REPORTS AND CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS AT DECEMBER 31, 2021

GRUPPO BCC
ICCREA

Report and consolidated financial statements at December 31, 2021 of the Iccrea Cooperative Banking Group

Report and separate financial statements at December 31, 2021 of the Parent Company Iccrea Banca SpA

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)

BCC BANCA ICCREA

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REPORT AND CONSOLIDATED FINANCIAL STATEMENTS OF THE ICCREA COOPERATIVE BANKING GROUP

CONSOLIDATED REPORT ON OPERATIONS

December 31, 2021

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CORPORATE BOARDS

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

BOARD OF DIRECTORS

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

* Independent directors

(1) Member of the Risks Committee

(2) Member of the Appointments Committee

(3) Member of the Remuneration Committee

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

EXECUTIVE COMMITTEE

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

BOARD OF AUDITORS

SBARBATI Fernando	*Chairman*
ANDRIOLO Riccardo	*Standing Auditor*
ZANARDI Barbara	*Standing Auditor*
VENTO Gianfranco Antonio	*Alternate Auditor*
CIGNOLINI MICHELA	*Alternate Auditor*

SENIOR MANAGEMENT

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

INTRODUCTION

Shareholders,

In early 2021, after the unprecedented crisis throughout the global economy brought about by the diffusion of the Covid-19 virus since 2020 – despite the timely response by authorities in Italy, Europe, and around the world – it had become clear that the achievements in medicine were pointing to a way out from the major health emergency, and the outlook for the economy was improving significantly, as could be seen throughout 2021 with global GDP growing by 6.2% and GDP in the euro area growing by 5.4%. However, as the gradual recovery continued, a number of factors characterizing the international economy began to emerge that continue to impact the start of 2022, specifically with regard to the uncertainty surrounding the pandemic and the increasing risk of inflation. In addition, with the energy transition and decarbonization, businesses and households began taking action to determine the best strategy to accelerate a return to normalcy, while remaining on a path towards the medium and long-term goal of environmental sustainability.

In Italy, beginning in the second quarter, after an essentially stagnant start to the year as a result of social distancing measures that remained largely in effect and of the slow start to the vaccine roll-out, a change in government – which resulted in greater business confidence both domestically and internationally – and better progress in vaccine distribution helped drive a strong economic recovery, supported, above all, by domestic demand, capital expenditure and exports. Despite a deceleration in the latter part of the year, particularly in the construction industry, Italian GDP grew by 6.3% in 2021 over 2020, outpacing the average for the euro area, with the labor market also improving beginning in the third quarter of the year. However, at the same time, and in line with international developments, consumer prices rose significantly, with inflation reaching 4.2% compared with the previous year, a rate that had not been seen since the start of the EMU, due in part to increases in the prices of electricity and gas, which have had a significant impact on both businesses and households.

Within this environment, Italy's credit market in 2021 remained impacted by measures to support liquidity. The use by businesses of government-backed financing continued to increase, surpassing €250 billion by January 2022, whereas loans involved in moratoriums began decreasing significantly in the second half of the year – and were no longer possible after year end – although this has yet to be reflected in a worsening of credit quality. Despite the recovery in economic activity, lending to businesses decelerated compared with 2020, impacted in part by the significant available liquidity set aside by businesses during the pandemic. Conversely, consumer lending posted stronger growth than last year, driven by home loans favored by an increase in disposable income, lower interest rates, and restructuring incentives. The potential negative impact of the pandemic on credit quality was contrasted by government stimulus measures, which limited the emergence of new non-performing exposures. The rate of credit deterioration remained lower than expected, and the ratio of impaired loans to total lending continued to decline, bringing the gross and net NPL ratios of Italy's leading banking groups to all-time lows. The lower contribution of cost of risk and the overall economic recovery have enabled Italian banks to post significant improvements over 2020 and to confirm their capital solidity.

Within this environment, our affiliated banks continued to act as a partner with our local communities, enabling our shareholders and customers to manage the crisis without undue social or economic costs, while providing them with financial support at the start of the recovery, including in the form of government-backed financing. Our renewed confidence in small and medium enterprises, our core customers alongside consumers, through the darkest periods of 2020 and early 2021, has been rewarded. The significant volume of payment moratoriums granted (€23 billion during the most critical period in the summer of 2020) gradually declined to essentially zero by the start of 2022, and we have yet to see significant signs of an increase in risk.

Despite the effort required during these complex times, which has included measures aimed at ensuring the business continuity of our network and the safety of our employees, the Group has continued pursuing our strategic objectives and taking action to further improve our operating efficiency. More specifically, we: continued the migration of the affiliated banks to our proprietary information system, enabling us to achieve our goal for 2022 to migrate all banks onto a single platform; made rapid progress on the reorganization and rationalization of the direct scope companies; continued work to rationalize the network through bank mergers and branch closures; continued the "Full Revenue Potential" program, within the scope of the broader Transformation Program, and are completing other high-value projects in the commercial area (e.g. Customer Relationship Management – CRM, Full Commercial Potential, and the Wealth Management Platform – WMP); completed projects aimed at the efficient entry into the new tax-credit (or "ecobonus") market; started an issue program aimed at achieving challenging capital and liquidity targets in order to meet MREL requirements, including completion of the mutual banking system's first covered-bond issues as well as issues of social bonds.

On January 29, 2022, an agreement between Iccrea Banca and FSI SGR S.p.A. was reached for the development of BCC Pay, the Group's payment-systems company, with the goal of created a market player with important synergies expected with the addition of new customers. Upon completion of the operation, FSI SGR S.p.A. and Iccrea Banca will hold stakes in the company of 60% and 40%, respectively. The operation is based on a total value of BCC Pay of up to €500 million. The agreement represents a unique opportunity for the current and future development of the business, particularly if our banks are able to adequately develop commercial relationships.

In the first half of 2021, the ECB also completed its Comprehensive Assessment of the Group, which called for a major organizational effort in a period of significant operational tensions related to the circumstances of the period. The outcome of this process, issued in July 2021, pointed to capital levels for the ICBG above the minimum thresholds set for the year, thereby confirming the Group's solidity and absence of gaps in capital, as well as the quality of our measurement and management processes. The ECB also conducted an assessment that confirmed the Group's capital position without pointing to any critical issues, acknowledging the progress made by the Group in defining our risk management processes.

On December 16, 2021, following the completion of these assessments, the ECB issued a letter authorizing the Group to apply the waiver pursuant to Article 113(6) of the CRR, under which the Group's fully consolidated banks, financial companies, and other special-purpose companies can assign a risk weighting of 0% to intercompany exposures, other than those that involve instruments of tier-1 capital, additional tier-1 instruments, or tier-2 instruments. These waivers will further increase the capacity for our banks to expand.

In terms of risk management, the significant additional push to reduce non-performing exposures in 2021 – in line with the strategy that has been pursued since 2018 – has enabled us to amply surpass the targets set in the NPE Strategy approved in early 2021 (6.9%, as compared with a target of 8.3%). The additional prudence adopted in assessing our exposures, as reflected in a cost of risk of more than €1.2 billion for the year, has enabled us to reach one the Italy's highest rates of NPL coverage (62.7%), even taking account of the significant portion of exposures that are backed by guarantees, a large part of which are real-estate collateral.

In 2021, we completed the fifth securitization of non-performing loans (GACS V) for a total portfolio of about €1 billion in NPLs and other non-recourse sales of impaired exposures (mainly unlikely-to-pay positions) for a of €0.4 billion. In the first half of 2022, we will complete another securitization of NPLs for which government guarantees will be requested for a total of more than €0.5 billion.

Our efforts to develop the commercial area continued without interruption, producing the first positive results in terms of performance, particularly in fee and commission income. This was achieved despite the ongoing uncertainties surrounding the pandemic (managed in part by reinforcing risk management mechanisms), the major commitment required of the ECB assessments, the significant changes in laws and regulations that have required the Group to make changes to policies and procedures, and the challenging reorganization and other extraordinary transactions involving the direct scope and the network of mutual banks

Consolidated net profit totaled €461 million, an increase of €202 million on December 2020, for ROE of 4.3%. The Group's CET1 ratio came to 17.7% and our TC ratio was 18.9%, which are among the highest capital ratios in Italy. In early 2022, this performance, accompanied by our strong management of credit risk, gave good reason to be optimistic about the outlook for operations, including in relation to current macroeconomic forecasts, which – together with the results of the Comprehensive Assessment – were consolidating within the scope of the 2022-2024 strategic plan that we began implementing in 2021. In September 2021, with the renewal of our commitment to sustainability, the Parent Company also updated the Group's Sustainability Plan – which encompasses ESG issues – to define specific goals and targets to include in the strategic plan in order to take account of the new social and economic landscape, which has been radically altered by the pandemic and by related, ongoing changes in laws and regulations.

Unfortunately, however, this cautious optimism took a rapid turn for the worse in February 2022 in response to the gradual escalation of geopolitical tension between Russia and Ukraine, resulting in the outbreak of armed conflict in late February, the outcome of which remains extremely uncertain. This situation has triggered renewed fears of adverse impacts on European economies in particular due to rising prices of energy and raw materials, a worsening of confidence, and a downturn in international markets. Nonetheless, Eurosystem analysts believe that the fundamentals of Europe's economy are strong, backed in part by the support of various policies being adopted. According to baseline-scenario estimates revised in March 2022, annual growth in real GDP is forecast at 3.7% in 2022, 2.8% in 2023, and 1.6% in 2024, which are slightly below the December projections based on the assumption that the current disruptions in energy supplies and other adverse repercussions of the war on confidence are temporary and that global supply chains will not be significantly compromised.

Despite the fact that growth forecasts are exposed to multiple risks, and in light of this new environment, in Italy the National Resilience and Recovery Plan continues to represent an opportunity of historic proportions, as Italy is one of the leading beneficiaries of the Next Generation EU funds, and use of these funds will be crucial to supporting growth through 2026 - the period covered by the plan - and beyond.

With these signs for hope, the Group will be seeking with renewed energy to achieve the ambitions set for 2024 – which do not take account of the new geopolitical landscape – aimed at equipping the Group with a business model that, with full respect for our mutualistic nature and the purposes that entails, will lead to a risk-return profile and capital strength that will ensure long-term stability, while also working towards our ambitions in relation to ESG issues.

1. EXECUTIVE SUMMARY

KEY FIGURES AND MARKET POSITIONING

2,474
Branches

22,084
Employees

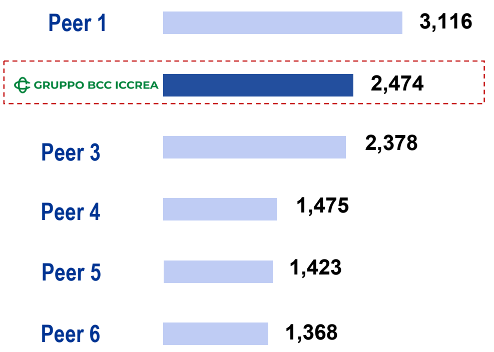
845 thousand
Shareholders

€12.0 bn
Own funds

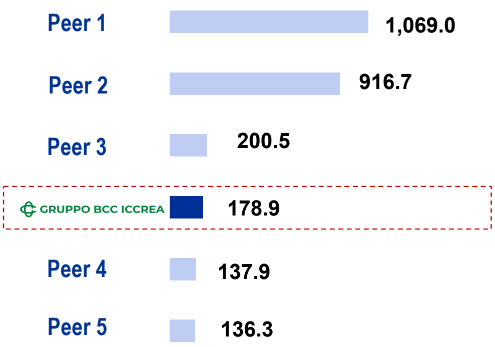
€93.9 bn*
Loans to customers

€122.0 bn
Direct funding with customers

*Second largest banking group by number of branches (#)***



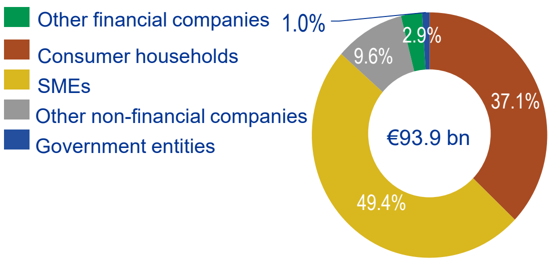
*Fourth largest banking by total assets (€/b)****



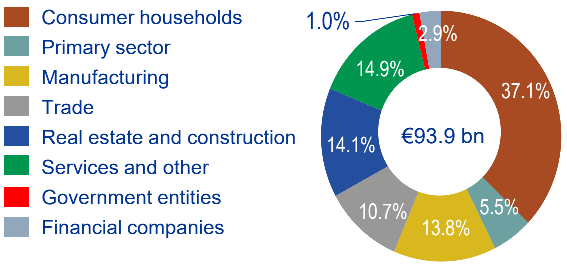
* Gross loans to customers
** Source Bank of Italy. Figures at 20.02.2022
*** Source infoprovider: preliminary figures at 31.12.2021

BREAKDOWN OF CUSTOMER BASE

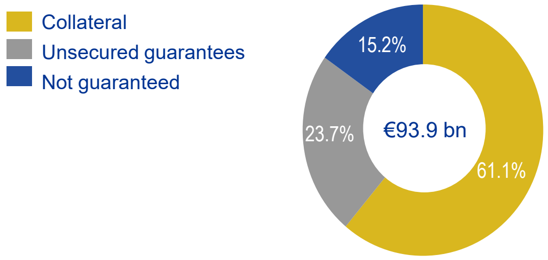
Type of counterparty



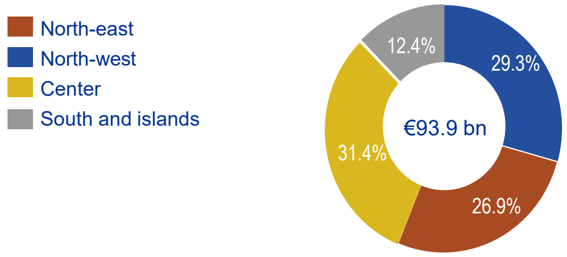
Economic activity of counterparty



Types of guarantee



Distribution of customers by geographical area



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

PERFORMANCE INDICATORS[1] (amounts in thousands of euros)	31/12/2021	30/06/2021	31/12/2020
STRUCTURAL RATIOS			
Net loans to customers measured at amortized cost /total assets	49.6%	50.3%	51.5%
Direct funding from customers/total liabilities	68.2%	63.5%	66.9%
Equity (including profit/loss) /total liabilities	6.0%	6.1%	6.1%
Loan to deposit ratio	68.9%	71.5%	71.5%
Net loans to ordinary customers measured at amortized cost /direct funding from ordinary customers[2]	72.1%	74.4%	75.3%
PROFITABILITY RATIOS			
ROE (Net profit)/ net equity including the profit for the period)	4.3%	3.8%	1.9%
ROTE [Net profit/net tangible equity (Equity including profit – intangible assets]	4.4%	3.9%	1.9%
ROA (Net profit/total assets)	0.3%	0.2%	0.1%
Cost/income ratio	64.0%	64.8%	73.1%
Personnel expenses/gross income	37.0%	36.4%	42.5%
Net interest income/gross income	59.7%	58.3%	61.9%
Net fee and commission income /gross income	29.8%	28.0%	31.0%
Net interest income/Number of employees at end-period	125.0	61.98	113.9
Net fee and commission income/Number of employees at end-period	62.5	29.7	57.0
Gross income/Number of employees at end-period	209.5	106.3	184.0
RISK RATIOS			
Gross impaired loans/gross loans measured at amortized cost[3]	6.2%	8.1%	8.5%
Gross impaired loans to customers/gross loans to customers measured at amortized cost	6.9%	8.9%	9.1%
Net impaired loans to customers/net loans to customers measured at amortized cost	2.7%	4.0%	4.3%
Net Stage 2 loans to customers measured at amortized cost/net performing loans to customers measured at amortized cost	12.2%	11.1%	11.3%
Net bad loans/net loans to customers measured at amortized cost	0.7%	1.3%	1.4%
Net UTP loans/net loans to customers measured at amortized cost	1.7%	2.3%	2.7%
Net writedowns/(writebacks) for credit risk/net loans to customers measured at amortized cost	1.3%	0.4%	1.0%
Writedowns of impaired loans/gross loans to customers measured at amortized cost	62.7%	57.4%	55.7%
Writedowns of bad loans/gross bad loans	78.8%	71.9%	70.4%
Writedowns of UTP loans/gross UTP loans	53.9%	46.6%	43.6%
Texas ratio	44.3%	54.3%	56.8%
CAPITAL RATIOS - *phased-in*			
Common Equity Tier 1 ratio	17.7%	16.6%	16,7%
Tier 1 ratio	17.7%	16.5%	16.8%
Total capital ratio	18.9%	17.2%	17.5%
Total own funds	12,005,657	11,339,935	11,509,449
of which: Tier 1 capital after filters and deductions	*11,279,330*	*10,902,695*	*11,059,663*
Risk-weighted assets (RWA)	63,670,442	65,851,133	65,939,244
CAPITAL RATIOS - *fully loaded*			
Common Equity Tier 1 ratio	16.2%	15.4%	15.2%
Tier 1 ratio	16.3%	15.4%	15.2%
Total capital ratio	17.5%	16.1%	15.9%
LEVARAGE RATIO			
Phased-in Tier 1/Total assets	6.3%	6.1%	6.4%
Fully loaded Tier 1/Total assets	5.8%	5.7%	5.8%
LIQUIDITY RATIOS			
Liquidity coverage ratio (LCR)	290.5%	300%	299.2%
Net stable funding ratio (NSFR)	134.3%	131%	131.6%
Encumbered asset ratio	26.2%	25.9%	26.1%

[1] For an explanation of how the performance indicators are calculated, please see Annex 2 – Alternative Performance Indicators. The figures at December 31, 2021 do not consider the IFRS 5 reclassification of e-money operations held for sale.

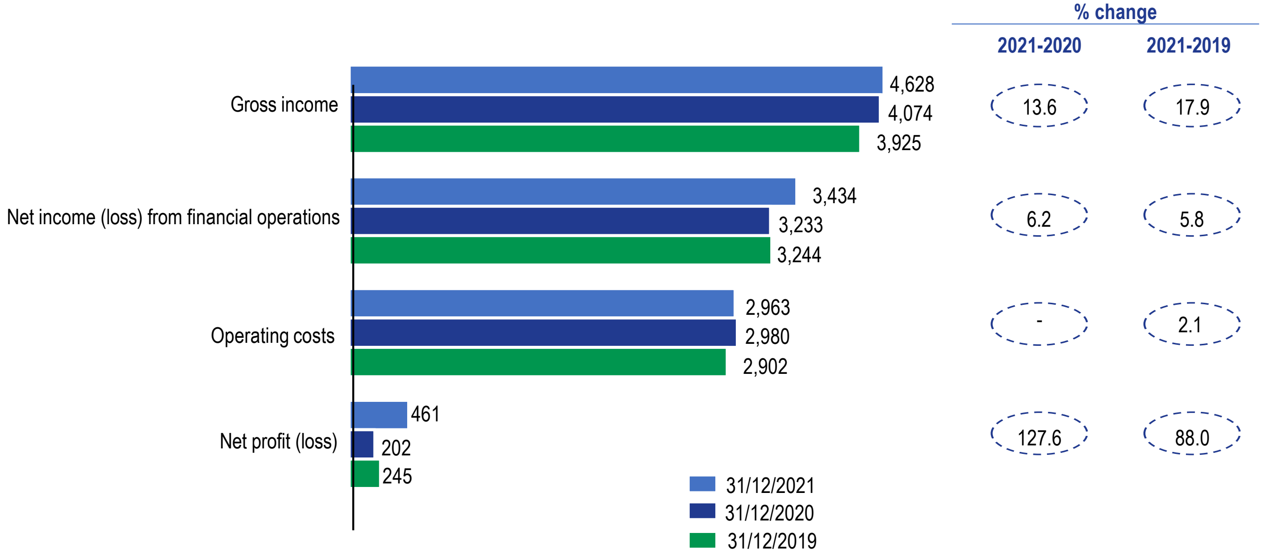
[2] Lending to and funding from customers calculated net of exposures vis-à-vis CC&G

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

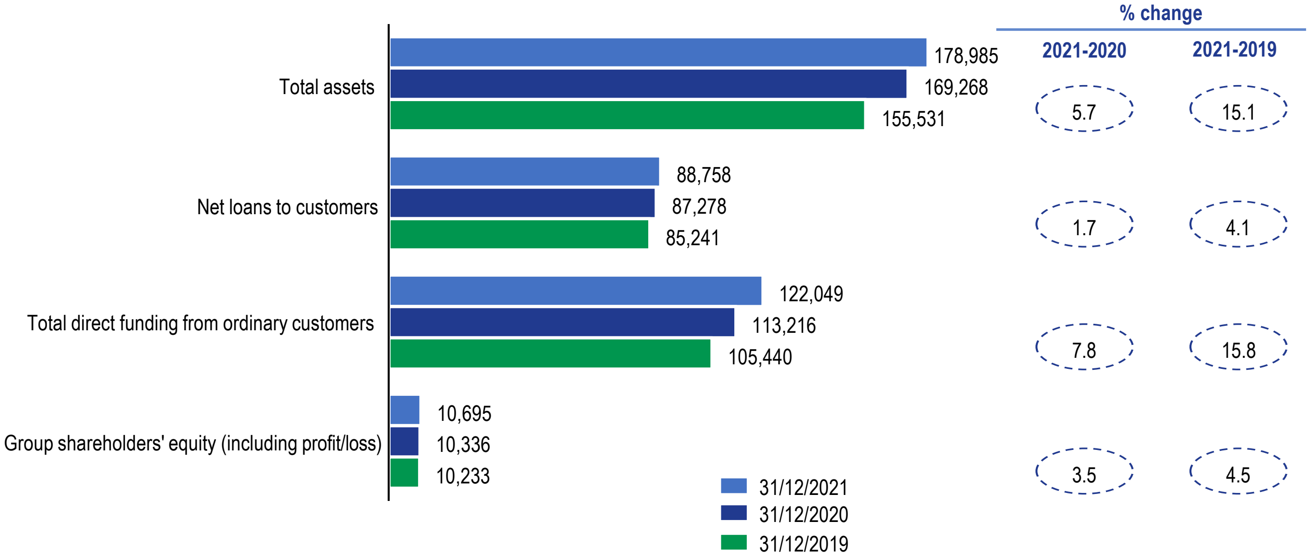
INCOME STATEMENT, BALANCE SHEET, OPERATIONAL AND STRUCTURAL DATA[4]	31/12/2021	30/06/2021	31/12/2020
Profit/(loss) for the period	460,571	404,985	202,320
Profit/(loss) attributable to the Group	456,765	400,303	195,793
Gross income	4,627,553	2,347,269	4,073,661
Operating expenses	2,962,783	1,520,172	2,979,517
Net loans to customers measured at amortized cost	88,758,420	87,736,045	87,277,814
of which: Net bad loans	*600,449*	*1,135,026*	*1,198,568*
of which: Net UTP loans	*1,472,292*	*2,020,611*	*2,329,183*
Net non-performing loans	2,405,090	3,529,349	3,739,992
Total direct funding from ordinary customers	122,049,221	116,330,725	113,215,862
Equity pertaining to the Group (including profit/loss)	10,694,904	10,670,750	10,336,056
Intangible assets	176,836	159,932	168,844
Total consolidated assets	178,985,382	174,577,128	169,268,115
Number of branches	2,474	2,515	2,529
Number of Group banks	132	134	136
Number of affiliated mutual banks	128	130	132
Number of employees at end-period	22,084	22,079	22,141
Average number of employees	21,613	21,614	21,730

[4] The figures at December 31, 2021 do not consider the IFRS 5 reclassification of e-money operations held for sale.

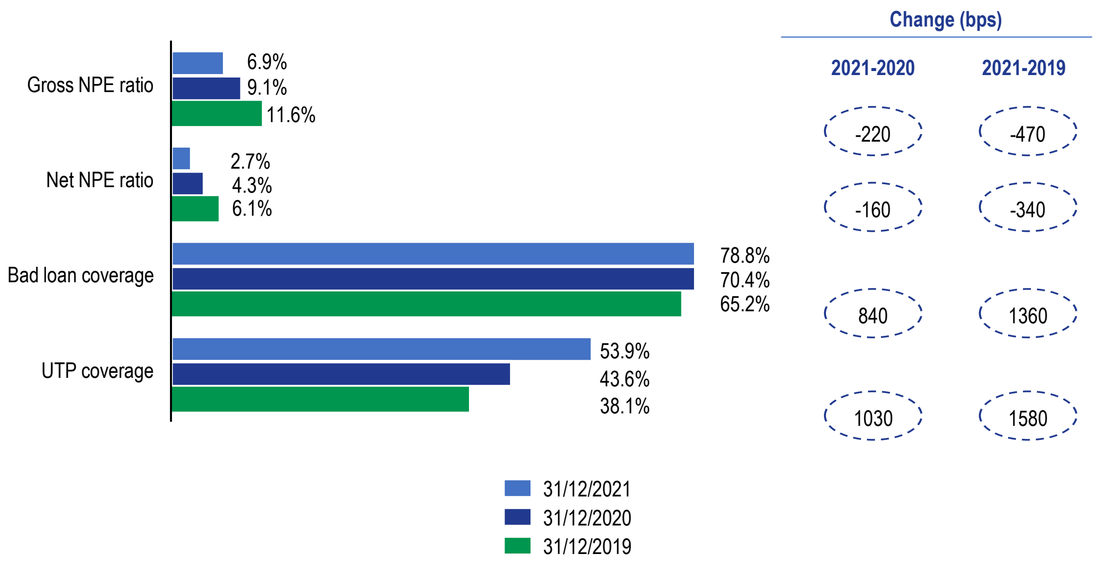
Key performance figures (millions of euros)



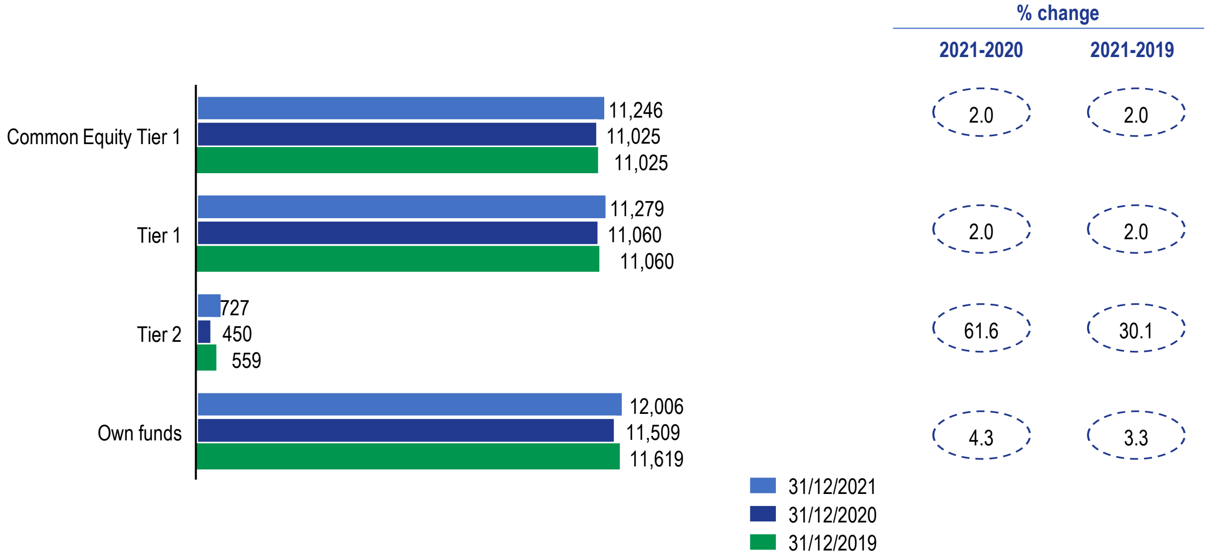
Key balance-sheet figures (millions of euros)



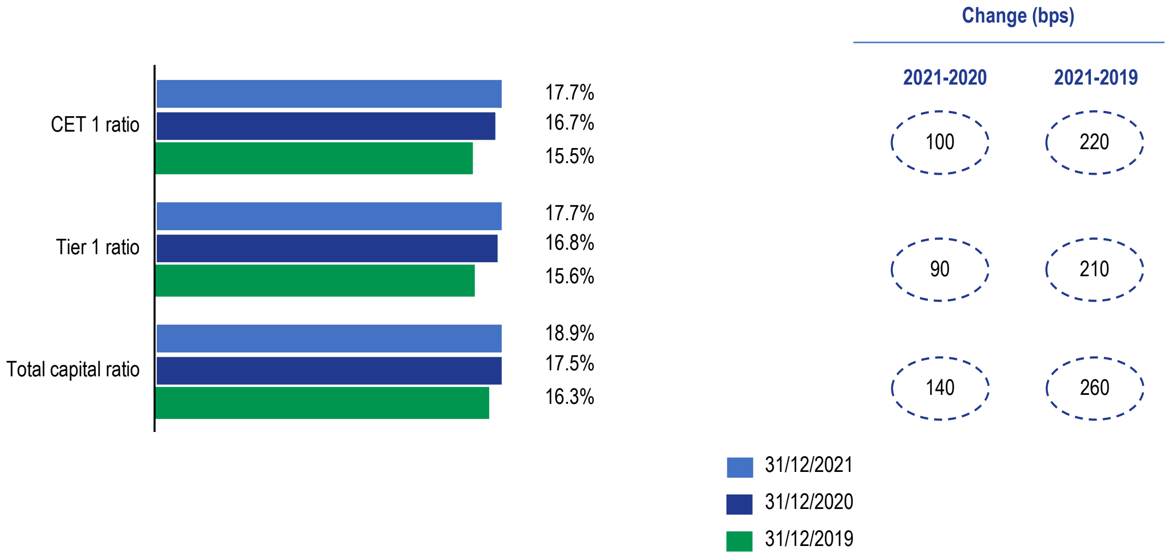
Key risk indicators (%)



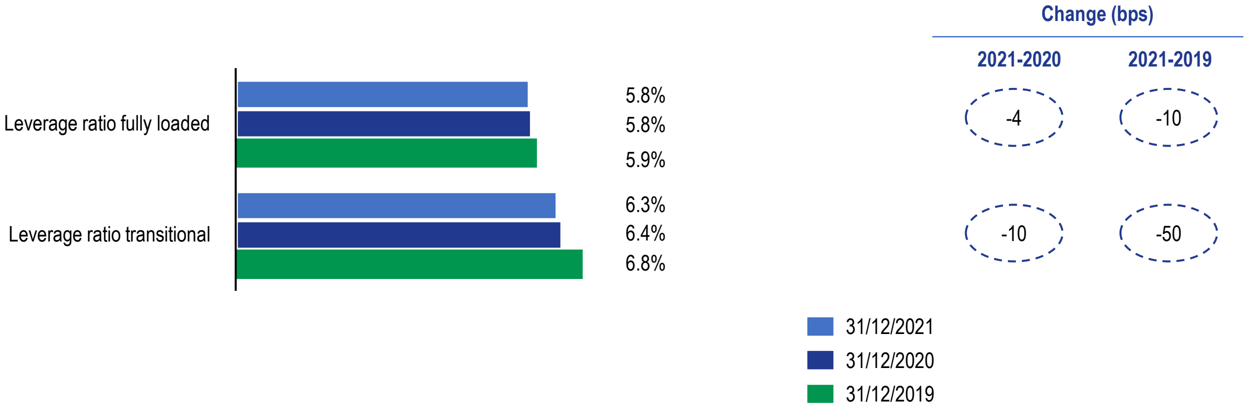
Composition of capital (millions of euros)



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

After the strong uncertainty that characterized 2020 - albeit mitigated by the timely interventions adopted by authorities at the global, European and national levels - at the beginning of 2021 it became increasingly clear that medical progress would lead the world out of the COVID-19 health crisis that impacted the global population and economy, although the variants of the virus, the limited availability of vaccines and the different speed of vaccination roll-out suggested that no country had yet completely escaped the health or economic impact of the crisis.

With regard to the more purely economic aspects, the world's major economies had not yet fully reflected the benefits of the exceptional fiscal policies implemented to counter the crisis and revive growth, while the global frictions generated by the strong acceleration of demand and difficulties faced by the supply side in responding to this surge engendered a number of risks, first and foremost inflation.

Nevertheless, the recovery was consolidating at the global level, albeit with increased cyclical mismatching among the major economies: in the first quarter of the year, US GDP accelerated from its pace at the end of 2020 (1.6% on the previous quarter) and returned to pre-crisis levels. The Chinese economy, although expanding, grew at a rate slightly below quarterly average pre-crisis values (0.6%) while the European Union suffered another setback (-0.3%) as a result of anti-COVID-19 measures introduced in the winter to contain a new wave of the pandemic. A new health emergency was impacting certain emerging countries with devastating effects on the population, while threatening to slow the recovery under way in the countries that were best managing the COVID-containment response.

As noted, inflation began to rise worldwide, even if the concerns differed across individual countries. In the United States, inflation temporarily above the central bank's target was expected and accepted by the Federal Reserve, which did not seem ready to alter monetary conditions. In China, inflation was still below the central bank's target and remained despite the presence of conditions conducive to a rapid increase in prices. However, in some emerging countries (Brazil and Russia, for example), price increases had already prompted the central banks to raise their policy rates. The European Union found itself facing conditions in which potential inflationary pressures were not such as to prompt monetary policy interventions by the ECB.

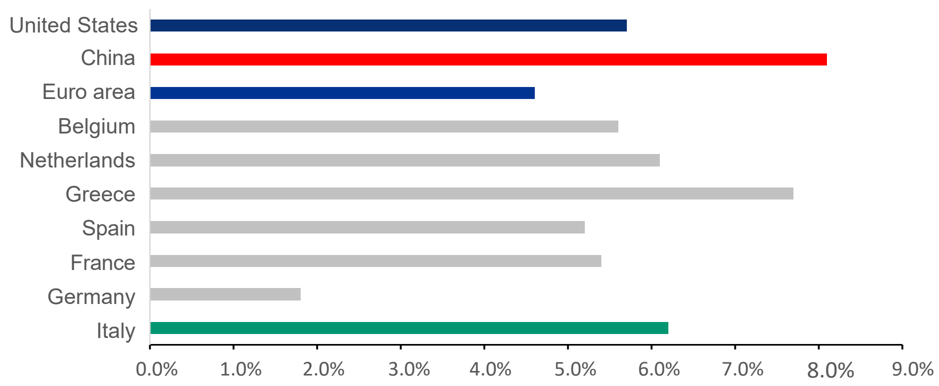
In short, the factors characterizing the world economy, which continue to characterize early 2022, were already apparent in the first few months of 2021: the progressive consolidation of the recovery, the persistence of uncertainty linked to the pandemic and the increase in inflation risk. These factors were compounded by the energy transition and decarbonization, which households and firms were starting to address in order formulate more effective strategies to accelerate the return to normality, to overcome the difficulties and changes imposed by the pandemic and to remain on a path consistent with the medium/long-term goal of climate sustainability.

In the second quarter of 2021, global GDP growth was particularly robust. The US and China confirmed a slight acceleration over the first quarter, while for Europe the acceleration was stronger than expected and quarterly GDP growth outpaced that in the United States. The exceptions were those countries, such as India, where the resurgence of the pandemic and a small proportion of vaccinated individuals dealt a new blow to economic activity. Household consumption has driven growth almost everywhere, especially in the industrial countries. The easing of the restrictions imposed to counter the spread of the pandemic, progress in vaccination campaigns - especially in the advanced countries - the approach of summer, the savings accumulated during the most stringent phases of Covid restriction had positive effects on spending growth, enabling a progressive return towards pre-crisis consumption patterns. The growth in investments in capital goods was more mixed and weaker than that in private consumption, as companies began to face short- and medium-term constraints, with uncertainty exacerbated by the profound (structural and social) changes taking place in connection with environmental sustainability. The pandemic also influenced production processes and global value chains in ways that forced firms to make short-term choices that were not necessarily consistent with more strategic long-term options in order to prevent economic activity from coming to a complete halt.

The second half of 2021 was characterized by an acceleration of the rebound in world economic activity from the recession triggered by the health emergency. While all the major economies had emerged from the darkest periods of the crisis from a social and economic point of view, the intensity of the recovery was not uniform at the global level.

The first published data for GDP growth in the fourth quarter of 2021 underscore the considerable vigor of the US and Chinese economies and, to a lesser extent, the European economy, but performance continued to differ as a result of differences in the pandemic. The new waves of COVID cases revealed striking differences between countries, not only between the industrial and emerging economies, where having the financial means to provide vaccination coverage for the entire population was crucial, but also between more similar countries, where different factors came into play, such as compliance with the rules established to limit the spread of the virus. Take the EU, for example, and compared the most virtuous countries, Italy first and foremost, with those where the health emergency prompted the reintroduction of full lockdowns in 2021, such as Austria.

GDP growth - % year-on-year change



In any event, towards the end of 2021 the global growth outlook was increasingly exposed to a series of new or resurgent risk factors that could once again complicate a complete exit from the crisis:

- the problems that emerged in maritime transport – namely shortages of cargo ships and containers and the implementation of health protocols that impacted the normal operation of ports - were triggering a cascade effect in supply chains, impacting commodity prices and, consequently, driving consumer price inflation in the most advanced economies;
- the natural gas crisis, which began in the autumn in response to geopolitical tensions with Russia, added impetus to the inflationary pressures of high shipping costs. Chinese demand, and the Asian market in general, played a key role in driving the peak gas prices registered in Europe in 2021, with repercussions on electricity prices and a reduction in inventories, which were drawn down as a result of unexpectedly low temperatures in the early winter;
- the strong recovery in world demand for manufactured goods, induced in part by the shift of consumption from services in response to the pandemic containment measures, which was not accompanied by a corresponding increase in the supply of goods;
- the severe supply shortages in certain sectors, notably semiconductors, with suppliers struggling to meet the surge in demand for electronic products and appliances and the automobile industry, which was gradually recovering after the sharp decline in output in 2020;
- the new pandemic containment measures introduced by the least developed countries - after a summer relatively free of pandemic-related impacts – as early as October due to the emergence of the Omicron variant, which spread from South Africa to the rest of the world.

These circumstances have prolonged inflationary pressures on the prices of final products. In particular, the especially high international prices of commodities and the scarcity of certain intermediate goods have begun to have an increasingly heavy impact on firms' costs, driving producer prices to new highs in both the industrial countries and in China. It is becoming increasingly difficult to limit the transfer of these higher costs to prices of final products, thereby further fueling inflationary pressures on consumer goods.

Summarizing, the end of 2021 saw the emergence of signs of a return to a more rapid recovery in the United States and other advanced countries, while the emerging economies registered persistent weakness. The resurgence of the pandemic and continuing supply bottlenecks pose a risk to growth. Inflation has risen almost everywhere, mainly affected by the rise in commodity prices and the recovery in domestic demand.

In the euro area, the turn of the year saw a marked deceleration in the pace of the recovery, due to both the rise in COVID cases and the persistence of supply-chain tensions. At the end of the year, inflation reached its highest level since the launch of monetary union, mainly due to the significant increases in energy prices, which were influenced by the geopolitical tensions between Ukraine and Russia.

In this situation, although the central banks of the advanced countries had tools to control price dynamics, the nature of the inflationary shocks – arising on the supply side rather than the demand side – threatened to compromise or at least dilute the effectiveness monetary policy actions.

In view of developments, at its meeting of December 16, 2021, the Governing Council of the ECB decided to gradually reduce purchases of government securities while maintaining an expansionary monetary policy stance, believing that the progress of the economic recovery would enable a gradual, albeit cautious, reduction in the pace of financial asset purchases. The Council also reiterated that the monetary policy stance would remain expansionary and the conduct of monetary policy would maintain flexibility and optionality in relation to the evolution of macroeconomic developments.

The above scenario, which was already characterized by a range of uncertainties, quickly turned for the worst in February 2022 following the escalation of geopolitical tensions between Russia and Ukraine, which exploded at the end of February in a conflict whose outcome, also given the surprising resistance from Ukraine to the invasion, is currently extremely uncertain, although there is a generalized expectation of adverse impacts on general economic conditions.

In this regard, the main impacts of these developments are being channeled through the increase in the prices of energy goods (natural gas and oil), certain agricultural commodities (for example, wheat exported from Russia and Ukraine) and industrial raw materials (such as aluminum), which are inevitably being translated into further significant upward pressures on world consumer price inflation, which could exceed 6% this year, postponing the expected slowdown in prices to 2023. Other channels of transmission of the effects of the geopolitical crisis range from trade relations, the banking-financial industry and operator confidence.

The euro area is significantly exposed to the conflict, especially through the energy and trade channels. Consequently, the stringent sanctions imposed on Russia by the European Commission - along with other countries such as the United States - are expected to have an adverse feedback impact on the euro-area economy as well.

Problems along global value chains also appear to be significant, which could be exacerbated by the conflict and impact manufacturing industry (and therefore merchandise trade as well). What is reasonably likely for Europe, despite the current uncertainties, also certainly holds for Italy, which is exposed on the various fronts noted above (first and foremost energy, thanks to Italy's strong dependence on Russian gas imports).

The risks to global economic conditions therefore remain significant and point downwards. Although, as noted, the health impacts of the pandemic are beginning to show a progressive - albeit slow – decline, the difficulties faced by global value chains, the increases in energy prices and the high levels of debt are substantial or even growing worse.

In the new conditions that have emerged, Eurosystem experts[5] have revised their macroeconomic projections for world real GDP growth downwards from those formulated by in December 2021 over the forecast horizon (-0.4 percentage points in 2022, -0.3 percentage points in 2023 and -0.1 percentage points in 2024). The projections point to real GDP growth of 4.1% in 2022 and 3.6% in both 2023 and 2024.

United States. After a sharper-than-expected slowdown in GDP growth in the third quarter of 2021 (0.5% on the previous period), the fourth quarter registered a significant acceleration in growth (1.7% on the previous quarter), with inventory building again making the largest contribution (almost 1.2%) and consumption offering a significant boost after the restrictions imposed to counter the pandemic, which remained very widespread. Although the potential labor supply suggested the availability of abundant workers for firms, strains in the supply of labor continued to increase, with 11 million vacancies and businesses raising wages and bonuses to keep/attract skilled workers. Hourly wages in the private sector have exhibited year-on-year increases of more than 5.5% since September 2021, a pattern not experienced since before the 2000s. Inflation remained persistently high, at 7% in December, an unexpected peak last seen in the 1980s. Due to the slow decline in commodity prices on international markets and the aforementioned wage growth, inflation is expected to remain above 6% in the early months of 2022 as well. The Fed is therefore confronted with high inflation and high wage increases, arguments in favor of early and more aggressive intervention, but at the same time the economy remains vulnerable and exposed to the pandemic. The uncertainty about the evolution of monetary policy has therefore focused on the aggressiveness of any response, especially with regard to increases in policy rates to ensure that inflation expectations remain anchored to the target. For fiscal policy, the end of the most critical phase of the health emergency made it possible not to renew the exceptional measures adopted to alleviate the cost of the crisis for households and businesses. In 2022, considering the Bipartisan Infrastructure Investments and Jobs Plan and assuming that the last pillar of Biden's agenda under discussion in Congress is approved (although at best it likely to be reduced), the fiscal policy boost to GDP growth can only be negative, as overall the measures are smaller than the expenditure registered in 2020 and 2021. The spending will also be spread over ten years and will largely be financed by tax increases. Specifically, the investment plan provides for expenditure of about $570 billion concentrated in the next five years, of which some €170 million will be financed with a tax increase, while the Congressional Budget Office estimates that aid for households and measures to boost medium-term growth will about to $370 billion over ten years ($1.640 billion of spending financed with $1.270 billion in increased revenue).

Emerging economies. Inflation is getting out of hand in some emerging markets, especially in non-Asian countries. In these conditions, the flexibility of exchange rates, which had been a useful tool for maintaining a foreign trade balance, is proving to be a source of vulnerability, and recently many currencies have been experiencing depreciation. In some cases, policymakers are faced with a difficult choice between raising rates - a strategy that could contain inflation but harm the recovery (it would increase the risk premiums demanded by investors) - and not raising rates, with loss of credibility of their inflation targeting regimes, with the risk of entering a spiral of depreciation of national currencies and inflation. The pandemic has also impacted economic activity in the emerging countries, which generally have much less extensive vaccination campaigns than the industrial countries. In 2022, China, which returned to growth at a rate of around 8% year-on-year at the end of 2021, will have to address the implementation of the announced changes involving restoring balance to the real estate sector, the management of technology companies and the promotion of more climate-sustainable economic growth driven by technology improvements. These are challenging issues that will most likely be supported by economic policy but will likely require a long period of implementation, which could slow the pace of growth.

[5] European Central Bank – Economic Bulletin no. 2/2022.

European Union. Economic activity continued to expand at a fairly rapid pace in the third quarter of 2021 in the main European countries, in line with the second quarter of the year, driven by domestic demand, in particular spending on services and tourism, with economic growth in the summer months very similar to, if not greater than, the rebound recorded in the second quarter in all the main European countries. After two quarters of strong expansion, however, economic activity slowed significantly in the last part of the year, reflecting the rise in COVID cases and the consequent introduction of increasingly stringent containment measures, as well as the persistence of the supply-side difficulties associated with the factors hindering manufacturing. Inflation reached its highest level since the launch of monetary union, mainly driven by the exceptional increases in energy prices. Overall, in the fourth quarter the euro area grew by 0.3%; with strong growth in Spain (2%), a more modest expansion in France (0.7%) and a contraction in Germany, where pandemic developments made it necessary to impose more stringent restrictions than those adopted by other countries and the industrial sector has been more severely impacted due to the commodity composition of output, the difficulties associated with supply-chain issues and price increases. The Omicron wave of the pandemic produced a deterioration in all confidence indicators, including a very sharp decline for households experienced in all countries and a smaller decline for industry, where signs of recovery, albeit a little uncertain, were evident in a number of countries between December and January. In the euro area, the general industrial production index rose in Italy and Spain compared with September but fell in Germany and France, while expectations for output remain at good levels, although showing general signs of a slowdown in January 2022.

In Europe, fiscal policy is oriented towards supporting the recovery in 2022 as well, thanks both to the interventions of individual countries and the outlay of European funds. Before the outbreak of the conflict in Ukraine, the European Commission estimated that the fiscal expansion for the euro area in 2022 would come to 1 percentage point of GDP (1.75% of GDP in 2021). The Draft Budgetary Plans presented by the individual countries in October all pointed to a reduction in emergency expenditure in 2022 and an equally shared increase in expenditure to support the recovery, strengthening the implementation of the National Resilience and Recovery Plans.

Partly as a result of the Russian-Ukrainian conflict - which cast a shadow of uncertainty over a global economy that was still suffering the effects of the upheavals following the global financial crisis of 2008 and then the pandemic – the easing of monetary (and fiscal) policy support will be a central theme for the euro area in 2022, amidst high and rising inflation and an economy still exposed to the pandemic. The return of GDP above pre-pandemic levels, originally expected to occur in the first half of 2022, will probably be delayed and will depend on the course of the ongoing conflict.

Among other things, the war makes the need to tackle the issue of energy security even more pressing. In Europe, in particular, where the energy policies of individual countries are inevitably interdependent, the proposals recently advanced by the European Commission seek to strengthen the security of energy supplies and reduce dependence on imports from Russia, predictably with an additional impact on costs. However, the unavoidable pursuit of this objective could require a temporary deviation from the gradual phasing out of energy sources with greater environmental impact.

In any case - even though the Russia-Ukraine conflict will have a significant impact on the euro-area economy due to the increase in commodity and energy prices, the deteriorating climate of confidence and the constraints in international markets - Eurosystem analysts believe that the underlying conditions of the EU economy are sound, bolstered by the robust support of the policies adopted by the authorities. In 2021, GDP grew by an estimated 5.3%, returning at the end of the year to its pre-pandemic level despite the slowdown in the last quarter. In the medium term, analysts expect growth to be driven by the strength of domestic demand, supported by a more solid labor market, which will enable household incomes and purchasing power to increase, by a global recovery and by the continued support of monetary and fiscal policy, an especially important factor in this new compromised geopolitical situation. The macroeconomic projections revised in March 2022 following the start of the conflict envisage a baseline scenario of annual real GDP growth of 2.8% in 2023 and 1.6% in 2024, a slight reduction compared with the December forecast in reflection of the assumption that the current disruption to energy supplies and the adverse repercussions of the war on confidence are temporary and that global supply chains will not be significantly compromised.[6]

Taking account of the overall situation, inflation is expected to remain high in 2022 (5.1%), before gradually diminishing in 2023 and 2024 (2.1% and 1.9%, respectively). These significantly higher values compared with the projections formulated in December 2021, especially for 2022, reflect the new conditions that have emerged.

Italy. Economic activity in Italy in 2021 was also impacted by “pandemic factors”. The year started with substantial stagnation (+0.3%), a reflection of the social distancing measures still largely in force and the slow start of the vaccination campaign. The change of Government in February, after a period of political impasse, boosted the confidence of domestic and international operators, thanks in part to the strengthening of arrangements for the administration of vaccines. Together with the return of good weather, the relaxation of restrictions and the resumption of activities involving social interaction produced a strong recovery of economic activity in the second quarter (+2.7% GDP growth compared with the previous quarter), a recovery that continued through the summer: in the third quarter growth remained strong (+2.6%), thanks above all to the contribution of domestic demand (+2.2%, consumption, with household consumption posting an increase of 3%), gross fixed investment in capital goods (+2.9%) and net exports (+0.5%). From the spring onwards, spending on commercial services, transport and accommodation recovered (facilitated by the easing of restrictive measures), while the construction sector slowed sharply after the strong rebound posted in the first half (+0.3%, after gains of 6% and 3.4% in the first and second quarters of 2021, respectively).

The intensity of the recovery through September 2021 had engendered a certain optimism for the following months, although starting in the autumn the resurgence of COVID cases and supply issues slowed growth. Indicators show the recovery losing strength after the summer,

[6] In an adverse scenario - characterized by the imposition of more severe sanctions on Russia, increases in energy prices with possible temporary cuts in production in the euro area, as well as further financial turmoil and more persistent uncertainty - the growth of the euro area euro in 2022 would be 1.2 percentage points lower than that projected in the baseline scenario, while in 2023 the difference would be limited and in 2024 there would be a small rebound.

limiting GDP growth in the last quarter of 2021. According to Bank of Italy models, growth in the fourth quarter was around 0.5% compared with the third quarter of the year. Despite this deceleration towards the end of the year, Italian GDP in 2021 grew by 6.3% compared with 2020, higher than the euro-area average.

With regard to the labor market, the data confirm that the crisis induced by the pandemic was characterized by an elasticity of labor input to GDP close to one, a very high value in historical terms. In the third quarter of 2021, hours worked returned to pre-crisis levels and the unemployment rate continued to progressively decline (9.2% in November), although this still largely reflected developments in the supply of labor, which contracted sharply during the lockdowns and has yet to return to pre-crisis levels. However, although the number of people leaving their jobs has increased, Italy appears to have avoided the "great resignation" seen elsewhere, as the country has also experienced an increase in hiring. More recently, after a degree of cooling during the summer, employment growth has regained strength (+64 thousand in November, +0.3% compared with the previous month). However, the recovery remains uneven, proving stronger in manufacturing, construction and among those on temporary contracts, but is still subdued in services.

In line with international trends, the rise in consumer price inflation was significant: the harmonized index of consumer prices in 2021 recorded an increase of 4.2% over the previous twelve months, a level that had not been recorded since the start of EMU. This is a very rapid increase considering that 2021 had begun in almost deflationary conditions (-0.3% in December 2020 compared with the same month of the previous year, and +0.3% in January 2021), reflecting the consequences of the developments experienced throughout Europe discussed above. Since the second half of 2021, increases in the prices of energy commodities have driven a significant increase in the prices of electricity and gas, which has had a major impact on households and firms. In the macroeconomic projections issued by the Bank of Italy,[7] the increase in rates announced by the Regulatory Authority for Energy, Networks and the Environment for the first quarter of this year would increase the inflation rate by 0.7% in 2022, with still limited effects on GDP. Consumer prices accelerated further in February 2022, with an increase in the index from its level in the same month of the previous year.

Unfortunately, forecasts have worsened significantly in the wake of the Russia-Ukraine conflict. Since the beginning of the war, prices have risen significantly, in a general environment of high volatility: in Italy, on March 11, 2022 the price of natural gas was more than 40% higher than on the eve of the invasion of Ukraine, while electricity prices had almost doubled. If these increases in energy prices were to be accompanied by a drastic reduction in gas imports from Russia, there would be further significant negative effects - albeit difficult to quantify at the moment - on economic activity in Italy (as well as in the rest of Europe), which would also be transmitted through a further increase in energy inflation and its consequent impact on purchasing power.

After the exceptional deployment of fiscal policy measures to counter the adverse impact of the pandemic in 2021 as well (discussed in greater detail in the section "Main interventions in Italy to support the economy and bank lending"), the recovery in household consumption in 2022 will also be buoyed by an expansionary fiscal policy, despite the gradual winding down of most of the exceptional measures. The 2022 Budget Act provides for an increase in net borrowing of 1.2%, lending support to growth and postponing the reduction of the budget deficit until after 2024. The reduction of the debt/GDP ratio, after having soared by around 20 points in 2020, remains a critical issue even if the most recent data indicate that the ratio already started to decline in 2021.

Overall, however, the outlook for growth is exposed to multiple risks, mainly oriented downwards in light of the new macroeconomic environment that emerged from the end of February 2022. This is all the more reason for which the National Recovery and Resilience Plan (NRRP) represents a historic opportunity for the country: Italy is in fact one of the largest beneficiaries of NGEU funds, and their use will be crucial to sustaining growth until 2026, the period covered by the plan, and in the following years. In fact, for 2022 alone, the Prometeia research institute has estimated that the investments envisaged under the NRRP will boost GDP growth by 0.4%. The achievement of all the objectives set for 2021, which led the Government to request disbursement of the first installment of €24.1 billion, also bodes well for supporting future growth.

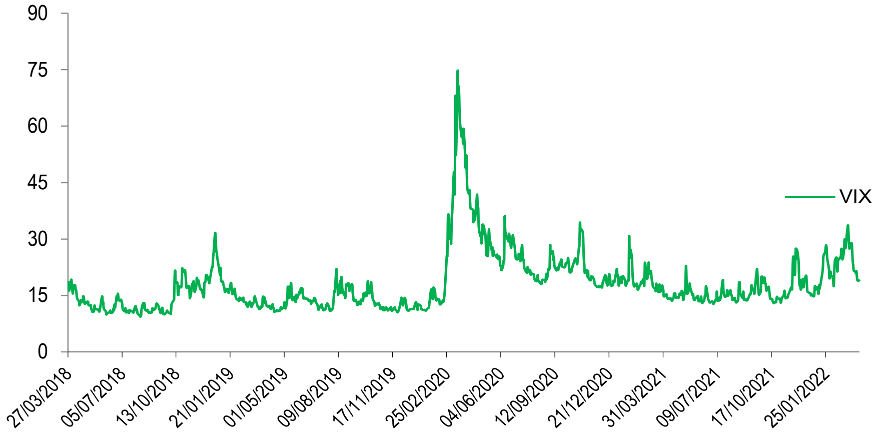
Financial market developments

The persistence of the crisis associated with the pandemic has also had major repercussions on the financial markets, fueling a climate of growing uncertainty and reducing investor confidence, especially at the start of the health emergency. At the beginning of the pandemic, market tensions culminated in the shock recorded in mid-March 2020, when the exceptional volatility in equity prices had driven the VIX volatility index,[8] which had been broadly stable for some time, to 80 points.[9]

[7] *Economic Bulletin* no. 1/2022.

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

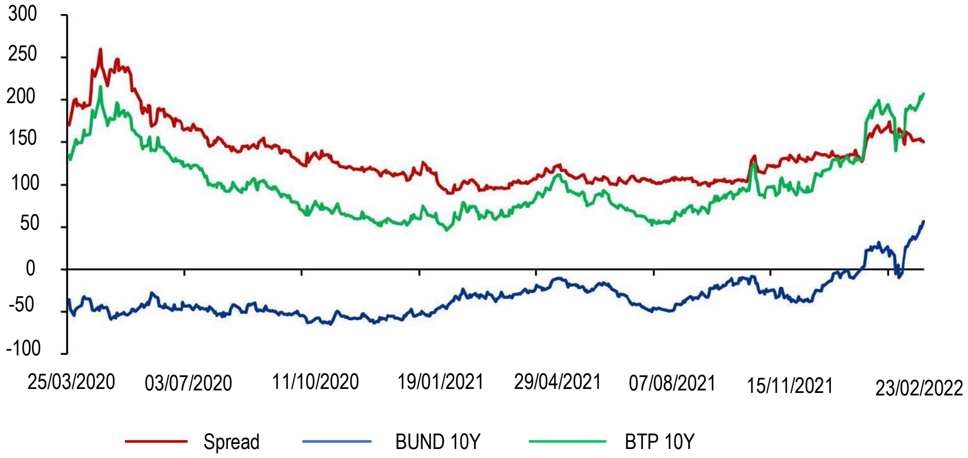
[9] This is an especially high level in historical terms if compared with the 60 points registered following the collapse of the US financial services firm Lehman Brothers in 2008.



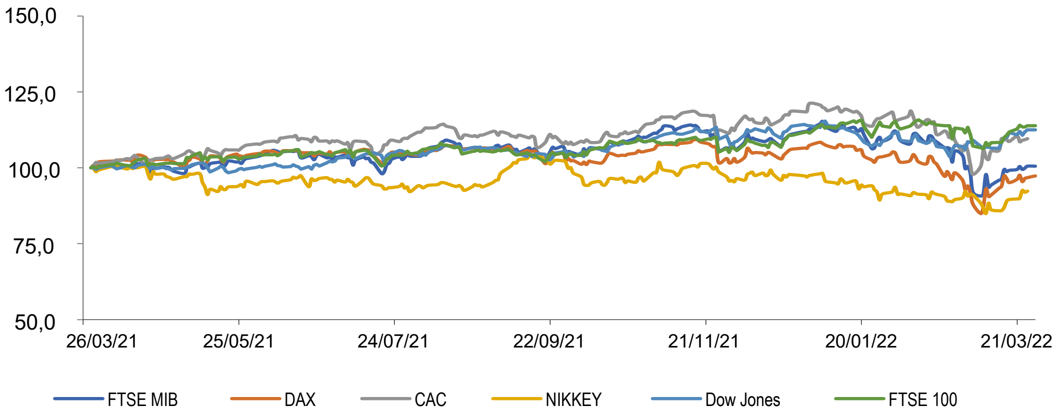
However, the expansionary monetary policy stance adopted by the authorities, including increasing public spending, on the one hand and the progressive relaxation of the restrictions to contain the effects of the pandemic

The monetary policy actions adopted by the authorities, the economic support measures taken by governments, the progressive easing of restrictive measures, thanks in part to the progress of vaccination campaigns, as well as expectations of a more rapid economic recovery with forecasts of significant GDP growth were all reflected in a decline in the volatility index, especially starting in the second quarter of 2021. It stabilized at around 20-25 points on average until October-November 2021, levels close to those prior to the pandemic.

In the last part of the year and in early 2022, market developments were again influenced by developments causing new uncertainty about the economic recovery: the fears related to the increase in COVID cases at the global level with the Omicron variant, for which there was a lack of understanding about its severity and possible resistance to vaccines; and the decisions of the Governing Council of the ECB in December regarding the gradual reduction of the pace of Eurosystem purchases of securities. The result was an accentuation of investor risk aversion, which was reflected in an increase in yields on government securities and in the spread of the Italian BTP against the German Bund, which returned to around 130 basis points.



With the recovery of the economy and the adoption of relatively relaxed measures to contain Covid, despite fears about developments in the pandemic, equity prices started to rise again in some of the main European markets and in the United States.



Source: Facset, base 100

The gradual stabilization of the financial markets was upended by the Russia-Ukraine conflict in the second half of February, with a renewed increase in volatility accompanied by a widening of the BTP-Bund spread, which has risen above 150 basis points since February, and by a significant decline in European equity prices (including the banking sector), although the latter was followed by a small rebound in March.

Developments in the Italian credit system

During 2021, conditions in the credit market reflected the impact of liquidity support measures. Companies' recourse to publicly guaranteed loans (FCG and SACE) increased - in January 2022 they exceeded €250 billion - while in the second half of the year, the loan repayment moratoriums still in place had shrunk considerably (from the middle of June 2021, companies had to request an extension of a moratorium, which could only involve the suspension of principal repayments): in December 2021, outstanding moratoriums concerned positions amounting to about €44 billion.[10] The 2022 Budget Act made no provision for extending moratoriums, which therefore ceased to be active as from January 1, 2022.

Overall, bank lending to the private sector also increased in 2021, albeit at a slower pace than in 2020, with a year-on-year increase of 2.1% at the end of 2021 (+4.7% in 2020). After the exceptional growth of 2020, lending to firms slowed more sharply (with growth of just 1.7% in 2021, compared with .5% in 2020). Despite the recovery in economic activity primarily in the first nine months of 2021, the dynamics of lending growth were also influenced by the significant liquid assets set aside by companies during the pandemic as well as by the increase in net corporate bond issues, especially by firms with a strong credit standing, sustain by favorable financing conditions. By contrast, lending to households in 2021 expanded more rapidly than the previous year (+3.7%, compared with +2.3% in 2020), driven by loans for home purchases (fostered by an increase in disposable income, low interest rates and incentives for the renovation and redevelopment of buildings).

