	**20,578,925**	X	X	X	**26,290,563**	X	X	X
2. Due to banks	**2,446,059**	X	X	X	**2,227,683**	X	X	X
2.1 Current accounts and demand deposits	1,653,141	X	X	X	1,779,347	X	X	X
2.2 Fixed term deposits	52,030	X	X	X	54,828	X	X	X
2.3 Loans	570,411	X	X	X	133,727	X	X	X
2.3.1 Repurchase agreements	506,116	X	X	X	74,767	X	X	X
2.3.2 Other	64,295	X	X	X	58,960	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	2,876	X	X	X	3,327	X	X	X
2.6 Other payables	167,601	X	X	X	256,454	X	X	X
Total	**23,024,984**	**-**	**21,424,296**	**1,938,045**	**28,518,246**	**-**	**26,101,194**	**2,140,195**

"Due to central banks" mainly represents financing from the ECB (TLTROs) maturing between March and December 2024. The decrease of €5.7 billion over the previous year is attributable to deleveraging measures undertaken during the period (partial repayment of TLTRO funding).

The increase in the item "Due to banks" mainly reflects an increase in repo transactions entered into by Group banks (+€0.4 billion).

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

	Total 30/06/2023				Total 31/12/2022			
	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	99,902,198	X	X	X	106,490,448	X	X	X
2. Fixed-term deposits	4,351,460	X	X	X	3,676,065	X	X	X
3. Loans	10,507,375	X	X	X	7,713,433	X	X	X
3.1 Repurchase agreements	9,210,714	X	X	X	6,413,024	X	X	X
3.2 Other	1,296,661	X	X	X	1,300,409	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	247,167	X	X	X	237,528	X	X	X
6. Other payables	914,388	X	X	X	998,273	X	X	X
Total	**115,922,588**	**-**	**8,600,080**	**106,658,453**	**119,115,747**	**1,688**	**5,588,591**	**113,383,202**

Amounts due to customers decreased by €3.2 billion compared with December 2022, mainly reflecting the net decrease in balances on current accounts and demand deposits (-€6.6 billion), partly offset by the increase in repurchase transactions with the Clearing and Guarantee Fund (+€2.8 billion), in funding represented by fixed-term deposits (+€0.7 billion).

The sub-item "Loans-other" comprises €0.6 billion in respect of a loan from Cassa Depositi e Prestiti.

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

	Total 30/06/2023				Total 31/12/2022			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	5,666,874	3,553,531	1,860,998	3,918	5,433,875	3,166,482	1,926,368	-
1.1 structured	4,630	-	242	-	4,835	-	564	-
1.2 other	5,662,244	3,553,531	1,860,756	3,918	5,429,040	3,166,482	1,925,804	-
2. Other securities	4,671,394	-	4,328,200	219,977	3,761,707	-	3,266,389	388,150
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	4,671,394	-	4,328,200	219,977	3,761,707	-	3,266,389	388,150
Total	**10,338,268**	**3,553,531**	**6,189,197**	**223,176**	**9,195,582**	**3,166,482**	**5,192,757**	**388,150**

Securities increased by an overall €1.1 billion compared with the end of 2022, mainly reflecting the issue of new certificates of deposit by Group banks (+€0.9 billion).

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/06/2023					Total 31/12/2022				
	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	8,150	6,869	-	-	6,869	3,318	3,334	-	-	3,334
2. Due to customers	2,291	1,790	100	-	1,889	1,933	1,602	-	-	1,602
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	**10,441**	**8,659**	**100**	**-**	**8,759**	**5,251**	**4,936**	**-**	**-**	**4,936**
B. Derivatives										
1. Financial derivatives	X	551	341,193	-	X	X	156	231,389	-	X
1.1 Trading	X	551	341,193	-	X	X	156	231,389	-	X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	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**	**551**	**341,193**	**-**	**X**	**X**	**156**	**231,389**	**-**	**X**
Total (A+B)	**X**	**9,210**	**341,292**	**-**	**X**	**X**	**5,093**	**231,389**	**-**	**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 B.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

At the reporting date the Group did not hold any financial liabilities designated as at fair value.

SECTION 4 - HEDGING DERIVATIVES – ITEM 40

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

	Fair value 30/06/2023			NV	Fair value 31/12/2022			NV
	L1	L2	L3	30/06/2023	L1	L2	L3	31/12/2022
A) Financial derivatives	**204**	**233,726**	**-**	**6,541,821**	**159**	**350,078**	**-**	**5,999,649**
1) Fair value	204	130,117	-	3,008,021	159	176,138	-	2,165,155
2) Cash flows	-	103,609	-	3,533,800	-	173,940	-	3,834,494
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	204	233,726	-	6,541,821	159	350,078	-	5,999,649

Key:
NV=Notional value
L1=Level 1
L2= Level 2
L3= Level 3

Item A. 1) includes the negative fair value of derivatives hedging securities against inflation.

SECTION 5 - VALUE ADJUSTMENTS OF GENERICALLY HEDGED LIABILITIES - ITEM 50

5.1 VALUE ADJUSTMENTS OF HEDGED FINANCIAL LIABILITIES

	Total 30/06/2023	Total 31/12/2022
1. Positive adjustment of financial liabilities	-	-
2. Negative adjustment of financial liabilities	761	821
Total	761	821

SECTION 6 – TAX LIABILITIES – ITEM 60

See section 11 under assets.

SECTION 8 - OTHER LIABILITIES – ITEM 80

8.1 OTHER LIABILITIES: COMPOSITION

	Total 30/06/2023	Total 31/12/2022
Amounts due to social security institutions and State	50,661	113,983
Trade payables	215,972	189,767
Securities to be settled	20	2
Amounts available to customers	160,223	995,680
Liabilities for future premiums on derivatives	1,977	9,630
Tax payables due to tax authorities	809,687	489,665
Payables due to employees	329,063	178,898
Financial liabilities in respect of loans granted for a specific transaction	10,386	8,217
Guarantees issued and credit derivatives	-	3,822
Accrued expenses not attributable to separate line item	23,603	12,405
Deferred income not attributable to separate line item	21,573	16,819
Items in transit and items being processed	260,725	753,418
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)	371,705	392,231
Balance of illiquid portfolio items	2,659,551	851
Dividends to be paid	58	83
Total	**4,915,205**	**3,165,471**

The item “Items in transit and items being processed” includes liabilities that for technical or procedural reasons will be settled in the subsequent period, such as pending outward credit transfers or items in transit between banks.

The item “Tax payables due to tax authorities” reports amounts owed by the Group to these entities other than income taxes. This includes, in addition to amounts in respect of tax returns paid by mutual bank customers and withholdings made by the banks on customer transactions, tax payables accrued by the Group companies in respect of their indirect taxes, such as, for example, stamp duty, tax in lieu, tax on stock exchange contracts, VAT, local taxes, etc.

The item “Balance of illiquid portfolio items” includes differences the value dates applied in the various accounts, which are generated during the accounting elimination of the items in respect of the crediting and debiting of portfolios under reserve and after collection, whose settlement date is after the reporting date.

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	Total 30/06/2023	Total 31/12/2022
A. Opening balance	**225,719**	**277,528**
B. Increases	**8,619**	**10,003**
B.1 Provisions for the period	4,833	4,414
B.2 Other increases	3,786	5,589
C. Decreases	**14,591**	**61,812**
C.1 Benefit payments	9,155	17,836
C.2 Other decreases	5,436	43,976
D. Closing balance	**219,747**	**225,719**
Total	**219,747**	**225,719**

The table reports changes in the provision for termination benefits under the Italian severance pay mechanism (*trattamento di fine rapporto*, TFR). It does not report payments to external pension funds and the INPS treasury fund, which are presented in Section 8 “Other liabilities”.

The sub-item C.1 “Decreases – Benefit payments” reports uses of the termination benefit provision associated with advances granted in accordance with applicable regulations and national collective bargaining agreements and with terminations of the employment relationship.

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	Total 30/06/2023	Total 31/12/2022
1. Provisions for credit risk in respect of commitments and financial guarantees issued	299,664	298,309
2. Provisions for other commitments and guarantees issued	-	-
3. Company pension plans	-	-
4. Other provisions for risks and charges	262,388	243,755
4.1 legal disputes	79,082	88,829
4.2 personnel expense	64,235	72,185
4.3 other	119,071	82,741
Total	**562,052**	**542,064**

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 sub-item 4.3 “Other” includes, among other things, provisions for charity recognized during the allocation of profit for the previous year, which essentially accounted for the change with respect to the end of the previous year.

SECTION 13 - SHAREHOLDERS' EQUITY - ITEMS 120, 130, 140, 150, 160, 170 AND 180

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

As described in Part A Accounting Policies, Section 3 – Scope and methods of consolidation, pursuant to Law 145 of December 30, 2018 ("2019 Budget Act") the Parent Company, Iccrea Banca S.p.A., and the affiliated mutual banks under the Cohesion Contract represent a single consolidating entity. In the Group's shareholders' equity, share capital is therefore represented by the share capital of the Parent Company and that of the mutual banks. The intercompany portion, represented by shares of the Parent Company held by the mutual banks belonging to the Group under the provisions of the Cohesion Contract, is reported under treasury shares, as the shares were issued and subscribed by the single consolidating entity.

Share capital is 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 €1,009,918,513 (€892,118,635 net of shares issued pursuant to Article 150-ter by nine 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 (-)	(24,193,784)	-
A.2 Shares in circulation: opening balance	**2,931,975**	-
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	**(2,245,921)**	-
C.1 Cancellation	-	-
C.2 Purchase of own shares	(2,245,921)	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**686,054**	-
D.1 Treasury shares(+)	26,439,705	-
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 €2,293,164,062 is represented only by ordinary shares (subscribed share capital, fully paid up.

13.4 EARNINGS RESERVES: OTHER INFORMATION

Group reserves amount to a total €10.9 billion.

In particular, earning reserves amount to €10.9 billion and include, among the largest, the legal reserve in the amount of €12 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.

SECTION 14 - NON-CONTROLLING INTERESTS – ITEM 190

14.1 BREAKDOWN OF ITEM 190 "NON-CONTROLLING INTERESTS"

	30/06/2023	31/12/2022
Equity investments in consolidated companies with significant non-controlling interests		
Coopersystem Società Cooperativa	-	31,586
Other investments	905	915
Total	**905**	**32,501**

NON-CONTROLLING INTERESTS: COMPOSITION

	30/06/2023	31/12/2022
1. Share capital	992	3,580
2. Share premium reserve	3	3
3. Reserves	(1,319)	19,860
4. Treasury shares	-	-
5. Valuation reserves	1	1
6. Equity instruments	-	-
7. Gain (loss) pertaining to non-controlling interests	1,228	9,057
Total	**905**	**32,501**

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 30/06/2023	Total 30/06/2022
1. Financial assets measured at fair value through profit or loss	**6,292**	**2,117**	**-**	**8,409**	**6,552**
1.1 Financial assets held for trading	784	-	-	784	336
1.2 Financial assets designated at fair value	1,686	24	-	1,710	1,003
1.3 Other financial assets mandatorily at fair value	3,822	2,092	-	5,914	5,213
2. Financial assets measured at fair value through other comprehensive income	**79,405**	**-**	**X**	**79,405**	**52,662**
3. Financial assets measured at amortized cost	**632,805**	**2,009,114**	**-**	**2,641,919**	**1,879,995**
3.1 Due from banks	18,350	63,917	X	82,268	12,290
3.2 Loans to customers	614,455	1,945,197	X	2,559,652	1,867,705
4. Hedging derivatives	**X**	**X**	**(13,005)**	**(13,005)**	**(315,116)**
5. Other assets	**X**	**X**	**89,431**	**89,431**	**38,291**
6. Financial liabilities	**X**	**X**	**X**	**3,421**	**196,472**
Total	718,503	2,011,231	76,426	2,809,580	1,858,856
of which: interest income on impaired financial assets	4	88,143	-	88,147	73,801
of which: interest income on finance leases	X	98,669	X	98,669	57,083

Interest on loans to customers include interest income in respect of loans to customers of €1.9 billion, up €846 million compared to the same period of the previous year, mainly reflecting the increase in variable rates.

Interest income on debt securities came to €719 million and mainly includes interest on securities issued by government entities. The amount represents a decrease of €116 million on June 30, 2022 mainly reflecting a decline in the performance of BTPi and a contraction in the stock of securities holdings.

“Hedging derivatives” include differences on hedging derivatives adjusting interest income on the hedged financial instruments, securities and loans. The decrease in the negative balance of the differences is associated with the decrease in interest income on the hedged instruments.

The amount reported under “Other assets” regards interest income on tax credits associated with government tax incentive programs established in 2020 in response to the COVID-19 pandemic (the “ecobonus” building renovation program), an increase on the previous year, partly reflecting an increase in volumes.

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 30/06/2023	Total 30/06/2022
1. Financial liabilities measured at amortized cost	**(735,560)**	**(113,441)**	**X**	**(849,001)**	**(160,073)**
1.1 Due to central banks	(315,858)	X	X	(315,858)	(752)
1.2 Due to banks	(34,684)	X	X	(34,684)	(4,210)
1.3 Due to customers	(385,017)	X	X	(385,017)	(74,304)
1.4 Securities issued	X	(113,441)	X	(113,441)	(80,806)
2. Financial liabilities held for trading	**(8)**	**-**	**-**	**(8)**	**(52)**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**(1)**
4. Other liabilities and provisions	**X**	**X**	**(1,458)**	**(1,458)**	**(720)**
5. Hedging derivatives	**X**	**X**	**(366)**	**(366)**	**1,168**
6. Financial assets	**X**	**X**	**X**	**(10,904)**	**(29,395)**
Total	(735,568)	(113,441)	(1,824)	(861,737)	(189,073)
of which: interest expense on finance leases	(4,747)	X	X	(4,747)	(4,695)

The increase of the item on the same period of the previous year came to about €673 million, mainly reflecting:

- an increase in interest on amounts due to central banks following the revision of the rates on the TLTRO loan, in the amount of about €315 million;
- an increase in interest expense on funding from customers of about €311 million (mainly reflecting the interest rate effect, while customer deposits decreased slightly overall).

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
a) Financial instruments	46,497	42,237
1. Securities placement	12,744	13,026
1.1 With underwriting and/or with irrevocable commitment	-	-
1.2 Without irrevocable commitment	12,744	13,026
2. Order receipt and transmission and order execution for customers	16,825	12,538
2.1 Order receipt and transmission for one or more financial instruments	15,637	11,037
2.2 Order execution for customers	1,188	1,501
3. Other fees and commissions connected with financial instruments	16,928	16,672
of which: trading on own account	385	405
of which: individual portfolio management	16,543	16,267
b) Corporate finance	11	572
1. Merger and acquisition advisory services	-	-
2. Treasury services	-	-
3. Other fees and commissions connected with corporate finance services	11	572
c) Investment advisory services	1,494	1,245
d) Clearing and settlement	-	-
e) Collective portfolio management	27,272	26,857
f) Custody and administration	4,002	3,432
1. Depository bank	-	-
2. Other fees and commissions connected with custody and administration services	4,002	3,432
g) Central administrative services for collective portfolio management	-	-
h) Trustee services	-	-
i) Payment services	518,165	487,119
1. Current accounts	276,392	267,674
2. Credit cards	30,353	1,530
3. Debit cards and other payment cards	27,734	119,622
4. Credit transfers and other payment orders	85,776	77,736
5. Other fees and commissions connected with payment services	97,910	20,557
j) Distribution of third-party services	138,030	131,647
1. Collective portfolio management	74	101
2. Insurance products	58,862	61,098
3. Other products	79,094	70,448
of which: individual portfolio management	2,907	2,448
k) Structured finance	-	-
l) Securitization servicing	616	756
m) Commitments to disburse funds	-	-
n) Financial guarantees issued	12,725	12,467
of which: credit derivatives	-	-
o) Lending transactions	6,984	7,889
of which: for factoring transactions	2,499	2,614
p) Currency trading	2,966	2,820
q) Goods	-	-
r) Other fee and commission income	39,012	38,511
of which: for management of multilateral trading facilities	-	-
of which: for management of organized trading facilities	-	-
Total	797,774	755,552

The composition of fee and commission income, totaling €798 million, an increase of about €42 million on June 30, 2022, reflects the operations of the Group's mutual banks, which are typically composed of customer current accounts (€276.4 million), other payment services (€242 million) and distribution of third-party products and services (€138 million, including insurance products for €58.9 million).

Fees and commissions concerning item e) collective portfolio management came to €27.3 million and regard asset management activities, which are exclusively performed by the Group asset management company. These were accompanied by management fees on individual portfolios of €16.5 million.

2.2 FEE AND COMMISSION EXPENSE: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
a) Financial instruments	(2,698)	(2,239)
of which: trading in financial instruments	(1,087)	(303)
of which: placement of financial instruments	(49)	(48)
of which: individual portfolio management	(1,562)	(1,888)
- Own	(1,452)	(1,647)
- Delegated to third parties	(110)	(242)
b) Clearing and settlement	(897)	(987)
c) Collection portfolio management	-	-
1. Own	-	-
2. Delegated to third parties	-	-
d) Custody and administration	(1,113)	(2,930)
e) Collection and payment services	(105,725)	(78,846)
of which: credit cards, debit cards and other payment cards	(92,986)	(72,352)
f) Securitization servicing	(1,133)	(850)
g) Commitments to receive funds	-	-
h) Financial guarantees received	(1,513)	(810)
of which: credit derivatives	-	-
i) Off-premises marketing of financial instruments, products and services	(1,422)	-
l) Currency trading	(227)	(327)
m) Other fee and commission expense	(11,434)	(9,630)
Total	**(126,162)**	**(96,620)**

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 30/06/2023		Total 30/06/2022	
	Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading	119	145	175	-
B. Other financial assets mandatorily measured at fair value	1,356	698	922	203
C. Financial assets measured at fair value through other comprehensive income	18,855	441	18,611	62
D. Equity investments	602	-	206	-
Total	**20,932**	**1,284**	**19,914**	**265**

The main components of this item include dividends received on the interest held in the Bank of Italy in the amount of €16.4 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 (D)	Net gain (loss) (A+B) – (C+D)
1. Financial assets held for trading	**305**	**13,204**	**(710)**	**(5,819)**	**6,980**
1.1 Debt securities	228	6,271	(517)	(1,328)	4,655
1.2 Equity securities	22	461	(144)	(69)	270
1.3 Units in collective investment undertakings	54	271	(49)	(2)	273
1.4 Loans	-	-	-	-	-
1.5 Other	-	6,202	-	(4,420)	1,781
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**	**34,447**
4. Derivatives	**68,948**	**182,918**	**(125,822)**	**(120,518)**	**(25,234)**
4.1 Financial derivatives:	68,948	182,918	(125,822)	(120,518)	(25,234)
- on debt securities and interest rates	67,599	182,918	(125,586)	(119,161)	5,769
- on equity securities and equity indices	1,349	-	(235)	(1,357)	(243)
- on foreign currencies and gold	X	X	X	X	(30,760)
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	**69,252**	**196,122**	**(126,532)**	**(126,337)**	**16,193**

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 30/06/2023	Total 30/06/2022
A. Gain on:		
A.1 Fair value hedges	86,767	1,978,504
A.2 Hedged financial assets (fair value)	183,447	12,178
A.3 Hedged financial liabilities (fair value)	1,116	4,370
A.4 Cash flow hedges	-	30
A.5 Assets and liabilities in foreign currencies	-	-
Total income on hedging activities (A)	**271,330**	**1,995,082**
B. Loss on:		
B.1 Fair value hedges	(195,166)	(37,554)
B.2 Hedged financial assets (fair value)	(74,448)	(1,946,514)
B.3 Hedged financial liabilities (fair value)	(253)	(60)
B.4 Cash flow hedges	(204)	(372)
B.5 Assets and liabilities in foreign currencies	-	-
Total expense on hedging activities (B)	**(270,071)**	**(1,984,500)**
C. Net gain (loss) on hedging activities (A - B)	**1,259**	**10,582**
of which: net gain (loss) of hedges of net positions	-	(1,157)

As indicated in Part A “Accounting policies” of these explanatory notes, 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 30/06/2023			Total 30/06/2022		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortized cost	80,597	(32,229)	48,368	191,598	(53,804)	137,795
1.1 Due from banks	301	(340)	(39)	740	(37)	703
1.2 Loans to customers	80,296	(31,889)	48,407	190,858	(53,766)	137,092
2. Financial assets measured at fair value through other comprehensive income	17,250	(26,428)	(9,179)	24,642	(21,673)	2,969
2.1 Debt securities	17,250	(26,428)	(9,179)	24,642	(21,673)	2,969
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**97,847**	**(58,657)**	**39,189**	**216,240**	**(75,477)**	**140,764**
Financial liabilities measured at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	100	-	100	-	-	-
3. Securities issued	435	(2)	433	368	(75)	292
Total liabilities (B)	**535**	**(2)**	**533**	**368**	**(75)**	**292**

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 €39.7 million and is mainly attributable to the disposal of debt securities measured at amortized cost and assets measured at FV through other comprehensive income (net €14.1 million, down from the same period of 2022) and the disposal of loans by banks of the Group (€25.1 million).

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	**893**	**1,243**	**(1,104)**	**(161)**	**871**
1.1 Debt securities	859	1,243	(1,073)	(161)	868
1.2 Loans	34	-	(31)	-	3
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**
2.1 Securities issued	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	893	1,243	(1,104)	(161)	871

The net gain for the item is almost entirely accounted for by 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	**14,742**	**6,399**	**(22,061)**	**(1,919)**	**(2,839)**
1.1 Debt securities	3,859	446	(1,786)	(173)	2,346
1.2 Equity securities	7,390	4,253	(2,276)	(1,174)	8,193
1.3 Units in collective investment undertakings	3,140	1,696	(12,647)	(562)	(8,373)
1.4 Loans	352	3	(5,352)	(9)	(5,006)
2. Financial assets: foreign exchange rate differences	**X**	**X**	**X**	**X**	**(36)**
Total	14,742	6,399	(22,061)	(1,919)	(2,875)

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)					
	Stage 1	Stage 2	Stage 3		Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired	Total 30/06/2023	Total 30/06/2022
			Writeoffs	Other	Writeoffs	Other						
A. Due from banks	**(1,950)**	**(690)**	**-**	**(28)**	**-**	**-**	**1,988**	**1,123**	**-**	**-**	**443**	**1,783**
- loans	(1,511)	(20)	-	(28)	-	-	718	97	-	-	(743)	1,557
- debt securities	(439)	(671)	-	-	-	-	1,270	1,026	-	-	1,186	226
B. Loans to customers	**(161,433)**	**(105,958)**	**(39,886)**	**(620,350)**	**-**	**(129)**	**213,142**	**115,530**	**399,130**	**965**	**(198,989)**	**(182,729)**
- loans	(160,381)	(97,066)	(39,886)	(620,350)	-	(129)	210,360	113,035	399,122	965	(194,329)	(178,843)
- debt securities	(1,052)	(8,892)	-	-	-	-	2,782	2,495	8	-	(4,659)	(3,887)
Total	**(163,384)**	**(106,648)**	**(39,886)**	**(620,378)**	**-**	**(129)**	**215,130**	**116,654**	**399,130**	**965**	**(198,546)**	**(180,946)**

The value adjustments reported in the "Stage 1" and "Stage 2" columns 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.

At June 30, 2023 net losses for credit risk in respect of loans to customers came to €198.5 million, a slight increase compared with the same period in the previous year.

8.2 NET LOSSES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Losses (1)						Recoveries (2)					
	Stage 1	Stage 2	Stage 3		Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired	Total 30/06/2023	Total 30/06/2022
			Writeoffs	Other	Writeoffs	Other						
A. Debt securities	(827)	(275)	-	-	-	-	1,193	3,917	-	-	4,008	(664)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(827)**	**(275)**	**-**	**-**	**-**	**-**	**1,193**	**3,917**	**-**	**-**	**4,008**	**(664)**

SECTION 9 - GAINS (LOSSES) FROM CONTRACT MODIFICATIONS WITHOUT DERECOGNITION – ITEM 140

9.1 GAINS (LOSSES) FROM CONTRACT MODIFICATIONS: COMPOSITION

The item, a negative €2.7 million, includes the impact of modifications of medium/long-term loan contracts with customers that, in compliance with IFRS 9, do not produce the derecognition of the assets but rather involve the recognition in profit or loss of the changes in the contractual cash flows.

The amounts to not include the impact of contract modifications on expected losses, which is recognized under item 130 – Net losses/recoveries for credit risk.

SECTION 12 - ADMINISTRATIVE EXPENSES – ITEM 190

12.1 PERSONNEL EXPENSES: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
1) Employees	(895,986)	(820,346)
a) wages and salaries	(624,908)	(579,324)
b) social security contributions	(152,335)	(140,779)
c) termination benefits	(11,115)	(15,803)
d) pension expenditure	-	(499)
e) allocation to employee termination benefit provision	(8,236)	(6,696)
f) allocation to provision for post-employment benefits and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	(50,449)	(40,243)
- defined contribution	(50,348)	(40,167)
- defined benefit	(101)	(75)
h) costs from share-based payment plans	-	-
i) other employee benefits	(48,943)	(37,003)
2) Other personnel	(8,748)	(8,576)
3) Board of Directors and members of Board of Auditors	(25,923)	(25,598)
4) Retired personnel	-	-
Total	**(930,657)**	**(854,520)**

Group personnel expenses totaled €0.9 billion in the period, up from the same period in the previous year mainly in relation to the renewal of the national collective bargaining agreement in June 2022.

Item 1) g) "payments to external pension funds: - defined contribution" includes the employee TFR fund provisioned and transferred to the national pension fund for the industry.

12.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

		Total 30/06/2023	Total 30/06/2022
Information technology		(106,288)	(89,761)
Property and movables		(40,947)	(43,489)
- rental and fees		(5,826)	(6,321)
- ordinary maintenance		(31,151)	(32,716)
- security		(3,970)	(4,452)
Goods and services		(92,420)	(95,579)
- telephone and data transmission		(29,921)	(32,406)
- postal		(12,983)	(10,744)
- asset transport and counting		(9,521)	(9,183)
- electricity, heating and water		(23,903)	(27,999)
- transportation and travel		(8,111)	(6,847)
- office supplies and printed materials		(6,493)	(6,961)
- subscriptions, magazines and newspapers		(1,488)	(1,440)
Professional services		(80,271)	(83,190)
- professional fees (other than audit fees)		(39,376)	(37,148)
- audit fees		(4,018)	(3,505)
- legal and notary costs		(24,947)	(25,291)
- court costs, information and title searches		(11,930)	(17,246)
Administrative services		(19,751)	(17,833)
Insurance		(11,576)	(12,720)
Promotional, advertising and entertainment expenses		(27,161)	(18,079)
Association dues		(14,869)	(14,857)
Donations		(3,502)	(2,301)
Other		(17,906)	(21,841)
Indirect taxes and duties		(251,732)	(271,048)
	Total	**(666,423)**	**(670,697)**

Other administrative expenses totaled €666 million and are essentially unchanged with the same period of previous year. The slight increase is mainly attributable to the increase in IT expenses and promotional-advertising spending and entertainment expenses, offset by a decrease in indirect tax and duties (including the contribution to the Single Resolution Fund (BRRD), the contribution to the National Resolution Fund for bank crises and the contribution to the Deposit Guarantee Fund for a total amount of about €128 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;
- other provisions for risks and charges.

13.1 PROVISIONS FOR CREDIT RISK IN RESPECT OF COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED: COMPOSITION

	30/06/2023		
	Provisions	Reallocations of excesses	Total
Commitments to disburse funds Stage 1	(24,584)	29,795	5,192
Commitments to disburse funds Stage 2	(15,913)	12,458	(3,455)
Commitments to disburse funds Stage 3	(20,448)	13,399	(7,049)
Financial guarantees issued Stage 1	(4,322)	7,539	3,216
Financial guarantees issued Stage 2	(8,180)	7,591	(589)
Financial guarantees issued Stage 3	(8,611)	8,488	(124)
Total	**(82,059)**	**79,270**	**(2,809)**

The item includes net provisions in respect of commitments to disburse funds assumed by the Group banks in respect of the Deposit Guarantee Fund and the Temporary Fund.

13.3 NET PROVISIONS FOR OTHER RISKS AND CHARGES: COMPOSITION

	30/06/2023		
	Provisions	Reallocations of excesses	Total
Legal disputes	(8,969)	6,537	(2,432)
Other	(4,843)	1,292	(3,551)
Total	**(13,812)**	**7,829**	**(5,983)**

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				
1 Operating assets	(88,983)	(5)	-	(88,988)
- Owned	(58,948)	(5)	-	(58,954)
- Right-of-use assets in respect of leases	(30,035)	-	-	(30,035)
2 Investment property	(1,715)	(180)	-	(1,896)
- Owned	(1,715)	(180)	-	(1,896)
- Right-of-use assets in respect of leases	-	-	-	-
3 Inventories	X	(254)	-	(254)
B. Assets held for sale	**X**	**(281)**	**-**	**(281)**
Total	**(90,699)**	**(720)**	**-**	**(91,419)**

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				
of which: software	(18,320)	-	-	(18,320)
1 Owned	(22,404)	-	-	(22,404)
- generated internally by the Bank	(858)	-	-	(858)
- other	(21,546)	-	-	(21,546)
2 Acquired under finance leases	-	-	-	-
B. Assets held for sale	X	-	-	-
Total	**(22,404)**	**-**	**-**	**(22,404)**

SECTION 16 - OTHER OPERATING EXPENSES/INCOME - ITEM 230

16.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
Charges connected with lease services (consultants, insurance, taxes and duties, capital losses)	(13,061)	(12,088)
Reductions in assets and prior-year expenses not attributable to separate line item	(11,643)	(15,075)
Costs of outsourced services	(11)	(18)
Settlement of disputes and claims	(395)	(226)
Amortization of expenditure for leasehold improvements	(4,657)	(5,126)
Other expense	(8,355)	(11,568)
Total	**(38,122)**	**(44,101)**

16.2 OTHER OPERATING INCOME: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
A) Cost recovery	**135,564**	**125,840**
Recovery of taxes	104,774	102,381
Recovery of sundry charges	16,819	8,683
Insurance premiums	1,322	782
Recovery of rental expense	3	-
Recovery of costs from customers	4,596	4,807
Recovery of costs on bad loans	8,051	9,187
B) Other income	**65,669**	**70,845**
Insourcing revenues	8,487	5,558
Property rental income	2,281	2,165
Reductions in liabilities and prior-year income not attributable to separate line item	16,130	19,158
Other income from finance leases	7,613	10,826
Other income	25,060	24,145
Accelerated processing fees	5,360	5,425
Consolidation adjustments	738	3,568
Total	**201,233**	**196,685**

The recovery of taxes and duties (stamp duty and tax in lieu), totaling €104.8 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 30/06/2023	Total 30/06/2022
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	10,431	443
1. Revaluations	4,731	443
2. Gains on disposals	-	-
3. Writebacks	-	-
4. Other income	5,700	-
B. Losses	(597)	(1,010)
1. Writedowns	-	(770)
2. Impairment	-	(240)
3. Losses on disposal	-	-
4. Other expenses	(597)	-
Net profit (loss)	**9,834**	**(567)**
Total	**9,834**	**(567)**

The item reports the financial impact of the equity measurement of investments in associates as well as the effect of the recognition of the earn-out of €5.7 million connected with the sale to FSI of the investment in BCC Pay during 2022.

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

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

	Revaluations (a)	Writedowns (b)	Exchange rate differences		Net result (a-b+c-d)
			Positive (c)	Negative (d)	
A. Property, plant and equipment	**-**	**(7,538)**	**-**	**-**	**(7,538)**
A.1 Operating assets:	-	-	-	-	-
- Owned	-	-	-	-	-
- Acquired under finance leases	-	-	-	-	-
A.2 Investment property:	-	(7,538)	-	-	(7,538)
- Owned	-	(7,538)	-	-	(7,538)
- Acquired under finance leases	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
- Internally generated	-	-	-	-	-
- Other	-	-	-	-	-
B.2 Acquired under finance leases	-	-	-	-	-
Total	**-**	**(7,538)**	**-**	**-**	**(7,538)**

The item reports gains/losses on the measurement of the properties contributed to consolidated real estate funds.