In 2021, the negative effects of the COVID crisis on credit quality were again countered by the extensive support measures introduced by the government and other institutions, which made it possible to limit the emergence of new impaired loans. The rate of credit deterioration remained very low (1.1% on an annualized basis in the third quarter of 2021, in line with 2020), displaying only weak signs of an increase for firms in September 2022 compared with the previous quarter. The reduction in the proportion of non-performing loans to total lending brought the gross and net NPL ratios of significant Italian banking groups at September 30, 2021 to 3.6% and 1.7%, respectively (4.1% and 2% at the end of December 2020). The improvement in risk indicators was also attributable to substantial sales of bad loans (and, to a lesser extent, unlikely-to-pay positions), including those carried out through publicly guaranteed securitizations (GACS), estimated at around €20 billion in 2021. The coverage ratio for impaired loans - despite the greater disposals of bad loans, which have been written down more significantly on average – rose further for significant banks (53.9% at September 30, 2021, compared with 53.5% at the end of 2020).

However, supervisory authorities continue to devote considerable attention to the risk of a possible increase in the rate of credit deterioration in the coming quarters as loan repayment moratoriums expire and in response to the new uncertainty of macroeconomic conditions and the impact of climate risk.

On the funding side, the continuing uncertainty engendered by the pandemic again led to a further increase in the accumulation of liquidity by households and firms in 2021. While in the first nine months of 2021 the Italian economy displayed considerable resilience, in the last part of the year the uncertainty impacting the investment decisions of households and businesses worsened. At the end of November, household deposits had increased by €41 billion compared with the end of 2020, a significant amount considering that in the same period of 2020 - in the presence of business closures, forced savings and a decline in disposable income and the propensity to consume – the accumulation came to about €20 billion. Conversely, the increase in deposits by firms was smaller than the previous year (€19 billion euros, compared with €85 billion in the same period of 2020).

[10] Data from the survey conducted by the joint task force coordinated by the Ministry for the Economy and Finance (see the Bank of Italy website: Task force per assicurare l'efficiente e rapido utilizzo delle misure di supporto alla liquidità).

Overall, according to Bank of Italy statistics, in December 2021 total deposits (gross of the Cassa Depositi e Prestiti component) increased by 6% compared with the previous year, mainly supported by current accounts (+9.7%, from 14% at the end of 2020), as fixed-term deposits contracted sharply (-18.5% year-on-year). The liquidity provided by the ECB and the substantial liquidity deposited with the Eurosystem also allowed Italian banks to reduce their use of bond issues or foreign funding, which contracted by 2.6% and 6% respectively compared with the same period of 2020.

As a whole, the significant Italian banks closed the third quarter of 2021 with a profit, as performance improved significantly compared with the same period of 2020. In the first nine months of 2021, a slight decrease in net interest income associated with the persistence of low interest rates thanks to the accommodative policy stance (-3.4% compared with the previous year[11]) was offset by a recovery in net fee and commission income and profits from financial transaction, which produced a significant increase in gross income (+5%). This rise in gross income combined with a further decline in operating costs (-2.8% year-on-year at September 30, 2021) and a decrease in impairment losses on loans from their high level in 2020, when they were sharply impacted by the deterioration in macroeconomic conditions linked to the pandemic (-47.2% year-on-year in September 2021), led to a significant increase in gross operating income (+23.3% year-on-year, compared with a decrease of 6.2% on the twelve months to September 2020). As a result, the consolidated ROE of significant Italian banks in the first nine months of 2021 stood at 7.6% (3.2% in September 2020), with growth in line with that of the main European banks.

The improvement in the performance of Italian banks ensured that capital ratios remained high and well above regulatory requirements: the gap with respect to the main European groups has now closed. In particular, CET1 stood at 15.3% in September 2021, only slightly down compared with the end of 2020, despite the effects of the IFRS 9 phase-in. By comparison with the second quarter of 2021, however, there was a slight decrease at the aggregate level (-0.1%) due to provisions for the payment of dividends and share buybacks: the EC"s announcement at the end of July that it would not extend its recommendation to banks to limit dividends beyond September 30, 2021 prompted the main Italian (and European) banks to reactivate their shareholder remuneration policies,[12] especially in the form of share buybacks, partly

MEASURES TAKEN IN RESPONSE TO THE COVID-19 PANDEMIC

The year 2021 began with the start of the vaccine roll-out in Italy and the rest of Europe, which began slowly in the early part of the year due to limited availability of vaccine doses around the world. European governments were also having to respond to the third wave of the COVID-19 pandemic, including implementing new restrictions that impacted Europe's various economies. Towards the end of the first half of the year, vaccine distribution began to accelerate, and the decline in infections and deaths allowed these economies to begin opening up again, with recoveries seen particularly in the service segment. In addition, the process of approving the recovery and resilience plans of the individual Member States by the European Commission continued. The fourth quarter, however, was marked by another worsening of the pandemic with the gradual spread of new variants, which called for new measures and continued vaccine roll-outs, including to administer booster doses.

A summary of the primary measures implemented in 2021 is provided below.

Government, EU and national measures

On November 18, 2021, the European Commission decided to extend the State Aid Temporary Framework by six months, from December 31, 2021, to June 30, 2022. This will enable the Member States, where necessary, to extend their support mechanisms and ensure that businesses that continue to feel the effects of the crisis are not suddenly deprived of much-needed aid. This is the sixth amendment to the State Aid Temporary Framework and a further extension is already being considered.

In order to support a sustainable economic recovery in a manner that gradually eliminates this aid, in a decision on November 18, 2021, the Commission also introduced two new mechanisms, for a limited time, that enable Member States to establish: 1) direct incentives for private investment; 2) measures of solvency support. The measures to support investment, which are available to Member States until December 31, 2022, are aimed at overcoming the lack of investment due to the crisis and provide incentives for investment by businesses in order to accelerate the green and digital transitions. However, they include certain safeguards aimed at avoiding undue distortions to competitiveness, such as the fact that the measures are intended for a broad group of beneficiaries and that the amount of aid is limited. The solvency support measures, which are available to Member States until December 31, 2023, are intended to mobilize private funds and make them available for investments by small and medium enterprise (SME), including startups and mid-cap organizations. Therefore, Member States may grant guarantees to private-sector intermediaries by introducing incentives to invest in this type of company and providing them with easier access to capital, given that often these companies have difficulties in attracting capital on their own. This is particularly important in light of the increasing levels of debt accumulated during the crisis.

Next Generation EU (NGEU) has become operational. In 2021, the European Commission approved 22 of the 26 plans presented by the Member States (with the exception of the Netherlands) and disbursed €56 billion in pre-financing to 20 nations in conjunction with issuing

[11] The interest revenues of certain smaller banks benefitted from the TLTRO III program.

[12] The main European banks announced share buyback programs worth more than €13 billion. Significant Italian banks announced a total distribution of capital for 2021 (cash dividends and share buybacks) of about €5.9 billion.

€50 billion in securities. Italy's NRRP was approved on June 22, 2021, and €24.9 billion in pre-financing was disbursed in August. From 2021 to 2026, the NRRP allocates a total of €205 billion in European funding under the two main NGEU programs: the Recovery and Resilience Facility (RRF), totaling €191.5 billion, and React EU, for €13.5 billion. This financing will be received in the form of loans (€122.6 billion), on very attractive terms compared with the issue of national debt, and as grants (€82.4 billion). The green and digital transitions are the priority objectives of the Plan and absorb 60% of the resources.

The semi-annual repayments over the course of the Plan are tied to the achievement of specific quantitative and qualitative intermediate milestones and targets agreed upon with the Commission. These 527 conditions, as reported in a decree of the Ministry for the Economy and Finance, assign responsibility to the various ministries and to the Prime Minister for the categories of spending related to the €191.5 billion of the RRF (€124.5 billion of which for new projects). Given the type of interventions envisaged, about half of the spending is being handled by three ministries: Infrastructure (21%), Ecological Transition (18%), and Economic Development (10%).

The 51 milestones and targets set for December 31, 2021, have been achieved, and the Italian government submitted a request for payment of the first installment of NRRP funds by the Commission for a total value of €24.1 billion (about €21 billion net of the pre-financing already paid), which includes a grant of €11.5 billion and a loan of €12.6 billion. Of the measures adopted, many are of a regulatory nature, including measures concerning governance of the Plan and efforts to simplify and increase the efficiency of administrative procedures, including the management of tenders and reducing project approval times. They also include the hiring of the technical staff needed to manage the Plan and the refinancing of measures that are already operational, such as the 4.0 incentives, the contribution relief for youth and female employment, the tax credit (superbonus) for energy efficiency projects in homes, funding to finance and provide specific incentives to SMEs and tourism (including the tax credit for the redevelopment of lodging facilities, Italy's new national fund for tourism, and the creation of a special tourism section of the SME guarantee fund), the reform of development contracts, and the adoption of the national program to ensure worker employability.

The calendar agreed upon with the Commission sets the next deadline at June 2022 for achievement of 47 additional targets and intermediate milestones that would confirm the progress of the projects needed to submit the request for the second installment, again in the amount of €24.1 billion.

Monetary policy measures adopted by the ECB

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

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

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

On July 8, the Governing Council of the ECB published a statement outlining its new monetary policy strategy, which represented the outcome of a thorough review launched in January 2020, which had been slowed by the outbreak of the pandemic. The new strategy took effect from the meeting on July 22 that year and would remain in effect until at least 2025, when it will be reviewed. The main change is represented by the new definition of the inflation target: the ECB's mission to maintain price stability by pursuing a symmetrical inflation target of 2% in the medium term was confirmed. Therefore, moderate or temporary fluctuations both above and below the target will be tolerated, while strong and persistent deviations will not be tolerated for the medium term (the previous wording indicated a target of "below but close to 2%"). The benchmark for the measurement of inflation remains the HICP (consumer price inflation): for a more precise calculation, the costs related to owner-occupied housing, considered key in the basket of items relevant to households, will also be gradually incorporated.

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

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

- comprehensively incorporating climate factors in its monetary policy assessments;

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

At their meeting of September 9, 2021, the Governing Council confirmed the benchmark rates of the ECB and related forward guidance, the purchases within the scope of the Asset Purchase Programme (APP), the reinvestment policies, and the longer-term refinancing operations. However, based on an assessment of financing conditions and the outlook on inflation, they felt that they could maintain favorable financing conditions with a pace of net purchases that is slightly slower than the previous six months under the Pandemic Emergency Purchase Programme (PEPP).

At their meeting of October 28, the Governing Council confirmed the measures of monetary policy currently in effect and stated that, as at the September meeting, they continued to believe that favorable financing conditions could be maintained at a pace of net PEPP purchases that is slightly slower than in the second and third quarters of 2021.

As mentioned previously, at the year-end meeting (on December 16, 2021), the Governing Council stated that they believe the progress made in the economic recovery and towards their medium-term inflation target would allow for a gradual reduction in the pace of asset purchases in subsequent quarters, within a framework in which they believe monetary accommodation continues to be necessary so that inflation can stabilize at 2% over the medium term. Given these considerations, the Governing Council left the benchmark rates unchanged and made the following decisions:

- with regard to the Pandemic Emergency Purchase Programme (PEPP), net purchases of public securities for the first quarter of 2022 are to take place at a slower pace than in the fourth quarter of last year (when purchases averaged just over €60 billion per month) and are to be discontinued at the end of March. In addition, the horizon for the reinvestment of the principal redeemed on maturing PEPP securities has been extended until at least the end of 2024. In any case, the future roll-off of the portfolio is to be managed so as to avoid interference with the appropriate monetary policy stance;
- to ensure that the reduction in total net purchases takes place gradually, purchases under the Asset Purchase Programme (APP) will go from €20 billion per month to €40 billion in the second quarter of 2022 and €30 billion in the following quarter. From October 2022, net purchases will continue at a pace of €20 billion per month – as long as necessary to reinforce the impact of the accommodation of interest rates – and will end just prior to the first increase in official rates.

Main measures taken in Italy to support the economy and the banking system

In the first half of 2021, given the continuation of the pandemic and the effects of restrictive measures, the Italian government adopted numerous measures aimed at limiting the impact on business profits and worker salaries and at improving the ability of the healthcare and civil-protection systems to respond to the emergency. A total of about €71 billion in funding has been allocated.[13] More than half, about €45 billion, concerns measures for businesses, particularly with the grants (€24 billion) to organizations that suffered financial consequences of the restrictions put in place to control the spread of the virus, which received waivers on the payment of certain taxes (e.g. IMU, TARI, TOSAP/COSAP) for about €1.1 billion and exemptions from payment of withholdings for €2.7 billion for professionals, the self-employed, and certain industries, such as tourism and retail. It also includes liquidity support measures with public guarantees granted under SACE and the CGF, incentives to strengthen capital, and support for business combinations. The health-care industry was allocated about €7.4 billion in 2021 and a similar amount was allocated for employees, whereas the category of households and social policies received €5.4 billion, mainly for the emergency and “citizenship” income measures.

In the second half of 2021, government action focused on implementing the NRRP programs and defining the 2022-2024 budget, which was approved at the end of the year (Law 234 of December 30, 2021). This budget maneuver is again intended to support the economy and results in a net worsening of the budget deficit of €23.2 billion in 2022, €29.6 billion in 2023, and €25.6 billion in 2024, equal to an average of 1.3 p.p. of GDP each year. In addition to a series of measures that continue to respond to the pandemic, more structural measures were introduced that will have permanent effects on public finance in various areas. About 40% of the total resources has been allocated to corporate income tax reform (about €7 billion each year) and to the support of private investment (€5.1 billion). Public support for private investment has been increased in particular by extending to 2025 (and to 2031 in certain cases) incentives for plant innovation and R&D (including “Transition 4.0”) and by extending numerous tax credits for energy efficiency and building refurbishment work (the 110% Superbonus and the Ecobonus).

Major additional resources have been allocated to the health-care industry (€4 billion), including for the purchase of COVID-19 vaccines and innovative medicines, as well as to reinforce the national health-care fund and support for the health-care community. New funding has also been allocated to public investment (€2 billion), including an increase in the Development and Cohesion Fund and additional resources for rail and roadways, the maintenance of bridges, and sustainable public mobility.

[13] Nearly all allocations related to the two “support” decrees, i.e. Decree Laws 41/2021 and 73/2021 (see the September 2021 report for a more detailed description of the measures affecting the banking industry), which, together with the amounts allocated in 2020, brought the total value of measures for 2021 to about €108 billion and the total for the first two years of the pandemic to €210 billion.

Another structural measure is the reform of social safety nets (€3 billion), which broadens the base covered by the safety nets both for the employed (e.g. wage integration funds and amounts disbursed under bilateral agreements) and for the unemployed (e.g. the NASPI and DIS-COLL programs). The support for households includes the increase in funds for the "citizenship income" measure and measures for flexibility in pension access (both of about €1 billion on average), along with the extension of "APE sociale" early retirement option for workers experiencing hardship and the "Opzione donna" early retirement option for women to 2022 and the introduction, for one year, of a "Quota 102" early retirement scheme, replacing "Quota 100", as well as measures – as specified in greater detail below –to mitigate the effects of increasing electricity and natural gas prices in 2022.

Of note among the measures with an impact on liquidity and credit access for businesses within the scope of the budget law are:

- the extension to June 30, 2022, of the extraordinary public guarantees for loans to small and medium enterprise of the CGF, accompanied, however, by a gradual phasing out of adjustments to the loan coverage rates, with loans in excess of €30,000 seeing a decrease in public guarantees to 80% when obtained to finance investments and to 60% for loans obtained for other reasons not involving the support of investments. For loans of up to €30,000, the loan coverage rate has gone from 90% to 80%. Payment of a one-off fee on all operations has also been reintroduced beginning on April 1, 2022. Finally, the upper limits on commitments that can be taken on by the fund in terms of guarantees on business loans has also been set. For 2022, the ceiling is €50 billion, which is in addition to the €160 billion in commitments that the fund had taken on as at December 31, 2021;
- the extension to June 30, 2022, of the extraordinary SACE guarantees to support the liquidity of enterprises impacted by the efforts to contain the COVID-19 epidemic (the "Italy Guarantee" measure), as well as operability for the extraordinary SACE guarantee for mid-cap enterprises with no fewer than 250 and no more than 499 employees;
- the extension to December 31, 2022, of facilitated access to the Gasparrini Fund for workers with VAT numbers and the redetermination of the resources available in the Fund for the Green New Deal to cover guarantees on loans to support economically sustainable projects to €565 million, for a maximum commitment that can be taken on by SACE of €3 billion;
- the extension to June 30, 2022, of the incentives for business combinations, for which operability has been broadened. This incentive allows, for business combinations, the fiscal recognition of goodwill and of the greater value allocated to capital goods and other property, plant and equipment, and intangible assets (up to a maximum of €5 million) without paying any tax. Furthermore, in the event of a merger, a business combination, or the acquisition of a business unit, the transformation of deferred tax assets into tax credits for a total of no more than the lesser of €500 million and 2% of the sum of the assets of the entities involved. In order to benefit from the transformation of deferred taxes into tax credits, the merger, business combination, or acquisition of the business unit must have been approved by June 30, 2022.

There are, however, no more extensions for moratoriums on the payment of business loans, which are therefore no longer active as of December 2021.

As already mentioned, in 2021 the Italian government intervened on multiple occasions and allocated a total of €5.5 billion in funds in response to rising energy prices. These measures have been extended to the first quarter of this year with the 2022 budget, which allocated an additional €3.8 billion. Decree Law 4/2022 (the third "Support Decree") allocated an additional €1.7 billion, also for the first quarter of 2022, while also extending the zeroing of system charges to high and very-high voltage users and the extraordinary contributions for energy-intensive businesses. The decree also introduced a reference value for the remuneration of producers of renewable energy.

Decree Law 17 of March 1, 2022, establishing urgent measures to contain the cost of electricity and natural gas, to develop renewable energy, and to drive industry policy, extended the previous measures aimed at mitigating the impact on businesses and households, introduced new measures, and established other provisions aimed at facilitating the green transition and enhancing safety in the provisioning of gas.

Energy-related measures to contain price increases concerned: a) the zeroing of system charges in the electric bills for all users (to which €3 billion has been allocated); b) the reduction of related VAT (lowering the rate to 5%) and of system charges for gas consumption (totaling €0.8 billion); c) an increase in the social bonus related to both electricity and gas for disadvantaged families (€0.4 billion); and d) the recognition of extraordinary contributions for energy-intensive businesses (€0,7 billion). Alongside these measures, new support in the form of tax credits was also introduced for businesses that consume high volumes of natural gas (€0.5 billion). These measures partially offset the increases in energy prices and meet the need of lessening their impact on both businesses and households. On the assumption that this critical period in the provision of energy will continue, we expect that additional support measures will mainly be aimed at the most vulnerable households and businesses whose ability to compete could be compromised by increasing energy prices.

OTHER REGULATORY AND SUPERVISORY MEASURES

As of September 30, 2021, following the ECB recommendation of July 23, 2021, the aforementioned restrictions on the distribution of dividends and the purchase of treasury shares have been lifted. As communicated on December 17, 2021, the ECB also did not extend the measure that enabled banks, until the end of 2021, to operate below the minimum threshold of 100% of the liquidity coverage ratio (LCR), whereas the ability to operate below the Pillar 2 Guidance (P2G) remains in effect until the end of 2022 to ensure that banks can continue efforts to finance the real economy. Finally, on February 10, 2022, the ECB announced that it would not be extending the capital reduction and financial leverage measures granted to banks beyond the time frames established in 2020 and 2021 at the height of the crisis. Therefore, banks will have to operate above the Pillar 2 Guidance beginning on January 1, 2023, and once again include the exposures of central banks in their leverage ratios beginning on April 1, 2022.

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

The Iccrea Cooperative Banking Group (ICBG) 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 grant the Parent Company powers of management and coordination, exercised on a proportionate basis and as a function of the relative health of the affiliated banks themselves (risk-based approach). This contract is the characteristic element of cooperative banking groups governed by the Consolidated Banking Act, which are not founded on equity interests held by a parent company but rather a contract.

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

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

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

The guarantee also calls for intercompany financial support mechanisms under which the members of the group provide mutual support to ensure solvency and liquidity 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.

Any necessary support (capital or liquidity) provided to the affiliated banks – taking account of the output of the early warning system (EWS) – in order to ensure the solvency and liquidity of the individual members of the Group are carried out by the Parent Company alone, drawing on the financial resources made available by the participants under the provisions of the Guarantee Agreement. Support actions may include:

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

The RAFs represent readily available resources that each participant provides in order to ensure the prompt availability of funds to carry out guarantee interventions. They are composed of an amount established ex ante and an amount that can be called in by the Parent Company when needed (the Ex Post Quota) following the procedures established in the Cohesion Contract. The guarantee obligation assumed by each participating entity is commensurate with their risk-weighted assets and kept within the limits of any capital in excess of their individual capital requirements, without prejudice to compliance with said requirements.

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

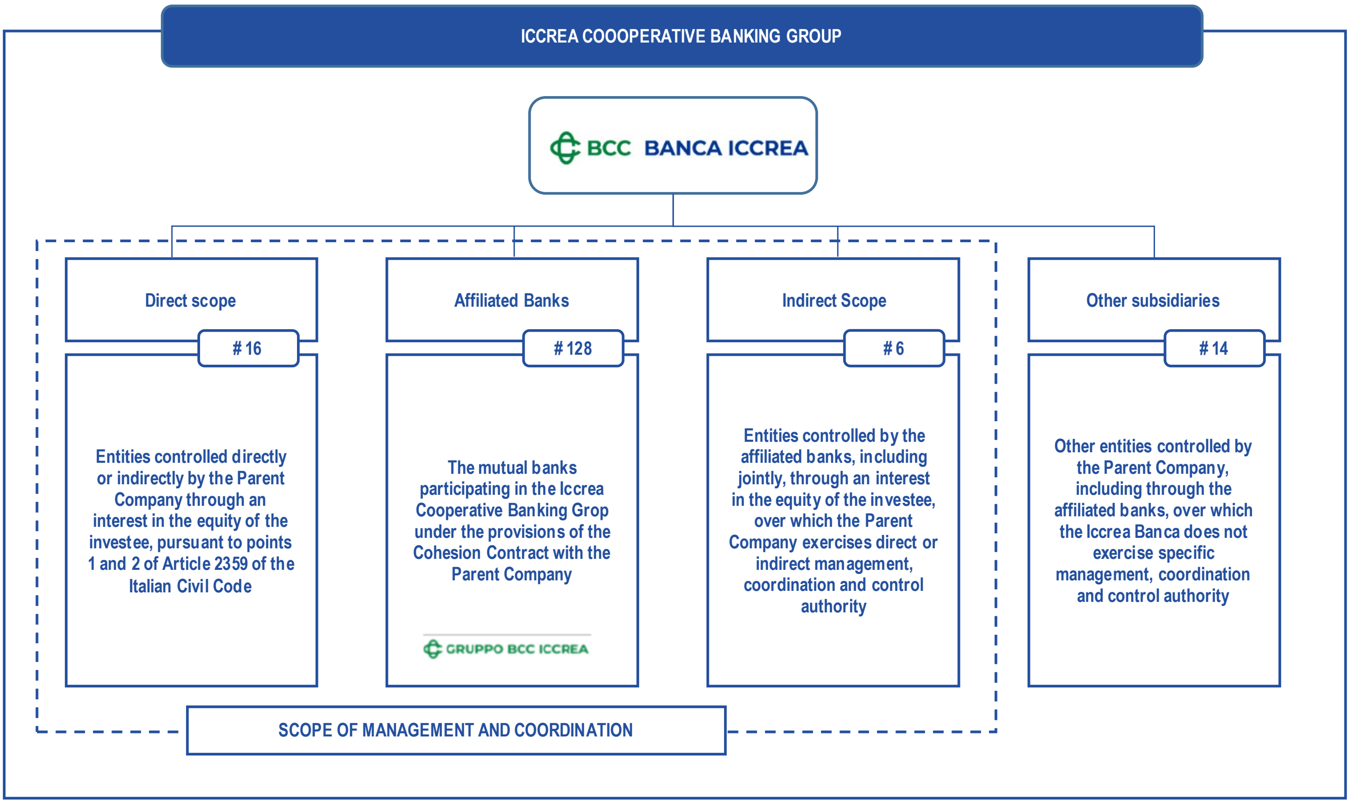
In view of the foregoing, the Iccrea Cooperative Banking Group is a group of entities affiliated with a central body pursuant to Article 10 of Regulation (EU) no. 575/2013 (the CRR), with the simultaneous presence of a mutual guarantee system, given that:

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

The organizational structure of the Iccrea Cooperative Banking Group

As summarized in the following chart, at December 31, 2021, the ICBG is structured as follows:

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


ICCREA COOOPERATIVE BANKING GROUP

BCC BANCA ICCREA

Direct scope

16

Entities controlled directly or indirectly by the Parent Company through an interest in the equity of the investee, pursuant to points 1 and 2 of Article 2359 of the Italian Civil Code

Affiliated Banks

128

The mutual banks participating in the Iccrea Cooperative Banking Grop under the provisions of the Cohesion Contract with the Parent Company

Indirect Scope

6

Entities controlled by the affiliated banks, including jointly, through an interest in the equity of the investee, over which the Parent Company exercises direct or indirect management, coordination and control authority

Other subsidiaries

14

Other entities controlled by the Parent Company, including through the affiliated banks, over which the Iccrea Banca does not exercise specific management, coordination and control authority

SCOPE OF MANAGEMENT AND COORDINATION

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.

The current organizational model of the Parent Company envisages:

- second and third-level corporate control functions,[14] which report directly to the Board of Directors and are organized into the following areas: Chief Audit Executive (CAE); Chief Risk Officer (CRO); Chief Compliance Officer (CCO), which incorporates the Data Protection Officer function; and the Chief AML Officer (CAMLO). Each function has its own territorial structure through which control activities on behalf of the affiliated banks are outsourced. The corporate control functions are fully centralized and operate on an outsourcing basis for all Group companies (affiliated banks and companies within the direct scope that are required to establish corporate control functions);
- areas that report directly to the General Manager, represented by the following main areas of responsibility:
  - Chief Financial Officer (CFO) area;
  - Credit and Subsidiaries area;
  - Chief Operating Officer (COO) area;
  - Chief Business Officer (CBO) area;
  - Chief Information Officer (CIO) area;
  - Institutional Communication unit.

During 2021, additional organizational and operational initiatives were undertaken to enhance the efficiency of Group governance, simplify and streamline models and processes and create greater specialization by area of competence, while ensuring full compliance with sector regulations. The main measures include:

- due to the transfer of the lending operations of Iccrea BancaImpresa (discussed further below) to the Parent Company, the operational and organizational model for corporate financing activities (ordinary lending, special credit, international and extraordinary corporate finance). The new model provides, among other things, for:
  - the centralization with the Parent Company of product development for corporate customers, strengthening the specialized development of particular technical forms of credit and customer segments (structured finance, international, subsidized, agricultural, tourism, etc.);
  - model and process synergies and efficiencies within the typical phases of the lending process.
- the revision of the Parent Company's operating and service model in respect of the affiliated banks (which provided for the involvement and intermediation of the territorial units in performing a liaison role between the Parent Company and the affiliated banks, handling certain services15) with the establishment of a "direct model" in which the head office units maintain direct contact with the affiliated banks for the execution of the related service processes. The strengthening of the territorial model with the revision of the commercial operating model of the Parent Company through the reallocation of responsibilities for commercial development of local markets from the Commercial Divisions (Retail and Corporate) to the Territorial Market areas was completed;
- as part of work to enhance the efficiency of the operational model of the CBO area, the following initiatives were also implemented: i) the evolution of the interaction and engagement approaches of the units involved in the development and offering of specialized products (international and tourism), with the introduction of product specialists to support local commercial units and the affiliated banks; ii) the establishment of a single Commercial Division (Private and POE Division) in order to generate full synergies and efficiencies in the processes connected with Retail, Private & Wealth Management operations; iii) the strengthening of the internal role of the Corporate Division in managing and structuring operations and instruments financed/co-financed with funds from national and supranational bodies;
- in line with the model already adopted by the other oversight functions and the model already in place for relations with the affiliated banks, the centralization of the Risk Management function with the Parent Company was completed, with the provision of services

[14] For more details, please see the discussion in the section regarding the internal control system.

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

on an outsourcing basis to the rest of the Group, including the companies within the direct scope. The CRO area of the Parent Company was also involved in organizational measures to ensure the ongoing improvement of the governance of the areas for which it is responsible. These included interventions to centralize responsibility for all risk governance and risk strategy issues for the Group (both the Parent Company and for the affiliated banks and the direct scope companies) within a single organizational unit, reporting directly to the CRO area itself, and to achieve greater integration in the Risk Management area between the head office units and the local Risk Managers. Other initiatives involving the CRO area included measures to evolve the Operational & IT Risk Management framework associated with the Risk Assessment process for operational and IT risks, while the ESG (Environmental, Social, and Corporate Governance) model was revised with initiatives involving the CRO Area and the Credit and Subsidiaries area.

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

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).

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,[16] states that no less than 95% of all business shall be conducted within the bank's territory,[17] and at least 50% of this business shall be in favor of shareholders,[18] such that the funding of the bank shall, in essence, go to supporting and financing the economic growth of the traditional area of operations. The aforementioned rules for the preservation of mutuality and localism were confirmed by the reform of the sector, whose objective – as underscored by the Bank of Italy - was solely to "remove the regulatory and operational constraints typical of entities established as cooperatives - which could have hindered rapid recapitalization, including through access to the capital market, in case of need - and the related diseconomies associated with the small size of such entities" (Circular no. 285, Part Three, Chapter 5, Section 1, sub-section 1).

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

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

Banking activities are completed with a wide range of e-money, payment and collection services, online banking, and insurance products. They also features treasury services for municipal governments, hospitals, and other public bodies and organizations. All these operational characteristics make the affiliated banks leading partners in supporting and developing the real economy of the territories in which they operate, thanks to the specific range of banking products and services they offer, which enables them to maintain the stability of savings over the years and to provide constant access to credit for local communities.

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

- charity, solidarity and public interest activities, with particular regard to the activities and projects of associations, entities, institutions and private organizations aimed at assisting the more vulnerable segments of the local population (minors, the elderly in need, the sick and disabled, people affected by forms of social exclusion and hardship), as well as the promotion of sports; civil protection; and

[16] 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.

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

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

development of the territory and local resources. Other areas include education, research and culture for young people and the elderly, with an emphasis on cooperation and economic and social inclusion (supporting schools and other training and research institutions in their research projects and other specific events; scholarships and research grants for graduate and post-graduate programs; education initiatives to promote the responsible use of money; initiatives to promote employment among young people; and the promotion of start-ups and innovation);

- health care research and assistance through the projects of prestigious health care organizations, including in collaboration with universities and other local and national research institutes and by funding scholarships;
- the promotion of culture, financing: (i) historical and literary studies and initiatives, with a particular emphasis on the traditions and customs of the local communities; and (ii) exhibits and other events tied to local culture; restoration and development of local cultural landmarks.

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

The mutual bank mission – Sustainability and environmental protection

Given that sustainability represents an opportunity to reassert the principles and values of mutual banking and our focus on our local communities, their economies, and our people as we respect the environment and pursue Article 2 of our articles of association, the Group has always invested in the creation of a system of sustainability management that encompasses environmental, social and governance (ESG) issues and integrates them into our strategies, operating processes, and risk management, thereby establishing a model based on precise centers of responsibility that promotes engagement among the various areas and functions of the organization and gives top priority to the creation and distribution of value to all stakeholders.

In this regard, the Board of Directors of the Parent Company is responsible for integrating these objectives into the Group's business plan, in our system of risk management and internal controls, and in our remuneration policies, efforts which extend to strategy, regulatory compliance, and overall risk management.

In line with the above and with the strategic guidelines defined in March 2020, in September 2021 the Board of Directors reiterated the Group's commitment to sustainability by updating the Group's Sustainability Plan – a document which integrates ESG issues into the strategic plan by defining specific goals and targets – to take account of the evolving social and economic landscape, which has been profoundly altered by the Covid 19 pandemic and by ongoing changes in related laws and regulations.

The goals of the plan, based on an assessment of risks and opportunities, are directly related to the SDGs of the 2030 Agenda and other ESG issues and connected with the pillars of sustainability of the Iccrea Cooperative Banking Group (ICBG), namely "People, Community and the Environment". The plan defines 7 goals and 27 targets that relate, firstly, to social development and community support, as well as to environmental protection and sustainable business growth.

As concerns the environment, in 2021 the Group was mainly committed to supporting the development of a circular economy, while promoting an efficient, responsible use of natural resources. Within this context, and towards the goal of decarbonization and energy efficiency, the Group took action aimed at increasing the energy efficiency of a number of owned properties, at expanding the plastic-free project, and at obtaining LEED certification for our Rome office.

With regard to social issues, the Group's efforts in 2021 focused on promoting microcredit, issuing an initial GSS bond, increasing sustainable investments, and supporting business and households throughout the Covid emergency, particularly with the help of the government measures under the *Cura Italia* and *Liquidity* decrees and applying the moratoriums of the banking industry associations (for detailed updates, see the information provided in Part A - Accounting Standards of the notes to the financial statements).

In terms of compliance (and the ongoing, profound changes with an impact on business processes), and the need for alignment with the ECB's guidelines on climate and environmental risk in particular, in 2021 the Board of Directors approved and activated a long-term ESG transformation program aimed at integrating ESG issues within governance, operating processes, and risk management in line with the new legislative and regulatory landscape.

With regard to governance, we have begun efforts to strengthen the Group's overall structure, in terms of both the responsibilities and powers of the corporate bodies and the organizational model, which underwent significant changes during the year aimed at reinforcing strategic input and project coordination in the area of ESG issues and ESG risk management. The integration of ESG issues in the overall framework of risk management is one of the primary goals to which the Group is committed so as to ensure the integration of ESG risks within the scope of the identification, measurement and assessment of risks, with a particular emphasis on climate and environmental risks.

The lending process, the processes related to proprietary finance, investment services, and the specifically related disclosure process were all updated within the scope of the program described above with the goal of their full alignment with new laws and regulations.

Therefore, 2021 featured extensive oversight and administration by the Board of Directors aimed at activating projects and other actions that, in line with the longstanding work by our affiliated banks to support their communities, can ensure compliance with regulatory guidelines and the expectations of the supervisory authorities and of the market, all to ensure that the banks play a major role in facilitating the green transition.

The Board also sought to strengthen the Group's overall structure of governance by updating internal regulations. This included updating the policies of corporate governance, which state that, in order to facilitate the integration of environmental, social, and governance (ESG) issues in decision-making processes, the Parent Company shall appoint an ESG director or ESG committee within the Board, and the companies subject to management and coordination may also appoint an ESG director or ESG committee within their respective boards. Within the scope of these policies, the ESG director[19] and the ESG committee may provide advisory services with regard to sustainability issues, so the individuals appointed to these roles must have appropriate knowledge of and experience in the field of sustainability. Therefore, it is also necessary at the local level to ensure that members of the board have ESG expertise, so that is possible to appoint specific ESG officers in order to reinforce the guidance, governance, and oversight of sustainability issues.

Also of importance in this regard is the emphasis placed on issues of inclusion, which are included in both our diversity and inclusion policies and within the scope of updating hiring policies, aimed at including principles of non-discrimination in the onboarding processes.

As mentioned, the Group has also been engaged in major sustainability training for employees of the affiliated banks in order to promote increasing awareness of these issues through constant, extensive innovations in the Group's regulations and identity.

In line with the above, and so as to support the new phase of actions in the area of sustainability, we have implemented a number of important organizational changes. In December 2021, we established a Group Sustainability & ESG Strategy function, which serves as the focal point of the organization with regard to sustainability issues and plays an advisory and coordination role in sustainability, directing efforts along the following main lines of action: i) defining sustainability strategies and monitoring; ii) integrating ESG issues and coordinating related projects; iii) preparing the consolidated non-financial report on sustainability, which presents the Group's ESG performance in line with the declared objectives and commitments; iv) interacting with the companies of the Group and with the industry associations in order to support the Group's efforts of sustainable development.

Also in December 2021, we established the ESG Risks & Cross-functional Activities unit under the Chief Risk Officer (CRO), which specifically focuses on coordinating and implementing actions to support the ongoing integration of ESG risks (with a particular emphasis on climate and environmental risks) within the overall risk management and governance frameworks.

In January 2021, in order to monitor our sustainability strategies, Iccrea Banca implemented a dedicated system to measure sustainability KPIs associated with the goals of our sustainability plan and analyze trends. This tool supports the process of monitoring sustainability strategies, thereby ensuring the timely detection of any alerts and implementation of corrective actions, as well as the related reporting to the corporate bodies.

The Group has confirmed our mission of sustainability and related governance by, in part, introducing a Charter of Commitments related to the environment and human rights, which was approved by the Board of Directors in September 2021 and has been adopted by the companies of the Group.

In particular, with our Charter of Commitments to the Environment and Climate Change[20] and Charter of Commitments to Human Rights[21], the Group seeks to promote the dissemination of sustainability principles that underly our responsible commitment to environmental, social and human rights issues in line with the Sustainability Plan and with our general process of virtuous evolution based on the Group's shared ESG principles and values, which are essential to achieving objectives that are consistent with the current, enhanced regulatory framework.

In November 2021, Iccrea Banca placed the company's first social bond for institutional investors in the amount of €500 million within the scope of the 2021 funding plan. The goal of this social bond is to allocate funding to households and small and medium enterprises impacted by the COVID-19 emergency that had access to funding under the Liquidity Decree, to SMEs with fewer than 50 employees that operate in low-income regions of Italy, and to female and young business owners. Of this funding, 80% is to be used to refinance loans that have already been issued, while the remaining 20% will go to new financing to be issued over the ensuing two years.

In December 2021, the Group obtained our first sustainability rating from Moody's, a rating of A2 (on a scale from D3- to A1+). This rating points to the Group's extensive capability and commitment to integrate ESG issues in our strategy, operations, and risk management and is an explicit acknowledgement of the advanced state of our risk management related to legal security and human capital and our strong performance in terms of operating efficiency and company reputation.

[19] Since May 2019, the Parent Company has had an Executive Director of Sustainability, who is primarily responsible for drafting and monitoring the Sustainability Plan and preparing the consolidated non-financial report on sustainability. This executive director is supported by the Sustainability Science Committee, a non-board committee chaired by the executive director and the composition of which reflects the Group's primary stakeholders, i.e. the mutual banks, academia, and industry associations. The primary function of this committee is to provide the executive director with an external, strategic point of view on sustainability goals, to help the director prepare the Sustainability Plan, to promote a culture of sustainability within and outside the Group, and to help determine the material issues for strategy purposes and subsequent reporting.

[20] This charter defines the Group's commitment to environmental impact by promoting virtuous actions and conduct – by our employees, customers, and suppliers – and the dissemination of an environmentalist culture within our sphere of influence. As such, the charter establishes guidelines aimed at reducing direct environmental impact (i.e. resulting from company activities that involve the consumption of resources, the production of waste, and the emission of toxic substances) and indirect environmental impact (i.e. caused by the conduct of others and by the company as a provider of goods and services).

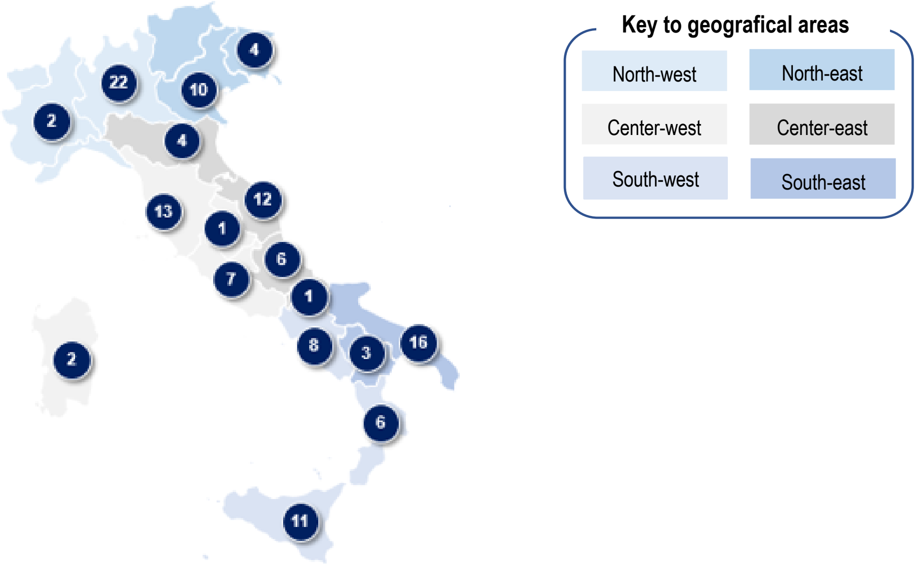
[21] This charter defines the Group's commitment to promoting and protecting human rights, both within the organization – through the effective integration of human rights in strategy and operations – and by others (e.g. shareholders, customers and suppliers) by promoting virtuous, ethical conduct throughout the value chain.

THE GROUP'S ORGANIZATION AND BRANCH NETWORK

The network of the 128 mutual banks of the Group and of Banca Sviluppo has a virtually uniform presence throughout the country (34% in southern Italy, 36% in central Italy, and 30% in the north) as a result of our mission to support the local communities. The only regions in which no Group banks are headquartered are Valle d'Aosta, Trentino-Alto Adige, Liguria and Umbria (although the Group does have branches in the latter three regions).

In 2021, the number of affiliated banks declined from 130 to 128 as a result of 4 mergers involving 8 affiliated banks:

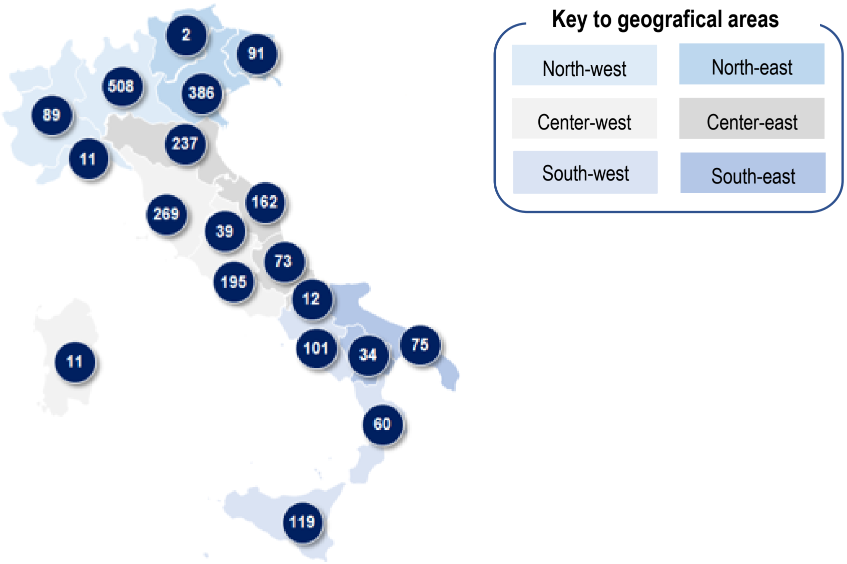
- the merger of BCC di Buonabitacolo into Banca del Cilento, di Sassano e Vallo di Diano e della Lucania (which resulted in the creation of Banca 2021 Credito Cooperativo del Cilento, Vallo di Diano e della Lucania);
- the merger of Banca di Verona into Banca San Giorgio Quinto Valle Agno (which resulted in the creation of Banca di Verona e Vicenza);
- the merger of Banca di Valdichiana di Chiusi e Montepulciano into Banca Terre Etrusche e di Maremma (which resulted in the creation of Banca di Terre Etrusche di Valdichiana e di Maremma);
- the merger of BCC di Borghetto Lodigiano into Banca Centropadana (which retained its name).



Structure of the Group's branch network

The Iccrea Cooperative Banking Group has 2,474 branches operated by 128 mutual banks and by Banca Sviluppo, with 3 branches, 57% of which are located in the Italian regions of Lombardy, Veneto, Tuscany and Emilia-Romagna for a nationwide branch market share of 10%.

In 2021, the affiliated bank branch network saw the closure of 87 branches, partially offset by the opening of new branches in locations with greater potential for business development. The result of these changes was a net reduction of 55 branches compared with December 2020. The developments in the network, albeit with a lesser impact from rationalization than that recorded by the rest of the national banking system, must in any event be framed within the specific characteristics of the affiliates, for which a local presence is one of the founding assets of the relationship with the shareholder-customer and local communities. In order to ensure the most effective balance between physical proximity and financial sustainability, following the establishment of the Group, a Territorial Development Plan was approved. Its main objectives include expanding market shares and gross banking income with a variety of initiatives, including the repositioning of various branches in more attractive locations and enhancing cost efficiency in certain under-performing branches.



The ICBG has at least one branch in 1,701 of the 4,866 Italian municipalities served by banks (35% of the total). In 339 of these municipalities (about 20% of the total), the Group's branches are the only banking presence, consistent with the organization's community-centric mission. Lombardy is the region in which the Group is present in the most municipalities (397), while Tuscany boasts the largest share of municipalities with a banking presence with a Group branch (59.8%).

Region	Municipalities with banking services	with ICBG branch	(%)	of which ICBG is only bank	(%)
Lombardy	1,025	397	38.7%	93	23.4%
Veneto	470	264	56.2%	41	15.5%
Tuscany	249	149	59.8%	4	2.7%
Emilia-Romagna	308	121	39.3%	7	5.8%
Sicily	259	102	39.4%	34	33.3%
Lazio	199	101	50.8%	19	18.8%
Marche	177	98	55.4%	13	13.3%
Campania	270	83	30.7%	37	44.6%
Calabria	125	57	45.6%	29	50.9%
Piedmont	467	62	13.3%	11	17.7%
Friuli-Venezia Giulia	154	61	39.6%	11	18.0%
Puglia	200	61	30.5%	1	1.6%
Abruzzo	132	55	41.7%	14	25.5%
Basilicata	77	32	41.6%	14	43.8%
Umbria	67	23	34.3%	3	13.0%
Molise	28	12	42.9%	7	58.3%
Liguria	109	11	10.1%	1	9.1%
Sardinia	277	10	3.6%	0	0.0%
Trentino-Alto Adige	249	2	0.8%	0	0.0%
Valle d'Aosta	24	0	0.00%	0	0.0%
Total	**4,866**	**1,701**	**35.0%**	**339**	**19.9%**

Source: based on Bank of Italy data as at December 31, 2021

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

No. of other banks present in the municipalities in which ICBG has a presence	0	1	2	3	more than 3	Total
No. Municipalities	339	336	268	175	583	1,701
% of the total	19.9%	19.8%	15.8%	10.3%	34.3%	100.0%

Source: based on Bank of Italy data as at December 31, 2021

Strategic positioning of the Group's banks

The banks belonging to the Iccrea Cooperative Banking Group, including Banca Sviluppo, have a market share of lending to households and firms equal to 5.9%. With regard to lending to firms, the Group's mutual banks have a market share of 6%. Including loans disbursed by direct-scope companies to businesses, the market share reaches 7%. The government support measures implemented during the health emergency have helped to support our market shares in lending to consumer households and firms, reflecting the Group's proactive approach to integrating these initiatives with overall support measures for local communities.

By region, the Group has its largest market share for loans to households and firms in the Marche region (over 14%), followed by Tuscany, Abruzzo and Basilicata with around 10%.

With regard to deposits by resident customers, market share is at 6.4%. Once again the Group's market share is again led by Marche, with 15.3%, followed by Tuscany and Veneto.

Region	Market share of lending to households and firms	Market share consumer households	Market share firms
Marche	14.38%	13.66%	14.93%
Tuscany	10.21%	9.74%	10.61%
Abruzzo	10.32%	8.94%	11.56%
Basilicata	10.06%	6.37%	13.59%
Friuli - Venezia Giulia	9.59%	11.45%	8.19%
Veneto	9.25%	10.02%	8.72%
Emilia - Romagna	6.72%	7.67%	6.12%
Calabria	6.29%	4.66%	8.87%
Molise	5.08%	3.50%	7.06%
Umbria	4.50%	3.81%	5.04%
Lombardy	5.05%	5.01%	5.07%
Piedmont	3.95%	3.88%	4.01%
Puglia	4.31%	3.04%	6.00%
Sicily	3.29%	2.46%	4.60%
Campania	3.07%	1.93%	4.36%
Lazio	6.05%	6.69%	5.45%
Sardinia	2.14%	0.82%	3.99%
Liguria	1.47%	1.24%	1.70%
Valle d'Aosta	0.40%	0.33%	0.45%
Trentino-Alto Adige/Sudtirol	0.29%	0.12%	0.37%
Total	**5.93%**	**5.79%**	**6.04%**

Region	Market share of customer deposits (consumer households and firms)
Marche	15.29%
Tuscany	11.59%
Veneto	10.50%
Friuli – Venezia Giulia	9.90%
Abruzzo	9.40%
Basilicata	7.50%
Emilia - Romagna	6.95%
Lombardy	6.37%
Umbria	5.75%
Calabria	5.25%
Sicily	5.14%
Lazio	5.07%
Puglia	4.45%
Piedmont	4.27%
Campania	3.08%
Molise	2.85%
Sardinia	1.96%
Liguria	1.20%
Valle d'Aosta	0.26%
Trentino-Alto Adige/Sudtirol	0.24%
Total Italy	**6.42%**

Source: based on supervisory and Bank of Italy data as at December 31, 2021. Includes Banca Sviluppo data, while loans to customers (excluding repos) have been allocated on the basis of customer residence. Customer deposits are broken down by customer residence. The market share is net of loans to firms by Group companies. Including the latter, market shares comes to 7.02%.

Distribution of employees and shareholders

In line with the regional distribution of branches, the branch network by number of employees shows peak numbers in the regions of Lombardy, Veneto, Tuscany, Emilia - Romagna and Lazio. The average number of employees per branch nationwide was 4.7, essentially unchanged on 2020 (5.1). The average number of employees per branch is the outcome of a process begun some time ago by the mutual banks, who have sought to optimize their presence in the territories they serve, reducing opening hours and days where appropriate while at the same time balancing the need for physical proximity with that for financial sustainability. Analyzing the data by region, Piedmont has the largest number of employees per branch (6.2), followed by Lazio (5.1).

Region	No. branch employees	Employees/Branch
Lombardy	2,462	4.85
Veneto	1,858	4.81
Tuscany	1,332	4.95
Emilia-Romagna	1,130	4.77
Lazio	1,000	5.13
Marche	769	4.74
Piedmont	549	6.16
Campania	422	4.17
Sicily	364	3.06
Friuli-Venezia Giulia	364	4.00
Puglia	308	4.10
Calabria	259	4.32
Abruzzo	315	4.32
Umbria	145	3.71
Basilicata	119	3.50
Liguria	56	5.05
Sardinia	40	3.64
Molise	31	2.58
Trentino-Alto Adige/Südtirol	4	2.0
Total Italy	**11,523**	**4.66**

Source: Based on supervisory and Bank of Italy data as at December 31, 2021.

In terms of ownership structure, the number of shareholders at December 2021 totaled more than 845 thousand, an increase of more than 20 thousand on December 31, 2021 (+2.5%). The northern and central areas account for nearly 90% of the total shareholder base, reflecting the larger average size of the mutual banks in those areas.

Geographical area	No. shareholders 31/12/21	(%)	No. shareholders 31/12/20	(%)	∆ 12/2021 – 12/2020
North-west	244,589	28.9%	241,424	29.3%	3,165
North-east	121,194	14.3%	118,141	14.3%	3,053
Center-west	206,808	24.5%	201,031	24.4%	5,777
Center-east	171,412	20.3%	165,783	20.1%	5,629
South-west	74,730	8.8%	71,871	8.7%	2,859
South-east	26,368	3.1%	26,360	3.2%	8
Total	**845,101**	**100.0%**	**824,610**	**100.0%**	**20,491**

Source: Based on supervisory data as at December 31, 2021. The number of shareholders is shown by area in which the bank is headquartered.

4. DEVELOPMENTS IN GROUP OPERATIONS

The following provides an overview of the main balance sheet and income statement figures of the Iccrea Cooperative Banking Group as at December 31, 2021. To enable a more immediate understanding of the Group's balance sheet and income statement, the following tables contain more condensed schedules than those provided for in Circular no. 262/05 of the Bank of Italy. In addition, the figures for the e-money operations[22] managed by Iccrea Banca, which are reported as held for sale in the financial statements, are included in the appropriate items of the consolidated financial statements in the following tables in order to enable year-on-year comparisons of operational developments.

BALANCE SHEET

Consolidated assets

€/thousands	31/12/2021	31/12/2020
Cash and cash equivalents	1,674,568	1,535,824
Financial assets measured at fair value through profit or loss	1,728,765	1,892,207
Financial assets measured at fair value through other comprehensive income	7,850,471	7,870,200
Financial assets measured at amortized cost	159,230,846	150,639,810
a) due from banks	9,265,356	5,918,227
b) loans to customers	88,758,420	87,277,814
c) securities	61,207,070	57,443,769
Hedging derivatives and value adjustments of macro-hedged financial assets	106,620	234,369
Equity investments	128,524	114,502
Property, plant and equipment	2,646,505	2,741,691
Intangible assets	176,836	168,844
Tax assets	1,901,863	2,119,045
Non-current assets and disposal groups held for sale	12,694	18,368
Other assets	3,527,689	1,933,254
Total assets	**178,985,382**	**169,268,115**

The consolidated assets of the Iccrea Cooperative Banking Group at December 31, 2021, totaled about €179 billion, up €9.7 billion (+5.7%) on December 31, 2020. The increase is mainly attributable to the greater exposure to securities in the HTC portfolio and to the growth in deposits held with central banks.

Financial assets measured at fair value through profit or loss, in the amount of €1.7 billion, include financial assets mandatorily measured at fair value in the amount of €1.3 billion (mainly in units of collective investment undertakings - CIUs, policies and postal bonds), financial assets designated as at fair value in the amount of €0.3 billion (in instruments in which liquidity from the guarantee scheme is invested, mainly European government securities), and the remainder in financial assets held for trading (which mainly includes derivatives and government securities held for trading).

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

€/thousands	L1	L2	L3	Total 31/12/2021	Total 31/12/2020
Financial assets held for trading	86,466	79,697	2,486	168,649	270,537
Debt securities	83,969	108	48	84,125	19,110
Equity securities	1,154	-	3	1,157	2,614
Units in collective investment undertakings	984	1,873	152	3,009	7,577
Financial derivatives	360	77,716	2,283	80,358	241,236
Financial assets designated as at fair value	272,555	-	2,913	275,467	345,094
Debt securities	272,555	-	-	272,555	341,076
Financing	-	-	2,913	2,913	4,017
Financial assets mandatorily measured at fair value	62,616	971,671	250,361	1,284,648	1,276,575
Debt securities	22,802	44,673	4,004	71,479	67,255
Equity securities	26,676	43,522	4	70,202	43,182
Units in collective investment undertakings	11,154	96,861	199,316	307,331	343,163
Financing	1,984	786,615	47,038	835,637	822,975
Financial assets measured at fair value through profit or loss	**421,637**	**1,051,368**	**255,760**	**1,728,765**	**1,892,207**

[22] This regards the e-money operations managed by Iccrea Banca SpA, which are expected to be spun off within the 12 months following the reporting date. For a description of the operation, please see the section "Developments in Parent Company operations and the main items of the balance sheet and income statement".

The portfolio of financial assets measured at fair value through other comprehensive income amounted to €7.9 billion, broadly in line with December 31, 2020, and is mainly represented by government securities held in accordance with the HTCS business model. The aggregate also includes minority interests in the amount of €326 million, which are measured at fair value through other comprehensive income without recycling to profit or loss.

€/thousands	L1	L2	L3	Total 31/12/2021	Total 31/12/2020
Debt securities	7,508,818	15,271	55	7,524,144	7,705,078
Equity securities	6,024	254,014	66,288	326,327	165,122
Financial assets measured at fair value through other comprehensive income	**7,514,842**	**269,285**	**66,344**	**7,850,471**	**7,870,200**

For a breakdown of financial assets measured at amortized cost, in the amount of €159.2 billion, 62% is in loans with the remainder in debt securities. These assets may be categorized by their relative level of risk as shown below.

€/thousands	Gross value		Total writedowns	
	Stages 1 and 2	Stage 3	Stages 1 and 2	Stage 3
Financing	96,757,984	6,446,264	(1,139,519)	(4,040,953)
Loans to banks[23]	9,268,853	1,293	(3,717)	(1,072)
Loans to customers[23]	87,489,131	6,444,971	(1,135,802)	(4,039,881)
Debt securities	61,312,151	1,634	(105,494)	(1,222)
Total financial assets measured at amortized cost	**158,070,135**	**6,447,898**	**(1,245,013)**	**(4,042,175)**

More specifically, net loans to customers totaled €88.8 billion, €86.4 billion of which performing and about €2.4 billion related to impaired positions. Of this total, more than 80% was in medium and long-term financing (both loans and leases). Lending to ordinary customers increased by about €2.8 billion during the year, growth that was partially offset by a decrease in exposures to the Clearing and Guarantee Fund (down €1.3 billion from December 2020).

€/thousands	Total 31/12/2021	% share	Total 31/12/2020	% share
Current accounts	6,070,859	6.8%	6,621,472	7.6%
Repurchase agreements	203,329	0.2%	1,813,263	2.1%
Medium/long-term loans	68,557,704	77.2%	65,616,601	75.2%
Credit cards, personal loans and salary-backed loans	2,167,986	2.4%	2,062,577	2.4%
Lease financing	4,103,305	4.6%	4,497,061	5.2%
Factoring	574,051	0.6%	483,028	0.6%
Other lending	7,081,186	8.0%	6,183,811	7.1%
Financial assets measured at amortized cost - Loans to customers	**88,758,420**	**100.0%**	**87,277,814**	**100.0%**

Gross impaired loans, which have continued to decrease in recent years thanks to robust de-risking efforts pursued in coordination with the Parent Company, came to about €6.4 billion, or 6.2% of total gross lending (6.9% of loans to customers alone). Net impaired loans amounted to €2.4 billion, equal to 2.5% of net lending (2.7% when considering only ordinary customers). The ratios of net bad loans and net unlikely-to-pay positions to total net lending came to 0.6% and 1.5%, respectively (0.7% and 1.7% when considering only ordinary customers).

As shown in the table below, efforts to improve the Group's risk profile, alongside the robust de-risking measures, can also be seen in the more prudent assessment policies, which have resulted in an increase in the coverage of NPLs to 62.7% by the end of December 2021, an increase of 7 percentage points compared with the end of the previous year.

Type of exposure	Gross exposure	Writedowns	Net exposure	Coverage 31/12/2021	Coverage 31/12/2020
Bad loans	2,833,571	(2,233,122)	600,449	78.8%	70.4%
Unlikely-to-pay positions	3,190,571	(1,718,628)	1,471,942	53.9%	43.6%
Impaired past-due positions	420,830	(88,131)	332,699	20.9%	17.8%
Impaired exposures to customers at year end	**6,444,971**	**(4,039,881)**	**2,405,090**	**62.7%**	**55.7%**

The particular business model of the affiliated banks, which account for the largest component of assets and of total loans to customers, is reflected, above all, in the type of counterparty. Total loans disbursed, a gross amount of €93.9 billion, have mainly gone to households and small and medium-sized enterprises (SMEs), which accounted for 37% and 49% of total lending, respectively. As shown in the table below,

[23] Source: Based on consolidated Finrep data.

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 in view of their mission within local communities.

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	93,027,468	99.0%	93.0%	99.0%	7.0%	99.9%
Consumer households	34,859,291	37.1%	95.5%	38.1%	4.5%	24.0%
Small and medium-sized enterprises	46,415,150	49.4%	93.2%	49.5%	6.8%	48.6%
- Family businesses	8,197,369	8.7%	91.8%	8.6%	8.2%	10.3%
- Micro-businesses, associations and other organizations	8,460,077	9.0%	90.7%	8.8%	9.3%	12.2%
- Other SMEs	29,757,705	31.7%	94.3%	32.1%	5.7%	26.1%
Other non-financial companies	9,040,257	9.6%	80.8%	8.4%	19.2%	26.8%
Other financial companies	2,712,769	2.9%	98.7%	3.1%	1.3%	0.5%
Government entities	906,636	1.0%	99.2%	1.0%	0.8%	0.1%
Total loans to customers at period end	**93,934,103**	**100.0%**	**93.1%**	**100.0%**	**6.9%**	**100.0%**

In terms of geographical distribution, the Group's exposures are mainly concentrated in northern Italy (56%), where there has been a lower level of credit risk, and in central Italy (31%).

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	27,490,587	29.3%	94.1%	29.6%	5.9%	25.1%
North-west	25,250,843	26.9%	93.6%	27.0%	6.4%	24.9%
Center	29,531,195	31.4%	92.2%	31.1%	7.8%	35.7%
South and islands	11,661,477	12.4%	92.0%	12.3%	8.0%	14.4%
Total loans to customers at period end	**93,934,103**	**100.0%**	**93.1%**	**100.0%**	**6.9%**	**100.0%**

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

Economic segment of borrowers	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	Ratio to total	Ratio to total NPL
Consumer households	34,859,291	37.1%	95.5%	38.1%	4.5%	24.0%
Primary sector	5,209,643	5.5%	93.6%	5.6%	6.4%	5.1%
Manufacturing	12,915,889	13.8%	94.0%	13.9%	6.0%	11.9%
Commerce	10,071,673	10.7%	92.4%	10.6%	7.6%	11.8%
Real estate and construction	13,259,083	14.1%	84.1%	12.7%	15.9%	32.6%
Services and other	13,999,120	14.9%	93.5%	15.0%	6.5%	14.1%
Government entities	906,636	1.0%	99.2%	1.0%	0.8%	0.1%
Financial companies	2,712,769	2.9%	98.7%	3.1%	1.3%	0.5%
Total loans to customers at period end	**93,934,103**	**100.0%**	**93.1%**	**100.0%**	**6.9%**	**100.0%**

The particular model of mutual banking, featuring a prevalence of medium and long-term lending to households and small businesses, is responsible for the high rate of collateral-backed lending (more than 61%). More specifically, about 73% 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 increasingly prudent approach to assessing the recoverability of credit adopted by the Group.