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

20.1 GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
A. Property	(111)	(346)
- Gains on disposal	157	123
- Losses on disposal	(269)	(470)
B. Other assets	(30)	(211)
- Gains on disposal	251	173
- Losses on disposal	(281)	(384)
Net gain (loss)	**(141)**	**(557)**

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

21.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
1. Current taxes (-)	(55,979)	(61,346)
2. Change in current taxes from previous period (+/-)	2,579	629
3. Reduction of current taxes for the period (+)	7	-
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	1,033	19,125
4. Change in deferred tax assets (+/-)	(103,186)	(64,107)
5. Change in deferred tax liabilities (+/-)	6,946	(2,524)
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(148,600)**	**(108,223)**

SECTION 22 - PROFIT (LOSS) AFTER TAXES ON DISCONTINUED OPERATIONS - ITEM 320

22.1 PROFIT (LOSS) AFTER TAXES ON DISCONTINUED OPERATIONS: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
1. Revenue	-	231,698
2. Expense	-	(206,763)
3. Result of measurement of groups of assets and associated liabilities	-	-
4. Gain (loss) on realization	-	-
5. Taxes and duties	-	(7,760)
Profit (loss)	**-**	**17,175**

The item at June 30, 2022 included the net profit of the e-money operations classified as held for sale.

22.2 BREAKDOWN OF INCOME TAXES OF DISCONTINUED OPERATIONS

	Total 30/06/2023	Total 30/06/2022
1. Current taxes (-)	-	(4,986)
2. Change in deferred tax assets (+/-)	-	-
3. Change in deferred tax liabilities (-/+)	-	-
4. Income taxes for the period (-1+/-2+/-3)	**-**	**(4,986)**

SECTION 23 - PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS – ITEM 340

23.1 BREAKDOWN OF ITEM 340 “PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS”

	30/06/2023	30/06/2022
Consolidated equity investments with significant non-controlling interests		
Banca Mediocredito del F.V.G. S.p.A.	-	2,745
Coopersystem Società Cooperativa	1,237	4,511
Other investments	(9)	(14)
Total	**1,228**	**7,242**

PART D - CONSOLIDATED COMPREHENSIVE INCOME

BREAKDOWN OF COMPREHENSIVE INCOME

		30/06/2023	30/06/2022
10.	**Net profit (loss) for the period**	**796,584**	**683,303**
	Other comprehensive income not recyclable to profit or loss	**3,618**	**25,208**
20.	Equity securities designated as at fair value through other comprehensive income:	6,983	(2,022)
	a) fair value changes	6,844	(1,948)
	b) transfers to other elements of shareholders' equity	139	(74)
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	(2,056)	29,315
80	Non-current assets held for sale	-	-
90.	Valuation reserves of equity investments accounted for with equity method	-	-
100.	Financial income or expense in respect of insurance contracts issued	-	-
110.	Income taxes on other comprehensive income not recyclable to profit or loss	(1,309)	2,805
	Other comprehensive income recyclable to profit or loss	**86,927**	**(303,688)**
120.	Hedging of investments in foreign operations:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
130.	Foreign exchange differences:	-	-
	a) value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
140.	Cash flow hedges:	30,205	(46,835)
	a) fair value changes	31,655	(41,500)
	b) reversal to income statement	(2,766)	(2,421)
	c) other changes	1,317	(2,913)
	of which: result on net positions	-	-
150.	Hedging instruments (undesignated elements):	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
160.	Financial assets (other than equity securities) measured at fair value through other comprehensive income:	98,043	(320,232)
	a) fair value changes	79,560	(310,502)
	b) reversal to income statement	18,434	(8,147)
	- adjustments for credit risk	(3,906)	447
	- gain/loss on realization	22,340	(8,593)
	c) other changes	49	(1,584)
170.	Non-current assets and disposal groups held for sale:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
180.	Valuation reserves of equity investments accounted for with equity method:	190	(53,114)
	a) fair value changes	190	(53,114)
	b) reversal to income statement	-	-
	- impairment adjustments	-	-
	- gain/loss on realization	-	-
	c) other changes	-	-
210.	Income taxes on other comprehensive income recyclable to profit or loss	(41,511)	(116,492)
220.	**Total other comprehensive income**	**90,545**	**(278,480)**
230.	**Comprehensive income (item 10 + 220)**	**887,128**	**404,823**
240.	Consolidated comprehensive income pertaining to non-controlling interests	1,228	6,568
250.	**Consolidated comprehensive income pertaining to shareholders of the Parent Company**	**885,900**	**398,255**

PART E - RISK AND RISK MANAGEMENT POLICIES

INTRODUCTION

The Iccrea Cooperative Banking Group conducts its business in accordance with the principles of prudence and risk containment, based on the need for stability associated with banking activity and the 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 risk appetite 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 the key elements of the overall Risk Management Framework: identification, measurement, monitoring and mitigation of corporate risks. It is responsible for the governance and execution of second-level controls connected with risk management, consistent with the internal control system adopted by the Group. 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 both the first and second pillar risks assumed and managed by the individual entities and by the Group as a whole.

The current organizational structure of Risk Management function of the Parent Company provides for:

- a "Risk Governance & Strategy" unit that represents a "competency center" overseeing all risk governance and risk strategy issues for the Group, including the management of the EWS and stress testing framework for the purposes of the Guarantee Scheme at both the consolidated and individual levels. The unit 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, supporting the Chief Risk Officer in its areas of responsibility. In addition, the Risk Governance & Strategy unit also coordinates and monitors strategic projects for the CRO area, periodically assessing achievement of the objectives as well as overseeing activities pertaining to the CRO area concerning climate and environmental risks and ESG issues. 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 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 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 ensures the applicability of the methodological framework for risk governance processes and the specific risks on the individual level of the affiliated banks, supporting the Group Risk Governance and Group Risk Management units in the definition and maintenance of the processes in order to facilitate their operational implementation with the mutual banks. In this context, it supports the Mutual Bank RM units (Northern Area, Central Area, Southern Area) and the risk managers of the affiliated banks in the implementation and application on an individual basis of the reference frameworks, processes and related risk management activities. In particular: i) it supports the Group Risk Governance 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) and, in close collaboration with the Mutual Bank RM units (Northern Area, Central Area, Southern Area), handles its efficient and effective operational implementation within the affiliated banks; ii) supports the Group Risk Governance unit 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; iii) in close collaboration with the Mutual Bank RM unit and in concert with the other competent units of the Risk

Management function, develops the risk appetite proposal for the affiliated banks with the related limits and triggers broken down into risk categories by operating and business segments; iv) supports the Group Risk Management unit in the definition and maintenance of the methodological framework for specific risks in order to enable efficient and effective operational implementation within the affiliated banks; in addition, it also supports this unit in assessing and monitoring the Group's specific risks arising in respect of the affiliated banks and identifies, within its area of responsibility, any risk mitigation measures required; and v) supports the Mutual Bank RM units and the risk managers of the affiliated banks in the implementation and application of the risk management frameworks, the risk measurement methodologies and models for the risks identified by the Parent Company and ensures 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" 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). Within this framework, the unit also performs supervision and support activities for the transversal activities of the overall function and acts as the internal reference unit within the CRO area for climate and environmental risks and ESG issues. In performing these activities, 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;

- 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 assumption and management of specific risks, as well as the assessment and monitoring of those risks, the identification of any risk mitigation measures, ii) oversees risk management activities for the companies within the direct scope, governed by a specific service agreement, coordinating communication with the other specialized units of the Risk Management function; and iii) establishes the operational guidelines for the specialized units of the Risk Management function in their interactions with the Risk Management units of the affiliated banks;

- 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 have organizational responsibility for the overall execution of the Risk Management activities outsourced for the macro-area; 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; ensuring the coordination of the managers in charge of the Risk Management functions of the affiliated banks;

- a "Validation" unit: reporting directly to the CRO, that validates models developed internally to quantify the risks to which the Group is exposed.

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); iii) methodologies and risk measurement and assessment criteria, iv) support tool applications. 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;

- acting as a control center for monitoring the risk profile of the individual affiliated banks and the companies in the direct scope for which risk management activities are performed on a centralized basis under an outsourcing arrangement governed by specific service agreements. This control center operates through the dedicated risk management units within the central organizational arrangements and, for the affiliated banks only, uses the mechanisms of the Early Warning System 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 Mechanism, as well as analyzing, controlling, assessing and monitoring the affiliated banks within the scope of EWS management processes and proposes their risk classification;

- 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;
  - within the RAF/RAS and EWS frameworks, examines the results of the process of determining the capital requirements, analyzing the dynamics involved to verify the overall consistency with the risk profile in the different analytical dimensions considered;
  - analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement;
  - assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (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 resolution;
  - reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining strategic policy and risk policy and the associated implementation of those policies;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The Group devotes special attention to managing, assessing and understanding risk. All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Parent Company. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies, updating risk measurement and estimation approaches to ensure consistency with sector best practices;
- the specification of risk limits;
- the periodic monitoring of (aggregate and non-aggregate) 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 as a Group, whose participatory mechanisms are based on a Cohesion Contract, signed by the banks and participating companies, that provides for internal stability mechanisms characterized by intercompany mutual support agreements regulated specifically by applicable external legislation.

On the basis of the provisions of the Cohesion Contract between the affiliated banks and the Parent Company, the latter constantly monitors the organization and the operating conditions, financial position and performance of the affiliated banks through the Early Warning System (EWS), which is designed to promptly identify any signs of management difficulty and/or failure to comply with the obligations assumed under the Cohesion Contract, recommending or arranging, depending on the specific features of any given case and on the basis of the principle of proportionality, the appropriate intervention measures. The overall framework of the Group's risk governance system is completed by the Risk Appetite Framework (RAF), which is implemented operationally through policies addressing the individual risks to which the Group is exposed and transversal systems involved in the internal assessment the capital adequacy and liquidity profile (ICAAP/ILAAP) and the overall assessment of the recovery capacity in particularly adverse conditions (the Recovery Framework).

The RAF defines - in line with the maximum assumable risk (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 Risk Tolerance thresholds, taking due account of possible adverse scenarios. Starting on the basis of the RAF, consistent operating limits are defined within the overall risk governance policies. The latter in turn represent the internal regulatory expression of the "rules" for the assumption and management of risks and are an integral part of the Risk Management Process (RMP).

The overall architecture of the Risk Appetite Framework, defined in terms of key elements, scope of coverage/application and underlying operating models, is closely interconnected with ICBG's key risk governance process, i.e. the Early Warning System. The RAF is implemented individually with regard to the affiliated banks and shares qualitative and quantitative indicators with the EWS, ensuring consistency between the different calibration approaches and the purposes of the two frameworks.

In other words, 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 pursuit of corporate strategies. Compared with the RAF, the capital adequacy and liquidity assessment (ICAAP and ILAAP) represents an occasion to verify the stability of the risk appetite choices in terms of their consistency with the capital and liquidity resources available, guiding any subsequent modification of the choices and the resulting overall strategy decisions.

SECTION 1 – RISKS WITHIN SCOPE OF ACCOUNTING CONSOLIDATION

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

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

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

	Bad loans	Unlikely to be repaid	Impaired past due exposures	Performing past due positions	Other performing positions	Total
1. Financial assets measured at amortized cost	214,333	825,874	247,811	1,279,252	143,588,720	146,155,988
2. Financial assets measured at fair value through other comprehensive income	20	-	-	-	7,745,060	7,745,080
3. Financial assets designated as at fair value	-	-	-	-	311,691	311,691
4. Other financial assets mandatorily measured at fair value	-	-	-	3	565,729	565,732
5. Financial assets held for sale	9,000	5,182	-	-	-	14,182
Total 30/06/2023	**223,353**	**831,056**	**247,811**	**1,279,254**	**152,211,199**	**154,792,673**
Total 31/12/2022	**290,962**	**956,360**	**262,102**	**1,234,169**	**156,709,110**	**159,452,703**

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

	Impaired assets				Performing assets			Total (net exposure)
	Gross exposure	Total adjustments	Net exposure	Total partial writeoffs	Gross exposure	Total adjustments	Net exposure	
1. Financial assets measured at amortized cost	4,194,092	2,906,075	1,288,017	412,751	145,900,774	1,032,803	144,867,971	146,155,988
2. Financial assets measured at fair value through other comprehensive income	20	-	20	-	7,750,673	5,614	7,745,060	7,745,079
3. Financial assets designated as at fair value	-	-	-	-	X	X	311,691	311,691
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	565,732	565,732
5. Financial assets held for sale	97,715	83,533	14,182	11,728	-	-	-	14,182
Total 30/06/2023	**4,291,827**	**2,989,608**	**1,302,219**	**424,479**	**153,651,447**	**1,038,417**	**153,490,453**	**154,792,673**
Total 31/12/2022	**4,692,469**	**3,183,046**	**1,509,423**	**485,667**	**158,011,897**	**1,107,836**	**157,943,280**	**159,452,703**

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	23	449,830
2. Hedging derivatives	-	-	1,649,158
Total 30/06/2023	**-**	**23**	**2,098,988**
Total 31/12/2022	**-**	**30**	**2,142,514**

* Reported for disclosure 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. 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.

With regard to the management and coordination role of the Parent Company, on the basis of the Cohesion Contract – Iccrea Banca 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 Parent Company's Chief Lending Officer area conducts its guidance and coordination activities for the Group companies, being responsible for overseeing credit quality, defining credit policies (verifying their application), ensuring the implementation of guidelines in the assumption and management of credit risks and overseeing the execution of credit and administrative obligations connected with the non-performing portfolio.

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.

The Parent Company, in exercising the powers of strategic management and coordination in lending 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. The main activities of the performed by the Parent Company's CLO area are:

- performing guidance and coordination activities for all phases of the credit process (granting, management, governance of guarantees, monitoring, classification, evaluation and credit recovery);
- ensuring the constant updating of the guidelines on credit issues;
- overseeing and directing projects related to innovations or upgrading of existing credit processes;
- coordinating any remedial actions requested by the supervisory authorities, top management or the corporate control functions;
- supporting the competent Group units in the definition and development of credit products;
- contributing to the definition of the Strategic Plan for the lending area, including the NPE sector;
- defining the NPE Operating Plan, in line with the Group's strategic guidelines in this area;

- issuing, in compliance with the provisions and amount limits specified in the Group Lending Policies and in compliance with the powers attributed in internal rules, credit opinions on performing credit transactions from companies in the direct scope and the affiliated banks;

- approving the bank's performing loan transactions, in compliance with the powers attributed in internal rules, submitting them to the higher decision-making bodies of Iccrea Banca where they do not fall within its powers.

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 - credit risk control activities designed to ascertain that the activities performed in all phases of the lending process ensure the effective monitoring and adequate representation of credit risk, identifying any hidden risks and guiding correct/adequate risk management, classification and evaluation. 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 regard to lending activities performed by the Group, the Parent Company governs all the phases of the lending process, the management of real estate guarantees, exposure monitoring, the classification of risk positions, and the management and valuation of impaired exposures.

More specifically, as part of the loan approval process a direct assessment is carried out to ascertain the needs and requirements of the applicant accurately assessing the credit risk profile using specific tools/models for assessing creditworthiness. 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 a counterparty's risk is a key element of the loan granting process. It is based on qualitative/quantitative information with the aim of accurately assessing the risk profile of the transaction and monitoring the creditworthiness of the counterparty over time. Typically, the assessment of counterparties is supported by the use of automated calculation models (rating/scoring models) designed to measure the creditworthiness of a counterparty and/or the admissibility of a transaction. The evaluation models in use within the Group 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: i) the use of early warning indicators that permit timely detection of risk signals; ii) the definition and attribution of responsibilities in the monitoring process; iii) the definition and execution of risk mitigation actions iv) 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.

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 - credit risk control activities designed to ascertain that the activities performed in all phases of the lending process ensure the effective monitoring and adequate representation of credit risk, identifying any hidden risks and guiding correct/adequate risk management, classification and evaluation. 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.

Risk Management has also centrally defined the "Credit Risk Control 285" framework. This is intended to govern, based on the set of governance, management and control mechanisms adopted by the Group for credit risk, the analysis, identification and control activities performed by the Risk Management function pursuant to Circular 285.

The activities are arranged as follows:

- prior to the start of activities, an operational direction in which the functional elements to calibrate and target the risk control activities are qualified is defined;
- mass analysis and controls are conducted to identify potential anomalies and the related levels for each individual Group entity;
- sample checks (single file) of individual credit exposures are performed, to be carried out:
  - for positions identified in the ordinary arrangement, constructed on the basis of the mass controls, focusing the analysis on the correct identification and classification of anomalous positions, as well as on the adequate evaluation of the loan in the event of an anomaly, as a significant effect of the management of credit risk;
  - for additional positions identified in accordance with the operational direction defined with respect to the evolution of the context within or without the Group (so-called contingency sampling);
- the credit risk of Group entities is profiled to conclude the annual analysis and control cycle.

The results of these activities are regularly brought to the attention of senior management.

The analysis system implemented in the first half of 2023 gave ample attention to contingency events and control activities were mainly focused on performing positions, for which potential anomalies could arise over the entire credit risk management process. In this context, particular attention was paid to the portfolio subject to forbearance measures - potential and existing - as well as to the portfolio of companies potentially in difficulty, taking account of current economic conditions (inflationary tensions, rate dynamics, etc.).

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:

- a 3-stage (stage allocation) approach, based on changes in credit quality, defined on a model of 12-month expected loss or lifetime expected loss if a significant increase in credit risk is detected. The standard provides for three different categories that reflect the deterioration in credit quality since initial recognition:
  - Stage 1: financial assets originated and/or purchased that do not exhibit objective evidence of impairment at the date of initial recognition or that have not experienced a significant deterioration in their credit quality since the date of initial recognition or which have low credit risk (low credit risk exemption);
  - Stage 2: financial assets whose credit quality has deteriorated significantly since the date of initial recognition;
  - Stage 3: financial assets that exhibit objective evidence of loss at the reporting date. The population of these exposures is consistent with those considered "impaired" under IAS 39.
- application of "point-in-time" formulations of the parameters for measuring credit risk for the purpose of calculating impairment;
- calculation of lifetime expected credit loss for exposures not classified in Stage 1, using lifetime parameters;
- inclusion of forward-looking conditioning in the calculation of ECL, considering the average loss from each scenario and the associated probability-weighted likelihood of each outcome;
- staging and transfers of financial assets between the stages.

In accordance with the standard, the Iccrea Group allocates each asset/tranche to one of the following 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, 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.

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 representing macroeconomic forecasts 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 a "block" approach, determined by the combination of parameters relating respectively to the pre-litigation phase (probability of reclassification as bad loans, exposure delta, performing LGD closure) and litigation (loss given bad loan). With regard to the securities portfolio, the unconditioned LGD measures are the same for both stage 1 and stage 2 exposures. In particular, an unconditioned LGD measure of 45% is used, subsequently subjected to forward-looking conditioning, consistent with the scenarios and probabilities of occurrence used to condition the PD, as discussed below.

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 forecast values for the exogenous macroeconomic variables in the satellite models estimated internally and the associated conditioning approach for each forecast year. In order to reflect the different forward-looking riskiness of the positions assessed in the ECL estimates, those satellite models are differentiated, in particular the PD, 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.

Since the closure of the financial statements at December 31, 2022, the measures delineated in the multi-year Credit Risk Models Evolution (CRME) were completed for the purposes of calculating the IFRS 9 impairment of the Group's performing credit exposures. The CRME concerns the evolution of the models for measuring credit risk parameters and specific measures to update the IFRS 9 framework. Specifically, the following modifications of the credit risk measurement models were completed:

- updating the Probability of Default (PD) models, which hinges on the development of the new version of the internal rating system (AlvinRating 6.0) through the introduction of the single behavioral model at Group level, with the associated re-estimation of the PDs and updating of the rating scale;
- development of "block" LGD models, including the parameters necessary for appropriate quantification in the accounts, based on the combination of parameters connected, respectively, with the pre-litigation phases (probability of reclassification as bad loans, exposure delta, performing LGD closure) and litigation (loss given bad loan);
- replacement of the "PD Satellite Models" with models developed internally using the most advanced methodologies available. This evolution enables the Group to internalize the models, reducing dependence on an external supplier of the macroeconomic scenarios and, at the same time, to respond more quickly and with greater precision to the constant demand for in-depth analysis generated by the delicate and changing macroeconomic environment we are currently experiencing;
- updating of the "LGD Satellite Models" to take appropriate account of the reconstruction and updating of the historical databases of position recoveries;
- evolution of the forward-looking conditioning framework for PD, using the Merton-Vasicek methodology.

The methodological developments concerning the above projects also envisage conservative adjustments, defined as in-model adjustments, intended to both address any weaknesses still present in the models and avoid the incorporation of possible distortions created by the pandemic.

Finally, other specific interventions on the IFRS 9 impairment framework were implemented to ensure greater prudence in respect of specific sub-portfolios that could be made more fragile from the point of view of creditworthiness by the uncertainty of the current macroeconomic context, which cannot be entirely captured by models. These measures involved the introduction of a specific overlay that takes account of uncertainty on certain segments of the loan portfolio: private individuals with variable-rate loans, firms impacted by the "Energy crisis scenario", customers with active forbearance measures and customers already benefitting from a loan repayment moratorium.

On the occasion of this interim report, the measures accompanying the structural activities defined to strengthen the process of quantifying the stock of stage 2 exposures were also completed within the calculation of the IFRS 9 ECL of the Group's performing credit exposures, with special regard to the identification of positions affected by a significant increase in credit risk (SICR).

Specifically, in order to reduce volatility in the allocation of exposures to the different stages to which they belong, a temporary extension of the minimum period a position stays in stage 2 was introduced. This measure is defined as a compensatory measure, taking account of the uncertainty that characterizes the current economic environment, with a view to supporting the profiling resulting from the finalization of the developments that will occur in this area.

Furthermore, in order to enhance the guidance and support of the ordinary loan monitoring and classification processes – again bearing in mind current macroeconomic conditions - and to progressively strengthen of the related process for identifying "watchlist" positions, an analysis of a sub-group of targeted performing positions held by the Group's affiliated banks was completed. Following the acquisition of those results for the positions received by the Parent Company from the banks, the results of this analysis made it possible to automatically classify these exposures in stage 2 as at June 30.

The process of strengthening the Group's stage allocation system will continue during 2023 in respect of: i) the structural interventions already identified and being implemented for the identification of significant increases in credit risk and ii) the progressive fine-tuning of the process of identifying watchlist customers.

As regards the "out-of-model" component (the overlay), without prejudice to the clusters identified for the 2022 financial statements, risk assessments of prospective flows of extra defaults have been updated to take account of the latest macroeconomic scenario available, i.e. that at March 2023. This update was performed in accordance with the calculation methods and the update frequency envisaged for the overlay component. Furthermore, the scope and the associated exposure of the clusters covered by the overlay have also been appropriately updated with the current situation of exposures at June 30, 2023.

Finally, as part of the conditioning of the IFRS 9 risk parameters, the ordinary updating of the macroeconomic scenarios was applied in accordance with the most update of those scenarios (March 2023).

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.

The Parent Company has developed specific Group guidelines to support the appropriate use of guarantees and credit risk mitigation techniques for Credit Risk Mitigation (CRM) purposes. Specifically, at Group level the following categories of guarantees eligible for CRM purposes have been identified:

- secured financial guarantees;
- real estate mortgages and property lease transactions involving properties that have the characteristics required by law;
- unsecured guarantees.

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.

Credit exposures that have been granted a forbearance measure[41] by the Bank in the event that the customer is in or close to a situation of financial difficulty in meeting is payment obligations ("troubled debt") are defined such as "forbearance exposures".

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

[41] In general, a forbearance measure means an operation by which the creditor, applying principles of economic rationality, grants forbearance to the borrower in consideration of the borrower's financial difficulties. This concession takes the form of the creditor's waiver of certain contractually defined rights which translates into an immediate or deferred benefit - of a financial or economic nature - for the debtor.

when the customer's status changes to "non-performing".

For the purposes of identifying non-performing exposures, the Group:

- has operational arrangements under which, depending on the intervention to be undertaken, positions can be managed using a centralized approach by the competent Parent Company functions, a decentralized approach by the individual Group companies or a collaborative approach between the Parent Company and Group companies;
- 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).

Within this approach, the individual Group companies transpose into their own rules the principles and rules established in Group policies for the management and recovery of troubled exposures and NPEs in line with the specific features of the territory in which they operate, their size, their business model and the related organizational structure.

The strategy for managing non-performing exposures is set by the Parent Company and is subject to approval and monitoring by its Board of Directors. Specifically, the Parent Company:

- defines the objectives in terms of reducing expected NPE levels at Group level;
- establishes, with the support of the Group companies, the objectives for the individual companies and the related management strategies.

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.

In order to ensure the quality of the management of non-performing exposures by the specified personnel, 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. In particular, in accordance with the principle of proportionality, the individual Group companies define their own performance evaluation and monitoring systems in line with Group policy, based on a number of quantitative and qualitative factors, of which the following list provides a few examples:

- 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

The Group writes off impaired positions, meaning the derecognition from the financial statements of a loan, or part of a loan, and the consequent recognition of a loss, when it is ascertained 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:

- 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;
- bad loans with a residual balance after partial repayment in settlement performed in accordance with the procedures and time limits provided for by the resolution approved by the competent bodies;
- amounts from the redetermination of the credit claim.

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 purchased 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

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 in favor of a debtor solely in consideration of the debtor's financial difficulties;
- the grant of total or partial refinancing 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 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 (which may be short or long term) 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).

Finally, note that:

- the assessment of the debtor's financial situation must also include any changes in market conditions that would impact the counterparty's ability to repay and, consequently, affect exposures without apparent signs of financial difficulty;
- 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.42

[42] The category of debtor includes all natural and legal persons belonging to the debtor's group. The assessment must therefore include these persons in order to verify whether difficulties at the group level might compromise the debtor's ability to fulfill their own obligations in respect of the Group creditor.

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*
		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		
A. On-balance-sheet exposures												
A.1 Demand	**860,035**	**820,309**	**39,726**	**-**	**-**	**235**	**168**	**67**	**-**	**-**	**859,800**	**-**
a) Impaired	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	860,035	820,309	39,726	X	-	235	168	67	X	-	859,800	-
A.2 Other	**3,244,365**	**2,883,424**	**312,008**	**1,294**	**-**	**9,405**	**1,460**	**6,659**	**1,286**	**-**	**3,234,960**	**-**
a) Bad loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely to be repaid	1,294	X	-	1,294	-	1,286	X	-	1,286	-	8	-
- of which: forborne exposures	520	X	-	520	-	520	X	-	520	-	-	-
c) Impaired past due exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past due exposures	16	1	15	X	-	-	-	-	X	-	16	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing assets	3,243,055	2,883,423	311,993	X	-	8,119	1,460	6,659	X	-	3,234,936	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
Total (A)	**4,104,400**	**3,703,733**	**351,735**	**1,294**	**-**	**9,640**	**1,628**	**6,726**	**1,286**	**-**	**4,094,760**	**-**
B. Off-balance-sheet exposures												
a) Impaired	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	2,597,058	573,904	30,566	X	-	81,558	79,580	1,978	X	-	2,515,500	-
Total (B)	**2,597,058**	**573,904**	**30,566**	**-**	**-**	**81,558**	**79,580**	**1,978**	**-**	**-**	**2,515,500**	**-**
Total (A+B)	**6,701,458**	**4,277,637**	**382,301**	**1,294**	**-**	**91,198**	**81,208**	**8,704**	**1,286**	**-**	**6,610,260**	**-**

* 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 *
		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		
A. On-balance-sheet exposures												
a) Bad loans	1,434,114	X	-	1,428,890	5,223	1,210,761	X	-	1,206,223	4,538	223,353	417,291
- of which: forborne exposures	306,559	X	-	306,474	85	250,963	X	-	250,899	64	55,596	71,887
b) Unlikely to be repaid	2,498,361	X	-	2,492,926	5,435	1,667,313	X	-	1,662,889	4,425	831,047	7,188
- of which: forborne exposures	1,238,048	X	-	1,233,957	4,091	849,830	X	-	846,525	3,305	388,219	6,586
c) Impaired past due exposures	358,060	X	-	358,060	-	110,250	X	-	110,250	-	247,811	-
- of which: forborne exposures	45,308	X	-	45,308	-	12,701	X	-	12,701	-	32,607	-
d) Performing past due exposures	1,369,761	601,551	768,194	X	-	90,510	6,290	84,218	X	-	1,279,251	44
- of which: forborne exposures	149,886	478	149,408	X	-	21,689	16	21,673	X	-	128,197	-
e) Other performing assets	150,014,594	142,543,137	6,539,721	X	3,412	939,788	487,900	451,846	X	42	149,074,806	352
- of which: forborne exposures	1,373,278	3,747	1,366,429	X	3,102	103,220	50	103,128	X	42	1,270,058	229
Total (A)	**155,674,890**	**143,144,688**	**7,307,915**	**4,279,876**	**14,070**	**4,018,622**	**494,190**	**536,064**	**2,979,362**	**9,004**	**151,656,268**	**424,875**
B. Off-balance-sheet exposures												
a) Impaired	256,152	X	-	256,152	-	97,553	X	-	97,553	-	158,599	-
b) Performing	25,812,369	22,685,635	1,470,727	X	-	120,415	66,409	54,006	X	-	25,691,954	-
Total (B)	**26,068,521**	**22,685,635**	**1,470,727**	**256,152**	**-**	**217,968**	**66,409**	**54,006**	**97,553**	**-**	**25,850,553**	**-**
Total (A+B)	**181,743,411**	**165,830,323**	**8,778,642**	**4,536,028**	**14,070**	**4,236,590**	**560,599**	**590,069**	**3,076,915**	**9,004**	**177,506,822**	**424,875**

* 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.

As provided for under the Cohesion Contract, the Parent Company defines market risk management policies, in accordance with the strategic planning and definition of the RAF.

This role is performed through the issue of specific policies and directives and the definition and application of specific governance mechanisms that govern the various stages (definition, approval, monitoring and reporting) that characterize the management of market risks.

RISK MANAGEMENT PROCESSES

Identification of risks

Operations in financial market, especially positions in the trading book, expose the Bank to market risks and other subcategories of risk. The identification of risks is mainly carried out in the process of specifying and updating risk models and metrics for market risks, and involves the following activities:

- the specification and updating of risk metrics, i.e. the evolution by the Risk Management department of measurement and monitoring methods on the basis of developments in markets, regulations and best practice;
- the approval process, conducted before the start of operations in a new financial instrument and the associated definition of the procedures for measuring fair value and risks.

Risk measurement and assessment

Risk Management is the main actor in the processes for development and using measurement models and metrics for market risk.

Updates of the models and metrics are identified by Risk Management in the performance of its duties, including analysis of regulatory requirements, market best practices and input from the business units involved (Finance in particular).

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 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 €14 million in 1-day VaR with a 99% confidence level has been established. In the first half of 2023, the risk profile of all trading operations never breached the RAS limit.

The average VaR of the trading book was €0.69 million, with a minimum of €0.44 million and a maximum of €1.05 million (registered on May 25, 2023).

At June 30, 2023 the VaR was €0.74 million.

Daily VaR Trading Book	Notional (in €/millions) at 30/06/2023	VaR	
		Limit	Risk Profile
GBCI	38,891	14	0.74

The following table reports sensitivities by risk factor at June 30, 2023, 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	(983)	Sensitivity calculated in relation to 1 bp change
Inflation Rates	213	
Credit spread	16,599	
Equity	2,881	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.

As provided for under the Cohesion Contract, the Parent Company defines interest rate risk management policies, in accordance with the strategic planning and definition of the RAF.

This role is performed through the issue of specific policies and directives and the definition and application of specific governance mechanisms that govern the various stages (definition, approval, monitoring and reporting) that characterize the management of interest rate risk on the banking book.

RISK MANAGEMENT PROCESSES

Identification of risks

The interest rate risk on the banking book is the risk originated by differences in the maturities and in the timing of the repricing of interest rates on the assets and liabilities in the banking book. In the presence of these differences, fluctuations in interest rates giver rise to both a short-term change in expected profit, through the impact on net interest income, and a long-term impact on the economic value of shareholders' equity, through the change in the market value of assets and liabilities.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, the Group identifies sources of interest rate risk to which it is exposed, classifying them in the following risk sub-categories: the risk deriving from mismatches in maturities (for fixed-rate positions) and repricing dates (for variable-rate positions), or changes in the slope or shape of the yield curve (yield curve risk), basis risk, option risk and credit spread risk on banking book (CSRBB).