Type of guarantee	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	Ratio to total	Ratio to total NPL
Collateral	57,350,631	61.1%	91.8%	60.2%	8.2%	73.0%
Unsecured guarantees	22,307,168	23.7%	94.9%	24.2%	5.1%	17.4%
Not guaranteed	14,276,304	15.2%	95.7%	15.6%	4.3%	9.6%
Total loans to customers at period end	**93,934,103**	**100.0%**	**93.1%**	**100.0%**	**6.9%**	**100.0%**

With regard to financial assets measured at amortized cost, amounts due from banks (net of debt securities) amounted to approximately €9.3 billion and include €8 billion in respect of the reserve requirement with central banks (up €3.3 billion on December 31, 2020).

€/thousands	Stages 1 and 2	Stage 3	Total 31/12/2021	% share	Total 31/12/2020	% share
Due from central banks – reserve requirement	8,014,335		8,014,335	86.5%	4,680,695	79.1%
Loans to banks - financing	1,250,800	220	1,251,021	13.5%	1,237,532	20.9%
Financial assets measured at amortized cost – Loans to banks	**9,265,135**	**220**	**9,265,356**	**100.0%**	**5,918,227**	**100.0%**

Finally, debt securities measured at amortized cost (under the HTC business model), largely represented by Italian government securities, totaled €61.2 billion. The increase in the exposure in securities (+€3.8 billion on the end of 2020) reflects the increase in recourse to TLTRO operations.

Among assets: (i) equity investments (€128.5 million) mainly represent interests in associates, the most significant of which are the investments in BCC Vita (€92.6 million), Pitagora SpA (€10.9 million) and BCC Assicurazioni (€5.7 million); (ii) property, plant and equipment, totaling €2.6 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 (€176.8 million) mainly include software and user licenses (€134.2 million) and, to a lesser extent, goodwill for the remaining €21 million, a portion of which has been recognized among assets for the affiliated banks for the acquisition of bank branches (€5.6 million) prior to creation of the Cooperative Banking Group; (iv) tax assets totaling about €1.9 billion, including current taxes of about €0.5 billion and deferred tax assets of about €1.4 billion, the latter of which includes about €1 billion referring to Law 214/2011; and (v) other assets of €3.5 billion, which among other things include tax credits of about €1.2 billion.

Consolidated liabilities and equity

€/thousands	31/12/2021	31/12/2020
Financial liabilities measured at amortized cost	163,443,580	154,229,489
a) due to banks	34,585,361	32,114,297
b) due to customers	117,551,739	108,396,697
c) securities issued	11,306,480	13,718,495
Financial liabilities held for trading	129,475	243,808
Financial liabilities designated as at fair value	256	3,117
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	495,080	513,071
Tax liabilities	44,173	101,216
Other liabilities	3,378,853	3,018,072
Post-employment benefits	277,961	295,178
Provisions for risks and charges	521,102	528,106
Equity	10,238,138	10,140,263
Profit/(loss) for the period	456,765	195,793
Total liabilities and equity	**178,985,382**	**169,268,115**

Total consolidated liabilities and equity at December 31, 2021, amounted to about €179 billion, up €9.7 billion (+5.7%) at December 31, 2020. The increase is mainly attributable to liabilities measured at amortized cost (up €9.2 billion).

More specifically, financial liabilities measured at amortized cost include direct funding from ordinary customers totaling about €122 billion (up €8.8 billion on the end of 2020). The increase in amounts due to ordinary customers (+€11.2 billion) was connected mainly with the increase in balances on current accounts and demand deposits, partly offset by the decline in securities issued, reflecting maturing securities that were not offset by new issues (-€2.4 billion).

€/thousands	31/12/2021	31/12/2020
Due to customers	110,742,741	99,497,367
Current accounts and demand deposits	104,311,902	92,228,718
Time deposits	4,865,989	5,748,454
Other amounts due	1,564,850	1,520,194
Outstanding securities	11,306,480	13,718,496
Bonds	6,617,687	8,308,713
Other securities	4,688,793	5,409,783
Financial liabilities measured at amortized cost – Direct funding from ordinary customers	**122,049,221**	**113,215,862**

More specifically, amounts due to ordinary customers increased by 11.3% to €110.7 billion. Net of deposits by government entities, which decreased during the period, this funding increased by 11.7%, including a sharp increase in deposits by small and medium-sized businesses (+30.5%, an increase of €7.8 billion). In relative terms, funding from consumer households, which accounts for 61% of the total, increased at a slower pace (+9%, an increase of €5.6 billion).

€/thousands	31/12/2021		31/12/2020		% change
	Total	Ratio to total	Total	Ratio to total	2021-2020
Ordinary customers	108,721,797	98.2%	97,340,603	97.8%	11.7%
Consumer households	67,428,205	60.9%	61,847,844	62.2%	9.0%
Small and medium-sized enterprises	33,557,404	30.3%	25,709,367	25.8%	30.5%
- Producer households	6,422,567	5.8%	5,718,688	5.7%	12.3%
- Micro-businesses, associations and other organizations	6,255,307	5.6%	5,313,938	5.3%	17.7%
- Other SMEs	20,879,530	18.9%	14,676,741	14.8%	42.3%
- Other non-financial companies	5,271,798	4.8%	5,626,305	5.7%	-6.3%
- Other financial companies	2,464,390	2.2%	4,157,087	4.2%	-40.7%
Government entities	2,020,944	1.8%	2,156,763	2.2%	-6.3%
Deposits and current accounts at amortized cost	**110,742,741**	**100.0%**	**99,497,367**	**100.0%**	**11.3%**

The remainder of financial liabilities measured at amortized cost comprises funding from institutional customers (€41.4 billion) and includes: i) €5.6 billion in repurchase agreements, almost entirely with the Clearing & Guarantee Fund; (ii) €34.6 billion in amounts due to banks, of which €33.2 billion in operations with the ECB (notably TLTROs) and €1.4 billion in other amounts due to banks outside the Group.

Amounts due to banks, of which 96% is represented by exposures to central banks, increased by a total of €2.5 billion, primarily reflecting the more expansionary monetary policy stance of the ECB.

€/thousands	31/12/2021	31/12/2020
Loans to customers	6,808,999	8,899,330
Repos	5,635,000	6,821,435
Other	1,173,999	2,077,896
Due to banks	34,585,361	32,114,297
Due to central banks	33,158,972	29,923,224
Due to banks	1,426,388	2,191,072
Current accounts and demand deposits	217,542	299,339
Time deposits	92,858	116,154
Loans and repurchase agreements	1,065,857	1,648,035
Other	50,131	127,544
Financial liabilities measured at amortized cost – Funding from institutional customers	**41,394,360**	**41,013,627**

The other main liabilities include the following: (i) financial liabilities held for trading, in the amount of €129.5 million (-€114.3 million on 2020), which include the negative fair value of trading derivatives; (ii) tax liabilities, totaling €44.5 million, including €36 million in deferred tax liabilities on temporarily non-taxable revenues; (iii) other liabilities of about €3.4 billion; (iv) post-employment benefits for the Group totaling €278 million; and (v) provisions for risks and charges of €521 million (which includes provisions for credit risk in the amount of €293 million against commitments to disburse funds and financial guarantees issued).

Consolidated shareholders' equity

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

Reserves totaled €8.7 billion and mainly included legal reserves of €10.4 billion – accumulated as a result of an aggressive use of self-funding by the affiliated banks in relation to the aforementioned obligation for the capitalization of at least 70% of earnings – and a negative IFRS 9 reserve of €1.6 billion.

€/thousands	31/12/2021	31/12/2020
Share capital	2,302,817	2,307,331
Equity instruments	30,139	30,139
Share premium reserve	148,345	150,256
Treasury shares	(1,263,218)	(1,247,818)
Valuation reserves	218,665	253,301
Reserves	8,735,190	8,575,538
Profit for the year	456,765	195,792
Equity attributable to shareholders of the Parent Company	**10,628,703**	**10,264,539**
Non-controlling interests	**66,201**	**71,517**
Total shareholders' equity	**10,694,904**	**10,336,056**

INCOME STATEMENT

Consolidated income statement

€/thousands	31/12/2021	31/12/2020
Net interest income	**2,760,731**	**2,521,121**
Net fee and commission income	**1,380,212**	**1,261,960**
Dividends, net gain/(loss) on trading activities, net gain/(loss) on hedging and net gain/(loss) on assets and liabilities at FVTPL	57,395	25,953
Net gain (loss) on disposals	429,214	264,627
Gross income	**4,627,553**	**4,073,661**
Net writedowns/writebacks for credit risk	(1,191,720)	(837,532)
- Financial assets measured at amortized cost – Loans to customers	*(1,174,563)*	*(812,766)*
Gains/losses from contract modifications without cancellations	(1,969)	(3,197)
Net income/(loss) from financial operations	**3,433,865**	**3,232,931**
Administrative expenses	(2,991,084)	(2,987,995)
a) personnel expenses	(1,712,036)	(1,729,164)
b) other administrative expenses	(1,279,048)	(1,258,832)
Depreciation, amortization and provisions	(307,918)	(319,532)
- of which provisions for guarantees issued	*(63,734)*	*(29,833)*
Other operating income/expense	336,219	328,010
Operating expenses	**(2,962,783)**	**(2,979,517)**
Profit/(loss) from equity investments	19,264	(7,742)
Net gain/(loss) from fair value measurement of property, plant and equipment and intangible assets	(15,836)	(40,118)
Goodwill impairment	(1,810)	(2,842)
Profit/(loss) from disposal of investments	85	(634)
Profit/(loss) before tax on continuing operations	**472,785**	**202,077**
Income tax expense from continuing operations	(12,214)	242
Profit/(loss) for the period	**460,571**	**202,320**
Net profit/(loss) attributable to non-controlling interests	**3,806**	**6,528**
Net profit/(loss) attributable to shareholders of the Parent Company	**456,765**	**195,793**

The Group ended 2021 with net profit of €460.6 million (€258 million more than in 2020), €456.8 million of which attributable to the shareholders of the Parent Company.

More specifically, net interest income came to €2.8 billion, the net result of interest income of €3.2 billion (€2.2 billion on loans to customers, €805 million on debt securities and €344 million on funding with negative interest rates) and interest expense of about €0.4 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 (+€239.6 million compared with 2020) is attributable to (i) an increase in interest income on financial liabilities (+€101 million, essentially TLTRO) connected with the additional monetary policy measures adopted by the ECB to mitigate the effects of the pandemic (the “special period”) and (ii) a decline in interest expense on liabilities at amortized cost both as a result of the re-pricing of the short-term component and a reduction in the stock of longer-term liabilities (-€32.9 million on amounts due to customers and -€38.7 million on outstanding securities).

Interest and similar income

€/thousands	Debt securities	Loans	Other transactions	Total 31/12//2021	Total 31/12/2020
Financial assets measured at fair value through profit or loss	13,663	720		14,383	16,704
Financial assets measured at fair value through other comprehensive income	47,496			47,496	51,223
Financial assets measured at amortized cost	744,052	2,218,970		2,963,022	2,713,473
Hedge derivatives			(221,628)	(221,628)	(27,832)
Other assets			16,436	16,436	2,544
Financial liabilities			344,385	344,385	243,400
Interest and similar income	**805,211**	**2,219,690**	**139,193**	**3,164,094**	**2,999,512**

Interest and similar expense

€/thousands	Payables	Securities	Other transactions	Total 31/12/2021	Total 31/12/2020
Financial liabilities measured at amortized cost	(191,677)	(171,142)		(362,820)	(428,158)
Financial liabilities held for trading			(263)	(263)	(226)
Financial liabilities designated as at fair value		(55)	(49)	(103)	(331)
Other liabilities and provisions			(1,497)	(1,497)	(1,833)
Hedge derivatives			(176)	(176)	1,987
Financial assets			(38,562)	(38,562)	(49,829)
Interest and similar expense	**(191,677)**	**(171,197)**	**(40,547)**	**(403,422)**	**(478,391)**

Net fee and commission income amounted to €1.4 billion in 2021, an increase from the previous year (+€118 million), and includes fee and commission income for a total of €1.8 billion (mainly relating to commissions for the management of current accounts, other collection and payment services, and distribution of third-party services) net of commission expense of €496 million. The rise in net fee and commission income is mainly attributable to the general recovery in the economy compared with conditions during the lockdown last year and the first signs of the positive effects of commercial campaigns.

Fee and commission income

€/thousands	31/12/2021	31/12/2020
Guarantees issued	24,286	24,391
Management, intermediation and advisory services	156,753	128,891
Management of current accounts	518,185	509,964
Other collection and payment services	838,496	429,765
Distribution of third-party services	237,530	199,501
Other services	101,034	104,147
Fee and commission income	**1,876,285**	**1,396,658**

Fee and commission expense

€/thousands	31/12/2021	31/12/2020
Guarantees received	(1,142)	(1,535)
Management and intermediation services	(15,526)	(15,355)
Collection and payment services	(461,180)	(101,986)
Other services	(18,224)	(15,822)
Fee and commission expense	**(496,073)**	**(134,698)**

The net gain on disposals came to €429.2 million, an increase of €164.6 million on 2020 (about +€101 million excluding gains on assignments of loans), and mainly includes the gain on the sale of government securities in the HTC and HTCS portfolios.

Net writedowns for credit risk totaled €1.2 billion, an increase of €354.2 million on the previous year, reflecting a more conservative approach in calculating ECL and the even more conservative policies adopted in assessing NPLs.[24]

Operating expenses amounted to about €2.9 billion, broadly in line with 2020. The total reflected the following components:

- personnel expenses amounting to €1.7 billion, a decrease of about €20 million on 2020, a year in which a number of one-off items were recognized (provisions to the solidarity fund);
- other administrative expenses totaling €1.3 billion, up €20 million compared with the previous year, mainly reflecting the charges connected with the ordinary contribution to the Deposit Guarantee Fund for mutual banks, which in 2021 were entirely accounted for in this item. In the previous year, part of these charges (€35 million) were recognized in the provisions for risks and charges pending the decision by the European Commission regarding the petition presented through the industry association for a reduction in the target level of the resources of the DGF for mutual banks from 0.8% of guaranteed deposits to 0.5%.
- provisions, depreciation and amortization amounting to €308 million, down €11.6 million as the net effect of the above developments connected with the DGF contribution, the increase in provisions for guarantees (+€34 million) and a decrease in other provisions;
- other net operating income of €336 million, a slight increase on 2020 (+€8.2 million).

CONSOLIDATED OWN FUNDS AND CAPITAL ADEQUACY

Own funds

The following table offers a breakdown of own funds at December 31, 2021, which amounted to about €12 billion.

Capital and capital ratios - €/thousands	31/12/2021	30/06/2021	31/12/2020
Share capital	2,302,817	2,305,267	2,307,331
Share premium reserve	148,345	146,043	150,256
Treasury shares and repurchase commitments	(1,331,942)	(1,331,892)	(1,272,314)
Reserves	8,993,918	8,997,312	8,834,635
Profit/(Loss) for the period	209,277	(16,984)	(35,725)
Other components of other comprehensive income	(37,884)	(10,052)	(2,732)
Transitional provisions – IFRS 9	1,087,121	897,250	1,216,047
Goodwill (net of related tax effects)	(20,897)	(22,722)	(22,112)
Intangible assets (net of related tax effects)	(86,002)	(72,192)	(145,716)
Other deductions	(24,666)	(32,324)	(32,664)
Prudential filters	(4,858)	(6,187)	13,310
Non-controlling interests	11,409	14,835	14,807
Common Equity Tier 1 (CET1)	**11,245,637**	**10,868,354**	**11,025,122**
Additional Tier 1 (AT1)	33,693	34,341	34,541
Tier 1 (T1)	**11,279,330**	**10,902,695**	**11,059,663**
Eligible subordinated loans	726,327	437,240	449,787
Tier 2 (T2)	**726,327**	**437,240**	**449,787**
Total Own Funds (TC)	**12,005,657**	**11,339,935**	**11,509,449**

In light of the special accounting rules applicable[25] 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 (about €9 billion), in addition to share capital in the amount of €2.3 billion (mainly composed of the shareholder contributions of the affiliated banks and the associated share premiums), which decreases to about €1 billion after elimination of the capital of the Parent Company held by the affiliated banks (reported under treasury shares).

CET1 at December 31, 2020, which represents about 94% of total capital, declined with respect to December 2020 by a total of about €221 million (2.0%), reflecting the algebraic sum of developments in a number of its main components, and specifically: (i) an increase in reserves (+€159 million, due primarily to the capitalization of 2020 net profit; (ii) calculated net profit (+€245 million, following the calculation of earnings for the first half of 2021 authorized by the ECB on November 11, 2021[26]); (iii) the reduction of the IFRS 9 phase-in from 70% to 50% (about €129 million, net of the dynamic phase-in of performing loans, which was also impacted by the new rules introduced with the Quick Fix); and (iv) a decrease in overall deductions and prudential filters, mainly attributable to the substantial reduction of deductions

[24] The increase also reflected the adoption in 2021 – in conformity with IFS 9 – of probabilistic disposal scenarios for part of the impaired portfolio, with a gross amount of about €0.9 billion, with a consequent increase in the associated provisions.

[25] 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.

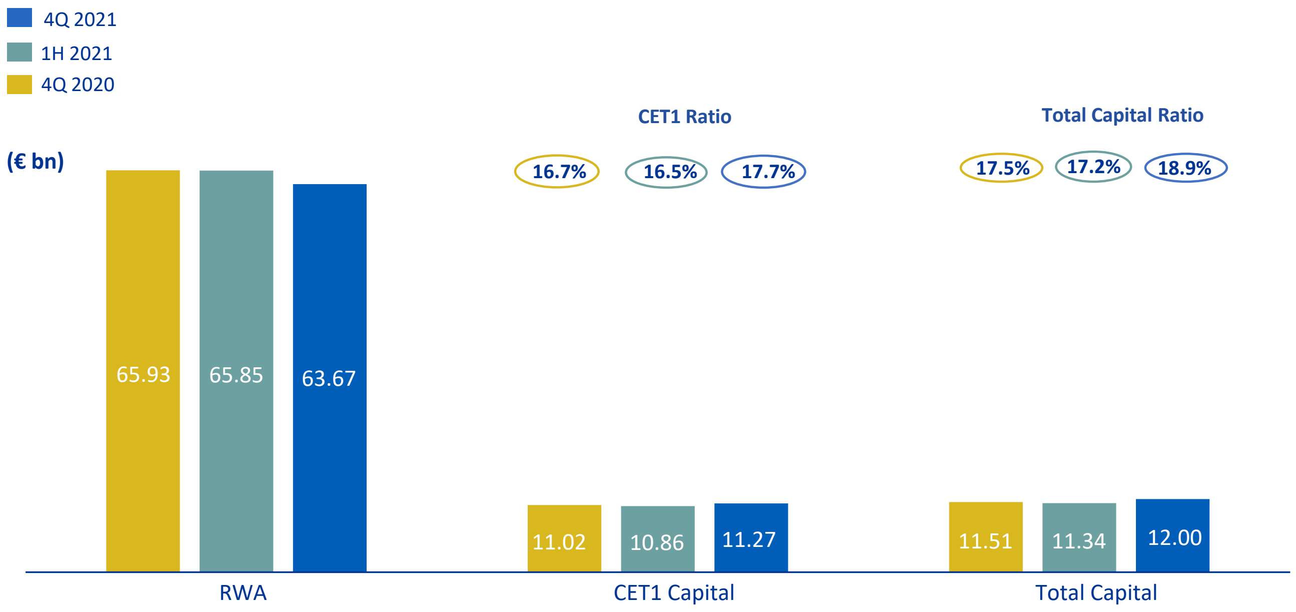
[26] In compliance with applicable regulations, the additional net profit earned at December 31, 2021 is not included in own funds at the same date but rather is included those calculated for the first half of 2022.

connected with capitalized software (a decline of about €60 million) in application of the new CRR2 rules. The effect of the deductions connected with calendar provisioning effects with a Pillar I impact pursuant to Regulation (EU) 630/2019 (about €1.3 million, reported under the aggregate "Other deductions", together with the deduction for deferred tax assets) was marginal.

The changes in the other aggregates of own funds (Additional Tier 1 and Tier 2), a very small decline in Additional Tier 1 (-€0.8 million) was accompanied by an increase in Tier 2 (+€277 million) mainly attributable to the issue by Iccrea Banca of a subordinated loan of €300 million in October 2021.

Capital adequacy

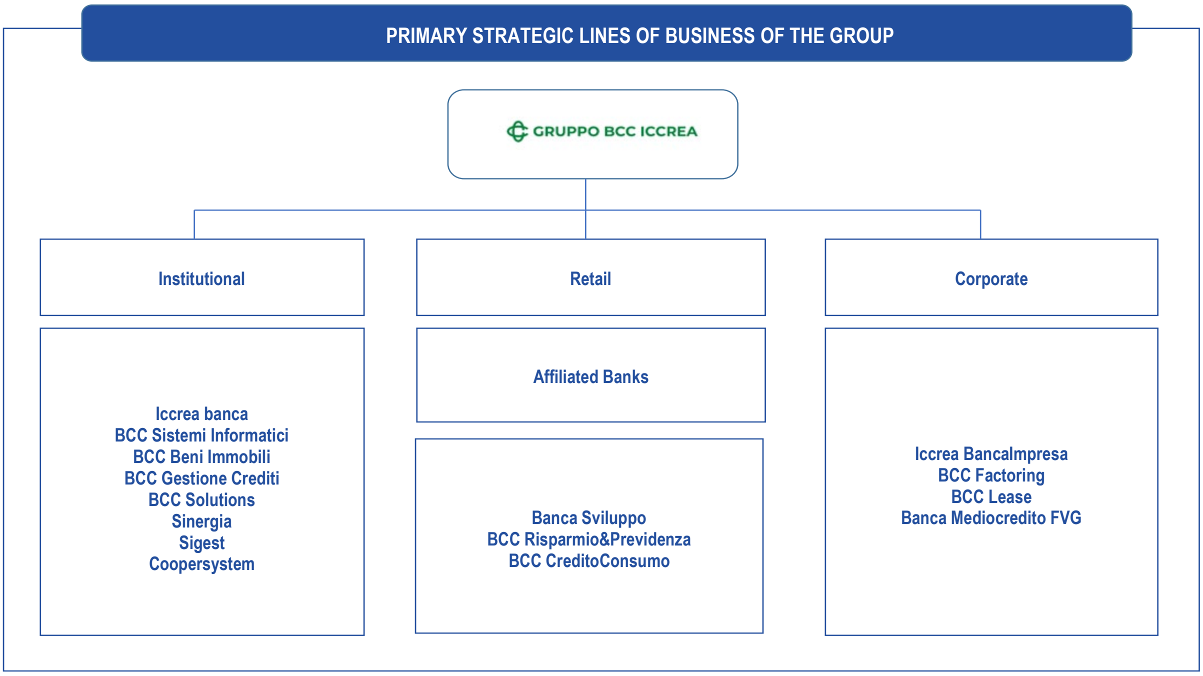
The CET1 ratio at December 31, 2021, came to 17.7%, while the TC ratio came to 18.9%. As shown in the figure below, both of these ratios registered a substantial increase compared with December 2021 (16.7% and 17.5%, respectively).



With the developments in own funds discussed above, RWAs were lower than at the end of 2020 (€63.67 billion, down about 3.6%), mainly following the reduction of the requirement for defaulted portfolios, reflecting the significant additional provisions recognized in the second half of the year and disposals carried out. Another factor was the significant collection the Group banks of information that enabled the treatment of exposures to SMEs and "eligible" guarantees in a manner consistent with their structural characteristics. This had a positive impact on the recognition of CRM techniques, the portfolio allocation and the application of the SME supporting factor. These effects were offset by an increase in the last part of the year in investments (in particular loans), including positions without public guarantees, and, to a lesser extent, an increase in RWAs for operational risks, due to the rise in the relevant indicator on which the calculation of the associated capital requirements is based in accordance with the methodology adopted by the Group, and of the risks in respect of CIUs as a result of the introduction of the new CRR2 rules.

5. THE GROUP’S STRATEGIC LINES OF BUSINESS

CONSOLIDATED BANKS AND OTHER COMPANIES



PRIMARY STRATEGIC LINES OF BUSINESS OF THE GROUP

GRUPPO BCC ICCREA

Institutional

Iccrea banca
BCC Sistemi Informatici
BCC Beni Immobili
BCC Gestione Crediti
BCC Solutions
Sinergia
Sigest
Coopersystem

Retail

Affiliated Banks

Banca Sviluppo
BCC Risparmio&Previdenza
BCC CreditoConsumo

Corporate

Iccrea BancaImpresa
BCC Factoring
BCC Lease
Banca Mediocredito FVG

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.

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

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

€/thousands	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTERSEGMENT TRANSACTIONS	TOTAL
Financial assets	378,133	13,470,952	68,730	60,340,461	(3,429,010)	70,829,265
Due from banks	97,017	30,960,093	2,531	15,041,458	(36,835,744)	9,265,356
Due from customers	5,325,012	5,931,618	1,218,831	78,397,053	(2,114,739)	88,757,775
Funding from banks	5,013,837	39,351,914	1,141,110	32,060,865	(42,982,366)	34,585,361
Funding from customers	566,906	7,389,022	149,184	109,399,432	(68,495)	117,436,048
Securities and other financial liabilities	45,956	4,762,093	2,319	9,234,746	(2,113,636)	11,931,478

€/thousands	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTERSEGMENT TRANSACTIONS	TOTAL
Net interest income	132,374	175,307	54,644	2,380,374	18,032	2,760,731
Net fee and commission income	9,322	105,193	61,400	1,161,398	(51,173)	1,286,140
Other financial expense and income	9,838	127,582	2,563	374,347	(24,720)	489,610
Gross income	**151,535**	**408,082**	**118,606**	**3,916,120**	**(57,861)**	**4,536,482**
Net value adjustments	(138,491)	(67,638)	(13,155)	(977,330)	(73)	(1,196,689)
Net gains/(losses) from financial operations	**13,043**	**340,444**	**105,451**	**2,938,790**	**(57,935)**	**3,339,793**
Operating expenses	(66,955)	(251,547)	(50,930)	(2,549,491)	15,566	(2,903,357)
Other costs and revenues	87	(11,207)	(0)	(7,677)	45,271	26,473
Profit/(loss) before tax from continuing operations	**(53,825)**	**77,690**	**54,520**	**381,621**	**2,903**	**462,909**
Income tax expense from continuing operations	12,654	(7,162)	(16,883)	7,346	1,706	(2,339)
Profit/(loss) for the period	**(41,171)**	**70,528**	**37,637**	**388,968**	**4,609**	**460,571**
Profit/(loss) attributable to non-controlling interests	**(1,442)**	**5,268**	**(20)**	**-**	**-**	**3,806**
Profit/(loss) attributable to shareholders of the Parent Company	**(39,729)**	**65,260**	**37,656**	**388,968**	**4,609**	**456,765**

INSTITUTIONAL BUSINESS AREA

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

Balance sheet

€/thousands	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other ([27])	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Cash and cash equivalents	1,214,582	845,491	6,157	19,023	3,541	3,279	13,065	8,692	27,558	23,843
Financial assets measured at fair value through profit or loss	1,287,573	1,335,470							1,984	
Financial assets measured at fair value through other comprehensive income	510,674	311,207	8	17	2	2	3	3		
Financial assets measured at amortized cost	48,971,725	46,848,996							3,079	242
a) due from banks	30,960,093	32,119,647							45	242
b) loans to customers	5,983,404	4,501,098								
c) securities	12,028,229	10,228,251							3,035	
Hedging derivatives and value adjustments of macro-hedged financial assets	36,505	9,868								
Equity investments	998,822	1,206,207					135	100		10
Property, plant and equipment	4,251	3,514	24,041	25,415	114,841	116,168	4,365	3,608	65,747	70,387
Intangible assets	822	2,127	127,008	110,819	193	330	3,279	2,897	1,393	1,473
Tax assets	68,924	91,859	3,480	3,187	320	269	1,421	1,344	5,026	5,400
Non-current assets and disposal groups held for sale	206,869	189,432								
Other assets	477,861	114,985	30,484	32,796	9,213	6,777	17,097	13,943	12,456	14,290
Total assets	**53,778,609**	**50,959,158**	**191,179**	**191,258**	**128,109**	**126,823**	**39,364**	**30,586**	**117,243**	**115,645**

€/thousands	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Financial liabilities measured at amortized cost	50,480,116	47,707,809	153	2,736	58,786	56,824	3,096	2,750	24,526	27,711
a) due to banks	39,337,080	33,889,855			42,248	45,290	1,109	92	22,413	24,867
b) due to customers	7,394,398	9,631,949	153	2,736	16,538	11,534	1,987	2,659	2,113	2,844
c) securities issued	3,748,638	4,186,006								
Financial liabilities held for trading	430,857	563,511								
Financial liabilities designated as at fair value	335,392	340,957								
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	247,018	173,821								
Liabilities associated with disposal groups held for sale	182,098	170,813	563	163	129	177	176	290	1,773	1,976
Tax liabilities	1,650	1,173								
Other liabilities	354,896	332,160	76,996	77,877	9,336	10,804	22,246	21,539	14,350	13,187
Post-employment benefits	15,347	16,179	3,988	4,475	309	262	2,115	1,194	1,520	1,392
Provisions for risks and charges	42,121	21,867	848	2,004	79	630	1,409	988	3,062	1,396
Shareholders' equity	1,635,936	1,697,663	104,035	103,518	56,119	55,796	4,977	1,113	68,319	73,995
Profit/(loss) for the period (+/-)	53,178	(66,795)	4,597	485	3,352	2,330	5,345	2,712	3,692	(4,012)
Total liabilities and equity	**53,778,609**	**50,959,158**	**191,179**	**191,258**	**128,109**	**126,823**	**39,364**	**30,586**	**117,243**	**115,645**

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

Income statement

€/thousands	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Net interest income	176,085	86,457	(39)	(114)	(1,372)	(1,387)	(84)	(87)	(186)	(245)
Net fee and commission income	92,741	68,084			(2)	(5)	(18)	(17)	12,326	10,275
Dividends	28,441	37,216						19		
Net gain/(loss) on trading	20,115	15,547	(2)	(2)						
Net gain/(loss) on hedging	108	(3,000)								
Net gain/(loss) on disposals	77,151	58,883								
Net gain/(loss) on financial assets and liabilities at FVTPL	(7,629)	(23,252)								
Gross income	**387,012**	**239,935**	**(41)**	**(116)**	**(1,374)**	**(1,391)**	**(102)**	**(86)**	**12,140**	**10,030**
Net writedowns/writebacks for credit risk	(67,638)	(8,712)							-	(10)
Net gains/(losses) from financial operations	**319,374**	**231,223**	**(41)**	**(116)**	**(1,374)**	**(1,391)**	**(102)**	**(86)**	**12,140**	**10,020**
Administrative expenses	(434,591)	(393,763)	(212,961)	(142,265)	(27,780)	(28,544)	(72,789)	(57,157)	(18,038)	(18,907)
a) personnel expenses	(185,182)	(183,155)	(43,929)	(34,107)	(7,423)	(7,271)	(29,683)	(26,550)	(5,501)	(5,447)
b) other administrative expenses	(249,409)	(210,609)	(169,032)	(108,158)	(20,358)	(21,273)	(43,106)	(30,607)	(12,536)	(13,460)
Depreciation, amortization and provisions	(7,212)	(3,718)	(44,762)	(24,940)	(11,896)	(11,517)	(3,559)	(2,439)	(8,125)	(16,556)
Other operating expenses/income	179,829	150,465	264,506	168,158	45,743	44,737	84,179	63,607	19,770	21,746
Operating expenses	**(261,974)**	**(247,017)**	**6,783**	**952**	**6,067**	**4,676**	**7,830**	**4,010**	**(6,392)**	**(13,717)**
Profit/(loss) from equity investments	(27,116)	(44,038)								
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	**30,284**	**(59,832)**	**6,743**	**836**	**4,693**	**3,285**	**7,728**	**3,924**	**5,748**	**(3,696)**
Income tax expense from continuing operations	(1,876)	14,889	(2,147)	(351)	(1,341)	(955)	(2,384)	(1,213)	(2,056)	(315)
Profit/(loss) on discontinued operations after tax	24,770	(21,853)								
Profit/(loss) for the period	**53,178**	**(66,795)**	**4,597**	**485**	**3,352**	**2,330**	**5,345**	**2,712**	**3,692**	**(4,011)**

ICCREA BANCA SPA

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

With the formation of the Iccrea Cooperative Banking Group, the traditional role of the second-level bank, which, in supporting the operations of the mutual banks, provides – in the spirit of partnership and in continuation of the role taken up in the past – products, services and advisory services to help them meet the needs of their shareholders, customers, households and local communities, we have therefore added duties connected with the new 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

Investment services are provided by the Group Finance unit, mainly to the affiliated banks and, through them, to their own customers. These services include providing support in accessing trading venues and over-the-counter (OTC) markets and order receipt and intermediation services.

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

With regard to liquidity management, in 2021 the funding activity of the Group banks focused on the ECB's long-term auctions. The option to repay early and participate in the new TLTRO III operations held in June, September and December 2021 helped reposition maturities and generated new liquidity with maturities up to December 2024.

Participation in auctions through the mutual banks' pool accounts accounted for more than 80% of collateralized financing. The average liquidity held by the affiliated banks on the daily settlement account (about €3.9 billion at December 2021) and in minimum reserve requirements (about €6.9 billion at December 2021) produced an average balance on the management account with the Bank of Italy at the end of December 2021 of about €8.9 billion.

At December 31, 2021 the Group held about €33.4 billion in TLTRO III program transactions, of which some €21.2 billion through the TLTRO Group and €12.2 billion through banks participating directly in monetary policy operations. Access to collateralized funding through the full use of the TLTRO program has enabled the affiliated banks, which provide a large percentage of lending to the private sector, to benefit from the particularly favorable conditions set by the ECB (these conditions call for a rate, upon reaching the target for growth in lending, of -1% for the period June 24, 2020, to June 23, 2022, and equal to the average deposit facility rate until expiration of the operations.).

The "over-collateral" product introduced in 2020 for the banks in the Iccrea TLTRO Group in order to benefit from a further reduction in the cost of financing offered by TLTRO operations reached a volume of eligible securities transferred to the pool of about €1.1 billion.

With regard to capital market funding, Iccrea Banca was involved in a number of major transactions in the second half of the year. These helped strengthen the Group's structural liquidity profile and expanded the diversification of funding sources, as well as boosting the presence of Iccrea Banca as a primary issuer on institutional markets, as underscored by the large base of primary investors, mostly foreign, attracted to the various initiatives.

On September 23, 2021, Iccrea Banca issued a 7-year, €500 million covered bond, the first in the cooperative credit industry in Italy, which was placed on the capital market for professional investors. The issue involved 8 affiliated mutual banks and obtained an Aa3 rating from Moody's. The issue program involved Iccrea Banca as the issuer of covered bonds and the affiliated banks as assignors and servicers of a portfolio of primary credit quality mortgages pledged to secure the bonds issued. The program, which enables the Banking Group to enter a new market characterized by considerable innovation and operational and legal complexity, envisaged a governance and control process under the responsibility of Iccrea Banca (which also played a centralized management and coordination role for the Cover Pool and acted as Master Servicer and Test Calculation Agent), with offer documentation submitted for the approval of the *Commission de Surveillance du Secteur Financier* (CSSF) of the Grand Duchy of Luxembourg. With the approval of the program, Iccrea Banca can issue covered bonds of €10 billion over a period of 10 years.

Under the €3 billion EMTN Program, a Tier II subordinated bond was issued on October 18, 2021 in the amount of €300 million, bearing a fixed rate and a term of 10.25 years, with an early redemption option that can be exercised after 5.25 years. The transaction was rated B by Standard and Poor's and Fitch. The transaction, which follows an earlier issue of November 2019, meets the objectives of both strengthening and optimizing the capital structure and satisfying the MREL at the individual and consolidated level. The funding raised was used to subscribe subordinated loans issued by the Group's mutual banks on the basis of the criteria envisaged in the Group policy on participation in meeting the MREL.

On November 17, 2021, Iccrea Banca concluded the issue of the Group's first "social bond". The Senior Preferred bond was issued in the amount of €500 million, maturing in January 2027 and callable by the issuer in January 2026. It was targeted at the institutional market and obtained ratings from DBRS (BBh), Fitch (BB-) and by Standard and Poor's (BBB). The issue was carried out through the EMTN Program and the Green, Social and Sustainability Bond Framework published during the year, in line with the Green and Social Bond Principles issued by the ICMA (International Capital Market Association) in 2021. The operation is intended to fund loans aimed in particular at small and medium-sized enterprises and households that have had access to the resources available under the Liquidity Decree, to SMEs with fewer than 50 employees operating in regions with a per capita income lower than the national average and youth and female entrepreneurship. 80% of the funding will be used to refinance existing loans, while the remaining 20% will be used for new lending over the two years following the issue.

The new bond marked the entry of Iccrea Banca and the ICBG into the ESG bond segment as part of the broader context of the Group's Sustainability Plan. In line with the provisions of the Strategic Plan and the Funding Plan 2021, the issue also meets the objectives of strengthening and optimizing the funding structure and meeting the MREL at the consolidated level. As done previously with the subordinated Tier II issue, the funding generated with this issue was used to subscribe bonds issued by the Group's mutual banks (with a senior ranking) on the basis of the criteria set out in the Group policy on participation in coverage of the MREL.

In order to foster participation in the new social issue of investors who already hold Iccrea bonds that are not eligible for MREL purposes, a tender offer was launched for the Iccrea Banca Senior Preferred outstanding instrument issued in the amount of €600 million maturing October 11, 2022. The cash tender offer was made for the entire issue and acceptances received amounted to €193.4 million, equal to 32.2% of the total issue. The bonds repurchased through the tender offer were canceled.

As regards the domestic retail market, a senior bond denominated "Iccrea Banca Tasso Fisso Step Up - 1 July 2021 - 1 July 2026" in the amount of €150 million was placed on June 1, 2021. The placement was intended to consolidate the role of the ICBG among the retail customers of the affiliated banks by offering a security designed to meet the investment needs of such customers. The initiative involved the participation of 91 affiliated banks as placement agents.

Among other initiatives to implement the Funding Plan, an additional bond was issued on December 30, 2021, reserved for customers of the affiliated banks with a total nominal value of €150 million.

As part of the implementation of the year's funding plan, at December 31, 2021 time deposits of more than €3 billion with an average maturity of 2.6 years had been established, entirely through the affiliated banks, of which €2.7 billion at medium/long term.

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

With regard to execution activities on national and foreign financial markets on behalf of the mutual banks, 2021 saw an increase of 2% in overall volumes compared with the previous year. With total transacted value of €15.6 billion, the Italian equity sector recorded a volume of €5.3 billion, an increase of 29% compared with 2020. Foreign equities posted volumes of €1.6 billion, an increase of 252% compared with 2020. This strong performance was achieved thanks to a precise commercial strategy that centralized about 90% of the domestic and foreign equity flows of the Group asset management company. Operations in the bond segment posted a transacted volume of €8.7 billion, a decrease of 19% compared with the previous year. This decline, recorded by both mutual bank shareholders and third parties, is mainly attributable to the sharp decline in yields on Italian government securities, which began in the second half of 2020 and continued last year before stabilizing.

Primary market operations included i) Iccrea's participation in the placement of 2 Futura BTPs with the retail customers of the mutual banks in the total amount of about €420 million; ii) participation in government securities auctions (BOTs, CCTs, CTZs, BTPs) in the total amount of about €100 million; the placement of 3 Iccrea bonds totaling about €225 million; the placement of 8 certificates totaling about €27 million issued by leading Italian and European investment banks.

In its operations in OTC derivatives, Iccrea Banca transacted a total nominal amount of about €13.7 billion, a considerable increase compared with the €4.9 billion registered in 2020. The mutual bank members of the Group posted a very strong increase in volumes traded, partly reflecting the strategy of implementing more robust coverage of the banks' interest rate risk.[28]

With regard to the management of the securities portfolio, the mutual banks entered in to yield swaps linked to fixed-rate government securities in the notional amount of €1.4 billion. No such transactions were conducted in 2020.

With regard to operations in the Parent Company's financial portfolio, and with a view to managing and mitigating financial risk, interest-rate and/or inflation derivatives were used for hedging purposes (with a total notional of about €3.3 billion, in line with 2020).

[28] In 2021, the mutual banks carried out 97 interest-rate macro-hedging transactions for fixed-rate loans in the nominal amount of €2.4 billion, compared with €193 million closed in 2020.

Payment systems

The digitalization of payments and the advent of innovative solutions offered to customers by non-bank operators have made it necessary to be more proactive in monitoring the evolution of the tools made available to the Group banks and customers to facilitate their collection and payment operations.

In this context, Iccrea Banca continued its efforts to maintain existing services and develop new services for to the Group banks to help them cope with the COVID emergency, as well as expanding initiatives to facilitate the acceleration of the digitalization of payment services.

In quantitative terms, in 2021 COVID did not affect the overall volumes handled. With the greater use of digitalization, volumes increased for SEPA products (SCT, SDD and PagoPA), offsetting the reduction in traditional products (checks, cashier's checks, etc.).

The main initiatives implemented in 2021 in collections and payments included: i) the modification of the applications for Target 2 and Swift transactions as part of system initiatives (T2 Consolidation of the ECB and CBPR + of Swift); ii) the activation of affiliated banks on the Check IBAN PagoPA and private customer services; and iii) the updating of SEPA and international applications based on the periodic releases of EBA Clearing and Swift.

At the institutional and interbank level, Iccrea Banca participates in the main working groups sponsored by ABI, the Bank of Italy, CBI, EBA, CIPA, PagoPA, the Electronic Invoicing and Dematerialization Observatory, ANORC and AGID. In addition, under the aegis of the European Payments Council (an associative body the European banking industry charged with of managing the SEPA payments scheme and liaising with the European authorities, Iccrea Banca: i) participates in international organizations and working groups on the evolution of SEPA; ii) took advantage of the possibility granted by the EPC to configure the affiliated banks for which it acts as an intermediary as a Group, reducing the costs incurred by them in their participation in SEPA systems compared with ordinary pricing. This activity extended to a revision of the pricing of the CBI Scpa and PagoPA Spa services; and iii) participates in the analysis of new initiatives launched at European level (request-to-pay, digital euro, SEPA one-leg out operations).

Electronic money

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

The Group's main commercial focus was concentrated on the launch of issuing and acquiring products to enhance the CartaBCC and CartaBCC POS range. In particular, on the acquiring front, a major effort went into the digital realm with the launch of the new SmartPOS Connect, which since June 2021 saw the ICBG place about 7,000 new Smart POSs. We also continued to invest in commercial promotions to support small businesses through: i) the offer of digital POS (Smart POS) at no charge for 6 months; ii) the provision of support for safe remote sales, through the offer of PAYWay (virtual POS), PayWay Mail and Mobile POSia services with zero fees for 6 months; iii) the launch of new value-added services such as TAX Free (a service that allows merchants to offer customers residing outside the European Union to obtain a VAT refund) in order to enhance the product offering for the tourism sector.

During the year, the migration of merchants to the proprietary authorization platform was completed, with significant benefits in terms of business management and cost savings.

In the issuing sector, the main activities include the launch of the new dual-circuit card (co-badge) to complete the CartaBCC range. In addition all the features of a 'traditional' debit card, this product has the highest level of online acceptance, complying with the latest market security standards. The launch, which took place in May, enabled the ICBG to place over 100,000 cards on the payment market.

More generally, in terms of the number of cards, the resumption of placement activity brought the number of cards in operation to more than 4 million, an increase of 3.9% compared with 2020.

The progressive easing of restrictive measures has obviously had a positive impact on transaction metrics. Specifically, in 2021, the issuing segment recorded an increase of €3.5 billion (+19.1%) compared with 2020, while the POS acquiring front registered growth of €4.1 billion (+31.3%). Similar developments were registered in ATM acquiring volumes (cash withdrawals), with an increase compared with 2020 of €1.3 billion (+15.3%).

BCC SISTEMI INFORMATICI SPA

The information technology segment of the Group in 2021 was mainly engaged 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; (iv) related to the ongoing convergence of the affiliated banks using technical-service providers other than BCC SI with the proprietary structure; and (v) regarding management of merger processes.

In 2021, 12 affiliated banks were migrated to the BCC SI information system. In 2022, we expect to complete this program with the migration of 6 more banks.

Major projects are also under way aimed at further evolving or increasing the efficiency of application platforms with a view to their overall standardization throughout the Group, the most notable of which are the following:

- the FIN-CAD Turnaround project to create a single operational and technological model for handling securities post-trade operations at the Group level, both for proprietary finance and for the retail customers of the mutual banks;
- evolution of the Wealth Management Platform (WMP) Consultant, with the goal of creating an application module to support advisory services in areas related to financial investments (asset management and administration), risk coverage (bancassurance), and pension solutions;
- evolution of the Insurance Distribution Directive (IDD) platform;
- gradual expansion of the Group’s digital strategy aimed at defining a new concept of community service by expanding the branch-centric model, disseminating innovative services for the mutual banks, and revising the value-proposition model and overall customer experience in line with projects launched in 2019.

Also in 2021, we completed a number of strategic projects aimed at ensuring maximum market efficiency in accordance with the needs of compliance, and more specifically:

- Group customer service and phone banking (Banca Telefonica), the goal of which is to establish a single data architecture for the Group, which will enable to mutual banks to provide dedicated services to their customers and shareholders. In 2022, we will begin distributing the Banca Telefonica service to the affiliated banks;
- remote/off-site sales to enable mutual banks to sell SICAVs and other investment funds by way of Strong Customer Authentication (SCA) in order for the customer to view the offering in the RelaxBanking documents area;
- development of physical services to enhance the automated teller machine (ATM) channel, updating both the graphical design and the functioning of the ATM interface;
- work to ensure compliance with the provisions of PSD2 and remove potential obstacles to account access by third parties in accordance with the EBA opinions OP/2020/10 and OP/2021/02 and with the deadlines specified by the Bank of Italy in August 2021. We are also continuing to develop the components of Transaction Risk Analysis (TRA) and anti-malware in the RelaxBanking and CartaBCC interfaces and of Strong Customer Authentication (SCA) with the goal of adapting them to the new cases of fraud and further increasing payment security;
- instant payments, with the primary goal of providing customers of the affiliated banks (and as the first group in Italy to do so) with SEPA instant credit transfers (SCT Inst) using the TIPS platform. At December 31, 2021, 109 mutual banks were activated for receiving transfers, and the customers of 77 of those banks were activating for sending transfers. In 2022, we will complete activation for sending transfers for the customers of the activated mutual banks and will gradually activate the remaining banks as they are migrated to the BCC SI platform;
- release of the platform for the online management of current accounts.

Finally, projects related to ICT security, which are coordinated by a security task force (STF) with the participation of the control functions of the Parent Company, have involved new measures concerning the overall risk treatment plan:

- revision and updating of company rules on (i) software development, (ii) change management, incident management, management of telecommunications networks, management of security events, (iii) data storage, (iv) cryptographic activities, (v) software licenses, (vi) technology assets, and (vii) access logic;
- extension of data loss prevention tools to include non-PCIDSS assets;
- drafting of the list of critical SEPA Credit Transfer procedures and related vulnerability assessment plan;
- increasing security levels for service access (FTP, HTTP, VPN);
- increasing the level of monitoring of accesses of production databases and definition of procedure for managing application access profiles;

- increasing the local IT security levels at the affiliated banks by converging onto the infrastructure services provided by the Group.

RETAIL BUSINESS AREA

Balance sheet

€/thousands	RETAIL							
	BCC		BCC Credito Consumo		BCC R&P		Banca Sviluppo	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Cash and cash equivalents	5,086,896	4,369,589	11,289	273,68	43,046	36,393	40,685	13,641
Financial assets measured at fair value through profit or loss	1,508,746	1,583,80			6,254	6,272	188	297
Financial assets measured at fair value through other comprehensive income	8,652,210	9,000,58			3	3	909	1,848
Financial assets measured at amortized cost	143,704,309	34,632,29	1,064,608	918,770	46,554	28,909	171,588	510,953
a) due from banks	15,078,970	11,768,56	6		7	12	2,518	317,415
b) loans to customers	78,397,053	75,145,08	1,064,602	918,770	46,547	28,897	107,693	110,161
c) securities	50,228,287	47,718,64					61,377	70,954
Hedging derivatives and value adjustments of macro-hedged financial assets	130,058	222,98						
Equity investments	35,829	38,56						
Property, plant and equipment	1,946,289	1,996,66	23	114	4,367	4,494	29,941	31,511
Intangible assets	19,689	25,05	1,536	1,907	3,327	3,092	672	678
Tax assets	1,524,960	1,683,011	7,073	10,200	1,251	1,528	43,779	58,358
Non-current assets and disposal groups held for sale	11,394	18,368					1,300	41,721
Other assets	2,115,178	976,221	108,835	102,065	4,814	2,442	29,721	31,096
Total assets	**164,735,557**	**154,547,140**	**1,193,364**	**1,306,742**	**109,616**	**83,133**	**318,783**	**677,680**

€/thousands	RETAIL							
	BCC		BCC Credito Consumo		BCC R&P		Banca Sviluppo	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Financial liabilities measured at amortized cost	150,455,216	141,016,360	1,083,392	1,208,687	38,218	28,381	171,014	428,315
a) due to banks	32,123,985	32,339,044	1,070,869	1,195,664	38,126	28,31	32,126	303,076
b) due to customers	109,399,432	98,094,881	12,523	13,023	92	69	136,569	103,713
c) securities issued	8,931,800	10,582,435					2,319	21,526
Financial liabilities held for trading	1,188	2,019						
Financial liabilities designated as at fair value	256	3,117						
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	318,963	338,315						
Tax liabilities	37,409	94,253	509		914	179	669	840
Liabilities associated with disposal groups held for sale								90,660
Other liabilities	2,869,371	2,442,439	26,857	22,397	19,980	16,311	14,611	18,869
Post-employment benefits	251,221	265,117	249	293	273	348	294	636
Provisions for risks and charges	423,752	401,143	102	82	3,702	4,151	6,810	10,453
Equity	9,989,214	9,707,195	62,691	61,833	25,859	25,851	128,007	125,669
Profit/(loss) for the period (+/-)	388,968	277,181	19,564	13,450	20,669	7,913	(2,623)	2,237
Total liabilities and equity	**164,735,557**	**154,547,140**	**1,193,364**	**1,306,742**	**109,616**	**83,133**	**318,783**	**677,680**

Income statement

€/thousands	RETAIL							
	BCC		BCC Credito Consumo		BCC R&P		Banca Sviluppo	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Net interest income	2,380,369	2,172,883	47,379	46,723			7,232	11,403
Net fee and commission income	1,161,406	1,077,192	4,451	3,390	56,255	36,474	687	2,473
Dividends	9,088	5,842			9	12	43	
Bet gain/(loss) on trading activities	9,529	6,738					1	(6)
Net gain/(loss) on hedging	(1,960)	(385)						(2)
Net gain/(loss) on disposals	350,684	207,606		(3)			(562)	(838)
Net gain/(loss) on assets and liabilities at FVTPL	3,873	(6,300)			(46)	(25)	118	(31)
Gross income	**3,912,990**	**3,463,576**	**51,829**	**50,110**	**56,218**	**36,462**	**7,518**	**12,999**
Net writedowns/writebacks for credit risk	(977,318)	(697,918)	(5,346)	(14,341)	-	-	(4,810)	(678)
Net gains/(losses) from financial operations	**2,935,672**	**2,765,658**	**46,484**	**35,769**	**56,218**	**36,462**	**2,708**	**12,321**
Administrative expenses	(2,612,763)	(2,529,084)	(18,537)	(17,521)	(25,789)	(22,275)	(8,263)	(16,256)
a) personnel expenses	(1,401,892)	(1,393,040)	(4,990)	(5,822)	(5,385)	(6,013)	(2,971)	(8,735)
b) other administrative expenses	(1,210,871)	(1,136,043)	(13,546)	(11,699)	(20,405)	(16,262)	(5,292)	(7,521)
Depreciation, amortization and provisions	(230,537)	(234,701)	(580)	(350)	(1,097)	(2,869)	(538)	(213)
Other operating expenses/income	293,793	290,284	1,687	2,024	218	310	1,984	6,437
Operating expenses	**(2,549,506)**	**(2,473,501)**	**(17,430)**	**(15,847)**	**(26,669)**	**(24,834)**	**(6,817)**	**(10,031)**
Profit/(loss) from equity investments	(2,786)	(4,731)						
Profit/(loss) from disposal of investments	52	(413)						(7)
Net gain/(loss) from FV measurement of property, plant and equipment and intangible assets		(108)						
Impairment of goodwill	(1,810)	(2,356)						(487)
Profit/(loss) before tax on continuing operations	**381,621**	**284,548**	**29,054**	**19,923**	**29,550**	**11,628**	**(4,109)**	**1,796**
Income tax expense from continuing operations	7,346	(7,368)	(9,490)	(6,472)	(8,880)	(3,715)	1,487	441
Profit/(loss) on discontinued operations after tax								
Profit/(loss) for the period	388,968	277,181	19,564	13,450	20,669	7,912	(2,623)	2,237

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 128 mutual banks belonging to the Iccrea Cooperative Banking Group as at December 31, 2021, presented in aggregate form and gross of intercompany items.

Total assets at December 31, 2021 amounted to €164.7 billion, an increase of €10.2 billion compared with December 31, 2020, with the rise being essentially attributable to the increase in financial assets measured at amortized cost.

More specifically, financial assets measured at amortized cost increased by €9 billion to €143.7 billion and consist of:

- loans to customers totaling €78.4 billion (+€3.3 billion compared with the end of 2020), mainly represented by loans to customers (€65.6 billion), current accounts (€6.1 billion), other financing (€5.6 billion) and transactions involving credit cards, personal loans and loans repaid by automatic deductions from wages (just over €1 billion);
- amounts due from banks of about €15 billion, an increase of €3.3 billion compared with 2020. The item consists of fixed-term deposits of €13.4 billion, the reserve requirement (€1.3 billion) and other financing (€0.4 billion);
- debt securities amounting to €50.2 billion, represented by €49.2 billion in securities with customers (largely Italian government securities, which increased by €2.7 billion compared with 2020, reflecting in part the increase in recourse to TLTRO operations) and securities issued by banks in the amount of about €1 billion (essentially unchanged on 2020).

The characteristics of the mutual banks' business model is reflected primarily by the type of customers served. Total loans to mutual bank customers were made largely to consumer households and SMEs (34.8% and 41.1% of total lending, respectively).

The aggregate NPL ratio stood at 5.7%, while the coverage ratio for impaired loans was 61.3% (55.3% at December 31, 2020). The mutual banking mission means that the mutual banks supported their local economies, even during periods of persistent crisis, so that, despite the credit crunch that has occurred in recent years, the mutual banks have continued to provide loans to households and SMEs; the default rates in these segments were nonetheless smaller (NPL ratios of 4.4% and 6.4%, respectively) thanks to our better understanding of these types of customers. The share of loans to larger firms was more limited (9.1% of the total) and had a higher NPL ratio.

		Performing loans and advances		Non-performing loans and advances		
Counterparties	Ratio to total loans and advances	Ratio to total loans by counterparty	Percentage of total performing loans of the affiliated banks	Ratio to total loans by counterparty	Ratio to total NPLs of the affiliated banks	Coverage NPL
Ordinary customers	85.0%	93.3%	84.0%	6.7%	100.0%	61.3%
Consumer households	34.8%	95.6%	35.2%	4.4%	27.0%	50.1%
Small and medium-sized enterprises	41.1%	93.6%	40.8%	6.4%	46.1%	59.6%
Producer households	8.0%	92.2%	7.8%	7.8%	11.0%	57.1%
Micro-enterprises, institutions and associations	7.9%	91.2%	7.7%	8.8%	12.2%	62.5%
Other SMEs	25.2%	94.8%	25.4%	5.2%	22.9%	59.3%
Large corporate	9.1%	79.7%	8.0%	20.3%	26.9%	75.6%
Government entities	0.8%	100.0%	0.8%	0.0%	0.0%	40.0%
Central banks, credit institutions and other financial companies	14.3%	99.8%	15.1%	0.2%	0.0%	83.0%
Total	**100.0%**	**94.3%**	**100.0%**	**5.7%**	**100.0%**	**61.3%**

Financial investments totaled about €57.4 billion[29] and consist almost entirely of government securities (especially those issued by the Italian State). Of these, 88% are allocated to the portfolio measured at amortized cost (Hold-to-Collect, HTC, business model) in line with the

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

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.

The portfolio of financial assets measured at fair value through other comprehensive income, represented almost entirely by Italian government securities, amounted to about €8.7 billion, down slightly compared with the previous year. Financial assets measured at fair value through profit or loss amounted to more than €1.5 billion, in line with 2020, and are almost entirely represented by financial assets mandatorily measured at fair value (which also include receivables in respect of the Parent Company for the Ex-Ante contribution to the Guarantee Scheme).

Finally, other relevant items include property, plant and equipment - which amounted to about €2 billion and mainly includes land and buildings for use in operations (€1.6 billion) and other capital equipment - while intangible assets amounted to just €19 million, of which about €6 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 €150.5 billion, up about €9.4 billion on the previous year. More specifically:

- amounts due to customers increased by €11.3 billion to €09.4 billion as a result of an increase in current accounts and demand deposits. Of the total, €103.2 billion consist of current accounts and demand deposits (+€11.9 billion on 2020) and €4.8 billion of fixed-term deposits (-€0.8 billion);
- amounts due to banks decreased slightly on the previous year, falling to €32.1 billion, mainly attributable to loans obtained through T-LTRO operations and refinancing transactions with the Parent Company;
- securities issued came to €8.9 billion, a decline of €1.6 billion due to maturing securities. Of the total, €4.2 billion are represented by bonds and €4.7 billion by certificates of deposit.

The aggregate equity of the mutual banks amounted to €10.4 billion and consists of nearly €1 billion of share capital, with the rest made up of reserves.

Income statement

On aggregate, the Group's affiliated banks closed 2021 with pre-tax profit of €382 million, up €97 million on the previous year.

More specifically, gross income increased by €449 million, to reach €3.9 billion, as a result of: (i) an increase in net interest income (+€207.4 million) due, in large part, to the increase in interest income on securities measured at amortized cost (+€204 million) and the increase in interest income on TLTRO loans at negative interest rates (+€110 million), effects which were partially offset by lower interest income on liabilities issues (-€37 million), lower interest income on hedging derivatives (-€68 million), and lower interest income on funding from customers (-€31 million); (ii) an increase in net fee and commission income of €84.2 million related to the recovery in business compared with 2020; and (iii) an increase in the overall performance of finance operations (from €213 million last year to €371 million, up €158 million due largely to the gain on the sale of government securities).

The greater prudence in measurement policies can be seen in the increase in net writedowns for credit risk (of €975 million, up €280 million compared with 2020) and in the increase in provisions for off-balance-sheet exposures (in the amount of €57 million, an increase of €36 million from the previous year).

The increase in the cost of risk, together with the increase in administrative expenses, partially offset the increase in gross income, resulting, as mentioned, in an increase of €97 million in pre-tax profit.

BCC CREDITOCONSUMO SPA

In 2021, BCC CreditoConsumo continued to distribute consumer credit products (exclusively personal loans) through the mutual-bank branch network and the internet channel, where customers can use a form provided through the Crediper.it website to submit online loan applications.

Production in 2021 was at an all-time high, reaching €461.5 million, for a marked increase over the previous year (€331.7 million in 2020, up 39.15%).

The table below provides a breakdown of gross loans to customers for consumer credit at December 31, 2021, by credit quality, including an indication of related coverage, which – given our prudence in the measurement of credit, in accordance with the models and guidance provided by the Parent Company – is much higher than the industry average.

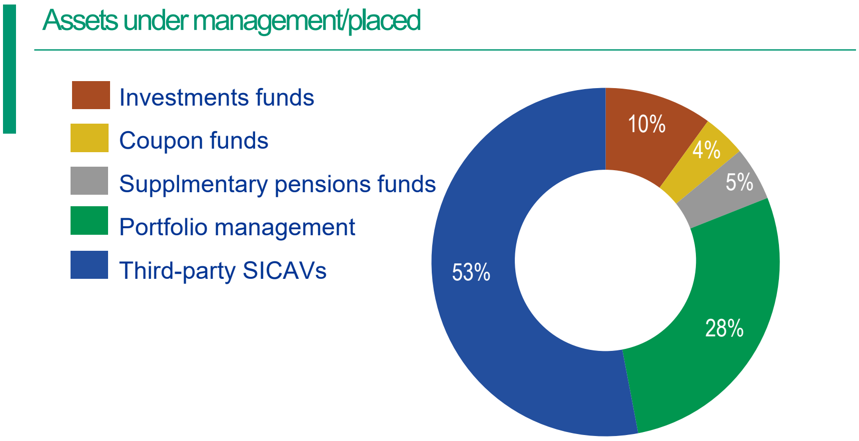
Classification	Gross amount €/thousands	Writedowns €/thousands	% coverage	Average market coverage in 2020
Performing	1,088,186	30,0572	2.8%	3.3%
Impaired past due	10,058	5,248	52.2%	57.5%
Unlikely to pay	5,754	4,489	78.0%	65.5%
Bad loans	42,131	41,309	98.1%	82.4%
Total	**1,146,129**	**81,618**	**7.1%**	
average % coverage of impaired positions			*88.1%*	*73.9%*

Income statement

The company closed the year with net profit of €19.6 million, which is an all-time high for the company and is a reflection of the significant increase in volumes associated with the overall prudence of the company's management. Gross income grew 3.3% from December 2020 as a result of increases in both net interest income (+1.4%) and the service margin, which benefited from the increase in fee and commission income on the distribution agreement for salary-backed lending with Pitagora along with the all-time high production levels achieved for the product.