Risk measurement 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 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 (€STR) 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 a 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 (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 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, 2023 is reported below.

€/million	Scenario	
	-100 bp	+100 bp
Impact on economic value	+ 200	- 369
Impact on net interest income	- 257	+ 276

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 at the consolidated level in the same manner used in their respective individual financial statements: 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 assets (micro cash flow hedge) represented by fixed-rate, variable rate (CCTs) and euro inflation-linked government securities.

C. HEDGING OF INVESTMENTS IN FOREIGN OPERATIONS

In the first half of 2023, 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 hedge, macro fair value hedge and micro cash flow hedge, involving IRSs and ASWs. 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 and macro fair value hedging relationships for fixed-rate funding, using IRSs as hedging instruments. Interest rate risk is hedged for the life of the obligation.

Fixed-rate loans

The Group has designated micro fair value hedges and macro fair value hedges for interest-rate loans to customers, mainly using amortizing IRSs 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.

IFRS 7 DISCLOSURES ON THE INTEREST RATE BENCHMARK REFORM

Following up on the regulatory framework defined by Regulation (EU) 2016/1011 of the European Parliament and of the Council of June 8, 2016 (the Benchmarks Regulation, BMR), the European Commission issued Regulation (EU) 2020/34 amending IFRS 9, IAS 39 and IFRS 7. These changes introduce provisions aimed at taking account of and underscoring the consequences of the reform of interest rate benchmarks for financial reporting. They also seek to enable allowing companies to continue with the correct application of hedge accounting rules, assuming that the benchmark indices for determining existing interest rates are not changed as a result of the reform of interbank rates.

These disclosures must be provided in particular in the period preceding the replacement of an interest rate benchmark with an alternative reference rate.

The information required by paragraph 24 H of IFRS 7 is provided below:

- the significant interest rate benchmarks to which the entity's hedging relationships are exposed:

Hedge type	Benchmark
Hedge of loans to customers	1, 3 and 6 month EURIBOR
Hedge of securities holdings	6 month EURIBOR
Hedge of bonds issued	6 month EURIBOR

- the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform:

Hedge type	Nominal amount of hedging derivatives (thousands of euros)
Hedge of loans to customers	5,435,421
Hedge of securities holdings	6,833,249
Hedge of bonds issued	10,000

- the nominal amount of the hedging instruments in those hedging relationships is as follows:

Hedge type	Nominal amount of hedging derivatives (thousands of euros)
Hedge of loans to customers	5,435,421
Hedge of securities holdings	6,833,249
Hedge of bonds issued	10,000

For other information required by paragraph 24 H of IFRS 7, please see Part A "Accounting policies".

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 monitoring indicators), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Group and market conditions.

Identification of risks

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- operational liquidity – divided into two complementary levels:
  - intraday and very short-term liquidity*:* monitored on a daily basis in order to identify sources of risk that impact the Bank’s ability to promptly balance very short-term cash inflows and outflows and maintain a volume of liquidity sufficient to ensure compliance with the liquidity coverage ratio (LCR) requirement;
  - short-term liquidity: identification of sources of risk that impact the Bank’s ability to meet its expected and unexpected payment obligations over a short-term horizon (up to 12 months);
- structural liquidity - identification of structural mismatches between assets and liabilities maturing at more than 1 year and integration with short-term liquidity management as well as planning of actions and preventing the future creation of short-term liquidity shortfalls.

The Group’s liquidity profile, and therefore its exposure to liquidity risk, is closely related to the business model adopted, the composition of the balance sheet - in terms of assets, liabilities and off-balance sheet items - as well as the related maturity profile.

The process of identifying and classifying the risk factors connected with the operational and structural liquidity profiles seeks to define the elements that, in terms of risk exposure, could trigger a deterioration in the Group’s liquidity position when endogenous and/or exogenous stress events occur.

Liquidity risk can be generated by various factors both internal and external to the Bank. The sources of liquidity risk can therefore be divided into the following macro-categories:

- endogenous: represented by adverse events specific to the Bank (e.g. a deterioration in the Bank’s credit standing and loss of confidence by creditors);
- exogenous: when the origin of the risk is attributable to adverse events that cannot be directly controlled by the Bank (political crises, financial crises, catastrophic events, etc.) that give rise to liquidity tensions in the markets;

- combinations of the previous factors.

Measurement of risks

Measuring liquidity risk involves the activities performed to observe and quantify on a comprehensive, accurate and timely basis the exposure to such risk over the selected observation horizon.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder, in order to:

- monitor the risk profile in "business as usual" conditions, overseeing the overall system of indicators that characterize the Liquidity Risk Framework;
- execute stress testing, which involves the determination of the liquidity position in severe but plausible adverse scenarios, assessing the impact at the consolidated and individual levels.

The risk position is measured with the use of models, specific indicators and additional metrics developed either internally or established in regulations.

The analysis of the maturity profiles depends substantially on assumptions about the future cash flows associated with the various assets and liabilities, both on-balance-sheet and off-balance-sheet, which take account of the economic maturities of the balance sheet elements rather than contractual dates, without neglecting the application of reasonable prudence criteria.

The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, the Group develops two maturity curves: operational and structural.

The operational maturity ladder is used to monitor the short-term liquidity position and is determined both in a business-as-usual scenario and in a stress scenario by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines.

The intraday liquidity position is measured with metrics aimed at monitoring the maximum use of liquidity on an intraday basis, the reserves available at the beginning of each business day to meet liquidity requirements, gross payments sent and received and "time-specific" obligations.

The treasury position is measured on a daily basis by quantifying the liquidity reserves (i.e. counterbalancing capacity, or CBC) and using them to cover any possible negative liquidity balance over the reference time horizon.

This system for monitoring Group operational liquidity makes it possible to monitor:

- management of access to the payments system (operational liquidity management);
- management of the liquidity outflow profile;
- the size and degree of use of liquidity reserves (analysis and active management of the maturity ladder);
- the active management of collateral (cash-collateral management, i.e. refinanceable securities and bank loans);
- the integration of short-term liquidity management actions with structural liquidity requirements.

The structural maturity ladder is used to monitor the overall liquidity position at the consolidated and individual levels at medium/long-term. It is determined by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines. The projection of cash inflows and outflows at the various time bands in the ladder is carried out using two distinct approaches in relation to the purpose of the analysis.

The first approach identifies cash flows based on the contractual maturities of the items considered.

The second approach is based on the adoption of behavioral assumptions, with specific regard to the modeling of demand items and margins on the credit lines granted in both a business-as-usual scenario and in a stress scenario.

This tool is essential for obtaining a view of Group funding requirements and an understanding of the liquidity risk associated with execution of the funding plan, thereby preventing the emergence of future liquidity strains. In addition, the structural maturity ladder makes it possible to control:

- the management of maturity transformation in accordance with the guidelines established by management;
- support for the funding decisions in the funding plan.

Risk prevention and attenuation

Liquidity risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the Liquidity Risk Framework. The definition of this system took account of the nature, objectives and complexity of operations.

The system of limits (EWS, RAS, risk limits and contingencies) is defined by the Parent Company consistent with its policy-setting and coordination role and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the liquidity risk management model adopted.

The system of limits is also accompanied by a comprehensive system of systems and controls that contribute to defining the overall control model set out and formalized in the associated policy.

The controls established to manage liquidity risk break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the liquidity profile and activate escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

Second-level controls, which are performed by Risk Management, are intended to monitor the exposure to liquidity risk in order to prepare reports for transmission to the competent units and to initiate the escalation mechanisms, in collaboration with the management functions, should the specified limits be exceeded. Control activities is based on the assessment and measurement of the positioning of the risk indicators established by the Risk Governance framework. The effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the established risk limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the “magnitude” of the over-limit position.

Liquidity risk control and monitoring activities are carried out within the internal self-regulatory framework. At an operational level, communication between the management functions and Risk Management takes place daily through in-depth discussions on risk developments that increase awareness of the profiles of the risks assumed (in accordance with the specified profitability objectives), thus facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In particular, Risk Management performs codified and formalized monitoring and reporting activities within the Risk Appetite Framework and the Risk Policies, with the preparation of periodic reporting to provide appropriate disclosure to the management functions, senior management and the Board of Directors.

Stress test framework

The Group’s liquidity position is monitored in the normal course of business and under stress conditions. For the latter, a stress test framework has been defined on the basis of the indicators that characterize the Liquidity Risk Framework.

The stress test analyses are used to measure the degree to which the liquidity position can deteriorate in the event of especially adverse market conditions, thereby enabling verification of its robustness.

Accordingly, the objectives of the stress testing are:

- to verify the capacity to cope with unexpected liquidity crises in the first period in which they occur, before activating initiatives to modify the structure of assets or liabilities;
- to assess vulnerabilities in the liquidity profile, evaluating possible connections between the various risk categories as part of the periodic monitoring process;
- to calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits enables the maintenance of a level of liquidity that ensures that any coverage actions do not compromise the Group’s business strategies;

- to identify, in preparing the recovery plan, scenarios that would compromise the survival of the Group if appropriate recovery actions were not taken;
- to test the effectiveness of mitigation actions taken within the Contingency Funding & Recovery Plan and recovery actions provided for in the "near-default" scenarios to be taken in adverse situations in order to limit the Group's exposure to liquidity risk;
- to verify the feasibility of the funding plan, taking due account of the findings of the stress analysis.

In accordance with regulatory provisions, the Group develops scenarios characterized by stress scenarios associated with the occurrence of systemic or idiosyncratic events in order to test potential liquidity vulnerabilities.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses:

- sensitivity analysis: analysis of liquidity position to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- scenario analysis: analysis consisting in the assessment of the Bank's ability to cope with a potential deterioration in its liquidity profile based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

The types of stress test that characterize the framework provide for the occurrence of sever but plausible events (scenarios) that can be classified into three categories:

- stress scenarios caused by a systemic event, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy and therefore for the Iccrea Cooperative Banking Group;
- stress scenarios caused by specific events (idiosyncratic), i.e. an event (or combination of events) whose occurrence generates/involves highly adverse consequences for the Iccrea Cooperative Banking Group. In defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Group;
- stress scenarios generated by a combination of specific and systemic events, i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimated inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Group to cope with any liquidity strains.

For each scenario, the Group has incorporated shocks generated by the main risk variables, which have been identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;

- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of asset to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

1.5 OPERATIONAL RISKS

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISKS

Operational risk means the risk of losses caused by the inadequacy or malfunction of procedures, human resources and internal systems or the occurrence of external events. For example, such losses include those caused by fraud, human error, operational interruptions, system unavailability, breach of contract and natural disasters.

In view of the operations that characterize the Iccrea Cooperative Banking Group, it is exposed to operational risks across the entire organization, 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 been progressively 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, Reputational & IT Risk Management unit has been established and charged with centralized responsibility for policy-making and coordinating the operational and IT 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 (i.e. operational loss and incident data) and potential risk (assessed through the collection of business expert opinion).
- evaluation/measurement of identified risks (awareness): a set of activities for assessing/measuring Group operational and IT risks.
- risk prevention and attenuation (strategy): a set of activities for the ex-ante identification of the possible ways of preventing and mitigating unfavorable developments in the dynamics of operational and IT risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational and IT risks, and the implementation of measures to ensure that possible risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.
- monitoring and reporting (tracking and control): a set of activities to monitor the Group's risk profile and deliver comprehensive reporting to provide timely, accurate and appropriate support to the decision-making process underlying "Risk Prevention and Mitigation" and "Risk Management and Mitigation".
- risk management and mitigation (reaction and proactivity): a set of activities and actions to support the management of operational and IT risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational and IT risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments (operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

The operational risk assessment framework outlined above also includes legal risk and is integrated with that for assessing IT risk (IT Risk Management Framework), in line with the relevant regulations.

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. The Risk Management function prepares the necessary reporting in this area, bringing it to the attention of the various internal users (Board bodies, senior management, operating units).

IDENTIFICATION, MEASUREMENT AND ASSESSMENT OF RISKS

For the purpose of calculating capital requirements for operational risk, the Iccrea Cooperative Banking Group mainly uses the Basic Indicator Approach (BIA),[43] 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 have been adopted by the companies within the direct scope and by the affiliated banks.

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, and updated in the following years, 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 Assessment – IT-RA), which are currently being adopted by all Group companies. In the first half of 2023, further 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 (IT-RA), the identification and assessment of prospective risks have been conducted on the basis of a specified work plan for certain companies within the direct scope and for the affiliated banks. As regards IT risk, the annual information risk profile assessment was completed in April 2023, which involved the central IT unit for the IT services provided by Iccrea Banca, BCC Sinergia and BCC Sistemi Informatici.

In the first half of 2023, the development of the related application system continued in support of risk assessment processes. With specific regard to IT risk, the application component supporting IT-RA activities has been rolled out and is used to assess the IT risk profile of Iccrea Banca, BCC Sinergia and BCC Sistemi Informatici and affiliated banks.

In addition, throughout the first half of 2023, consistent with efforts the previous year and in step with the evolution of the management

[43] One affiliated bank adopts the Traditional Standardized Approach (TSA).

framework and the release of applications, the informational and training effort for the Operational Risk Management framework continued, 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, and made a contribution in its areas of expertise to the stress testing provided for in the ICAAP.

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 and financial impact of significant incidents (measured at the consolidated level)
- number and financial impact of high and significant incidents (measures at the BCC Sistemi Informatici 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 €702 million.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2022	T	5,446,508
- at December 31, 2021	T-1	4,458,790
- at December 31, 2020	T-2	4,145,171
Relevant indicator average		**4,683,490**
Regulatory coefficient		**15%**
Capital requirement		**702,523**

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 December 14, 2023 the supervisory authorities

notified Iccrea Banca of results of the SREP decision, which establishes the prudential requirements to be respected at the consolidated level with effect from January 1, 2023 (broken down into own funds requirements and qualitative requirements). With this decision, the supervisory authorities established consolidated own funds requirements for 2023:

- an additional Pillar 2 requirement (P2R) of 2.80% (of which 5 bps for the NPE P2R which could be lowered by the end of the year subject to certain conditions), of which a minimum of 56.25% to be held in the form of Common Equity Tier 1, CET1) and 75% in the form of Tier 1 capital;
- a recommendation for Pillar 2 Guidance (P2G) of 1.75%, which should consist entirely of Common Equity Tier 1 capital and held in addition to the Overall Capital Requirement (OCR).

Given the above, for 2023 the Iccrea Cooperative Banking Group is therefore required to meet:

- a Total SREP Capital Requirement (TSCR) of 10.80%;
- an OCR equal to 13.30%;
- A Target Requirement (including P2G) of 15.05%.

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	2,294,156	-	-	-	2,294,156
2. Share premium reserve	151,336	-	-	-	151,336
3. Reserves	10,848,694	-	-	-	10,848,694
4. Equity instruments	30,139	-	-	-	30,139
5. (Treasury shares)	(1,381,273)	-	-	-	(1,381,273)
6. Valuation reserves:	(113,649)	-	-	-	(113,649)
- Equity securities designated as at fair value through other comprehensive income	14,119	-	-	-	14,119
- 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	(213,531)	-	-	-	(213,531)
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedging of investments in foreign operations	-	-	-	-	-
- Cash flow hedges	(52,076)	-	-	-	(52,076)
- 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	(37,186)	-	-	-	(37,186)
- Share of valuation reserves of equity investments accounted for using equity method	(81,002)	-	-	-	(81,002)
- Financial income or expense in respect of insurance contracts issued	-	-	-	-	-
- Financial income or expense in respect of reinsurance cessions	-	-	-	-	-
- Special revaluation laws	256,027	-	-	-	256,027
7. Net profit (loss) for the period (+/-)	796,584	-	-	-	796,584
Shareholders' equity	**12,625,987**	**-**	**-**	**-**	**12,625,987**

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	**(279,594)**	**8,025**	**-**
2. Increases	**79,032**	**11,069**	**-**
2.1 Fair value gains	61,899	9,587	-
2.2 Writedowns for credit risk	626	X	-
2.3 Reversal to income statement of negative reserves: from realization	16,383	X	-
2.4 Transfers to other components of shareholders' equity (equity securities)	-	206	-
2.5 Other changes	124	1,276	-
3. Decreases	**12,969**	**4,975**	**-**
3.1 Fair value losses	7,954	4,240	-
3.2 Writebacks for credit risk	3,508	-	-
3.3 Reversal to income statement of positive reserves: from realization	1,448	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	-	67	-
3.5 Other changes	59	668	-
4. Closing balance	**(213,531)**	**14,119**	**-**

B.4 VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

Valuation reserves for defined-benefit plans were a negative €52 million, down €16.8 million on the end of 2022.

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

See the disclosures on own funds and capital adequacy in the Third Pillar disclosures.

PART G - BUSINESS COMBINATIONS

SECTION 1 – TRANSACTIONS CARRIED OUT DURING THE PERIOD

During the period no business combinations involving the acquisition of control pursuant to IFRS 3 were carried out.

For corporate reorganization purposes, the merger of BCC di Taranto e Massafra into BCC di Bari was carried out, with effect from April 1, 2023. In compliance with the accounting practices for such transactions, these operations were accounted for on an unchanged values basis and had no impact on the consolidated financial statements.

SECTION 2 – TRANSACTIONS AFTER THE CLOSE OF THE PERIOD

No business combinations were carried out between the close of the financial year and the date of approval of the draft financial statements.

On June 20, 2023 the ECB authorized the merger of Banca 2021 - Credito Cooperativo del Cilento, Vallo di Diano e Lucania into Banca di Credito Cooperativo di Buccino e dei Comuni Cilentani, with effect from October 1, 2023.

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 2023 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 30/06/2023				
	Short term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
Key management personnel	4,295	135	-	-	-

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 transactions and their financial effects carried out in the first half of 2023 with the related parties of the Group other than fully consolidated intercompany transactions.

	Total 30/06/2023			
	Unconsolidated subsidiaries	Associated companies	Key management personnel	Other related parties
Financial assets	157,634	335,202	1,285	4,032
Total other assets	14	10,561	-	1
Financial liabilities	6,470	176,578	1,384	8,988
Total other liabilities	267	5,319	1	275
Commitments and financial guarantees issued	1,279	64,584	71	304
Commitments and financial guarantees received	-	-	840	5,297
Provisions for doubtful accounts	-	6,787	-	-

	Total 30/06/2023			
	Unconsolidated subsidiaries	Associated companies	Key management personnel	Other related parties
Interest income	702	199	24	103
Interest expense	(4,223)	(763)	(9)	(13)
Dividends	-	-	-	-
Fee and commission income	137,260	26,219	3	12
Fee and commission expense	(96,312)	(279)		-
Net gain (loss) on trading activities	-	-	-	-
Net gain (loss) on hedging activities	-	-	-	-
Other operating expenses/income	(354)	14,454	(38)	(1,405)
Writedowns/writebacks of impaired financial assets	-	(477)	-	-

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, BCC Sistemi Informatici, BCC Gestione Crediti, BCC Sinergia, BCC Beni Immobili, Sigest and BCC POS;
- Corporate: business focused mainly on financing small and medium-sized companies that are customers of the mutual banks. The segment includes the operations of BCC Leasing, BCC Rent&Lease, BCC Factoring and BCC Financing;
- 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, 2022.

A.1 DISTRIBUTION BY BUSINESS SEGMENT: INCOME STATEMENT

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Net interest income	59,591	40,947	30,761	1,798,583	17,960	1,947,843
Net fee and commission income	4,715	35,384	32,686	617,143	(18,315)	671,612
Other financial expense and income	2,991	137,954	(16)	41,002	(104,545)	77,385
Gross income	**67,297**	**214,285**	**63,431**	**2,456,728**	**(104,900)**	**2,696,840**
Net value adjustments	19,051	(19,736)	(5,734)	(190,809)	-	(197,229)
Net gains (losses) on financial operations	**86,349**	**194,548**	**57,697**	**2,265,920**	**(104,902)**	**2,499,612**
Operating expenses	(32,737)	(127,309)	(26,745)	(1,374,763)	4,971	(1,556,582)
Other costs and revenues	-	3,210	-	(1,848)	794	2,155
Profit/(loss) from continuing operations before tax	**53,611**	**70,449**	**30,952**	**889,309**	**(99,137)**	**945,184**
Income tax for the period on continuing operations	(17,842)	9,436	(9,919)	(129,306)	(969)	(148,600)
Profit/(loss) for the period	**35,769**	**79,885**	**21,033**	**760,003**	**(100,106)**	**796,584**
Profit/(loss) for the period pertaining to non-controlling interests	**-**	**1,238**	**(10)**	**-**	**-**	**1,228**
Profit/(loss) for the period pertaining to shareholders of the Parent Company	**35,769**	**78,647**	**21,043**	**760,003**	**(100,106)**	**795,356**

A.2 DISTRIBUTION BY BUSINESS SEGMENT: BALANCE SHEET

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Financial assets	454,580	15,723,200	56,750	55,693,386	(5,213,171)	66,714,746
Due from banks	73,781	30,492,281	29,101	10,044,788	(39,104,764)	1,535,187
Loans to customers	4,692,387	6,102,092	1,308,637	79,711,948	(2,211,013)	89,604,052
Funding from banks	4,403,354	36,576,263	1,329,382	26,409,579	(45,693,596)	23,024,983
Funding from customers	305,447	11,062,821	104,589	104,578,756	(129,024)	115,922,588
Securities and other financial liabilities	88,790	6,046,393	2,445	8,571,979	(3,786,907)	10,922,701

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 2,994 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 explanatory notes.

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 period;
- part C, section 14, as regards depreciation of rights of use recognized during the period.

Note that in determining the depreciation rates to be applied to the rights of use in respect of assets acquired under leases, reference has been made to the contractual term of the underlying leases, also taking account any extension/termination options where the probability that they will be exercised is considered high, depending on the nature of the transaction (finance/operating lease) and the type of asset.

SECTION 2 – LESSOR

QUALITATIVE DISCLOSURES

Lease transactions undertaken by Group mutual banks as a lessor are negligible.

The contracts mainly regard concern 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 explanatory notes.

QUANTITATIVE DISCLOSURES

1. INFORMATION IN THE BALANCE SHEET AND INCOME STATEMENT

For additional quantitative information on lease transactions carried out by the Group, please see the tables in the following sections:

- part B, Assets, section 4, as regards lease financing granted by the Group in relation to finance leases;
- part C, section 1, as regards interest income on the above lease financing accrued during the period;
- part C, section 16, as regards other income connected with the lease operations undertaken the Group as a lessor.

2. FINANCE LEASES

2.1 CLASSIFICATION BY MATURITY OF PAYMENTS TO BE RECEIVED AND RECONCILIATION WITH LEASE FINANCING RECOGNIZED UNDER ASSETS

	Total 30/06/2023	Total 31/12/2022
	Payment to be received for leases	Payment to be received for leases
Up to 1 year	844,560	845,301
From more than 1 year up to 2 years	694,135	693,882
From more than 2 years up to 3 years	567,853	562,605
From more than 3 years up to 4 years	429,116	438,404
From more than 4 years up to 5 years	314,152	311,844
From more than 5 years	1,264,279	1,370,736
Total payments to be received for leases	**4,114,094**	**4,222,774**
Reconciliation with financing	**1,020,337**	**1,060,274**
Financial income not accrued (-)	413,794	434,034
Unguaranteed residual value (-)	606,543	626,240
Lease financing	**3,093,757**	**3,162,499**

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 30/06/2023	Total 31/12/2022
	Lease payments to receive	Lease payments to receive
Up to 1 year	2,367	2,317
From more than 1 year up to 2 years	2,012	1,901
From more than 2 years up to 3 years	1,706	1,610
From more than 3 years up to 4 years	1,306	1,155
From more than 4 years up to 5 years	908	1,054
From more than 5 years	695	1,224
Total	**8,993**	**9,261**

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 2023

ORMB/NSDN/vbrb – R2023/01072

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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, 2023. 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, 2023, 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.

Rome, September 28, 2023

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 S.P.A.

REPORT ON OPERATIONS OF THE PARENT COMPANY

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

The following provides a summary description of the main items of the Parent Company's balance sheet and income statement at June 30, 2023. In order to permit a more immediate assessment of the items, the balance sheet and income statement schedules shown below are presented in a more summary format than those provided for by Circular 262/05 of the Bank of Italy.

BALANCE SHEET

Assets

€/thousands	30/06/2023	31/12/2022	Change	% change
Cash and cash equivalents	1,421,152	960,917	460,234	47.9
Financial assets measured at amortized cost – *Due from banks – Loans and securities*	32,783,691	35,653,688	(2,869,997)	(8.0)
Financial assets measured at amortized cost –*Due from customers – Loans*	6,273,082	7,084,693	(811,610)	(11.5)
Financial assets measured at amortized cost – *Due from customers – Securities*	9,585,941	8,340,562	1,245,379	14.9
Financial assets measured at fair value through profit or loss	2,589,022	2,521,624	67,397	2.7
Financial assets measured at fair value through other comprehensive income	1,110,156	1,079,476	30,680	2.8
Equity investments	1,596,049	1,568,623	27,426	1.7
Other assets	635,800	642,509	(6,710)	(1.0)
Total interest-bearing assets	**55,994,893**	**57,852,093**	**(1,857,200)**	**(3.2)**
Other non-interest-bearing assets	575,453	639,715	(64,263)	(10.0)
Total assets	**56,570,346**	**58,491,808**	**(1,921,462)**	**(3.3)**

At June 30, 2023, total assets amounted to about €56.6 billion, a decrease on the some €58.5 billion at the ed of December 2022, mainly reflecting the following developments:

- a decrease in loans measured at amortized cost of €2.4 billion compared with the end of 2022, the result of:
  - the decrease in amounts due from banks (about -€2.9 billion), primarily reflecting the combined impact of: i) a contraction in lending connected with TLTRO operations with the mutual banks (-€6.6 billion). A similar development is recorded for "Financial liabilities measured at amortized cost"); and ii) an increase in lending to mutual banks (+€2.8 billion), granted against collateral in the form of refinanceable securities (pool collateral). An increase in the debt securities (+€0.7 billion) issued by the mutual banks and subscribed by the Parent Company to meet MREL requirements (with an analogous change in "Financial liabilities measured at amortized cost");
  - an increase in lending to customers about (+€0.4 billion), essentially attributable to an increase in investments in debt securities (about +€1.2 billion), primarily Italian government securities), only partly offset by repo transaction with the Clearing & Guarantee Fund (about -€0.6 billion) and medium/long-term lending, mainly to companies within the direct scope (about -€0.2 billion);
- financial assets measured at FVTPL amounted to €2.6 billion – broadly unchanged on the end of 2022. They include the portfolio of assets originally designated as at fair value, represented by the assets in the Guarantee Scheme, which expanded by (+€60.9 million) as a result of an increase in investments during the period. The following table provides a breakdown of financial assets at FVTPL.

€/thousands	Financial assets held for trading	Financial assets designated as at FV	Other financial assets mandatorily measured at FV	Total
Debt securities	84,935	331,756	38,795	455,485
Equity securities	465	-	66,863	67,328
Units of CIUs	129	-	408,387	408,515
Derivatives	1,657,693	-	-	1,657,693
Total 30/06/2023	**1,743,222**	**331,756**	**514,044**	**2,589,022**
Total 31/12/2022	**1,744,131**	**270,820**	**506,673**	**2,521,624**
Change	**(909)**	**60,936**	**7,371**	**67,397**

- an increase of €30.7 million in financial assets measured at fair value through other comprehensive income, which are held under the HTCS business model, mainly reflecting a shift in debt securities between "government" issues (-€105.1 million) and "bank" issues (+€136.7 million);

- an increase of €27.4 million in equity investments, mainly due to: i) the acquisition of all of the share capital of BCC Rent & Lease (+€27.5 million, previously held by BCC Leasing S.p.A.); ii) the subscription of shares pursuant to Art. 150-ter of the Consolidated Banking Act - as manager of the Guarantee Scheme – in Banca Centropadana (+€2.5 million).

The following table provides a breakdown of amounts due from banks, largely represented by loans to the mutual banks (about €27.6 billion, a significant reduction of €2.9 billion on the end of 2022). These loans, secured by securities eligible for refinancing (pool collateral), include about €17.3 billion in operations with the ECB (TLTRO III) and about €7.8 billion in other forms of collateralized financing.

€/thousands	30/06/2023	31/12/2022	Change	% change
Mutual banks	27,646,641	30,305,595	(2,658,954)	(8.8)
Other credit institutions	5,137,050	5,348,093	(211,043)	(3.9)
Due from banks	**32,783,691**	**35,653,688**	**(2,869,997)**	**(8.0)**

Amounts due from other credit institutions include €3.4 billion in intercompany lending (about €3.1 billion to BCC Leasing), with the remainder comprising deposits with third parties.

Loans to ordinary customers amounted to €6.3 billion, a decline on the €7.1 billion posted at the end of December 2022. Of the total, €2.4 billion regard intercompany loans. The change in the item is largely attributable to a decrease in repurchase transactions with the Clearing & Guarantee Fund (-€0.6 billion).

The following table provides a breakdown:

€/thousands	31/12/2022	31/12/2021	Change	% change
Current accounts	262,437	191,375	71,063	37.1
Medium/long-term loans	2,637,200	2,729,605	(92,405)	(3.4)
Repurchase transactions	90,972	728,304	(637,332)	(87.5)
Other transactions	3,224,989	3,392,525	(167,536)	(4.9)
Impaired assets	57,485	42,884	14,601	34.0
Loans to customers	**6,273,082**	**7,084,693**	**(811,610)**	**(11.5)**

The following table provides a breakdown of impaired positions:

€/thousands	Gross exposure	Impairment losses	Net exposure	% coverage
Bad loans	30,318	27,027	3,291	89.1
Unlikely to pay	166,339	113,642	52,697	68.3
Impaired past-due	1,993	496	1,497	24.9
Total 30/06/2023	**198,650**	**141,165**	**57,485**	**71.1**
Total 31/12/2022	**177,236**	**134,352**	**42,884**	**75.8**
Change	**21,414**	**6,813**	**14,601**	**(4.7)**

Liabilities

€/thousands	30/06/2023	31/12/2022	Change	% change
Financial liabilities measured at amortized cost – *Due to banks*	36,563,102	41,593,508	(5,030,406)	(12.1)
Financial liabilities measured at amortized cost – *Due to customers*	11,314,861	8,663,966	2,650,895	30.6
Financial liabilities measured at amortized cost – *Securities issued*	3,949,473	3,425,452	524,021	15.3
Financial liabilities held for trading	1,643,449	1,729,244	(85,795)	(5.0)
Financial liabilities designated as at fair value	380,918	352,484	28,434	8.1
Other liabilities	390,296	403,602	(13,306)	(3.3)
Total interest-bearing liabilities	**54,242,099**	**56,168,255**	**(1,926,157)**	**(3.4)**
Other non-interest-bearing liabilities	139,570	221,593	(82,023)	(37.0)
Shareholders' equity	2,115,564	1,662,166	453,398	27.3
Profit for the period	73,113	439,793	(366,680)	(83.4)
Total liabilities and equity	**56,570,346**	**58,491,808**	**(1,921,462)**	**(3.3)**

The decrease in liabilities recorded in the period compared to the figure registered at the end of 2022 is mainly attributable to a decline of about €1.9 billion in interest-bearing funding, which was the net effect of the following developments:

- a decrease of €5.0 billion in amounts due to banks to about €36.6 billion, due to the combined effect of the decrease in amounts due to central banks (-€5.7 billion) as a consequence of the repayment of TLTRO financing, partially offset by an increase in time deposits (+€0.4 billion) and repo transactions (+€0.3 billion);
- an increase of €2.7 billion in amounts due to customers, which rose to €11.3 billion, essentially reflecting an increase in repurchase agreements with the Clearing & Guarantee Fund (+€2.8 billion);
- an increase in securities issued (+€0.5 billion), due almost entirely to new senior issues to meet MREL requirements for the Group.

Amounts due to banks break down as follows:

- €13.7 billion in positions with the affiliated banks mainly in respect of term deposits (€9.7 billion, of which €3.0 billion in mutual bank deposits to meet reserve requirements) and amounts held on the daily settlement account (€3.7 billion);
- €22.8 billion in amounts due to other credit institutions, largely related to financing from the ECB under TLTRO operations (€20.6 billion).