BCC RISPARMIO & PREVIDENZA SGRPA

At December 31, 2021, total assets managed or placed by BCC Risparmio & Previdenza, in the amount of €22.5 billion, increased by €3.7 billion compared with 2020 thanks both to an increase of €3.2 billion in net funding and to a positive market effect of €440 million.



The chart below shows the weight of each investment product out of total assets under management as at December 31, 2021.

Net funding from investment funds in 2021 remained essentially in line with the previous year, while total assets under management at year end came to €2.3 billion (about €1 billion of which in coupon funds).

In 2021, supplementary pension funds confirmed the growth seen in the previous year, for net funding of €122 million and assets under management of €1.1 billion. The number of investors in pension funds reached 144,806, an increase of 11% on the figure for the previous year (130,442 investors).

With regard to retail, institutional and insurance portfolio management, net funding was also positive at a total of €1.4 billion, bringing assets under management at year end to €6.2 billion, aided by the placement of new lines of retail asset management related to the project "Investiper GP", which generated a total of about 25,000 new accounts, to reach a total of about 47,000 accounts at year end.

With regard to third-party SICAVs, total assets placed by the end of the year amounted to €11.9 billion and posted net funding of €1.7 billion.

Income statement

The year 2021 closed with pre-tax profit of €29.6 million (and net profit of €8.9 million), an increase of 154% over the previous year (pre-tax profit of €17.9 million). This increase is mainly attributable to performance fees (which went from €2.7 million in 2020 to €15.3 million in 2021) and, to a lesser extent, to the increase in other fee and commission income, particularly related to the asset management service and the placement of third-party SICAVs. Within the scope of this positive performance, management fees passed through to placement agents, and to the affiliated banks in particular, increased during the year from €108.6 million to €136.6 million (+25.5%).

Operating expenses increased by €1.8 million to reach €26.7 million (+7.4% annually) due to an increase in other administrative expenses (€20.4 million in 2021, up €4.14 million from 2020) mainly related to an increase in IT costs, in depreciation and amortization related to capital expenditures made by the management company, and in costs for corporate and administrative services, although these latter costs were offset by a decrease in personnel costs (-€0.6 million compared with 2020).

BANCA SVILUPPO SPA

In line with established strategy, Banca Sviluppo continued in 2021 to pursue the goal of selling off its branch network.

In the first half of the year, the company completed the sale of the branches in Santo Stefano di Camastra, Sant'Agata di Militello, and Capo d'Orlando to BCC di Longi, and the Messina branch was sold to BCC Pachino in the second half of the year.

At the end of 2021, the bank had therefore shrunk significantly (to 3 branches), with total funding of €158 million and loans of €111 million. These figures reflect the inevitable, continuing decline in volumes, mainly concentrated in the Rome branch.

Income statement

The year ended December 31, 2021, closed with a pre-tax loss of €4.1 million and a net loss of €2.6 million. Generally speaking, in addition to the decrease in volumes as a result of the disposal of branches, 2021 also saw the application of probability scenarios for the sale of the bank's remaining NPL portfolio in order to facilitate the gradual de-risking of the bank.

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 provide a wide range of products and services to meet all customer needs, even the most advanced ordinary lending and special corporate finance products, medium/long-term lending and international services, leasing, factoring, rental and other advanced consulting. The Group companies that operate in this area are: Iccrea BancaImpresa, BCC Factoring, BCC Lease, and Banca Mediocredito del Friuli Venezia Giulia.

Balance sheet

€/thousands	CORPORATE							
	Iccrea BancaImpresa		BCC Lease		BCC Factoring		MCFVG	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Cash and cash equivalents	4,493	9,717	111	807	4,870	1,603	88,132	130,274
Financial assets measured at fair value through profit or loss	32,099	40,143					25,150	25,253
Financial assets measured at fair value through other comprehensive income	283	283			11	11	81,667	95,872
Financial assets measured at amortized cost	3,864,836	4,230,814	500,788	471,108	570,519	476,647	738,495	776,330
a) due from banks	16,338	24,726	1,662	2,352	136	-	79,449	46,278
b) loans to customers	3,804,642	4,206,087	499,126	468,756	570,382	476,647	463,933	523,444
c) securities	43,856						195,113	206,608
Hedging derivatives and value adjustments of macro-hedged financial assets								
Equity investments	25,750	25,750						
Property, plant and equipment	9,152	9,637	106	129	59	104	9,966	10,658
Intangible assets			244	365	61	122	340	391
Tax assets	172,647	184,718	4,151	5,025	6,611	7,444	44,272	46,213
Non-current assets and disposal groups held for sale		3,360,302						
Other assets	83,871	150,608	11,355	11,454	6,933	5,693	7,632	5,928
Total assets	**4,193,132**	**8,011,973**	**516,754**	**488,888**	**589,063**	**491,624**	**995,656**	**1,090,919**

€/thousands	CORPORATE							
	Iccrea BancaImpresa		BCC Lease		BCC Factoring		MCFVG	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Financial liabilities measured at amortized cost	3,737,911	3,741,326	458,600	436,615	556,204	464,230	853,507	928,913
a) due to banks	3,656,326	3,492,691	454,053	432,898	552,148	459,664	351,311	359,814
b) due to customers	81,585	248,635	4,547	3,718	4,056	4,566	476,718	543,632
c) securities issued							25,479	25,467
Financial liabilities held for trading	20,380	39,570						
Financial liabilities designated as at fair value								
Hedging derivatives and value adjustments of macro-hedged financial liabilities		10,140						
Tax liabilities			553	39			78	1,622
Liabilities associated with assets held for sale		3,332,948						
Other liabilities	79,958	113,746	15,735	12,925	13,126	6,095	43,610	43,205
Post-employment benefits	1,423	1,933	166	209	397	389	227	278
Provisions for risks and charges	30,868	59,458	216	147	1,135	1,833	4,558	21,077
Equity	362,907	732,078	30,726	29,816	19,071	20,886	96,680	98,801
Profit/(loss) for the period (+/-)	(40,315)	(19,227)	10,758	9,137	(868)	(1,809)	(3,004)	(2,976)
Total liabilities and equity	**4,193,132**	**8,011,973**	**516,754**	**488,888**	**589,063**	**491,624**	**995,656**	**1,090,919**

Income statement

€/thousands	CORPORATE							
	Iccrea Bancalmpresa		BCC Lease		BCC Factoring		MCFVG	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Net interest income	93,253	150,279	23,815	21,657	3,876	3,478	11,178	10,309
Net fee and commission income	709	25,312	(436)	(524)	3,559	2,921	6,004	5,011
Dividends	8,224	8,467						
Net gain/(loss) on trading activities	3,690	4,716			21	(51)	343	(37)
Net gain/(loss) on hedging	417	556						
Net gain/(loss) on disposals	3,049	449					2,064	(1,470)
Net gain/(loss) on financial assets and liabilities at FVTPL	(642)	(9,495)					(232)	(2,218)
Gross income	**108,700**	**180,284**	**23,379**	**21,133**	**7,456**	**6,349**	**19,357**	**11,595**
Net writedowns/writebacks for credit risk	(118,952)	(109,304)	(4,392)	(6,652)	(1,693)	(371)	(13,455)	(3,078)
Net gains/(losses) from financial operations	**(10,253)**	**70,979**	**18,988**	**14,481**	**5,763**	**5,978**	**5,902**	**8,518**
Administrative expenses	(38,788)	(62,925)	(10,500)	(9,303)	(7,510)	(7,452)	(12,974)	(13,197)
a) personnel expenses	(11,155)	(34,400)	(2,989)	(3,457)	(3,439)	(4,417)	(5,353)	(6,361)
b) other administrative expenses	(27,634)	(28,526)	(7,511)	(5,845)	(4,071)	(3,035)	(7,621)	(6,837)
Depreciation, amortization and provisions	(1,410)	(12,264)	(241)	(284)	551	(857)	106	(576)
Other operating expenses/income	(3,177)	(15,989)	5,984	5,542	156	28	859	664
Operating expenses	**(43,375)**	**(91,179)**	**(4,756)**	**(4,045)**	**(6,803)**	**(8,281)**	**(12,008)**	**(13,110)**
Profit/(loss) from equity investments		(6,527)						
Profit/(loss) from disposal of investments							87	
Net gain/(loss) from FV measurement of property, plant, equipment and intangible assets								
Goodwill impairment								
Profit/(loss) before tax on continuing operations	**(53,628)**	**(26,727)**	**14,231**	**10,436**	**(1,039)**	**(2,303)**	**(6,020)**	**(4,592)**
Income tax expense from continuing operations	13,313	7,500	(3,474)	(1,298)	172	493	3,016	1,616
Profit/(loss) after tax on discontinued operations								
Net profit/(loss) for the period	(40,315)	(19,227)	10,758	9,137	(868)	(1,810)	(3,004)	(2,976)

ICCREA BANCAIMPRESA SPA

As part of the reorganization of the Group's corporate area, effective as of January 1, 2021, Iccrea BancaImpresa transferred its lending (not including lease financing), foreign and internationalization operations, as well as its advisory services in the fields of extraordinary corporate finance and support in accessing subsidies and incentives to Iccrea Banca. The operations transferred included loans, financial assets (units of investment funds, asset-backed securities, equity investments acquired through loan recovery action), the equity investments in BCC Factoring, MedioCredito del Friuli Venezia Giulia and BCC Sistemi Informatici, rights of use in respect of car leases and leases of accommodations for the personnel involved in these operations.

The centralization within the Parent Company of the businesses transferred aims to reduce redundancies in the origination and management of loans to businesses and to strengthen our expertise in specific types of loans and specific customer segments. As a result, only those activities related to finance leasing remain within Iccrea BancaImpresa with a view to maintaining specialist support for leasing within a company dedicated to that product. Through the subsidiary BCC Lease, the company serves the small-ticket business segment with operating and finance leases and special-purpose financing.

Balance sheet

New lending, about 90% of which flows through the mutual banks, was related exclusively to leases and posted an overall increase of 61.5% compared with 2020 (new credit of €693 million on a total of 3,432 new contracts). This increase may be attributed to the strong performance of the leasing industry generally, as seen in Assilea statistics for 2021, although the company grew at a faster pace than the industry average (with the long-term leasing and rental market posted 13.6% growth in number of contracts and 25.6% growth in credit volumes).

Business performance in 2021 featured a repositioning of the portfolio in favor of the equipment segment. Compared with 2020, equipment leasing increased by 148%, with this segment now accounting for 69% of new production, while industrial vehicles grew by 56%. New production in property leases declined by 30% and accounted for just 16% of total production for the year.

Product line	Lease volumes							
	December 2021		December 2020		Comp. % 2021		Annual change	
	Number	Amount	Number	Amount	% Num	% Val	% Num	% Val
Light commercial vehicle leasing	145	12,597	75	6,338	4.2%	1.8%	93.3%	98.8%
Heavy vehicle leasing	670	80,468	449	51,563	19.6%	11.6%	49.2%	56.1%
Equipment	2,443	481,216	1,018	194,310	71.4%	69.4%	140.0%	147.7%
Air and nautical	7	5,314	7	13,878	0.2%	0.8%	0.0%	-61.7%
Property	158	113,801	179	163,143	4.6%	16.4%	-11.7%	-30.2%
Total leasing	**3,423**	**693,396**	**1,728**	**429,232**	**100%**	**100%**	**98.1%**	**61.5%**

Of the bank's total lending portfolio, totaling €3.8 billion, 90% has gone to finance non-financial companies.

	31/12/2021	31/12/2020	% change
1. Debt securities	**43,856**	**-**	**100.00%**
b) Other financial companies	43,856	-	100.00%
2. Financing to:	**3,804,642**	**4,206,086**	**-9.5%**
a) Government entities	151,192	131,309	15.1%
b) Other financial companies	16,091	30,795	-47.6%
of which: insurance undertakings	877	751	16.8%
c) Non-financial companies	3,467,805	3,849,986	-9.9%
d) Households	169,554	193,996	-12.6%
Total	**3,848,498**	**4,206,086**	**-8.5%**

With regard to the impaired portfolio, de-risking continues – mainly by selling NPLs and through securitizations – while also increasing coverage levels in application of particularly prudent measurement policies and approaches and in relation to the application of probabilistic disposal scenarios to a portion of the impaired portfolio. During the year, non-performing loans were sold for a total gross book value (GBV) of €246 million, which concerned both bad loans sold within the scope of the GACS securitization carried out by the Group in 2021 (GACS 5) and UTP exposures. At December 31, 2021, the coverage ratio for non-performing loans came to 69.9%, up from 57.1% at the end of 2020, while the gross NPL ratio came to 11.9% (the comparative figure for the leasing portfolio alone was 16.3% at December 31, 2020).

Income statement

The bank closed 2021 with a pre-tax loss of €53.6 million (compared with a loss of €26.7 million in 2020). After tax, the net loss came to €40.3 million (compared with a loss of €19.2 million the previous year)

The bank's gross income and operating expenses decreased significantly in response to the transfer of the non-leasing business to the Parent Company. More specifically, as interest income decreased, interest expense declined at a more rapid pace as a result of an improved cost of funding applied by the Parent Company beginning in late 2020, for a consequent improvement in net interest income related to the leasing segment alone.

Writedowns of the lease portfolio totaled €118 million, a sharp increase from the writedowns recognized in 2020 for the same portfolio (€43 million for the leasing segment, compared with €109 million recognized in 2020 for the entire portfolio, i.e. including the portion spun off to Iccrea).

As a result of these factors, the bank is laying the groundwork to restore balance to its performance. In 2021, the loss is essentially attributable to the significant increase in writedowns (+€75 million in relation solely to the leasing segment) in response to the more conservative provisioning policies adopted by the Group, as described above.

BCC LEASE SPA

This company operates in small-ticket leasing segments. Business performance in 2021 was essentially comparable to pre-pandemic levels. During the year, some 22,000 new contracts were signed for a total value of about €260 million (compared with 19,732 new contracts for just over €212 million in 2020), increasing by 10.9% in number of contracts and by 22.2% in volumes.

New contracts	2021		2020		% change	
	No.	Amounts in €/thousands	No.	Amounts in €/thousands	No.	Amount
Equipment vendor						
Operating leases	8,381	64,850	8,494	63,590	-1.3%	2.0%
Equipment leasing	4,809	78,143	3,964	53,610	30.2%	45.8%
Special-purpose financing	6,868	59,400	6,042	51,470	13.7%	15.4%
Total vendor	**20,058**	**202,394**	**18,230**	**168,670**	**10.0%**	**20.0%**
Mutual banks						
Light commercial vehicle leasing	788	25,693	672	19,526	17.3%	31.6%
Equipment leasing	657	15,041	484	10,542	35.7%	42.7%
Heavy vehicle leasing	70	4,027	52	2,314	34.6%	74.0%
Total mutual banks	**1,515**	**44,761**	**1,208**	**32,383**	**25.4%**	**38.2%**
Other						
Light commercial vehicle leasing – Agents	189	6,663	183	6,306	-23.1%	5.7%
Heavy vehicle leasing – Agents	116	5,497	111	4,811	-39.0%	14.3%
Total other	**305**	**12,160**	**294**	**11,111**	**-30.0%**	**9.4%**
Total	**21,878**	**259,315**	**19,732**	**212,170**	**-10.4%**	**22.2%**

Net lending came to €501 million at the end of 2021, an increase of about €473 million compared with 2020. In terms of risk profile, the company closed the year with a gross NPL ratio of 3.7% (net of 1% thanks to a coverage ratio of 75.4%).

Income statement

Net profit for the year came to €10.7 million, compared with €9.1 million in 2020 (+17.7%), a clear improvement even compared with budget estimates. This growth is mainly attributable to gross income and to the decrease in the cost of risk, although this was partially offset by an increase in the tax rate and in operating expenses.

The operating cost-to-income ratio (including other operating income and expenses) came to 35%, which is essentially in line with the previous year.

BCC FACTORING SPA

The year closed with a pre-tax loss of just over €1 million (about €0.9 million after the positive tax effect), which is in line with budget forecasts. The improved profit margins were offset by the increase in writedowns as a result of the more conservative provisioning policies adopted by the Group. Recovering strongly after the drop in 2020, turnover reached levels that were in line with budget forecasts.

Balance sheet

After a 2020 marked by the general economic landscape, the company's turnover increased 8.5% compared with the previous year. The company's total assets, almost entirely in the form of loans to customers, came to €589 million, its highest level in recent years.

In terms of credit quality, gross impaired loans accounted for 5.6% of the total, compared with 3.5% at the end of 2020. Given the guarantees issued by the Parent Company to back these loans, the coverage ratio remained high, surpassing 85% for UTP exposures and 100% for bad loans.

Income statement

Gross income increased by €1.1 million to reach about €7.5 million as a result of a corresponding increase in net interest income and net fee and commission income, which benefited from a strong increase in turnover compared with 2020.

Administrative expenses remained at 2020 levels, while personnel expenses decreased (2020 included the provision for risks and charges in relation to early-retirement incentives), offset by the increase in administrative expenses.

BANCA MEDIOCREDITO FVG SPA

Banca Mediocredito del Friuli Venezia Giulia S.p.A. specializes in mainly medium and long-term loans and is also responsible for the loan granted through subsidized financing instruments that the Region of Friuli (in part under Revolving Funds) and other public entities have made available to businesses. New lending disbursed to businesses in the Friuli–Venezia Giulia region in 2021 totaled €185 million, of which €84 million related to non-subsidized lending with the remainder being in lending based on third-party funds.

Balance sheet

Total assets at December 31, 2021, came to €996 million, €464 million of which in loans to customers (a decrease of about €60 million from 2020, €23 million of which in non-performing loans), €302 million in financial assets, and the remainder in loans to banks (about €168 million) and tax assets (at just over €44 million).

Net performing loans came to €446 million, a decrease from the end of 2020. Impaired exposures also decreased by 57.3% as a result of disposals, as well as of collections and cures of positions. As a result of these effects, the NPL ratio fell to 12% (vs. 15.4% in 2020).

Direct funding from customers came to €279 million, a decrease of 18% from the end of 2020 due to a precise strategy currently under way to restructure interest-bearing liabilities and reduce the cost of funding.

Income statement

At December 31, 2021, the income statement again reported a pre-tax loss of €6 million (vs. a loss of €4.6 million in 2020) and a net loss of €3 million after a positive tax effect.

Gross income, in the amount of €19.3 million, increased by €7.8 million compared with last year as a result of a decrease in interest expense due to the restructuring of interest-bearing liabilities, an increase in net fee and commission income, and financial gains. Operating expenses decreased (by €1.1 million). Writedowns of loans increased compared with 2020 (+€9.9 million) due to more product provisioning policies, which take account of the economic landscape, and to the application of probabilistic disposal scenarios to the impaired portfolio.

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

Following the Board of Directors' resolution of November 29, 2018, regarding a project to rationalize the electronic money business — which calls for the spin-off of the activities relating to this sector into a new company (BCC Pay SpA), which was established on December 20, 2018 — in application of IFRS 5, in the separate financial statements of Iccrea Banca at December 31, 2021, the items attributable to the aforementioned branch have been reclassified to the balance sheet and income statement items for assets held for sale. In order to enable the comparison of the performance of the Parent Company compared with the previous year, in the reclassified schedules shown below, the information concerning the business unit in the process of being sold has been allocated to the relevant items of the separate financial statements.

In addition, with effect from January 1, 2021, the transfer of the non-lease lending operations of Iccrea BancaImpresa (ordinary lending, special and international credit and extraordinary corporate finance) to Iccrea Banca was completed, with Iccrea BancaImpresa retaining the lease-related business only.

BALANCE SHEET

Assets

€/thousands	31/12/2021	31/12/2020
Financial assets measured at amortized cost – *Due from banks – Loans and securities*	32,171,399	32,556,711
Financial assets measured at amortized cost –*Due from customers – Loans*	5,984,049	4,501,678
Financial assets measured at amortized cost – *Due from customers – Securities*	10,816,923	9,791,187
Financial assets measured at fair value through profit or loss	1,287,573	1,335,470
Financial assets measured at fair value through other comprehensive income	510,674	311,207
Equity investments	998,822	1,206,207
Other assets	681,328	300,457
Total interest-bearing assets	**52,450,768**	**50,002,917**
Other non-interest-bearing assets	1,327,841	956,241
Total assets	**53,778,609**	**50,959,158**

Al December 31, 2021 total assets amounted to €53.8 billion, an increase compared with the €51 billion posted at the end of December 2020, mainly reflecting the following developments:

- loans measured at amortized cost increased by €2.1 billion compared with the end of 2020, mainly reflecting an increase in amounts due from customers, partially offset by a decrease in amounts due from banks. More specifically:
    - the increase in amounts due from customers is largely attributable to the acquisition of the assets – notably medium/long-term loans following the reorganization of the "Corporate" segment - of Iccrea BancaImpresa (+€2.5 billion) and an increase in investments in debt securities (+1.0 billion, largely Italian government securities) and other loans (+€0.6 billion), offset by a reduction in repo transactions with the Clearing & Guarantee Fund (-€1.6 billion);
    - the decrease in amounts due from banks reflects a decrease in loans (-€4.0 billion, partly in relation to a decline in the funding needs of Iccrea BancaImpresa), only partially offset by the growth in the reserve requirement maintained on behalf of the mutual banks (+€2.9 billion) and an increase in investments in debt securities (+€0.7 billion);
- financial assets measured at FVTPL were broadly unchanged (€1.3 billion), attributable to the net effect of the following developments:
    - the increase in other financial assets mandatorily measured at fair value (+€132 million), mainly due to the acquisition of the funds previously held by Iccrea BancaImpresa following the reorganization of the "Corporate" segment (in particular units of CIUs in the amount of €97.3 million) and, to a lesser extent, an increase in purchases of debt and equity securities (about €29 million);
    - the decrease in assets held for trading, mainly attributable to a decline in the value of trading derivatives (-€176.2 million, partially offset by purchase of government securities (+€63.8 million);
    - the reduction of assets originally designated as at fair value (-€68 million), represented by the assets included in the Guarantee Scheme managed by the Parent Company;
- an increase of about €200 million in financial assets measured at fair value through comprehensive income, which are held under the HTCS business model, reflecting the joint effect of the purchase of debt securities (especially government and bank issues) in the amount of €115 million and equity securities of banks in the amount of €86 million (almost entirely Bank of Italy shares);

- a decrease in equity investments (-€207 million), which mainly reflected the repayment of capital (-€350 million) during the year by Iccrea BancaImpresa – authorized by the European Central Bank – in order reduce the excess own funds generated by the reorganization of the “Corporate” segment and the recognition of impairment losses on other investments, partially offset by an increase in equity investments held in other entities or the acquisition of new investments.[30]

€/thousands	31/12/2021	31/12/2020
Mutual banks	20,103,869	20,288,532
Other credit institutions	12,067,530	12,268,179
Due from banks	**32,171,399**	**32,556,711**

Amounts due from banks largely include lending to the affiliated banks (€20 billion, largely unchanged on 2020). These loans, disbursed against pool collateral, include about €16 billion in operations with the ECB (TLTRO III), with the residual component being other forms of collateralized financing. Amounts due from other credit institutions (including debt securities) include €4 billion in intercompany lending (about €3.6 billion to Iccrea BancaImpresa) and deposits with third parties for the remainder.

€/thousands	31/12/2021	31/12/2020
Current accounts	234,053	276,755
Medium/long-term loans	2,566,541	59,566
Repurchase transactions	143,286	1,772,307
Other transactions	2,977,544	2,387,353
Impaired assets	62,625	5,696
Loans to customers	**5,984,049**	**4,501,678**

Loans to ordinary customers amounted to about €6 billion, compared with €4.5 billion at the end of December 2020, largely reflecting the transfer of the “Corporate” lending operations of Iccrea BancaImpresa and the increase in other financing (totaling €3.1 billion), partially offset by a reduction in repurchase agreements with the Clearing & Guarantee Fund (-€1.6 billion).

Liabilities and equity

€/thousands	31/12/2021	31/12/2020
Financial liabilities measured at amortized cost – *Due to banks*	39,337,080	33,889,855
Financial liabilities measured at amortized cost – *Due to customers*	7,510,089	9,740,677
Financial liabilities measured at amortized cost – *Securities issued*	3,748,638	4,186,006
Financial liabilities held for trading	430,857	563,511
Financial liabilities designated as at fair value	335,392	340,957
Other liabilities	418,410	391,585
Total interest-bearing liabilities	**51,780,466**	**49,112,591**
Other non-interest-bearing liabilities	309,029	215,700
Shareholders’ equity	1,635,936	1,697,663
Profit for the period	53,178	(66,795)
Total liabilities and equity	**53,778,609**	**50,959,158**

The increase in liabilities and equity in 2021 is attributable to the increase of €2.7 billion in interest-bearing funding, which is the net effect of the following factors:

- an increase of €5.4 billion in amounts due to banks to €39.3 billion, due to an increase in time deposits (+€2.6 billion, entirely intercompany), ECB funding (+€2 billion) and current accounts and demand deposits (+€0.6 billion);
- a reduction of €2.7 billion in amounts due to customers and securities issued, which declined to €11.3 billion, due to: (i) a decrease in repurchase agreements with the Clearing & Guarantee Fund (-€1.1 billion); (ii) a reduction in OPTES operations with the MEF (-€1 billion); and (iii) a decrease in securities issued due almost entirely to the redemption of maturing securities (-€1.7 billion), partially offset by new issues (+€1.5 billion, of which €300 million in subordinated securities);
- a decrease in liabilities held for trading, attributable mainly to the decline in the value of trading derivatives (-€133 million, connected with the analogous development in the corresponding asset item);

[30] The 2021 financial statements record impairment losses on the equity investments in Iccrea BancaImpresa (-€73.7 million, partially offset by income of €38.2 million from the capital reduction cited above), in Banca Mediocredito FVG (-€2.9 million) and in BCC Factoring (-€0.9 million). In addition, the investment in Satispay was sold (-€8.1 million). Conversely, increases in equity investments – attributable to the acquisition of interests previously held by Iccrea BancaImpresa following the reorganization of the “Corporate” segment – were recorded for BCC Sistemi Informatici (+€0.5 million), Banca Mediocredito FVG (+€15 million) and BCC Factoring (+€19.1 million) as well as an increase in the investments in Banca Sviluppo (+€28.4 million), BCC Risparmio e Previdenza (+€26 million), BIT S.p.A. (+€2.6 million), Sinergia (+€0.2 million) and BCC PAY S.p.A. (+€0.2 million). In addition, 2021 also saw the acquisition of an interest in Pitagora S.p.A. (€10.9 million), while shares were acquired under Article 150-ter of the Consolidated Banking Act in Iccrea’s capacity as the manager of the Guarantee Scheme in: BCC di Massafra (+€1.3 million), Vival Banca (+€16 million), Banca Centropadana (+€13.2 million), Banca Valdichiana, now Banca TEMA Terre Etrusche di Valdichiana e di Maremma, (+€35 million), and Banca di Pisa e Fornacette (+€19 million). Finally, the Parent Company directly subscribed shares under Article 150-ter of the Consolidated Banking Act totaling €2.8 million in BCC del Crotonese, BCC del Vibonese, Banca del Catanzarese and BCC di Cittanova.

- a slight decrease in financial liabilities designated as at fair value in respect of financing received from the affiliated banks (the Ex Ante Quota) in connection with the Guarantee Scheme as a result of the distribution of income accrued in 2020.

€/thousands	31/12/2021	31/12/2020
Mutual banks	17,459,981	13,853,920
Other credit institutions	21,877,100	20,035,935
Due to banks	**39,337,080**	**33,889,855**

Amounts due to banks, which include €7.1 billion in deposits of the affiliated banks to meet reserve requirements, include: (i) €17.5 billion in positions with the affiliated banks mainly in respect of time deposits (€13.4 billion) and amounts held on the daily settlement account (€3.5 billion); (ii) €21.9 billion in amounts due to other credit institutions, nearly all related to financing from the ECB under TLTRO III.

€/thousands	31/12/2021	31/12/2020
Current accounts and deposits	829,417	941,373
Financing	6,094,575	8,212,042
Other payables	586,097	587,262
Due to customers	**7,510,089**	**9,740,677**

Funding with customers amounted to €7.5 billion, down €2.2 billion compared with December 31, 2020. The decrease is attributable to a decline in repurchase transactions (-€1.1 million) and OPTES transactions with the MEF (-€1 billion).

Equity

At December 31, 2021, the share capital of Iccrea Banca, represented by 27,125,759 ordinary shares with a par value of €51.65 each, was equal to €1.4 billion, unchanged from 2020. Shareholders' equity, excluding profit for the year, amounted to €1.6 billion, a decrease of €62 million compared with December 31, 2020. The change is mainly due to the loss carried forward from 2020 (-€66.8 million) and the increase in valuation reserves (+€7.3 million), mainly due to changes in the cash flow hedge reserve as a result of hedges expiring during the period and, to a lesser extent, an improvement in valuations of securities in the FVOCI portfolio.

Income statement

€/thousands	31/12/2021	31/12/2020
Net interest income	**176,085**	**86,457**
Other gains/losses on financial transactions	89,745	48,177
Dividends	28,441	37,216
Net fee and commission income	**186,812**	**152,470**
Other operating expenses/income	194,470	169,327
Gross income	**675,554**	**493,647**
Personnel expenses	(190,919)	(196,489)
Other administrative expenses	(316,537)	(305,095)
Net adjustments of property, plant and equipment and intangible assets	(3,538)	(11,671)
Total operating expenses	**(510,994)**	**(513,256)**
Gross operating profit	**164,559**	**(19,608)**
Net provisions for risks and charges	(4,876)	(1,875)
Net losses/recoveries on impairment of loans and other financial transactions	(67,639)	(8,706)
Total provisions and adjustments	**(72,514)**	**(10,581)**
Profit/(loss) from equity investments	(27,116)	(44,038)
Profit/(loss) before tax	**64,929**	**(74,227)**
Income tax expense	(11,751)	7,432
Profit/(loss) for the period	**53,178**	**(66,795)**

Profit before tax amounted to €64.9 million (net profit came to €53.2 million), compared with a loss before tax of €74.2 million in 2020 (a net loss of €66.8 million).

The main developments leading to this performance for the period include:

- an increase of €181.9 million in gross income to €675.6 million, reflecting:
    - an increase in net interest income (+€89.6 million) mainly attributable to: (i) an increase in interest on secured financial investments (+€25.8 million, of which +€19.4 from the TLTRO); (ii) an increase in interest on investments in securities (+€21.1 million, mainly attributable to the improved performance of BTPi holdings); (iii) income from IBI lending operations acquired with effect from January 1, 2021 (+€35.5 million); iv) restructuring of funding through the issue of bonds, mainly aimed at financing the mutual banks (including for MREL purposes) with a consequent savings on interest expense (about €9 million);
    - an increase in net fee and commission income (+€34.3 million), mainly reflecting an increase in revenue from electronic money operations (+€11 million) following the recovery in activity, as well as increase in fee and commission income associated with the corporate sector following the acquisition of the IBI business line (+€20 million, of which €18.4 million for services connected with MCC-guaranteed loans);
    - an increase in other gains/losses on financial transactions (+€41.6 million on the previous year), driven by an increase in gains from the disposal of securities (almost exclusively government securities) held in the HTC portfolio (+€18 million on December 2020, to €74.4 million) and an increase in the overall gain on financial assets (+€24 million, partially reflecting the appreciation of equities and a decrease in impairment losses on CIUs measured at fair value);
    - a decrease in dividend income in 2021 (-€8.8 million, to €28.4 million), largely (-€13.3 million) attributable to a deterioration in performance in 2020 compared with the previous year, only partially offset by dividends from the equity interest in the Bank of Italy acquired during the year;
    - an increase in in net other operating income (+€25.1 million), mainly attributable to an increase in revenues from the services rendered to the affiliated mutual banks.31
- a reduction in losses recognized on controlling interests (-€16.9 million), reflecting a decrease in impairment losses recognized on direct-scope companies compared with the previous year and the gain recognized on the sale of the investment held in Satispay (+€12 million);
- the general stability of operating expenses, which totaled €511 million in the period, mainly reflecting net outcome of the following developments: (i) a decrease in personnel expenses (€5.6 million, from €196.5 million32 to €190.9 million), which was affected by the offsetting impacts of the sale of IT operations to BCC SI and the acquisition of the IBI business line; (ii) an increase in other administrative expenses (+€11.4 million, from €305.1 million to €316.5 million), mainly reflecting the billing of IT services by BCC Sistemi Informatici (+€15.9 million, to be considered together with the reduction in costs deriving from the transfer of personnel) and the costs relating to the services provided to the mutual banks transferred by Iccrea BancaImpresa regarding MCC servicing (+€9 million, although these were recouped), only partially offset by a decrease in the Resolution Fund (BRRD) contribution (-€2 million), workstations costs (-€3.2 million) and savings of €8.8 million on professional and legal fees; and (iii) a decrease of €8.1 million in depreciation and amortization on non-current assets owing to the disposal of the IT business to BCC SI;
- an increase in impairment losses on on-balance-sheet and off-balance-sheet exposures (+€63.9 million), reflecting provisions on the loan portfolio acquired from Iccrea BancaImpresa and the application of even more prudent valuation policies for performing and on-performing exposures.

[31] Income from Class 1 services increased by €5.4 million (from €60 to 65.4 million), while income from Class 2 services rose by €11.6 million (from €45.3 to 56.9 million) and revenue from design services increased by €4.6 million (from €25 to €29.6 million).

[32] In 2020, the item included a one-off component represented by provisions connected with the activation of the Solidarity Funds for employees.

ASSETS HELD FOR SALE – ELECTRONIC MONEY BUSINESS UNIT

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

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

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

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

Balance sheet

€/thousands	31/12/2021	31/12/2020
Financial assets measured at amortized cost	645	580
Property, plant and equipment	48	-
Intangible assets	2,709	3,380
Other assets	203,467	185,472
Total assets	**206,869**	**189,432**

€/thousands	31/12/2021	31/12/2020
Financial liabilities measured at amortized cost	115,692	108,728
b) due to customers	115,692	108,728
Other liabilities	63,514	59,426
Post-employment benefits	432	465
Provisions for risks and charges	2,461	2,194
Profit/(loss) for the period (+/-)	24,770	18,619
Total liabilities and equity	**206,869**	**189,432**

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

Income statement

€/thousands	31/12/2021	31/12/2020
Fee and commission income	413,335	340,487
Fee and commission expense	(319,264)	(260,158)
Net fee and commission income	**94,072**	**80,330**
Gross income	**94,072**	**80,330**
Net income/(loss) from financial operations	**94,072**	**80,330**
Administrative expenses:	(72,865)	(69,386)
a) personnel expenses	*(5,737)*	*(5,492)*
b) other administrative expenses	*(67,128)*	*(63,894)*
Net provisions for risks and charges	(253)	(444)
b) other net provisions	*(253)*	*(444)*
Net losses/recoveries on impairment of loans and other transactions	-	6
Net writedowns/writebacks of property, plant and equipment	(38)	-
Net writedowns/writebacks of intangible assets	(911)	(723)
Other operating expenses/income	14,641	16,295
Operating expenses	**(59,426)**	**(54,253)**
Profit/(loss) before tax on continuing operations	**34,646**	**26,076**
Income tax expense	**(9,875)**	**(7,457)**
Profit/(loss) for the period	**24,770**	**18,619**

7. SIGNIFICANT EVENTS DURING THE YEAR

2021–2023 plan

The ICBG's 2021–2023 plan, approved in March 2021, which factors in the industrial actions defined in the Group's current strategy and transformation plans, establishes the following key targets:

- sustained growth in lending to €90 billion by the end of the three-year period (up from €87.3 billion at the end of 2020);
- a significant boost in the development of indirect funding, focusing on qualified funding (i.e. asset management and insurance) to reach a stock of €36 billion by 2023 (up from €27 billion in 2020);
- a cost-to-income ratio approaching 66.5% and a ROE of about 3%;
- capital ratios in line with market best practice, i.e. a CET1 ratio of about 15% and a TC ratio of about 16.4%.

These targets, set in March 2021, were finalized without taking account of the effects of the Comprehensive Assessment, which extended beyond the first half of 2021, and in under circumstances that were already being complicated by the ongoing pandemic.

In 2021, in the awareness of the key role played by the Group in the communities in which the mutual banks operate with regard to social and environmental development and sustainability, ESG goals for the period 2022–2024 have also been set and are to be associated – when updating our planning – with specific commitments (targets and projects) correlated with the goals of the UN's 2030 Agenda.

In December 2021, in light of the changing macroeconomic landscape and in line with these ESG goals, we have identified 3 priority areas of planning in order to achieve the goal of providing the ICBG with a business model that fully respects our nature as a cooperative banking group and the purposes that entails, while also establishing a risk-return profile that can ensure stability over the long term.

Within this context, the new ambitions set by the corporate bodies may be summarized as follows:

- credit quality, with a 2024 target for the GNPL ratio of 4.5%, to be achieved by acting on the levers and initiatives of the NPE plan as described in greater detail in this report;
- profitability, with targets for a cost-to-income ratio of below 65% and a ROE of 5%;
- capital profile, with targets for the CET1 and TC ratios and for MREL capacity buffer at their minimum levels. For the CET1 ratio, the minimum set over the course of the plan is 15.0%. For the TC ratio, two targets have been set (at constant current T2 capital, equal to about 1.1% of RWAs): a minimum over the course of the plan of 16% and a target to be maintained by the end of the plan (2024) of above 18.0%. The MREL capacity buffer has been set at +50 bps above the requirement, to be achieved by the end of the plan period (2024).

By achieving these targets, we expect to see an improvement in the Group's rating by the leading ratings agencies (S&P, Fitch), with the goal being to achieve investment grade by the end of 2024.

Based on these drivers, work is under way to implement the 2022–2024 plan, although based on a macroeconomic scenario that does not yet take account of the impact of the ongoing crisis in Ukraine.

NPE strategy

NPE reduction efforts pursued in 2021 – in line with the strategy that the Group has been pursuing since 2018, prior to creation of the Group in its current form – focused on achieving the targets and implementing the de-risking levers defined in the Group's 2021–2023 NPE strategy approved in March 2021. Despite the complex macroeconomic landscape brought about by the spread of the COVID-19 pandemic, the goal of this plan was to approach the most challenging positioning targets expected by the European supervisory authority over the three-year period, goals which were reached by some our leading competitors. The definition of targets took account of the impact of the new definition of default, of related supervisory expectations, and of expected default rates in the portfolio given the current economic landscape, but did not take account of the outcome of the 2021 Comprehensive Assessment, which was, as mentioned, completed in the second half of 2021.

At the end of 2021, the target for the gross NPE ratio set for the first year of the plan (GNPL ratio of 8.3%) was both reached and amply surpassed (with a GNPL ratio of 6.9% and a gross book value of €6.5 billion), thanks in part to an acceleration in the ongoing, significant reduction in the level of impaired loans.

In March 2022, we approved the new 2022–2024 plan, which factors in the impact of the indications provided by the supervisory authority in the 2021 Asset Quality Review (AQR), which involved the application of more prudent provisioning policies for the 2021 financial statements to the entire portfolio of (performing and non-performing) loans.

Macroeconomic forecasts, which do not factor in the recent geopolitical tensions in eastern Europe, point to a worsening of credit quality in 2022 – due in part to the expiration of economic stimulus measures – with a gradual recovery coming in subsequent years.

Within this context, the new NPE plan defines the levels of asset quality and cost of risk expected for the next three years and outlines a path of gradual de-risking aimed at achieving the target GNPL ratio of 4.5% by 2024.

This GNPL ratio is to be achieved by the end of the plan period – in accordance with the plan – by way of a gradual, ongoing reduction in total non-performing exposures from the 6.9% reported in December 2021 (GBV of €6.5 billion) to 6% in 2022 (GBV of €5.7 billion), to 5.3% in 2023 (GBV of €5.1 billion) and, finally, to 4.5% in 2024 (GBV of €4.4 billion). We will also be restoring balance among the components of the impaired portfolio, with a significant reduction in the percentage of bad loans (from 44% in 2021 to 31% by 2024).

Given the forecast for a total of €5.5 billion in new impaired exposures over the three-year period (as a result of a worsening in default rates compared with 2021), there will be a greater incidence over the period of the plan of internal de-risking efforts, such as liquidations and write-offs, in the amount of €3.2 billion, as compared with sales of exposures, in the amount of about €2.5 billion. Therefore, the plan hinges on the proactive engagement of the Group's banks in boosting ordinary management efforts, while confirming the utility of making significant use of NPE sales, which are to be assessed on a case-by-case basis in light of market conditions and any incentivizing mechanisms that may be in place.

In November, with regard to the de-risking efforts in 2021, we completed the fifth securitization of non-performing loans backed by government guarantees (GACS V).This operation concerned a total portfolio of 11,270 bad loans, related to 6,784 borrowers, sold by 74 banks of the ICBG (including Iccrea Banca, Iccrea BancaImpresa, and Mediocredito del Friuli–Venezia Giulia) and by major commercial banks (Cassadi Risparmio di Asti S.p.A.) and banks specialized in this market segment (Banca Ifis S.p.A. and Guber Banca S.p.A.). Of this portfolio, which had a total exposure in excess of €1.3 billion and a GBV of about €1.2 billion, €920 million of which related to the Group, about 24% was unsecured loans, while the remainder was home loans or commercial mortgage loans.

With this operation, and given the previous securitizations (i.e. GACS I through IV), over the period 2018-2021 the Group deconsolidated a total of about €7.4 billion in bad loans.

The operation was the first securitization in Italy of bad loans eligible for government guarantee (GACS) with a mixed underlying assets, including both non-performing loans and lease agreements in default. For the lease agreements, the assets and related legal obligations of the lease contracts in default were sold to a special-purpose vehicle, which was established both by a transfer of the eligible properties (pursuant to Article 58 of the Consolidated Banking Act) and by a partial spin-off for the properties not eligible at the transfer date (pursuant to Article 2506-bis of the Italian civil code).

On November 16, 2021, a "block sale" was completed in which the participating banks sold a portfolio of bad loans to the securitization vehicle BCC NPLs 2021, established in accordance with Law 130/99, and, on November 29, 2021, this vehicle completed the issue of ABS securities, and more specifically:

- €284 million in class A senior asset-backed floating-rate notes with a maturity of April 2046, with ratings of Baa2(sf) by Moddy's Italia Srl, BBB(sf) by Scope Rating GmbH, and BBB(sf) by ARC Ratings S.A.;
- €39.5 million in class B mezzanine asset-backed floating-rate notes with a maturity of April 2046, with ratings of Caa2(sf) by Moddy's Italia Srl, CCC(sf) by Scope Rating GmbH, and CCC+(sf) by ARC Ratings S.A.;
- €13 million in class J junior asset-backed fixed-rate and variable-return notes with a maturity of April 2046.

The senior notes were subscribed entirely by the seller banks, along with at least 5% of the mezzanine and junior notes, in accordance with the retention rule to maintain a net financial interest in the operation as required by supervisory regulations, whereas the remaining 95% of the mezzanine and junior notes were placed on the market and purchased by a leading international investor within the scope of an auction in which 7 leading international investors participated.

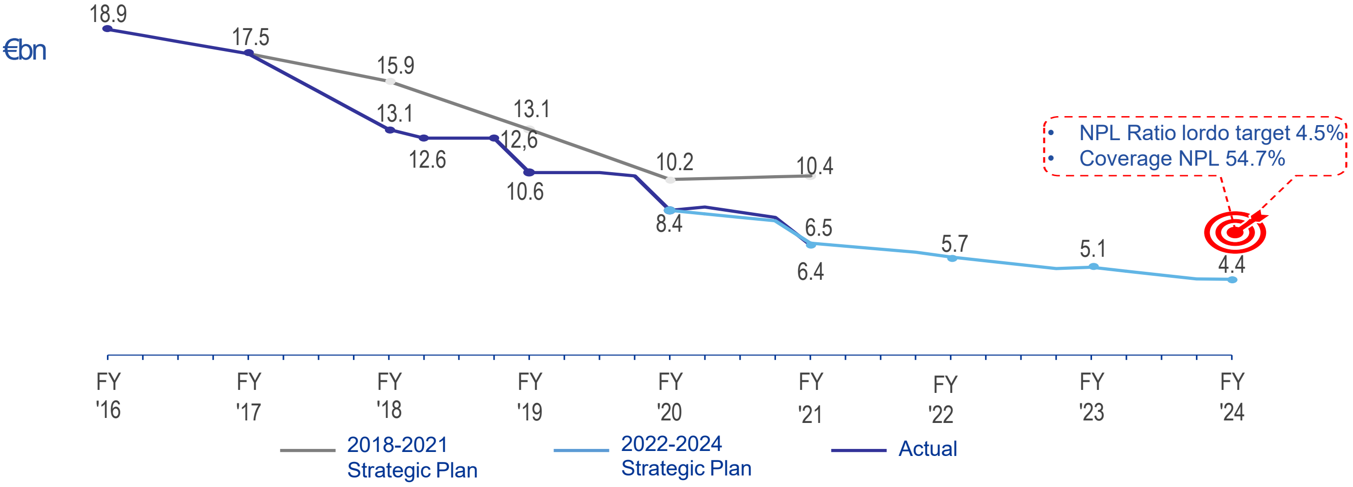
In 2021, the Group also carried out various without-recourse sales of impaired exposures (mainly unlike-to-pay positions). The main operations included 4 sales of UTP exposures for a total GBV of €380 million, which involved a total of 40 Group banks (3 direct-scope companies and 37 mutual banks). The sales largely involved amounts sold by way of non-recourse operations (in particular a mixed lease and banking corporate portfolio sold to AMCO and a corporate secured portfolio sold to Illimity Bank). The other two sales were of lesser amount and were carried out as non-cash transfers to an AIF (the "Cuvée" UTP real estate portfolio and a UTP industrial portfolio "Illimity Credit & Corporate Turnaround Fund").

For more information on these operations, see Part E – Credit Risk, Disposals in the notes to the financial statements.

Within the context of the Group's de-risking efforts, in early 2022 we initiated a new multi-originator sale of bad loans under the GACS guarantee scheme, and this is expected to be completed in May 2022.

The operation calls for Iccrea Banca and 71 other banks of the Iccrea Cooperative Banking Group, along with 3 other banks, to dispose of a number of portfolios of mortgage and unsecured loans that have been categorized as bad loans, for an estimated total exposure of €670 million (€620 million of which related to the Group). Under this operation, the bad loans are to be assigned without recourse to a special-purpose vehicle (SPV), which will then issue three classes of ABSs, the senior tranche of which can be rated in accordance with GACS provisions. In order to deconsolidate the bad loans from the sellers' accounts, the mezzanine and junior notes will be sold on the market (in compliance with the retention rule as required by applicable legislation), whereas the senior notes, which may be backed by government guarantee, will be subscribed in their entirety by the seller banks.

Given the intensive de-risking actions pursued thus far and the outlook as described under the new NPE plan, the figure below shows the trends of the last 5 years in the level of impaired exposures and the forecasts for the period 2022–2024, compared, for the period 2018–2021 – so as to show the acceleration in the Group's de-risking efforts, which is above initial expectations – with the planning submitted to the authorities in conjunction with the application for creation of the Iccrea Cooperative Banking Group.



2021 marketing plan and implementation of commercial and marketing strategy

In 2021, the Group continued efforts to enhance our model of banking in support of the local communities of the affiliated banks, while maintaining a keen focus on the needs of territory and on the satisfaction our customers and shareholders. Within this context, we continued transitioning our service and distribution model towards one that is based on high-quality relationships and, in line with the initiatives that began last year, focused on the following main areas for development:

- an offering based on high-value advisory services for individual customers (mass/affluent, private banking and HNWIs, with an emphasis on insurance services) and business customers (including POE, SME and corporate accounts);
- development of the branch model by enhancing the automation of transaction services (including advanced ATMs, in-branch self-service kiosks, and "cash-light" branches) and through investment in remote-banking technologies;
- dissemination of a customer-centric approach by listening to the needs of both customers and shareholders in order to manage current and future needs and improvement of our value proposition with advanced, customer-insight tools and models;
- community development with product/segment specializations, particularly aimed at businesses, for whom dedicated offerings have been defined;
- implementation of a digital, multichannel strategy.

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

- Customer Relationship Management (CRM), launched in early 2019 with the goal of providing Group banks with a tool, built around a single database providing a complete picture of the customer, that could coordinate the marketing and CRM efforts by taking advantage of all available channels (e.g. the branch network, RelaxBanking, email, text messaging, push notifications, landing pages, and ATMs). In early 2021, we completed development of the application and we began rolling it out to the affiliated banks in March 2021. This roll-out is expected to be completed in the second half of 2022;
- Full Commercial Potential, a project of business development and specialization for the mutual banks, in line with the adoption of the new service models and revision of the distribution models, including development of the catalogue of products and services (especially in the areas of asset management, insurance and bancassurance, business lending and services, consumer credit, payment services, and ancillary services for individuals). With the loosening of restrictions imposed in response to the Covid 19 health emergency, 45 mutual banks already have projects under way (32 of which have been completed), and encouraging results have been achieved in terms added value in customer advisory services and an increase in the provision of other premium services;
- Wealth Management Platform (WMP), aimed at creating an IT platform for the development of our advisory models in order to ensure the quality of the offering and management of investment, funding, and life and non-life insurance. The WMP was released in April 2021. The roll-out plan is expected to continue throughout 2022 with the goal of activating all of the Group's banks;
- Asset Management, with the goal of further strengthening the role of the Group's investment center within our proprietary asset management company by broadening its range of action and transitioning from product company to a hub for investment services.

In 2021, we also carried out a series of projects and other initiatives aimed at further facilitating relations between our customers and the various companies of the Group. These included the following:

- the B2C campaign targeting the customers of the mutual banks with the goal of supporting the placement of the products managed by the product companies through cross-selling and upselling. More specifically, we carried out campaigns to support the placement of a number of insurance products distributed by Cattolica, our CartaBCC product, pension funds, car and equipment leasing, and personal loans;
- ottobre in BCC (October at your mutual bank), an initiative with the primary goal of increasing awareness among existing and potential customers of issues surrounding savings, insurance, pension and investment and which earned the recognition of the committee for the planning and coordination of financial education of the Italian Ministry for the Economy and Finance;
- the StudioSì campaign, with regard to which the Group has been selected by the European Investment Bank (EIB) to be an intermediary for the management of the student loan fund financed with 2014-2020 NOP resources assigned by Italy's Ministry of Education and Research in order to support students in southern Italy;
- optimization of the conversion funnel of our digital channels. The Lead Acquisition Optimization project was completed in 2021 with the goal of enhancing our performance in this area and disseminating best practices locally to the affiliated banks.

Reorganization of the Group's corporate segment

During the year, in order to enable the affiliated banks to develop the full commercial potential of the Group's corporate segment, we defined advanced strategies and a new positioning for the product companies within the direct scope and begun work to implement these actions.

More specifically, in the leasing segment, following the transfer of the Iccrea BancaImpresa business unit related to lending (i.e. ordinary lending, special and international credit, extraordinary finance, and a number of equity investments) to Iccrea Banca effective as of January 1, 2021, the Group freed up the excess capital of Iccrea BancaImpresa in favor of Iccrea Banca (reimbursement to Iccrea Banca of ordinary shares for a total of €350 million) in the second half of the year, thereby optimizing the allocation of capital and allowing for the distribution of other businesses of the direct scope into other segments. Within the scope of this operation, and with the goal of reorganizing the equity investments of the direct-scope companies, the equity investments previously held by Iccrea BancaImpresa in Banca MedioCredito FVG (27.28% interest), BCC Factoring (100% interest), and BCC Sistemi Informatici (0.50% interest), have been transferred to the Parent Company. As a result of this transaction, Iccrea Banca now holds a 51.99% interest in Banca MedioCredito FVG, a 100% interest in BCC Factoring, and a 99.39% interest in BCC Sistemi Informatici.

During the year, in line with these strategic objectives, Iccrea Banca also began discussions with the Region of Friuli–Venezia Giulia, which holds a 47% interest in Banca MedioCredito FVG, and with other minority interests representing, collectively, a 1% stake, expressing our interest in acquiring their respective interests held in the company. More specifically, in December, following public procedure called by the Region of Friuli–Venezia Giulia, Iccrea Banca was awarded the 47% interest in Banca MedioCredito FVG at a price of €26 million. Also in the fourth quarter, Iccrea began discussions with the other minority interests with the goal of completing the acquisition, and all necessary procedures related to the acquisition, of all of the company's outstanding shares in 2022.

Reorganization of the Group's retail segment – Bancassurance

In 2021, in line with the reorganization of the Group's bancassurance segment, which began in 2020, work continued on revising and streamlining the business management model, focused on centralizing the capabilities and commercial efforts of the business divisions of the Parent Company and of a number of regional agencies within BCC Servizi Assicurativi.

Within this context, and with a view to optimizing commercial and operational processes and approaches, we began the process of evolving the segment during the year, which called for:

- completion of the merger of Mocra Srl, the regional agency responsible for southern Italy, into BCC Servizi Assicurativi, effective as of July 16, 2021, to create the Group's first insurance hub for southern Italy;
- completion, on October 15, 2021, of the acquisition by Iccrea Banca of all shares held by other shareholders in BCC Servizi Assicurativi.

Reorganization of the Group's retail segment – Electronic money

In 2021, work continued on the creation of a company in Iccrea Banca's electronic-money segment, aimed at the convergence of all operational and technology components by spinning off the (issuing and acquiring) business into a newco established on December 20, 2018. The goal is to achieve full commercial potential by way of increased organizational and operational efficiency and improved time-to-market as a result of this convergence and of a potential expansion of the target market. On May 10, 2021, this newco changed its name from Ventis SpA to BCC Pay SpA. Also during the year, work continued on the start of operations for BCC Pay SpA, on obtaining authorization, issued by the competent supervisory authorities on October 5, 2021, to operate as an electronic money institution, and on the consequent listing with the Italian register of electronic money institutions, which took place on October 15, 2021. In the first half of 2022, we will complete the spin-off of the (issuing and acquiring) business, transferring this business unit from Iccrea Banca to BCC Pay.

Partnership in salary and pension-backed lending and acquisition of a 9.9% interest in Pitagora SpA

Within the scope of the commercial agreement between Iccrea Banca, BCC CreditoConsumo and Pitagora SpA, a member of the Cassa di Risparmio di Asti Group specialized in salary and pension-backed lending, distribution of these products through the branches of the affiliated banks began in 2021. Within this context, on October 25, 2021, in order to consolidate this partnership and a related long-term project, Iccrea Banca completed the acquisition of a 9.9% stake in Pitagora SpA. In accordance with the provisions of the agreements signed with the current shareholders of Pitagora SpA, and subject to authorization by the competent supervisory authorities, this equity interest could – at the discretion of Iccrea Banca – increase to up to 20%.

This long-term project seeks to strengthen our positioning within the consumer-credit market and to enhance our operations with a partner specialized in the segment of salary and pension-backed lending, all within broader efforts of the affiliated banks to strengthen their offering in order to meet the needs of their shareholders and of their retail customers.

Sale of 100% of Ventis Srl

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

Sale of the equity investment in Satispay SpA

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

Acquisition of 100% of BCC Risparmio & Previdenza

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

Merger of FDR Gestione Crediti SpA into BCC Gestione Crediti SpA

On August 4, 2021, following efforts in the first half of the year aimed at simplifying and rationalizing the companies within the direct scope, we completed the merger of the wholly owned subsidiary FDR Gestione Crediti SpA into BCC Gestione Crediti SpA, which, in turn, is wholly owned by Iccrea Banca.

Sale of the investment in HI-MTF

On July 22, 2021, we sold a 5% interest in HI-MTF SIM, a management company in the HI-MTF market, to FinecoBank against payment of €0.3 million. Iccrea Banca maintained a 20% stake in the management company.

Upon completion of the sale, and as a result of similar sales by the other shareholders of HI-MTF SIM, the company is now a joint venture held in equal proportions by Iccrea Banca, FinecoBank, Banca Akros, Banca Sella Holding, and Luzzatti SpA. The inclusion of FinecoBank, one of Europe's leading fintech banks, represents a business opportunity in terms of broadening the offering of HI-MTF and optimizing the value chain.

Acquisition of 100% of Sinergia

In 2021, within the scope of the broader process of centralizing equity investments within Iccrea Banca, we completed the acquisition of

100% of Sinergia by way of a series of purchases of the shares held by other shareholders. These purchases were completed on November 23, 2021.

Rationalization of operations – Sale of three back-office units to Sinergia

In the second half of the year, within the scope of the plan to regain operating efficiency and centralize back-office activities, we approved three separate operations for the sale to Sinergia of business units encompassing administrative and other back-office activities and related assets. More specifically, in addition to the necessary corporate procedures, the operation concerned: (i) the sale of the back-office unit of BCC Centropadana to Sinergia, effective as of September 7, 2021; (ii) the sale of the back-office unit of RivieraBanca Credito Cooperativo di Rimini e Gradara to Sinergia, effective as of October 1, 2021; (iii) the sale of the back-office unit of Credito Cooperativo Ravvenate Forlivese e Imolese to Sinergia, effective as of November 1, 2021.

This process of centralizing back-office activities and increasing operating efficiency has continued into 2022 and, on February 1, 2022, we completed the sale of the back-office unit of Credito Cooperativo Romagnolo to Sinergia. Six additional operations are currently expected to be completed by the end of 2022.

Acquisition of direct interest in BIT SpA

On December 16, 2021, within the scope of the aforementioned process of centralizing equity investments within the Parent Company, we completed the acquisition of shares in the company BIT SpA, and now Iccrea Banca directly holds an 82.8% interest in the company. As a result of this operation, BIT SpA, which was already held indirectly, now falls within the direct scope of management and coordination.

Granting of the waiver pursuant to Article 113(6) of the CRR

On December 16, 2021, the European Central Bank (ECB) issued a letter authorizing the Iccrea Cooperative Banking Group to apply the waiver pursuant to Article 113(6) of the CRR, based on which the Group's fully consolidated banks, financial companies, and other special-purpose companies can assign a risk weighting of 0% to intercompany exposures, other than those that involve instruments of tier-1 capital, additional tier-1 instruments, or tier-2 instruments.

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

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

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

As implemented last year and constantly adjusted in relation to developments in the Covid case curve and the assessments of the physician responsible for occupational health and safety, remote working has also remained in place for the delivery of services and systems. Available infrastructures are constantly monitored in order to ensure the effective operation of systems supporting operating procedures currently in place, while ensuring compliance and the management of the various projects under way, essentially in line with established plans.

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

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

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

In 2021, the Group also continued supporting businesses and households as begun in 2020. At December 31, 2021, the banks of the ICBG had approved applications submitted under legislative, ABI, and bank sponsored loan repayment moratorium programs for a total of about €21.7 billion (about 98% of applications received), of which about €5 billion were still outstanding at the end of the year. In the early months of 2022, borrowers whose moratoriums had expired at the end of 2021 resumed their repayments under their normal payment plans. A breakdown of the support granted is provided in Part A – Accounting policies of the notes to the financial statements.

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

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

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

As concerns the monitoring of credit risk, specific summary information related to credit-risk efforts under way in connection with the COVID-19 emergency was periodically brought to the attention of the corporate bodies of the Parent Company (i.e. the Risks Committee and the Board of Directors), and specific consolidated reporting was prepared by the supervisory authorities.

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

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

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

The overall set of analyses and simulations have provided crucial input and consistency checks in support of the initial phase of 2021-2023 top-down planning, which was completed in the first quarter of 2021. As noted earlier, following completion of the asset quality review, the findings of which were published by the ECB in July 2021, and given the changing macroeconomic environment and continuation of the government's support measures to the end of the year, during the third quarter, further analysis was initiated, regarding in particular the cost of risk and asset quality, given the management actions envisaged in the "top-down" plan for the first quarter of 2021. Furthermore, the measures requested in response to the Asset Quality Review were quantified and in 2021 took the form of adjustments designed to incorporate further prudence in the evaluation of the performing and non-performing components of the Group's loan portfolios.

Revision of the territorial organization of the affiliated banks

In 2021, the Parent Company continued work to revise the territorial organization of the affiliated mutual banks, primarily through business combinations.

More specifically, the following mergers took place in 2021:

- BCC di Buonabitacolo was merged into BCC Cilento di Sassano e Vallo di Diano e della Lucania (now named Banca 2021 – Credito Cooperativo del Cilento, Vallo di Diano e Lucania), with legal effect as from February 11, 2021;

- Banca di Verona Credito Cooperativo Cadidavid was merged into Banca San Giorgio Quinto Valle Agno (now named Banca di Verona e Vicenza – CC), with legal effect as from April 12, 2021;
- Banca Valdichiana CC di Chiusi e Montepulciano was merged into Banca Terre Etrusche e di Maremma (now named Banca Terre Etrusche di Valdichiana e di Maremma – CC) with legal effect as from July 26, 2021;
- BCC Borghetto Lodigiano was merged into Banca Centropadana Credito Cooperativo (now named Banca Centropadana Credito Cooperativo) with legal effect as from September 13, 2021.

In 2021, the ECB also approved the following plans for business combinations that will take effect in the first half of 2022:

- the merger of Cereabanca 1897 CC into BCC di Verona e Vicenza CC (with the new name: “BCC di Verona e Vicenza CC”). The merger will take legal effect as from February 21, 2022.
- the merger of BCC di Massafra into Banca di Taranto (with the new name: “Banca di Taranto e Massafra - Credito Cooperativo - Società Cooperativa”). The merger will take legal effect as from March 14, 2022;
- the merger of Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese, della BCC del Crotonese - Credito Cooperativo SC and Banca di Credito Cooperativo di Cittanova SC into Banca del Catanzarese Credito Cooperativo SC (with the new name: “Banca di Credito Cooperativo della Calabria Ulteriore – Società Cooperativa”). The merger will take legal effect as from April 11, 2022.

Actions within the scope of the Guarantee Scheme

In 2021, the Parent Company launched fived capital support initiatives for a total nominal amount of €84.5 million by making use solely of the Ex Ante Quota of the readily available funds. More specifically, this involved the subscription by the Guarantee Scheme of shares issued in accordance with Article 150-ter of Legislative Decree 386/93 by:

- Banca Valdichiana in the total amount of €35.0 million;
- Banca Centropadana in the total amount of €13.2 million;
- Banca Pisa e Fornacette in the total amount of €19.0 million;
- VivalBanca in the total amount of €16.0 million;
- BCC di Massafra in the total amount of €1.3 million.

These capitalization measures were allocated proportionately to each mutual bank participating in the scheme.

Covered bond program

In 2021, the structuring of a covered bond program was completed, giving the Group an additional medium-long term funding channel. The program, the first in the cooperative banking industry in Italy, involves Iccrea Banca as the issuer of covered bonds and the affiliated banks as assignors and servicers of a portfolio of primary credit quality mortgages pledged to secure the bonds issued.

The program, which gives investors a secured product that can be used to improve their medium/long-term financial profile, given the evolution of the financial markets, is part of a broader strategy aimed at:

- contain funding costs, thanks to considerable attractiveness of covered bonds as instruments issued directly by a bank whose repayment is also secured by a segregated asset pool (in this case, residential mortgage loans). Thanks to their ability, in the event of bankruptcy of the issuing bank, to recover their position against specially segregated high quality assets, the holders of covered bonds are willing to accept a lower return than that they would demand for similar unsecured bonds;
- diversify funding sources on the international market as well;
- lengthen the average maturity of debt.

As noted above, with the approval of the program, Iccrea Banca can issue covered bonds in the amount of up to €10 billion over a period of 10 years.

The structuring of the Group’s covered bond program involved the implementation of the following activities:

- an initial assignment by a number of mutual banks (collectively, the “Initial Assignor Banks”) to a specially formed SPV called Iccrea Covered Bond Srl of a portfolio of loans held by the Assignor Banks, which will represent the segregated assets pursuant to and for the purposes of the provisions of Law 130 on securitizations. The program permits additional assignments of loans, which will form part of the segregated assets, both by the Initial Assignor Banks and by any additional affiliated banks who intend participate in the program subsequently;

- the grant to the SPV by the Assignor Banks of a subordinated loan to provide the SPV with the resources to purchase the loans being assigned (the "Subordinated Loan");
- the issue by the SPV of an autonomous, irrevocable and unconditional first demand guarantee (the "Covered Bond Guarantee") to the exclusive benefit of the investors holding the covered bonds and senior creditors of the program (the guarantee provides for limited recourse against the assets in the Cover Pool held by the SPV, which performs the role of Guarantor);
- the issue by Iccrea of the covered bonds and the proportional transfer of the liquidity raised to the Assignor Banks.

On June 28, 2021 the first portfolio was sold to SPV Iccrea Covered Bond Srl, for a total nominal amount of €674 million by eight Assignor Banks.

Following the first sale, on September 23, 2021 Iccrea Banca issued the first Covered Bonds, which were placed on the capital market with professional investors.

Early Warning System (EWS)

In 2021, work was done to further develop the Early Warning System (EWS) as part of its normal upgrading and development. The measures were carried out to (i) implement specific recommendations of the supervisory authorities as part of the supervisory dialogue; (ii) increase the speed and effectiveness of the system is identifying imbalances, taking account of the experience acquired since the creation of the Group; and (iii) pursue the goal of increasing the integration of the EWS within the Group's various risk management processes.

With regard to implementation of the EWS framework, the work done in 2021 involved activities to implement the system architecture in order to conduct ongoing monitoring of the risk profile of the affiliated banks and quarterly reporting to corporate boards. The findings of these activities indicated that the affiliated banks were in an overall condition of financial and operational balance. Any affiliated banks that display signs of distress are the focus of the remedial mechanisms established in the Cohesion Contract, which provide for de-risking initiatives and other efforts to restore equilibrium. Mutual banks classified as under "supervised" or "coordinated" management are subject to specific directives and guidance establishing remediation plans and actions to be adopted, and the targets to be reached, in order to improve their respective risk profiles.

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

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

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

On-site inspection – Capital Adequacy

The supervisory authorities conducted an on-site inspection at Iccrea Banca S.p.A. from September 30 to November 24, 2021, involving an assessment of the appropriate calculation of capital ratios (capital adequacy), with a particular focus on risk-weighted assets (RWAs) for credit risk at the consolidated level, governance and internal policies for the calculation of capital requirements, the reconciliation process and data quality assurance, the appropriate credit risk weighting for specific portfolios, as well as the credit risk mitigation framework (guarantees of new loans and real estate guarantees).

The outcome of the inspection, which was disclosed in the first quarter of 2022, did not find any particular issues overall, although a number of weaknesses in oversight systems were identified, substantially acknowledging the progress made by the Group in the overall governance of its capital position. The Parent Company promptly initiated remediation actions (some of which were already under way before the inspection was even begun) in order to eliminate the shortcomings found during the inspection.

EVOLUTION OF THE REGULATORY AND OPERATIONAL ENVIRONMENT AND ASSOCIATED PROJECTS

With regard to organizational and procedural compliance activities, see the main regulatory developments in 2021 included the following.

Environmental, Social and Governance (ESG) and climate change

On March 10, 2021, Regulation (EU) 2088/2019, known as the Sustainable Finance Disclosure Regulation (SFDR), went into effect for European Union Member States.

The SFDR establishes a harmonized set of transparency regulations for financial market participants and financial advisers with regard to the integration of sustainability risks and consideration of the negative effects on sustainability in internal processes and in the sustainability-related disclosures provided on financial products. The regulation also introduces a series of obligations for disclosures to be published on websites and in service agreements.

This regulation applies to companies of the Group that:

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

Therefore, the Parent Company has issued guidance and other support aimed at ensuring that it is consistently applied by the companies involved.

The European Commission has adopted a package of important measures, known as the April 2021 Package, which has a significant impact on the industry’s main regulations and directives (SFDR, MiFID II, IDD, UCITS, AIFM) with the goal of guiding capital towards sustainable businesses, thereby helping to pursue the goal of Europe’s Green Deal to make the EU climate neutral by 2015 through a growth model that is inclusive and has a low environmental impact. As a result, the following have been published in the Official Journal of the European Union:

- Delegated Regulation (EU) 2021/1253 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organizational requirements and operating conditions for investment firms. This regulation amends the Markets in Financial Instruments Directive (MiFID II) to include, firstly, the preferences of the customer in terms of sustainability in adequacy assessments (and investment firms must take account of these preferences when selecting the right financial instruments for their customers) and, secondly, sustainability risks in organizational requirements. The measures are to go into effect on August 2, 2022;
- Delegated Regulation (EU) 2021/1257 amending Delegated Regulations (EU) 2017/2358 and 2017/2359. Both of these regulations include Directive (EU) 2016/97 of the European Parliament and of the Council, the Insurance Distribution Directive (IDD), by way of additional specifications regarding the product’s requirements of governance and control for insurance firms and other distributors of insurance products and regarding the requirements of disclosure and conduct applicable to the distribution of insurance-based investment products (IBIPs). The measures are to go into effect on August 2, 2022;
- Delegated Directive (EU) 2021/1269 amending Delegated Directive (EU) 2017/593 (MiFID II), clarifying that sustainability factors and sustainability goals must be considered in the process of approving financial instruments and in other governance obligations and controls for financial instruments to be distributed to customers that express objectives and preferences related to sustainability. The measures are to go into effect on November 22, 2022;
- Delegated Directive (EU) 2021/1270, based on the results of the technical consultation provided by the ESMA in relation to the obligation to include sustainability risks and other factors within the scope of the UCITS IV Directive, amends Directive 2010/43/EU to specify the duties of management companies. In addition, the delegated directive also clarifies certain implications related to disclosures concerning consideration of negative effects on sustainability in accordance with Regulation 2019/2088 (SFDR). The measures are to go into effect on August 1, 2022;
- Commission Delegated Regulation (EU) 2021/2139 of June 4, 2021, supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council (the Taxonomy Regulation) by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.

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

On June 23, 2021, in line with the previous consultation initiated by the EBA in October 2020, the European Banking Authority published its report on the management and supervision of ESG risks for credit institutions and investment firms. While consolidating the positions expressed in relation to the methods by which ESG risk and other factors are to be included in the legislative and regulatory framework of credit institutions and investment firms and focusing specifically on Pillar 2, this report develops a definition of ESG risk based on the EU taxonomy and provides recommendations for credit institutions and investment firms on how to integrate ESG risks into their business strategies and processes, in internal governance, and in their overall framework of risk management. It is also specified that the report is to be used as the basis for developing specific guidelines for managing ESG risks by actively taking into consideration the content of the report and related recommendations.

Commission Delegated Regulation (EU) 2021/2178 of July 6, 2021, supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation, was published in the Official Journal of the European Union on December 10, 2021. These provisions are to apply gradually beginning on January 1, 2022, limited to certain factors and to qualitative disclosures, whereas the remaining provisions are to go into effect beginning on January 1, 2023, for non-financial enterprises, and on January 1, 2024, for financial undertakings.

On December 8, 2021, the European Central Bank published an updated guide to fit-and-proper assessments for members of corporate boards. This update introduces requirements regarding the knowledge of climate and environmental risks and the promotion of diversity as factors underlying collective fit-and-proper assessments for corporate boards.

On July 13, 2021, following the creation of the InvestEU Fund by way of Regulation (EU) 2021/523 of March 24, 2021, the European Commission published its technical guidance on sustainability proofing for the InvestEU Fund. This fund should help to improve the competitiveness and socio-economic convergence of the EU, including in the areas of innovation and digitalization, while promoting an efficient use of resources within a circular economy, all with a view to sustainability and inclusivity.

Finally, to promote the recovery from the economic crisis brought about by the COVID-19 pandemic, as well as to support the European Green Deal and prepare Europe for the digital age, it has been deemed necessary to promote access to financing. In this regard, on December 6, 2021, the European Commission released its guidelines on State aid to promote risk finance investments, as published in the Official Journal on December 16, 2021, which state that access to financing must continue to be a priority both domestically and throughout the EU.

With regard to Italian legislation, the Ministry for the Ecological Transition, in concert with the Ministry of Infrastructure and Sustainable Mobility, have adopted guidelines for the preparation and implementation of commuter plans. Decree Law 34 of May 19, 2020 (the “Relaunch Decree”), converted into Law 77 of July 17, 2020, on measures to promote sustainable mobility, aims to reduce commuter traffic in private vehicles and defines measures aimed at redirecting commuter traffic to alternative, sustainable forms of transport other than vehicles with a combustion engine, based on an analysis of commuter traffic, of the needs of commuters, and of the transport offering across the territory concerned. The commuter plan also defines the benefits that can be achieved by implementing its various measures, both for the employees involved in terms of travel time, costs and comfort and for the business or public body that adopts them in terms of productivity and cost-effectiveness, in addition to the environmental, social and economic benefits for the community as a whole.

In this regard, the Parent Company has guided definition of its commuter plan by promoting a survey for all employees of the Group.

As mentioned, on September 17, 2021, the Parent Company approved the Charter of Commitments to the Environment and Climate Change, which has been adopted by the Group’s affiliated banks and companies within the direct scope. In accordance with the Sustainability Plan, the Charter of Commitments to the Environment and Climate Change defines the Group’s commitment in relation to direct and indirect environmental impacts by developing a plan of action that pursues impact reduction, while promoting virtuous actions and conduct and disseminating a culture of environmental protection within our sphere of influence. The responsible, sustainable growth of the communities in which we operate and our propensity to stand out for our social commitment and our desire to build the common good, as defined under Article 2 of our articles of association, are an inextricable part of the Group’s mission. In accordance with the principle of community service, the Group embraces the paradigm of Integral Ecology, which is inseparable from the concepts of common good and community service.

The Parent Company constantly monitors changes in applicable laws and regulations and takes the necessary action to implement these changes in our policies, strategies, procedures, and associated structures of governance. Alongside these activities, we participate in working groups of the Italian and European banking industry concerning these changing laws and regulations that give shape to the prevailing regulatory framework.

New prudential rules

In 2021, a number of prudential measures set out in laws and regulations enacted in previous years have now gone into effect. In particular, the measures defined by Regulation (EU) 2019/876 (CRR2), which transpose into EU legislation a number of additional aspects defined by the Basil Committee regarding capital and liquidity requirements, went into effect on June 27, 2021, as summarized below:

- introduction of a minimum leverage ratio for tier-1 capital of 3% as a prudent requirement under the first pillar;

- introduction of the 12-month net stable funding ratio (NSFR), calculated as the ratio of stable available funding to stable funding required, as a mandatory requirement that must exceed 100% and be reported quarterly;
- definition of the new standardized approach for counterparty credit risk (SA-CCR), which involves calculating the risk-weighted assets for banks that possess derivatives with a total notional value of greater than €100 million;
- revision of the prudent handling of positions in UCIs, based on which these units/shares (regardless of whether they are on or off-balance-sheet) are to be weighted by applying – according to a specific hierarchy – specific new measurement approaches (i.e. the look-through approach, or LTA, the mandate-based approach, or MBA, and an approach based on third-party calculations) characterized by different levels of sensitivity to risk (based on the general principle by which the availability of more or better information allows for a lower capital requirement). There is also the fallback approach (FBA) that calls for application of a 1250% risk weight in the event none of the approaches specified above are feasible.

Since June 2021, in accordance with the entry into force of this regulation, Group members follow the project initiatives coordinated by the Parent Company and the solutions and guidelines defined by the Parent Company for the purpose of adapting their risk management and measurement systems. In this regard, the new approaches to determining the risk weight to apply to exposures in UCIs and the SA-CCR for operations in derivatives have also been adopted. This approach is also used for the entire derivatives portfolio in order to determine the exposures subject to counterparty credit risk that are used to feed the calculation of the leverage ratio and for the reporting of major exposures.

In October 2021, the European Commission issued its 2021 Banking Package, which completes implementation of the Basil III reforms within the European Union and includes significant measures for the inclusion of ESG risks in the risk management processes of banks and in the Supervisory Review and Evaluation Process (SREP). More specifically, the Commission's proposal transposes into the CRR (CRR3) and into the CRD (CRD6) the standards approved by the Basil Committee at the end of 2017, specifically as concerns the handling of the main risks (i.e. credit, market, and operational risk) and the "output floor". It also contains information on the measurement of climate risks and on their inclusion in the prudent supervisory review and evaluation process.

This banking package is currently being discussed by European legislators (the Parliament and the Council) within the scope of the "trilogue".

The directive must be transposed within 18 months of its publication in the EU Official Journal, whereas the new provisions of the CRR will need to go into effect, with the exception of certain measures intended solely to clarify prevailing legislation, as of January 1, 2025 (i.e. two years beyond the date set by the Basil Committee, which, in turn, had been postponed by one year from the original implementation calendar as a result of the pandemic). Taking account, too, of the various transition periods and temporary regulations, these new rules will be fully operational well after 2030.

The Commission's proposed legislation is, on the whole, faithful to the standards of the Basil Committee, although with certain specific, significant deviations.

As concerns the changes to the CRR, in relation to credit risk, we should note, first of all, the maintenance of the SME supporting factor[33], which reduces capital requirements for loans issues to small and medium enterprises.

A new, more detailed governance of the conversion factors applicable to off-balance-sheet exposures is to be introduced, as is a stricter handling of unconditionally cancellable commitments (such as recovable overdraft lines of credit) – although with an extensive transitional regime – which will result in a capital requirement (unlike current rules), which may have a significant impact on Italian banks that make extensive use of these forms of credit as financing for SMEs and consumers.

The handling of mortgage-backed loans is being entirely overhauled in line with the Basil standard. In this regard, the category of land acquisition, development, or construction (ADC) is to be introduced for both residential and commercial property and will be subject to a risk weight of 150% because the source of repayment at the time of loan origination is tied to a planned, but not certain, sale of the property or other substantially uncertain cash flows.

The handling of exposures in equity instruments[34] and subordinated debt subscribed by banks has also been significantly updated. Here, too, the increase compared with current risk weights is very gradual.

With regard to operational risk, the new Basil rules, which replace the risk-based approach for internal models (the Advanced Measurement Approach) with a single, standardized approach, are to be applied for all banks. Based on the Basil standard, the capital requirement is a function of the size of the individual banks and, only for mid-sized to large banks, of the past history of losses from operational risk. However, the Basil Committee grants the individual jurisdictions the option not to consider this latter component, and the Commission has included this option in their proposal.

[33] Introduced by the CRR and significantly expanded by the CRR2 (while also moving forward its efficacy by way of the "quick-fix" regulation of 2020 issued within the scope of measures implemented in response to the Covid 19 pandemic).

[34] Without prejudice to the rules for application of the deductions allowed under Article 36, the risk weights for equity instruments are currently 1005 for exposures handled with the standardized approach (150% for exposures in private equity and venture capital). With the proposed legislation, investments in equity instruments require application of a risk weight of 250% (400% if held for trading), whereas the risk weight remains at 100% for equity investments in central banks. The increase compared with current values is to take place gradually, maintaining current values until 2025 and increasing linearly each year until reaching the final figures in 2029. A reduction in risk weight for exposures in capital instruments of unlisted companies and venture capital that the bank intends to hold for at least 3 years has also been proposed. Finally, the current regime (for standard banks) is to be maintained for exposures in capital instruments held by the bank for at least 6 years at the date in which CRR3 goes into effect involving counterparties over which the bank exercises significant influence.

With regard to market risk, the Commission's proposal fully endorses transposition of the Fundamental Review of the Trading Book (FRTB), which had thus far only been introduced in Europe (with the CRR2) for reporting purposes.

As concerns credit value adjustment (CVA) risk, the proposed legislation confirms current European legislation, which deviates from the Basil standard and exempts exposures in intercompany derivatives and exposures with sovereign issuers, non-financial entities, and pension funds as the counterparty from the calculation of capital requirements. However, for monitoring purposes, it requires banks to report the capital requirement that would be associated with the exempt exposures, even though that capital requirement is not mandatory.

In this package of reforms, the Commission has also included a proposed regulation that impacts certain, limited aspects concerning the minimum requirement for the absorption of losses and the recapitalization of insolvent banks. The primary purpose of these proposed changes is to enable the branches of a group subject to the single point of entry strategy to meet their internal MREL requirement with instruments subscribed not only directly by the parent company, but also by "daisy-chained" companies within the chain of control.

As mentioned, among the significant changes in this proposed legislation there are rules concerning ESG risks that concern disclosures under the third pillar (currently required only for large listed banks[35]), the inclusion of ESG risks in the internal capital assessment processes of banks and in internal policies of governance (second pillar), and the obligation to develop transition plans (to monitor and manage risks related to the misalignment of company strategies with the EU climate goals). With regard to ESG issues, the role of the EBA will be crucial, as the authority is granted various powers to issue guidelines on the content of transition plans, to develop technical standards for ESG risk disclosure models (in line with the principle of proportionality), and to define (together with ESMA and EIOPA) the approaches for the stress testing of ESG risks (giving priority to climate risks).

On this last point, in late January 2022, the ECB began the first bottom-up climate-risk stress test (CST).[36] This has been a learning exercise both for banks and for the supervisory authorities aimed at improving the quality and availability of data so that the authorities can better understand the stress-testing structures that banks are using to assess climate risk. The results of this stress testing is to be integrated into the Supervisory Review and Evaluation Process (SREP) using a qualitative approach, without any direct impact on capital by way of Pillar 2 Guidance.

Lending

Decree Law 73 of May 25, 2021, as amended and ratified with Law 106 of July 23, 2021, on urgent measures in response to the COVID-19 emergency for businesses, employment, young people, health care, and local services introduced changes that have an impact on various areas. These changes include: suspension of the cashback program as established by decree of the Ministry for the Economy and Finance (Article 11-bis); the simplification and refinancing of the "New Sabatini" measure established under Article 11-ter to accelerate the disbursement of investments in production by micro-, small and medium-sized businesses; the authorization granted to Invitalia until December 31, 2021, to subscribe financial instruments pursuant to Article 26 of Decree Law 34/2020, limited to requests submitted by June 30, 2021.

With regard to secondary legislation, on July 20, 2021, the Bank of Italy published its 36th update to Circular No. 285/2013 on supervisory measures for banks in order to transpose and implement within Italy the EBA guidance on the granting and monitoring of credit. These changes ensure agreement between the provisions concerning corporate governance, systems of internal control, and the risk management process contained in Circular 285 and those of the EBA guidance, which specify aspects of bank governance related to the granting of credit and the entire loan life cycle.

On October 14, 2021, the Bank of Italy published the 20th update to Circular No. 139 of February 11, 1991, on the central credit register, establishing that anyone making false statements when requesting data from the register via the online services platform (on the website of the Bank of Italy) and SPID/CNS authentication shall be barred from submitting further requests via this platform for a period of two years (whereas the other channels shall remain active). Any subsequent false declarations made after this period will result in permanent suspension. The circular also specifies that banks and other registered financial intermediaries, as defined by Article 106 of the Consolidated Banking Act, that are undergoing compulsory or voluntary liquidation are to participate in the central credit register by way of a specific measure of the Bank of Italy, pursuant to Articles 84(3) and 96-quinquies(4) of the Consolidated Banking Act, where said participation is necessary for the informational needs of the register or in order to carry out the liquidation.

On November 11, 2021, the supervisory authority published a document on its website concerning the risk profiles and supervisory guidelines for servicers in securitizations.

The following other measures are also of note:

- Decree of the Ministry for the Economy and Finance No. 114 of May 25, 2021, establishing regulations on the register of pledges on securities without dispossession;
- Decree of the Ministry for Economic Development of July 2, 2021, on the acceptance of applications for financing for the purchase of capital goods by SMEs;

[35] The main change introduced in the Commission's proposal is the extension of the disclosure obligations concerning ESG issues to all financial intermediaries (i.e. banks and investment firms subject to prudent banking regulations), including the less significant banks. For small, uncomplicated entities, the proposal calls for annual reporting, rather than semi-annual.

[36]https://www.bankingsupervision.europa.eu/press/pr/date/2022/html/ssm.pr220127~bd20df4d3a.en.html?utm_source=ecb_twitter&utm_campaign=220127_pr_climate_stress_test.

- Decree of the Ministry for Economic Development of July 19, 2021, amending the decree of February 14, 2017, on conditions and means of access to financing under the revolving fund for the support of enterprises operating in the social economy and of investments in research.

Finally, Directive (EU) 2021/2167 of the European Parliament and of the Council was published in the Official Journal of the European Union on December 8, 2021. This directive governs the management and purchase of non-performing loans (NPLs) with the intent of promoting the development of secondary NPL markets in the EU by harmonizing national legislation regarding the collection and sale of NPLs. The directive amends Directives 2008/48/EC (CCD) and 2014/17/EU (MCD) by requiring Member States to introduce specific governance and disclosure requirements for lenders. More specifically, lenders are required to (i) establish adequate policies and procedures so that they make efforts to exercise, where appropriate, reasonable forbearance before enforcement proceedings are initiated and (ii) provide consumers with a clear and comprehensive list of proposed changes to the terms and conditions of a credit agreement, the timescale for their implementation, and the information needed to file a complaint prior to implementing said changes. The MCD also expressly states that, in the event of the transfer of a mortgage loan, consumers are entitled to plead against the credit purchases any defense which was available to them as against the original creditor and to be informed of the assignment. By December 29, 2023, Member States must adopt the legislation and regulations needed to comply with the directive. These measures go into effect on December 30, 2023. Italian legislators will need to carefully assess the transposition of this new directive into national law, particularly with regard to the Italian Civil Code, Title VI of the Consolidated Banking Act, Law 130 of April 30, 1999, on the securitization of loans, and Bank of Italy Circular Nos. 288 of April 3, 2015, and 285 of December 17, 2013, for banks and other financial intermediaries pursuant to Article 106 of the Consolidated Banking Act.

EBA Guidelines on Loan Origination and Monitoring (LOM)

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

Regulations governing issuers

CONSOB Resolution 21640 of December 15, 2020, entered force on January 1, 2021. The resolution includes provisions concerning obligations to provide CONSOB with access to structured data regarding packaged retail and insurance-based investment products (PRIIPs), some of which take effect from the date of entry into force of the entire resolution, while others take effect as from January 1, 2022 (the obligations of creators of PRIIPs for the distribution in Italy of products launched from the date of entry into force and of creators of PRIIPs that will be publishing the revised versions of KIDs on their websites beginning on that same date in accordance with Delegated Regulation (EU) 2017/653).

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

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

Legislative Decree 17 of February 2, 2021, entered force on March 11, 2021. With this legislation, the Italian government amended the Consolidated Finance Act transposing the provisions of Regulation (EU) 2017/1129 regarding the prospectus to be published for public offers or for authorizations for public listing.

During 2021, Regulation (EU) 2017/1129 was also amended with the following measures:

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

On September 9, 2021, CONSOB Resolution no. 21990 concerning the definition for 2021 of the parameters referred to in Article 89-quater of the Issuers' Regulation, adopted with CONSOB Resolution no. 11971/1999. Pursuant to the third paragraph of that article, CONSOB is required each year to specify the parameters (proposing new ones, also in consideration of the effects of the COVID-19 pandemic on financial reporting, and retaining others already specified for 2020) representing risks to the accuracy and completeness of the information provided to the market in order to identify the listed issuers whose documents shall be subject to an audit of the financial information provided to the public.

On December 23, 2021, CONSOB published Resolution no. 22144 (in force as from December 31, 2021) concerning amendments to the Issuers' Regulations for the adaptation of the provisions on prospectuses to the new provisions introduced with Legislative Decree 17/2021 transposing Regulation (EU) 2017/1129 (the "Prospectus Regulation") into national law. The decree provides for the repeal of certain provisions that overlapped those of the European regulation, maintaining those relating to the public offer of financial products that do not fall within the scope of application of the Prospectus Regulation, as well as introducing the specification by CONSOB of the procedures and deadlines for acquiring documentation on advertising activities connected with an offer to the public, with which all intermediaries shall comply.

On December 24, 2021, CONSOB published a notice on its website regarding the application of the Prospectus Regulation and the revocation of CONSOB communications adopted in accordance with the Prospectus Directive. More specifically, a survey and analysis of CONSOB guidelines falling within the scope of the rules governing offers to the public found that the most recent European regulatory measures have rendered certain communications obsolete, leading to their repeal. The repeals with an impact for Group companies include the following: Communication no. 11021864 of March 24, 2011, concerning "Advertising relating to offers to the public or admission to trading on a regulated market of non-equity financial products. Applicable rules and recommendations" and Communication no. 12054742 of June 29, 2012, concerning the "Entry into force of Regulation (EU) no. 486/2012 - Base prospectus, final terms and summary - Operating instructions".

Finally, the following documents are at the consultation or final draft stage:

- a Community Directive and Regulation amending certain directives and regulations concerning the establishment and operation of the European Single Access Point (ESAP);
- amendments to the Issuers' Regulation regarding prospectuses with regard to the alignment of the time limits for approval of the prospectus with European legislation, strengthening of the prefiling phase, and preparation of the prospectus in English for offers promoted in Italy as the Member State of origin.
- EU regulation on the European green bond standard.

The Group monitors regulatory developments closely, promptly taking all necessary steps for the consequent implementation in its procedures.

Insurance distribution

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

On March 31, 2021, the following secondary legislation also entered force:

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

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

As regards new national regulations, following ruling no. 7549 of the Lazio Regional Administrative Court of June 23, 2021, which resulted in the abrogation of certain provisions of IVASS Measure No. 97/2020, on August 9, 2021 the supervisory authorities amended Regulation no. 40/2018 containing provisions on insurance distribution.

Finance and markets

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

- Delegated Regulation (EU) 2021/236 concerning bilateral margin requirements (OTC), amending Delegated Regulation (EU) 2016/2251 regarding the timing of when certain risk management procedures will start to apply for the purpose of the exchange of collateral;
- Delegated Regulation (EU) 2021/237 concerning the clearing obligation for OTC derivatives between parties within the same group, one of which within the European Union and one outside the EU, and OTC contracts novated due to Brexit. In order to ensure the smooth functioning of the market and a level playing field between counterparties established in the EU, the Commission determined that counterparties may replace counterparties in the United Kingdom with counterparties in a Member State without triggering the clearing obligation. To this end, the counterparties must have enough time to replace their counterparties in the United Kingdom; therefore, the date from which the clearing obligation may go into effect for the novation of these contracts has been deferred.

Other developments in the area of finance and markets also include the ESMA Guidelines on the reporting of securities financing transactions, pursuant to Articles 4 and 12 of the SFTR, published on 29 March 2021.

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

On March 31, 2021, CONSOB Resolution No. 21755, amending Title IX, Part II, Book III of the Intermediaries Regulation regarding the knowledge and skill requirements for the personnel of intermediaries, took effect, significantly revising existing legislation (repeal of Articles 79-82 and amendment of Article 78 of the Intermediaries Regulation), substituting regulatory requirements and establishing, where necessary, references to the relevant points of applicable ESMA guidelines. This approach leaves it to intermediaries to decide - on the basis of a principle-based approach –the most appropriate operating procedures to enable effective compliance with the standards envisaged at European level, the definition of internal organizational processes most suitable to ensuring the professional training and updating of employees, without prejudice to the specific instructions to be followed in the initial assessment of compliance with the knowledge and skill requirements for personnel in order to qualify to provide information to customers or advice on investments.

Other amendments of note introduced with this CONSOB resolution concerned: (i) a general reduction in the length of experience needed to perform the relevant services, adjusted based on the individual's education, while eliminating the option of reducing by half the statutory minimum experience required in order to perform the relevant services, which is now limited to those who began working prior to the entry into force of the new resolution (March 31, 2021); (ii) elimination of the provision concerning the minimum number of hours of career training per year and of the requirements for how that training is provided; (iii) coordination of the various parts of the Intermediaries Regulation concerning the knowledge and skill requirements, particularly as concerns the provisions applicable to certified financial advisers and independent financial advisers. On September 6, 2021, Delegated Regulation (EU) 2021/2268 was issued amending the regulatory technical standards laid down in Commission Delegated Regulation (EU) 2017/653 as regards (i) the underpinning methodology and presentation of performance scenarios, the presentation of costs and the methodology for the calculation of summary cost indicators, the presentation and content of information on past performance and the presentation of costs by packaged retail and insurance-based investment products (PRIIPs) offering a range of options for investment; and (ii) the extension to June 30, 2022 of the transitional arrangement already defined for investment funds referred to by Article 32 of Delegated Regulation 2014/1286, as a result of which, therefore, PRIIP manufacturers offering investment funds as investment options underlying the pre-assembled financial product will be able to continue to use the KIIDs of these funds until June 30, 2022 (drawn up in accordance with Articles 78-81 of the UCITS IV directive) to draw up the KIDs of the PRIIPs.

On November 18, 2021, ESMA presented its final report on the draft regulatory technical standards (RTS) amending Delegated Regulation (EU) 2015/2205, which specifies the categories of over-the-counter (OTC) derivatives subject to the clearing obligation, and Delegated Regulation (EU) 2017/2417, which specifies the OTC derivatives subject to derivative trading obligations.

On November 19, 2021, ESMA published its final report (ESMA70-156-4710) on a package of delegated acts (2 RTSs and 1 ITS) concerning the regulation of commodity derivatives, exercising the mandate granted to it with Directive (EU) 2021/338 amending obligations regarding customer disclosure, product governance and derivative position limits established with Directive 2014/65/EU (MiFID II).

The Group monitors regulatory developments in this area on an ongoing basis to ensure the timely and compliant integration of such changes within internal rules and procedures.

Collective investment and pension funds

In 2021, COVIP issued the following resolutions:

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

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

On December 20, 2021, Regulation (EU) 2021/2259 amending Regulation (EU) no. 1286/2014 regarding the extension of the transitional arrangement providing from an exemption from the obligation to provide a KID (document containing key information on retail investment and pre-assembled insurance products) to retail investors was published in the Official Journal of the European Union.

On December 29, 2021, the Measure of December 23, 2021 containing the 3rd update of the regulation on collective asset management, referred to in the Bank of Italy Measure of January 19, 2015, was published in the *Gazzetta Ufficiale della Repubblica Italiana*, aligning the Bank of Italy's current regulations on collective asset management with the ESMA Guidelines on performance fees in UCITS and certain types of AIFs of November 5, 2020.

The Group monitors regulatory developments in this area on an ongoing basis to ensure the timely and compliant integration of such changes within internal rules and procedures.

Benchmark indices – Benchmark Regulation

Regulation (EU) 2021/168 of the European Parliament and of the Council (the Benchmark Regulation) concerning the replacement and use of the benchmark indices of third-countries took on February 13, 2021, amending Regulation (EU) no. 2016/1011 of the European Parliament and of the Council of June 8, 2016, with regard to the exemption of certain third-country spot foreign exchange benchmarks and the designation of replacements for certain benchmarks in cessation and Regulation (EU) no. 648/2021 with regard to Article 13-bis concerning amendments to legacy contracts for the purpose of the implementation of benchmark reforms. The new Regulation enables the European Commission to assign a statutory rate to replace a critical or systematically material parameter should it not be published in the future, which is applicable when the contract does not include a fallback clause or such clause is inadequate.

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

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

On October 22, 2021, the following Delegated Regulations (EU) of the European Commission implementing the Benchmark Regulation were published in the Official Journal of the European Union:

- Delegated Regulation (EU) 2021/1847 on the designation of a statutory replacement for certain settings of CHF LIBOR;
- Delegated Regulation (EU) 2021/1848 on the designation of a replacement for the benchmark Euro overnight index average.

In relation to these changes, the document "EUR RFR Working Group Statement on Preparedness for the Cessation of EUR, GBP, CHF and JPY LIBORs and EONIA, and ceasing use of USD LIBOR in new contracts, at the end of 2021" was published on the ESMA website on December 17, 2021.

Furthermore, to address the exceptional circumstances connected with the significant economic uncertainty attributable to the COVID-19 pandemic, the following Guidelines were published on the ESMA website on December 7, 2021:

- Guidelines on the details of any methodology to be used to determine a benchmark in exceptional circumstances and related oversight and record-keeping requirements;
- Amendments to Guidelines on non-significant benchmarks in exceptional circumstances.

ESMA requested that general principles be specified for identifying exceptional circumstances that could lead to the use of an alternative procedure to calculate a benchmark, taking account of market volatility or unexpected trading interruptions.

With regard to the compliance activities and the impact of the above guidelines, please see the detailed information contained in Part A - Accounting Policies of the notes to the financial statements.

Data protection

The following legislative changes are of note with regard to data protection:

- on April 29, 2021, Italy's data protection authority issued a measure approving the code of conduct for the handling of personal data for the purposes of providing commercial information;
- on June 10, 2021, the authority issued its guidelines for cookies and other tracking mechanisms;

- on June 4, 2021, the European Commission adopted a new decision on the standard contractual clauses (SCC) related to the transfer of personal data outside the European Economic Area (EEA);
- on July 7, 2021, after an extended period of consultation, the European Data Protection Board (EDPB) adopted its Guidelines 07/2020 on the concepts of controller and processor;
- on December 17, 2021, the Decree of the Prime Minister amending the decree of June 17, 2021, on implementation of Decree Law 172 of November 26, 2021, regarding electronic “green passes”, was published in the Gazzetta Ufficiale delle Repubblica Italiana. This decree introduces measures regarding the handling of the personal data of employees, establishing that it must be done in accordance with the security measures and other technical and organizational procedures described in the decree.

Italy’s data protection authority also issued guidelines on the use of cookies and other tracking mechanisms, as published in the Gazzetta Ufficiale delle Repubblica Italiana on July 9, 2021 (applicable from January 9, 2022), along with guidelines on the examples of data protection violations of the European Data Protection Board (EDPD) 01/2021, adopted on December 14, 2021.

AML

With regard to anti-money laundering (AML), the “Guidelines on customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions” and the measure of the Bank of Italy of March 24, 2020, effective as of January 1, 2021, were published in 2021. The measure establishes new provisions for data and document archiving and availability to combat money laundering and the financing of terrorism.

The EBA’s guidelines on customer due diligence and on risk factors apply from October 26, 2021. These guidelines (i) define the risk factors that enterprises should take into account when assessing the risk of money laundering and terrorist financing (Mi/Tf) of its activities and various ongoing or occasional relations with any and all entities or persons and (ii) establish the procedures by which enterprises should match their customer due diligence to severity of the money laundering and terrorist financing risks identified. The most significant updates include: the strengthening of requirements for the assessment of Mi/Tf risk of organizations and individuals; the customer due diligence including new guidelines for identifying the actual business owners; clarifications on the factors of terrorist financing risk; the focus on emerging risks and the use of innovative solutions to identify and verify customer identities; financial inclusion in de-risking; the expansion of remote controls; and the addition of four new business segments (i.e. crowdfunding, PISP and AISP, currency exchange, and corporate finance).

The Parent Company has begun work to ensure that all companies of the Group make the necessary adaptations to this new legislation and to develop the related application functions.

Payment services and systems

The following Italian primary legislation was issued in 2021:

- Decree Law 77 of May 31, 2021, ratified Law 108 of July 29, 2021, on governance of the National Recovery and Resilience Plan (NRRP) and the streamlining of procedures. Of particular importance is a new rule aimed at governing the cashing of checks. In particular, this law establishes that, to cash a check, the endorsing party is authorized to attest to the conformity of the digital copy by way of a digital signature, when authorized by the bank to provide a digital copy of the check to be cashed. Finally, within the scope of measures to strengthen administrative capacity (Title VII), the new Article 66-quater concerns the reporting of banknotes or coins that are suspected of being counterfeit. More specifically, the changes concern the time period for the handlers of cash to comply with the obligation to transmit data for the removal of the suspected counterfeit banknotes and coins from circulation and the minimum amount of the fine for violations of this obligation;
- Decree Law 73 of May 25, 2021, ratified with Law 106 of July 23, 2021, establishing urgent measures related to the COVID-19 emergency for enterprises, employment, young people, health care and local services, transposing the “Sostegni-bis” decree, which called for the suspension until September 30, 2021, of bills of exchange and other bills that are enforceable within an expiration date.

The following secondary legislation was issued in Italy during the period under review:

- Decree of December 12, 2020, with which the Italian government defined the technical rules for the automated invoicing service;
- Ministry of Justice Decree 33 of January 1, 2021, amending Minister of Justice Decree 458 of November 7, 2001, establishing provisions on the functioning of the digital archive of bank and postal checks and payment cards.

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

The IT solutions for the late notification confirming payment of all debts in the Carter Segment of the interbank central credit register have been implemented in a timely manner. Work is also under way to define an operating process aimed at strengthening overall set of procedures, operations, and organization in relation to the central interbank register within the area of payment cards issued by the Parent Company and placed by the companies of the Group.

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

On December 14, 2021, the Bank of Italy measure of November 9, 2021, updating the measures on oversight of the payment system, implementing Article 146 of the Consolidated Banking Act, went into effect. The measure applies to wholesale and retail payment systems as well as to the technology infrastructures and networks of relevance to the national payment system.

On November 29, 2021, the Bank of Italy published a measure on the oversight of payment systems and technology infrastructure. The changes introduced aim to align the regulation to prevailing international supervisory standards (esp. the Principles for Financial Market Infrastructures, or PFMIs) and the enhance the operational and digital security of operators as risks in the payments industry evolve.

On June 23 and December 22, 2021, the Bank of Italy also published its communication to cash managers on the start of reporting by way of the CASH-IT portal.

Finally, the following documents have been made available by the Bank of Italy for consultation:

- Community guidance amending the guidance on the reporting of major incidents under PSD2;
- Measure of the Bank of Italy updating the supervisory provisions for payment system managers.

Transparency

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

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

On December 22, 2020, the Decree of the Ministry for the Economy and Finance established provisions for websites concerning the comparison of offerings related to payment accounts (published in the Gazzetta Ufficiale delle Repubblica Italiana, General Series, issue no. 67 of March 18, 2021, and effective as of March 19, 2021) in accordance with Article 126-*terdecies*, paragraph 3, of the Consolidated Banking Act, governing comparison websites aimed at promoting transparency and facilitating the comparison of offers to consumers concerning payment accounts.

On March 30, 2021, the Banking and Financial Arbitrator (ABF) published on its website an amendment to the paper-based procedures for filing appeals. In particular, beginning on April 1, 2021, in cases in which appeals must be filed in hard copy, certified electronic mail may also be used for transmission of the filing. As a result of this change, the guide *"ABF in parole semplice"* ("A simplified guide to the Banking and Financial Arbitrator"), along with the appeals form and related instructions for filing an appeal, were updated as of March 31, 2021.

Based on specific legislation (Section II, paragraph 2, of the Bank of Italy measure on the transparency in banking and financial services), which calls for the ABF guide applicable to the form published on the ABF website to be made available to the customer (or transmitted in electronic form upon request),

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

The changes introduced when ratifying Decree Law 73 of May 25, 2021 (the second "Support Decree") on the granting and monitoring of credit also brought changes to consolidated act on banking and lending (Legislative Decree No. 385 of September 1, 1993, known as the Consolidated Banking Act). In response to the economic effects of the health crisis and to make conditions of consumer credit more certain and transparent in order to support households, the newly issued Article 120-*quaterdecies*.1 of the Consolidated Banking Act, regarding home loans, introduced the possibility for the consumer to repay amounts due to the lender, in whole or in part, in advance at any time, with the right to reduce the total cost of credit in an amount equal to the interest and other costs payable for the remaining life of the credit agreement. For early repayments of credit agreements entered into prior to the date of efficacy of this law, the provisions of Article 125-*sexies* and the secondary legislation established in the Bank of Italy's provisions on transparency and supervision in effect on the date of signing the agreement continue to apply. On this issue, the Bank of Italy provided a number of clarifications in its communication no. 1710613/21 of December 1, 2021, on consumer credit and changes to primary legislation with regard to the early repayment of financing. In particular, this communication specifies that the guidance of December 4, 2019, is to be considered replaced by the new law (which makes no reference to this guidance) and that, until issuance of the ruling requested by the Court of Turin on the constitutionality of paragraph 2 of Article 11-*octies* of Decree Law 73 of May 23, 2021, the Bank of Italy will follow the new provisions of the law when performing its supervisory duties. For this reason, in relation to contracts falling under the applicability of Article 11-*octies*, paragraph 2, the Bank of Italy deems the conditions to implement the guidance of December 4, 2019 to not have been met. The Parent Company has consequently updated the contract documentation and internal regulations on transparency.

ICT

The following measures regarding information systems, disaster recovery, cybersecurity, digital signatures, and business continuity were issued in 2021;

- Presidential Decree 54 of February 5, 2021, establishing disclosure and appointment obligations for individuals within the scope of cybersecurity;
- Decree of the Prime Minister 81 of April 14, 2021, establishing measures for the reporting of incidents involving ICT assets and cybersecurity mechanisms.
- Law 108 of 2021, amending and ratifying Decree Law 77 of 2021. This law governs the National Recovery and Resilience Plan (NRRP) and introduces measures to strengthen administrative structures and to strengthen and streamline procedures. In implementation of the NRRP, the primary purpose of the law is to increase the efficiency of administration of public spending given the funding made available under the NextgenEU program. With regard to the digital transition, measures have been defined for the health care industry, education, and innovation in business, as have measures to promote digital communications and digital signatures;
- Legislative Decree 183 of November 8, 2021, transposing Directive (EU) 2019/1151 amending Directive (EU) 2017/1132 regarding the use of digital tools and processes in company law. Directive 2019/1151 aims to promote the freedom of businesses and citizens of the European Union and to reduce the cost, time, and administrative fees related to certain processes of company law. More specifically, the directive requires Member States to introduce laws aimed at regulating the online incorporation of certain types of companies, the online registration of secondary offices, and the online filing of documents and other information with legal validity.

The Decree of the Ministry for the Economy and Finance No. 100 of April 30, 2021, implementing Article 36, paragraph 2-bis *et seq.* of Decree Law 34 of April 30, 2019 (the “Growth Decree”), on the fintech committee and experimentation with financial technology, was published in the Gazzetta Ufficiale delle Repubblica Italiana on July 2, 2021. The goal is to take on the challenges that the growing spread of technological innovation applied to finance is bringing about. This will require coordinated regulations among the various authorities that promote innovation and remove the obstacles to the development of financial technologies, while ensuring market integrity and protecting the end users. On November 3, 2021, as a result of this measure, IVASS published the regulation on the adoption of the measures envisaged under the decree. On November 5, 2021, the CONSOB regulation governing the procedures for issuing the individual measures on experimentation in the banking, financial services and insurance industries in Italy was published in the Gazzetta Ufficiale delle Repubblica Italiana, and the Bank of Italy regulation governing the administrative procedures and processes that fall within the central bank’s purview was published in the Gazzetta Ufficiale delle Repubblica Italiana on November 10, 2021.

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

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

Remuneration and incentive systems

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

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

On October 29, 2021, the EBA published on the authority’s website the definitive version, in all the official languages of the European Union, of the its guidelines on sound remuneration policies (EBA/GL/2021/04), which will replace the EBA guidelines adopted in June 2016 (EBA/GL/2015/22). The revised version of the guidelines EBA/GL/2015/22 is based on the need to include all those innovations that the CRD5 brought to the legislation on remuneration policies. The main change brought about by CRD5 concerns the introduction of the principle of equal remuneration for men and women, including in accordance with the provisions of Article 157 of the Treaty on the

Functioning of the European Union.

On November 25, 2021, the Bank of Italy published its 37th update to Circular No. 285 of December 17, 2013, on bank supervision with regard to remuneration and incentives policies and practice, replacing Part One, Title IV, Chapter 2. The amendments seek to transpose the changes introduced by CRD 5 and the guidelines of the European Banking Authority implementing the directive (EBA/GL/2021/04), applicable as of December 31, 2021. The new provisions define the categories of banks and the amounts of variable remuneration to which certain specific rules do not apply, such as the minimum deferral periods, and expressly indicate who is to be included in the category of "key personnel", and namely: the members of the corporate body responsible for overseeing strategy and management and senior management; management personnel responsible for corporate control functions or at key companies or business units; and other employees who meet the conditions specified. Other changes concern the specification that remuneration systems are to be defined consistently with the objectives and values of the company, including the objectives of sustainable finance in line with environmental, social and governance (ESG) issues, and the introduction of a specific section concerning the gender-neutrality of remuneration policies. Finally, the deferral period for variable remuneration for all key personnel has been raised to 4-5 years (from the previous 3-5 years).

It should also be noted that, on July 19, 2021, the ESMA began a consultation – concluded on October 19, 2021 – with the goal of providing greater clarity on the requirements applicable to the legislation, while also promoting convergence on the implementation of certain aspects of the new remuneration requirements introduced by the MiFID II, thereby replacing the guidelines on this subject issued by the ESMA in 2013. The ESMA intends to public a final report and definitive guidelines by the end of the first quarter of 2022.

8. GROUP HUMAN RESOURCES

8.1 Composition of Group workforce

At December 31, 2021, the workforce of the Iccrea Cooperative Banking Group totaled 22,084 employees (21,624.6 FTE[37]), distributed as follows:

Category	Number of employees December 2021	FTE December 2021
Mutual bank employees	18,565	18,137.5
Iccrea Banca and direct-scope companies	3,476	3,444.1
Other companies	43	43.0
Total	**22,084**	**21,624.6**

In 2021, the Iccrea Cooperative Banking Group's workforce registered a net decrease of 58 employees (with 1,347 new hires and 1,405 terminations). This included 482 transfers between companies of the Group. The composition of the workforce by category and gender at December 31, 2021, is reported in the following table:

Position	Men	Women	Total
Senior management	366	28	394
Middle management	4,736	1,648	6,384
Office staff	7,640	7,666	15,306
Total	**12,742**	**9,342**	**22,084**
of which:			
On open-ended contracts	12,475	9,115	21,590
On fixed-term contracts	267	227	494

As a result of the agreement signed between the parties on December 22, 2020, the employees of the Parent Company and the companies within the direct scope were given the opportunity to terminate their employment relationship while receiving the extraordinary allowance paid through the Cooperative Credit Solidarity Fund in if they would meet the first pension requirements (old age pension or early retirement under Fornero rules) within 60 months of the period from April 1, 2021 to March 31, 2022. Overall, a total of 80 terminations were registered by the companies within the direct scope. Over the course of 2021, a further 25 employees terminated their employment to participate in the "Quota 100" early retirement incentive plan.

The workforce of the Parent Company experienced a net increase of 257 employees in 2021: 402 additions, 283 of which transfers from other companies of the Group; and 145 outgoing employees, 4 of which to other companies of the Group. Of the 283 transfers from other group companies, 221 were related to the centralization of Iccrea BancaImpresa's lending operations with the Parent Company, 21 were attributable to the centralization of the commercial network of the consumer credit company and 11 employees were allocated to central control functions. The 119 new hires from outside the Group were mainly involved the replacement of outgoing employees and additional implementations connected with organizational needs in relation to the new organizational and service model defined following creation of the ICBG.

Mergers among the affiliated banks in 2021, which were reported earlier, involved a total of 1,235 employees.

8.2 Remuneration and incentive policies

In 2021, the Parent Company, in compliance with regulatory principles and the Cohesion Contract with the affiliated banks, coordinated activities associated with personnel remuneration policies.

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

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

The document was approved by the shareholders of the Parent Company – based on a proposal by the Board of Directors – meeting in

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

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

The Group's asset management company, BCC Risparmio & Previdenza, has prepared its own remuneration and incentive policies, in compliance with the specific sector regulations and with the Group's Remuneration and Incentive Policy. The document was approved by the company's Ordinary Shareholders' Meeting of June 29, 2021 and is available on its website.

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

In 2021, the Parent Company, in compliance with regulatory requirements and the Cohesion Contract with the affiliated banks, also issued instructions concerning the identification of key personnel (so-called MRTs), relevant persons and credit intermediaries, the disclosure obligations under Article 450 of the CRR, the methods for calculating the Bonus Pool, and the collection of the information necessary for compliance with consolidated reporting/disclosure requirements (EBA and Pillar III).

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

Finally, following the publication of the 37th update of Circular 285 on November 24, 2021, the Parent Company has started the necessary activities to ensure the compliance of the Group's remuneration and incentive policies, taking advantage of the consultation conducted in this regard to submit specific queries concerning the reference context.

8.3 Labor relations

In 2021, labor relations activities were characterized by the continuation of discussions with trade unions with regard to procedures relating to the Parent Company and the companies within the direct scope, and the reorganizations and mergers of the affiliated mutual banks.

Issues related to the COVID-19 emergency were also addressed in systematic discussions at both the industry and Group levels. In compliance with the protocols agreed at government level with the social partners on the regulation of measures to contain the spread of the virus in the workplace and the subsequent agreements at the industry association level. The work of company-level committees has also continued for the application and verification of the rules developed at the government and industry level. In this regard, the trade unions and worker health and safety representatives were actively involved on the Safety Protocol Audit Committees and in updating of the COVID guidelines for the ICBG, bearing in mind the resurgence of the pandemic in the final part of the year.

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

As regards the main activities performed during the year, a significant effort went into managing the audit meetings called for by the trade unions regarding application of the agreement signed in December 2020 concerning the activation of the extraordinary benefits of the Solidarity Fund for mutual banks. These meetings provided an opportunity to discuss the outcome of the procedure, which, within the established cost limitations, saw the involvement of 93 employees in the Fund early retirement scheme, of whom 80 departed in 2021, in addition to another 25 who retired through the "Quota 100" early retirement mechanism.

Finally, the current Federcasse national collective bargaining agreement, which is applied at all Group companies, was renewed on January 9, 2019 and expired on December 31, 2019. On October 13, 2021, workers' organizations submitted a list of demands for the renewal of the collective bargaining agreement to the Federcasse trade union delegation. Discussions between the parties began in the following weeks and are continuing.

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

RISKS

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

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

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

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

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

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

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

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

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

The risks identified as significant and assessed are the following:

- credit risk: the risk of loss arising from the counterparty's failure to perform its contractual obligations due to inability to repay interest and/or principal (default risk). This category includes the risk arising from losses associated with the reduction in the market value of assets due to deterioration in the counterparty's credit rating (migration risk). One type of this risk is counterparty risk, i.e. the risk that the counterparty to a transaction could default before final settlement of the cash flows. This type of risk, which is bilateral (as both parties are exposed to it during the life of the contract), is characterized by the fact that the exposure, due to the nature of the agreement between the parties, is uncertain and may therefore vary over time in response to developments in market factors;

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

The periodic updating of the RAF and its operational implementation in the various analytical dimensions (i.e. the individual RASs) led to the definition of the Group Risk Appetite Statement, i.e. the risk strategy of the ICBG, for 2021, in line with the risk profiles included in the related framework. In particular, the updating of the Group framework strengthened the overall effectiveness of the RAF system for the purposes of application from a forward-looking perspective, through the identification of trajectories for sustainability thresholds for selected variables of the planning process over the plan horizon (2021-2023) similarly to the process adopted for objectives, thereby achieving full consistency between levels of maximum acceptable risk and the long-term objectives defined.

The ICBG risk strategy for 2021 underwent fine tuning in July 2021 and was monitored on an ongoing basis, reflecting the fact that, following the notification of the findings of the Comprehensive Assessment - the results of which were made public by the ECB on July 9, 2021 – and bearing in mind the changed macroeconomic environment and the extension to the end of the year of government support measures, those findings were incorporated into the risk strategy with prudential measures involving both the performing and non-performing components of the Group loan portfolio.

In terms of capital adequacy, work focused on optimizing the capital structure of the Group and the individual affiliated banks, with a view to convergence towards the levels found at comparable peers, in order to:

- ensure sound levels of capitalization at the affiliated banks in order to enhance their capital soundness and increase the potential for development or consolidation in sectors, markets and territories deemed of strategic interest by the Group;
- continue the gradual process of diversifying financial resources for compliance with solvency and MREL requirements;

- calibrating capital indicators at levels such as to ensure compliance with the levels expected by regulators (P2G and CCB) - even with the option of temporarily operating below these levels due to the COVID-19 emergency - preserving adequate prudential buffers to ensure stability in the changed external environment;
- continue (taking account of the findings of the Comprehensive Assessment) the Group's initiatives to enhance the efficiency of capital resources to allocate to the development of plan actions (development of internal models in the credit sector, RWA optimization, improvement of CRM techniques, etc.);
- increase the efficiency of financial leverage to support net interest income, making use of the facilities available under the latest monetary policy actions, and to position the Group leverage ratio at a level more in line with those found at comparable peers.

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

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

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

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

- efficiently managing at the Group level excess liquidity and the interest rate risk profile on the banking book in order to optimize the mismatching between Group assets and liabilities and minimize the sensitivity of net interest income and seek alternative returns from the market (e.g. use of ECB tiered facilities, greater penetration of asset management);
- completing initiatives involving the financial segment through consolidation of the operating model and the offer of asset management services.

Within the broader ESG program, the Risk Management function, taking account of the ECB expectations delineated in its Guide on climate-related and environmental risks, has launched initiatives to integrate ESG risks within of the risk management framework, with a particular focus on climate-related and environmental risks.

In particular, during 2021, project activities were focused on feasibility analyses and preliminary studies to define the main guidelines and reference framework for the design/implementation of the path of integration of these issues, underpinning the activities carried out during the year and serving as an input for the planning of further initiatives/activities for 2022.

Within this context, the analysis/feasibility activities conducted to develop an initial reference framework for the construction and set up of the information assets necessary for identifying the transition and physical risk profile of the Group were of special importance, in particular with regard to holdings of credit and financial assets. These activities were intensified in the last part of the year, partly in response to the launch by the supervisory authorities of the first Climate Stress Test (which will be conducted in the first part of the 2022). More specifically, "data gap" analyses were conducted, making it possible both to identify, as desired by the supervisory authorities, tactical solutions (for example through the use of proxies) to enable the complete execution of the Advanced Data Collection phase (ADC) required by the Climate Stress Test and to trace the target paths, which will be implemented in 2022 to consolidate the setup of information resources relating to climate and environmental risks.

At the same time, preliminary analyses were also carried out in 2021 to develop a reference methodological framework to identify the initial positioning of the Group's risk profile with respect to the transition risk and physical risk associated with the loan portfolio (including the real estate component held as collateral against physical risk) and the financial portfolio.

The initial consolidation and finalization of that methodological framework will, beginning with the 2022 RAF/RAS cycle, make it possible to integrate a profile dedicated to climate-related and environmental risks within the Group's risk appetite framework with the introduction of initial KRIs for monitoring purposes. At the same time, the results of this initial positioning will progressively be integrated within the other Group risk governance processes (i.e., ICAAP & ILAAP 2022, the management stress test framework, and the periodic update of the Group Recovery Plan).

UNCERTAINTIES

Political crisis and outlook for 2022

As discussed earlier, the invasion of Ukraine by Russia at the end of February has significantly changed the economic outlook for 2022. The scenarios that have opened up in the wake of the war are many and complex, with repercussions that extend beyond the economic realm. In world in which the transmission channels of the contagion are many, Europe is certainly the area most exposed.

Trade relations with Russia, although the country does not represent a major market for Italy (1.6% of exports) such as to represent in itself an obstacle to recovery, are in any case a critical factor for certain specific sectors of the Italian economy, such as machinery, clothing, footwear, and pharmaceuticals. Shortages of certain raw materials and semi-finished products in which Russia and Ukraine have a significant market share (for example, titanium, palladium, wheat and corn) could become significant as they represent important inputs for some product categories (cars, first and foremost, but also fertilizers and, more generally, the agricultural supply chain). Global supply chains that after the difficulties encountered last year appeared to have begun to normalize could therefore experience further interruption, placing manufacturing in serious difficulty.

Another aspect to consider concerns the financial repercussions of the sanctions on the capital movements of Russian banks, institutions and others, impacts that are difficult to quantify but potentially substantial.

The greatest impact, however, could be exerted by the increase in the price of gas and petroleum products, which were already under strong pressures in the second half of last year. Even in the event of a rapid resolution of the conflict, the strains on the prices of energy products, given the high dependence of Europe and Italy on imports from Russia, would remain high, with repercussions for domestic prices and, consequently, household consumption.

More generally, the entire framework of geopolitical arrangements that emerged after the end of the Cold War appears to be called into question. A framework of international economic and financial integration and an articulated multilateral structure that despite many difficulties have kept international dialogue and cooperation alive. Peace on the European continent, a crucial element of the balances that emerged after World War II, can no longer be considered a foregone conclusion. It is a profound and dramatic rupture, which can only lead to a shift in the geopolitical balance, however difficult its direction may currently be to discern, with an impact on the climate of confidence and social cohesion, that will inevitably be reflected in consumption behavior.

In the light of all this, while the high uncertainty of current conditions makes any short-term forecast extremely unstable, compared with the macroeconomic forecasts formulated at the beginning of the year, at least for 2022 average inflation will increase and GDP growth will be less robust. Nor can even more severe conditions be ruled out should the conflict between Russia and Ukraine continue indefinitely, with an additional downside impact on the growth prospects for the world economy in general and the European economy in particular

As mentioned earlier, the EU immediately adopted the largest sanctions package in its history against Russia in response to the aggression against Ukraine. Developments in the conflict are continuously monitored by the Parent Company, which issues specific operational instructions for the Group banks and their customers. These instructions have so far concerned incoming and outgoing payments, the financial assistance to be provided and the position to be held towards the risks to be assumed.

More specifically, after the imposition of international sanctions, the restrictions involved:

- the suspension, from March 11, 2022, of all outgoing payments to Russia and Belarus in all currencies, remaining open, for urgent commitments (e.g., humanitarian aid) involving payments in euros only, to evaluating the possibility of transmitting payments to correspondent banks whose internal policies are more restrictive and therefore to be assessed on a case-by-case basis;
- a freeze, in accordance with Regulations (EU) 328/2022[38] and 398/2022,[39] was placed on transactions raising customer deposits above the threshold of €100,000 euros, specifying the restrictions on the basis of subjective characteristics (e.g., Russian/Belarusian citizenship and lack of other characteristics exempting such persons from the freeze such as dual citizenship in another EU state);
- a freeze was placed on the purchase, sale or provision of investment services[40] or assistance in issuing, directly or indirectly, or any other trading of transferable securities and money-market instruments or transferable securities and market instruments issued[41] by certain credit institutions, legal persons, entities or bodies established in Russia, such as the main credit institutions charged with promoting the competitiveness of the Russian economy, including legal persons, entities or bodies that are more than 50% publicly owned or those that are more than 50% held, directly or indirectly, by listed parties or those acting on behalf or under the direction of the latter.

Furthermore, an initial identification of persons potentially of Russian citizenship having the subjective characteristics indicated above was performed, with the information being sent to the banks with specific instructions regarding the analysis to be performed in the authorization process in order to identify all customers potentially affected by the sanctions imposed by the European Union.

Similar measures were also implemented for relationships held by the asset management company for the same purposes.

A joint press release of the Bank of Italy, CONSOB, IVASS and UIF was published on March 7, 2021 in which, having drawn the attention of supervised entities to the need for full compliance with the sanctions imposed by the European Union in response to the situation in Ukraine, the authorities invited supervised entities to carefully consider their business continuity plans and to ensure the correct functioning and prompt restoration of backups. The importance of ensuring the separation of the backup environment from operating systems was also emphasized, encouraging entities to assess the possibility of providing offline backup solutions (i.e., systems not physically or logically connected to the network) for essential systems and data. The authorities invited supervised entities to pay constant attention to the updates issued by the Computer Security Incident Response Team - Italy.

As part of the overall management of cyber risk, security profiles and operational continuity, all these issues are addressed by the appropriate units of the Parent Company and the other companies involved, which in these circumstances are operating through a task force designated to track developments in the situation (which has been defined a “hybrid” cyber-operational resilience-operational continuity scenario) and implement the organizational and/or technical measures considered necessary to deliver existing or enhanced security levels and response times.