€/thousands	30/06/2023	31/12/2022	Change	% change
Mutual banks	13,719,933	13,129,059	590,874	4.5
Other credit institutions	22,843,169	28,464,449	(5,621,280)	(19.7)
Due to banks	**36,563,102**	**41,593,508**	**(5,030,406)**	**(12.1)**

Funding with customers amounted to €11.3 billion, an increase (+€2.7 billion) on December 31, 2022. The rise mainly reflects an increase in repurchase transactions (+€2.8 billion).

€/thousands	30/06/2023	31/12/2022	Change	% change
Current accounts and deposits	1,221,465	1,258,602	(37,137)	(3.0)
Financing	9,714,555	6,975,584	2,738,971	39.3
Other payables	378,841	429,780	(50,938)	(11.9)
Due to customers	**11,314,861**	**8,663,966**	**2,650,895**	**30.6**

Equity

€/thousands	30/06/2023	31/12/2022	Change	% change
1. Capital	1,401,045	1,401,045	-	-
2. Share premium reserve	6,081	6,081	-	-
3. Reserves	675,784	236,491	439,293	185.8
4. Equity instruments	-	-	-	-
5. (Treasury shares)	-	-	-	-
6. Valuation reserves	32,653	18,548	14,104	76.0
Total	**2,115,564**	**1,662,166**	**453,398**	**27.3**

At June 30, 2023, 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 2022. Shareholders' equity, excluding profit for the period, amounted to €2.1 billion, an increase of €453.4 million compared with December 31, 2022. The main changes reflect the allocation of 2022 profit (€439.8 million, of which €44.0 million to the legal reserve and €395.3 million as retained earnings) and an increase in valuation reserves (+€14.1 million), mainly due to changes in the cash flow hedge reserve (+€8.7 million) and, for the remainder, an increase in valuations of securities in the FVOCI portfolio.

Income statement

€/thousands	30/06/2023	30/06/2022	Change	% change
Net interest income	**37,444**	**116,008**	**(78,564)**	**(67.7)**
Other gains/losses on financial transactions	20,549	6,612	13,938	210.8
Dividends	121,848	11,902	109,946	923.8
Net fee and commission income	**30,717**	**46,529**	**(15,812)**	**(34.0)**
Other operating expenses/income	**210,558**	**181,050**	**29,508**	**16.3**
Gross income	(108,828)	(99,539)	(9,289)	9.3
Personnel expenses	(125,672)	(126,653)	981	(0.8)
Other administrative expenses	(985)	(1,176)	191	(16.2)
Net adjustments of property, plant and equipment and intangible assets	100,731	4,719	96,011	2,034.5
Total operating expenses	**(134,754)**	**(222,649)**	**87,895**	**(39.5)**
Gross operating profit	**75,804**	**(41,599)**	**117,403**	**(282.2)**
Net provisions for risks and charges	(2,068)	2,771	(4,839)	(174.7)
Net losses/recoveries on impairment of loans and other financial transactions	(19,736)	3,654	(23,391)	(640.1)
Total provisions and adjustments	**(21,805)**	**6,425**	**(28,230)**	**(439.4)**
Profit/(loss) from equity investments	5,103	(240)	5,343	(2,226.3)
Profit/(loss) before tax	**59,102**	**(35,414)**	**94,516**	**(266.9)**
Income tax expense	14,011	13,617	394	2.9
Profit/(loss) after tax on discontinued operations	-	7,255	(7,255)	(100.0)
Profit/(loss) for the period	**73,113**	**(14,542)**	**87,656**	**(602.8)**

The first half of 2023 closed with a net profit of €73.1 million, compared with a loss of €14.5 million in the first half of 2022. The main factors that contributed to the result for the period are attributable to:

- an increase – totaling €29.5 million – in gross income to €210.6 million. The increase was the product of the following factors:
  - a decline in net interest income (-€78.6 million) as a consequence of rate developments, which were negative until the third quarter of 2022 - which resulted in a substantial decrease in margins as a consequence of differences in the speed of the repricing of funding and lending items. More specifically, the period saw: i) an increase in yields on securities (+€88.5 million, almost all of which are Italian government securities indexed to inflation); ii) higher returns on medium/long-term loans (+€79.2 million); iii) increased margins from other technical forms of lending, such as loans to mutual banks using pool collateral mechanisms and TLTRO financing (+€43.1 million), ECB overnight deposits (+€26 million), reserve requirements (+€21.0 million). These factors were countered by an increase in the cost of: iv) funding through bond issues (-€27.0 million); v) repo transactions (-€161.1 million); and vi) balances on current accounts and deposits (-€152.3 million);
  - a reduction in net fee and commission income (-€15.8 million), mainly due to the recognition of performance fees connected with the exclusive promotion and placement agreement for e-money products and services with the Group mutual banks (-€7.7 million) and a decrease in fee and commission income for Medio Credito Centrale servicing activities (-€3.0 million);
  - an increase in other income/(loss) from financial operations, which amounted to €20.5 million (as detailed in the following table) – a change of +€13.9 million, a consequence of the improved performance recorded by the capital securities allocated to the HTCS portfolio (+€20.8 million), the positive contribution of trading activity (+€2.0 million), mainly due to better results of the securities segment and hedging activity (+2.8 million). Partially offsetting this was a decline in gains on disposal from sales made on the HTC portfolio compared with the corresponding period of 2022 (-€11.7 million).

€/thousands	30/06/2023	30/06/2022	Change	% change
Net gain (loss) on trading activities	10,027	8,012	2,014	25.1
Net gain (loss) on hedging activities	778	(1,988)	2,766	(139.1)
Net gain (loss) on the disposal or repurchase of:	14,009	25,672	(11,663)	(45.4)
a) financial assets measured at amortized cost	*15,356*	*30,636*	*(15,279)*	*(49.9)*
b) financial assets measured at fair value through other comprehensive income	*(1,348)*	*(4,965)*	*3,618*	*(72.9)*
c) financial liabilities	*-*	*1*	*(1)*	*(100.0)*
Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss	(4,264)	(25,084)	20,820	(83.0)
a) financial assets and liabilities measured at fair value	*(1,380)*	*(2,889)*	*1,509*	*(52.2)*
b) other financial assets mandatorily measured at fair value	*(2,884)*	*(22,194)*	*19,310*	*(87.0)*
Total "Other income/(loss) from financial operations"	**20,549**	**6,612**	**13,938**	**210.8**

- an increase of €109.9 million in dividend income, which amounted to €121.8 million. The increase reflected the distribution of profits earned in 2021 and 2022 by the companies in the direct scope (€110.6 million), as well as dividends from the interest in the Bank of Italy (+€10.6 million);

- a decrease of €87.9 million in operating expenses, which fell to €134.8 million, reflecting the following developments:
  - an increase in other operating expenses/income (+€96.0 million), mainly attributable to the impact of the recognition at June 30, 2022 of one-off charges (€90 million) connected with long-term exclusive distribution contracts and agreements for the products and services of BCC Pay between Iccrea Banca and the Group mutual banks. Excluding this component, revenues from services rendered to ICBG companies increased;
  - an increase of €9.3 million in personnel expenses, of which €8.0 million attributable to an increase in wages and salaries under the terms of the bargaining agreement renewal, salary adjustments and an expansion of the workforce and €1.6 million to costs connected with items such as the incentive scheme and early termination incentives;
  - substantially no change in administrative expenses at €125.7 million, with a reduction in the BRRD contribution (-€3.5 million) and a slight increase in running and project expenses (+€2.6 million);
- an increase in the cost of risk (see following table) with the recognition of writedowns on on-balance-sheet and off-balance-sheet exposures of €22.3 million, equal to the net effect of writebacks on stage 1 and 2 exposures (+€5.2 million) and impairment losses on non-performing stage 3 exposures (-€27.6 million).

€/thousands	30/06/2023	30/06/2022	Change	% change
A. On-balance-sheet exposures				
Stage 1 and 2	8,046	6,166	50,547	(208.2)
Stage 3	(27,783)	(2,513)	39,682	(91.5)
B. Off-balance-sheet exposures				
Stage 1 and 2	(2,818)	2,979	6,357	(164.5)
Stage 3	232	(200)	(112)	9.3
Total	**(22,323)**	**6,432**	**96,474**	**(132.7)**

- an increase in gains/losses on equity investments (+€5.3 million) to €5.1 million. This was mainly attributable to the earn-out recognized in respect of the sale of BCC Pay to FSI in 2022.

2. 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		30/06/2023	31/12/2022
10.	Cash and cash equivalents	1,421,151,776	960,917,278
20.	Financial assets measured at fair value through profit or loss	2,589,021,605	2,521,624,401
	a) financial assets held for trading	1,743,221,788	1,744,131,032
	b) financial assets designated as at fair value	331,755,838	270,820,313
	c) other financial assets mandatorily measured at fair value	514,043,979	506,673,056
30.	Financial assets measured at fair value through other comprehensive income	1,110,156,495	1,079,476,229
40.	Financial assets measured at amortized cost	48,642,714,941	51,073,505,107
	a) due from banks	32,783,691,307	35,653,688,274
	b) loans to customers	15,859,023,634	15,419,816,833
50.	Hedging derivatives	506,295,322	570,701,599
60.	Value adjustments of financial assets hedged generically (+/-)	(1,050,396)	(1,100,603)
70.	Equity investments	1,596,048,873	1,568,622,725
80.	Property, plant and equipment	2,793,146	2,501,944
90.	Intangible assets	392,536	535,517
100.	Tax assets	67,021,950	67,076,673
	a) current	36,791,172	35,059,681
	b) deferred	30,230,778	32,016,992
110.	Non-current assets and disposal groups held for sale	-	5,437,988
120.	Other assets	635,799,508	642,509,058
	Total assets	**56,570,345,755**	**58,491,807,917**

Liabilities and shareholders' equity		30/06/2023	31/12/2022
10.	Financial liabilities measured at amortized cost	51,827,435,850	53,682,926,167
	a) due to banks	36,563,101,758	41,593,507,994
	b) due to customers	11,314,861,360	8,663,966,010
	c) securities issued	3,949,472,732	3,425,452,163
20.	Financial liabilities held for trading	1,643,449,069	1,729,243,570
30.	Financial liabilities designated as at fair value	380,918,207	352,483,757
40.	Hedging derivatives	72,553,328	165,493,576
60.	Tax liabilities	4,217,219	3,303,751
	b) deferred	4,217,219	3,303,751
80.	Other liabilities	390,295,539	403,601,765
90.	Employee termination benefits	12,413,381	12,649,088
100.	Provisions for risks and charges:	50,385,921	40,146,602
	a) commitments and guarantees granted	33,385,277	30,799,479
	c) other provisions for risks and charges	17,000,644	9,347,123
110.	Valuation reserves	32,652,663	18,548,317
140.	Reserves	675,784,468	236,491,035
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 (+/-)	73,113,254	439,793,433
	Total liabilities and shareholders' equity	**56,570,345,755**	**58,491,807,917**

INCOME STATEMENT

		30/06/2023	30/06/2022
10.	Interest and similar income	766,406,330	277,554,434
	of which: interest income calculated using effective interest rate method	766,658,456	307,745,527
20.	Interest and similar expense	(728,962,623)	(161,546,747)
30.	**Net interest income**	**37,443,707**	**116,007,686**
40.	Fee and commission income	283,463,088	57,305,245
50.	Fee and commission expense	(252,745,602)	(10,776,111)
60.	**Net fee and commission income (expense)**	**30,717,486**	**46,529,134**
70.	Dividends and similar income	121,847,572	11,901,793
80.	Net gain (loss) on trading activities	10,026,507	8,012,229
90.	Net gain (loss) on hedging activities	778,024	(1,988,331)
100.	Net gain (loss) on the disposal or repurchase of:	14,008,900	25,671,575
	a) financial assets measured at amortized cost	15,356,428	30,635,599
	b) financial assets measured at fair value through other comprehensive income	(1,347,528)	(4,965,038)
	c) financial liabilities	-	1,014
110.	Net gain (loss) on financial assets and liabilities measured at fair value through profit or loss	(4,264,022)	(25,083,927)
	a) financial assets and liabilities designated as at fair value	(1,379,946)	(2,889,429)
	b) other financial assets mandatorily measured at fair value	(2,884,076)	(22,194,498)
120.	**Gross income**	**210,558,174**	**181,050,160**
130.	Net losses/recoveries for credit risk in respect of:	(19,736,471)	3,654,394
	a) financial assets measured at amortized cost	(20,538,750)	3,763,737
	b) financial assets measured at fair value through other comprehensive income	802,279	(109,343)
150.	**Net income (loss) from financial operations**	**190,821,703**	**184,704,554**
160.	Administrative expenses:	(234,499,674)	(226,192,268)
	a) personnel expenses	(108,828,105)	(99,539,451)
	b) other administrative expenses	(125,671,569)	(126,652,817)
170.	Net provisions for risks and charges	(2,068,453)	2,770,866
	a) commitments and guarantees granted	(2,585,797)	2,778,484
	b) net provisions for other risk and charges	517,344	(7,617)
180.	Net adjustments of property plant and equipment	(842,211)	(1,036,550)
190.	Net adjustments of intangible assets	(142,981)	(139,602)
200.	Other operating expenses/income	100,730,538	4,719,268
210.	**Operating expenses**	**(136,822,782)**	**(219,878,286)**
220.	Profit (loss) from equity investments	5,103,183	(240,000)
260.	**Profit (loss) before tax on continuing operations**	**59,102,103**	**(35,413,731)**
270.	Income tax expense from continuing operations	14,011,151	13,616,663
280.	**Profit (loss) on continuing operations after tax**	**73,113,254**	**(21,797,069)**
290	Profit (loss) on discontinued operations after tax	-	7,254,746
300.	**Profit (loss) for the period**	**73,113,254**	**(14,542,323)**

STATEMENT OF COMPREHENSIVE INCOME

		30/06/2023	30/06/2022
10.	**Net profit (loss) for the period**	**73,113,254**	**(14,542,323)**
	Other comprehensive income net of taxes not recyclable to profit or loss	**2,778,280**	**486,347**
20.	Equity securities designated as at fair value through other comprehensive income	2,902,802	(848,617)
70.	Defined benefit plans	(124,522)	1,334,965
	Other comprehensive income net of taxes recyclable to profit or loss	**11,326,066**	**(18,001,132)**
120.	Cash flow hedges	8,676,445	(12,390,156)
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	2,649,621	(5,610,976)
170.	**Total other comprehensive income net of taxes**	**14,104,346**	**(17,514,785)**
180.	**Comprehensive income (item 10+170)**	**87,217,601**	**(32,057,107)**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT JUNE 30, 2023

				Allocation of net profit of previous year		Change in the period									
							Equity transactions								
	As at 31/12/2022	Change in opening balance	As at 1/1/2023	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 30/6/2023	Shareholders' equity at 30/6/2023
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	236,491,035	-	236,491,035	439,293,433	X	-	-	-	X	-	X	X	X	X	675,784,468
b) other	-	-	-	-	X	-	-	X	X	-	X	-	-	X	-
Valuation reserves	18,548,317	-	18,548,317	-	X	-	X	X	X	X	X	X	X	14,104,346	32,652,663
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	439,793,433	-	439,793,433	(439,293,433)	(500,000)	X	X	X	X	X	X	X	X	73,113,254	73,113,254
Total shareholders' equity	**2,101,959,642**	**-**	**2,101,959,642**	**-**	**(500,000)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**87,217,601**	**2,188,677,243**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT JUNE 30, 2022

				Allocation of net profit of previous year		Change in the period									
							Equity transactions								
	As at 31/12/2021	Change in opening balance	As at 1/1/2022	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 30/6/2022	Shareholders' equity at 30/6/2022
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	183,455,648	-	183,455,648	53,177,917	X	(124,319)	-	-	X	-	X	X	X	X	236,509,246
b) other	-	-	-	-	X	-	-	X	X	-	X	-	-	X	-
Valuation reserves	45,353,084	-	45,353,084	-	X	-	X	X	X	X	X	X	X	(17,514,785)	27,838,299
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	53,177,917	-	53,177,917	(53,177,917)	-	X	X	X	X	X	X	X	X	(14,542,323)	(14,542,323)
Total shareholders' equity	**1,689,113,506**	**-**	**1,689,113,506**	**-**	**-**	**(124,319)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(32,057,107)**	**1,656,932,080**

STATEMENT OF CASH FLOWS: INDIRECT METHOD

	30/06/2023	31/12/2022
A. OPERATING ACTIVITIES		
1. Operations	**645,821,847**	**(436,818,960)**
- net profit (loss) for the period (+/-)	73,113,257	439,793,433
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	(30,068,074)	41,860,815
- gains (losses) on hedging activities (-/+)	(778,024)	4,945,964
- net losses/recoveries on impairment (+/-)	19,736,474	(24,654,942)
- net adjustments of property plant and equipment and intangible assets (+/-)	985,192	2,246,127
- net provisions for risks and charges and other costs/revenues (+/-)	1,476,868	(439,581,027)
- taxes, duties and tax credits to be settled (+/-)	(14,037,077)	(13,724,210)
- other adjustments (+/-)	595,393,230	(447,705,121)
2. Net cash flows from/used in financial assets	**2,195,150,859**	**(4,136,526,185)**
- financial assets held for trading	37,566,317	(1,280,253,884)
- financial assets designated as at fair value	(60,565,069)	6,688,082
- other assets mandatorily measured at fair value	(11,485,524)	(15,683,736)
- financial assets measured at fair through other comprehensive income	(24,325,565)	(579,041,223)
- financial assets measured at amortized cost	2,449,513,107	(3,011,230,783)
- other assets	(195,552,408)	742,995,360
3. Net cash flows from/used in financial liabilities	**(2,469,268,708)**	**4,459,811,813**
- financial liabilities measured at amortized cost	(2,266,134,749)	3,325,322,550
- financial liabilities held for trading	(85,745,579)	1,298,321,753
- financial liabilities designated as at fair value	25,602,017	30,521,767
- other liabilities	(142,990,398)	(194,354,257)
Net cash flows from/used in operating activities (A)	**371,703,998**	**(113,533,331)**
B. INVESTING ACTIVITIES		
1. Cash flows from	**116,456,647**	**270,777,148**
- sale of equity investments	5,700,000	270,000,000
- dividends on equity investments	110,756,647	777,148
2. Cash flows used in	**(27,426,147)**	**(410,908,456)**
- purchases of equity investments	(27,426,147)	(410,900,468)
- purchases of property plant and equipment	-	(7,988)
Net cash flows from/used in investing activities (B)	**89,030,500**	**(140,131,307)**
C. FINANCING ACTIVITIES		
- distribution of dividends and other	(500,000)	-
Net cash flows from/used in financing activities C(+/-)	**(500,000)**	**-**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C	**460,234,498**	**(253,664,639)**

Key:
(+) generated
(-) used

RECONCILIATION

	30/06/2023	31/12/2022
Cash and cash equivalents at beginning of period (E)	960,917,278	1,214,581,917
Net increase/decrease in cash and cash equivalents (D)	460,234,498	(253,664,639)
Cash and cash equivalents: effect of exchange rate changes (F)	-	-
Cash and cash equivalents at end of period (G)=E+/-D+/-F	**1,421,151,776**	**960,917,278**

NOTES TO THE FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

SECTION 1 – DECLARATION OF CONFORMITY WITH INTERNATIONAL ACCOUNTING STANDARDS

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, the interim separate financial statements of Iccrea Banca have been prepared in accordance with 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 "Bank financial statements: formats and rules of preparation"– 8th update of November 17, 2022 – 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 March 14, 2023 – 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.

The IASs/IFRSs applied in preparing the financial statements were those endorsed and in force at December 31, 2022.

IFRS standards, amendments and interpretations in force as from January 1, 2023

The following outline the main developments in international accounting standards and amendments to existing accounting standards that entered into force and took effect as from January 1, 2023.

With Regulation (EU) 2022/1392 of the Commission, amendments to IAS 12 Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction, published in May 2021 by the IASB, were endorsed by the European Union. These changes:

- specify how entities should account for deferred taxes relating to assets and liabilities arising from a single transaction, such as leases, and seek to reduce differences in practical application in this area;
- are mandatory for financial years starting on or after January 1, 2023.

The amendments do not have a significant impact on the accounts of the Bank and the Group as at June 30, 2023.

Furthermore, from January 1, 2023, the amendments to IAS 1 (Presentation of Financial Statements) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors - definition of accounting estimates) endorsed with Commission Regulation (EU) 2022/357 intended to, respectively, improve disclosure of accounting policies and disclosure of significant accounting policies and clarify how changes in accounting policies should be distinguished from those in accounting estimates.

The amendments do not have a significant impact on the accounts of the Bank and the Group as at June 30, 2023.

Regulation (EU) 2036/2021 of the Commission endorsed the new IFRS 17, replacing IFRS 4, with effect from January 1, 2023. The new standard aims to improve investors' understanding of exposure to the risk, profitability and financial position of insurers.

The standard introduces changes in the following areas in particular:

- initial recognition of the insurance liability;
- grouping of contracts through the identification of "portfolios" of insurance contracts (i.e. groups of contracts that share similar risks and are managed together);
- measurement models applicable to contracts;
- transition rules upon first application;
- subsequent measurement of the insurance liability;
- measurement of insurance revenue;
- performance measurement.

On September 9, 2022, Regulation (EU) 2022/1491 of the Commission of September 8, 2022 amending Regulation (EC) no. 1126/2008 as

regards the transitional provisions relating to the application of International Financial Reporting Standard 17 on insurance contracts was published. The amendment of the transitional provisions of IFRS 17 seeks to eliminate one-off classification differences of the comparative disclosures for the previous year upon first-time application of IFRS 17 and IFRS 9 Financial Instruments.

With regard to the presentation of IFRS 17 in the consolidated financial statements of banks, on November 17, 2022 the Bank of Italy published the 8th update of Circular no. 262 of December 22, 2005 applicable to financial statements closed or in progress as at December 31, 2023. In order to limit the costs of compliance for banks, in preparing the update the Bank of Italy took account of similar provisions issued by IVASS with regard to the IAS/IFRS insurance balance sheet, making referrals the provisions issued by IVASS for aspects attributable to the insurance contracts pertaining to the insurance companies included in the scope of consolidation. The changes introduced concern the adaptation of the formats of the consolidated financial statements and the related disclosures in the notes to the provisions of IFRS 17, which amended IAS 1 and IFRS 7, and the alignment with the provisions issued by IVASS. In particular, in the consolidated balance sheet, the items "insurance liabilities" and "insurance assets" report the insurance contracts issued and reinsurance cessions. With regard to the consolidated income statement, the interim result on insurance operations distinguishes between insurance service revenues/expenses and net insurance finance income/expense on insurance contracts issued and reinsurance cessions. The consolidated notes to the financial statements are suitable, according to the provisions issued by IVASS, to present information on the nature and extent of the risks deriving from insurance contracts pursuant to the provisions of IFRS 17. The Bank of Italy has not made any changes with regard to the presentation of IFRS 9 aggregates. Accordingly, the financial instruments pertaining to insurance companies (including insurance products to which IFRS 9 applies) in the financial statement formats pursuant to Circular 262 will be presented together with those of the bank, unless specific disclosures are provided in the tables of the notes to the financial statements.

The above amendments do not have a significant impact on the accounts of the Bank and the Group at 30 June 2023.

IFRS standards, amendments and interpretations endorsed by the European Union but not yet mandatorily applicable and not adopted early as at June 30, 2023

The following IFRS standards, amendments and interpretations endorsed by the European Union were not yet mandatorily applicable and not adopted early as at June 30, 2023.

- on January 23, 2020, the IASB published “Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current” and on October 31, 2022 published “Amendments to IAS 1 Presentation of Financial Statements: Non-Current Liabilities with Covenants”. The documents seek to clarify how to classify liabilities as current or non-current. The changes take effect from January 1, 2024 but early application is permitted. The possible impact of the introduction of the amendment is being evaluated.
- on September 22, 2022, the IASB issued “Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)”. The amendments require the seller-lessee to measure the liability in respect of a sale & leaseback so as to not recognize a gain or a loss in respect of the right-of-use retained. The changes take effect for annual reporting periods beginning on or after January 1, 2024, with early application permitted. The amendments are not expected to have a material impact on the accounts of the Bank and Group once the amendment is adopted.
- on May 23, 2023, IASB published “Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules”. The document introduces a temporary exception to the recognition and disclosure obligations for deferred tax assets and liabilities relating to the Model Rules of Pillar Two and provides specific disclosure obligations for entities affected by the relevant international tax reform. The document provides for the immediate application of the temporary exception, while the disclosure obligations will be applicable only for annual reporting periods beginning on or after January 1, 2023 but not to interim financial statements closing prior to December 31, 2023. The possible impact of the introduction of the amendment on the financial statements of the Bank and the Group is being evaluated.
- on May 25, 2023, IASB published “Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements”. The amendments require entities to provide additional disclosure on reverse factoring arrangements that enable users of the financial statements to evaluate how supplier finance arrangements can affect the liabilities and cash flows of the entity and to understand the effect of such arrangements on the entity's exposure to liquidity risk. The changes take effect for annual reporting periods beginning on or after January 1, 2024, with early application permitted. The possible impact of the introduction of the amendment on the financial statements of the Bank and the Group is being evaluated.
- on January 30, 2014 IASB published the interim standard IFRS 14 – Regulatory Deferral Accounts, which allows only first-time adopters of IFRS to continue to recognize the amounts relating to activities subject to regulated rates (“rate-regulated activities”) in accordance with the previous accounting standards adopted. Since the Company is not a first-time adopter, the provisions of that standard is not applicable.

SECTION 2: GENERAL PREPARATION PRINCIPLES

The financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows, and the explanatory notes and the associated comparative disclosures, along with the Report on Operations and the performance and financial position.

The accounts presented in the financial statements correspond to those in the company accounts.

In compliance with Article 5 of Legislative Decree 38/2005, the financial statements use the euro as the reporting currency. More specifically, the schedules for the balance sheet and income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows are drawn up in euros, while the explanatory notes, unless otherwise indicated, are drawn up in thousands of euros. For comparative purposes, the financial statements and, where required, the tables in the explanatory notes also report data for the previous period.

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.

The interim financial statements also comply with the following general principles of preparation:

- accrual basis accounting;
- understandability of information;
- materiality of information (relevance);
- reliability of information (faithful representation; prevalence of economic substance over legal form; neutrality of information; completeness of information; prudence in estimation to avoid overestimating revenues/assets or underestimating costs/liabilities);
- comparability over time.

These interim financial statements have been prepared in accordance with the format and rules for the preparation of bank financial statements set out in Circular no. 262 of December 22, 2005 – 8th update of November 22, 2022, as well as with the Communication of the Bank of Italy of December 15, 2021 – 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, as updated by the Communication of the Bank of Italy of December 21, 2021 "Update of the Supplement to the provisions of Circular no. 262 "Bank financial statements: formats and rules of preparation".

The disclosures in the interim separate financial statements also take account of the interpretative and support documents for the application of accounting standards with regard to the impacts of the COVID-19 pandemic issued by European regulatory and supervisory bodies and by standard setters during 2020 and 2021, which are more fully discussed in the 2021 financial statements, which readers are invited to consult in this regard, as well as – where applicable – ESMA documents issued during 2022 with specific regard to the Russia-Ukraine crisis and the application of IFRS 17, the contents of which are summarized below.

On the occasion of this interim report, the measures accompanying the structural activities defined to strengthen the process of quantifying the stock of stage 2 exposures were also completed within the calculation of the IFRS 9 ECL of the Group's performing credit exposures, with special regard to the identification of positions affected by a significant increase in credit risk (SICR).

Specifically, in order to reduce volatility in the allocation of exposures to the different stages to which they belong, a temporary extension from 3 to 6 months of the minimum period a position stays in stage 2 was introduced. This measure is defined as a compensatory measure, taking account of the uncertainty that characterizes the current economic environment, with a view to supporting the profiling resulting from the finalization of the developments that will occur in this area.

Furthermore, in order to enhance the guidance and support of the ordinary loan monitoring and classification processes – again bearing in mind current macroeconomic conditions - and to progressively strengthen of the related process for identifying "watchlist" positions, an analysis of a sub-group of targeted performing positions held by the Group's affiliated banks was completed. Following the acquisition of those results for the positions received by the Parent Company from the banks, the results of this analysis made it possible to automatically classify these exposures in stage 2 as at June 30.

The process of strengthening the Group's stage allocation system will continue during 2023 in respect of: i) the structural interventions already identified and being implemented for the identification of significant increases in credit risk and ii) the progressive fine-tuning of the process of identifying watchlist customers.

As regards the "out-of-model" component (the overlay), without prejudice to the clusters identified for the 2022 financial statements, risk assessments of prospective flows of extra defaults have been updated to take account of the latest macroeconomic scenario available, i.e. that at March 2023. This update was performed in accordance with the calculation methods and the update frequency envisaged for the

overlay component. Furthermore, the scope and the associated exposure of the clusters covered by the overlay have also been appropriately updated with the current situation of exposures at June 30, 2023.

Finally, as part of the conditioning of the IFRS 9 risk parameters, the ordinary updating of the macroeconomic scenarios was applied in accordance with the most update of those scenarios (March 2023).

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 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 explanatory notes

The explanatory notes to the financial statements include the information required by international accounting standards, using the tables provided for in Bank of Italy Circular no. 262/2005 – 8th update of November 22, 2022, 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, as updated by the Communication of the Bank of Italy of December 21, 2021 “Update of the 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.

SECTION 3 –EVENTS SUBSEQUENT TO THE REPORTING DATE

In the period between the reporting date of the financial statements and their approval by the Board of Directors on September 27, 2023, , with the exceptions indicated below, 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 S.p.A. 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 interim 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.

In determining the recoverability of the carrying amount of the most significant items in the financial statements mentioned above, the Bank referred to the 2022-2024 forecasts drawn up in line with the guidelines dictated by the strategic ambitions set out in the Group's corporate strategic plan 2023-2025.

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 explanatory notes.

By their nature, estimates may vary from year to year and 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 circumstances on which they were based, the availability of new information or the acquisition of greater experience. In particular, taking account of the high uncertainty attributable to i) the evolution of the Russia-Ukraine conflict, ii) the resurgence of the COVID-19 pandemic¸ iii) the acceleration in inflation fueled, as early as 2021, by the rise in the prices of energy goods and bottlenecks in distribution chains, which was accentuated in 2022 following the outbreak of the aforementioned conflict, and also taking account of the related impact on uncertain macroeconomic scenarios, it is not possible to rule out the possibility of needing to review the estimates of financial statement items in 2023 in the light of any new information that will become available.

More detailed information on the main issues and variables in the market is contained in the Report on Operations.

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

On the occasion of this interim report, the measures accompanying the structural activities defined to strengthen the process of quantifying the stock of stage 2 exposures were also completed within the calculation of the IFRS 9 ECL of the Group's performing credit exposures, with special regard to the identification of positions affected by a significant increase in credit risk (SICR).

Specifically, in order to reduce volatility in the allocation of exposures to the different stages to which they belong, a temporary extension from 3 to 6 months of the minimum period a position stays in stage 2 was introduced. This measure is defined as a compensatory measure, taking account of the uncertainty that characterizes the current economic environment, with a view to supporting the profiling resulting from the finalization of the developments that will occur in this area.

Furthermore, in order to enhance the guidance and support of the ordinary loan monitoring and classification processes – again bearing in mind current macroeconomic conditions - and to progressively strengthen of the related process for identifying "watchlist” positions, an analysis of a sub-group of targeted performing positions held by the Group’s affiliated banks was completed. Following the acquisition of those results for the positions received by the Parent Company from the banks, the results of this analysis made it possible to automatically classify these exposures in stage 2 as at June 30.

The process of strengthening the Group's stage allocation system will continue during 2023 in respect of: i) the structural interventions already identified and being implemented for the identification of significant increases in credit risk and ii) the progressive fine-tuning of the process of identifying watchlist customers.

As regards the "out-of-model" component (the overlay), without prejudice to the clusters identified for the 2022 financial statements, risk assessments of prospective flows of extra defaults have been updated to take account of the latest macroeconomic scenario available, i.e. that at March 2023. This update was performed in accordance with the calculation methods and the update frequency envisaged for the overlay component. Furthermore, the scope and the associated exposure of the clusters covered by the overlay have also been appropriately updated with the current situation of exposures at June 30, 2023.

Finally, as part of the conditioning of the IFRS 9 risk parameters, the ordinary updating of the macroeconomic scenarios was applied in accordance with the most update of those scenarios (March 2023).

Impairment testing of equity investments

In compliance with IAS 36, at each annual or interim reporting date, the Bank verifies 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.

Probability testing of DTAs

DTAs other than those referred to in Law 214/2011 are recognized to the extent that their recovery is probable. This probability was assessed using the probability test on the basis of the ability of the companies participating in the tax consolidation mechanism (the companies in the direct scope of consolidation) to generate positive taxable income.

Rights of use in leases

Similarly to the treatment of assets owned outright, IFRS 16 specifies that the right-of-use assets acquired through leases must undergo testing to ascertain if there is evidence that they have incurred an impairment loss. If so, the carrying amount of the asset is compared against its recoverable amount, which is equal to the greater of the fair value and the value in use - the latter understood as the present value of future cash flows originating from the asset. Any adjustments are recognized through profit or loss.

In assessing whether there is any indication that an asset may be impaired, IAS 36 requires an entity to consider the following:

- internal sources of information, such as signs of obsolescence or physical damage of an asset, restructuring plans and closures of branches;
- external sources of information, such as the increase in interest rates or other market rates of return on investments that could cause a significant decrease in the recoverable amount of the asset.

As of June 30, 2023, the Bank had checked:

- developments in the rates used to discount lease payments; and
- the presence of unused leased properties.

At the reporting date, there was no evidence of a deterioration in the recoverable value of the right-of-use assets recognized in respect of leases.

Use of valuation models in the determination of the fair value of units held in unlisted investment funds

With regard to units held in unlisted investment funds, specific project was carried out under the coordination of the Parent Company to determine the liquidity discount ("liquidity adjustment") to be applied to the net asset value (NAV) of the unlisted funds held by the entities in scope.

In this regard, the methodological approach adopted provides for 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 realized;
- the characteristics of the individual assets held by the fund and their volatility in the holding period (degree of uncertainty);
- the level of risk aversion specified with a prudent threshold, which for a distribution of the possible returns/final value of the asset/portfolio considered makes it possible to measure any deviation from their expected value.

The consideration of this information in the methodological approach used 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 realization, taking due account of the management costs of funds not incorporated in the NAVs of the individual unlisted funds.

Government securities

The current environment of uncertainty has had a marginal impact on the valuation of our holdings of debt securities, which as at June 30, 2023, had registered only modest changes. Note that the management of our own portfolio of debt securities classified in the "held to collect" (HTC) and "held to collect and sell" (HTCS) portfolios has not changed compared with previous years and no changes were made to the business models.

For prudential purposes, the filter pursuant to art. 468 of the CRR, which for the purpose of calculating regulatory own funds, enabled the sterilization of 40% of the fair value delta registered on securities held under the HTCS business model.

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. Interest is settled in arrears.

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 reports on operations accompanying these and the previous financial statements, which readers are invited to consult for further information.

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.[44]

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 and an "additional special interest rate period" from June 24, 2021 to June 23, 2022;
- in the event of achievement of the target for the "special reference period" (from March 1, 2020 to March 31, 2021) and the "additional special interest rate period" (from October 1, 2020 to December 31, 2021), the structure of the transaction changes as follows:
  - the benchmark rate becomes the rate on the ECB's deposit facility (DF), which was -50 bps until July 26, 2022, and can be modified by the ECB during the term of the respective loans;
  - for the "special interest rate period" and the "additional special interest rate period" a cap of -1.00% is applied to the final rate (deposit facility rate – 50 bps).
- in the event the target for the "special reference period" is not achieved, three different mechanisms will be applied depending on achievement of the secondary objective (growth of 1.15% between April 1, 2019 and March 31, 2021):
- in the event the target for the "additional special reference period" is not achieved:
  - for the first 7 auctions from June 23, 2021, the rate provided for the three different levels of growth in eligible lending in the period between April 1, 2019 and March 31, 2021 will be applied;
  - for the subsequent 3 auctions, the average MRO rate will be applied for the entire term of the loan, with the exception of the additional special interest rate period (June 24, 2021 – June 23, 2022), during which the average MRO rate less 50 basis points 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 bps, which can be reset to zero under certain conditions;
- the possible performance of the TLTRO Group as a whole and the individual performance of each mutual bank.

On September 10, 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. The application of the most favorable rate, equal to -1% (DF rate + spread – 0.5%) is definitive. The rates for the additional special interest rate period were announced by the Bank of Italy on June 10, 2022, confirming achievement of the target for that period as well.

On October 27, 2022, the ECB again amended the conditions applicable to the TLTRO III program to ensure consistency with the monetary policy normalization process, helping to address the unexpected and extraordinary increase in inflation.

From November 23, 2022, the rate applicable to transactions still outstanding is indexed to the reference interest rate applicable during this period, maintaining the previous rules for the earlier periods with the application of an average rate for the period.

In the light of the ECB's changes in the interest rate applicable to TLTRO funding and as a consequence of the method of calculating interest, the directors, consistent with the guidelines established by the Parent Company, deemed it appropriate, in accordance with the provisions of paragraph 3.3.2 of IFRS 9, as at 23 November 2022, to derecognize the financial liability in question, since the aforementioned

[44] 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)".

interventions by the ECB can be considered as substantial modification of the contractual terms, and therefore to re-recognize the item in accordance with the new lending terms and subsequent valuation in compliance with paragraph B.5.4.5 of IFRS 9.

Moreover, three additional early repayment dates were introduced for TLTRO III loans at November 23, 2022, January 25, 2023 and February 22, 2023.

Interest rate benchmarks – Benchmark Regulation (BMR)

On the basis of the new regulatory framework defined by Regulation (EU) no. 2016/1011 of the European Parliament and of the Council of June 8, 2016 (the "Benchmarks Regulation – BMR"),[45] the European Money Market Institute - EMMI - the administrator of the EURIBOR and EONIA indices, concluded that none of the benchmarks it administers was compliant with the BMR. Consequently, it was decided to:

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

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

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

With regard to the finance area, and in particular OTC derivatives transactions carried out with market counterparties, the entire contractual framework was revised by adopting the new ISDA Master Agreement (ISDA) protocol and implementing the corrective actions envisaged to manage the transition. Significant activities, for example for operations in euros, include a revision of the overnight discount curve (which for this currency was the EONIA curve) used as part of collateral management activities envisaged in the contractual documentation supplementing ISDA contracts, notably Credit Support Annexes (CSAs) at the supervised intermediary level.

Following the discontinuation of EONIA as of January 3, 2022, the Bank initiated renegotiations with the counterparties in outstanding CSAs, primarily opting to use the €STR Flat discount curve (€STR Discounting).

Since most of the quotations of "LIBOR" benchmark rates have no longer been available since January 1, 2022, the Banking Group has adopted the "IBOR ISDA fallback rates" for GBP, JPY, CHF and USD as substitutes for LIBOR. These rates, which comply with the Benchmarks Regulation, are determined by Bloomberg on behalf of the ISDA and are published daily on Bloomberg's FBAK page.

In this regard, the new risk free rates available on the market (SONIA, TONAR, SARON and SOFR) within the various currency areas are overnight rates determined daily on the basis of transactions conducted on the money market, whereas the various LIBOR rates, which have been terminated, instead had a range of maturities. Obtaining replacement rates for LIBOR with a term of more than one day, starting from one of the aforementioned risk-free overnight rates, can adopt two different approaches: backward-looking or forward-looking.

As regards the issue of contractual fallback language and the clauses necessary for informing customers of decisions regarding the benchmark indices, the Parent Company Iccrea has drafted a standard fallback clause which has been incorporated into existing MCD and CCD contracts, sending customers a specific notice of the change, and been integrated into standard contracts for new customers, in line with the mechanism envisaged under the BMR regulations. Contracts with non-consumer counterparties have long contained a specific clause concerning the management of changes affecting the benchmarks.

With regard to the quantification of the exposure to the LIBOR USD rate, at the reporting date of these financial statements the negligible number of remaining derivatives contracts indexed to that rate were terminated early.

Scope of risks and progress towards completion of the transition

With specific regard to operations in euros, the Parent Company has adopted the ISDA 2021 EONIA Collateral Agreement Fallbacks Protocol in order to manage the entry of the new index. The transition from EONIA to the new €STR was managed by calculating EONIA as equal to the new €STR plus a spread of 8.5 bp.

[45] The regulation set out the new regulatory framework governing the benchmark rates EURIBOR, LIBOR and EONIA, aligning market indices and the methodology with which they are calculated with international principles in order to ensure the integrity of the reference parameters used in the euro area (including benchmark interest rates), reducing the scope for discretion, improving governance controls and addressing conflicts of interest.

In order to ensure effective management of the transition to the new market parameters, given that adoption of the Protocol does not prejudice the finalization of bilateral agreements with market counterparties, in 2021 the Parent Company has begun a review of CSA contracts mainly providing for the use of €STR Flat instead of EONIA Discounting.

Since most of the quotations of "LIBOR" benchmark rates have no longer been available since January 1, 2022, the Banking Group has adopted the “IBOR ISDA fallback rates” for GBP, JPY, CHF and USD as substitutes for LIBOR. These rates, which comply with the Benchmarks Regulation, are determined by Bloomberg on behalf of the ISDA and are published daily on Bloomberg's FBAK page.

In this regard, the new risk free rates available on the market (SONIA, TONAR, SARON and SOFR) within the various currency areas are overnight rates determined daily on the basis of transactions conducted on the money market, whereas the various LIBOR rates, which have been terminated, instead had a range of maturities. Obtaining replacement rates for LIBOR with a term of more than one day, starting from one of the aforementioned risk-free overnight rates, can adopt two different approaches: backward-looking or forward-looking.

In the specific case, the IBOR ISDA fallback rates available for maturities longer than one day are of the backward-looking type, i.e. they are calculated on the basis of the values of the risk-free rates actually registered in a given time interval, which constitutes the observation period.

Specifically, the IBOR ISDA fallback rates are calculated as the sum of:

- each of the above risk-free rates, as recorded and capitalized daily over a period of time consistent with the maturity considered (1 month, 3 months, 6 months, etc.). In other words, for each risk free rate, the geometric mean is calculated for the observation period considered;
- the spread adjustments calculated, within the framework of the ISDA protocol, as the average of the differences observed, over a time horizon of 5 years, between each IBOR and the related overnight rates.

As regards the issue of contractual fallback language and the clauses necessary for informing customers of decisions regarding the benchmark indices, the Parent Company Iccrea has drafted a standard fallback clause which has been incorporated into existing MCD and CCD contracts, sending customers a specific notice of the change, and been integrated into standard contracts for new customers, in line with the mechanism envisaged under the BMR regulations. Contracts with non-consumer counterparties have long contained a specific clause concerning the management of changes affecting the benchmarks.

Quantitative information on non-derivative financial assets and liabilities and derivative instruments that have yet to switch to an alternative benchmark rate at the end of the reporting period, disaggregated by the benchmark for determining interest rates, is provided below.

Purchase of tax credits

Among the urgent measures deployed in response to the COVID 19 pandemic and to support the real economy, Decree Law 18/2020 (the “Cure Italy Decree”) and Decree Law 34/2020 (the “Revival Decree”) introduced specific tax incentives into Italian law in the form of tax credits. In view of the economic substance of these transactions, their accounting treatment is based - by analogy and where applicable - on the provisions of IFRS 9 on financial instruments.

More specifically, at the time of initial recognition, the tax credit is recognized at the purchase price – comparable to a Level 3 fair value, given that there are no official markets or comparable transactions - satisfying the condition established under IFRS 9 according to which financial assets and liabilities must be initially recognized at fair value. Subsequent measurement of these assets during the acceptance of the tax credit in the “tax box”, the Bank determines which business model it intends to use to classify the individual tax credit purchased:

- HTC, i.e. credits acquired for the purpose of holding them to offset against tax liabilities;
- HTCS, i.e. credits acquired for the purpose of holding them either to offset against tax liabilities or to sell them;
- Other, i.e. credits purchased for the purpose of re-transferring them.

For credit designated as being held under an HTC business model, referring to the rules under IFRS 9 regarding financial assets at amortized cost and considering i) the time value of money; ii) the use of an effective interest rate and iii) the use of tax credits through offsetting, the original effective interest rate is determined such that the discounted cash flows associated with the estimated expected future offsets over the expected life of the tax credit - also taking account of the fact that the unused tax credit in each offsetting period cannot be recovered - equal the purchase price of the tax credits. With regard to the use of amortized cost, IFRS 9 requires the periodic review of cash flow estimates and the adjustment of the gross carrying amount of the financial asset to reflect the actual and restated cash flows. In making these adjustments, in compliance with paragraph B5.4.6 of IFRS 9, the new cash flows are discounted at the original effective interest rate. Accordingly, if - during the offsetting period - it is necessary to reformulate the initial estimates regarding the use of the tax credit through offsetting or the actual offsets differ from those assumed, the Bank adjusts the gross carrying amount the tax credit (restated on the basis of the present value of the restated estimates/actual uses of the tax credit, discounted at the original effective interest rate) to properly reflect the use of the tax credit.

In the fourth quarter of 2022, the Bank adopted a business model that envisages possible periodic sales of part of the portfolio (credits not already designated for transfer at the time of purchase but forming part of purchases made as part of such a business strategy) to free up the tax capacity necessary to support the purchase of new credits and respond to the demands of customers. Credits purchased under this new management model were designated as held under the HTCS business model, with consequent measurement at FVOCI.

Tax credits classified under the HTCS business model are measured at fair value. In any case, the IRR (and, consequently, the amortized cost) is calculated for these credits in order to obtain the correct amount of interest at each reporting date with which to offset the fair value delta in equity through profit or loss. Interest income is recognized through profit or loss in the same manner as credits at amortized cost. Changes in fair value are initially recognized through OCI. When the tax credit is cancelled, the changes in fair value previously recognized through OCI and accumulated in equity are taken to profit or loss.

Given the proximity of the purchases made and recorded on the basis of this business model at the reporting date, no valuation effects were recognized in OCI.

Tax credits acquired for the purpose of re-transfer are classified under the Other business model. This occurs when the purchase was made as part of or for the purposes of a re-transfer agreement. Accordingly, no offsetting takes place for credits classified here (except in exceptional cases, as specified below). Tax credits classified under the Other business model are measured at fair value.

Covered bonds

The Bank participated as an Originator in an issue of covered bonds (guaranteed bank bonds) conducted by the Group in 2021 and 2022.

As part of this multi-originator transaction, each participating bank sold high quality assets to a vehicle. The assets were of a quality such as to serve as collateral for the guarantee issued by the vehicle to the subscribers of the covered bonds issued under the program. At the same time, the banks granted the vehicle a subordinated loan (the CB Loan) to fund the purchase of those assets, the repayment of which is linked to the performance of the asset portfolio transferred to the vehicle. Following the sale, the Parent Company issued the covered bonds backed by the aforementioned guarantee. Subsequently, the Parent Company granted a loan with conditions and characteristics consistent with those of the covered bonds issued to the affiliated banks that contributed the assets to be sold.

Under the transaction structure, the Vehicle, making use of a non-Group custodian, receives from the Originator the cash flows represented by the loan payments it collects, the principal amount of which it retains, returning the interest portion to the Originator as remuneration of the loan received. Periodically, the cumulative loan principal collections on the assets forming the cover pool are used to purchase other high credit quality assets from the Originator. The Originator bank undertakes to maintain the credit quality of the cover pool over the course of the transaction. In the event of a deterioration in credit quality, it will repurchase the loans involved from the Vehicle and transfer new high credit quality assets in an amount suitable to replenish the original guarantee.

Very briefly, in addition to the multi-originator profile of the parties transferring the assets that form the cover pool, the transaction is characterized by the identity of the originator bank and the bank granting the vehicle the subordinated loan to purchase the assets. The subordinated loan from the Originator to the Vehicle to finance the purchase of receivables qualifies as a limited-recourse loan, as the repayment and return are conditional on developments in the cover pool. From a substantive point of view, the assignor/lending bank therefore remains exposed to the risk of the assets pledged as collateral as if the transfer had not taken place. It are also required to replenish the guarantee if the quality of the assets deteriorates and their value falls below the thresholds specified in the contractual arrangements.

Taking account of the role played in the transaction and the corresponding risk profiles, as a result of the sale the Bank loses legal title to the assets making up the cover pool. However, those assets continue to be recognized for accounting and financial reporting purposes (as well as for supervisory reporting and prudential purposes) since they do not pass the derecognition test because the assignors retain exposure to the risks and rewards of the assets through the grant of the subordinated limited-recourse loan to the vehicle (in compliance with the provisions of paragraphs 3.2.15 and B3.2.1 of IFRS 9). Accordingly, the Bank continues to apply the ordinary accounting treatment adopted prior to the sale to the transferred assets and recognize a receivable due from the vehicle for the principal amounts collected from the transferred borrower and consequently retroceded to the vehicle. The Bank also recognizes a fictitious financial liability against the consideration received for the sale, disburses the subordinated limited-recourse loan to the Vehicle (which is offset against the fictitious liability for the purposes of presentation in the financial statements), performs the periodic measurement of the offsetting receivables through profit or loss, recognizes the costs of the transaction through profit or loss and recognizes under guarantees granted both the obligation to restore the assets transferred to the Vehicle in the event of impairment, and – given that these are "multi- originator" transactions - its exposure arising from the joint and several nature of the obligation to cover losses that may arise on the assets transferred.

Other issues

The separate interim financial statements have been audited by Mazars Italia S.p.A. 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 Bank 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.

In compliance with 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 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.

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 item 80 “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 item 110 “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 item 70 “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 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.

Pursuant to 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 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 through profit or loss.

Recognition

Financial assets measured at fair value through other comprehensive income are initially recognized at the settlement date for debt or equity securities and at the disbursement date for loans.

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

Measurement

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

Equity instruments classified in this category under the option provided for by IFRS 9 are measured at fair value through other comprehensive income. Unlike other instruments classified here, however, those amounts are not subsequently transferred to profit or loss, even if the instruments are sold (no recycling). Accordingly, the only element associated with the equity instruments recognized through profit or loss is any associated dividends.

Fair value is determined using the criteria adopted for financial assets measured at fair value through profit or loss.

Financial assets measured at fair value through other comprehensive income represented by debt securities are assessed for any significant increase in credit risk (impairment) like assets measured at amortized cost, with the consequent recognition through profit or loss of a provision to cover expected loss. More specifically, if at the measurement date no significant increase in credit risk is found compared with the date of initial recognition (stage 1), the 12-month expected loss is recognized. Conversely, the lifetime expected loss is recognized for instruments whose credit risk has increased significantly since initial recognition (stage 2) and for impaired exposures (stage 3). Equity instruments do not undergo impairment testing.

Derecognition

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

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

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

Recognition of income components

Gains and losses from changes in fair value are recognized in a specific equity reserve until the asset is derecognized, while the amortized cost value of assets measured a 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.

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 item 10 “Interest and similar income”.

Writedowns and writebacks for credit risk and the recognition of an impairment loss are recognized under item 130 “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 under item 70 “Dividends and similar income” 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.

Pursuant to 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 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

Interest on financial assets measured at amortized cost is recognized under item 10 “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 100 “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 item 130 “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 Bank has elected to exercise the option to continue to apply the rules provided for in IAS 39 governing hedge accounting (the “opt-out” option).

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 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 are part of effective hedging relationships.

Macrohedging portfolios of assets and liabilities

The hedging of portfolios of assets and liabilities (macrohedging) and the corresponding presentation in the accounts is possible subject to:

- identification of the hedged portfolio and bucketization of the portfolio based on the frequency of payment of the installments and on the maturity of the individual transactions making up the portfolio;
- designation of the nominal amount covered by the hedge;
- identification of the level of the hedged interest rate;
- definition and designation of the hedging instrument(s);
- measurement of the effectiveness of the hedging relationship.

A portfolio covered by interest rate risk hedging may contain both financial assets and liabilities that share exposure to the interest rate risk factor. This portfolio is analyzed through bucketization in accordance to the contractual payment deadlines in order to define the most appropriate hedging instrument based on the objective of optimizing interest rate risk management and estimating pre-payment events.

Macrohedging transactions exclusively concern portfolios of financial assets represented by fixed-rate loans or variable-rate loans with a minimum/maximum rate for customers.

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 item 50 “Hedging derivatives” on the asset side of the balance sheet, while derivatives with a negative fair value at the reporting date are recognized under item 40 “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 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.

The changes in fair value of the hedged instruments and those used as hedging instruments in a fair value hedge are recognized under item 90 of the income statement "Net gain (loss) on hedging activities". The same item is used to hedge the ineffective portion or any overhedging of the cash flow hedge derivative measured against the theoretical derivative (ineffective portion of the hedge).

In the case of generic fair value hedges ("macro hedges"), the changes in fair value associated with the interest rate risk of the hedged assets or liabilities are recognized, respectively, under item 60 "Value adjustments of financial assets hedged generically" or 50. "Value adjustments of financial assets hedged generically" against item 90 of the income statement "Net gain (loss) on hedging activities".

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).

Joint control is the contractually agreed sharing of control of an arrangement.

Associates comprise companies in which an entity holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Group exercises a significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control.

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 equity investments in associates and jointly ventures are measured using the equity method (for further 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 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, 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

Dividends received from equity investments are recognized in the income statement under item 70 “Dividends and similar income” when the right to receive payment is established.

Impairment losses on subsidiaries, associates and joint ventures are recognized at cost in the income statement under item 220 “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 item 220.

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 Bank 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 Bank 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.

The right-of-use asset is recognized at the time the underlying asset is effectively ready 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.

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 Bank 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 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 250 "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 the income statement 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 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

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 each annual or interim 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 item 190 “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 item 240 “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 250 “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 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 Bank 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 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.

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 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 be 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 item 20 “Interest and similar expense” in the income statement.

Lease liabilities are restated in the event of a lease modification (e.g. a modification of the scope of the lease) that is not accounted for/considered as a separate contract.

In addition to cases of extinguishment and expiration, financial liabilities reported in these items are also derecognized when previously issued securities are repurchased. In this case, the difference between the carrying amount of the liability and the amount paid to repurchase it is recognized in the income statement under item 100 “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 through profit or loss. Please see Part 4 “Fair value disclosures” of these explanatory notes 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 under item 80 “Net gain (loss) on trading activities”.

13 – Financial liabilities designated as at fair value

Classification

This item reports financial liabilities designated as at fair value through profit or loss under the option permitted to entities in IFRS 9 (the “fair value option”). More specifically, financial liabilities are irrevocably designated as at fair value through profit or loss if, and only if, doing so eliminates or significantly reduces an accounting mismatch due to a measurement inconsistency or if 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. With regard to the criteria for determining fair value, please see section 16. “Other information” and Part A.4 “Fair value disclosures” of these explanatory notes.

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, a 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 item 80 “Net gain (loss) on trading activities”. Exchange rate differences relating to the two categories referred to above are recognized in under item 110 “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 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. In the absence of such assets or liabilities, they are recognized under “Other assets” (item 120 of assets) or “Other liabilities” (item 80 of 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 a period that does not exceed the term of the lease and amortization charges are reported under other operating expenses.

Determination of amortized cost

Amortized cost is applied to financial assets and liabilities measured at amortized cost 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.

For inflation-linked BTPs - the overall performance of which does not depend solely on its real components but also on the developments in inflation, to which these bonds are indexed[46] - the measurement method adopted provides for the sterilization of the inflation effect in the calculation of the IRR and its inclusion in amortized cost, so as to generate a perfect adjustment of the value of holdings to changes in inflation. Accordingly, the value of the holding increases (or decreases) in proportion to the inflation coefficient, so that at the maturity of the security its value is equal to the redemption value.

More specifically, the methodology applied makes it possible to adjust the average carrying price of the security to the presumable redemption value by varying the associated value of the holdings in a manner consistent with the indexing parameter. In this way, the effect of inflation is accounted for in the year in which it occurs, in line with the accrual principle, and is summed with the real yield on the securities.

Since the portfolio is revalued based on the current inflation coefficient, the weighted average price between existing holdings and any purchases subsequently is determined consistently, i.e. between comparable quantities.

The fact that the effect of inflation is accounted for on an accrual basis means that:

- net interest income shows the contribution linked both to the real yield of the security (coupons and accrued interest) and the inflation component, the latter through the recognition of the portion at amortized cost deriving from the revaluation of the value of the securities held in the portfolio. This means that, for example, when a non-negligible inversion occurs in the inflation trend, the

[46] The overall performance of inflation-linked BTPs depends on two components: an a priori element, i.e. the real yield, and another linked to inflation, which determines the revaluation of coupons and principal. The value of the security is therefore made to evolve as a function of both effects.

contribution of inflation-linked BTPs to net interest income could decline due to the amortized cost portion (given by the difference between the amortized cost value of holdings indexed to inflation recorded at time t compared with that recorded at time t-1), which at that point would become negative;

- net interest income may exhibit a certain variability over the 12 months of the year, since the value of the inflation index is typically cyclical and can display substantial seasonal variations. This effect can be particularly marked for securities indexed to the European inflation index ("CPTFEMU"), involving sudden changes in the inflation coefficients, especially in the months of March (negative) and May (positive). The carrying price at amortized cost, as it is calculated - as envisaged under applicable regulation - on the basis of the presumable redemption value, displays the same seasonal variations. In any event, since seasonal variations offset a 12-month time horizon, they do not generate any distortion on an annual basis.

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 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 (LCR) 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 PD lower or equal to a specified threshold 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.

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.

Equity securities and CIUs

Equity securities and units of collective investment undertakings, regardless of the accounting portfolio to which they are allocated, do not undergo impairment testing as they are measured at fair value.

Other non-financial assets

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

As regards real estate, fair value is mainly determined on the basis of an appraisal prepared by an independent expert.

Intangible assets recognized following acquisitions and in application of IFRS 3 at each reporting date undergo impairment testing to determine whether there is objective evidence that the asset may have incurred an impairment loss.

If there is evidence of impairment, intangible assets with a finite life undergo a new valuation to determine the recoverability of the carrying

amount. Recoverable value is determined on the basis of value in use, i.e. present value, as estimated using a rate representing the time value of money, the specific risks of the asset and the margin generated by relationships in place at the valuation date over a time horizon equal to the residual term of those relationships.

Since intangible assets with an indefinite life, represented by goodwill, do not generate autonomous cash flows, they undergo annual testing of their carrying amount for the cash generating unit (CGU) to which the values were allocated in the related business combinations. The amount of any impairment is determined on the basis of the difference between the carrying amount of the CGU and the recoverable 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. Those cash flows are determined using the most recent public business plan or, in the absence of such a plan, an internal forecasting plan developed by management.

Normally, the specific forecasting period covers a maximum time horizon of three years. The flow in the final year of the forecasting period is projected forward in perpetuity, using an appropriate growth rate "g" for the purposes of the terminal value.

In calculating value in use, the cash flows must be discounted using a rate that reflects the current time value of money and the specific risks to which the asset is exposed. More specifically, the discount rates adopted incorporate current market values for the risk-free rate and equity premiums observed over a sufficiently long period of time to reflect different market conditions and business cycles. In addition, different betas are used for each CGU in consideration of the different risk levels in their respective operational environments.

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

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 item 40 “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 Bank has recognized in accordance with IFRS 15 (deferred income).

Any losses and value adjustments on such guarantees are reported under item 170 “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 Bank 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.

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.

If the business combination, whatever its nature, 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.

A.3 – DISCLOSURES ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

Following adoption of IFRS 9, the Bank has not changed the business model it uses to manage its financial assets and, accordingly, no financial assets have been transferred between portfolios.

A.4 – FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURES

This section provides the disclosures on the fair value of financial instruments as requested under IFRS 13, in particular paragraphs 91 and 92.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the "exit price") on the principal (or most advantageous) market, regardless of whether that price is directly observable or is estimated using a valuation technique.

Prices on an active market are the best indication of the fair value of financial instruments (Level 1 in the fair value hierarchy). In the absence of an active market or where prices are affected by forced transactions, fair value is determined on the basis of the prices of financial instruments with similar characteristics (Level 2 inputs – the comparable approach) or, in the absence of such prices as well, with the use of valuation techniques that use market inputs to the greatest extent possible (Level 2 inputs – model valuation - mark to model). Where market data is not available, inputs not drawn from the market and estimates and model forecasts may be used (Level 3 inputs – model valuation - mark to model). Where market data is not available, inputs not drawn from the market and estimates and model forecasts may be used (Level 3 inputs – model valuation - mark to model).

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

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

Mark to market

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

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

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

The 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.

Thus, the technique does not give rise to a single classification within the fair value hierarchy. Depending on the observability and materiality of the inputs used in the valuation model, an instrument could be assigned to Level 2 or Level 3.

A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

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

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

- bonds are measured using a discounted cash flow model. The discount rule based on the guarantor's yield curve is applied to these securities, failing which the sectoral curve corresponding to the rating of the security (or of the guarantor in case of unavailability) and the guarantor's product sector is used. The inputs used include yield curves and any illiquidity spread;
- structured bonds are measured using a discounted cash flow model that incorporates valuations from option pricing models. The discount rule based on the guarantor's yield curve is applied to these securities, failing which the sectoral curve corresponding to the rating of the security (or of the guarantor in case of unavailability) and the guarantor's product sector is used. The inputs used include yield curves and any illiquidity spread, as well as volatility surfaces and the correlation matrix for the underlyings;
- asset backed securities (ABS) are measured using the discounted sum of expected future cash flows. The cash flow model estimates future developments in the underlying asset portfolio, taking account of payment reports, market data and model input parameters, applying the priority of payments to obtain the expected future cash flows for the notes (interest and principal). Once the expected cash flows have been obtained, the PV of each individual note is obtained by discounting these flows using the discount margin method for variable-rate securities, or the discount yield for fixed-rate securities. The inputs used include, in addition to the government securities yield curve, the illiquidity spread and yield curves;
- derivatives on interest rates such as the various forms of IRS (IRS plain vanilla, forward starting, amortizing, etc.) are measured using a discounted cash flow model within a multi-curve valuation framework based on OIS/BC discounting;
- interest rate options, such as cap/floors and European swaptions, are measured using the Bachelier model whose market input parameters are the volatility matrix for those instruments and interest rates, within a multi-curve valuation framework based on OIS/BC discounting;
- options whose underlyings are equities and CIUs are measured 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 matrix, as well as the inclusion of dividends. The inputs used are the price of the underlying equity, the volatility surface and the interest rate dividend curve. The estimate of the value uses the OIS/BC discounting approach;
- derivatives on exchange rates are measured 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. The estimate of the value uses the OIS/BC Discounting Approach;;
- derivatives on inflation, such as zero-coupon indexed inflation swaps and CPI swaps, are measured using discounted cash flow models which are in turn measured on the basis of the forward inflation curve and seasonal factors (CPI Cash Flow Model), within a multi-curve valuation framework based on OIS/BC discounting;
- equity securities are measured at fair value estimated using models applied in valuation practice or using balance sheet, income or mixed methods, the market multiples method 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 (liquidity-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, bond funds and loan-based funds (impaired and performing);
- 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.

It is also possible to apply valuation adjustments to the prices of financial instruments when the valuation technique used does not capture factors that market participants would use in estimating fair value, for example when it is necessary to ensure that the fair value reflects the value of a transaction that could actually be carried out in a market.

The factors impacting the need for an adjustment include the complexity of the financial instrument; the credit standing of the counterparty; and the presence of any collateral agreements. In particular, the Group uses a method for calculating the CVA/DVA (Credit Value Adjustments/Debt Value Adjustments) in order to adjust the calculation of the fair value of uncollateralized derivatives in order to take account of counterparty risk (non-performance risk). The CVA/DVA is not calculated when collateral agreements have been formalized and are operational for derivatives positions.

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

- estimates and assumptions underlying the models used to measure investments in equity securities and units in CIUs;
- 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;
- the liquidity spreads used in the mark-to-model measurement of ABS.

A.4.2 VALUATION PROCESSES AND SENSITIVITY

The Bank uses sensitivity analyses of unobservable inputs conducted by the Parent Company 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).