The measures taken by the task force include the following:

- a survey of IT suppliers connected with the Ukrainian situation and other IT suppliers of critical services potentially directly or indirectly impacted;
- an assessment of the applicability and possible fine-tuning of current operational procedures for responding to possible IT security incidents connected with the current situation;
- the strengthening of Internet traffic filtering systems for the automatic exclusion of anomalous inbound and outbound requests;
- increased monitoring of network traffic from abroad through an analysis of the geolocation of the source IPs in order to block, if necessary, internet traffic from specific risk areas (such as Russia, Ukraine or Belarus).

The risks within the global and operational environment therefore remain significant and on the downside for the outlook for economic recovery. While the health impacts connected with the pandemic gradually diminish, the difficulties faced by global value chains, the

[38] Council Regulation (EU) 2022/328 of February 25, 2022 amending Regulation (EU) 833/2014 concerning restrictive measures in view of Russia’s actions destabilizing the situation in Ukraine.

[39] Council Regulation (EU) 2022/398 of March 9, 2022 amending Council Regulation (EC) 765/2006 concerning restrictive measures in view of the situation in Belarus and the involvement of Belarus in the Russian aggression against Ukraine.

[40] Reception and transmission of orders in relation to one or more financial instruments; execution of orders on behalf of clients; dealing on own account; portfolio management; subscription of financial instruments and/or placement of financial instruments; investment advice; underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis; placing of financial instruments without a firm commitment basis; any service in relation to the admission to trading on a regulated market or trading on a multilateral trading facility;

[41] With a tenor exceeding 90 days and issued after August 1, 2014 to September 12, 2014 or with a maturity exceeding 30 days and issued after September 12, 2014 to April 12, 2022, or transferrable securities and money-market instruments issued after April 12, 2022.

increases in the prices of energy products and the high levels of debt have worsened significantly. The background also remains affected by the increase in poverty and social inequality, already exacerbated by the pandemic, and issues associated with the fight against climate change and the challenge of the costs associated with the energy transition, objectives that are increasingly impacted by the current energy emergency.

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

All the risks and uncertainties to which the Group is exposed undergo constant careful evaluation aimed at identifying the impact of changes in market parameters and conditions on the company’s performance, partly with a view to their representation in our financial reporting. For more information on the assessments of the main areas of the financial statements involved, please see the details provided in Part A – Section 5 – Other issues.

10. INTERNAL CAPITAL AND LIQUIDITY ADEQUACY ASSESSMENT PROCESS

Supervisory Review and Evaluation Process (SREP)

On January 24, 2022 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 March 1, 2022 (broken down into own funds requirements and qualitative requirements).

With this decision, which replaces the 2019 SREP decision that was applied for all of 2021 in view of the pandemic, the supervisory authorities established consolidated own funds requirements for the 2022:

- an additional Pillar 2 requirement (P2R) of 2.83% (of which 8 bps for the NPE P2R in reflection of calendar provisioning, 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 2022 the Iccrea Cooperative Banking Group is therefore required to meet:

- a Total SREP Capital Requirement (TSCR) of 10.83%;
- an OCR equal to 13.33%;
- a Target Requirement (including P2G) of 15.08%.

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.

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

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

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

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

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

At the consolidated level, the ICAAP assessments from the various perspectives considered (regulatory, internal rules and economic) found that capital was adequate over the entire time horizon of the baseline scenario.

More specifically:

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

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

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

Recovery Plan

The operational processes underlying preparation of the Recovery Plan were carried out at the consolidated level under the direct responsibility of the Parent Company. The Parent Company's Board of Directors is the body generally responsible for the Plan, whereas its implementation and management is defined in recovery governance principles and guidelines, which call for the involvement of the Risks Committee and other management bodies such as the Recovery Committee and the boards of directors of the subsidiaries and affiliated banks when involved in implementation of the Recovery Plan.

The Group has drawn up and maintains its Recovery Plan in line with the relevant regulatory provisions and in line with the Risk Appetite Framework it has adopted.

The updating of the Group Recovery Plan was completed at the start of 2022 and transmitted to the supervisory authorities. In this regard, the assessment/analysis performed in order to assess the Group's capacity to restore the performance and financial position of all Group companies in the event of highly adverse scenarios characterized by idiosyncratic and systemic risks also took account of the evolution of the COVID-19 emergency but not the new conditions created with the Ukraine conflict.

Minimum Requirement of Eligible Liabilities (MREL)

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

In March 2022, 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, to be achieved on a consolidated basis by the Resolution Group.

The decision provides for a minimum mandatory targets of 24.75% of the total risk exposure amount (including the combined buffer requirement of 2.5%) and 6.457 of the total exposure measure to be achieved by January 1, 2026.

With regard to the subordination requirement, Iccrea Banca is required to meet a requirement at the consolidated level by January 1, 2022 and January 1, 2024, with 16.0% of the total risk exposure amount (including the combined buffer requirement of 2.5%) and 6.40% of the total exposure measure.

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

At December 31, 2021, Iccrea Banca complied with the intermediate target for:

- the consolidated MREL, with a surplus of about €360 million;
- the subordination requirement, with a surplus of about €606 million.

Comprehensive Assessment of the ECB

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

In particular, the comprehensive assessment exercise consists of:

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

The results for the year were disclosed by the ECB on 9 July and highlighted the stability of the capital buffers compared with the minimums set in the AQR and Stress Test exercises.

Overall, the results of the AQR exercise found €1,683 million of extra-provisioning resulting from the following:

- €93 million linked to the "Credit File Review & Collateral Valuation" (CFR);
- €142 million linked to the "Projection of Findings", i.e. the projection of the CFR results for "Large SME" positions;
- €1.45 billion linked to the "Collective Provision Analysis", i.e. the adjustment of collective provisions, of which €382 million for the "Residential Real Estate" portfolio, €898 million for the "Retail SME" portfolio and €168 million for the "Large SME portfolio", mainly due to conservative adjustments made to the PD and LGD parameters.

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

As regards the stress test, consistent with the environment of profound uncertainty concerning the evolution of the COVID-19 pandemic, the exercise was based on conservative assumptions and maximum prudence, considering the scenario defined by the EBA, i.e. a reduction of Italy 2020 GDP of 13% compared with Italian 2019 GDP in the "Adverse" scenario and one of 9% in the "Baseline" scenario (for the other significant banks, the stress tests conducted in 2021 provided for a reduction in GDP on 2020 of 0.7% in the "Adverse" scenario and growth of 3.5% in the "Baseline" scenario), taking account of the support measures determined at the regulatory (e.g. the "Quick-Fix") and government (use of public guarantee schemes') levels. The stress test resulted had an impact on the Group's CET1 ratio of:

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

Finally, the join-up phase of the Comprehensive Assessment exercise had a further impact on the Group's CET1 ratio of -42 bps in the "Baseline" scenario and -107 bps in the "Adverse" scenario.

The results of the exercise, which above all have a prudential value and are already partly reflected in the cost of risk in 2020 and 2021, were also taken into account in the execution of the Group's planning process launched in the second half of 2021 and in the related NPE strategies, in line with the objectives pursued since the formation of the Group of pursuing robust de-risking and at the same time strengthening - in compliance with applicable accounting standards - the coverage of impaired positions.

11. INTERNAL CONTROL SYSTEM

Structure of the Group internal control system

The internal control system undergoes periodic evaluation by the corporate boards to ascertain their compliance with regulatory requirements and the principles and objectives defined in the Group policies governing the organizational structure of corporate control functions. It plays a central role in Group organization, as it:

- represents a key source of information the corporate boards, enabling full awareness of the reference context and effective oversight of corporate risks and their interrelations;
- guides changes in strategic direction and company policies and enables the consistent adaptation of the organizational environment;
- oversees the functionality of management systems and compliance with prudential supervisory regulations;
- promotes the dissemination of an appropriate culture of risk, legality and corporate values.

Consistent with the foregoing, the Group's internal control system:

- ensures the completeness, appropriateness, functionality (in terms of efficiency and effectiveness) and reliability of the risk management process and its consistency with the RAF;
- provides for control activities at every operational and hierarchical level;
- ensures that any anomalies are promptly brought to the attention of the appropriate levels (the corporate boards, if significant) capable of rapidly activating the appropriate corrective actions;
- provides for specific procedures to deal with any breach of operating limits.

To this end, the Group has established appropriate corporate control functions, endowed with autonomy and independence, dedicated to ensuring the correct and efficient functioning of the internal control system, reporting directly to the Parent Company's Board of Directors.

In particular, the following areas have been established for each of the corporate control functions:

- the Chief Audit Executive (CAE) area for the Internal Audit function;
- the Chief Compliance Officer (CCO) area for the Compliance function;
- the Chief Risk Officer (CRO) area for the Risk Management function;
- the Chief AML Officer (CAMLO) area for the Anti-Money Laundering function.

The Internal Audit function is a third-level control body, while the other functions perform second-level controls.

The proper functioning of the internal control system rests on the effective interaction of the corporate control functions, the other corporate bodies, and all other actors in the internal control system.

Within this context, the definition of efficient, effective mechanisms of interaction between the corporate control functions and other corporate bodies is important to the achievement of a coordinated view of risks and the execution of a dynamic process of adapting the methods of control to the changing internal and external landscape.

Within the scope of the Group's internal control system, and in line with the provisions of related Group policies, the Committee for the Coordination of the Corporate Control Functions (hereinafter also the "Coordination Committee") allows for the proper, effective interaction between the corporate control functions and other corporate bodies and for the maximization of synergies, while avoiding any overlaps, redundancies, or gaps in coverage.

The Coordination Committee assesses, studies and discusses issues related to the various phases of activity of the corporate control functions (i.e. planning, execution, reporting, and follow-up) in order to ensure the coordinated, harmonized development of the risk management framework by establishing consistent approaches, processes, and digital support tools within the Group that respect the specific characteristics of the various areas of business and operations of the affiliated banks and of the other companies of the Group to which they apply.

In terms of governance and responsibility for the overall system of the internal control system, the model adopted in the ICBG hinges upon the responsibilities of the Parent Company for defining strategies, processes and control methods, tools, mechanisms and standards for planning and reporting activities, as well as the execution of second and third level controls.

Coordination within the Group is ensured not only by the proactive efforts of the Parent Company, but also by the ongoing relevance of the methods of governance for the affiliated banks and for the other companies of the Group in relation to the organizational model underlying creation of the ICBG.

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

The Internal Audit function

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

The CAE Area is organized into the following units:

- "Audit Operational Support", which handles operational and administrative activities in support of the CAE, the internal audit managers of the affiliated banks and companies of the direct and indirect scopes, and the heads of the other organizational units of the function in meeting their respective obligations;
- "Audit Governance", which supports the CAE in governance, defining processes, methodologies and tools and in planning and supervising internal audit activities and remote controls, as well as in performing the quality assurance activities of the function;
- "ICT Audit", which performs IT audits in order to provide assessments on the overall IT risk situation with regard to the Parent Company, the companies subject to the latter's management and coordination, and any external providers;
- "Parent Company and Direct and Indirect Scope Audit ", which is responsible for performing internal audit activities for the Parent Company and the companies within the direct and indirect scope in support of the CAE and the internal audit managers of the companies within the direct and indirect scope, based specific outsourcing agreements, and in accordance with the processes, methods and tools of the function. The unit also supports the CAE in coordinating consolidated audit activities or issues concerning the entire Group;
- "Mutual Bank Audit", which is responsible for conducting internal audits at the affiliated banks, supporting the CAE and the internal audit managers of those banks, based on specific outsourcing agreements and in accordance with the processes, methods and audit tools defined by the function. This unit includes not only the internal audit manager of the mutual banks but also the Internal Audit Supervisor, who works with the Mutual Bank Audit manager in supervising, supporting and coordinating the correct application of the audit processes, methods and tools in carrying out internal audit activities and in the management of the resources under the responsibility of the internal audit managers of the affiliated banks;
- "Network Audit", which is responsible for conducting internal audits of the branches of the affiliated banks of the Group and of Banca Sviluppo in line with the processes, methodologies, and audit tools defined by the function. Within the unit, a functional position of Internal Audit Coordinator has been established, with the responsibility for supporting the Head of Network Audit in the supervision and coordination of Internal Audit activities at branches: (i) ensuring methodological and operational consistency with the guidelines defined by the function; ii) providing assistance in scheduling resources; iii) supporting the performance of audit activities and related reporting; and iv) monitoring the network audit activities in order to ensure compliance with the approved audit plans.

The CAE chairs the Corporate Control Functions Coordination Committee and acts as Head of Internal Systems for Reporting Violations for the Parent Company and for the companies within the direct scope of consolidation. The Internal Audit Manager performs the role of Head of Internal Systems for Reporting Violations for the affiliated banks.

In December 2021, the Board of Directors of the Parent Company approved an update of the Rules of the Function. In summary, the changes:

- incorporated the current organizational structure of the Chief Audit Executive Area, approved by the Board of Directors on December 6, 2019;
- clarified and detailed the mission, responsibilities, scope of action and independence, objectivity and authority requirements of the Function, consistent with the mandate for Group Internal Audit;
- leveraged the experience acquired by the Function in its initial operations, incorporating sector best practices concerning certain phases of the audit cycle, notably for assurance activities and the follow-up process.

The Risk Management function

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

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

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

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

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

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

In December 2021, the organizational structure of the Parent Company's RM function underwent a number of changes and fine-tuning adjustments in a continuation of the overall development of the CRO area structure and in particular the Mutual Bank Risk Governance and the Group Risk Governance & direct scope RM units, taking into due consideration the maturity reached by the units concerned in terms of their operating model and the functioning of their respective activities. In particular, this reorganization was intended to achieve the following objectives:

- strengthen the specialization associated with Risk Governance issues with the establishment of dedicated units focused respectively on Risk Integration, Risk Monitoring and Risk Analysis;
- strengthen attention to Environmental, Social and Governance (ESG) issues in line with the evolution of applicable legislation;
- focus specialist validation activities, relocating cross-functional support activities;
- align function charts with existing practices/operating models.

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

- a "Risk Governance & Strategy" unit, which oversees all risk governance and risk strategy issues for the Group in respect of the affiliated banks, the companies within the direct scope and the Parent Company, including the management of the EWS and stress testing framework for the purposes of the Guarantee Scheme, and performs activities connected with the preparation of the area's annual activity plan and the institutional reporting document submitted to the corporate bodies and the supervisory authorities. The unit also coordinates and monitors strategic projects for the CRO area and supervises and supports the cross-functional activities of the function as a whole. It also acts as the lead for ESG risks and issue within the CRO area, with a particular focus on climate-related risks;

- a “Group Risk Management” unit, which (i) supervises and coordinates the organizational units dedicated to the individual risk categories, which within their areas of responsibility are involved in the development and maintenance of the methodological framework for the estimation, integration and management of specific risks, (ii) supports the process of defining the Group risk appetite, identifying any risk mitigation measures where necessary and/or advisable and (iii) develops Group-level stress testing exercises and (iv) contributes to the preparation of the Group Recovery Plan;
- a “Mutual Bank Risk Management” unit, which represents the “control center” for the risk profile of the individual affiliated banks, representing the top management structure for the local Risk Management units. Local risk managers report to the unit through the Mutual Bank RM units (Northern Area, Central Area, Southern Area). It coordinates communication with the other specialized units of the Risk Management function. The RM units have organizational responsibility for the overall execution of the Risk Management activities outsourced for the macro-area and therefore represent the top management structure for the Risk Management controls of the area, which is responsible for the execution the outsourced second-level control activities for risk management, and coordinate the managers in charge of the Risk Management functions of the affiliated banks;
- 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 Compliance function

The Compliance function is the Group’s second-level control function, which adopts a risk-based approach in the management of compliance risk. The Group Compliance function is performed within the Chief Compliance Officer area.

The manager of the Chief Compliance Officer area is the Chief Compliance Officer. The Chief Compliance Officer directs and supervises, with the support of the heads of the units of the function and the individual compliance officers of the affiliated banks and Group companies and the managers of the other organizational units of the Function, the process of managing compliance risk, directing and coordinating the performance of compliance activities for the Group, consistent with the provisions of the Cohesion Contract, and the Function’s policies and rules.

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

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

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

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

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

In this context, based on the Group’s organizational and operational model and the outsourcing agreements for the compliance function of the affiliated banks, the Parent Company’s Compliance function identifies, evaluates and monitors the applicable regulations for the entire Group, measuring and assessing the impact of these regulations on company processes and procedures. It also develops prevention and control policies, in compliance with the level of risk and the limits specified in the Risk Appetite Framework.

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

- Compliance Governance, which is responsible for continuously monitoring the regulations applicable to the Group and interdepartmental consistency of compliance consulting activities, also monitoring the evolution of the regulatory framework. It is also charged with the operational supervision of the second-level control model for the management of compliance risk relating to the companies in the direct scope subject to supervision, as well as the centralized coordination of compliance activities in the regulatory areas overseen by specialist functions and those relating to the unsupervised companies, for which a specific compliance manager has been appointed (with the exception of BCC Sistemi Informatici);
- Affiliated Mutual Bank Compliance, the compliance unit of the affiliated banks, is organized territorially through Local Compliance units, who are responsible for performing the operational activities envisaged by the second-level control model for managing compliance risk adopted by the Parent Company;

- ICT Compliance is responsible for the management and assessment of compliance risk associated with ICT issues for the affiliated banks, the companies within the direct scope and the Data Protection Officer, including responsibility for the compliance activities of BCC Sistemi Informatici;
- Methodologies, Processes and Systems, which is charged with ensuring the constant management and maintenance of the technical rules of the function, of the associated IT applications, of the control methodologies and of the uniform reporting standards for the management of compliance risk for the Group;
- Planning and Reporting oversees the planning of compliance activities, preparation of reporting and information flows at the consolidated level for all the legal entities of the Group and at individual level for the companies within the direct scope that do not have a compliance officer. It also monitors the service level agreements for the compliance services governed by the outsourcing agreement with the companies in the direct scope;
- Data Protection Officer, which is responsible for monitoring compliance, within the Group, with the General Data Protection Regulation (GDPR) and other external or internal regulations regarding the protection of personal data, for the attribution of responsibilities, for awareness-raising and training for personnel who participate in data processing and related control activities. The head of the Data Protection Officer unit is the Data Protection Officer of Iccrea Banca.

The Anti-Money Laundering function

The Anti-Money Laundering function is the Group-level organization responsible for second-level control activities connected with preventing and countering money laundering and terrorist financing operations, constantly verifying that control arrangements and information systems are capable of ensuring compliance with the applicable laws and regulations (including internal rules) in this area.

The Group Anti-Money Laundering function is performed by the Chief AML Officer area, which responsible for the definition of guidelines, organizational principles and policies regarding the governance of the risk of money laundering and terrorist financing and oversees their implementation by the relevant organizational units and peripheral AML structures. The Chief AML Officer has been granted authority for reporting suspicious transactions for Iccrea Banca by the Board of Directors, after consulting the Board of Auditors

On the basis of the organizational and operational model of the Group and the agreements for the outsourcing of the Anti-Money Laundering function of the affiliated banks and the companies within the direct scope, the AML function is responsible for the direction, coordination, monitoring and control of the individual Group entities. To this end, the Anti-Money Laundering function performs, for the entire Group, the activities involved in the definition of strategies, policies, processes and control methods, tools, mechanisms and standards for planning and reporting activities, as well as second level controls.

In the implementation of the Anti-Money Laundering function in accordance with the model developed at the time the ICBG was established, in order to take into consideration the special features of the Group, the CAMLO area is organized into the following units:

- AML Methodologies and Reporting, which is responsible for the ongoing monitoring of regulatory developments, assessing their impact on the internal rules of Group entities and handling their updating as well as the preparation of first- and second-level internal rules in this area. It is also responsible for the consolidation of planning and reporting documents prepared by the Affiliated Bank AML unit and the direct scope AML unit as well as the definition of guidelines and training plans on anti-money laundering issues at the Group level. In December 2021, a revision of the CAMLO area function chart was approved by the Board of Directors, with the structure being renamed the AML Regulatory and Reporting Monitoring unit;
- Affiliated Bank AML, which is responsible for the coordination and operational control of the anti-money laundering control model for the affiliated banks. It is involved in defining and monitoring the control activities performed by the Local AML units for banks operating under outsourcing arrangements and supporting the CAMLO to ensure the uniformity and consistency of procedures and criteria for customer profiling, evaluating suspicious transactions and any other significant operational duty in this area;
- Local AML units, which are established by geographical area. They are responsible for providing support in this area to the affiliated banks operating under an outsourcing arrangement, ensuring compliance with the required standards for the execution of these activities and the correct application of the framework defined by Parent Company. A Local AML unit manager is appointed for each Local AML unit, who is responsible for the coordination and supervision of the activities of the Affiliated Bank AML managers (Affiliated Bank RAML) in the given geographical area, ensuring compliance with AML obligations in accordance with the policies, methodologies and guidelines established at the ICBG level. The Local AML unit manager, or other qualified person within the same unit, is responsible for the assessment and reporting of suspicious transactions for the affiliate banks located in that geographical area;
- the direct scope AML unit, which coincides with the Anti-Money Laundering unit of Iccrea Banca. It verifies the adequacy and compliance of the latter’s internal control system and the procedures adopted, as well as the reliability of the anti-money laundering applications. It is also responsible for the coordination and operational oversight of the anti-money laundering control model for the companies in the direct scope, whose anti-money laundering functions are outsourced to the Parent Company under outsourcing agreements and performed by the Institutional & Retail AML unit and the Lending AML unit. A manager is appointed for each of these units, who serves as direct scope AML manager (direct scope RAML) and Suspicious Transaction Report delegate for the

direct scope companies. The direct scope AML unit is also responsible for managing anti-money laundering controls over the payment services of the e-money sector and the intermediation services provided on behalf of the affiliated banks, direct scope companies and intermediated institutions, as well as for the other services performed by Iccrea Banca on behalf of the various entities of the Group.

Director responsible for the Internal Control System

Within the architecture of the internal control system of the Iccrea Cooperative Banking Group, the Group policy on the structure of the corporate control functions as updated by the Parent Company in October 2020 extended the requirement for the appointment of a director responsible for the internal control system to all Group companies subject to supervision. This was done in order to facilitate the effective exercise of its responsibilities in this area. This director supports the Board of Directors on issues pertaining to risk management and the control systems of the individual companies, promoting compliance with the principles defined within the Group control system and fostering awareness among the members of the administrative and control bodies of the companies of the risk management policies and processes adopted within the Group.

As envisaged by the Group policy on the structure of the corporate control functions, issued by the Parent Company in April 2019 and implemented by the boards of directors of all the Group's supervised companies and the affiliated banks, the director responsible for the internal control system:

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

Within the broader context of the corporate governance training plan for the directors, specific training activities in this area were completed. These activities involved the CAE, CRO, CCO and CAMLO areas, each within their operational areas of responsibility. At December 31, 2021, the course is available to the directors responsible for the control system of the affiliated banks in e-learning format through the platform used by the Group for the training of officers of supervised entities (the Board Academy).

12. OTHER SIGNIFICANT INFORMATION

Iccrea rating

Considering recent developments in economic conditions connected with the COVID-19 emergency, the rating agencies reviewed their ratings of the leading banks. More specifically, for the Group:

- on February 10, 2022, Fitch Ratings confirmed its rating of the medium/long-term debt of Iccrea Banca and Iccrea BancaImpresa at "BB-", with a revision of the outlook from "stable" to "positive;
- on October 19, 2021, S&P Global Rating confirmed its rating of the medium/long-term debt of Iccrea Banca at "BB", with a revision of the outlook from "negative" to "stable". After revising its assessment criteria, the agency confirmed the rating on January 31, 2022;
- on December 1, 2021, DBRS Morningstar confirmed its rating of the medium/long-term debt of Iccrea Banca at "BB (high)" with a "stable" outlook.

Treasury shares

At December 31, 2021 Iccrea Banca SpA did not hold any treasury shares.

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

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

The control system is based upon two primary guidelines.

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

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

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

Transactions with related parties

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

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

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

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

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

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

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

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

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

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

Mutual banks under administration

With regard to the EWS classification at September 30, 2021, 11 affiliated banks were classified in risk classes from "E" to "G", representing a situation of "critical" risk. An analysis of the risk profiles of the EWS indicators indicates a positioning gap with respect to the threshold levels, mainly regarding capitalization, profitability and asset quality indicators, as well as, in a number of cases, the overall governance and internal control system profile.

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

13. SUBSEQUENT EVENTS

Strategic partnership with FSI SGR S.p.A. in the electronic-money business

On January 29, 2022, Iccrea Banca and FSI SGR S.p.A. agreed to pursue a strategic partnership to develop BCC Pay, the Group's e-money company, with the aim of creating a market operator with important synergies expected from the entry of new customers.

The agreement provides for FSI SGR S.p.A. to invest in BCC Pay. Following the transaction, FSI SGR S.p.A. and Iccrea Banca will hold 60% and 40% of the company respectively. The transaction is based on an overall valuation of BCC Pay at up to €500 million (including a deferred component of up to €50 million) and is subject to authorization by the competent authorities. Closing is expected by the summer of 2022.

Court-ordered seizure of BCC del Crotonese

With an order notified to BCC del Crotonese on February 15, 2022, the Court of Catanzaro, Criminal Section II, exercising its powers with regard to preventive measures pursuant to Article 34 of Legislative Decree 159/2011, ordered the judicial administration of the bank for a period six months. The Court's action was prompted by a proposal of the Public Prosecutor's Office at that Court, filed in February 2021, alleging that there was evidence that the Bank was exposed to influences such as to justify the application of judicial administration. In the initial phase of judicial administrators, no factors emerged that would prejudice the ordinary operation of the bank, which continued to operate normally with its customers. In the absence of prejudicial evidence, the court-appointed custodians asked the Court of Catanzaro to authorize the merger proposal already approved by the bank (and by the other three Calabrian sister institutions) in order to safeguard and preserve the economic value of BCC del Crotonese. On March 22, 2022, the Court of Catanzaro authorized the court-appointed custodians, jointly or severally, to complete the merger, reserving a decision on the continuation of the preventive measure until completion of the operation.

Mergers and reorganizations of mutual banks

With a communication dated January 18, 2022, the ECB authorized the merger of BCC di Oppido Lucano e Ripacandida into BCC di Spinazzola (new name: "BCC Appulo Lucana S.C."). The merger will take legal effect from May 9, 2022.

In November and December 2021, the Iccrea Board of Directors also approved two additional mergers, which are currently under review by the supervisory authorities:

- BCC Mutuo Soccorso di Gangi into BCC San Giuseppe delle Madonie (new name: "Banca di Credito Cooperativo delle Madonie – Società Cooperativa");
- BCC Bergamo e Valli into BCC di Milano (new name: "Banca di Credito Cooperativo di Milano Società Cooperativa").

The mergers are expected to take operational effect in the first half of 2022.

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

In execution of the 2019 agreement with Cassa Centrale Banca S.p.A, which provides for the reorganization of the equity investments held by the mutual banks participating in the two cooperative banking groups, as well as of the stakes held in entities belonging to the same groups, in January 2022, 897,000 shares of Iccrea Banca S.p.A were transferred from entities belonging to the Cassa Centrale Banca Group - Italian Cooperative Credit to banks of the Iccrea Cooperative Banking Group for a total consideration of €47,361,600.

Other inspections scheduled by the supervisory authorities

On December 22, 2021, a notice was received from the European Central Bank (ECB) announcing the start of an on-site inspection to be conducted at the Group level, focusing on credit and counterparty risk associated with asset quality in the Commercial Real Estate sector.

More specifically, the inspection will be conducted in order to assess compliance in the implementation of IFRS 9, performing a Credit Quality Review of selected portfolios and assessing credit risk processes, including any ancillary aspects of this issue. If necessary, the scope may be expanded in the course of the ECB's enquiries.

The on-site inspection began on March 31, 2022.

Outlook for operations

Without prejudice to any impact (which may require a reassessment moving forward) of the economic developments taking shape in connection with the deterioration of Ukrainian crisis discussed previously, the main initiatives of the Group in the next three years of the plan (2022- 2024) will continue to reflect the strategic importance of our de-risking objectives, which will also be pursued by giving further impetus to the “ordinary” activities of managing impaired and defaulted positions. This effort will also involve taking advantage of appropriate market opportunities to dispose of portions of the non-performing portfolio through securitizations (the Group’s sixth securitization with GACS support was begun in early 2022, with completion expected by the end of May) or the transfer of these assets to funds highly specialized in the effective management of these categories of loans and collateral.

The Group will also continue to implement actions to enhance profitability, an objective also supported by a more favorable macroeconomic scenario, without prejudice to the above considerations, with increasing expected growth rates and an expected greater contribution from qualified funding. A positive contribution is also expected from the continuation of the substantial cost excellence and operational strategy initiatives and, in this latter context, from progress on the actions taken to rationalize the branch network, banks and companies within the direct scope of consolidation.

CONCLUSIONS

Dear shareholders,

After a 2020 representing one of the modern era's darkest periods of economic turmoil linked to the COVID-19 pandemic, signs of a robust recovery emerged in the second quarter of 2021 and continued despite uncertainties engendered towards the end of the year by new variants of the virus and a resurgence of inflation.

In this environment, our Group, which had assisted our customers and our local communities as best we could during 2020, fully activating all the measures envisaged under the initiatives taken at the European and national level to mitigate the effects of the crisis, continued to provide even more vigorous support to firms, helping them to revive their operations, and households, to enable home purchases or renovation. The great professionalism and dedication of our banks and our colleagues at headquarters and in local communities have been the driving force that has enabled us to achieve, despite the great operational strains encountered, the objectives we had set ourselves in terms of results and efficiency, de-risking and capital strengthening. At the same time, all the initiatives to enhance the efficiency of our Group were implemented without delay, both at the companies of the direct scope and at the mutual banks. Maximum collaboration was provided to the authorities in the performance of the complex Comprehensive Assessment and the assessment of the Group's capital position.

The fine-tuning of the sizing of operating and control units also continued, and numerous projects were pursued to achieve the complete definition of the Group's regulatory/operational framework and application platforms, with a view to ensuring full compliance with the numerous regulatory developments and maximum efficiency in seizing business opportunities.

In summary, the consolidated financial performance of the Group exceeded forecasts (with profit before tax of €472.8 million and a net profit of €460.6 million), despite the further significant reduction of the risk levels of our loan portfolio and extreme prudence adopted in covering positions. The financial rebalancing of the companies within the direct scope also contributed to performance, which - in harmony with the efficiency gains implemented within our structure and the enhancement of high value-added assets - will bring further benefits for the Group in the future, including in terms of operational efficiency and service quality. Actions under way within the Parent Company also pursued this goal, allowing it to return to profit in 2021.

On the strength of these positive signals, the Group will seek to achieve the ambitions specified for 2024 - which do not factor in the new geopolitical situation pending any stabilization that would make it possible to assess the prospective impact of the Russia-Ukraine conflict – which are intended to give the Group of a business model which, in full compliance with its mutual nature and the associated purposes, will produce a level of profitability and capital strength capable of ensuring our long-term stability.

Accordingly, we invite you to approve the financial statements as at December 31, 2021, accompanied by the Board of Directors' Report on Operations and the Report of the Board of Auditors, which were audited by Mazars Italia S.p.A.

As always thanks go to our Group's mutual banks, which, also in this year characterized by notable operational strains, have maintained constantly active and profitable relations in the various areas of their activities with the Parent Company.

A token of gratitude goes to all those who, in their respective roles - directors and statutory auditors - have provided great support in the overall management of the business and in monitoring the risks faced by all the Group's companies and banks, contributing to the strong overall performance achieved, the fruit of a shared business design. But, as always, special thanks go to all the employees of our Group, who, despite the extreme operational challenges posed by external events, contributed with a great spirit of service to the achievement of all the objectives we had set for ourselves.

Finally, thanks go to the supervisory authorities - the ECB and the Bank of Italy, CONSOB and the Resolution Authority - for their even constructive discussions and fruitful guidance.

Rome, April 8, 2022

The Board of Directors

ATTACHMENT 1 - RECONCILIATION OF EQUITY AND NET PROFIT OF THE PARENT COMPANY WITH GROUP EQUITY AND NET PROFIT

€/thousands	SHARE CAPITAL	RESERVES	VALUTATION RESERVES	EQUITY INSTRUMENTS	NET PROFIT	SHAREHOLDERS' EQUITY
Iccrea Banca SpA financial statements	**1,401,045**	**189,537**	**45,353**	**-**	**53,178**	**1,689,113**
Financial statements of fully consolidated company	989,071	8,710,828	194,330	30,139	410,134	**10,334,503**
Financial statements of companies accounted for using equity method		(28,385)	1,320		4,922	**(22,143)**
Elimination of Group company dividends		31,596			(31,596)	**-**
Adjustment of intercompany writedowns (revaluations)		122,936			42,063	**164,999**
Goodwill		15,426				**15,426**
Other consolidation adjustments	(87,300)	(1,421,621)	(22,338)		(21,937)	**(1,553,196)**
Consolidated shareholders' equity	**2,361,637**	**7,623,106**	**219,450**	**30,139**	**460,571**	**10,694,904**
Non-controlling interests	**58,820**	**2,790**	**785**		**3,806**	**66,201**
Group shareholders' equity	**2,302,817**	**7,620,317**	**218,665**	**30,139**	**456,765**	**10,628,703**

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, 2002 using 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[42].

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

- 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 (personnel expenses, administrative expenses and depreciation/amortization) and net operating income in the income statement and provides an indication of the efficiency of operations.

Risk measures

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

GROUP FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Assets		31/12/2021	31/12/2020
10.	Cash and cash equivalents	1,674,568	1,535,824
20.	Financial assets measured at fair value through profit or loss	1,728,764	1,892,207
	a) financial assets held for trading	168,649	270,538
	b) financial assets measured at fair value	275,467	345,094
	c) other financial assets mandatorily measured at fair value	1,284,648	1,276,575
30.	Financial assets measured at fair value through other comprehensive income	7,850,471	7,870,200
40.	Financial assets measured at amortized cost	159,230,200	150,639,810
	a) due from banks	10,185,851	6,672,651
	b) loans to customers	149,044,349	143,967,159
50.	Hedging derivatives	42,960	11,876
60.	Value adjustments of financial assets hedged generically (+/-)	63,660	222,493
70.	Equity investments	128,524	114,502
90.	Property, plant and equipment	2,646,457	2,741,691
100.	Intangible assets	174,127	168,844
	- goodwill	21,212	23,030
110.	Tax assets	1,901,863	2,119,045
	a) current	468,304	489,246
	b) deferred	1,433,559	1,629,799
120.	Non-current assets and disposal groups held for sale	219,563	18,368
130.	Other assets	3,324,225	1,933,255
	Total assets	**178,985,382**	**169,268,115**

Liabilities and shareholders' equity		31/12/2021	31/12/2020
10.	Financial liabilities measured at amortized cost	163,327,889	154,229,489
	a) due to banks	34,585,361	32,114,297
	b) due to customers	117,436,048	108,396,697
	c) securities issued	11,306,480	13,718,495
20.	Financial liabilities held for trading	129,475	243,808
30.	Financial liabilities measured at fair value	256	3,117
40.	Hedging derivatives	495,268	514,743
50.	Value adjustments of financial liabilities hedged generically (+/-)	(187)	(1,672)
60.	Tax liabilities	44,173	101,216
	a) current	8,124	3,495
	b) deferred	36,049	97,721
70.	Liabilities associated with assets held for sale	182,098	-
80.	Other liabilities	3,315,338	3,018,072
90.	Employee termination benefits	277,528	295,178
100.	Provisions for risks and charges	518,641	528,107
	a) commitments and guarantees issued	293,183	232,346
	c) other provisions for risk and charges	225,458	295,761
120.	Valuation reserves	218,665	253,301
140.	Equity instruments	30,139	30,139
150.	Reserves	8,735,189	8,575,540
160.	Share premium reserves	148,345	150,256
170.	Share capital	2,302,817	2,307,332
180.	Treasury shares (-)	(1,263,218)	(1,247,818)
190.	Non-controlling interests (+/-)	66,201	71,517
200.	Net profit (loss) for the period (+/-)	456,765	195,793
	Total liabilities and shareholders' equity	**178,985,382**	**169,268,115**

CONSOLIDATED INCOME STATEMENT

		31/12/2021	31/12/2020
10.	Interest and similar income	3,164,153	2,999,512
	of which: interest income calculated using effective interest rate method	3,017,828	2,878,884
20.	Interest and similar expense	(403,422)	(478,391)
30.	**Net interest income**	**2,760,731**	**2,521,121**
40.	Fee and commission income	1,462,949	1,396,658
50.	Fee and commission expense	(176,809)	(134,698)
60.	**Net fee and commission income (expense)**	**1,286,140**	**1,261,960**
70.	Dividends and similar income	14,210	6,339
80.	Net gain (loss) on trading activities	19,121	24,242
90.	Net gain (loss) on hedging activities	13,394	(3,278)
100.	Net gain (loss) on the disposal or repurchase of:	429,214	264,627
	a) financial assets measured at amortized cost	352,871	169,853
	b) financial assets measured at fair value through other comprehensive income	80,313	95,115
	c) financial liabilities	(3,969)	(341)
110.	Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss	10,670	(1,350)
	a) financial assets and liabilities measured at fair value	(5,182)	1,316
	b) other financial assets mandatorily measured at fair value	15,852	(2,666)
120.	**Gross income**	**4,533,481**	**4,073,661**
130.	Net losses/recoveries for credit risk in respect of:	(1,191,719)	(837,532)
	a) financial assets measured at amortized cost	(1,186,182)	(831,806)
	b) financial assets measured at fair value through other comprehensive income	(5,537)	(5,727)
140.	Gains/losses from contractual modifications without derecognition	(1,969)	(3,197)
150.	**Net income (loss) from financial operations**	**3,339,793**	**3,232,931**
180.	**Net income (loss) from financial and insurance operations**	**3,339,793**	**3,232,931**
190.	Administrative expenses:	(2,918,219)	(2,987,996)
	a) personnel expenses	(1,706,299)	(1,729,164)
	b) other administrative expenses	(1,211,920)	(1,258,832)
200.	Net provisions for risks and charges	(73,325)	(88,807)
	a) commitments and guarantees issued	(63,734)	(29,833)
	b) other net provisions	(9,590)	(58,973)
210.	Net adjustments of property, plant and equipment	(191,508)	(198,835)
220.	Net adjustments of intangible assets	(41,883)	(31,890)
230.	Other operating expenses/income	321,578	328,010
240.	**Operating costs**	**(2,903,356)**	**(2,979,517)**
250.	Profit (loss) from equity investments	19,264	(7,742)
260.	Net gain (loss) from valuation at fair value of property, plant and equipment and intangible assets	(15,836)	(40,118)
270.	Goodwill impairment	(1,810)	(2,842)
280.	Profit (loss) from disposal of investments	85	(634)
290.	**Profit (loss) before tax on continuing operations**	**438,139**	**202,077**
300.	Income tax expense from continuing operations	(2,339)	242
310.	**Profit (loss) after tax on continuing operations**	**435,801**	**202,320**
320.	Profit (loss) after tax on discontinued operations	24,770	-
330.	**Net profit (loss) for the period**	**460,571**	**202,320**
340.	Net profit (loss) for the period – non-controlling interests	3,806	6,527
350.	**Net profit (loss) for the period – shareholders of the Parent Company**	**456,765**	**195,793**

STATEMENT OF COMPREHENSIVE INCOME

		31/12/2021	31/12/2020
10.	**Net profit (loss) for the period**	**460,571**	**202,320**
	Other comprehensive income net of taxes not recyclable to profit or loss	**7,833**	**(12,768)**
20.	Equity securities designated as t fair through other comprehensive income	14,252	(7,331)
50.	Property, plant and equipment	(35)	(103)
70.	Defined-benefit plans	(6,384)	(5,334)
	Other comprehensive income net of taxes recyclable to profit or loss	**(43,346)**	**11,384**
120.	Cash-flow hedges	18,661	(31,180)
140.	Financial assets (other than equity investments) measured at fair value through other comprehensive income	(63,180)	44,354
160.	Share of valuation reserves of equity investments accounted for with equity method	1,173	(1,790)
170.	**Total other comprehensive income net of taxes**	**(35,513)**	**(1,383)**
180.	**Comprehensive income (Item 10+170)**	**425,057**	**200,937**
190.	**Comprehensive income - non-controlling interests**	**4,119**	**6,484**
200.	**Comprehensive income - shareholders of the Parent Company**	**420,938**	**194,453**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY 2021

				Allocation of net profit of previous period		Change in the period											
							Equity transactions										
	As at 31.12.2020	Change in opening balance	As at 1.1.2021	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 31.12.2021	Shareholders' equity at 31.12.2021	Shareholders equity attributable to shareholders of the Parent Company	Non-controlling interests
Share capital:																	
- ordinary shares	2,370,917		2,370,917				8,530	(13,045)					(5,750)		2,360,652	2,302,817	57,835
- other shares	985		985												985		985
Share premium reserve	154,595		154,595	(6,281)			4,370						(339)		152,345	148,345	3,999
Reserves:																	
- earnings	8,606,821		8,606,821	167,914		531							(5,897)		8,769,369	8,762,117	7,251
- other	(35,635)		(35,635)			246									(35,389)	(26,927)	(8,462)
Valuation reserves	253,734		253,734			1,230								(35,513)	219,450	218,665	785
Equity instruments	30,139		30,139												30,139	30,139	
Treasury shares	(1,247,818)		(1,247,818)				3,679	(19,078)							(1,263,218)	(1,263,218)	
Net profit (loss) for the period	202,320		202,320	(161,633)	(40,687)									460,571	460,571	456,765	3,806
Total shareholders' equity	**10,336,056**		**10,336,056**		**(40,687)**	**2,007**	**16,579**	**(32,124)**					**(11,986)**	**425,057**	**10,694,904**	**10,628,703**	**66,201**
Shareholders' equity - shareholders' of Parent Company	**10,264,539**		**10,264,539**		**(40,243)**	**(987)**	**16,579**	**(32,124)**						**420,938**	**10,628,703**		
Shareholders' equity - non-controlling interests	**71,517**		**71,517**		**(444)**	**2,994**							**(11,986)**	**4,119**	**66,201**		

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS’ EQUITY 2020

				Allocation of net profit of previous period		Change in the period											
							Equity transactions										
	As at 31/12/2019	Change in opening balance	As at 1/1/2020	Reserves	Dividends and other 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 31/12/2020	Shareholders’ equity 31/12/2020	Shareholders’ equity pertaining to shareholders of the Parent Company	Non-controlling interests
Share capital:																	
- ordinary shares	2,380,125		2,380,125				8,945	(15,306)					(2,848)		2,370,917	2,307,332	63,585
- other shares	985		985												985		985
Share premium reserve	151,077		151,077	(331)			3,885						(37)		154,595	150,256	4,338
Reserves:																	
- earnings	8,418,939		8,418,939	211,698		(22,521)							(1,295)		8,606,821	8,602,612	4,207
- other	(36,360)		(36,360)			569							156		(35,635)	(27,076)	(8,559)
Valuation reserves	254,982		254,982			135								(1,383)	253,734	253,301	433
Equity instruments	30,139		30,139												30,139	30,139	
Treasury shares	(1,212,256)		(1,212,256)				8,144	(43,706)							(1,247,818)	(1,247,818)	
Net profit (loss) for the period	244,963		244,963	(211,367)	(33,596)									202,320	202,320	195,793	6,527
Total shareholders’ equity	**10,232,594**		**10,232,594**		**(33,596)**	**(21,817)**	**20,974**	**(59,012)**					**(4,024)**	**200,937**	**10,336,056**	**10,264,539**	**71,517**
Shareholders’ equity - shareholders’ of Parent Company	**10,161,857**		**10,161,857**		**(29,787)**	**(21,490)**	**20,974**	**(59,012)**					**(2,456)**	**194,453**	**10,264,539**		
Shareholders’ equity - non-controlling interests	**70,737**		**70,737**		**(3,809)**	**(328)**							**(1,567)**	**6,484**	**71,517**		

STATEMENT OF CASH FLOWS: INDIRECT METHOD

	31/12/2021	31/12/2020
A. OPERATING ACTIVITIES		
1. Operations	**1,683,612**	**1,107,775**
- net profit (loss) for the period (+/-)	460,571	202,320
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+)	(48,252)	(16,535)
- gains (losses) on hedging activities (-/+)	(14,541)	3,373
- net losses/recoveries on impairment (+/-)	1,106,405	647,294
- net adjustments of property, plant and equipment and intangible assets(+/-)	233,391	230,725
- net provisions for risks and charges and other costs/revenues (+/-)	(28,008)	75,018
- taxes, duties and tax credits to be settled (+/-)	(24,356)	(38,601)
- other adjustments (+/-)	(1,598)	4,181
2. Net cash flows from/used in financial assets	**(10,682,714)**	**(14,226,967)**
- financial assets held for trading	142,520	(41,807)
- financial assets measured at fair value	69,626	22,383
- other assets mandatorily measured at fair value	(451)	83,832
- financial assets measured at fair value through other comprehensive income	(34,834)	1,271,217
- financial assets measured at amortized cost	(9,806,030)	(15,804,356)
- other assets	(1,053,545)	241,764
3. Net cash flows from/used in financial liabilities	**9,339,827**	**13,421,916**
- financial liabilities measured at amortized cost	9,214,091	13,396,491
- financial liabilities held for trading	(114,333)	80,080
- financial liabilities measured at fair value	(2,861)	(8,344)
- other liabilities	242,931	(46,311)
Net cash flows from/used in operating activities	**340,725**	**302,724**
B. INVESTING ACTIVITIES		
1. Cash flow from	**59,782**	**85,595**
- sales of equity investments	16,587	89
- dividends on equity investments	4,373	4,373
- sales of property, plant and equipment	36,315	25,016
- sales of intangible assets	2,507	56,117
2. Cash flow used in	**(205,677)**	**(283,068)**
- purchase of equity investments	(18,597)	(25,698)
- purchases of property, plant and equipment	(134,468)	(152,906)
- purchases of intangible assets	(52,612)	(104,464)
Net cash flows from/used in investing activities	**(145,895)**	**(197,473)**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	(15,399)	(35,562)
- dividend distribution and other	(40,687)	(33,596)
Net cash flows from/used in investing activities	**(56,086)**	**(69,158)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**138,744**	**36,093**

Key:
(+) generated
(-) used in

RECONCILIATION

	31/12/2021	31/12/2020
Cash and cash equivalents at beginning of period	1,535,824	956,482
Net increase/decrease in cash and cash equivalents	138,744	36,093
Re-presentation of demand amounts due from banks 7th update of Circ. 262	-	543,249
Cash and cash equivalents at end of period	1,674,568	1,535,824

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

SECTION 1 – DECLARATION OF CONFORMITY WITH INTERNATIONAL ACCOUNTING STANDARDS

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, the consolidated financial statements of the Iccrea Cooperative Banking Group 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 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 – 7th update of October 29, 2021 – issued by the Bank of Italy in the exercise of the powers established by Article 43 of Legislative Decree 136/2015, as well as with the Communication of the Bank of Italy of December 21, 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.

The main changes introduced with the 7th update of Circular 262 concern (i) the reclassification of demand deposits and current accounts with banks and central banks from "financial assets at amortized cost" to "cash and cash equivalents", (ii) the specific and separate indication of the financial assets purchased or originated impaired in the tables of the explanatory notes for financial assets and (iii) a revision of the tables of the notes regarding fees and commissions.

The main objectives of this update are to align the presentation in the financial statements of demand claims on banks and central banks, financial assets purchased or originated credit impaired (POCI) and fee and commission income and expense with the treatment provided for under the harmonized European reporting framework (FINREP) and to implement changes introduced with amendments to IFRS 7 - "Financial instruments: disclosures".

Following the introduction of the update, the comparative figures at December 31, 2020 have been restated, where necessary.

The update of disclosures on the impact of COVID-19 and economic support measures is also reflected in financial statement disclosures at December 31, 2021, with an indication of the loans involved in existing moratoriums that are no longer compliant with EBA guidelines and not considered subject to forbearance measures.

Reference is also made to the documents issued by European Securities and Markets Authority (ESMA) regarding the application of specific provisions of the IFRS, with particular regard to the methods of accounting for the effects of the COVID-19 pandemic (ESMA statements of March 25, 2020, May 20, 2020, October 28, 2020 and October 29, 2021).

The consolidated financial statements were prepared using the IAS/IFRS endorsed and in force as at December 31, 2021.

The following table sets out the new international accounting standards and amendments to existing accounting standards, with the related endorsement regulations of the European Commission, that took effect that took effect, either on a mandatory basis or with the option of early adoption, as from January 1, 2021:

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

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

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

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
1080/2021	**Amendments to IFRS 3, IAS 16 and IAS 37 and Annual Improvements to IFRS Standards 2018–2020** The amendments involve limited-scope modifications of three accounting standards and annual improvements to the following accounting standards: – IFRS 1; – IFRS 9; – IFRS 16; – IAS 41.	Annual reporting periods beginning on or after January 1, 2022.
1421/2021	**Amendments to IFRS 16 Leases – COVID-19-Related Rent Concessions beyond 30 June 2021** The amendment to IFRS 16 extends the operational, optional and temporary concessions connected with the COVID-19 pandemic granted to lessees involving the reduction of payments originally due on or before June 30, 2021 to include concessions involving the reduction of payments originally due on or before June 30, 2022.	Annual reporting periods beginning on or after April 1, 2021. Early application is permitted.
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 June 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 June 1, 2023. Early application is permitted.
To be determined	**Amendments to IAS 1 – Presentation of Financial Statements: classification of liabilities as current or non-current** The amendments seek to clarify one of the criteria of IAS 1 for the classification of a liability as non-current, i.e. the requirement that an entity must have the right to defer the settlement of the liability for at least 12 months after the end of the reporting period. The changes: – specify that the right to defer settlement must exist at the end of the reporting period; – clarify that the classification is unaffected by management's intentions or expectations regarding the possibility of exercising the right to defer settlement; – clarify how the terms of a liability impact its classification; and – clarify the requirements for the classification of liabilities that an entity intends to settle or could settle with the issue of equity instruments.	Annual reporting periods beginning on or after January 1, 2023.
To be determined	**Amendments to IAS 12 (Income Taxes)** The amendments to IAS 12 are intended to specify how to account for deferred tax on transactions such as leases and decommissioning obligations.	Annual reporting periods beginning on or after June 1, 2023. Early application is permitted.

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

SECTION 2 - GENERAL PREPARATION PRINCIPLES

The consolidated financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows, and the notes to the financial statements, along with the Report on Operations and the performance and financial position of the Iccrea Cooperative Banking Group.

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

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

The financial statements have been prepared in accordance with 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 financial statements have been prepared on a going-concern basis. In this regard, the Directors are not aware of any significant uncertainties, events or conditions that could warrant serious concern about the Group's ability to continue to operate as a going concern in the foreseeable future, taking particular account of the recent establishment of the Cooperative banking group based on a system of cross-guarantees, on which extensive discussion is provided in the Report on Operations.

In addition to the financial statements in PDF format, which represents the official version, the Group also voluntarily prepares the financial statements in the XHTML format required under Delegated Regulation (EU) 2019/815 "ESEF - European Single Electronic Format".

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, using the tables provided for in Bank of Italy Circular no. 262/2005 – 7th update of October 29, 2021, as well as 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.

For the sake of a complete representation compared with the schedules provided for by the Bank of Italy, the notes also report the titles of sections for items in the financial statements that do not have values either for the period under review or the previous period.

SECTION 3 – SCOPE AND METHODS OF CONSOLIDATION

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

- the financial statements of Iccrea Banca SpA in its capacity as Parent Company and Central Body;
- the financial statements of the 128 affiliated mutual banks, which together with Iccrea Banca SpA comprise the Consolidating Entity;
- the financial statements of the companies over which, in application of IFRS 10, IFRS 11 and IAS 28, Iccrea Banca and the affiliated mutual banks exercise control, joint control or significant influence.

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

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

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

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

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

		Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
90	Credito Cooperativo Cassa Rurale e Artigiana di Paliano S.C.	Paliano				
91	Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	Pietrasanta				
92	Banca Patavina Credito Cooperativo di Sant'Elena e Piove di Sacco S.C.	Sant'Elena				
93	BCC di Pergola e Corinaldo S.C.	Pergola				
94	BCC Vicentino - Pojana Maggiore S.C.	Pojana Maggiore				
95	BCC di Pontassieve S.C.	Pontassieve				
96	Cassa Rurale e Artigiana dell'Agro Pontino - BCC S.C.	Pontinia				
97	BCC di Pratola Peligna S.C.	Pratola Peligna				
98	Centromarca Banca - Credito Cooperativo di Treviso e Venezia, S.C.	Treviso				
99	BCC di Recanati e Colmurano S.C.	Recanati				
100	Banca di Ripatransone e Del Fermano - Credito Cooperativo S.C.	Ripatransone				
101	Cassa Rurale e Artigiana di Rivarolo Mantovano Credito Cooperativo S.C.	Rivarolo Mantovano				
102	BCC della Provincia Romana S.C.	Riano				
103	Banca di Verona e Vicenza - Credito Cooperativo S.C.	Fara Vicentino				
104	Banca del Valdarno - Credito Cooperativo S.C.	San Giovanni Valdarno				
105	Banca di Pesaro Credito Cooperativo S.C.	Pesaro				
106	BCC di Santeramo In Colle S.C.	Santeramo In Colle				
107	Banca TEMA - Terre Etrusche di Valdichiana e di Maremma S.C.	Chiusi				
108	BCC di Scafati e Cetara S.C.	Scafati				
109	BCC Bergamo e Valli S.C.	Sorisole				
110	BCC di Spinazzola S.C.	Spinazzola				
111	BCC di Staranzano e Villesse S.C.	Staranzano				
112	Banca Centro Credito Cooperativo Toscana - Umbria S.C.	Sovicille				
113	Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese S.C.	Vibo Valentia				
114	Cassa Rurale - BCC di Treviglio S.C.	Treviglio				
115	BCC di Triuggio e della Valle del Lambro S.C.	Triuggio				
116	BCC della Valle del Fitalia S.C.	Longi				
117	Banca Alta Toscana Credito Cooperativo S.C.	Quarrata				
118	BCC Bergamasca e Orobica S.C.	Cologno Al Serio				
119	Banca Don Rizzo - Credito Cooperativo della Sicilia Occidentale S.C.	Alcamo				
120	BCC dei Colli Albani S.C.	Genzano Di Roma				
121	BCC G. Toniolo di San Cataldo S.C.	San Cataldo				
122	BCC Mutuo Soccorso di Gangi S.C.	Gangi				
123	Banca San Francesco Credito Cooperativo S.C.	Canicattì				
124	BCC S. Giuseppe delle Madonie S.C.	Petralia Sottana				
125	BCC San Michele di Caltanissetta e Pietraperzia S.C.	Caltanissetta				
126	BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	Casagiove				
127	BCC degli Ulivi - Terra di Bari S.C.	Palo Del Colle				
128	RivieraBanca Credito Cooperativo di Rimini e Gradara S.C.	Rimini				
129	BCC di San Marco Dei Cavoti e Del Sannio - Calvi S.C.	San Marco Dei Cavoti				
130	BCC Risparmio&Previdenza SGrpA	Milan	1	Iccrea Banca SpA	100.0	100.0
131	Iccrea BancaImpresa SpA	Rome	1	Iccrea Banca SpA	100.0	100.0
132	BCC Factoring SpA	Rome	1	Iccrea Banca SpA	100.0	100.0
133	Banca Sviluppo SpA	Rome	1	Iccrea Banca SpA	99.3	99.3
134	Banca Mediocredito del F.V.G. SpA	Udine	1	Iccrea Banca SpA	52.0	52.0
135	BCC Gestione Crediti SpA	Rome	1	Iccrea Banca SpA	100.0	100.0
136	BCC Solutions SpA	Rome	1	Iccrea Banca SpA	100.0	100.0
137	BCC Beni Immobili Srl	Rome	1	Iccrea Banca SpA	100.0	100.0
138	BCC Lease SpA	Rome	1	Iccrea BancaImpresa SpA	100.0	100.0
139	BCC CreditoConsumo SpA	Rome	1	Iccrea Banca SpA	100.0	100.0
140	BCC Sistemi Informatici SpA	Milan	1	Iccrea Banca SpA	99.4	99.4
				Banca Sviluppo SpA	0.0	0.0

		Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
141	Coopersystem Societa' Cooperativa	Florence	1	Banca di Anghiari E Stia - Credito Cooperativo S.C.	0.0	5.7
				Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	0.0	5.7
				Chiantibanca - Credito Cooperativo S.C.	0.1	5.7
				Banca del Valdarno - Credito Cooperativo S.C.	0.1	5.7
				Banca di Pescia e Cascina - Credito Cooperativo S.C.	0.0	5.7
				Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	0.0	5.7
				BCC di Pontassieve S.C.	0.0	5.7
				Banca dell'Elba - Credito Cooperativo S.C.	0.0	5.7
				Credito Cooperativo Valdarno Fiorentino Banca di Cascia S.C.	0.0	5.7
				Banca Alta Toscana Credito Cooperativo S.C.	0.4	5.7
				Banca Centro Credito Cooperativo Toscana - Umbria S.C.	0.1	5.7
				Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	0.1	5.7
				Banca TEMA - Terre Etrusche di Valdichiana e di Maremma S.C.	0.0	5.7
142	Sigest Srl	Calcinaia	1	BCC Pisa e Fornacette Credito Cooperativo S.C.	100.0	100.0
143	Sinergia SpA	Rome	1	Iccrea Banca SpA	100.0	100.0
144	Fondo Securis Real Estate	Rome	4	Iccrea Banca SpA	78.0	78.0
				BCC Brianza e Laghi S.C.	1.2	1.2
145	Fondo Securis Real Estate II	Rome	4	Iccrea Banca SpA	84.8	84.8
146	Fondo Securis Real Estate III	Rome	4	Iccrea Banca SpA	79.5	79.5
147	Fondo Il Ruscello	Milan	4	BCC di Milano S.C.	100.0	100.0
148	Fondo Sistema BCC	Rome	4	BCC di Milano 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
149	Asset Bancari V	Rome	4	BCC di Milano 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
				Credito Padano Banca di Credito Cooperativo S.C.	11.3	11.3
				Banca Cremasca e Mantovana - Credito Cooperativo S.C.	26.0	26.0

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.

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

Introduction

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

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

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

- the 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[43] notwithstanding the provisions of those accounting standards.

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

Taking account of the foregoing, in particular:

- the provisions introduced with the 2019 Budget Act that specify the procedures for complying with consolidation requirements in the case of groups of banks affiliated to a central body;
- the provisions of the Consolidated Banking Act, which are important in defining the governance powers of the central body over the affiliated mutual banks, defined in the Cohesion Contract;

[43] European Commission, Agenda Paper for the Meeting of the Accounting Regulatory Committee on 24th November 2006, paragraph 4.3. [… the determination of whether or not a company is required to prepare consolidated accounts will continue to be made by reference to national law transposed from the Seventh Council Directive"].

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

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

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

Scope and methods of consolidation

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

- the financial statements of Iccrea Banca S.p.A in its capacity as Parent Company and Central Body;
- the financial statements of the 128 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.[44]Their exclusion from the scope of consolidation does not have a material impact on Group equity.

Associated companies

Associates are companies in which the Consolidating entity directly or indirectly holds at least 20% of the voting rights or over which, even with a smaller share of the voting rights, it exercises a significant influence, which is defined as the power to participate in determining the financial and operational policies of the associate without having control or joint control.

More specifically, Significant influence is assumed to exist when the parent company:

- directly or indirectly holds at least 20% of the voting rights of another company;
- is able, including through shareholders' agreements, to exercise significant influence through:
    - representation on the company's management body;
    - participation in the process of setting policies, including participation in the decision-making process concerning dividends;
    - the existence of significant transactions;
    - the exchange of management personnel.

Associates are accounted for using the equity method. Equity in the associated company includes goodwill (net of any impairment loss) paid for the acquisition. The carrying amount of the interest is increased or decreased to reflect the share of the post-acquisition profits or losses of the associate and is recognized in the income statement under item 250. "Profit/(loss) from equity investments". Any distribution of dividends is indicated as a decrease in the carrying amount of the equity investment. The goodwill associated with an associate or joint venture is included in the carrying amount of the investment and does not undergo separate impairment testing.

Any change in the other comprehensive income relating to these investee companies is presented as part of the comprehensive income of the Group. In addition, if an associated company recognizes a change allocated directly to equity, the Group recognizes its share, where applicable, in the statement of changes in equity.

If the portion of the losses pertaining to the Group equals or exceeds the carrying amount of the investment in the associate, further losses are not recognized unless. there is contractual obligation to cover such losses or in the presence of payments made on behalf of the associate.

Unrealized profits on transactions between the Group and its associated companies are eliminated at the same percentage of the Group's interest in the profits of the associates. Unrealized losses are also eliminated, unless the transactions carried out show evidence of an impairment loss on the assets involved. Valuation reserves for associated companies are recognized separately in the statement of comprehensive income.

A number of interests of more than 20%, albeit of limited amount, over which the Parent Company does not have the direct or indirect ability to participate in setting management policies are excluded from the scope of consolidation and classified in accordance with the provisions of IFRS 9. Non-material associates are also excluded from the scope of consolidation. Their exclusion from the scope of consolidation does not have a material impact on Group equity.

Joint arrangements

Entities held under joint arrangements are those over which control is shared under a contractual agreement with other investors. More specifically, a joint arrangement is a contractual arrangement whereby two or more parties exercise joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Under IFRS 11 joint arrangements are classified as either joint operations or joint ventures based upon the contractual rights and obligations held by the Group. A joint operation is a joint arrangement whereby the

[44] 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.

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 December 31, 2021 the Group had no interests in joint arrangements.

Structured entities

Subsidiaries may also include any "structured entities" in which the voting rights are not deemed significant in assessing control and include special purpose entities and investment funds.

Structured entities are treated as subsidiaries where:

- the Group has the power through contractual rights to direct the relevant activities;
- the Group is exposed to the variable returns arising from such activities.