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. 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 CIUs whose prices are provided by the issuing entity (the so-called “soft NAV”) or whose fair value is adjusted using pricing models based on observable market inputs;
- insurance policies and interest-bearing postal bonds whose fair value is approximated, respectively, by the surrender and redemption value, which under applicable regulations represent the exit prices for those instruments.
- Finally, the following are normally considered Level 3:
- debt securities not listed on an active market and measured using approaches that mainly employ unobservable inputs;
- debt securities whose fair value is equal to the prices provided by brokers/market makers determined with a valuation model based on unobservable inputs;
- equity securities and issued financial liabilities for which there are no prices quoted on active markets at the valuation date and which are mainly valued using techniques based on unobservable market data;
- OTC financial derivatives entered into with institutional counterparties and measured using pricing models similar to those used for Level 2 valuations but from which they differ in the degree of observability of the inputs used in the pricing techniques;
- financial derivatives entered into with customers for which the fair value adjustment taking account of default risk is significant with respect to the total value of the financial instrument;
- units of CIUs whose prices are provided by the issuing entity (the so-called “soft NAV”) or whose fair value is adjusted using pricing models not based entirely on observable market 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.

A.4.4 OTHER INFORMATION

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

	30/06/2023			31/12/2022		
	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	424,012	1,760,676	404,333	295,566	1,816,129	409,929
a) financial assets held for trading	80,660	1,662,561	-	11,521	1,732,427	184
b) financial assets designated as at fair value	310,300	21,455	-	249,872	20,948	-
c) other financial assets mandatorily measured at fair value	33,052	76,659	404,333	34,173	62,755	409,746
2. Financial assets measured at fair value through comprehensive income	799,171	298,222	12,764	769,093	300,295	10,088
3. Hedging derivatives	-	506,295	-	-	570,702	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	1,223,183	2,565,193	417,097	1,064,659	2,687,126	420,017
1. Financial liabilities held for trading	9,208	1,634,242	-	5,017	1,724,226	-
2. Financial liabilities designated as at fair value	-	380,918	-	-	352,484	-
3. Hedging derivatives	-	72,553	-	-	165,494	-
Total	9,208	2,087,713	-	5,017	2,242,204	-

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) and the Debt Value Adjustment (for default risk of the Bank) did not give rise to any changes.

A.5 – DISCLOSURE ON “DAY ONE PROFIT/LOSS”

During the period under review, no differences emerged between the fair values posted at the time of initial recognition and the values recalculated at the same date using valuation techniques in accordance with 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 30/06/2023	Total 31/12/2022
a) Cash	125,912	146,708
b) Current accounts and demand deposits with central banks	604,026	144,164
c) Current accounts and demand deposits with banks	691,214	670,045
Total	**1,421,152**	**960,917**

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 €11.9 million and about €92 million in respect of instant payments. At the end of the period, the item also includes €500 million in overnight deposits with the ECB.

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 30/06/2023			Total 31/12/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**78,569**	**6,365**	**-**	**8,649**	**3**	**183**
1.1 structured securities	4,347	1	-	3,416	-	-
1.2 other debt securities	74,222	6,364	-	5,233	3	183
2. Equity securities	**465**	**-**	**-**	**1,912**	**-**	**-**
3. Units in collective investment undertakings	**94**	**35**	**-**	**92**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	**79,128**	**6,400**	**-**	**10,653**	**3**	**184**
B. Derivatives						
1. Financial derivatives	**1,532**	**1,656,161**	**-**	**868**	**1,732,424**	**-**
1.1 trading	1,532	1,656,161	-	868	1,732,424	-
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)	**1,532**	**1,656,161**	**-**	**868**	**1,732,424**	**-**
Total (A+B)	**80,660**	**1,662,561**	**-**	**11,521**	**1,732,427**	**184**

2.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/06/2023			Total 31/12/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**310,300**	**21,455**	**-**	**249,872**	**20,948**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	310,300	21,455	-	249,872	20,948	-
2. Loans	**-**	**-**	**-**	**-**	**-**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other	-	-	-	-	-	-
Total	**310,300**	**21,455**	**-**	**249,872**	**20,948**	**-**

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 30/06/2023			Total 31/12/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**-**	**36,435**	**2,360**	**24,978**	**35,921**	**2,306**
1.1 structured securities	-	5,267	2,072	6,674	5,079	2,031
1.2 other debt securities	-	31,167	288	18,305	30,842	275
2. Equity securities	**33,052**	**24,260**	**9,546**	**9,195**	**21,463**	**9,790**
3. Units in collective investment undertakings	**-**	**15,965**	**392,422**	**-**	**5,371**	**397,645**
4. Loans	**-**	**-**	**5**	**-**	**-**	**5**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	5	-	-	5
Total	**33,052**	**76,659**	**404,333**	**34,173**	**62,755**	**409,746**

“Units in collective investment undertakings” includes, among others, the units of the closed-end investment funds “Securis Real Estate” managed by Investire SGR S.p.A.:

- Securis Real Estate III, in the amount of €86,459 thousand;
- Securis Real Estate II, in the amount of €97,101 thousand;
- Securis Real Estate I, in the amount of €168,712 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 30/06/2023			Total 31/12/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**799,171**	**20,593**	**-**	**769,093**	**24,675**	**-**
1.1 structured securities	102,873	-	-	57,903	4,002	-
1.2 other debt securities	696,298	20,593	-	711,191	20,672	-
2. Equity securities	**-**	**277,629**	**12,764**	**-**	**275,621**	**10,088**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	799,171	298,222	12,764	769,093	300,295	10,088

3.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: GROSS VALUE AND TOTAL WRITEOFFS

		Gross amount					Total writeoffs				Total partial writeoffs *
		Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Purchased or originated credit-impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired	
Debt securities		787,770	785,323	32,808	-	-	(213)	(602)	-	-	-
Loans		-	-	-	-	-	-	-	-	-	-
Total	30/06/2023	787,770	785,323	32,808	-	-	(213)	(602)	-	-	-
Total	31/12/2022	763,209	749,967	32,175	-	-	(250)	(1,367)	-	-	-

** Value to be reported for information purposes*

3.3A LOANS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME INVOLVED IN COVID-19 SUPPORT MEASURES: GROSS AMOUNT AND TOTAL WRITEOFFS

The table has not been completed because there were no such positions as at the reporting date.

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 30/06/2023						Total 31/12/2022					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	Purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	Purchased or originated credit-impaired	Level 1	Level 2	Level 3
A. Claims on central banks	**583,054**	**-**	**-**	**-**	**-**	**583,054**	**589,459**	**-**	**-**	**-**	**-**	**589,459**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	583,054	-	-	X	X	X	589,459	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**32,200,637**	**-**	**-**	**192,924**	**31,028,073**	**863,323**	**35,064,229**	**-**	**-**	**185,932**	**33,870,543**	**811,689**
1. Financing	29,909,227	-	-	-	29,119,470	763,744	33,453,762	-	-	-	32,593,425	777,178
1.1. Current accounts and demand deposits	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Fixed-term deposits	80,606	-	-	X	X	X	85,919	-	-	X	X	X
1.3. Other financing:	29,828,622	-	-	X	X	X	33,367,843	-	-	X	X	X
- Repurchase agreements	5,483	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	29,823,139	-	-	X	X	X	33,367,843	-	-	X	X	X
2. Debt securities	2,291,410	-	-	192,924	1,908,603	99,579	1,610,467	-	-	185,932	1,277,119	34,511
2.1 Structured securities	83,340	-	-	13,334	69,777	-	85,302	-	-	12,884	71,615	-
2.2 Other debt securities	2,208,070	-	-	179,590	1,838,826	99,579	1,525,165	-	-	173,048	1,205,503	34,511
Total	**32,783,691**	**-**	**-**	**192,924**	**31,028,073**	**1,446,377**	**35,653,688**	**-**	**-**	**185,932**	**33,870,543**	**1,401,148**

Loans connected with pool collateral operations amount to €25,239 million of which €17,442 million granted within the framework of TLTRO with the European Central Bank and included under letter “B”, item “Other financing– Other”. Securities pledged as collateral amount to €22,274 net of the haircut applied to the various types of securities. For more information, please see the Report on Operations.

4.2 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN BY PRODUCT OF LOANS AND RECEIVABLES WITH CUSTOMERS

	Total 30/06/2023						Total 31/12/2022					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	Purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	Purchased or originated credit-impaired	Level 1	Level 2	Level 3
1. Loans	**6,215,597**	**57,485**	**-**	**-**	**2,493,192**	**3,572,113**	**7,041,809**	**37,446**	**-**	**-**	**2,682,992**	**4,247,080**
1.1. Current accounts	262,437	5,760	-	X	X	X	191,375	4,671	-	X	X	X
1.2. Repurchase agreements	90,972	-	-	X	X	X	728,304	-	-	X	X	X
1.3. Medium/long term loans	2,637,200	49,314	-	X	X	X	2,729,605	31,082	-	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from pensions/wages	-	-	-	X	X	X	-	-	-	X	X	X
1.5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other loans	3,224,989	2,411	-	X	X	X	3,392,525	1,693	-	X	X	X
2. Debt securities	**9,585,440**	**502**	**-**	**9,323,684**	**51,338**	**150,082**	**8,340,551**	**11**	**-**	**7,910,609**	**33,630**	**160,745**
2.1 Structured securities	141,809	-	-	42,539	2,901	89,852	142,693	-	-	71,692	2,873	98,574
2.2 Other debt securities	9,443,631	502	-	9,281,146	48,437	60,230	8,197,859	11	-	7,838,917	30,757	62,171
Total	**15,801,037**	**57,987**	**-**	**9,323,684**	**2,544,530**	**3,722,195**	**15,382,360**	**37,457**	**-**	**7,910,609**	**2,716,622**	**4,407,824**

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

		Gross amount					Total writeoffs				
		Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Purchased or originated credit-impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired	Partial writeoffs*
Debt securities		11,776,733	9,776,014	108,811	708	-	(2,137)	(6,557)	(207)	-	-
Loans		36,131,680	706,087	623,330	198,650	-	(15,380)	(31,752)	(141,164)	-	(29,478)
Total	**30/06/2023**	**47,908,413**	**10,482,101**	**732,141**	**199,358**	**-**	**(17,517)**	**(38,309)**	**(141,371)**	**-**	**(29,478)**
Total	**31/12/2022**	**50,227,625**	**7,860,191**	**871,505**	**154,204**	**-**	**(20,644)**	**(42,438)**	**(116,747)**	**-**	**(29,478)**

** 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 30/06/2023			NV	FV 31/12/2022			NV
	L1	L2	L3	30/06/2023	L1	L2	L3	31/12/2022
A. Financial derivatives								
1. Fair value	-	506,295	-	5,362,873	-	570,702	-	4,889,441
2. Cash flows	-	-	-	-	-	-	-	-
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**506,295**	**-**	**5,362,873**	**-**	**570,702**	**-**	**4,889,441**

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 30/06/2023	Total 31/12/2022
1. Positive adjustments	**-**	**-**
1.1 of specific portfolios:	-	-
a) financial assets measured at amortized cost	-	-
b) financial assets measured at fair value through comprehensive income	-	-
1.2 comprehensive	-	-
2. Negative adjustments	**(1,050)**	**(1,101)**
2.1 of specific portfolios:	(1,050)	(1,101)
a) financial assets measured at amortized cost	-	-
b) financial assets measured at fair value through comprehensive income	(1,050)	(1,101)
2.2 comprehensive	-	-
Total	**(1,050)**	**(1,101)**

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	% holding	% votes
A. Subsidiaries				
BCC Leasing S.p.A.	Rome	Rome	100.0	100.0
BCC Beni Immobili S.r.l.	Milan	Rome	100.0	100.0
BCC Factoring S.p.A.	Rome	Milan	100.0	100.0
BCC POS S.p.A.	Rome	Rome	100.0	100.0
BCC Sistemi Informatici S.p.A.	Milan	Milan	100.0	100.0
BCC Risparmio e Previdenza SGrpA	Milan	Milan	100.0	100.0
BCC Gestione Crediti S.p.A.	Rome	Rome	100.0	100.0
BCC CreditoConsumo S.p.A.	Rome	Udine	100.0	100.0
BCC Sinergia S.p.A.	Rome	Rome	100.0	100.0
BCC Servizi Assicurativi S.r.l.	Milan	Milan	100.0	100.0
Banca Sviluppo S.p.A.	Rome	Rome	99.3	100.0
Iccrea Covered Bond	Rome	Rome	90.0	90.0
BCC Financing S.p.A.	Udine	Udine	100.0	100.0
BCC Rent&Lease S.p.A.	Rome	Milan	100.0	100.0
Bit - Servizi per L'Investimento sul Territorio	Parma	Parma	82.8	97.4
*Bcc della Calabria Ulteriore (Acquirer of Vibonese - Crotonese - Cittanova)	Crotone	Crotone	39.8	92.8
*Banca Centropadana	Lodi	Lodi	39.4	98.1
*Banca Terre Etrusche Di Valdichiana e di Maremma (Acquirer of Valdichiana)	Chiusi	Chiusi	58.5	98.6
*Banca Centro (Acquirer of Vival Banca)	Pistoia	Pistoia	33.0	96.7
*BCC di Bari e Taranto (Acquirer of Taranto e Massafra)	Massafra	Massafra	11.2	87.2
*Banca Di Pisa e Fornacette	Pisa	Pisa	41.5	96.7
B. Joint ventures				
C. Companies subject to significant influence				
Hbenchmark S.r.l.	Vicenza	Vicenza	10.0	10.0
Pitagora Finanziamenti Contro Cessione del Quinto S.P.A.	Turin	Turin	9.9	9.9
Vorvel Società di Intermediazione Mobiliare S.p.A. (formerly Hi-Mtf S.p.A.)	Milan	Milan	20.0	20.0
BCC Vita S.p.A.	Milan	Milan	30.3	30.0
BCC Assicurazioni S.p.A.	Milan	Milan	30.3	30.0
Pay Holding S.p.A.	Milan	Milan	40.0	40.0

*The equity investments held in the mutual banks referred to above are attributable to the funding initiatives (Article 150-ter of the Consolidated Banking Act) subscribed pursuant to Article 6 of the Cohesion Contract concerning the Guarantee Scheme, which were subscribed in part by the Parent Company.

7.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

The table has not been completed because the Bank prepares consolidated financial statements pursuant to the provisions of Circular 262 of December 22, 2005 - 8th update of November 17, 2022.

SECTION 8 - PROPERTY, PLANT AND EQUIPMENT – ITEM 80

8.1 OPERATING PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

	Total 30/06/2023	Total 31/12/2022
1. Owned assets	**194**	**201**
a) land	-	-
b) building	-	-
c) movables	187	190
d) electrical plants	5	9
e) other	2	3
2. Right-of-use assets acquired under finance leases	**2,599**	**2,300**
a) land	-	-
b) building	1,082	245
c) movables	-	-
d) electrical plants	-	-
e) other	1,516	2,056
Total	**2,793**	**2,502**
of which: obtained through enforcement of guarantees received	-	-

SECTION 9 – INTANGIBLE ASSETS – ITEM 90

9.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 30/06/2023		Total 31/12/2022	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**-**	**X**	**-**
A.2 Other intangible assets	**393**	**-**	**536**	**-**
Of which: Software	393	-	536	-
A.2.1 Assets carried at cost	393	-	536	-
a) internally generated intangible assets	-	-	-	-
b) other assets	393	-	536	-
A.2.2 Assets designated at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**393**	**-**	**536**	**-**

SECTION 10 - TAX ASSETS AND LIABILITIES – ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

10.1 DEFERRED TAX ASSETS: COMPOSITION

	30/06/2023		Total	31/12/2022		Total
	IRES	IRAP		IRES	IRAP	
1) Recognized in income statement	**16,565**	**17**	**16,582**	**11,774**	**20**	**11,795**
a) DTA pursuant to Law 214/2011	**1,689**	**17**	**1,706**	**1,689**	**20**	**1,709**
Total	1,411	17	1,428	1,689	20	1,709
Goodwill and other intangible assets recognized at 31.12.2014	-	-	-	-	-	-
Tax losses/negative value of production as per Law 214/2011	278	-	278	-	-	-
b) Other	**14,876**	**-**	**14,876**	**10,085**	**-**	**10,085**
Writedowns of amounts due from banks	468	-	468	357	-	357
Writedowns of loans to customers	75	-	75	82	-	82
Goodwill and other intangible assets	-	-	-	-	-	-
Tax losses	2,287	-	2,287	-	-	-
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	8,012	-	8,012	7,392	-	7,392
Provisions for risks and charges	4,033	-	4,033	2,155	-	2,155
Costs of predominantly administrative nature	-	-	-	-	-	-
Difference between tax value and carrying amount of property, plant and equipment and intangible assets	-	-	-	-	-	-
Other	-	-	-	100	-	100
- Recognized in shareholders' equity	**11,401**	**2,247**	**13,649**	**16,878**	**3,344**	**20,222**
a) Valuation reserves:	**5,432**	**1,100**	**6,532**	**7,284**	**1,475**	**8,759**
Capital losses on financial assets measured through OCI	5,432	1,100	6,532	7,284	1,475	8,759
b) Other:	**5,969**	**1,147**	**7,116**	**9,594**	**1,869**	**11,463**
Actuarial gains/losses on provisions for employees	306	-	306	366	-	366
Other	5,663	1,147	6,810	9,228	1,869	11,097
A. Total deferred tax assets	**27,966**	**2,264**	**30,231**	**28,652**	**3,365**	**32,017**
B. Offsetting with deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets - Total 100 b)	**27,966**	**2,264**	**30,231**	**28,652**	**3,365**	**32,017**

10.2 DEFERRED TAX LIABILITIES: COMPOSITION

	30/06/2023		Total	31/12/2022		Total
	IRES	IRAP		IRES	IRAP	
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:	**3,507**	**710**	**4,217**	**2,747**	**556**	**3,304**
Valuation reserves:						
Capital gains on financial assets measured through OCI	3,507	710	4,217	-	-	-
Revaluation of property	-	-	-	-	-	-
Other	-	-	-	2,747	556	3,304
A. Total deferred tax liabilities	**3,507**	**710**	**4,217**	**2,747**	**556**	**3,304**
B. Offsetting with deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets -Total sub-item 60 b)	**3,507**	**710**	**4,217**	**2,747**	**556**	**3,304**

10.7 OTHER INFORMATION

As regards the Bank's tax position:

- for the financial years 2017, 2018, 2019, 2020 and 2021 (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.

At the reporting date, the Bank not conduct a new non probability test to verify whether the conditions existed for maintaining the registration of existing and newly recognized deferred tax assets as conditions did not change compared with December 31, 2022.

SECTION 11 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 110 OF ASSETS AND ITEM 70 OF LIABILITIES

11.1 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY TYPE

	30/06/2023	31/12/2022
A. Assets held for sale		
A.1 Financial assets	-	5,438
A.2 Equity investments	-	-
A.3 Property, plant and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**-**	**5,438**
of which carried at cost	-	5,438
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	-	-
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	**-**	**-**
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	-	-

SECTION 12 - OTHER ASSETS – ITEM 120

12.1 OTHER ASSETS: COMPOSITION

	Total 30/06/2023	Total 31/12/2022
- Receivables for future premiums on derivatives	9,332	8,480
- Fees and commissions and interest to be received	54,921	45,670
- Tax receivables due from central govt. tax authorities and other tax agencies (including VAT credits)	19,955	29,364
- Tax receivables	210,805	177,339
- Items in transit between branches and items being processed	123,775	151,669
- Financial assets in respect of loans granted for a specific transaction	91,372	84,771
- Accrued income not attributable to separate line item	325	81
- Prepaid expenses not attributable to separate line item	12,309	4,131
- Subsidiaries – Group VAT	8,976	4,258
- Tax consolidation mechanism	11,277	31,323
- Other (security deposits, assets not attributable to other items)	92,754	105,424
Total	635,800	642,509

“Tax receivables” reports tax credits connected with the Superbonus 110% program, which were mainly assigned by the mutual banks in accordance with the provisions of Decree Law 18/2020 and Decree Law 34/2020.

The item “Financial assets in respect of loans granted for a specific transaction” regards the Parent Company’s contribution to the Guarantee Scheme. Mirroring the recognition of amounts under "Other liabilities", €10.4 million was recognized under "Financial assets in respect of loans granted for a specific transaction" in respect of current account liquidity generated by the cash flows connected with targeted loans pursuant to Art. 2447 bis letter b) and 2447 decies of the Civil Code originally granted by the EIB as part of the following initiatives:

- JESSICA POR FESR 2007-2013 for urban development and energy efficiency projects located in the region of Sicily (original amount equal to €53.2 million) and the region of Campania (contractual amount of €31.7 million paid in two tranches of about €15.9 million each);
- StudioSi – an Intelligent Specialization Fund launched at the end of 2020 to promote broad participation in university specialist training, in particular for residents of the South, financed with resources from the 2014-2020 Research and Innovation NOP (contractual resources of €46.5 million co-managed with BCC CreditoConsumo S.p.A., which handles business development and credit management given its specialization in consumer credit);
- EFSI - Sicily Business Emergency Fund activated in 2022 to support the recovery of Sicilian SMEs affected by the COVID-19 emergency, especially in the tourism sector, drawing on resources from the POR FESR Sicila 2014-2020 (contractual resources of €50 million).

At June 30, 2023, in accordance with the provisions of Art. 2447 decies of the Civil Code, the cash and accounting flows connected with repayments of installments, interest payments as well as current account accruals on the loans granted are entirely segregated from the Bank's ordinary activities, being allocated to dedicated current accounts for each of the activities in question. The accounts are held with Banca Sviluppo, which acts as custodian bank. Following the termination of the contractual relationship between the EIB and the Region of Sicily on March 31, 2017, the latter took over (pursuant to Art. 1406 et seq. of the Civil Code) the relationship with Iccrea BancaImpresa first and Iccrea Banca later connected with the JESSICA program.

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 30/06/2023				Total 31/12/2022			
	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	**20,578,925**	X	X	X	**26,290,563**	X	X	X
2. Due to banks	**15,984,177**	X	X	X	**15,302,945**	X	X	X
2.1 Current accounts and demand deposits	5,381,763	X	X	X	5,472,242	X	X	X
2.2 Fixed term deposits	9,865,283	X	X	X	9,365,243	X	X	X
2.3 Loans	557,866	X	X	X	191,118	X	X	X
2.3.1 Repurchase agreements	308,191	X	X	X	-	X	X	X
2.3.2 Other	249,675	X	X	X	191,118	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	179,264	X	X	X	274,342	X	X	X
Total	**36,563,102**	**-**	**35,205,674**	**1,847,123**	**41,593,508**	**-**	**38,686,658**	**2,032,205**

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

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

	Total 30/06/2023				Total 31/12/2022			
	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	**1,221,468**	X	X	X	**1,258,602**	X	X	X
2. Fixed-term deposits	**-**	X	X	X	**-**	X	X	X
3. Loans	9,714,555	X	X	X	6,975,584	X	X	X
3.1 Repurchase agreements	9,159,416	X	X	X	6,383,649	X	X	X
3.2 Other	555,139	X	X	X	591,935	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	2,620	X	X	X	2,335	X	X	X
6. Other liabilities	376,218	X	X	X	427,444	X	X	X
Total	**11,314,861**	**-**	**8,876,624**	**1,827,466**	**8,663,966**	**-**	**6,041,940**	**2,661,527**

The sub-item “Repurchase agreements” is composed entirely of transactions with the Clearing and Guarantee Fund.

The item “Other payables” mainly comprises bankers’ drafts issued but not yet presented for settlement.

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

	Total 30/06/2023				Total 31/12/2022			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	3,949,473	2,824,554	985,667	-	3,425,452	2,305,137	889,758	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	3,949,473	2,824,554	985,667	-	3,425,452	2,305,137	889,758	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	**3,949,473**	**2,824,554**	**985,667**	**-**	**3,425,452**	**2,305,137**	**889,758**	**-**

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 €712 million.

1.4 BREAKDOWN OF SUBORDINATED DEBT/SECURITIES

	30/06/2023	31/12/2022
A.1 Subordinated debt	**-**	**-**
- banks	-	-
- customers	-	-
B.1 Subordinated securities	**711,559**	**715,010**
- banks	711,559	715,010
- customers	-	-
Total	**711,559**	**715,010**

At June 30, 2023 the item includes two subordinated loans with the following features:

- issue date November 28, 2019, Maturity date November 28, 2029, residual nominal value at June 30, 2023: €397.6 million, interest rate 4.125%, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption;
- issue date October 18, 2021, Maturity date January 18, 2032, residual nominal value at December 31, 2022: €298.84 million, interest rate 4.75%, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.

1.5 BREAKDOWN OF STRUCTURED DEBT

As at the reporting date the Bank did not hold structured securities.

1.6 LIABILITIES IN RESPECT OF FINANCE LEASES

Right of use	Falling due within 5 years	Falling due after 5 years
Land	-	-
Buildings	1,059	-
Movables	-	-
Electrical plant	-	-
Other	1,561	-

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/06/2023					Total 31/12/2022				
	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	8,150	6,869	-	-	6,869	3,318	3,334	-	-	3,334
2. Due to customers	2,291	1,790	100	-	1,889	1,933	1,602	-	-	1,602
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	**10,441**	**8,659**	**100**	**-**	**8,759**	**5,251**	**4,936**	**-**	**-**	**4,936**
B. Derivatives										
1. Financial derivatives		549	1,634,142	-		X	81	1,724,226	-	X
1.1 Trading	X	549	1,634,142	-	X	X	81	1,724,226	-	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**	**549**	**1,634,142**	**-**	**X**	**X**	**81**	**1,724,226**	**-**	**X**
Total (A+B)	**X**	**9,208**	**1,634,242**	**-**	**X**	**X**	**5,017**	**1,724,226**	**-**	**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 30/06/2023					Total 31/12/2022				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**378,086**	**-**	**380,918**	**-**	**380,918**	**365,913**	**-**	**352,484**	**-**	**352,484**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	378,086	-	380,918	-	X	365,913	-	352,484	-	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	**378,086**	**-**	**380,918**	**-**	**380,918**	**365,913**	**-**	**352,484**	**-**	**352,484**

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 30/06/2023			NV	Fair value 31/12/2022			NV
	L1	L2	L3	30/06/2023	L1	L2	L3	31/12/2022
A) Financial derivatives	**-**	**72,553**	**-**	**2,696,326**	**-**	**165,494**	**-**	**2,524,558**
1) Fair value	-	41,458	-	1,695,426	-	83,175	-	1,235,965
2) Cash flows	-	31,095	-	1,000,900	-	82,318	-	1,288,593
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**72,553**	**-**	**2,696,326**	**-**	**165,494**	**-**	**2,524,558**

Key:
NV=Notional value
L1=Level 1
L2= Level 2
L3= Level 3

SECTION 5 ADJUSTMENTS OF GENERICALLY HEDGED LIABILITIES - ITEM 50

5.1 VALUE ADJUSTMENTS OF HEDGED FINANCIAL LIABILITIES: COMPOSITION BY HEDGED PORTFOLIO

There were no such positions as of the reporting date.

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 30/06/2023	Total 31/12/2022
Amounts due to social security institutions and State	10,059	15,488
Amounts available to customers	58,512	63,241
Liabilities for future premiums on derivatives	1,978	1,987
Tax payables due to tax authorities	29,679	18,055
Payables due to employees	35,567	24,884
Financial liabilities in respect of loans granted for a specific transaction	91,353	84,771
Deferred income not attributable to separate line item	7,814	2,584
Items in transit and items being processed	56,521	86,617
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)	71,771	79,700
Subsidiaries – Group VAT	16,301	3,755
Consolidated taxation mechanism	10,740	22,520
Total	390,296	403,602

The sub-item “Financial liabilities in respect of loans granted for a specific transaction” regards the Parent Company’s contribution to the Guarantee Scheme. The item also include loans originally granted by the EIB; please see section 12, item 120 under assets.

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

		Total 30/06/2023	Total 31/12/2022
A. Opening balance		**12,649**	**15,347**
B. Increases		**287**	**89**
B.1 Provisions for the period		219	89
B.2 Other increases		68	-
C. Decreases		**522**	**2,787**
C.1 Benefit payments		298	1,176
C.2 Other decreases		224	1,612
D. Closing balance		**12,413**	**12,649**
	Total	12,413	12,649

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

		Total 30/06/2023	Total 31/12/2022
1. Provisions for credit risk in respect of commitments and financial guarantees issued		33,385	30,799
2. Provisions for other commitments and guarantees issued		-	-
3. Company pension plans		-	-
4. Other provisions for risks and charges		17,001	9,347
4.1 legal disputes		1,894	2,466
4.2 personnel expense		3,176	3,155
4.3 other		11,931	3,726
	Total	50,386	40,147

SECTION 11 – REDEEMABLE SHARES - ITEM 120

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

SECTION 12 - SHAREHOLDERS' EQUITY - ITEMS 110, 130, 140, 150, 160, 170 AND 180

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

	Total 30/06/2023	Total 31/12/2022
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 30/06/2023	Total 30/06/2022
1. Financial assets measured at fair value through profit or loss	**4,382**	**-**	**-**	**4,382**	**2,499**
1.1 Financial assets held for trading	641	-	-	641	248
1.2 Financial assets designated at fair value	1,910	-	-	1,910	1,198
1.3 Other financial assets mandatorily at fair value	1,832	-	-	1,832	1,053
2. Financial assets measured at fair value through other comprehensive income	**10,132**	**-**	**X**	**10,132**	**1,908**
3. Financial assets measured at amortized cost	**166,244**	**590,282**	**-**	**756,526**	**305,837**
3.1 Due from banks	43,441	483,062	X	526,503	33,018
3.2 Loans to customers	122,803	107,220	X	230,023	272,819
4. Hedging derivatives	**X**	**X**	**(10,197)**	**(10,197)**	**(176,154)**
5. Other assets	**X**	**X**	**3,642**	**3,642**	**3,193**
6. Financial liabilities	**X**	**X**	**X**	**1,920**	**140,270**
Total	180,759	590,282	(6,555)	766,406	277,554
of which: interest income on impaired financial assets	-	3,515	-	3,515	10
of which: interest income from finance leases	X	-	X	-	-

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 30/06/2023	Total 30/06/2022
1. Financial liabilities measured at amortized cost	**(657,797)**	**(68,415)**	**X**	**(726,212)**	**(60,063)**
1.1 Due to central banks	(315,858)	X	X	(315,858)	-
1.2 Due to banks	(179,960)	X	X	(179,960)	(17,068)
1.3 Due to customers	(161,980)	X	X	(161,980)	(1,580)
1.4 Securities issued	X	(68,415)	X	(68,415)	(41,415)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	**X**	**X**	**(1)**	**(1)**	**-**
5. Hedging derivatives	**X**	**X**	**(363)**	**(363)**	**413**
6. Financial assets	**X**	**X**	**X**	**(2,386)**	**(101,896)**
Total	(657,797)	(68,415)	(364)	(728,963)	(161,547)
of which: interest expense on lease liabilities	(26)	X	X	(26)	(26)

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

		Total 30/06/2023	Total 30/06/2022
a) Financial instruments		10,447	10,348
1. Securities placement		7,744	7,570
1.1 With underwriting and/or with irrevocable commitment		-	-
1.2 Without irrevocable commitment		7,744	7,570
2. Order receipt and transmission and order execution for customers		2,442	2,778
2.1 Order receipt and transmission for one or more financial instruments		505	550
2.2 Order execution for customers		1,937	2,229
3. Other fees and commission connected with financial instruments		260	-
of which: trading on own account		-	-
of which: individual portfolio management		260	-
b) Corporate finance		65	1,629
1. Merger and acquisition advisory services		-	-
2. Treasury services		-	-
3. Other fees and commissions connected with corporate finance services		65	1,629
c) Investment advisory services		-	-
d) Clearing and settlement		-	-
e) Custody and administration		3,237	3,128
1. Depository bank		-	-
2. Other fees and commissions connected with custody and administration services		3,237	3,128
f) Central administrative services for collective portfolio management		-	-
g) Trustee services		-	-
h) Payment services		250,658	23,035
1. Current accounts		133	119
2. Credit cards		54,482	-
3. Debit cards and other payment cards		49,714	-
4. Credit transfers and other payment orders		3,954	902
5. Other fees and commissions connected with payment services		142,375	22,014
i) Distribution of third-party services		2,741	-
1. Collective portfolio management		-	-
2. Insurance products		-	-
3. Other products		2,741	-
of which: individual portfolio management		-	-
j) Structured finance		-	-
k) Securitization servicing		-	-
l) Commitments to disburse funds		-	-
m) Financial guarantees issued		1,588	1,580
of which: credit derivatives		-	-
n) Lending transactions		6,265	8,667
of which: for factoring transactions		-	-
o) Currency trading		131	58
p) Goods		-	-
q) Other fee and commission income		8,332	8,859
of which: for management of multilateral trading facilities		-	-
of which: for management of organized trading facilities		-	-
	Total	283,463	57,305

The sub-item "payment services" includes the effect of the agreements for the promotion-distribution of BCC Pay products and services between the Bank and the Group's mutual banks, following the initiative undertaken during the year to reposition the e-money sector.

2.3 FEE AND COMMISSION EXPENSE: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
a) Financial instruments	(9,781)	(3,298)
of which: trading in financial instruments	(880)	(131)
of which: placement of financial instruments	(8,901)	(3,167)
of which: individual portfolio management	-	-
- Own	-	-
- Delegated to third parties	-	-
b) Clearing and settlement	(897)	(987)
c) Custody and administration	(1,050)	(2,565)
d) Collection and payment services	(235,384)	(1,319)
of which: credit cards, debit cards and other payment cards	(226,495)	-
e) Securitization servicing	-	-
f) Commitments to receive funds	-	-
g) Financial guarantees received	(114)	(314)
of which: credit derivatives	-	-
h) Off-premises marketing of financial instruments, products and services	(1,418)	-
i) Currency trading	(22)	(55)
j) Other fee and commission expense	(4,080)	(2,238)
Total	(252,746)	(10,776)

The sub-item "collection and payment services" includes the effect of the agreements for the promotion-distribution of BCC Pay products and services between the Bank and the Group's mutual banks, following the initiative undertaken during the year to reposition the e-money sector.

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 30/06/2023		Total 30/06/2022	
	Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading	114	-	149	-
B. Other financial assets mandatorily measured at fair value	164	-	144	-
C. Financial assets measured at fair value through other comprehensive income	10,813	-	10,832	-
D. Equity investments	110,757	-	777	-
Total	121,848	-	11,902	-

Dividends received mainly regard profits generated in 2021 and 2022 by companies in the direct scope (€110.6 million), together with dividends on the holding acquired in the Bank of Italy (€10.6 million).

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net gain (loss) (A+B) – (C+D)
1. Financial assets held for trading	**173**	**8,661**	**(671)**	**(1,297)**	**6,866**
1.1 Debt securities	168	5,873	(514)	(1,283)	4,243
1.2 Equity securities	3	352	(125)	(14)	215
1.3 Units in collective investment undertakings	2	1	(31)	-	(28)
1.4 Loans	-	-	-	-	-
1.5 Other	-	2,436	-	-	2,436
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**	**35,405**
4. Derivatives	**285,750**	**339,636**	**(284,336)**	**(338,539)**	**(32,245)**
4.1 Financial derivatives:	285,750	339,636	(284,336)	(338,539)	(32,245)
- on debt securities and interest rates	284,400	339,636	(284,101)	(337,181)	2,754
- on equity securities and equity indices	1,349	-	(235)	(1,357)	(243)
- on foreign currencies and gold	X	X	X	X	(34,755)
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	**285,923**	**348,297**	**(285,007)**	**(339,836)**	**10,027**

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

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
A. Gain on:		
A.1 Fair value hedges	65,582	679,408
A.2 Hedged financial assets (fair value)	48,327	2,699
A.3 Hedged financial liabilities (fair value)	929	2,031
A.4 Cash flow hedges	-	30
A.5 Assets and liabilities in foreign currencies	-	-
Total income on hedging activities (A)	**114,838**	**684,169**
B. Loss on:		
B.1 Fair value hedges	(70,908)	(11,342)
B.2 Hedged financial assets (fair value)	(42,704)	(674,383)
B.3 Hedged financial liabilities (fair value)	(244)	(60)
B.4 Cash flow hedges	(204)	(372)
B.5 Assets and liabilities in foreign currencies	-	-
Total expense on hedging activities (B)	**(114,060)**	**(686,157)**
C. Net gain (loss) on hedging activities (A - B)	**778**	**(1,988)**
of which: net gain (loss) of hedges of net positions	-	-

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

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

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	Total 30/06/2023			Total 30/06/2022		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortized cost	31,470	(16,114)	15,356	32,809	(2,173)	30,636
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	31,470	(16,114)	15,356	32,809	(2,173)	30,636
2. Financial assets measured at fair value through other comprehensive income	5,568	(6,915)	(1,348)	296	(5,261)	(4,965)
2.1 Debt securities	5,568	(6,915)	(1,348)	296	(5,261)	(4,965)
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**37,038**	**(23,029)**	**14,009**	**33,104**	**(7,434)**	**25,671**
Financial liabilities measured at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	1	-	1
Total liabilities (B)	**-**	**-**	**-**	**1**	**-**	**1**

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	**859**	**1,243**	**(488)**	**(161)**	**1,452**
1.1 Debt securities	859	1,243	(488)	(161)	1,452
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**-**	**-**	**(2,832)**	**-**	**(2,832)**
2.1 Securities issued	-	-	-	-	-
2.2 Due to banks	-	-	(2,832)	-	(2,832)
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**859**	**1,243**	**(3,321)**	**(161)**	**(1,380)**

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	**4,642**	**944**	**(8,432)**	**(37)**	**(2,884)**
1.1 Debt securities	327	348	(1,003)	(32)	(360)
1.2 Equity securities	3,781	595	(285)	-	4,092
1.3 Units in collective investment undertakings	528	-	(7,144)	(5)	(6,620)
1.4 Loans	5	-	-	-	5
2. Financial assets: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**4,642**	**944**	**(8,432)**	**(37)**	**(2,884)**

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)					
	Stage 1	Stage 2	Stage 3		Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired	Total 30/06/2023	Total 30/06/2022
			Writeoffs	Other	Writeoffs	Other						
A. Due from banks	**(463)**	**-**	**-**	**-**	**-**	**-**	**23**	**130**	**-**	**-**	**(310)**	**1,293**
- loans	(450)	-	-	-	-	-	-	-	-	-	(450)	924
- debt securities	(14)	-	-	-	-	-	23	130	-	-	140	370
B. Loans to customers	**(4,037)**	**(7,873)**	**(20,819)**	**(31,368)**	**-**	**-**	**7,243**	**12,221**	**24,404**	**-**	**(20,229)**	**2,470**
- loans	(3,512)	(7,063)	(20,819)	(31,368)	-	-	6,564	11,950	24,404	-	(19,844)	3,569
- debt securities	(526)	(809)	-	-	-	-	680	271	-	-	(384)	(1,098)
Total	**(4,501)**	**(7,873)**	**(20,819)**	**(31,368)**	**-**	**-**	**7,266**	**12,352**	**24,404**	**-**	**(20,539)**	**3,764**

8.2 NET LOSSES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Losses (1)						Recoveries (2)					
	Stage 1	Stage 2	Stage 3		Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired	Total 30/06/2023	Total 30/06//2022
			Writeoffs	Other	Writeoffs	Other						
A. Debt securities	(123)	(2)	-	-	-	-	648	279	-	-	802	(109)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(123)**	**(2)**	**-**	**-**	**-**	**-**	**648**	**279**	**-**	**-**	**802**	**(109)**

SECTION 9 - GAINS (LOSSES) FROM CONTRACT MODIFICATIONS WITHOUT DERECOGNITION – ITEM 140

There were no such positions as of the reporting date.

SECTION 10 - ADMINISTRATIVE EXPENSES – ITEM 160

10.1 PERSONNEL EXPENSES: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
1) Employees	(110,678)	(101,204)
a) wages and salaries	(75,479)	(73,631)
b) social security contributions	(19,808)	(15,542)
c) termination benefits	(862)	(1,146)
d) pension expenses	-	-
e) allocation to employee termination benefit provision	(537)	(70)
f) allocation to provision for post-employment benefits and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	(6,155)	(5,592)
- defined contribution	(6,155)	(5,592)
- defined benefit	-	-
h) costs in respect of agreements to make payments in own equity instruments	-	-
i) other employee benefits	(7,837)	(5,222)
2) Other personnel	(184)	(295)
3) Board of Directors and members of Board of Auditors	(1,719)	(1,578)
4) Retired personnel	-	-
5) Recovery of expenses for employees seconded to other companies	4,065	3,897
6) Reimbursement of expenses for third-party employees seconded to the Company	(312)	(359)
Total	**(108,828)**	**(99,539)**

10.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
Information technology	(60,267)	(59,059)
Property and movables	(13)	(10)
- rental and fees	(13)	(4)
- ordinary maintenance	-	(5)
- security	-	-
Goods and services	(5,376)	(3,790)
- telephone and data transmission	(2,424)	(1,706)
- postal	(174)	(136)
- asset transport and counting	(107)	(321)
- electricity, heating and water	-	-
- transportation and travel	(2,431)	(1,412)
- office supplies and printed materials	(61)	(45)
- subscriptions, magazines and newspapers	(180)	(170)
Professional services	(16,532)	(15,129)
- professional fees (other than audit fees)	(15,099)	(12,292)
- audit fees	(417)	(336)
- legal and notary costs	(1,016)	(2,500)
- court costs, information and title searches	(1)	-
Administrative services	(4,791)	(7,205)
Insurance	(1,389)	(1,363)
Promotional, advertising and entertainment expenses	(2,695)	(1,333)
Association dues	(1,370)	(1,639)
Donations	-	-
Other	(11,268)	(11,145)
Indirect taxes and duties	(21,970)	(25,979)
- stamp duty	(1,200)	(535)
- tax under DPR 601/73	(396)	(62)
- municipal property tax	-	-
- financial transaction fee	(46)	(193)
- other indirect taxes and duties	(20,327)	(25,190)
Total	**(125,672)**	**(126,653)**

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

	30/06/2023		
	Provisions	Reallocation of excesses	Total
Commitments to disburse funds Stage 1	(810)	523	(287)
Commitments to disburse funds Stage 2	(6,209)	1,188	(5,021)
Commitments to disburse funds Stage 3	(401)	584	183
Financial guarantees issued Stage 1	(1,281)	1,630	349
Financial guarantees issued Stage 2	(1,191)	3,332	2,141
Financial guarantees issued Stage 3	-	49	49
Total	**(9,892)**	**7,306**	**(2,586)**

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

	30/06/2023		
	Provisions	Reallocation of excesses	Total
Legal disputes	(161)	678	517
Other	-	-	-
Total	**(161)**	**678**	**517**

SECTION 12 - NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT - ITEM 180

12.1 NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT: COMPOSITION

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Property, plant and equipment				
A.1 Operating assets	(842)	-	-	(842)
- owned	(7)	-	-	(7)
- right-of-use assets acquired under leases	(835)	-	-	(835)
A.2 Investment property	-	-	-	-
- owned	-	-	-	-
- right-of-use assets acquired under leases	-	-	-	-
A.3 Inventories	X	-	-	-
B. Assets held for sale	**X**	**-**	**-**	**-**
Total	**(842)**	**-**	**-**	**(842)**

SECTION 13 - NET ADJUSTMENTS OF INTANGIBLE ASSETS - ITEM 190

13.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Intangible assets				
of which: software	(143)	-	-	(143)
A.1 Owned	(143)	-	-	(143)
- generated internally by the Bank	-	-	-	-
- other	(143)	-	-	(143)
A.2 Right-of-use assets acquired under leases	-	-	-	-
B. Assets held for sale	X	-	-	-
Total	**(143)**	**-**	**-**	**(143)**

SECTION 14 - OTHER OPERATING EXPENSES - ITEM 200

14.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
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	(895)	(254)
Costs of outsourced services	-	-
Settlement of disputes and claims	-	-
Amortization of expenditure for leasehold improvements	-	-
Other charges – extraordinary transactions		-
Other charges	(138)	(92,144)
Total	**(1,033)**	**(92,398)**

14.2 OTHER OPERATING INCOME: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
A) Recoveries	**18,190**	**15,291**
Recovery of taxes	503	223
Recovery of sundry charges	16,992	15,068
Insurance premiums	696	-
Recovery of rental expense	-	-
Recovery of costs from customers	-	-
Recovery of costs on bad debts	-	-
B) Other income	**83,573**	**81,826**
Insourcing revenues	58,851	57,696
Property rental income	-	-
Reductions in liabilities and prior-year income not attributable to separate line item	272	742
Other income from finance leases	-	-
Other income	24,451	23,389
Fees and commissions on accelerated application processing	-	-
Total	**101,764**	**97,117**

SECTION 15 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 220

15.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
A. Income	**5,700**	**-**
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Writebacks	-	-
4. Other income	5,700	-
B. Expenses	**(597)**	**(240)**
1. Writedowns	-	-
2. Impairment losses	-	(240)
3. Losses on disposal	-	-
4. Other expenses	(597)	-
Net result	**5,103**	**(240)**

The sub-item “4. Other income” includes the earn-out realized on the sale of BCC Pay to FSI in 2022.

SECTION 19 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS – ITEM 270

19.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
1. Current taxes (-)	9,198	15,553
2. Change in current taxes from previous period (+/-)	26	(267)
3. Reduction of current taxes for the period (+)	-	-
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	4,787	(1,669)
5. Change in deferred tax liabilities (+/-)	-	-
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**14,011**	**13,617**

SECTION 20 - PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX - ITEM 290

20.1 PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX: COMPOSITION

	Total 30/06/2023	Total 30/06/2022
1. Revenue	-	122,538
2. Expense	-	(112,509)
3. Result of measurement of groups of assets and associated liabilities	-	-
4. Gain (loss) on realization	-	-
5. Taxes and duties	-	(2,775)
Profit (loss)	**-**	**7,255**

PART D - COMPREHENSIVE INCOME

BREAKDOWN OF COMPREHENSIVE INCOME

		30/06/2023	30/06/2022
10.	**Net profit (loss) for the period**	**73,113**	**(14,542)**
	Other comprehensive income not recyclable to profit or loss	**2,778**	**486**
20.	Equity securities designated as at fair value through other comprehensive income:	4,337	(1,268)
	a) fair value changes	4,337	(1,268)
	b) transfers to other elements of shareholders' equity	-	-
30.	Financial liabilities measured at fair value through profit or loss (change in credit risk):	-	-
	a) fair value changes	-	-
	b) transfers to other elements of shareholders' equity	-	-
40.	Hedges of equity securities designated as at fair value through other comprehensive income:	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(176)	1,558
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	(1,383)	197
	Other comprehensive income recyclable to profit or loss	**11,326**	**(18,001)**
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:	12,963	(18,512)
	a) fair value changes	12,759	(18,854)
	b) reversal to income statement	204	342
	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:	4,355	(8,437)
	a) fair value changes	(1,369)	(10,501)
	b) reversal to income statement	5,725	2,063
	- adjustments for credit risk	(802)	109
	- gain/loss on realization	6,527	1,954
	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	(5,993)	8,948
190.	**Total other comprehensive income**	**14,104**	**(17,515)**
200.	**Comprehensive income (item 10+190)**	**87,218**	**(32,057)**

PART E - RISK AND RISK MANAGEMENT POLICIES

INTRODUCTION

The Iccrea Cooperative Banking Group conducts its business in accordance with the principles of prudence and risk containment, based on the need for stability associated with banking activity and the 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 risk appetite 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 the key elements of the overall Risk Management Framework: identification, measurement, monitoring and mitigation of corporate risks. It is responsible for the governance and execution of second-level controls connected with risk management, consistent with the internal control system adopted by the Group. 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 both the first and second pillar risks assumed and managed by the individual entities and by the Group as a whole.

The organizational arrangements of the RM function comprise:

- a “Risk Governance & Strategy” unit that represents a “competency center” overseeing all risk governance and risk strategy issues for the Group, including the management of the EWS and stress testing framework for the purposes of the Guarantee Scheme at both the consolidated and individual levels. The unit 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, supporting the Chief Risk Officer in its areas of responsibility. In addition, the Risk Governance & Strategy unit also coordinates and monitors strategic projects for the CRO area, periodically assessing achievement of the objectives as well as overseeing activities pertaining to the CRO area concerning climate and environmental risks and ESG issues. 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 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 ensures the applicability of the methodological framework for risk governance processes and the specific risks on the individual level of the affiliated banks, supporting the Group Risk Governance and Group Risk Management units in the definition and maintenance of the processes in order to facilitate their operational implementation with the mutual banks. In this context, it supports the Mutual Bank RM units (Northern Area, Central Area, Southern Area) and the risk managers of the affiliated banks in the implementation and application on an individual basis of the reference frameworks, processes and related risk management activities. In particular: i) it supports the Group Risk Governance 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) and, in close collaboration with the Mutual Bank RM units (Northern Area, Central Area, Southern Area), handles its efficient and effective operational implementation within the affiliated banks; ii) supports the Group Risk Governance unit 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; iii) in close collaboration with the Mutual Bank RM units (Northern Area, Central Area, Southern Area) and in concert with

the other competent units of the Risk Management function, develops the risk appetite proposal for the affiliated banks with the related limits and triggers broken down into risk categories by operating and business segments; iv) supports the Group Risk Management unit in the definition and maintenance of the methodological framework for specific risks in order to enable efficient and effective operational implementation within the affiliated banks; in addition, it also supports this unit in assessing and monitoring the Group's specific risks arising in respect of the affiliated banks and identifies, within its area of responsibility, any risk mitigation measures required; and v) supports the Mutual Bank RM units (Northern Area, Central Area, Southern Area) and the risk managers of the affiliated banks in the implementation and application of the risk management frameworks, the risk measurement methodologies and models for the risks identified by the Parent Company and ensures 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" 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). Within this framework, the unit also performs supervision and support activities for the transversal activities of the overall function and acts as the internal reference unit within the CRO area for climate and environmental risks and ESG issues. In performing these activities, 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;

- 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 assumption and management of specific risks, as well as the assessment and monitoring of those risks, the identification of any risk mitigation measures, ii) oversees risk management activities for the companies within the direct scope, governed by a specific service agreement, coordinating communication with the other specialized units of the Risk Management function; and iii) establishes the operational guidelines for the specialized units of the Risk Management function in their interactions with the Risk Management units of the affiliated banks;

- 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 have organizational responsibility for the overall execution of the Risk Management activities outsourced for the macro-area; 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 ensure the coordination of the managers in charge of the Risk Management functions of the affiliated banks.

- a "Validation" unit: reporting directly to the CRO, this unit validates models developed internally to quantify the risks to which the Group is exposed.

The main duties performed by the Group 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; iv) support tool applications. 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 and the companies in the direct scope for which risk management activities are performed on a centralized basis under an outsourcing arrangement governed by specific service agreements. This control center operates through the local risk management units and, for the affiliated banks only, using the mechanisms of the Early Warning System 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 and proposes the classification of the risk profile;

  - 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;
  - within the RAF/RAS and EWS frameworks, examines the results of the process of determining the capital requirements, analyzing the dynamics involved to verify the overall consistency with the risk profile in the different analytical dimensions considered;
  - analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement;
  - assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (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 resolution;
  - reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining strategic policy and risk policy and the associated implementation of those policies;
  - within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The Group devotes special attention to managing, assessing and understanding risk. All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Parent Company. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies, updating risk measurement and estimation approaches to ensure consistency with sector best practices;
- the specification of risk limits;
- the periodic monitoring of (aggregate and non-aggregate) exposures with verification of compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the Group companies in the long term, systematic and independent Internal Auditing units, etc.).

THE GROUP RISK GOVERNANCE FRAMEWORK

The overall Risk Governance framework developed by Iccrea Banca and adopted by the Group reflects the specific features of the Iccrea Cooperative Banking Group as a group whose participatory mechanisms are based on a Cohesion Contract, signed by the banks, that provides for internal stability mechanisms characterized by intercompany mutual support agreements regulated specifically by applicable external legislation.

On the basis of the provisions of the Cohesion Contract between the affiliated banks and the Parent Company, the latter constantly monitors the organization and the operating conditions, financial position and performance of the affiliated banks through the Early Warning System (EWS), which is designed to promptly identify any signs of management difficulty and/or failure to comply with the obligations assumed under the Cohesion Contract, recommending or arranging, depending on the specific features of any given case and on the basis of the principle of proportionality, the appropriate intervention measures. The overall framework of the Group's risk governance system is completed by the Risk Appetite Framework (RAF), which is implemented operationally through policies addressing the individual risks to which the Group is exposed and transversal systems involved in the internal assessment the capital adequacy and liquidity profile (ICAAP/ILAAP) and the overall assessment of the recovery capacity in particularly adverse conditions (the Recovery Framework).

The RAF defines - in line with the maximum assumable risk (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 Risk Tolerance thresholds, taking due account of possible adverse scenarios. Starting on the basis of the RAF, consistent operating limits are defined within the overall risk governance policies. The latter in turn represent the internal regulatory expression of the "rules" for the assumption and management of risks and are an integral part of the Risk Management Process (RMP).

The overall architecture of the Risk Appetite Framework, defined in terms of key elements, scope of coverage/application and underlying operating models, is closely interconnected with ICBG's key risk governance process, i.e. the Early Warning System. The RAF is implemented individually with regard to the affiliated banks and shares qualitative and quantitative indicators with the EWS, ensuring consistency between the different calibration approaches and the purposes of the two frameworks.

In other words, 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 pursuit of corporate strategies. Compared with the RAF, the capital adequacy and liquidity assessment (ICAAP and ILAAP) represents an occasion to verify the stability of the risk appetite choices in terms of their consistency with the capital and liquidity resources available, guiding any subsequent modification of the choices and the resulting overall strategy decisions.

SECTION 1 – CREDIT RISK

QUALITATIVE DISCLOSURES

1. GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Cooperative Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a 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 significant" positions.

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 - credit risk control activities designed to ascertain that the activities performed in all phases of the lending process ensure the effective monitoring and adequate representation of credit risk, identifying any hidden risks and guiding correct/adequate risk management, classification and evaluation.

More generally, the Risk Management function oversees the risk management of the individual entities from a consolidated and individual perspective:

- overseeing the measurement of credit risk from a current and forward-looking perspective, considering both conditions of normal operations and stress scenarios;
- monitoring the capacity of the risk limits, including those defined within the RAF/RAS with regard to the associated credit risk metrics;
- defining and updating the methods and measurement models for credit risk, including those used in the performance of credit stress tests, ensuring their ongoing compliance with regulatory developments and market best practice.

2.2 MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

IDENTIFICATION OF RISKS

As noted in the previous section, in compliance with the provisions of Circular no. 285/2013 of the Bank of Italy as updated, the Parent Company determines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level, thus exercising the powers of strategic management and coordination aimed at ensuring the unity of the Group's strategic management and control system, as governed by the Cohesion Contract.

With particular regard to the lending process, the Parent Company governs lending and the management of the related risk. This also comprises the management of guarantees, including real estate, exposure monitoring, the classification of risk positions, and the management and valuation of impaired exposures.

In all of these phases, the Group uses qualitative and quantitative methods for assessing counterparty creditworthiness, supported by IT procedures that undergo periodic verification and maintenance.

With specific reference to the loan approval phase, the Group rules establish the key principles underpinning all phases of the process of approving/renewing loans, together with the roles and associated responsibilities of the various actors involved, specifying the procedures through which the Group intends to assume credit risk in respect of its customers, i.e. by identifying eligible counterparties and the admissible technical forms of credit for each customer segment.

In this specific context, a direct assessment is carried out to ascertain the needs and requirements of the applicant and therefore the purposes of the credit line and to accurately assess the credit risk profile: granting a loan requires an in-depth analysis of the risk associated:

- with the counterparty as well as the economic context in which it operates;
- with the purpose and characteristics of the transaction to be financed;
- with the guarantees available;
- with other forms of credit risk mitigation.

The analysis of the counterparty is conducted by each bank so as to assess the overall profitability of the relationship using the associated valuation tools/models. The assessment of creditworthiness focuses, in turn, on an analysis of the borrower's ability to repay, without prejudice to the principle that credit can only be granted if it is clear how it will be repaid.

Without prejudice to the prudential limits set by applicable regulations, which are commensurate with own funds with regard to both the magnitude of the exposure to the individual counterparty and the total amount of larger exposures, the credit strategies provide for risk limitations on the basis of specific elements, such as, for example, the nature of the transaction (e.g. transactions intended to finance real estate whose repayment will be financed by sale or lease), the situation of the specific real estate market (type of asset, economic sector, geographical area, market demand, etc.), a current and forward-looking evaluation of the asset, the accurate quantification of timing and costs of carrying out the initiative.

In general, given the recent establishment of the Iccrea Cooperative Banking Group, the management, measurement and control systems at the individual affiliated mutual banks are being developed to adapt them to the new consolidated context and evolve them in accordance with industry best practice. In this direction, Group policies were issued for all phases of the lending process and, therefore, the granting and disbursement of credit, management of guarantees, loan monitoring, loan classification, assessment of impaired positions, management of substandard positions and NPLs.

As noted earlier, the central moment of the preliminary phase of the lending process is that linked to the assessment and measurement of the credit risk of the transaction in question. The assessment is based on qualitative/quantitative information and is typically supported by the use of automated rating/scoring models designed to measure the creditworthiness of the counterparty and/or the possibility of proceeding with the transaction.

Ratings plays a key role lending, as they represent an essential element of the assessments made during the loan approval, review and renewal processes. The rating assignment involves an analysis of all the quantitative and qualitative information available to support the application approval process in order to accurately assess the risk profile of the transaction and to monitor the creditworthiness of existing counterparties over time.

For the companies in the direct scope of consolidation, the rating and scoring systems are already fully integrated into credit processes. Lending policies already provide indications concerning the minimum level of the decision-approval bodies - based on the technical form of financing, the guarantees securing the loan and the counterparty rating - and the related mechanisms for exceptions, which are granted and monitored by the Parent Company. Affiliated mutual banks have rating systems to support the loan approval/management process. In view of the recent establishment of the Group and the different information systems used by the mutual banks, a number of activities are being completed to integrate ratings in all the processes of the Group companies.

The evaluation models in use within the Group 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 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.

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 - credit risk control activities designed to ascertain that the activities performed in all phases of the lending process ensure the effective monitoring and adequate representation of credit risk, identifying any hidden risks and guiding correct/adequate risk management, classification and evaluation. 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.

Risk Management has also centrally defined the "Credit Risk Control 285" framework. This is intended to govern, based on the set of governance, management and control mechanisms adopted by the Iccrea Cooperative Banking Group for credit risk, the analysis, identification and control activities performed by the Risk Management function pursuant to Circular 285 (hereinafter "Credit Risk Control 285" or "285 Controls").

The activities are arranged as follows:

- prior to the start of activities, an operational direction in which the functional elements to calibrate and target the risk control activities are qualified is defined;
- mass analysis and controls are conducted to identify potential anomalies and the related levels for each individual Group entity;

- sample checks (single file) of individual credit exposures are performed, to be carried out:
  - for positions identified in the ordinary arrangement, constructed on the basis of the mass controls, focusing the analysis on the correct identification and classification of anomalous positions, as well as on the adequate evaluation of the loan in the event of an anomaly, as a significant effect of the management of credit risk;
  - for additional positions identified in accordance with the operational direction defined with respect to the evolution of the context within or without the Group (so-called contingency sampling);
- the credit risk of Group entities is profiled to conclude the annual analysis and control cycle.

The results of these activities are regularly brought to the attention of senior management.

The analysis system implemented in the first half of 2023 gave ample attention to contingency events and control activities were mainly focused on performing positions, for which potential anomalies could arise over the entire credit risk management process. In this context, particular attention was paid to the portfolio subject to forbearance measures - potential and existing - as well as to the portfolio of companies potentially in difficulty, taking account of current economic conditions (inflationary tensions, rate dynamics, etc.).

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;
- 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 performing positions/tranches that, as at the reporting date, meet the condition for the low credit risk exemption (PD less than 0.30%), or that do not show a significant increase in credit risk with respect to the level measured at the date of disbursement or purchase;
- stage 2, which includes all performing positions/tranches that at the time of assessment simultaneously meet the following two conditions: i) they have a PD greater than the threshold for the low credit risk exemption; ii) they have experienced a significant increase in credit risk with respect to the level measured at the origination date; in the absence of a rating/PD at the reporting date, exposures are generally allocated to stage 2 (without prejudice to the additional considerations and practices addressed below);
- stage 3, which includes all exposures that, as at the evaluation date, are classified as non-performing under the default definition adopted. They are governed by specific internal rules in conformity with supervisory regulations.

The staging method of the Group was developed on the basis of the following drivers.

The method developed for the loan portfolio envisages:

- the use of the low credit risk (LCR) criterion, under which credit risk is deemed to have not increased significantly if the exposure shows a low level of credit risk at the reporting date, essentially defined as a PD threshold 30% at the reporting date equal to investment grade;
- 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.

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 representing macroeconomic forecasts 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 a "block" approach, determined by the combination of parameters relating respectively to the pre-litigation phase (probability of reclassification as bad loans, exposure delta, performing LGD closure) and litigation (loss given bad loan).

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 forecast values for the exogenous macroeconomic variables in the satellite models estimated internally and the associated conditioning approach for each forecast year. In order to reflect the different forward-looking riskiness of the positions assessed in the ECL estimates, those satellite models are differentiated, in particular the PD, 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.

From the closure of the financial statements at December 31, 2022, the measures delineated in the multi-year Credit Risk Models Evolution (CRME) were completed for the purposes of calculating the IFRS 9 impairment of the Group's performing credit exposures. The CRME concerns the evolution of the models for measuring credit risk parameters and specific measures to update the IFRS 9 framework. Specifically, the following modifications of the credit risk measurement models were completed:

- updating the Probability of Default (PD) models, which hinges on the development of the new version of the internal rating system (AlvinRating 6.0) through the introduction of the single behavioral model at Group level, with the associated re-estimation of the PDs and updating of the rating scale;
- development of "block" LGD models, including the parameters necessary for appropriate quantification in the accounts, based on the combination of parameters connected, respectively, with the pre-litigation phases (probability of reclassification as bad loans, exposure delta, performing LGD closure) and litigation (loss given bad loan);
- replacement of the "PD Satellite Models" with models developed internally using the most advanced methodologies available. This evolution enables the Group to internalize the models, reducing dependence on an external supplier of the macroeconomic scenarios and, at the same time, to respond more quickly and with greater precision to the constant demand for in-depth analysis generated by the delicate and changing macroeconomic environment we are currently experiencing;
- updating of the "LGD Satellite Models" to take appropriate account of the reconstruction and updating of the historical databases of position recoveries and developments in the danger rate conditioning component;
- evolution of the forward-looking conditioning framework for PD, using the Merton-Vasicek methodology.

The methodological developments concerning the above projects also envisage conservative adjustments, defined as in-model adjustments, intended to both address any weaknesses still present in the models and avoid the incorporation of possible distortions created by the pandemic.

Finally, other specific interventions on the IFRS 9 impairment framework were implemented to ensure greater prudence in respect of specific sub-portfolios that could be made more fragile from the point of view of creditworthiness by the uncertainty of the current macroeconomic context, which cannot be entirely captured by models. For this reason, with effect from the closures of the year ending December 31, 2022, a specific overlay was introduced that takes account of this uncertainty on certain segments of the loan portfolio: private individuals with variable-rate loans, firms impacted by the "gas stoppage scenario", customers with active forbearance measures and customers already benefitting from a loan repayment moratorium.

On the occasion of this interim report, the measures accompanying the structural activities defined to strengthen the process of quantifying the stock of stage 2 exposures were also completed within the calculation of the IFRS 9 ECL of the Group's performing credit exposures, with special regard to the identification of positions affected by a significant increase in credit risk (SICR).

Specifically, in order to reduce volatility in the allocation of exposures to the different stages to which they belong, a temporary extension from 3 to 6 months of the minimum period a position stays in stage 2 was introduced. This measure is defined as a compensatory measure, taking account of the uncertainty that characterizes the current economic environment, with a view to supporting the profiling resulting from the finalization of the developments that will occur in this area.