The structured entities that are consolidated because the Group has the power to govern the relevant activities of the entity as a result of the financial instruments it has subscribed include:

- real estate investment funds;
- special purpose securitization vehicles.

Structured entities – Real estate investment funds

In the real estate investment funds, the control relationship takes account of the purpose/scope of the operation and has been deemed to exist in the following cases:

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

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

In view of their business model (real estate) and the composition of their assets, essentially composed of properties measured at market value, these funds have been consolidated, recognizing their assets under property, plant and equipment in the consolidated financial statements, recognizing any increases/decreases under "*Net gain/loss from valuation at fair value of property, plant and equipment*" in the income statement.

Structured entities –securitizations

In securitizations, the indicators that a control relationship exists include:

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

The segregated assets of the operations originated by banks of the Group that did not give rise to the derecognition of the assigned loans have been consolidated through consolidation of the originating banks.

2. INVESTMENTS IN SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

NON-CONTROLLING INTERESTS, VOTING RIGHTS OF NON-CONTROLLING INTERESTS AND DIVIDENDS DISTRIBUTED TO NON-CONTROLLING INTERESTS

	Non-controlling interests	Non-controlling interest percentage of votes [1]	Dividends distributed to non-controlling interests
1. Banca Mediocredito del F.V.G. SpA	48.01%	48.01%	-
2. Coopersystem Società Cooperativa	99.21%	26.32%	-

(1) Percentage of votes in ordinary shareholders' meeting

INVESTMENTS WITH SIGNIFICANT NON-CONTROLLING INTERESTS: ACCOUNTING DATA

	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Shareholders' equity	Net interest income	Gross income	Operating expenses	Profit (loss) before tax on continuing operations	Profit (loss) after tax on continuing operations	Profit (loss) after tax on disposal groups	Net profit (loss) for the period (1)	Other comprehensive income after tax (2)	Comprehensive income (3) =(1)+(2)
1. Banca Mediocredito del F.V.G. SpA	995,656	88,132	845,312	10,307	853,508	93,676	11,178	19,357	(12,008)	(6,020)	(3,004)	-	(3,004)	652	(2,352)
2. Coopersystem Societa' Cooperativa	36,954	20,898	5,018	3,972	2,113	23,912	(71)	(71)	(7,958)	6,646	5,309	-	5,309	-	5,309

3. 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.

4. OTHER INFORMATION

Data used for consolidation

The accounting data used for line-by-line consolidation are those at December 31, 2021, as approved by the competent bodies of the companies included in the scope of consolidation, adjusted where necessary to adapt them to the uniform Group accounting policies.

Subsidiaries whose annual financial statements have not been drawn up on the basis of the international accounting standards (IAS-IFRS) prepare a specific reporting package using such standards to permit the Parent Company to perform the consolidation. This reporting package is approved by the boards of directors of the companies.

With regard to the reporting packages of the associated BCC Vita SpA and BCC Assicurazioni S.p.A, in application of the "*deferral approach*" (or *temporary exemption*) provided for under IFRS 9, the companies continue to recognize financial assets and liabilities in accordance with the provisions of IAS 39 pending the entry into force of the new standard on insurance contracts (IFRS 17), which is currently expected in 2023. In accordance with the provisions of Regulation (EU) 2017/1988 of November 3, 2017, the Parent Company has elected to use the temporary exemption from certain provisions of IAS 28, which are indicated in paragraphs 20O and 20P of IFRS 4, and is consequently exempt the use of uniform accounting policies for the two insurance companies in its application of the equity method.

SECTION 4 – EVENTS SUBSEQUENT TO THE REPORTING DATE

In the period between the reporting date of the financial statements and their approval by the Board of Directors April 8, 2022, with the exceptions indicated below, no events occurred that would entail a modification of the financial data approved at that meeting.

Russia – Ukraine conflict

In addition to the consequences of the COVID-19 pandemic, where the positive effects of the actions taken to revive economic growth were beginning to emerge, the current macroeconomic environment has been buffeted by a new round of uncertainties associated with the conflict between Russia and Ukraine.

In February 2022, the serious geopolitical tensions between the two countries, which then led to war, had a significant adverse impact on the entire global economic and financial situation, with an immediate impact on inflation and exports as well as potentially long-term repercussions for the nascent growth trend (which has been sharply influenced by developments in energy commodity prices, reflecting the significant dependence on energy supplies from the area affected by the conflict).

In response to the aggression against Ukraine, the European Union swiftly adopted the most sweeping sanctions package in its history against Russia. It is clear that even these measures will not leave the European economy unscathed.

The repercussions of the crisis on global macroeconomic conditions, which were already characterized by tensions in global supply chains, are therefore likely to have consequences for the European economy in terms of greater volatility and impacts on production. However, it is currently not possible to determine which effects could arise as a result of these developments, as at the moment we cannot rule out the risk of recession despite the strong economic recovery that has begun, thanks in part to the key support of national and European fiscal policies.

The Bank considers the aforementioned events to be a non-adjusting event subsequent to the close of the financial statements pursuant to IAS 10. In consideration of the constant and rapid evolution of the situation, it is not currently considered possible to produce a quantitative estimate of the potential impact that these geopolitical tensions could have on the performance and financial situation of the Bank and the Group (the determinants are many and difficult to assess, and in large part not yet fully defined). These analyses will consequently be updated progressively in formulating accounting estimates for 2022. Specifically, the determination of Expected Credit Loss - ECL, the economic and financial projections used to test goodwill for impairment and the probability test conducted to support the recognition of deferred tax assets were developed on the basis of the macroeconomic conditions expected at December 31, 2021 and, therefore, do not take into consideration the possible future impacts resulting from the current geopolitical tensions.

The exposure of the Group to Russia/Ukraine is summarized below:

- for the mutual banks, gross exposures (loans to customers) amount to about €77 million, limited to 29 banks, of which some €70 million are held by just 10 banks with a per-bank average of around €7 million, as well as exposures in respect of investment funds/portfolio management products/financial assets linked to the Russian/Ukrainian market in the amount of about €38 million, with this exposure limited to 7 banks;
- for the Parent Company, which operates through its Representative Office in Moscow, the net exposure totaling €4.8 million is mainly represented by an on-balance-sheet exposure of €4.3 million in respect of Russian companies belonging to Italian groups, which is 100% guaranteed by the Italian parent companies, as well as a non-recourse bill discount exposure of €0.1 million, which is 100% guaranteed by SACE against political risk, and a guarantee position of which €0.4 million has been used.

In the extreme and scarcely probable scenario in which all these exposures were not fully recovered, the impact on the Group's CET1 ratio at the end of 2021 would be negligible. The Group's capital position would therefore enable it, even in the most catastrophic circumstances, to absorb this unlikely impact while still maintaining its capital well above requirements.

In close connection with the initiatives and guidelines issued by the Parent Company in this regard, the Group has in any event taken all the necessary measures to manage its credit/counterparty risks and is analyzing its portfolio to identify the counterparties and sectors that could be impacted by the potential repercussions of the conflict on growth and inflation.

The Group also operates in line with instructions contained in the joint press release issued by the Bank of Italy, CONSOB, IVASS and UIF of March 7, 2022 (which draws the attention of supervised entities to the need for full compliance with the restrictive measures imposed by the European Union in response to situation in Ukraine), both with regard to full compliance with the sanctions defined by the European Union and with regard to the IT risk (cyber risk), security and business continuity issues potentially linked to the conflict, with the aim of ensuring full compliance with the sanctions, the adequacy of business continuity plans and the correct functioning and prompt restoration of backups, as well as specific operating instructions aimed at raising staff awareness of the safe use of IT resources (e-mail, internet browsing, workstations).

Amendments introduced with Decree Law 17 of March 1, 2022

On March 1, 2022, Decree Law 17 was approved. Article 42 of the measure governs the deferral, in equal instalments, to the tax period under way at December 31, 2022 and the three subsequent tax periods, of the deduction of 12 per cent of the negative components envisaged, for the purposes of the corporate income tax and regional business tax, in paragraphs 4 and 9, respectively, of Article 16 of Decree Law 83 of June 27, 2015, ratified with amendments with Law 132 of August 6, 2015.

Pursuant to paragraphs 46 and 47 of IAS 12, the provision in question is considered as a non-adjusting event in the financial statements at December 31, 2021 and, accordingly, the consequent financial effects have not been reflected in the balances at the same date.

In accordance with IAS 10, paragraphs 21 and 22, based on the estimates made by the Group at the reporting date, the absence of a decrease envisaged by the legislation in question has an overall positive impact on profit or loss of about €11 million, associated with the available ACE and/or tax losses that can be carried forward.

SECTION 5 – OTHER MATTERS

Risks and uncertainties associated with the use of estimates

In conformity with the IAS/IFRS, management is required to formulate accounting estimates that can impact the values of the assets, liabilities, costs and revenues recognized in the financial statements. The formulation of these estimates is based on prior experience, available information, the adoption of assumptions and subjective judgements.

Estimation processes were used to support the carrying amount of some of the largest items recognized in the consolidated financial statements, such as:

- the verification of compliance with the requirements for classifying financial assets in the accounting portfolios that adopt the amortized cost criterion (SPPI test), with particular regard to the performance of the benchmark test;
- the quantification of impairment losses on loans and, more generally, other financial assets;
- the assessment of the appropriateness of the value of equity investments and other non-financial assets (e.g. goodwill);
- the use of valuation techniques in the recognition of the fair value of financial assets not listed on active markets;
- the determination of the fair value of financial instruments to be used for financial reporting purposes;
- the estimation and assumptions concerning the recoverability of deferred tax assets;
- the quantification of provisions for legal and tax risks and charges.

The description of the accounting policies applied to the main financial statement aggregates provides the information necessary to identify the main assumptions and subjective assessments used in the preparation of the financial statements. In particular:

- for allocation to the three stages of credit risk provided for under IFRS 9 of loans and debt securities classified under financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income and the associated calculation of expected losses, the main estimates regard the determination of the parameters representing a significant increase in credit risk, the inclusion of forward-looking factors in determining PD, EAD and LGD and the determination of future cash flows from impaired loans;
- for the quantification of provisions for risks and charges, the estimation of the amount of outlays necessary to discharge liabilities, taking account of the effective probability of having to employ resources to do so.

For further information concerning the composition and associated carrying amounts of the items affected by these estimates, please see the specific sections in the notes to the financial statements.

By their nature, estimates may vary from year to year and, therefore, it cannot be ruled out that in subsequent years the current values recorded in the financial statements may differ significantly as a result of changes in the subjective assessments employed.

Risks, uncertainties and impacts of the COVID-19 pandemic

The main subjective judgments made by management in assessing the impact of the COVID-19 pandemic are summarized below.

The quantification of impairment losses on receivables

A key element of the comprehensive set of actions implemented by the Group for the structural management of the COVID-19 emergency was the effort to revise the credit risk forecasting metrics to factor the conditions associated with the emergency into ordinary valuation processes and, in particular, within the IFRS 9 impairment framework in order to calculate the expected credit loss (ECL) on performing loans.

The great discontinuities in market conditions brought about COVID-19 have prompted a number of exceptional changes in methodology and implementation that have made it possible to incorporate the implications of the impact of the pandemic into the impairment model, taking due consideration of the most recent developments.

At the same time, the introduction of measures to support customers and the economy, with a particular emphasis on actions taken by the Group in relation to applicable legislative measures enacted in Italy, the measures agreed with industry association and the initiatives undertaken by individual organization led to the introduction of further methodological changes to the IFRS 9 impairment framework in order to take account of the impact of the emergency in calculating expected credit losses.[45]

More specifically, the measures to adapt the impairment framework to incorporate the effects of the COVID-19 pandemic in the calculation of expected credit losses included:

- the use of forecast scenarios updated in response to developments in macroeconomic conditions. In particular, in order to enable the adaptation of the IFRS 9 methodological framework to the pandemic, the difficulty of modeling its peculiar characteristics using ordinary tools (satellite models) prompted the use of forward-looking projection metrics to be applied to the risk parameters (PD, LGD) estimated on the basis of the forecast values of the exogenous macroeconomic variables, differentiated by type of counterparty, sector of economic activity and geographical area;
- the management of the impacts related to the implementation of customer support measures, with particular regard to loan payment moratoriums and measures to support the liquidity of companies. More specifically, loan moratoriums were managed by adapting automatic staging mechanisms (e.g. halting the count of days past due) in order to make the stage allocation criteria consistent with application of the support measures, considering at the same time an appropriate degree of prudence in the assessment of these positions in the light of the evolution of market conditions and the expectations of the supervisory authorities in this regard. The handling of measures to support liquidity called for the application of coverage levels set to take account of the mitigating effects on credit risk of the specific guarantees to support operations in this area.

These exceptional changes to the IFRS 9 impairment framework in response to COVID-19 were introduced in concert with the ordinary maintenance of the estimation models planned prior to the pandemic, thereby lending continuity to the updating and fine-tuning of the risk parameters (PD and LGD) used to calculate ECL within the IFRS 9 framework, in line with applicable financial reporting standards. These updates led to the development of a version of the models and measurements of the related parameters that are more stable and more accurate in measuring the characteristics of risk typical of the loan portfolios of the affiliated banks and of the Group as a whole.

Impairment testing of equity investments and goodwill

In compliance with IAS 36, at each reporting date, the Group companies shall verify that there is no objective evidence that the carrying amounts of equity investments and goodwill is not recoverable on the basis of the common guidelines, criteria and methodological models developed by the Parent Company.

With particular regard to the goodwill recognized by the Group banks, the so-called dividend discount model (DDM) in the excess capital variant (which estimates the value of a company on the basis of future dividends attributable to shareholders) was used for the full company CGU, while the discounted cash flow (DCF) in the “levered variant” (which estimates the value of the economic capital of a company as the sum of the present value of cash flows to the shareholders that it will be able to generate over a specific explicit planning period for prospective performance/financial data and the residual value at the end of that period, discounted at a rate equal to the cost of equity) was used for the branches acquired CGU.

At December 31, 2021 the above approaches, which are discussed in greater detail in Part B of the notes to the financial statements, have been applied on the basis of 2022-2024 forecasts of each Group company, based on the results of the 2021-2023 corporate strategic plan developed in accordance with the Group’s strategic guidelines in order to reflect developments in performance in 2021 and the changes made to estimation models for the cost of credit at the Group level.

Probability testing of DTAs

The probability testing conducted to verify the conditions for continuing to recognize existing and new deferred tax assets in the financial statements was conducted on the basis of the common criteria and methods adopted by the Group, estimating the profit or tax loss (IRES/IRAP) over a forecast period deemed reasonable and verifying that this would be sufficient to ensure recovery of the total amount of DTAs requiring testing.

The estimates and assumptions concerning the recoverability of tax assets in respect of prepaid taxes, which are discussed in more detail in

[45] Including the revision of the probation period for exposures involved in moratoriums previously assigned to *Stage* 2.

part B of the notes to the financial statements, have been applied on the basis of 2022-2024 forecasts of each Group company, based on the results of the 2021-2023 corporate strategic plan developed in accordance with the Group's strategic guidelines in order to reflect developments in performance in 2021 and the changes made to estimation models for the cost of credit at the Group level.

Contract modifications resulting from COVID-19

Contract modifications and derecognition (IFRS 9)

Since the beginning of the emergency and in close connection with the references and initiatives produced by the Parent Company, the Group has adopted an articulated series of measures aimed at facilitating a prompt response to customer needs, working promptly in acknowledging and, where necessary, adapt to the initiatives undertaken by the various national and European Authorities, with the aim of facilitating as much as possible the timely activation of the support measures as they were issued.

In this context, they were:

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

The most recent EBA intervention in this regard in 2020 was that of 2 December concerning the updating of the guidelines that banks must apply to legislative or non-legislative moratoriums on the repayment of existing loans. These guidelines were then reflected in the ABI renewals of the initiatives to suspend payments on mortgages and loans already governed by specific agreements with industry and consumer associations.

These last guidelines must first be framed within the context of the effort undertaken by the authorities since the beginning of the pandemic to develop a regulatory framework consisting of certain yet flexible rules for the various forms of payment moratorium available to banks to support their customers. The main stages of this effort are as follows.

The European Banking Authority (EBA) first intervened specifically in this area with a document issued on March 25, 2020 entitled “Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures”, which addressed the accounting (and prudential) issues relating to the potential reclassification of loans prompted by public or industry-based moratoriums and by other forms of support adopted in response to the pandemic.

The EBA specified that since public or industry-based moratorium measures granted in response to the pandemic were intended to mitigate systemic risks and not specific needs of individual obligors, they should not automatically lead to reclassification under the definition of “forbearance” of loans benefiting from such measures nor should they automatically lead to prudential classification of positions as non-performing for the purposes of IFRS 9 (and therefore of migration between risk stages).

That said, the EBA also emphasized that, even in these specific circumstances, banks were still required to assess the creditworthiness of obligors who benefit from a moratorium and, consequently and possibly, reclassify obligors whose creditworthiness has deteriorated.

In performing such assessments - which could affect a wide range of borrowers - banks must avoid mechanistic assessments and prioritize analyses using risk-based approaches. Furthermore, in the period directly after the moratorium, institutions should nevertheless pay particular attention to those exposures which experience delays in payments or other signs of deterioration in creditworthiness.

On April 2, 2020, the EBA also published the document “Guidelines on legislative and non-legislative moratoriums on loan repayments applied in the light of the COVID-19 crisis”, which sets out detailed guidelines for public and private loan repayment moratoriums applied by September 30, 2020 (extending the time limit from the original June 30, 2020 deadline, as per the EBA decision published on June 18, 2020), so that positions are not classified as exposures subject to forbearance measures or a distressed restructuring. The guidelines also establish that entities must continue to promptly identify situations of possible financial difficulty of debtors and provide for consistent classification in accordance with the regulatory framework.

The EBA guidelines refer both to the moratorium measures imposed ex lege and those initiated by private actors that are of “general” scope, i.e. have been granted by banks in order to prevent systemic risk through the provision of broad support for all companies temporarily in difficulties due to the pandemic. In this regard, the guidelines set out a series of conditions that must all be met for a moratorium measure to be considered of general scope”:

- the moratorium must be based on national law or private initiative. In this case, the moratorium must be broadly applied within the banking sector in order to ensure the uniformity of moratoriums granted by the various credit institutions;
- the moratorium has to apply to a broad range of obligors, determined on the basis of general criteria, such as belonging to a certain type of customer segment (retail, SMEs, etc.), location in one of the areas most affected by the pandemic, the type of exposure (mortgage loans, leases, etc.), or belonging to a particularly affected industry sector, etc.;

- the moratorium must only change the schedule of payments and, therefore, temporarily suspend, postpone or reduce principal and/or interest payments. The moratorium, therefore, cannot involve the modification of other loan conditions (such as the interest rate);
- the moratorium must offer the same conditions to all those who benefit from it;
- the moratorium must not apply to loans granted after the launch of the moratorium;
- the moratorium must have been launched in response to the COVID-19 pandemic and applied before June 30, 2020 (the deadline was extended to September 30, 2020 as per the EBA decision published on June 18, 2020).

Moratoriums granted in response to the COVID-19 pandemic impact the identification and reporting of past due amounts, as the counting of days past due takes account of the suspension of payments. Consequently, such measures should lead to a short-term reduction in the classification of exposures as non-performing as a result of the suspension of the deadlines for counting days past due.

Article 18 of the EBA "Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013" of January 18, 2017 established, in relation to moratoriums granted under the provisions of law, that exercising the option to suspend the calculation of days past due during the period of covered by the moratorium, thereby extending the normal period of 90 days, should be assessed as a possible indicator of unlikeliness to pay.

The EBA guidelines of April 2, 2020 referred to above equate moratoriums granted on a private basis in response to COVID-19 to public moratoriums. Consequently, the former also benefit from the interruption of the counting of days past due as long as they comply with the requirements set out in the EBA guidelines. The EBA reiterates that the concessions granted in response to COVID-19, in cases of substantial invariance of the present value of the cash flows following the contract modification, shall not to be considered distressed restructuring, do not involve the transition to default and represent temporary relief for those who are unable to fulfill their contractual obligations due to business disruptions caused by the pandemic.

The EBA emphasizes that the banks shall in any case to evaluate the possible classification of customers benefiting from the moratoriums as unlikely to pay for the purpose of the definition of default, considering the obligor's ability to meet the new payment plan (regardless of any public guarantee) and excluding the automatic classification of these loans as distressed restructurings.

In this regard, the EBA recognizes that there may be difficulties in carrying out individual assessments for the purposes of classification of positions as non-performing. In this case, banks must adopt a risk-based approach (i.e., taking account of, for example, the sectors most exposed to the long-term effects of the crisis such as transport, tourism, hotels, retail trade). Therefore, it will be important to identify, after the end of COVID-19 moratoriums, those exposures that present payment delays with respect to the new repayment schedules for the purpose of promptly classifying them as non-performing.

If it meets the requirements indicated above, loans benefiting from the application of a moratorium scheme should not be considered subject to a "forbearance measure" unless they were already benefiting from forbearance at the time of application of the moratorium itself.

On September 21, 2020, the EBA announced that it would not extend the date of September 30, 2020 for the expiry of the extraordinary flexibility measures granted to banks concerning the prudential treatment of moratoriums granted in response to the COVID-19 pandemic, specifying that there should be no automatic reclassification of positions requesting the moratorium by September 30, 2020 for the entire period of suspension of payments.

For the exposures for which a legislative or industry-sponsored moratorium was granted by the banks in the period between September 30 and December 31, 2020, the current rules on the prudential treatment of forbearance measures should apply.

In particular:

- unlike during the period covered by the flexibility granted by the EBA, banks should assess an applicant's possible financial difficulties in settling payments falling due. In case of difficulty, the position affected by the concession measure should be classified as forborne, even in the case of a legislative moratorium;
- in the case of a legislative moratorium, the rules on the definition of default already mentioned provide for a suspension of the count of 90 days of past due payments to classify the company as in default.

As noted earlier, the continuation of the COVID-19 pandemic, taking account of the monitoring of the developments of the pandemic, in particular the impact of the second wave and the consequent new restrictions imposed by many European governments, prompted the EBA to reactivate its guidelines. In particular, in the second amendment of December 2, 2020, the EBA established that for the purposes of those guidelines, the overall period within which the payment schedule of a given loan agreement is amended in accordance with paragraph 10(c) of the guidelines following the application of general payment moratoriums should not exceed nine months. However, this nine-month maximum limit does not apply to changes in payment schedules agreed for loans granted before September 30, 2020 under a general payment moratorium if the total duration of the changes exceeds nine months.

Measures to suspend payments and/or extend the maturity of installment transactions or extend the maturities of advances, when granted, involve a modification of the original contract conditions and can be construed as contractual modifications of financial assets, which under IFRS 9 calls for verification of whether the circumstances permit the asset to continue to be recognized in the financial statements or, conversely, require that the original instrument be derecognized and a new financial instrument be recognized.

As reiterated a number of times in the EBA and ESMA statements cited earlier, these contract modifications must be granted in response to COVID-19 in order to offer broad support to all companies and individuals temporarily in difficulty due to the pandemic in order to prevent systemic risk.

Note that the operational procedures for granting COVID-19 provide for the application of interest to the entire residual liability. This approach implies substantial actuarial neutrality, as also provided for in the Government's explanatory report to the Cure Italy Decree and the EBA statement of April 2, 2020, thus avoiding significant accounting impacts.

The contract modifications in question do not affect the original contractual characteristics and flows of the loans and consequently they do not require derecognition.

Within the Group, the guidelines issued by the Parent Company concerning the tolerance regime envisaged by the EBA regarding the classification of exposures involved in legislative and non-legislative moratoriums as forborne were promptly incorporated, based on the criteria specified in the guidelines issued on the subject by the EBA.

Specifically, in April 2020 the EBA issued its guidelines in EBA/GL/2020/02, which allowed banks to not classify as forborne all exposures for which they had granted, by June 30, 2020, changes in the related repayment plans under the provisions of legislative and non-legislative measures that complied with certain requirements. On June 18, 2020, with the European economies not yet fully reopened and considering the impacts of the crisis generated by the pandemic, the EBA extended this mechanism for another 3 months, setting September 30, 2020 as the deadline for banks to grant moratoriums without classification of positions as forborne.

On December 2, 2020, the EBA decided to reactivate the EBA/ GL/2020/02 guidelines by setting March 31, 2021 as the new deadline for their application, replacing the previous time limit of September 30, 2020. These guidelines were then reflected in ABI's renewal of initiatives to suspend loan repayments already governed by specific agreements with business and consumer associations. Developments on the legislative front included the possibility envisaged in Decree Law 78/2021 (the second Support Decree) of an extension until December 2021 of legislative moratoriums expiring on June 30, 2021, if requested by borrowers by June 15, 2021. The measure also provided for debtors to resume paying the interest portion of their instalments.

On September 8, 2021, the Joint Committee of European Supervisory Authorities (ESAs) published the report "On Risk and Vulnerabilities in the EU Financial System", which noted that after more than a year from the start of the COVID-19 pandemic, the financial sector had largely proved resilient in the face of its severe economic impact. Despite the generally positive outlook, the Joint Committee underscored that expectations for economic recovery remained uncertain and uneven across the Member States, while vulnerabilities in the financial sector are increasing, not least because of the side effects of the crisis measures (such as rising debt levels and upward pressure on asset prices). In addition, expectations of inflation and yield growth, as well as increased investor risk-taking and financial interconnectedness issues, could put additional pressure on the financial system. In addition to the economic vulnerabilities, the financial sector is also increasingly exposed to cyber risk and information and communication technology (ICT) related vulnerabilities. In light of these risks and uncertainties, the Joint Committee advises regulatory and supervisory authorities, financial institutions and market participants to take a range of policy actions. These actors need to be prepared for a possible deterioration of asset quality in the financial sector, despite the improvement in the economic outlook. In light of persistent risks and high uncertainty, banks may need to withstand increasing credit risk losses, as a consequence of expiring payment moratoriums and other public support measures, while maintaining adequate lending volumes. The report emphasizes that banks and borrowers experiencing financial difficulties should proactively work together to find appropriate solutions for their specific circumstances, which should include not only financial restructuring, but also a timely recognition of credit losses.

The Group banks have looked to the guidelines and support provided by the Parent Company in addressing this issue. These have included application solutions to facilitate the operational the management of extensions and the specific rules for classifying positions involved in a legislative moratorium as forborne. In addition, in December 2021 the Parent Company issued additional operational instructions and guidelines for positions involved in a moratorium (both expired and ongoing), helping to ensure the appropriate classification in terms of staging and forbearance.

Measures to suspend payments and/or extend the maturity of installment transactions or extend the maturities of advances, when granted, involve a modification of the original contract conditions and can be construed as contractual modifications of financial assets, which under IFRS 9 calls for verification of whether the circumstances permit the asset to continue to be recognized in the financial statements or, conversely, require that the original instrument be derecognized and a new financial instrument be recognized.

As part of the aforementioned support measures, the following main lines of action have been identified and adopted within the Group:

- suspending installments and/or extending the maturity of installment transactions, in application of rules established in legislation, ABI moratoriums and private initiatives undertaken by the bank;
- extending the maturity of existing advances;
- granting new medium/long-term loans for borrowers' working capital needs, giving preference, where applicable, the use of eligible guarantees and the "consolidation" operations envisaged by the Liquidity Decree.

In 2021, the Group has also continued supporting businesses and households as done in 2020. At December 31, 2021, applications submitted under legislative, ABI, and bank-sponsored programs had been approved in the total amount of €20.2 billion (equal to about 98%

of the applications received).

With regard to other credit measures adopted (Liquidity Decree), loans totaling €8.9 billion have been granted (about 93% of the applications received).

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

ICBG moratoriums (€/billions)	Amount 31/12/21	Amount 31/12/20
Applications approved	20.23	23.26
% applications approved	98%	98%
Remainder[46]	5.00	16.4
New financing under Art. 13 of Liquidity Decree (€/billions)		
Financing granted	8.90	6.04
% financing granted	93%	85%

As shown above, a significant percentage of applicants for loan payment moratoriums and other stimulus measures made available by the government, by industry associations, and by the banks themselves at the start of the pandemic, and then extended as the economic crisis brought about by the health emergency continued, have returned to making normal payments. At December 31, 2021, the remaining balance of active moratoriums came to about €5 billion (compared with a remainder of €16.4 billion at December 31, 2020), mainly connected with public moratoriums for households and SMEs that benefited from the most recent support measure of the second Support Decree, which was extended until December 31, 2021. In early 2022, borrowers whose moratoriums expired at the end of 2021 resumed payments under their normal loan repayment plans.

Amendment of IFRS 16

On May 28, 2020, the IASB published the amendment to IFRS 16 "COVID-19 Related Rent Concessions", endorsed with Regulation (EU) no. 1434/2020, with application of the amendment for financial statements for periods on or after June 1, 2020. The amendment, which was taken in response to the COVID-19 crisis, allows lessees not to account for temporary reductions and/or suspensions of rent payments granted for the period from the beginning of the pandemic to June 30, 2021 as a direct consequence of COVID-19 as a "lease modification". On the basis of the provisions of IFRS 16, in the event of a change in the original contractual conditions of a lease, it would be necessary to modify the amortization plan of the lease ("lease modification") with consequent recalculation of the liability. The amendment of IFRS 16 makes it possible, as a practical expedient, to treat the unpaid rent as a variable payment, to be recognized as a reduction in costs in the profit or loss, without necessarily having to recalculate the financial liability.

The Commission Regulation (EU) 2021/1421 of August 30, 2021 was published in *Official Journal* L 305 of August 31, 2021, endorsing "COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)". Companies shall apply the amendments starting from April 1, 2021 for annual reporting periods beginning on or after January 1, 2021. The amendment to IFRS 16 extends the operational, optional and temporary concessions connected with the COVID-19 pandemic granted to lessees involving the reduction of payments originally due on or before June 30, 2021 to include concessions involving the reduction of payments originally due on or before June 30, 2022. In other words, the termination of the period of application of the amendments to IFRS 16 (paragraphs 46A and 46B) has been extended from June 30, 2021 to June 30, 2022, permitting a number of simplifications in accounting for lease concessions granted in connection with COVID-19, such as the suspension or reduction of lease payments.

The companies of the Group have not requested any reduction or suspension of lease payments and, therefore, have not made use of the practical expedient provided for in this amendment.

[46] Management data including forborne positions falling due in December 2021.

Disposal scenarios

Taking into account our NPE reduction strategies, which among other options provide for the reduction of the stock of impaired credit exposures through disposals, for the purpose of valuing bad loans and UTP positions that could potentially be involved in sale, we identified a pool of exposures to which a probabilistic disposal scenario has been applied. This assessment is connected with the provisions of IFRS 9 that require companies to consider all forward-looking information available at the time of preparation of the financial statements, including the methods the Group companies plan to use to recover the loans, which in addition to initiatives to recover against debtors or the guarantees they have pledged to secure their debt also include the sale of loans to third parties.[47]

The identification of the positions conducted as part of the ordinary analyses and evaluation of the corporate portfolio (including an examination of clauses or conditions that could make certain exposures non-transferrable) was performed on the basis of the following priority selection criteria:

- exposures classified as non-performing, starting with those of the oldest vintage;
- exposures classified as unlikely to pay (UTP) with a vintage of over 36 months, starting with those of the oldest vintage.

The positions identified were assessed through the application of a sale probability of 80% (consequently, the exposures within scope are adjusted by 20% in accordance with the idiosyncratic recovery estimates in the ordinary internal management of the positions and by 80% on the basis of the estimated theoretical transfer prices).

To determine the theoretical transfer price for valuation purposes, the Group considered models, parameters, methods (and related results) based on the determination of a range of prices using an evaluation of the individual transactions of the affiliated entities (subsequently grouped by uniform clusters at the Group level) in terms of quantitative factors such as expected gross flows, the cost and timing of recovery, as well as qualitative factors such as (i) classification (bad debt - UTP), (ii) type of loan (secured/unsecured), (iii) borrower size, (iv) debtor counterparty and (v) vintage.

The analytical determination method selected, applied on the basis of the idiosyncratic characteristics of the portfolio, was the discounted cash flow (DCF) approach, a method that determines the fair value of loans by discounting the associated cash flows from recovery with a specific discount rate and making use of prudential metrics and parameters derived from the current market conditions such that the theoretical potential value of the expected sale does not differ significantly from the value estimated as a portfolio average, under the same conditions prevailing at the time of any sale. Subsequently, the result was evaluated analytically and with market metrics (comparison/benchmarks).

The main assumptions applied to estimate the prices of each position are summarized below.

For the purposes of separate reporting of secured and unsecured exposures, only transactions backed by a first mortgage were considered secured.

The valuation model for secured positions estimated the expected recovery value by applying specific percentage haircuts to the most recent property value, broken down by category of property (residential/non-residential) and calibrated as a function of the classification of the loan (bad debt or UTP).

The timing of recoveries was estimated on the basis of the average timing recorded for the relevant court, separating positions by type of proceeding. For these purposes, the relevant court was selected on the basis of the province in which the property is located, where available; alternatively, the debtor's province of residence was considered an adequate proxy, taking account of the specific constraints associated with the operation of mutual banks. Where a proceeding was found to be at an advanced stage, a specific haircut was applied to the average time taken for such a proceeding in the relevant court (assuming that, *ceteris paribus*, expected flows from positions at a more advanced procedural stage will take less time to recover).

If the type of proceeding is not known, a bankruptcy proceeding has been assumed.

For unsecured positions, 15-year benchmark historical recovery curves obtained on the basis of the recovery curves used by the main Italian servicers in recent market transactions, differentiated by type and size of borrower, were applied to the claim (estimated on the basis of historical data for previous Group sales).

The relevant portion of the recovery curve was applied to each position, considering as the starting point the number of years elapsed from the date of transition to bad-loan status for bad loans and the date of transition to impaired status for UTPs.

In order to determine the net recovery value, average legal and servicing fees are applied.

The discount rate used to discount net recovery flows was estimated on the basis of current market conditions, credit status, type of portfolio, as well as the hypothetical target capital structure.

[47] The issue of probable sales of NPL portfolios has been addressed by the Transition Resource Group for Impairment of Financial Instruments, a working group established by the IASB to provide interpretations concerning the application of IFRS 9. As part of broader recommendations concerning specific aspects of measuring ECLs, that group clarified that where a company expects to recover part of the cash flows from exposures through a sale, these must be included in the measurement of ECLs if the following conditions hold:

- selling the loan is one of the recovery methods that the entity expected to pursue in a default scenario;
- the entity is neither legally nor practically prevented from realizing the loan using that recovery method;
- the entity has reasonable and supportable information upon which to base its expectations and assumptions.

Targeted Longer -Term Refinancing Operations (TLTRO) with the ECB

Loans under TLTRO III program are variable rate loans, indexed to ECB rates, with a reward mechanism for determining the final rate applicable to each operation based on the achievement of certain performance objectives for eligible loans in the period April 1, 2019 - March 31, 2021. Interest is settled in arrears.

The 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.[48]

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), currently -50bp, 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, currently equal to 0.0% or in case of positive performance, the average deposit facility rate, currently equal to – 0.50%, which can be modified by the ECB during the term of the respective loans;
- a fixed spread, in favor of Iccrea Banca, equal to 4.5 bp, which can be reset to zero under certain conditions;

[48] 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)".

- 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 will be announced by the Bank of Italy on June 10, 2022.

On the basis of the performance monitoring exercise at October 31, 2021, net lending was reasonably higher than the net lending benchmark. Consequently the conditions for recognizing in profit or loss - for the period June-December 2021 - the incentivized rates granted in recognition of the achievement of the specific performance target, i.e. the greater negative interest rate of 0.50% potentially applicable in the special additional special interest rate period, were met.

Interest accrued at December 31, 2021, recognized in the income statement under item “10. Interest and similar income”, amounted to a total of €344 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. The right to the credit held by the beneficiary can be monetized through a discount granted by a supplier directly in the invoice issued to the beneficiary, with the supplier either receiving a corresponding tax credit or transferring the original credit to third parties.

The credits can be used in compensation by the assignee on the basis of the residual installments of the credit not used by the original beneficiary, with no annual limit on the amount. The assignees of the tax credits must use them specifically, having regard to the individual installments of the tax credit that would have been due each year to the original beneficiary of the tax credit, offsetting them again the tax liability they report in their income tax return.

If the assignee cannot can offset the entire installment of the tax credit for the year, it can be transferred to third parties or be recorded as a loss equal to the part not offset. With regard to the possibility of re-assignment of the credit, Article 28 of the third Support Decree (Decree Law 4 of January 27, 2022) repealed the option of assignments subsequent to the first. The measure, in force since January 27, 2022, provides for a transitional regime, however, that applies to all credits purchased as of February 17, under which assignees may make an additional assignment beyond the first. The provision, which has not yet been ratified into law, has undergone subsequent amendments, which would allow supervised entities to carry out two further transfers after the initial assignment.

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 bank shall adjust 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) 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.

Covered bonds

In 2021, the Group conducted an issue of covered bonds (guaranteed bank bonds), a multi-originator transaction in which a number of Group banks sold high credit 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 banks undertake to maintain the credit quality of the cover pool over the course of the transaction. In the event of a deterioration in credit quality, they 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 banks therefore remain exposed to the risk of the assets pledged as collateral as if the transfer had not taken place. They 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 banks lose 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 banks continue 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.

Impact of the Comprehensive Assessment

Following the Comprehensive Assessment conducted in 2020 by the European Central Bank, which included an Asset Quality Review (AQR), the Group was asked to further strengthen risk safeguards with a conservative provisioning policy for, among other things, the performing loan portfolio.

In 2021, our response to the findings of the AQR was implemented in full, involving measures impacting the estimation processes used for the Group's performing and non-performing portfolios, which raised the level of prudence adopted in position classification and valuation, producing a generalized increase in the coverage of the portfolios in question. These measures can be categorized as refinements of our models and involved, among other modifications, changes to the parameters used in estimating ECLs.

The broader range of measures taken include the incorporation of greater prudence into the ECL IFRS 9 framework for performing portfolios, with the increase in provisioning being implemented with the introduction of distinct elements of prudence, both in the determination of risk metrics conditional on macroeconomic scenarios and in the staging of performing exposures. As regards the determination of conditional risk metrics, more conservative approaches have been implemented in the parameter conditioning models for measuring credit risk and specific conservation buffers in quantifying the probability of cure. With regard to the stage allocation logic for performing exposures, additional criteria were considered for determining the allocation to Stage 2 for positions associated with customers operating in high-risk sectors who had been granted debt service relief/rescheduling (suspension of payments, etc.) not strictly connected with specific financial difficulties of the individual borrower.

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 new 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")[49], 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;
- on July 2, 2019, the Financial Services and Markets Authority (FSMA), the competent authority for the supervision of the EMMI, announced that it had completed assessment the adjustments made to the governance and methodology underlying the calculation of EURIBOR, finding them compliant with the provisions of the BMR and therefore authorized the EMMI to continue its administration of that index in full compliance with the aforementioned regulatory provisions, thereby certifying compliance;
- as part of this regulatory and market framework, in July 2019 the ECB sent the banks a communication seeking information on the actions taken or under way to address the global interest rate reform, to which the Parent Company Iccrea Banca replied for the entire Iccrea Cooperative Banking Group, providing both a qualitative assessment of the exposure to the various IBORs (EONIA, EURIBOR and LIBOR), and a qualitative evaluation of the impacts on specific issues. The same request, with a new information set, was made by the authorities in November 2020 and Iccrea Banca responded last January with disclosures on the Group's operations as at September 30, 2020 indexed to benchmark rates (IBOR and RFR) and on the progress of the BMR project;
- following the preliminary analysis conducted in order to respond to the first ECB request for information, the Parent Company launched an assessment in January 2020, which was completed in July with:
- the identification of the areas of intervention necessary to ensure compliance with the new regulations, with particular regard to IBOR rates (i.e. EONIA, EURIBOR and LIBOR), in the Product & Strategy, Legal & Documentation, Risk & Analytics, Finance & Accounting areas;
- the definition of a masterplan of the interventions to be implemented by December 2021 in order to manage the transition.

In the finance area, the expected impact of the benchmark rate reform on the affiliated banks 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 derivatives operations, Group banks make use of the centralized management arrangements and services of the Parent Company. The planning activities for this matter are consequently handled directly by the Parent Company and are primarily focused on the measures necessary to adapt the front to back process for OTC derivatives operations, with particular reference to the adjustment of the valuation framework, the management of collateral, the modification of agreements with counterparties, the management of hedging operations and netting accounting.

The BMR underwent extensive analysis to determine the business processes affected and develop the consequent action plan. An activity program was launched to formulate and incorporate fallback clauses in the various commercial and financial contracts. 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).

The transition from EONIA Discounting to €STR Discounting, given the EONIA equivalence of €STR+8.5 bps, involved a parallel variation of 8.5 bps in the discount curve, with an impact on the measurements (MTM) of financial instruments held at the date agreed for the transfer with the individual counterparty.

[49] 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.

The change in MTM connected with the change in methodology was managed through cash compensation, i.e. offsetting the change in the value of one's positions through a cash settlement with the counterparty of the amount corresponding to the change in the MTM value.

Scope of risks and progress towards completion of the transition

With specific regard to operations in euros, the Parent Company, Iccrea Banca, has adopted the ISDA 2021 EONIA Collateral Agreement Fallbacks Protocol in order to manage the entry of the new index.

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, Iccrea Banca has begun a review of CSA contracts providing for the use of €STR Flat instead of EONIA Discounting. At December 31, 2021, contracts with 26 counterparties were adapted using the cash compensation mechanism to manage the impact deriving from the change in methodology. The process is ongoing, and for the other counterparties the standard methodology provided for by the ISDA has been applied (i.e. an increase of 8.5 basis points over the €STR rate).

With regard to transactions carried out to manage interest rate risk, the finalization of the transition to €STR Flat Discounting for the affiliated banks is planned to take place in 2022. As long as the transition process is not completed, the €STR rate increased by 8.5 bps will apply, in line with the provisions of Implementing Regulation (EU) 2021/1848 issued on October 21, 2021 by the European Commission.

The action plan being implemented made it possible to manage the transition to the new benchmarks, minimizing the model risks underlying the new methodology and the new indexing parameters (such as EONIA vs €STR).

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.

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:

	Non-derivative financial assets	Non-derivative financial liabilities	Derivatives
	Carrying amount	Carrying amount	Notional amount
BENCHMARK			
EONIA	13,941	-	-
EURIBOR 1 M	3,841,143	630,696	5,161,551
EURIBOR 3 M	19,924,247	8,994,438	1,337,359
EURIBOR 6 M	37,552,119	3,038,294	11,823,088
LIBOR USD	4,421	-	412,250
Other	627,965	622,699	50,000
Total	**61,963,836**	**13,286,127**	**18,784,248**

Consolidated tax mechanism option

Iccrea Banca SpA and the Group subsidiaries belonging to the so-called "direct scope" have adopted the "consolidated tax mechanism", governed by Articles 117-129 of the Uniform Income Tax Code ("TUIR"), introduced with Legislative Decree 344/2003. It consists of an optional tax regime under which total net income or the tax losses of each subsidiary taking part in the tax consolidation –along with withholdings, deductions and tax credits – are transferred to the parent company. Only one taxable income or tax loss that can be carried forward (the algebraic sum of the parent company's and its participating subsidiaries' income/losses resulting in a single tax payable/receivable) is calculated and attributed to the parent company. Under this option, the Group companies that participate in the consolidated tax mechanism calculate their tax liabilities and the corresponding taxable income, which is transferred to the parent company. If one or more subsidiaries reports negative taxable income, the tax losses are transferred to the parent company when there is consolidated income for the period or a high probability of future taxable income.

Other issues

The consolidated financial statements 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

5 – Equity investments

Classification

The item includes equity investments in subsidiaries, associates and joint ventures. Immaterial entities[50] 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;

[50] 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.

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

Joint control is the contractually agreed sharing of control of an arrangement.

Associated companies comprise companies in which the Group holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Group exercises a significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control.

Equity interests in subsidiaries, joint ventures and associates held for sale are reported separately in the financial statements as a disposal group and are measured at the lower of the carrying amount and the fair value excluding disposal costs.

Recognition

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

Measurement

Investments in subsidiaries are measured at cost, while investments in associates or joint ventures are measured using the equity method (for more details, see Section 3 – Scope and methods of consolidation in Part A Accounting policies: A.1 – General information). Where there is evidence that the value of an equity investment may be impaired, its recoverable amount is determined, taking account of both its market value and the present value of future cash flows. If this value is lower than the carrying amount, the difference is recognized through profit or loss as an impairment loss.

Impairment testing of equity investments

As required by the accounting standards referred to earlier and by IAS 36, if there is evidence (triggers) of possible impairment, equity investments undergo impairment testing to determine whether there is objective evidence that the carrying amount of such assets is not fully recoverable and to determine the amount of any writedown.

Impairment indicators are essentially divided into two categories:

- qualitative indicators, such as the posting of losses or in any case a significant divergence with respect to budget targets or the objectives set out in the long-term plans announced to investors, the announcement/start of composition with creditors or restructuring plans, and the downgrading of the rating issued by a specialist agency;
- quantitative indicators consisting of a reduction in fair value below the carrying amount of over 30%, or for a period of more than 24 months, or a carrying amount for the equity investment in the separate financial statements greater than the carrying amount in the consolidated financial statements of the company's net assets and goodwill, or the distribution by the latter of a dividend greater than its comprehensive income.

In the presence of evidence of impairment, the size of any writedown is determined on the basis of the difference between the carrying amount and the recoverable amount, which is equal to the greater of fair value less costs to sell and the value in use.

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 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;
- 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 “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 – Other information

Employee termination benefits

Following the reform of supplementary pension schemes introduced by Legislative Decree 252 of December 5, 2005, changes were made to the way in which employee termination benefits are recognized. The portion of termination benefits accrued through December 31, 2006 is treated as a defined-benefit plan, since the company is required under law to pay the employee an amount determined pursuant to Article 2120 of the Italian Civil Code.

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

Therefore, starting January 1, 2007, the Group:

- continues to recognize the obligation accrued at December 31, 2006 in accordance with the rules for defined-benefit plans, i.e. using the projected unit credit method. This means that it measures the obligation for benefits accrued by employees using actuarial techniques, projecting into the future the amount to pay at the time the employment relationship is termination and discounting the accrued portion. To this end, the projected unit credit method considers each individual service period as the originator of an additional unit of termination benefits to be used in constructing the final obligation by projecting future outflows on the basis of statistical analysis of historical developments and the demographic curve, discounting those flows using a market interest rate. Total actuarial gains and losses are recognized, in line with the provisions of IAS 19, in equity, while the interest cost component of the change in the defined benefit obligation is recognized in profit or loss;
- recognizes the obligation for portions accrued starting January 1, 2007, payable to a supplementary pension scheme or to the treasury fund managed by INPS, on the basis of the contributions owed in each period, as a defined contribution plan for employee service, in profit or loss. More specifically, in the case of termination benefits payable to a supplementary pension scheme that treatment begins at the time of the choice or, if the employee does not exercise any option, as from July 1, 2007.

Recognition of revenue

Revenue is recognized when realized or, in the case of the sale of goods or services, in relation to the extent to which the performance obligation has been satisfied, as specified below.

Specifically:

- interest is recognized on an accruals basis using the contractual interest rate or the effective interest rate where the amortized cost method is applied;
- default interest, if any, is recognized through profit or loss only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;
- commissions for revenue from services are recognized in relation to the effective provision of the services to a customer, as discussed in greater detail below;
- revenue from the placement of funding instruments, calculated on the basis of the difference between transaction price and the fair value of the financial instrument, are recognized in the income statement when the transaction is recognized if the fair value can be determined with reference to parameters or transactions recently observed in the same market in which the instrument is traded. If these amounts cannot be easily determined or the instrument is not highly liquid, the financial instrument is recognized in an amount equal to the transaction price, excluding the commercial margin. The difference between this amount and the fair value is taken to profit or loss over the duration of the transaction through the gradual reduction in the valuation model of the corrective factor reflecting the reduced liquidity of the instrument;
- revenue from the sale of non-financial assets are recognized at the time the performance obligation is satisfied with the transfer of the asset, i.e. when the customer obtains control of the asset.

In application of IFRS 15, the following steps are followed in recognizing revenue from contracts with customers:

- identification and analysis of the contract signed with the customer to identify the type of revenue. In some specific cases, multiple contracts may have to be combined and accounted for as a single contract;
- identification of the specific performance obligations in the contract. If the goods/services to be transferred are distinct, they qualify as performance obligations and are accounted for separately;
- determination of the transaction price, considering all the performance obligations in the contract. This price may be a fixed amount, but may sometimes include variable or non-monetary consideration;

- allocation of the transaction price to the performance obligations. The transaction price is allocated to the various performance obligations on the basis of the selling prices of each distinct good or service provided contractually. If it is impossible to determine the standalone selling price, it is necessary to estimate it. The assessment must be carried out as from the start date of the contract (the inception date);
- recognition of revenue when the performance obligation is satisfied. Revenue is recognized following the satisfaction of the performance obligation to the customer, i.e. when the latter obtains control of the good or service. Some revenue is recognized at a point in time, while other is accrued over time. It is therefore necessary to identify the moment in which the performance obligation is satisfied. In the case of performance obligations satisfied over time, revenue is recognized over the reference period, selecting an appropriate method to measure the progress made towards complete satisfaction of the performance obligation".

Accruals and deferrals

Accruals and deferrals reporting costs and revenue accruing in the period on assets and liabilities are recognized as adjustments to the assets and liabilities to which they refer. In the absence of such assets or liabilities, they are recognized under "Other assets" or "Other liabilities".

Expenditure for leasehold improvements

Expenses for refurbishments of buildings belonging to third parties that do not have an independent function or use are conventionally classified under "Other assets". Amortization is performed over the useful life of the right of use in respect of the buildings and amortization charges are reported under other operating expenses.

Determination of amortized cost

Amortized cost is applied to financial assets and liabilities measured at amortized cost and to the income components of financial assets measured at fair value through other comprehensive income.

The amortized cost of a financial asset or financial liability is the value at which it is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

The effective interest rate is the rate that discounts the contractual flow of future or received payments until the maturity date or the next repricing date to the present value of a financial asset or financial liability.

For instruments bearing a fixed rate or a fixed rate for periods of time, future cash flows are determined on the basis of the specified interest rate over the life of the instrument. For variable-rate financial assets or liabilities, future cash flows are determined on the basis of the last known rate. At each repricing date, the residual amortization and the effective yield over the residual useful life (i.e. until maturity) of the financial instrument are recalculated.

For purchased or originated credit-impaired financial assets ("POCI"), the effective interest rate corrected for credit risk is calculated, discounting estimated future cash flows over the expected life of the financial asset, taking of account all the contractual terms of the asset (e.g. prepayment options, call options, etc.) as well as expected credit losses.

Financial assets and liabilities transacted on market terms are initially recognized at their fair value, which normally corresponds to the amount paid or received including directly attributable transaction costs and fees: internal marginal costs and income not recoverable from customers are considered transaction costs attributable at the time of initial recognition of the instrument.

These ancillary components, which must be attributable to the individual asset or liability, affect the effective return and cause the effective interest rate to differ from the contractual interest rate: therefore, costs and income referable indiscriminately to multiple transactions and related components that they may be recognized during the life of the financial instrument are not included. Furthermore, costs that the Group incurs independently of the transaction, such as administrative, office supplies and communication costs, are not considered in the calculation of the amortized cost.

Determination of impairment

Financial assets

At each reporting date, the Group determines whether there is objective evidence that a financial asset or group of financial assets has incurred a significant increase in the related credit risk since initial recognition and requires the definition of a methodology for calculating the expected loss (ECL) and the related risk parameters necessary to calculate it, namely: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The staging methodology provides for the allocation each exposure/tranche (loans and securities) to the three distinct stages on the basis of the following:

- stage 1: this includes newly issued instruments/tranches and exposures to counterparties classified as performing that, as at the reporting date, have a PD lower than or equal to a given threshold (qualifying for the low credit risk exemption) or have not experienced a significant increase in credit risk with respect to that measured the date of disbursement/purchase. The 12-month expected loss is measured for these positions;
- stage 2: this includes all performing instruments/tranches that, as at the reporting date, simultaneously:
  - have a higher PD than that specified for the low credit risk exemption;
  - have experienced a significant increase in credit risk with respect to the date of disbursement;

  In general, in the absence of a rating/PD at the reporting date the exposure is allocated in stage 2 (without prejudice to the use of additional criteria specifically adopted for the management of particular types of portfolios/positions not covered by the use of an internal rating model). In this case, the lifetime expected loss is measured;
- stage 3: this includes all instruments/tranches associated with loans/securities in default, for which the loss is calculated as the difference between the contractual cash flows and expected cash flows, discounted at the effective interest rate of the instrument (lifetime expected loss), which is essentially unchanged compared with the previous accounting standard.

A so-called grace period is also granted, under which newly disbursed exposures are conventionally classified in stage 1 for the first 3 months of the relationship, unless they derive from forbearance measures.

Furthermore, in order to reduce the volatility of allocations of exposures to the various stages, the mechanisms for transferring exposures between stages envisage a so-called 3-month probation period (the minimum period for which positions are allocated to a given stage), defined as follows:

- an exposure allocated to stage 2 can be transferred to stage 1 if at the reporting date the conditions for allocation to stage 1 are met and at least 3 continuous months have elapsed since the factors that prompted allocation to stage 2 no longer exist;
- the reclassification as performing of an exposure previously allocated to stage 3 involves direct allocation to stage 2 for at least 3 months following the return to performing status, unless events requiring reallocation to stage 3 should occur.

If at least one of the criteria for classification in stage 2 is activated for a position within the probation period, the probation period recommences from the month in which the criteria that determined the allocation to stage 2 are no longer active.

Performing forborne exposures for which the regulatory probation period of 24 months is already activated are excluded from the application of this criterion.

With regard to the securities portfolio, the functional methodology for staging performing exposures is based solely on quantitative information. Although they consist in comparing the PD/rating class at the origination date and PD/rating class at the reporting date, the approach used makes extensive use of the low credit risk exemption for the purpose of staging exposures, even in the presence of information on credit risk measures at the date of origination. In particular, exposures with a rating better than or equal to investment grade at the reporting date are allocated to stage 1. Exposures associated with securities in default are classified in stage 3.

With regard to expected credit loss, the risk parameters necessary for calculating that value have been distinguished by differentiating between the securities portfolio and the loan portfolio.

With regard to the securities portfolio:

- Probability of Default (PD): the PD at 12 months and multi-period PDs used underwent forward-looking conditioning;
- Loss Given Default (LGD): the unconditioned LGD measures used are the same for both stage 1 and stage 2 exposures. More specifically, and unconditioned LGD metric of 45% is used, which subsequently undergoes forward-looking conditioning;
- Exposure At Default (EAD): for the purposes of quantifying the EAD associated with each securities issue, the gross value of the exposure at the reporting dates is generally used.

With regard to the loan portfolio:

- Probability of Default (PD): the approach defined by the Group envisages:
  - the use of internal rating models to determine the transition matrix based on rating classes, conditioned to incorporate forward-looking macroeconomic scenarios and used to obtain lifetime PDs;
  - where an internal rating model is absent, calculating default rates on an annual basis, conditioned to include forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;

- Loss Given Default (LGD): the approach for estimating LGD developed by the Group provides for the determination of historical loss rates on closed impaired positions and the application of the so-called danger rate, conditioned by macroeconomic scenarios;
- Exposure At Default (EAD): the estimation approach for EAD differs by type of portfolio, product and stage to which the exposure has been assigned.

In order to condition the risk parameters for future macroeconomic scenarios, the Group uses multipliers (or macroeconomic conditioning factors) that, updated periodically, make it possible to obtain projections of changes in the riskiness of the portfolio (PD) and losses generated by default of the debtor counterparties (LGD), based on a defined time horizon and certain reference macroeconomic variables.

For the purpose of applying these multipliers, the Group associates the probability of occurrence on a judgmental basis to each scenario. The probability of occurrence of each scenario are used as weights in the calculation of the average multiplier associated with each calendar year.

More specifically, three calendar years are considered subsequent to the estimation date of the satellite models (reference date), while for subsequent years, the multiplier used is equal to the arithmetic mean of the multipliers of the three years.

With regard to exposures classified in stage 3 (credit-impaired assets), even if the definition of “impaired loans” in IAS 39 and IFRS 9 is substantially the same, the inclusion of forward-looking information, such as the consideration of alternative recovery scenarios, incorporated a number of methodological peculiarities. In particular, scenarios for the sale of credit exposures were considered in connection with possible sales of impaired positions, in line with the company’s objectives for reducing non-performing assets, to which a probability of realization was attributed for consideration in the context of the overall assessments. It follows that, for transferrable non-performing loans, in order to determine the overall expected loss of exposures, the “ordinary” scenario assuming a recovery strategy based on the recovery of receivables through legal action, the enforcement of guarantees, etc., has been accompanied by scenarios that envisage the sale of the loan as a recovery strategy.

Note that in order to factor in the effects of the pandemic in the calculation of impairment, a so-called COVID-19 effect is considered in the determination of impairment, with the aim of considering the effects of the pandemic both on the macroeconomic forecasts that contribute to the determination of the expected credit loss and in the stage allocation process for exposures, with specific treatments of the portfolio subject to economic support measures.

Equity securities and units of collective investment undertakings

Equity securities and units of collective investment undertakings, regardless of the accounting portfolio to which they are allocated, do not undergo impairment testing as they are measured at fair value.

Other non-financial assets

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

As regards real estate, fair value is mainly determined on the basis of an appraisal prepared by an independent expert.

Intangible assets recognized following acquisitions and in application of IFRS 3 at each reporting date undergo impairment testing to determine whether there is objective evidence that the asset may have incurred an impairment loss.

If there is evidence of impairment, intangible assets with a finite life undergo a new valuation to determine the recoverability of the carrying amount. Recoverable amount is determined on the basis of value in use, i.e. present value, as estimated using a rate representing the time value of money, the specific risks of the asset and the margin generated by relationships in place at the valuation date over a time horizon equal to the residual term of those relationships.

Since intangible assets with an indefinite life, represented by goodwill, do not generate autonomous cash flows, they undergo annual testing of their carrying amount for the cash generating unit (CGU) to which the values were allocated in the related business combinations. The amount of any impairment is determined on the basis of the difference between the carrying amount of the CGU and the recoverable amount of the unit, represented by the greater of its fair value, net of costs of disposal, and its value in use.

The carrying amount of the CGU must be determined in a manner consistent with the criteria used to determine its recoverable amount. From the standpoint of a banking enterprise, it is not possible to determine the cash flows of a CGU without considering the flows generated by financial assets and liabilities, given that the latter represent the core business of the company. In other words, the recoverable amount of the CGUs is impacted by those cash flows and, accordingly, the carrying amount of the CGUs must be determined using the same scope of estimation used for the recoverable amount and, therefore, must include the financial assets/liabilities. To that end, these assets and liabilities must be allocated to the CGUs.

Following this approach, the carrying amount of the CGUs can be determined in terms of their contribution to consolidated shareholders' equity, including non-controlling interests.

The value in use of a CGU is calculated by estimating the present value of the future cash flows that are expected to be generated by the CGU on the basis of criteria and methodological models in line with best market practice and the literature in this field. Those cash flows are determined using the most recent public business plan or, in the absence of such a plan, an internal forecasting plan developed by management.

Normally, the specific forecasting period covers a maximum time horizon of three years. The flow in the final year of the forecasting period is projected forward in perpetuity, using an appropriate growth rate "g" for the purposes of the terminal value.

In calculating value in use, the cash flows must be discounted using a rate that reflects the current time value of money and the specific risks to which the asset is exposed. More specifically, the discount rates adopted incorporate current market values for the risk-free rate and equity premiums observed over a sufficiently long period of time to reflect different market conditions and business cycles.

With specific reference to the rights of use recognized in accordance with IFRS 16, evidence that an asset may have suffered an impairment loss may be associated both with internal factors (deterioration, obsolescence, etc.) and external factors (market value, technological changes, etc.). Failure to exercise a right of use or the subletting of the underlying asset are considered potential indicators of impairment of the right of use.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability between willing and knowledgeable market participants in an orderly transaction. In the definition of fair value, a key assumption is that an entity is fully operational (the assumption that an entity is a going concern) and does not have the intention or the need to liquidate, significantly reduce its operations or undertake transactions on unfavorable terms. In other words, fair value is not the amount an entity would receive or would pay in a forced transaction, an involuntary liquidation or a distress sale. Nevertheless, the fair value reflects the credit quality of the instrument as it incorporates counterparty risk.

Financial instruments

Please see section A.4 Fair value disclosures for more information on the methods used to determine the fair value of financial instruments.

Non-financial assets

Investment property is primarily valued using external appraisals, considering transactions at current prices in an active market for similar properties, in the same location and condition and subject to similar conditions for rentals and other contracts.

Financial guarantees

As part of its ordinary banking operations, the Group grants financial guarantees in the form of letters of credit, acceptances and other guarantees. Commission income earned on guarantees, net of the portion representing the recovery of costs incurred in issuing the guarantee, are recognized on an accruals basis under "Fee and commission income", taking account of the term and residual value of the guarantees.

Following initial recognition, the financial guarantees are measured as the greater of the amount of the provision covering the losses determined in accordance with the rules governing impairment and the initial recognition amount (fair value) less (where appropriate) the cumulative amount of the income that the Group has recognized in accordance with IFRS 15 (deferred income).

Any losses and value adjustments on such guarantees are reported under "Net provisions for risks and charges: a) commitments and guarantees issued" in the income statement. Writedowns due to the impairment of guarantees issued are reported under "Provisions for risk and charges: a) commitments and guarantees issued" in liabilities in the balance sheet.

Guarantees are off-balance-sheet transactions and are reported under "Other information" in Part B of the notes to the financial statements.

Business combinations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 2020 and 2021.