Furthermore, in order to enhance the guidance and support of the ordinary loan monitoring and classification processes – again bearing in mind current macroeconomic conditions - and to progressively strengthen of the related process for identifying "watchlist" positions, an analysis of a sub-group of targeted performing positions held by the Group's affiliated banks was completed. Following the acquisition of those results for the positions received by the Parent Company from the banks, the results of this analysis made it possible to automatically classify these exposures in stage 2 as at June 30.

The process of strengthening the Group's stage allocation system will continue during 2023 in respect of: i) the structural interventions already identified and being implemented for the identification of significant increases in credit risk and ii) the progressive fine-tuning of the process of identifying watchlist customers.

As regards the "out-of-model" component (the overlay), without prejudice to the clusters identified for the 2022 financial statements, risk assessments of prospective flows of extra defaults have been updated to take account of the latest macroeconomic scenario available, i.e. that at March 2023. This update was performed in accordance with the calculation methods and the update frequency envisaged for the overlay component. Furthermore, the scope and the associated exposure of the clusters covered by the overlay have also been appropriately updated with the current situation of exposures at June 30, 2023.

Finally, as part of the conditioning of the IFRS 9 risk parameters, the ordinary updating of the macroeconomic scenarios was applied in accordance with the most update of those scenarios (March 2023).

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.

The Parent Company has developed specific Group guidelines to support the appropriate use of guarantees and credit risk mitigation techniques for Credit Risk Mitigation (CRM) purposes. Specifically, at Group level the following categories of guarantees eligible for CRM purposes have been identified:

- secured financial guarantees;
- real estate mortgages and property lease transactions involving properties that have the characteristics required by law;
- unsecured guarantees.

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 and €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.

Credit exposures that have been granted a forbearance measure by the Bank in the event that the customer is in or close to a situation of financial difficulty in meeting is payment obligations ("troubled debt") are defined such as “forbearance exposures”. 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”.

For the purposes of identifying non-performing exposures, the Group:

- has operational arrangements under which, depending on the intervention to be undertaken, positions can be managed using a centralized approach by the competent Parent Company functions, a decentralized approach by the individual Group companies or a collaborative approach between the Parent Company and Group companies;
- 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).

Within this approach, the individual Group companies transpose into their own rules the principles and rules established in Group policies for the management and recovery of troubled exposures and NPEs in line with the specific features of the territory in which they operate, their size, their business model and the related organizational structure.

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;
- establishes, with the support of the Group companies, the objectives for the individual companies and the related management strategies.

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 the definition of a Group operational plan, which is also approved by the Parent Company's Board of Directors.

In order to ensure the quality of the management of non-performing exposures by the specified personnel, 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. In particular, in accordance with the principle of proportionality, the individual Group companies define their own performance evaluation and monitoring systems in line with Group policy, based on a number of quantitative and qualitative factors, of which the following list provides a few examples:

- 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

The Group writes off impaired positions, meaning 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;
- bad loans with a residual balance after partial repayment in settlement performed in accordance with the procedures and time limits provided for by the resolution approved by the competent bodies;
- amounts from the redetermination of the credit claim.

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 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 the Bank in favor of a debtor solely in consideration of the debtor's financial difficulties;
- the grant by the Bank of total or partial refinancing 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.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 IMPAIRED AND PERFORMING CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR

A.1. DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (CARRYING AMOUNT)

	Bad loans	Unlikely to be repaid	Impaired past due exposures	Performing past due positions	Other performing positions	Total
1. Financial assets measured at amortized cost	3,291	53,199	1,497	23,634	48,561,094	48,642,715
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	819,764	819,764
3. Financial assets designated as at fair value	-	-	-	-	331,756	331,756
4. Other financial assets mandatorily measured at fair value	-	-	-	-	38,800	38,800
5. Financial assets held for sale	-	-	-	-	-	-
Total 30/06/2023	**3,291**	**53,199**	**1,497**	**23,634**	**49,751,413**	**49,833,034**
Total 31/12/2022	**7,063**	**33,695**	**2,137**	**40,878**	**52,122,967**	**52,206,741**

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	199,358	141,371	57,987	29,478	48,640,554	55,826	48,584,728	48,642,715
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	820,578	814	819,764	819,764
3. Financial assets designated as at fair value	-	-	-	-	X	X	331,756	331,756
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	38,800	38,800
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 30/06/2023	**199,358**	**141,371**	**57,987**	**29,478**	**49,461,132**	**56,640**	**49,775,047**	**49,833,034**
Total 31/12/2022	**177,453**	**134,558**	**42,895**	**29,478**	**51,894,514**	**64,699**	**52,163,846**	**52,206,741**

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	1,742,628
2. Hedging derivatives	-	-	506,295
Total 30/06/2023	**-**	**-**	**2,248,923**
Total 31/12/2022	**-**	**-**	**2,312,828**

* Values to be reported for information purposes

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*
		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		
A. On-balance-sheet exposures												
A.1 Demand	**1,295,340**	**1,269,000**	**26,339**	**-**	**-**	**100**	**52**	**48**	**-**	**-**	**1,295,240**	**-**
a) Impaired	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	1,295,340	1,269,000	26,339	X	-	100	52	48	X	-	1,295,240	-
A.2 Other	**33,045,290**	**32,907,226**	**82,284**	**-**	**-**	**1,858**	**349**	**1,509**	**-**	**-**	**33,043,432**	**-**
a) Bad loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely to be repaid	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
c) Impaired past due exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Unimpaired past due exposures	-	-	-	X	-	-	-	-	X	-	-	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other unimpaired assets	33,045,290	32,907,226	82,284	X	-	1,858	349	1,509	X	-	33,043,432	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
Total (A)	**34,340,629**	**34,176,227**	**108,624**	**-**	**-**	**1,958**	**401**	**1,557**	**-**	**-**	**34,338,672**	**-**
B. Off-balance-sheet exposures												
a) Impaired	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	9,055,009	6,882,603	14,933	X	-	30	15	15	X	-	9,054,979	-
Total (B)	**9,055,009**	**6,882,603**	**14,933**	**-**	**-**	**30**	**15**	**15**	**-**	**-**	**9,054,979**	**-**
Total (A+B)	**43,395,639**	**41,058,830**	**123,557**	**-**	**-**	**1,988**	**417**	**1,571**	**-**	**-**	**43,393,651**	**-**

* 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 *
		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		
A. On-balance-sheet exposures												
a) Bad loans	30,318	X	-	30,318	-	27,027	X	-	27,027	-	3,291	29,478
- of which: forborne exposures	5,164	X	-	5,164	-	4,328	X	-	4,328	-	837	470
b) Unlikely to be repaid	167,047	X	-	167,047	-	113,848	X	-	113,848	-	53,199	-
- of which: forborne exposures	98,845	X	-	98,845	-	74,807	X	-	74,807	-	24,038	-
c) Impaired past due exposures	1,993	X	-	1,993	-	496	X	-	496	-	1,497	-
- of which: forborne exposures	200	X	-	200	-	63	X	-	63	-	138	-
d) Unimpaired past due exposures	26,441	10,945	15,496	X	-	2,807	72	2,735	X	-	23,634	-
- of which: forborne exposures	7,549	-	7,549	X	-	1,518	-	1,518	X	-	6,031	-
e) Other unimpaired assets	16,844,891	15,778,012	667,168	X	-	51,975	17,308	34,667	X	-	16,792,916	-
- of which: forborne exposures	108,739	216	108,523	X	-	8,602	2	8,600	X	-	100,137	-
Total (A)	**17,070,690**	**15,788,957**	**682,664**	**199,358**	**-**	**196,153**	**17,380**	**37,402**	**141,371**	**-**	**16,874,537**	**29,478**
B. Off-balance-sheet exposures												
a) Impaired	17,814	X	-	17,814	-	10,661	X	-	10,661	-	7,154	-
b) Unimpaired	4,170,569	2,353,999	211,568	X	-	22,695	8,060	14,635	X	-	4,147,875	-
Total (B)	**4,188,384**	**2,353,999**	**211,568**	**17,814**	**-**	**33,355**	**8,060**	**14,635**	**10,661**	**-**	**4,155,029**	**-**
Total (A+B)	**21,259,074**	**18,142,956**	**894,232**	**217,172**	**-**	**229,508**	**25,440**	**52,037**	**152,032**	**-**	**21,029,565**	**29,478**

* Values to be reported for information purposes

SECTION 2 - MARKET RISKS

2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS

The term trading book refers to the portfolio consisting of positions intentionally held for subsequent short-term disposal and/or taken on to benefit from short-term differences between purchase and sales prices, or other changes in prices or interest rates. In general, the supervisory trading book is represented by the positions held under an "other" business model, namely "held for sale", i.e. the portfolio including debt and equity securities, units in collective investment undertakings and derivatives held for trading purposes.

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

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of market risk management within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

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 R.

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 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 methodologies for measuring the fair value of the financial instruments held by the Group;
- production of all risk metrics.

For the purpose of calculating capital requirements for market risks, the Parent Company uses the standardized approach, in compliance with the relevant supervisory measures.

At the operational level, internal models are used for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- probabilistic metrics:
  - Value at Risk (VaR) approach, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- deterministic metrics:
  - level metrics (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
  - analysis of sensitivity and Greeks, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
  - stress testing and scenario analysis, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
  - loss, which represents the negative financial performance in a specified period of time of both closed and open positions.

Probabilistic metrics

Value at Risk (VaR)

An approach based on historical simulations is used to calculate VaR, (with a sample period of 3 years, confidence level of 99% and holding period of 1 day). The model currently covers the following risk factors:

- interest rates;
- inflation rates;
- exchange rates;
- stocks and stock indices;
- interest rate volatility;
- stock price volatility.

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

Deterministic metrics

Sensitivity and Greeks of options

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

- PV01: the change in market value in response to a change of 1 basis point in the zero-coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- IL01 (sensitivity to inflation): the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- Vega sensitivity to inflation: a change of 1 percentage point in implied volatilities on forward inflation rates;
- CS01: a change of 1 basis point in credit spreads;

- Delta: the ratio between the expected change in the price of options and a small change in the prices of the underlying financial assets;
- Delta1%: the change in market value in response to a change of 1% in equity prices;
- Delta Cash Equivalent: the product of the value of the underlying financial asset and the delta;
- Vega1%: the change in market value in response to a change of 1% in the implied volatility of equity prices/indices;
- Correlation sensitivity: the change in the market value in response to a 10% change in implied correlations.

Level metrics

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile.

The nominal position (or equivalent) is determined through the identification of:

- the notional value;
- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);
- the FX open position.

The approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements. These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures.

Stress testing and scenarios

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

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

Loss

Loss is a risk metric representing the negative financial performance achieved on closed and open positions over a specified period of time.

Loss is determined by identifying, with the specified time interval:

- the component of realized profits and losses;
- the component of latent (unrealized) profits and losses calculated using the mark-to-market/mark-to-model value of open positions.

Loss is equal to the algebraic sum of the two components indicated above, if negative.

In determining loss, foreign currency positions still open are measured at the ECB end-of-day exchange rate.

The metric makes it possible to measure losses connected with the general risk profile of outstanding positions and the management of the portfolio, identifying any deterioration in the profitability of financial operations.

It is helpful in monitoring the performance of the portfolio, given the risk profile assumed, when:

- more sophisticated measurement systems are not present;
- it is impossible to capture all risk factors;
- timely control and management of limits is required.

RISK PREVENTION AND ATTENUATION

Risk Management conducts backtesting of operational measurement models on an ongoing basis. The effectiveness of the calculation model is monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. This approach makes it possible to:

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

In addition to the backtesting noted earlier, the effective management of market risks is ensured using a comprehensive system of limits, which is a key tool for the management, control and attenuation of risks. The development of this system, which is a key element of the Risk Management Framework, took account of the nature, objectives and operational complexity of the Group.

The overall system of market risk indicators comprises indicators included in and governed by the RAS and more strictly operational indicators set out in the risk governance policies.

The controls established to manage market risks break down into:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the market risk profile and ensure the correct activation of escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

MONITORING AND REPORTING

The second-level controls, carried out by the Market & Counterparty Monitoring & Control unit, are aimed at monitoring the Bank's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile 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 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 2023 the indicator never breached the limits at the full book level.

The average VaR of the trading book was equal to €0.75 million, with a minimum of €0.48 and a maximum of €1.22 million (on May 25, 2023).

At June 30, 2023, the VaR was equal to €0.85 million.

	Sensitivity Value (in €)	Notes
Interest Rates	(39,990)	Sensitivity calculated in relation to 1 bp change
Inflation Rates	1,438	
Credit spread	17,609	
Equity	15,499	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: the risk deriving from mismatches in maturities (for fixed-rate positions) and repricing dates (for variable-rate positions) due to parallel movements in the yield curve (repricing risk) or changes in the slope or shape of the yield curve (yield curve risk), basis risk, option risk and credit spread risk on the 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:

- 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;
- 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.

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 revaluation: 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).;
- 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 Group 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 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 (€STR) 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.
- 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 a 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 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, where the regulatory scenarios are not considered fully representative of especially averse conditions, shocks defined internally.

In accordance with regulatory provisions, if necessary, 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 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, 2023 is reported below.

€/million	Scenario	
	-100 bp	+100 bp
Impact on economic value	+ 76	- 54
Impact on net interest income	- 3	+ 3

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, 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 options on interest rates entered into with third parties. These derivatives are not listed on regulated markets, but are traded on OTC markets.

The effects of designating the hedging relationship begin at the inception of the hedge with the identification of the portion and the type of hedged risk, the hedging strategy and the hedging instrument in accordance with the principles the Group has established concerning the methodology used to assess the effectiveness of the hedging relationship.

B. CASH FLOW HEDGING

Cash flow hedging seeks to hedge the exposure to the variability of future cash flows attributable to particular risks associated with balance sheet items or highly probable forecast transactions or to hedge exchange rate risk.

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 2023, 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.

The Bank uses cash flow hedges with variable rate CCT securities to stabilize future cash flows by collecting a fixed rate on the receiver leg of the IRS, paying the variable rate collected on the CCT on the payer leg.

Debt securities issued

currently has active micro fair value hedging relationships for fixed-rate or foreign structured funding, using IRSs as hedging instruments.

Hedged bonds outstanding at June 30, 2023 are denominated in euros and are covered by fair value hedges.

Fixed-rate loans

Iccrea Banca has designated a micro fair value hedge of a fixed-rate loan to a company within the direct scope of consolidation, mainly using IRSs 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 Iccrea Cooperative Banking Group, is responsible for the management, coordination and control of liquidity risk management within the entire 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 under the Cohesion Contract, the Parent Company 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 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 monitoring indicators), 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 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 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 Cooperative Banking Group concerning operational and IT risks. This unit operates as a specialist hub for this area;
  - responsibility for supporting the Risk Management functions of the direct scope subsidiaries and, through the Mutual Bank Risk Management Coordination unit, the risk management functions of the affiliated banks;
- at the affiliated banks and direct scope subsidiaries, the Risk Management units report to their boards of directors and are responsible, among other duties, for monitoring and managing developments in the exposure to operational 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, and updated in 2020, 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 (IT-RA), the identification and assessment of prospective risks have been conducted on the basis of a specified work plan for certain companies within the direct scope and for the affiliated banks. As regards IT risk, the annual information risk profile assessment was completed in April 2023, which involved the central IT unit for the IT services provided by Iccrea Banca, BCC Sinergia and BCC Sistemi Informatici.

With specific reference to IT risk, April 2023 saw the finalization of the annual IT risk profile assessment of which involved the central IT unit for the IT services provided by Iccrea Banca, BCC Sinergia and BCC Sistemi Informatici.

As in the previous year, 2023 also saw a specific training effort for the Operational and IT Risk Management framework, with specific attention being paid to operating approaches, data audit and control processes, 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, and contributed in its areas of responsibility to the performance of the stress tests envisaged as part of the ICAAP.

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, 2022), amounted to €71,392 thousannd.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2022	T	490,325
- at December 31, 2021	T-1	608,648
- at December 31, 2020	T-2	328,873
Relevant indicator average		**475,949**
Regulatory coefficient		**15%**
Capital requirement		**71,392**

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

	30/06/2023	31/12/2022
1. Share capital	1,401,045	1,401,045
2. Share premium reserve	6,081	6,081
3. Reserves	675,784	236,491
- earnings	675,784	236,491
a) legal	100,082	56,102
b) established in bylaws	205	205
c) treasury shares	-	-
d) other	575,498	180,184
- other	-	-
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves:	32,653	18,548
- Equity securities designated as at fair value through other comprehensive income	4,420	1,517
- Hedges of equity securities designated as at fair value through other comprehensive income	-	-
- Financial assets measured at fair value through other comprehensive income	(8,291)	(10,941)
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedging of investments in foreign operations	-	-
- Cash flow hedges	(13,783)	(22,460)
- 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	(1,754)	(1,629)
- 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	73,113	439,793
Total	**2,188,677**	**2,101,960**

B.2 - VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Total 30/06/2023		Total 31/12/2022	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	521	(8,813)	1,289	(12,231)
2. Equity securities	8,399	(3,979)	6,375	(4,858)
3. Loans	-	-	-	-
Total	**8,920**	**(12,792)**	**7,664**	**(17,088)**

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

The section was not completed as there were no such positions as of the reporting date.

PART H - TRANSACTIONS WITH RELATED PARTIES

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table provides information on the remuneration paid in the period to key management personnel as required by IAS 24. Key management personnel are managers who have the power and responsibility, directly or indirectly, for the planning, management and control of the Bank's activities, including the directors and members of the supervisory bodies.

	Total 30/06/2023				
	Short term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
Key management personnel	3,312	120	-	-	-

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 a 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.

	at 30/06/2023			
	Subsidiaries	Associated companies	Key management personnel	Other related parties
Financial assets	35,556,613	320,811	-	-
Total other assets	142,738	-	-	-
Financial liabilities	15,791,390	176,400	-	-
Total other liabilities	64,127	-	-	-
Commitments and financial guarantees issued	7,768,241	60,920	-	-
Commitments and financial guarantees received	12,282	-	-	-
Provisions for doubtful loans	-	-	-	-

	at 30/06/2023			
	Subsidiaries	Associated companies	Key management personnel	Other related parties
Interest income	489,136	116	-	2
Interest expense	(164,592)	(763)	-	-
Dividends	110,568	-	-	-
Fee and commission income	259,180	110	-	-
Fee and commission expense	(240,840)	(2)	(550)	-
Other operating expenses/income	33,876	-	-	-
Net gain (loss) on trading activities	64,981	-	-	-
Net gain (loss) on hedging activities	-	-	-	-
Writedowns/writebacks of impaired financial assets	-	-	-	-

PART I - SHARE-BASED PAYMENTS

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

PART L - OPERATING SEGMENTS

Iccrea Banca S.p.A., Parent Company of the Iccrea Cooperative Banking Group, exercising of the option granted by IFRS 8, provides segment information in Part L of the notes to the consolidated financial statements.

PART M - LEASE DISCLOSURES

SECTION 1 – LESSEE

QUALITATIVE DISCLOSURES

Iccrea Banca's leases essentially regard property and car leases.

At June 30, 2023, the Bank held 386 leases, of which 45 relating to property leasing, and 341 relating to cars for total right-of-use assets of €2,598 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.

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 explanatory notes reports right-of-use assets acquired with leases in the amount of €2,598 thousand (Table 8.1 – Operating property, plant and equipment: composition of assets carried at cost); with leases liabilities of €2,620 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 €44 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	30/06/2023	31/12/2022
Initial value	245	2,056	2,300	4,073
Purchases	1,050	84	1,134	243
Other changes	-	-	-	(70)
Depreciation	(212)	(624)	(836)	(1,945)
- of which: sales	-	-	-	(10)
Assets acquired under financial lease	**1,083**	**1,516**	**2,598**	**2,300**
Value assets held for sale			-	-
Total current assets	**1,083**	**1,516**	**2,598**	**2,300**

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

The Guarantee Scheme

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 has paid in a guarantee contribution - commensurate with its risk-weighted exposures and limited to capital in excess of the mandatory requirements at the individual level - in order to enable the Parent Company to undertake financial support interventions to ensure the solvency and liquidity of the individual affiliated banks.

To this end, in April 2019 the participating banks established the readily available funds (RAF), 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.

The Ex Ante Quota of the RAFs is established by the affiliated banks through the loans referred to in Article 2447-bis, letter b) and Article 2447-decies of the Italian Civil Code, on the basis of a Financing Agreement between the Parent Company and the affiliated banks. Pursuant to this Financing Agreement, the separation of the liquidity deriving from the execution of the Financing Agreement and the allocation of that liquidity for the realization of a specific transaction is recognized.

The financial resources representing the Ex Ante Quota can be invested by the Parent Company, on the basis of the guidelines defined in the associated investment policy, in liquid assets payable at any time and that in any case ensure the immediate availability of the Ex Ante Quota for the purposes of implementing support interventions.

The Ex Post Quota of the RAFs was established with the signing of an irrevocable commitment by the mutual banks in favor of the Parent Company, realized with the opening of a specific credit line by the affiliated banks in favor of the Parent Company. Consequently, the Parent Company grants the affiliated banks a line of liquidity which the affiliated banks themselves secure with high quality unencumbered securities.

At least once a year, the Board of Directors of the Parent Company, in application of the provisions of the Cohesion Contract and the Group policy regarding the Guarantee Scheme, approves: i) the results of the stress test exercise conducted for the participating banks in order to determine the RAFs and ii) the relative shares pertaining to the banks themselves.

The calculations relating to the stress test produced the following breakdown of RAFs at the Group level for 2023:

- Aggregate Ex Ante Quota €323 million (an estimated €338 million for 2022);
- Aggregate Ex Post Quota €323 million (an estimated €313 million for 2022).

Support interventions of the Guarantee Scheme under Art. 6 of the Cohesion Contract

The following table summarizes the support interventions implemented through the Guarantee Scheme drawing on the resources available from the Ex Ante Quota of the RAFs.

ISIN/Internal code	Instrument[47]	Beneficiary mutual bank	Subscription date	Nominal amount	Details
IT0005397010	T2 su. Loan	Vival Banca	30/12/2019	8,000,000	- Term 10 years rate 4.25%
IT0005395634	T2 su. Loan	BCC Centropadana	16/12/2019	5,000,000	- Term 7 years fixed rate 3%
IT0005395626	T2 su. Loan	BCC Centropadana	16/12/2019	10,000,000	- Term 10 years fixed rate 3%
BVALDICH8489	Art. 150-ter shares	Banca Tema (former Banca Valdichiana)	26/05/2021	35,000,000	- PV share =25.00 no. shares 1,400,000
BCENTROP8324	Art. 150-ter shares	BCC Centropadana	23/06/2021 27/04/2022	20,199,993	- PV share =25.82 no. shares 782,339
BPISAFOR8562	Art. 150-ter shares	BCC di Pisa e Fornacette	29/09/2021 15/03/2022	39,999,995	- PV share =69.65 no. shares 574,300
VIVALBAN8003	Art. 150-ter shares	Banca Centro (former Vival Banca)	29/09/2021	15,999,999	- PV share =25.80 no. shares 620,155
MASSAFRA7094	Art. 150-ter shares	BCC di Bari e Taranto (former BCC di Massafra)	02/11/2021	1,300,000	PV share =50.00 no. shares 26,000
IT0005519043	Additional Tier1	Banca Centro (former Vival Banca)	11/11/2022	3,000,000	- Irredeemable fixed rate 5%
BCENTROP8324	Art. 150-ter shares	BCC Centropadana	16/05/2023	2,499,996	PV share = 25.82 no. shares 96,824
Total				**140,999,983**	

Capital support interventions are attributed on a pro-rated basis to each mutual bank, in accordance with the “Accounting and prudential model for the Cross-Guarantee Scheme”. The share of each affiliated bank in the intervention is:

- recognized in the accounts as indirect financing (in a subordinated debt or equity instrument) included in the own funds of the issuer;
- deducted, for prudential purposes, from the component of own funds of each participating bank consistent with the type of intervention carried out at the beneficiary bank.

On June 1, 2023, the Guarantee Scheme undertook a liquidity support intervention, using the available resources from the Ex Post Quota of the RAFs, in favor of Banca di Pisa e Fornacette. The intervention consisted in the disbursement by the Parent Company of an interest-bearing bullet loan totaling €100 million, with a term of 12 months and an annual fixed rate of 0.4%. At the same time, each mutual bank granted a loan to the Parent Company in an amount commensurate with its participation in the Scheme with the same characteristics as the loan granted by the Parent Company to Banca di Pisa e Fornacette.

Value of the transaction at June 30, 2023

On a quarterly basis, the Parent Company determines the overall fair value of the investments made with the funding dedicated to the specific transaction 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.

[47] On the basis of the “mark to model” valuations, in accordance with the method envisaged in the Parent Company’s fair value policy, the prices at December 31, 2022 are reported below:

- subordinated securities – T2”:

ISIN	Issue	Mark to model prices
IT0005397010	Banca Centro (former Vival Banca)	94.196
IT0005395634	BCC Centropadana	92.684
IT0005395626	BCC Centropadana	92.684

- for the Additional Tier1 - AT1 instrument:

ISIN	Issue	Mark to model prices
IT0005519043	Banca Centro (former Vival Banca)	67.910

At June 30, 2023, no change in value was registered for the shares issued under Article 150-ter of the Consolidated Banking Act as part of the quarterly estimation of the interventions funded by the Guarantee Scheme.

Pursuant to the Loan Agreement, the revenues of the specific transaction consist of the investment yields and the returns deriving from the implementation of the interventions. Costs consist of management costs and possible losses deriving from the transaction and investments and from the interventions undertaken.

The following table provides a breakdown of the fair value notified on a quarterly basis to the participating banks and the associated changes with respect to the fair value of the transaction as at January 1, 2023 (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, 2023[48]
01/01/2023	458,486,478	-
31/03/2023	459,984,026	1,497,548
30/06/2023	461,915,808	3,429,330

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 specific transaction at June 30, 2023:

	30/06/2023
Interest income on securities	1,909,778
Interest expense	-
Fee and commission expense	(7,789)
Gain/loss on securities at fair value [49]	1,082,030
Plus/minus on securities at fair value [50]	445,311
Total	**3,429,330**

See the following section for a breakdown of the individual items.

Accounting policies

The rules governing the loan for a specific transaction require the adoption of dedicated/separate accounts that ensure the segregation and the separation of income and all other amounts generated by the investment of the liquidity of the loan from the resources of the Parent Company and the companies of the Group.

The model used by the Parent Company to manage the separate accounts of the loan provides for all financial components that affect the financial statements of Iccrea Banca in relation to the management of the funds relating to the transaction, whether generated by valuation or income and charges connected to the management of the funds to be offset in profit or loss by an item of the opposite sign in order to provide the providers of the financing with the net proceeds of the overall management of the funds during the period in question.

[48] With a reference date of 31/03/2023 the notice was transmitted to the affiliated banks on April 13, 2023 with Guidance and Coordination Notice Prot. ICR-OUT-000203-2023-DG “Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 31/03/2023”.

With a reference date of 30/06/2023 the notice was transmitted to the affiliated banks on July 12, 2023 with Guidance and Coordination Notice Prot. ICR-OUT-000872-2023-DG “Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 30/06/2023”.

[49] The item reports gains actually realized on securities.

[50] The item reports the increase recognized on the basis of the application of the valuation model.

Balance sheet – Assets

The tables are presented in euros.

Assets	30/06/2023	31/12/2022
10. Cash and cash equivalents	13,122,555	43,753,901
20. Financial assets measured at fair value through profit or loss	333,793,141	272,785,150
b) financial assets designated as at fair value	331,755,838	270,822,702
c) other financial assets mandatorily measured at FV	2,037,303	1,962,448
70. Equity investments	114,999,983	112,499,987
120. Other	131	27,674
Total assets	**461,915,810**	**429,066,712**

Cash and cash equivalents

The amounts regard resources not invested in securities and held on the accounts of the Guarantee Scheme at the Bank of Italy and Euroclear Bank SA.

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. The following table provides a breakdown of the financial instruments subscribed:

Country	30/06/2023	31/12/2022
Austria	-	1,018,322
Belgium	35,709,522	9,486,419
Finland	-	1,232,085
France	91,499,916	40,053,015
Germany	-	29,305,143
Ireland	-	-
Italy	91,839,834	73,820,617
Netherlands	-	2,103,292
Supranational	-	25,858,495
Spain	91,251,081	56,474,230
Covered bonds	-	10,523,003
Subordinated bonds subscribed as part of interventions:	21,455,485	20,948,080
- BCC Centropadana	13,919,834	13,559,377
- Banca Centro (former Vival Banca)	7,535,651	7,388,703
Irredeemable AT1 instrument:	2,037,303	1,962,448
- Banca Centro (former Vival Banca)	2,037,303	1,962,448
Total	**333,793,141**	**272,785,150**

Equity investments

The amount regard shares subscribed by the Parent Company for capital support interventions:

Equity investment	30/06/2023	31/12/2022
Article 150-ter shares subscribed in interventions:		
- Banca Tema (former Banca Valdichiana)	35,000,000	35,000,000
- BCC Centropadana	22,699,989	20,199,993
- BCC di Pisa e Fornacette	39,999,995	39,999,995
- Banca Centro (former VivalBanca)	15,999,999	15,999,999
- Banca di Bari e Taranto (former BCC di Massafra)	1,300,000	1,300,000
Total	**114,999,983**	**112,499,987**

Other assets

The item includes the interest accrued with a value date of June 30, 2023. As it was collected after June 30, 2023, the interest will be recognized under “cash and cash equivalents” (item 10) after the close of the period.

Balance sheet – liabilities

The following tables are stated in euros.

Liabilities	30/06/2023	31/12/2022
30. Financial liabilities designated as at fair value	380,918,209	352,483,759
80. Other liabilities	80,997,601	76,582,953
Total liabilities	**461,915,810**	**429,066,712**

Financial liabilities designated as at fair value

The item includes the Ex Ante Quota of the affiliated banks (€267.02 million), adjusted to account for the performance of the dedicated loan at June 30, 2023, and the fair value of the indirect financing in equity securities (totaling €113.90 million).

Other liabilities

The item includes the Ex Ante Quota of the Parent Company (€56.42 million), adjusted to account for the performance of the dedicated loan at June 30, 2023 and the fair value of the indirect financing in equity securities (totaling €24.58 million).

Income statement

	30/06/2023	30/06/2022
10. Interest and similar income	1,909,778	1,197,764
20. Interest and similar expense	-	(88,142)
30. Net interest income	**1,909,778**	**1,109,622**
40. Fee and commission income	4	-
50. Fee and commission expense	(7,793)	(13,114)
60. Net fee and commission income (expense)	**(7,789)**	**(13,114)**
110.a Financial assets and liabilities designated as at fair value	1,452,486	(11,166,574)
of which gain/loss on debt securities	1,082,030	(2,280)
of which minus/plus on debt securities	370,456	(11,164,293)
110.b Other financial assets and liabilities mandatorily measured at fair value	74,855	-
of which gain/loss on debt securities	-	-
of which minus/plus on debt securities	74,855	-
Performance of GS	**3,429,330**	**(10,070,065)**
110.Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss of which portion allocated to affiliated banks	(2,832,433)[51]	8,277,144
200. Other operating expenses/income – of which Ex Ante Quota pertaining to Parent Company	(596,897)[52]	1,792,921
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 includes interest accrued on financial instruments held.

Fee and commission income

This item regards expenses recouped from Euroclear Bank SA.

Interest and similar expense

Interest expense includes depositary fees and expenses paid to Euroclear Bank SA (€6,315) and account fees paid to the Bank of Italy (for a total of €1,477).

Other operating expenses

The items refers to the change in the value of the Ex Ante Quota pertaining to the Parent Company, in reflection of the performance of the dedicated loan as at June 30, 2023.

[51] 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 -€1,305,092). The item beaks down as follows:

110.	Net gain (loss) on financial assets and liabilities designated as at fair value	(1,305,092)
	of which: financial assets and liabilities designated as at fair value	1,527,341
	of which gain/loss on debt securities	1,082,030
	of which minus/plus on debt securities	445,311
	of which: change in value of financial liabilities designated as at fair value (share attributed to mutual banks)	(2,832,433)

[52] In the income statement, the change in the Ex Ante Quota pertaining to the Parent Company is reported under item 200. Other operating expenses/income.

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 2023

ORMB/NSDN/vbrb – R2023/01071

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00187 Roma

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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, 2023. 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, 2023, 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.

Rome, September 28, 2023

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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