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 year.

A.3.1 RECLASSIFIED FINANCIAL ASSETS: CHANGE IN BUSINESS MODEL, CARRYING AMOUNT AND INTEREST INCOME

Type of financial instrument	Original portfolio	New portfolio	Reclassification date	Reclassified carrying amount	Interest income recognized in the period (before taxes)
Debt securities	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	31/12/2019	20,001	-
Debt securities	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortized cost	31/12/2019	2,995,380	-

A.3.2 RECLASSIFIED FINANCIAL ASSETS: CHANGE IN BUSINESS MODEL, FAIR VALUE AND IMPACT ON COMPREHENSIVE INCOME

No financial assets were reclassified in 2021.

A.3.3 RECLASSIFIED FINANCIAL ASSETS: CHANGE IN BUSINESS MODEL AND EFFECTIVE INTEREST RATE

The disclosures required by IFRS 7 12C do not apply.

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 valued using a discounted cash flow model adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer;
- structured bonds are valued using a discounted cash flow model that incorporates valuations from option pricing models, adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer, and volatility and correlation surfaces for the underlying;
- derivatives on interest rates are valued using discounted cash flow models, within the multi-curve framework based on OIS discounting;
- equity and CIU derivatives are valued using the Black&Scholes models (or models based on it, such as the Rubinstein model for forward starts and the Nengju Ju model for Asian options), which includes an estimate of volatility through interpolation by maturity and strike prices on a volatility matric, as well as the inclusion of discrete dividends through the escrowed dividend model. The inputs used are the price of the underlying equity, the volatility surface and the dividend curve;
- derivatives on exchange rates are valued using a discounted cash flow approach for plain-vanilla contracts or a Garman and Kohlhagen model for European options on exchange rates. The inputs are spot exchange rates and the forward points curve and volatility surfaces for plain-vanilla options;
- equity securities are valued at fair value estimated using models applied in valuation practice or using balance sheet, income or mixed methods or with reference to direct transactions in the same security or similar securities observed over an appropriate span of time with respect to the valuation date. They are measured at cost if their carrying amount is below the materiality thresholds set by the Group both at individual and consolidated level and in cases where the cost represents a reliable estimate of fair value (e.g. because the most recent information to evaluate fair value is not available);
- investments in CIUs other than open-end harmonized funds are generally valued on the basis of the NAVs (adjusted if not fully representative of the fair value) made available by the asset management companies. These investments include private equity funds, real estate investment funds and hedge funds;
- medium/long-term loans to customers are measured on the basis of a mark-to-model process using the discounted cash flow approach for the positions and other models for estimating option components where applicable;
- for medium/long-term liabilities, represented by securities for which the fair value option was chosen, the fair value is determined alternatively by either discounting the residual contractual cash flows using the zero-coupon yield curve, by applying the asset swap method or by using other yield curves deemed representative of the Bank’s credit standing.

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

With particular regard to units held in unlisted alternative investment funds (so-called AIFs), since 2020 a specific project has been carried out, coordinated by the Parent Company, aimed at determining the “liquidity adjustment” to be applied to the Net Asset Value (NAV) of the unlisted funds held.

The methodological approach adopted provides for the consideration, in line with market best practice, of the following main elements:

- the average holding period of the individual unlisted funds before they can be sold;
- the characteristics of the individual assets held by the fund and their level of volatility in the holding period considered (degree of uncertainty);
- the level of risk aversion reflected in a prudent threshold which, with reference to the distribution of the possible returns/final value of the asset/portfolio considered, makes it possible to measure any divergence from their expected value.

The use of these elements made it possible to estimate a discount with respect to the NAV, calculated as a percentage adjustment of the risk premium linked to the uncertainty concerning potential unfavorable changes in value before their realization while also taking account of the management costs of the funds not incorporated in the NAVs of the individual unlisted funds.

For 2021, the percentage adjustment applied was respectively 3.15% for real estate funds, 9.33% for private debt–bad loan funds, 5.18% for private debt–UTPs, 1.5% for private debt – bond funds and 7.56% for private equity funds.

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

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

- estimates and assumptions underlying the models used to measure investments in equity securities and units in CIUs;
- Probability of Default (PD) and Loss Given Default (LGD): the parameters are derived from the impairment model. They are used to measure financial instruments for disclosure purposes only;
- credit spreads: the figure is extrapolated to create sector CDS curves using regression algorithms on the basis of a panel of single-name CDS curves. The figure is used to value financial instruments for disclosure purposes only.

A.4.2 VALUATION PROCESSES AND SENSITIVITY

The 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

	31/12/2021			31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss of which	421,637	1,051,368	255,760	437,866	1,205,425	248,916
a) financial assets held for trading	86,466	79,697	2,486	23,132	243,406	4,000
b) financial assets designated as at fair value	272,555	-	2,913	341,076	-	4,017
c) other financial assets mandatorily measured at fair value	62,616	971,671	250,361	73,658	962,019	240,899
2. Financial assets measured at fair value through comprehensive income	7,514,842	269,285	66,344	7,665,827	138,014	66,359
3. Hedging derivatives	178	42,781	-	633	11,244	-
4. Property, plant and equipment	-	-	444,478	-	470,664	12,825
5. Intangible assets	-	-	-	-	-	-
Total	7,936,657	1,363,435	766,581	8,104,326	1,825,347	328,100
1. Financial liabilities held for trading	49,048	79,918	508	423	242,649	736
2. Financial liabilities designated as at fair value	133	123	-	2,868	249	-
3. Hedging derivatives	372	494,895	-	93	514,650	-
Total	49,553	574,936	508	3,384	757,548	736

A.4.5.2 CHANGE FOR THE PERIOD IN FINANCIAL ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3)

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	248,916	4,000	4,017	240,899	66,359	-	12,825	-
2. Increases	204,823	165	10	204,649	7,296	-	441,505	-
2.1 Purchases	50,156	-	-	50,156	4,415	-	-	-
2.2 Profits recognized in:	5,137	-	6	5,131	2,212	-	285	-
2.2.1 Income statement	5,137	-	6	5,131	251	-	-	-
- of which: capital gains	3,517	-	6	3,511	-	-	-	-
2.2.2 Shareholders' equity	-	X	X	X	1,961	-	285	-
2.3 Transfers from other levels	133,743	161	-	133,582	2	-	440,473	-
2.4 Other increases	15,788	3	4	15,781	667	-	747	-
3. Decreases	197,979	1,679	1,114	195,187	7,312	-	9,852	-
3.1 Sales	693	3	-	690	3,501	-	-	-
3.2 Repayments	8,834	5	913	7,916	279	-	-	-
3.3 Losses recognized in:	6,203	5	201	5,997	1,141	-	-	-
3.3.1 Income statement	6,203	5	201	5,997	5	-	-	-
- of which: capital losses	4,672	1	123	4,548	5	-	-	-
3.3.2 Shareholders' equity	-	X	X	X	1,136	-	-	-
3.4 Transfers to other levels	165,615	6	-	165,609	1,557	-	-	-
3.5 Other decreases	16,634	1,661	-	14,973	833	-	9,852	-
4. Closing balance	255,760	2,486	2,913	250,361	66,344	-	444,478	-

A.4.5.3 CHANGE FOR THE PERIOD IN FINANCIAL LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3)

	Financial liabilities held for trading	Financial liabilities designated as at fair value	Hedging derivatives
1. Opening balance	**736**	**-**	**-**
2. Increases	**-**	**-**	**-**
2.1 Issues	-	-	-
2.2. Losses allocated to:	-	-	-
2.2.1 Income statement	-	-	-
- of which: capital losses	-	-	-
2.2.2 Shareholders' equity	X	-	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	-
3. Decreases	**228**	**-**	**-**
3.1. Repayments	-	-	-
3.2. Repurchases	-	-	-
3.3 Profits recognized in:	-	-	-
3.3.1 Income statement	-	-	-
- of which: capital gains	-	-	-
3.3.2 Shareholders' equity	X	-	-
3.4 Transfers to other levels	-	-	-
3.5. Other decreases	228	-	-
4. Closing balance	**508**	**-**	**-**

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

	31/12/2021				31/12/2020			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortized cost	159,230,200	59,966,840	8,654,232	101,254,475	150,639,810	56,467,698	5,239,699	99,230,344
2. Investment property	145,391	-	1,361	156,339	151,302	-	2,557	155,406
3. Non-current assets and disposal groups held for sale	219,563	-	-	-	18,368	-	-	1,010
Total	**159,595,154**	**59,966,840**	**8,655,593**	**101,410,814**	**150,809,480**	**56,467,698**	**5,242,256**	**99,386,760**
1. Financial liabilities measured at amortized cost	163,327,889	3,590,425	34,744,061	124,421,346	154,229,489	3,367,303	32,771,418	118,451,087
2. Liabilities associated with assets held for sale	182,098	-	-	-	-	-	-	-
Total	**163,509,987**	**3,590,425**	**34,744,061**	**124,421,346**	**154,229,489**	**3,367,303**	**32,771,418**	**118,451,087**

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

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

During the period under review, differences emerged between the fair values posted at the time of initial recognition and the values recalculated at the same date using valuation techniques in accordance with IFRS 9 (paragraphs B.5.1.2 A letter b), with a net negative impact of about €295 thousand in respect of cash flow hedges.

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 31/12/2021	Total 31/12/2020
a) Cash	801,630	788,440
b) Current accounts and demand deposits with central banks	365,673	204,135
c) Current accounts and demand deposits with banks	507,265	543,249
Total	1,674,568	1,535,823

The item “Demand deposits with central banks”, which increased compared with the end of the previous year, includes deposits with the Bank of Italy, including €26 million attributable to the Guarantee Scheme operated by Parent Company and the remainder largely accounted for by amounts connected with the instant payments service.

In application of the 7th update of Circular 262, line c) reports current accounts and demand deposits with banks previously reported under financial assets at amortized cost. The figure for December 31, 2020 has been restated for comparative purposes.

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 31/12/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**83,969**	**108**	**48**	**17,723**	**1,328**	**59**
1.1 structured securities	877	15	10	2,172	-	10
1.2 other debt securities	83,092	93	38	15,551	1,328	49
2. Equity securities	**1,154**	**-**	**3**	**2,609**	**3**	**2**
3. Units in collective investment undertakings	**983**	**1,874**	**152**	**2,426**	**5,152**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	86,106	1,982	203	22,758	6,483	61
B. Derivatives						
1. Financial derivatives	**360**	**77,715**	**2,283**	**374**	**236,923**	**3,939**
1.1 trading	360	77,715	2,283	374	236,923	3,939
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)	360	77,715	2,283	374	236,923	3,939
Total (A+B)	86,466	79,697	2,486	23,132	243,406	4,000

The sub-item A.1 – 1.2 “other debt securities” mainly includes government securities held for trading in the amount of about €75.5 million, an increase 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, which decreased on the end of the previous year.

2.2 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY DEBTOR/ISSUER/COUNTERPARTY

		Total 31/12/2021	Total 31/12/2020
A. On-balance-sheet assets			
1. Debt securities		**84,125**	**19,110**
a) Central banks		-	-
b) Government entities		75,499	11,820
c) Banks		5,335	2,640
d) Other financial companies		1,568	2,450
of which: insurance undertakings		-	399
e) Non-financial companies		1,723	2,200
2. Equity securities		**1,157**	**2,614**
a) Banks		279	86
b) Other financial companies		168	458
of which: insurance undertakings		50	341
c) Non-financial companies		710	2,070
d) Other issuers		-	-
3. Units in collective investment undertakings		**3,009**	**7,578**
4. Loans		**-**	**-**
a) Central banks		-	-
b) Government entities		-	-
c) Banks		-	-
d) Other financial companies		-	-
of which: insurance undertakings		-	-
e) Non-financial companies		-	-
f) Households		-	-
	Total (A)	88,291	29,302
B. Derivatives			
a) Central counterparties		-	526
b) Other		80,358	240,710
	Total (B)	80,358	241,236
	Total (A+B)	168.649	270.538

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

	Total 31/12/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**272,554**	**-**	**-**	**341,077**	**-**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	272,554	-	-	341,077	-	-
2. Loans	**-**	**-**	**2,913**	**-**	**-**	**4,017**
2.1 structured	-	-	-	-	-	-
2.2 other	-	-	2,913	-	-	4,017
Total	272,554	-	2,913	341,077	-	4,017

The item 1.2 “other debt securities” reports the balance for securities in which the liquidity from the Guarantee Scheme operated by Parent Company is invested. The decline on the end of 2020 reflects disposals during the year.

2.4 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

		Total 31/12/2021	Total 31/12/2020
1. Debt securities		**272,554**	**341,077**
a) Central banks		-	-
b) Government entities		236,176	292,586
c) Banks		32,486	42,609
d) Other financial companies		3,892	5,882
of which: insurance undertakings		-	-
e) Non-financial companies		-	-
2. Loans		**2,913**	**4,017**
a) Central banks		-	-
b) Government entities		-	-
c) Banks		-	-
d) Other financial companies		-	-
of which: insurance undertakings		-	-
e) Non-financial companies		504	899
f) Households		2,409	3,118
	Total	275,467	345,094

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

	Total 31/12/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**22,802**	**44,673**	**4,004**	**13,248**	**49,275**	**4,732**
1.1 structured securities	8,132	13,213	291	1,520	17,188	2,128
1.2 other debt securities	14,670	31,460	3,713	11,728	32,087	2,604
2. Equity securities	**26,676**	**43,522**	**4**	**11,259**	**5,467**	**26,456**
3. Units in collective investment undertakings	**11,154**	**96,861**	**199,315**	**49,151**	**290,382**	**3,630**
4. Loans	**1,984**	**786,615**	**47,038**	**-**	**616,896**	**206,080**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	1,984	786,615	47,038	-	616,896	206,080
Total	62,616	971,671	250,361	73,658	962,019	240,898

The item includes financial instruments that under IFRS 9 do not meet the requirements for measurement at amortized cost or at fair value through other comprehensive income (unit in CIUs, insurance policies, postal savings bonds, debt securities and loans failing to pass the SPPI test, the latter including exposures to system funds).

In particular, item 3, Units in collective investment undertakings decreased compared with the end of the previous year by a total of €35.8 million, mainly due to the sale of units in investment funds during the year.

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 €619 million and interest-bearing postal bonds of around €136 million.

2.6 OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

	Total 31/12/2021	Total 31/12/2020
1.Equity securities	**70,202**	**43,182**
of which: banks	14,835	7,797
of which: other financial companies	24,707	22,276
of which: non-financial companies	30,660	13,109
2. Debt securities	**71,479**	**67,255**
a) Central banks	-	-
b) Government entities	571	548
c) Banks	47,369	41,418
d) Other financial companies	18,270	18,018
of which: insurance companies	1,853	1,276
e) Non-financial companies	5,269	7,271
3. Units in collective investment undertakings	**307,330**	**343,163**
4. Loans	**835,637**	**822,975**
a) Central banks	-	-
b) Government entities	6,879	2,147
c) Banks	-	644
d) Other financial companies	825,933	815,208
of which: insurance companies	619,045	565,906
e) Non-financial companies	1,015	4,941
f) Households	1,810	35
Total	1,284,648	1,276,575

The item “Units in collective investment undertakings” mainly includes real estate funds in the amount of €169 million, loan funds in the amount of €64 million and bond funds in the amount of €47 million.

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – ITEM 30

3.1 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY TYPE

	Total 31/12/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**7,508,818**	**15,271**	**56**	**7,661,292**	**43,760**	**26**
1.1 structured securities	80,921	146	1	30,449	850	-
1.2 other debt securities	7,427,897	15,125	55	7,630,843	42,910	26
2. Equity securities	**6,024**	**254,014**	**66,288**	**4,535**	**94,254**	**66,333**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	7,514,842	269,285	66,344	7,665,827	138,014	66,359

The item “Debts securities” mainly includes government securities.

“Equity securities - Level 2” includes the equity investment in the Bank of Italy for a total of €225 million, an increase of €151 million over December 31, 2020 as a result of purchases during the year. The remainder of equity securities mainly includes non-controlling interests.

3.2 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY DEBTOR/ISSUER

		Total 31/12/2021	Total 31/12/2020
1. Debt securities		**7,524,145**	**7,705,078**
a) Central banks		581	492
b) Government entities		7,144,106	7,213,528
c) Banks		236,350	295,172
d) Other financial companies		74,424	127,952
of which: insurance undertakings		782	992
e) Non-financial companies		68,684	67,933
2. Equity securities		**326,326**	**165,122**
a) Banks		235,548	80,443
b) Other issuers:		90,779	84,679
- other financial companies		56,688	54,034
of which: insurance undertakings		6,308	8,318
- non-financial companies		33,640	30,639
- other		451	6
3. Loans		**-**	**-**
a) Central banks		-	-
b) Government entities		-	-
c) Banks		-	-
d) Other financial companies		-	-
of which: insurance undertakings		-	-
e) Non-financial companies		-	-
f) Households		-	-
	Total	7,850,471	7,870,200

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	7,351,659	7,158,882	182,993	55	-	(2,303)	(8,259)	-	-	-
Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2021	7,351,659	7,158,882	182,993	55	-	(2,303)	(8,259)	-	-	-
Total 31/12/2020	7,514,560	6,765,002	199,238	41	-	(2,401)	(6,348)	(12)	-	-

** 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 as the Group has not granted loans measured at fair value through other comprehensive income.

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 31/12/2021						Total 31/12/2020					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
A. Claims on central banks	**8,014,335**	**-**	**-**	**-**	**6,710,286**	**1,304,050**	**4,680,695**	**-**	**-**	**-**	**-**	**4,680,695**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	8,014,320	-	-	X	X	X	4,680,689	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	15	-	-	X	X	X	6	-	-	X	X	X
B. Due from banks	**2,171,296**	**220**	**-**	**781,170**	**145,993**	**1,471,512**	**1,991,542**	**413**	**-**	**391,750**	**337,521**	**1,621,494**
1. Financing	1,250,800	220	-	-	41,774	1,421,293	1,237,119	413	-	8,448	5,627	1,571,094
1.1 Current accounts and demand deposits	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Fixed-term deposits	1	-	-	X	X	X	38,955	-	-	X	X	X
1.3. Other financing:	1,250,800	220	-	X	X	X	1,198,164	413	-	X	X	X
- Repurchase agreements	48,519	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	263	-	-	X	X	X	251	-	-	X	X	X
- Other	1,202,018	220	-	X	X	X	1,197,913	413	-	X	X	X
2. Debts securities	920,496	-	-	781,170	104,219	50,219	754,423	-	-	383,302	331,895	50,400
2.1 Structured securities	88,585	-	-	76,161	13,460	-	50,556	-	-	20,930	26,102	-
2.2 Other debt securities	831,911	-	-	705,009	90,759	50,219	703,867	-	-	362,372	305,793	50,400
Total	**10,185,631**	**220**	**-**	**781,170**	**6,856,279**	**2,775,562**	**6,672,237**	**413**	**-**	**391,750**	**337,521**	**6,302,189**

"Claims on central banks" total €8 billion, up from €3.3 billion at the end of the previous year, and include:

- the balance of the Group banks' reserve requirement in the amount of about €1.1 billion, of which €0.9 billion managed on behalf of the mutual banks by the Parent Company;
- the excess liquidity of the banks held on the reserve requirement account as a result of the monetary policy measures adopted by the European Central Bank (ECB), in the amount of €6.9 billion.

The sub-item "debt securities" comes to €0.9 billion, slightly increasing compared with the end of the previous year, and includes bank bonds held by the Group.

In application of the 7th update of Circular 262, line B.1.1 no longer includes current accounts and demand deposits with banks, which have been reclassified under the item "Cash and cash equivalents". The figure for December 31, 2020 has been restated to ensure comparability.

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

	Total 31/12/2021						Total 31/12/2020					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
1. Loans	**86,347,290**	**2,399,180**	**11,304**	**6,530**	**552,400**	**97,783,459**	**83,536,704**	**3,718,107**	**23,002**	**-**	**2,865,487**	**92,721,086**
1.1. Current accounts	5,736,543	334,174	143	X	X	X	5,973,334	647,945	193	X	X	X
1.2. Repurchase agreements	203,329	-	-	X	X	X	1,813,263	-	-	X	X	X
1.3. Medium/long term loans	66,743,973	1,806,523	7,207	X	X	X	62,978,259	2,624,259	14,083	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from wage	2,140,203	27,782	2	X	X	X	2,033,147	29,424	6	X	X	X
1.5. Finance leases	3,945,223	156,392	1,689	X	X	X	4,171,955	321,694	3,412	X	X	X
1.6. Factoring	546,178	27,873	-	X	X	X	468,208	14,820	-	X	X	X
1.7. Other loans	7,031,841	46,436	2,263	X	X	X	6,098,538	79,965	5,308	X	X	X
2. Debt securities	**60,286,162**	**413**	**-**	**59,179,140**	**1,245,553**	**695,454**	**56,687,946**	**1,400**	**-**	**56,075,948**	**2,036,691**	**207,069**
2.1. Structured securities	378,055	51	-	345,207	74,191	102,239	273,983	348	-	90,375	187,669	29,852
2.2. Other debt securities	59,908,107	362	-	58,833,933	1,171,362	593,215	56,413,963	1,052	-	55,985,573	1,849,022	177,217
Total	**146,633,452**	**2,399,593**	**11,304**	**59,185,670**	**1,797,953**	**98,478,913**	**140,224,650**	**3,719,507**	**23,002**	**56,075,948**	**4,902,178**	**92,928,155**

The item “Repurchase agreements” came to €0.2 billion and mainly reports amounts connected with transactions with the Clearing & Guarantee Fund, a decrease on the end of 2020.

Medium/long-term loans, amounting to €68.6 billion, are mainly granted to households and non-financial companies and increased on the end of 2020.

Loans to customers include approximately €670 million in loans disbursed with funds made available by public entities, mainly local governments, with the Group to a prevalent extent assuming all the risk. The operations are mainly aimed at supporting the business sector (mainly small and medium-sized enterprises) and agriculture with credit.

“Debt securities” classified here came to €60.3 billion and include €58 billion of government securities, mainly Italian government securities. The increase in debt securities compared with December 2020 is attributable to an increase in exposures in securities (+€3.6 billion), mainly government securities, also reflecting greater drawings on TLTRO resources.

The above items include senior notes issued in securitization transactions totaling about €1.7 billion, mostly attributable to own securitization transactions.

4.3 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN BY DEBTOR/ISSUER OF LOANS TO CUSTOMERS

	Total 31/12/2021			Total 31/12/2020		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired
1. Debt securities	**60,286,162**	**413**	**-**	**56,687,946**	**1,400**	**-**
a) Government entities	57,968,126	16	-	54,560,504	16	-
b) Other financial companies	2,075,191	1	-	1,945,907	703	-
of which: insurance undertakings	15,932	-	-	14,647	-	-
c) Non-financial companies	242,845	396	-	181,535	681	-
2. Loans to:	**86,347,290**	**2,399,180**	**11,304**	**83,536,704**	**3,718,107**	**23,002**
a) Government entities	898,562	7,340	-	776,122	11,221	-
b) Other financial companies	2,705,801	11,756	-	3,861,565	33,155	114
of which: insurance undertakings	7,054	-	-	4,175	70	-
c) Non-financial companies	41,556,593	1,345,185	9,828	39,809,098	2,332,466	19,611
d) Households	41,186,334	1,034,899	1,476	39,089,919	1,341,265	3,277
Total	**146,633,452**	**2,399,593**	**11,304**	**140,224,650**	**3,719,507**	**23,002**

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	60,603,702	57,769,632	708,450	1,635	-	(17,103)	(88,391)	(1,222)	-	-
Loans	85,163,930	245,269	11,587,785	6,427,816	24,070	(491,190)	(648,100)	(4,028,416)	(12,766)	(283,071)
Total 31/12/2021	**145,767,633**	**58,014,901**	**12,296,235**	**6,429,451**	**24,070**	**(508,293)**	**(736,491)**	**(4,029,638)**	**(12,766)**	**(283,071)**
Total 31/12/2020	**136,919,014**	**66,333,817**	**10,886,809**	**8,406,907**	**39,494**	**(304,139)**	**(604,796)**	**(4,686,987)**	**(16,492)**	**(326,845)**

** 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	
1. Loans subject to forbearance measures compliant with guidelines	700,487	363	1,388,803	116,956	-	(6,553)	(82,342)	(44,271)	-	(54)
2. Loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures	316	-	12,415	123	-	(7)	(320)	(664)	-	-
3. Loans subject to other forbearance measures	59,844	-	116,297	63,058	-	(1,416)	(8,257)	(40,333)	-	-
4. New loans	7,969,187	50	61,335	65,984	-	(12,028)	(4,117)	(16,716)	-	-
Total 31/12/2021	**8,729,835**	**413**	**1,578,849**	**246,121**	**-**	**(20,004)**	**(95,036)**	**(101,984)**	**-**	**(54)**
Total 31/12/2020	**16,970,991**	**711,140**	**3,057,855**	**289,317**	**-**	**(54,358)**	**(176,860)**	**(95,101)**	**-**	**-**

The table reports a breakdown of the gross value and total writeoffs, broken down by risk stages and "purchased or originated credit impaired" status for loans subject to moratoriums or other forbearance measures outstanding at the reporting date, or which represent new liquidity granted through public guarantee mechanisms.

More specifically, "loans subject to forbearance measures compliant with guidelines" concern financial assets subject to moratoriums that fall within the scope of the "Guidelines on legislative and non-legislative moratoriums on loan repayments applied in the light of the COVID-19 crisis" published by the EBA (EBA/GL/2020/02) as amended.

"Loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures" exclusively regard loans involved in ongoing repayment moratoriums considered compliance with EBA/GL/2020/02 at the date the moratoriums were granted but which are no longer compliant at the reporting date, which the bank has not classified as "subject to forbearance measures" as defined in the applicable supervisory reporting requirements.

"Loans subject to other forbearance measures" regard loans subject to COVID-19 support measures that meet the conditions for "forborne exposures" as defined by current supervisory reporting requirements and which are not included in the category "loans subject to forbearance measures compliant with guidelines" from the date the forbearance was granted or from the date they were no longer compliant with the guidelines.

"New loans" include, among other things, financial assets recognized as a result of forbearance measures that involved a refinancing with derecognition of the original asset and the recognition of a new loan, or a restructuring of multiple debts with the recognition of a new loan. Also included are new loans guaranteed by the State or other public entities.

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

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

	Fair value 31/12/2021			NV	Fair value 31/12/2020			NV
	L1	L2	L3	31/12/2021	L1	L2	L3	31/12/2020
A. Financial derivatives								
1. Fair value	178	39,143	-	3,426,730	633	9,366	-	437,655
2. Cash flows	-	3,639	-	325,350	-	1,877	-	74,128
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**178**	**42,782**	**-**	**3,752,080**	**633**	**11,243**	**-**	**511,783**

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

The increase in the balances reflects the strategy adopted by the Group starting from 2021 in order to achieve a positioning consistent with expectations of an increase in risk-free interest rates.

5.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair value							Cash flows		Investments in foreign operations
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and equity indices	currencies and gold	loans	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortized cost	35,427	X	179	-	X	X	X	3,639	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**35,427**	**-**	**179**	**-**	**-**	**-**	**-**	**3,639**	**-**	**-**
1. Financial liabilities	2,923	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	792	X	-	X
Total liabilities	**2,923**	**-**	**-**	**-**	**-**	**-**	**792**	**-**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

SECTION 6 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY – ITEM 60

6.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	Total 31/12/2021	Total 31/12/2020
1. Positive adjustments	**113,087**	**222,506**
1.1 of specific portfolios:	113,087	222,506
a) financial assets measured at amortized cost	113,087	217,208
b) financial assets measured at fair value through comprehensive income	-	5,298
1.2 comprehensive	-	-
2. Negative adjustments	**(49,427)**	**(13)**
2.1 of specific portfolios:	(49,427)	(13)
a) financial assets measured at amortized cost	(48,820)	(13)
b) financial assets measured at fair value through comprehensive income	(607)	-
2.2 comprehensive	-	-
Total	**63,660**	**222,493**

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	Type of relationship	Investment		%of votes
				Investor	% holding	
A. Joint ventures						
B. Companies subject to significant influence						
1. BCC Vita SpA	Milan	Milan	Significant influence	Iccrea Banca SpA	30.0%	30.0%
2. BCC Assicurazioni SpA	Milan	Milan	Significant influence	Iccrea Banca SpA	30.0%	30.0%
3. Pitagora SpA	Turin	Turin	Significant influence	Iccrea Banca SpA	9.9%	9.9%
4. Hi-Mtf SpA	Milan	Milan	Significant influence	Iccrea Banca SpA	20.0%	20.0%
5. Polo Verde Srl	Cremona	Cremona	Significant influence	Credito Padano Banca di Credito Cooperativo S.C.	25.0%	25.0%
6. Foro Annonario Gest Srl	Cesena	Cesena	Significant influence	Credito Cooperativo Romagnolo BCC di Cesena e Gatteo S.C.	25.0%	25.0%
7. Solaria Srl	Grosseto	Grosseto	Significant influence	Banca TEMA - Terre Etrusche di Valdichiana e di Maremma S.C.	40.0%	40.0%
8. HBenchmark Srl	Altavilla Vicentina	Altavilla Vicentina	Significant influence	Iccrea Banca SpA	10.0%	10.0%

7.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

	Carrying amount	Fair value	Dividends received
A. Joint ventures			
B. Companies subject to significant influence			
1. BCC Vita SpA	92,578	-	-
2. BCC Assicurazioni SpA	5,673	-	-
3. Pitagora SpA	10,887	-	-

7.3 SIGNIFICANT EQUITY INVESTMENTS: ACCOUNTING DATA

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Net adjustments of property, plant and equipment	Profit (loss) from continuing operations before tax	Profit (loss) from continuing operations after tax	Profit (loss) of disposal groups held for sale after tax	Profit (loss) for the period (1)	Other income after tax (2)	Comprehensive income (3) = (1) + (2)
A. Joint ventures														
B. Companies subject to significant influence														
1. BCC Vita SpA	X	4,322,825	198,262	26,387	4,189,439	849,760	X	X	14,678	11,166	-	11,166	-	11,166
2. BCC Assicurazioni SpA	X	49,537	52,572	1,689	81,511	26,741	X	X	1,719	1,195	-	1,195	-	1,195
3. Pitagora SpA	X	408,177	31,551	313,752	48,629	128,481	X	X	18,682	12,263	-	12,263	-	12,263

7.4 NON-SIGNIFICANT EQUITY INVESTMENTS: ACCOUNTING DATA

	Carrying amount of investment	Total assets	Total liabilities	Total revenues	Profit (loss) from continuing operations after tax	Profit (loss) for the period (1)	Other income after tax (2)	Comprehensive income (3) = (1) + (2)
A. Joint ventures								
B. Companies subject to significant influence	2,134	33,535	24,608	9,283	(800)	(800)	-	(800)

7.5 EQUITY INVESTMENTS: CHANGE FOR THE PERIOD

	Total 31/12/2021	Total 31/12/2020
A. Opening balance	**114,502**	**88,893**
B. Increases	**19,831**	**33,563**
B.1 Purchases	11,581	27,375
B.2 Writebacks	-	-
B.3 Revaluations	4,457	3,287
B.4 Other increases	3,793	2,901
C. Decreases	**5,809**	**7,954**
C.1 Sales	4,576	89
C.2 Impairment losses	-	7,865
C.3 Writedowns	1,234	-
C.4 Other decreases	-	-
D. Closing balance	**128,524**	**114,502**
E. Total revaluations	**31,888**	**27,431**
F. Total impairment losses	**11,336**	**11,336**

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.

7.7 COMMITMENTS IN RESPECT OF INVESTMENTS IN JOINT VENTURES

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

7.8 COMMITMENTS IN RESPECT OF INVESTMENTS IN COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE

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

7.9 SIGNIFICANT RESTRICTIONS

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

7.10 OTHER INFORMATION

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

SECTION 8 – TECHNICAL RESERVES ATTRIBUTABLE TO REINSURERS - ITEM 80

The Section has not been completed because there were no such positions as of the reporting date.

SECTION 9 - PROPERTY, PLANT AND EQUIPMENT – ITEM 90

9.1 OPERATING PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

	Total 31/12/2021	Total 31/12/2020
1. Owned assets	**1,757,816**	**1,781,675**
a) land	301,738	299,068
b) buildings	1,232,239	1,257,266
c) movables	56,054	58,820
d) electronic systems	87,788	81,912
e) other	79,997	84,609
2. Assets acquired under finance leases	**238,343**	**269,907**
a) land	1,860	5,111
b) buildings	221,554	249,408
c) movables	112	670
d) electronic systems	7,248	8,254
e) other	7,569	6,464
Total	1,996,159	2,051,582
of which: obtained through enforcement of guarantees received	1,421	1,176

At December 31, 2021 the Group had granted operating leases to others for assets used in operations, mainly buildings, in the amount of, about €28 million. The leased properties are mainly for commercial and office use.

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 31/12/2021				Total 31/12/2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Owned assets	**137,851**	**-**	**1,361**	**148,799**	**143,762**	**-**	**2,557**	**147,866**
a) land	28,174	-	408	27,385	29,172	-	339	28,194
b) buildings	109,677	-	953	121,414	114,590	-	2,218	119,672
2. Right-of-use assets acquired under leases	**7,540**	**-**	**-**	**7,540**	**7,540**	**-**	**-**	**7,540**
a) land	-	-	-	-	-	-	-	-
b) buildings	7,540	-	-	7,540	7,540	-	-	7,540
Total	145,391	-	1,361	156,339	151,302	-	2,557	155,406
of which: obtained through enforcement of guarantees received	34,819	-	-	35,237	39,234	-	1,306	32,651

As at December 31, 2021, the Group had granted operating leases to others for investment property, mainly buildings, in the amount of about €42 million. The leased properties are mainly for commercial and residential use.

9.3 OPERATING PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF REVALUED ASSETS

The Group does not have revalued property, plant and equipment used in operations.

9.4 INVESTMENT PROPERTY: COMPOSITION OF ASSETS AT FAIR VALUE

	Total 31/12/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Owned assets	**-**	**-**	**444,478**	**-**	**470,664**	**3,029**
a) land	-	-	996	-	-	909
b) buildings	-	-	443,482	-	470,664	2,120
2. Right-of-use assets acquired under leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	-	-	444,478	-	470,664	3,029
of which: obtained through enforcement of guarantees received	-	-	-	-	-	28

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

	Total 31/12/2021	Total 31/12/2020
1. Inventories of property, plant and equipment obtained through enforcement of guarantees received	**46,038**	**52,288**
a) land	16,702	16,924
b) buildings	21,261	26,778
c) movables	-	-
d) electronic systems	-	-
e) other	8,075	8,586
2. Other inventories of property, plant and equipment	**14,391**	**3,030**
Total	60,429	55,318
of which: measured at fair value net of selling costs	33	103

9.6 OPERATING PROPERTY, PLANT AND EQUIPMENT: CHANGE FOR THE PERIOD

	Land	Buildings	Movables	Electronic plant	Other	Total
A. Opening gross balance	**304,269**	**2,246,760**	**413,947**	**311,616**	**572,798**	**3,849,390**
A.1 Total net writedown	90	730,289	354,458	221,450	481,726	1,788,013
A.2 Opening net balance	**304,179**	**1,516,470**	**59,490**	**90,166**	**91,073**	**2,061,378**
B. Increases:	**3,246**	**88,430**	**13,126**	**48,460**	**44,374**	**197,636**
B.1 Purchases	847	50,152	8,932	33,909	35,862	129,702
B.2 Capitalized improvement costs	-	14,137	300	129	1,775	16,341
B.3 Writebacks	-	-	-	-	-	-
B.4 Fair value gains recognized in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Transfers from investment property	75	905	X	X	X	980
B.7 Other changes	2,324	23,236	3,894	14,422	6,737	50,613
C. Decreases:	**3,827**	**151,107**	**16,450**	**43,590**	**47,881**	**262,855**
C.1 Sales	1,567	5,823	398	1,336	1,170	10,294
C.2 Depreciation	15	101,572	11,288	37,256	33,103	183,234
C.3 Writedowns for impairment recognized in	297	839	589	209	4	1,938
a) equity	-	-	-	-	-	-
b) income statement	297	839	589	209	4	1,938
C.4 Fair value losses recognized in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to:	1,754	3,131	-	-	39	4,924
a) investment property	454	3,123	X	X	X	3,577
b) non-current assets and disposal groups held for sale	1,300	8	-	-	39	1,347
C.7 Other changes	194	39,742	4,175	4,789	13,565	62,465
D. Closing net balance	**303,598**	**1,453,793**	**56,166**	**95,036**	**87,566**	**1,996,159**
D.1 Total net writedowns	248	800,793	359,648	192,447	474,044	1,827,179
D.2 Closing gross balance	**303,845**	**2,254,586**	**415,814**	**287,483**	**561,610**	**3,823,338**
E. Measurement at cost	12,999	69,526	13,713	3,654	14,209	114,101

9.7 INVESTMENT PROPERTY: CHANGE FOR THE PERIOD

	Total	
	Land	Buildings
A. Opening balance	**30,081**	**594,914**
B. Increases:	**1,286**	**9,137**
B.1 Purchases	108	2,670
B.2 Capitalized improvement costs	-	736
B.3 Fair value gains	-	-
B.4 Writebacks	-	-
B.5 Positive exchange rate differences	-	-
B.6 Transfers from operating property	454	3,123
B.7 Other changes	724	2,608
C. Decreases	**2,197**	**43,352**
C.1 Sales	1,501	20,377
C.2 Depreciation	-	3,147
C.3 Fair value losses	-	15,836
C.4 Writedowns for impairment	316	1,835
C.5 Negative exchange rate differences	-	-
C.6 Transfers to:	75	1,082
a) operating property	75	905
b) non-current assets and disposal groups held for sale	-	177
C.7 Other changes	305	1,075
D. Closing balance	**29,170**	**560,699**
E. Measurement at fair value	28,462	126,246

9.8 INVENTORIES OF PROPERTY, PLANT AND EQUIPMENT WITHIN THE SCOPE OF IAS 2: CHANGE FOR THE PERIOD

	Inventories of property, plant and equipment obtained through enforcement of guarantees received					Other inventories of property, plant and equipment	Total
	Land	Buildings	Movables	Electronic plant	Other		
A. Opening balance	**16,924**	**26,778**	**-**	**-**	**8,586**	**3,030**	**55,318**
B. Increases	**5**	**3,627**	**-**	**-**	**46**	**14,461**	**18,139**
B.1 Purchases	-	1,985	-	-	46	-	2,031
B.2 Writebacks	-	-	-	-	-	-	-
B.3 Positive exchange rate differences	-	-	-	-	-	-	-
B.4 Other increases	5	1,642	-	-	-	14,461	16,108
C. Decreases	**227**	**9,144**	**-**	**-**	**557**	**3,100**	**13,028**
C.1 Sales	-	4,028	-	-	40	123	4,191
C.2 Writedowns for impairment	69	218	-	-	517	122	926
C.3 Negative exchange rate differences	-	-	-	-	-	-	-
C.4 Other decreases	158	4,898	-	-	-	2,855	7,911
D. Closing balance	**16,702**	**21,261**	**-**	**-**	**8,075**	**14,391**	**60,429**

9.9 COMMITMENTS TO ACQUIRE PROPERTY, PLANT AND EQUIPMENT

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

SECTION 10 – INTANGIBLE ASSETS – ITEM 100

10.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 31/12/2021		Total 31/12/2020	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**21,212**	**X**	**23,030**
A.1.1 pertaining to the Group	X	21,212	X	7,466
A.1.2 pertaining to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**152,910**	**5**	**145,809**	**5**
of which software	129,707	-	118,503	-
A.2.1 Assets carried at cost	152,910	5	145,809	5
a) internally generated intangible assets	5,537	-	5,017	-
b) other assets	147,373	5	140,792	5
A.2.2 Assets designated at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	152,910	21,217	145,809	23,035

Item A.1.1 includes goodwill paid in the acquisition of bank branches by the Group banks (€5.6 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.

10.2 INTANGIBLE ASSETS: CHANGE FOR THE PERIOD

	Goodwill	Other intangible assets internally generated		Other intangible assets: other		Total
		Finite life	Indefinite life	Finite life	Indefinite life	
A. Opening balance	**33,913**	**5,017**	**-**	**144,647**	**5**	**183,582**
A.1 Total net writedown	10,883	-	-	3,855	-	14,738
A.2 Opening net balance	**23,030**	**5,017**	**-**	**140,792**	**5**	**168,844**
B. Increases	**-**	**1,868**	**-**	**52,323**	**-**	**54,191**
B.1 Purchases	-	66	-	51,866	-	51,932
B.2 Increases in internally generated intangible assets	X	1,799	-	-	-	1,799
B.3 Writebacks	X	-	-	-	-	-
B.4 Fair value gains recognized in	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Other changes	-	3	-	457	-	460
C. Decreases	**1,818**	**1,348**	**-**	**45,742**	**-**	**48,908**
C.1 Sales	-	-	-	1,120	-	1,120
C.2 Writedowns	1,810	1,348	-	40,535	-	43,693
- Amortization	X	1,347	-	39,138	-	40,485
- Impairment	1,810	1	-	1,397	-	3,208
+ equity	X	-	-	-	-	-
+ income statement	1,810	1	-	1,397	-	3,208
C.3 Fair value losses recognized in:	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Other changes	8	-	-	4,087	-	4,095
D. Closing net balance	**21,212**	**5,537**	**-**	**147,373**	**5**	**174,127**
D.1 Total net writedowns	642	-	-	2,557	-	3,199
E. Closing gross balance	**21,854**	**5,537**	**-**	**149,930**	**5**	**177,326**
F. Measurement at cost	-	-	-	**-**	-	**-**

10.3 OTHER INFORMATION

Goodwill impairment testing

Under the provisions of IAS 36, at each reporting date, goodwill must be tested for impairment in order to verify the asset's carrying amount. The test must also be performed following the occurrence of a trigger event during the year.

An asset is written down after impairment testing if its carrying amount is greater than that deemed recoverable, the latter defined as the greater of value in use (i.e. the present value of future cash flows cash expected from the cash generating unit – CGU - involved) and the fair value less of costs to sell, i.e. the price that would be received to sell an asset in an orderly transaction between informed and independent counterparties, net of any transaction costs.

The goodwill of the affiliated banks

In order to perform impairment tests for the goodwill recognized by the affiliated banks, the Group has adopted common criteria and methodological models, in line with best market and theoretical practice, for performing impairment testing of the goodwill recognized by the banks. More specifically, they calculate value in use instead of fair value less costs to sell, mainly due to the fact that the mutual banks are not listed on an active market and their nature, size and operations make it difficult and excessively arbitrary to identify comparable listed companies in the Italian market that would enable the use of the most common methods for estimating fair value net of costs to sell (e.g. "comparable transactions" or "comparable companies" methods).

Consistent with the provisions of IAS 36 and taking account of the general principles of reasonableness and demonstrability of the estimates to be used, two distinct approaches have been adopted within the Group (based on the use of a CGU represented, respectively, by the entire company or the branches that originally led to the recognition of goodwill) in order to ensure any necessary continuity in the analytical methods.

In the case of the "entire company CGU", the dividend discount model (DDM) - excess capital variant – has been applied. It estimates the value of a company (in this case, the affiliated mutual bank) on the basis of future dividends distributable to shareholders. This method is widely used in accepted valuation practice and supported by the literature on corporate valuation techniques, with particular regard to companies operating in the financial sector.

Affiliates that adopt the "branches acquired CGU" use the discounted cash flow ("DCF") – levered variant. It estimates the value of the economic capital of a company ("equity value") as the sum of the present value of the cash flows distributable to shareholders that it will generate over a specified explicit period for planning projected economic/financial data and of the residual value at the end of the that period ("TV"), discounted at a rate equal to the cost of equity ("Ke").

The assumptions underlying the valuation models used are shown below:

- the value in use of the CGUs is determined by estimating the present value of future cash flows that are expected to be generated by the CGUs themselves;
- the CGUs were assessed on a stand-alone and going-concern basis;
- the allocated capital was calculated by applying a minimum prudential CET1 requirement to the target TCR including the P2G of the Parent Company, equal to 14.5%;
- the data for BTP, Beta and MRP were acquired from market infoproviders or from publicly available information.
- The discount rate was set equal to the average rate of return on capital, determined on the basis of the capital asset pricing model ("CAPM") and using:
- a risk-free rate equal to the sum of the average yields observed in the last 12 months on the 10-year government securities of a AAA benchmark country (United States), adjusted to take account of expected inflation for Italy and the Italian credit default swap price;
- to calculate beta, a sample of comparable companies (in terms of business) on the basis of which the average or median beta was drawn from weekly observations over a two-year horizon;
- a market risk premium of 4.35%, in line with commonly adopted valuation practice.

On the basis of these assumptions, the discount rate (Ke) used by the Bank was calculated at 6.74%.

Finally, in accordance with the provisions of paragraph 134, letter f) of IAS 36, as part of the assessment of the recoverable amount of goodwill and where the estimate of this value is the result of valuation procedures based on specific assumptions defined by company management, it is also necessary perform a sensitivity analysis to identify any reasonably possible changes in those assumptions that could cause the carrying amount of the CGU to exceed its recoverable amount.

In this regard, as described above, the basic assumptions adopted by the Bank's management and used in the valuation procedure are represented:

- the rate for discounting the income referred to in the previous line, set equal to the average cost of capital for shareholders, estimated using the CAPM.
- by the measure of the prospective income derived from the Bank's business plan, corrected appropriately on the basis of the valuation methodology applied and, therefore, by the average growth rate implicit for that income.

In the sensitivity analysis, the "Ke" and "g" parameters modified with the reasonably possible range of +/- 0.25% and +/- 0.15% respectively. The outcome of the sensitivity analysis out confirms the value of the goodwill recognized.

Net of impairment adjustments for the year of €1.8 million, at December 31, 2021 the recognized goodwill of the affiliated banks totaled €5.6 million.

Goodwill of investee companies

In the measurement of the goodwill recognized in the consolidated financial statements following the acquisition of control over the investee, the CGU is represented by each of these investees.

With regard to the goodwill recognized at the first-time consolidation of BCC Risparmio & Previdenza SGRpA (€10.5 million), the market multiples method was used to measure the company.

The market multiples method is based on the assumption that the value of a company can be determined by drawing information from the stock exchange market for companies operating in the same sector of the company being valued ("comparable companies"). Specifically, the method involves calculating multipliers ("stock market multiples") resulting from the relationship between the value that the market attributes to comparable companies and their performance and financial indicators. The value of the company being valued is obtained by applying the identified multiples to the indicators of the company involved.

In particular, an international panel of companies operating in the asset management sector was considered, representing the business of BCC Risparmio & Previdenza SGRpA, using P/BV (Price/Book Value) as the multiple.

The outcome of the impairment test confirms the value of the goodwill recognized in the financial statements.

In order to assess the goodwill recognized at first-time consolidation of BCC Sistemi Informatici (€4.9 million), for the purposes of the impairment test, the economic value of the company's capital was estimated using the market multiples method. In particular, an international panel of companies operating in the IT sector and in the development of software was considered, as these represent the main activities of BCC Sistemi Informatici, using P/BV (Price/Book Value) as the multiple.

The outcome of the impairment test confirms the value of the goodwill recognized in the financial statements.

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

11.1 DEFERRED TAX ASSETS: COMPOSITION

	31/12/2021		Total	31/12/2020		Total
	IRES	IRAP		IRES	IRAP	
1) Recognized in income statement:	**1,261,170**	**144,704**	**1,405,874**	**1,433,401**	**164,805**	**1,598,206**
a) DTAs pursuant to Law 214/2011	**981,902**	**105,801**	**1,087,703**	**1,116,477**	**119,579**	**1,236,056**
Writedowns of loans to customers	878,324	100,537	978,861	1,034,218	116,169	1,150,387
Goodwill and other intangible assets at December 31, 2014	375	68	443	440	80	520
Tax losses/negative value of production pursuant to Law 214/2011	103,203	5,196	108,399	81,819	3,330	85,149
b) Other	**279,268**	**38,903**	**318,171**	**316,924**	**45,226**	**362,150**
Writedowns of amounts due from banks	3,044	-	3,044	2,637	-	2,637
Writedowns of loans to customers	54,305	17,623	71,928	70,500	22,820	93,320
Goodwill and other intangible assets	5,258	1,046	6,304	6,028	1,199	7,227
Tax losses	26,069	-	26,069	43,297	-	43,297
Writedowns of financial instruments	555	426	981	859	451	1,310
Writedowns from impairment of guarantees issued recognized under liabilities	53,614	25	53,639	39,541	35	39,576
Provisions for risks and charges	78,085	10,111	88,196	92,022	11,762	103,784
Costs of predominantly administrative nature	1,782	5	1,787	1,595	7	1,602
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	29,910	4,890	34,800	30,212	4,974	35,186
Other	26,646	4,777	31,423	30,233	3,978	34,211
2) Recognized in shareholders' equity:	**23,900**	**3,785**	**27,685**	**27,141**	**4,452**	**31,593**
a) Valuation reserves	**10,349**	**2,030**	**12,379**	**3,813**	**878**	**4,692**
Capital losses on financial assets measured through OCI	10,349	2,030	12,379	3,813	878	4,692
b) Other:	**13,552**	**1,755**	**15,306**	**23,327**	**3,573**	**26,901**
Actuarial gains/losses on provisions for employees	4,165	31	4,196	4,128	25	4,153
Other	9,386	1,724	11,110	19,200	3,548	22,748
A. Total deferred tax assets	**1,285,070**	**148,489**	**1,433,559**	**1,460,542**	**169,257**	**1,629,799**
B. Offsetting with deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets - Total item 110 b)	**1,285,070**	**148,489**	**1,433,559**	**1,460,542**	**169,257**	**1,629,799**

The DTAs referred to in Law 214/2011, equal to a total of almost €1.1 billion, are mainly represented by prepaid taxes attributable to writedowns of loans to customers accounted for up to 2015 and not yet deducted, which can be converted into tax credits in the event of a net loss for the year and/or a tax loss. The DTAs referred to in Law 214/2011 on tax losses are generated by the reversal of writedowns of loans to customer and can be transformed into tax credits at the time tax returns are filed.

DTAs recognized in the income statement other than those referred to in Law 214/2011 amount to a total €318.2 million. Among these, the sub-item "Provisions for risks and charges", which amounts to €88.2 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 €71.9 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 reduction in the sub-item "Tax losses" is attributable to the transformation into tax credits allowed under Art. 55 of the Decree Law 18 of March 17, 2020 ("Cure Italy Decree"), which in order to provide financial support to businesses allowed companies that have transferred receivables in respect of non-solvent debtors to third parties to transform deferred tax assets in respect of tax losses not yet used at the date of legal effect of the transfer and the ACE not yet deducted or transformed at the date of legal effect of the transfer into tax credits.

11.2 DEFERRED TAX LIABILITIES: COMPOSITION

	31/12/2021		Total	31/12/2020		Total
	IRES	IRAP		IRES	IRAP	
1) Deferred tax liabilities recognized in income statement	**7,816**	**435**	**8,251**	**29,471**	**4,189**	**33,660**
Writedowns of loans to customers deducted in tax return	-	-	-	19	-	19
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	1,504	285	1,789	17,705	3,442	21,147
Other	6,312	150	6,462	11,747	747	12,494
2) Deferred tax liabilities recognized in shareholders' equity	**23,276**	**4,522**	**27,798**	**53,637**	**10,424**	**64,061**
Valuation reserves						
Capital gains on financial assets measured through OCI	21,495	4,282	25,777	36,845	7,287	44,132
Revaluation of property	504	86	590	15,310	3,029	18,339
Other	1,277	154	1,431	1,482	108	1,590
A. Total deferred tax liabilities	**31,092**	**4,957**	**36,049**	**83,108**	**14,613**	**97,721**
B. Offsetting with deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax liabilities	**31,092**	**4,957**	**36,049**	**83,108**	**14,613**	**97,721**

The decline in deferred tax liabilities on the end of 2020 is mainly attributable to the Group's adjustment of the tax values of property, plant and equipment and intangible assets to their higher carrying amounts as provided for in Article 110 of Decree law 104 of August 14, 2020.

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

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	**1,598,206**	**1,671,202**
2. Increases	**188,199**	**223,334**
2.1 Deferred tax assets recognized during the period	178,833	218,227
a) in respect of previous period	3,071	2,041
b) due to change in accounting policies	-	-
c) writebacks	-	-
d) other	175,762	216,186
2.2 New taxes or increases in tax rates	5	155
2.3 Other increases	9,361	4,952
3. Decreases	**380,531**	**296,330**
3.1 Deferred tax assets derecognized during the period	239,105	243,125
a) reversals	237,390	238,464
b) writedowns for supervening non-recoverability	1,667	4,272
c) due to changes in accounting policies	-	-
d) other	48	389
3.2 Reduction in tax rates	3	32
3.3 Other decreases	141,423	53,173
a) transformation in tax credits pursuant to Law 214/2011	108,505	16,459
b) other	32,918	36,714
4. Closing balance	**1,405,874**	**1,598,206**

11.4 CHANGES IN DEFERRED TAX ASSETS PURSUANT TO LAW 214/2011

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	**1,236,056**	**1,285,762**
2. Increases	**110,489**	**89,859**
3. Decreases	**258,842**	**139,565**
3.1 Reversals	149,188	123,076
3.2 Conversion into tax credits	108,347	16,459
a) arising from losses for the year	90,769	15,812
b) arising from tax losses	17,578	647
3.3 Other decreases	1,307	30
4. Closing balance	**1,087,703**	**1,236,056**

The increases mainly include convertible deferred tax assets on tax losses recognized during the year, while sub-item 3.1 Reversals represents the cancellation of deferred tax assets referred to in Law 214/2011.

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

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	**33,660**	**33,524**
2. Increases	**16,622**	**2,419**
2.1 Deferred tax liabilities recognized during the period	1,311	2,222
a) in respect of previous period	49	246
b) due to change in accounting policies	449	-
c) other	813	1,976
2.2 New taxes or increases in tax rates	-	23
2.3 Other increases	15,311	174
3. Decreases	**42,031**	**2,283**
3.1 Deferred tax liabilities derecognized during the period	41,979	2,278
a) reversals	41,413	2,162
b) due to changes in accounting policies	-	-
c) other	566	116
3.2 Reduction in tax rates	-	-
3.3 Other decreases	52	5
4. Closing balance	**8,251**	**33,660**

11.6 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	**31,593**	**31,222**
2. Increases	**11,288**	**14,705**
2.1 Deferred tax assets recognized during the period	11,180	14,504
a) in respect of previous periods	211	177
b) due to change in accounting policies	45	207
c) other	10,924	14,120
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	108	201
3. Decreases	**15,196**	**14,334**
3.1 Deferred tax assets derecognized during the period	11,587	8,687
a) reversals	4,000	764
b) writedowns for supervening non-recoverability	8	12
c) due to changes in accounting policies	-	-
d) other	7,579	7,911
3.2 Reduction in tax rates	-	-
3.3 Other decreases	3,609	5,647
4. Closing balance	**27,685**	**31,593**

11.7 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	**64,061**	**53,308**
2. Increases	**6,935**	**21,899**
2.1 Deferred tax liabilities recognized during the period	6,535	19,359
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	-
c) other	6,535	19,359
2.2 New taxes or increases in tax rates	-	14
2.3 Other increases	399	2,526
3. Decreases	**43,198**	**11,146**
3.1 Deferred tax liabilities derecognized during the period	25,224	9,477
a) reversals	4,588	3,168
b) due to change in accounting policies	65	233
c) other	20,571	6,076
3.2 Reduction in tax rates	-	-
3.3 Other decreases	17,974	1,669
4. Closing balance	**27,798**	**64,061**

The decrease reported under sub-item 3.1 c) other reflect the decrease in the value of financial assets classified under financial assets measured at fair value through other comprehensive income (FVOCI).

11.8 OTHER INFORMATION

The recovery of the DTAs pursuant to Law 214/2011 is certain under the provisions of the law and does not take account of the profit generating capacity of the companies that recognized them.

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 recognizing them (affiliated banks) or, as a result of the exercise of the option to participate in the tax consolidation mechanism, of the group of companies participating in that mechanism (the companies in the direct scope of consolidation) to generate positive taxable income.

With regard to the probability test conducted by the affiliated banks, the tax income or loss (IRES/IRAP) was estimated over a five-year forecast period (from 2022 to 2026), and the sufficiency of the estimated taxable income to absorb the temporary deductible differences that gave rise to the recognition of DTAs that will be reversed in the reference period was verified. In addition, with regard to DTAs reversing subsequent to the aforementioned time horizon, a further assessment was carried out that demonstrated their recoverability within a limited and reasonable period of years.

The estimations and assumptions concerning the recoverability of deferred tax assets were made on the basis of the latest approved strategic plan, appropriately revised - in particular with regard to the volume of funding and lending, fees and commissions, the cost of risk and forward looking profitability - to take account of the impact of the COVID-19 pandemic and the initiatives and measures implemented by the Group companies in this area.

The test used the IRES and IRAP rates in force at the reporting date (27.50% for IRES, including the surtax of 3.50%).

As regards the recoverability test for prepaid IRES of the Parent Company and the other companies participating in the tax consolidation mechanism, the projections for expected profitability prepared by the competent units of the Parent Company indicate the tax consolidation mechanism will be able to absorb all recognized DTAs by 2026, even those that by definition could be carried forward indefinitely (i.e. DTAs on tax losses and the ACE) and those for which reversal is expected beyond the observation period.

The following table shows the composition of current tax assets at the reporting date.

	31/12/2021			Total
	IRES	IRAP	Other	
Current tax liabilities (-)	(5,326)	(27,382)	(405)	(33,113)
Payments on account (+)	27,378	20,434	374	48,187
Other tax receivables (+)	180,011	47,711	24,201	251,922
Tax credit pursuant to Law 214/2011 (+)	145,999	3,868	-	149,867
Withholding tax (+)	4,954	-	239	5,193
Debtor balance of item 60 a) of liabilities	**(1,477)**	**(6,243)**	**(404)**	**(8,124)**
Creditor balance	**354,493**	**50,874**	**24,813**	**430,180**
Balance of non-offsettable tax receivables	**31,833**	**6,291**	-	**38,124**
Creditor balance of item 110 a) of assets	**386,326**	**57,165**	**24,813**	**468,304**

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

	31/12/2021	31/12/2020
A. Assets held for sale		
A.1 Financial assets	645	-
A.2 Equity investments	-	-
A.3 Property, plant and equipment	12,742	18,368
of which obtained through enforcement of guarantees received	10,287	15,947
A.4 Intangible assets	2,709	-
A.5 Other non-current assets	203,467	-
Total A	**219,563**	**18,368**
of which carried at cost	219,563	17,358
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	1,010
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated as at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortized cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which carried at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
C. Liabilities associated with assets held for sale		
C.1 Debt	115,644	-
C.2 Securities	-	-
C.3 Other liabilities	66,454	-
Total C	**182,098**	**-**
of which carried at cost	182,098	-
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	**-**	**-**

At December 31, 2021, the Group presents assets and liabilities relating to the e-money operations of the Parent Company under non-current assets held for sale and associated liabilities. Please see to the description of the operation in the Report on Operations.

SECTION 13 - OTHER ASSETS – ITEM 130

13.1 OTHER ASSETS: COMPOSITION

		Total 31/12/2021	Total 31/12/2020
- Shortfalls, embezzlement and robberies		1,661	1,318
- Trade receivables		40,548	48,119
- Stamp duty and other valuables		1,443	1,269
- Gold, silver and other precious metals		2,481	2,254
- Receivables for future premiums on derivatives		8,111	9,901
- Fees and commissions and interest to be received		13,106	13,265
- Tax receivables due from central govt. tax authorities and other tax agencies		445,845	374,058
- Receivables from social security institutions		4,929	4,660
- Tax receivables		1,301,994	12,913
- Receivables from employees		4,858	5,594
- Non-recurring transactions (acquisitions)		14,441	11,252
- Items in transit between branches and items being processed		308,162	272,787
- Accrued income not attributable to separate line item		14,796	21,222
- Prepaid expenses not attributable to separate line item		37,069	33,126
- Leasehold improvements		38,792	42,082
- Other (security deposits, assets not attributable to other items)		352,604	545,989
- Consolidation adjustments		733,384	533,447
	Total	3,324,225	1,933,255

“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 €1.2 billion.

“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 31/12/2021				Total 31/12/2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to central banks	**33,158,972**	X	X	X	**29,923,224**	X	X	X
2. Due to banks	**1,426,389**	X	X	X	**2,191,073**	X	X	X
2.1 Current accounts and demand deposits	217,542	X	X	X	299,339	X	X	X
2.2 Fixed term deposits	92,858	X	X	X	116,154	X	X	X
2.3 Loans	1,065,857	X	X	X	1,648,035	X	X	X
2.3.1 Repurchase agreements	999,073	X	X	X	1,534,792	X	X	X
2.3.2 Other	66,784	X	X	X	113,243	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	3,269	X	X	X	1,522	X	X	X
2.6 Other payables	46,863	X	X	X	126,023	X	X	X
Total	34,585,361	-	22,358,609	12,805,149	32,114,297	-	20,472,027	11,837,754

"Due to central banks", up €3.2 billion over the previous year, mainly represents financing from the ECB (TLTROs) reflecting the more expansionary monetary policy stance of the ECB (in particular the expansion of access to TLTRO III operations) to counter the adverse effects of the COVID-19 health emergency on the economy. The financing mature between June 2023 and December 2024.

The decrease in the item "Due to banks" mainly reflects a decrease of €0.5 billion in repurchase transactions entered into by Group banks.

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

	Total 31/12/2021				Total 31/12/2020			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and demand deposits	104,311,902	X	X	X	92,228,718	X	X	X
2. Fixed-term deposits	4,865,989	X	X	X	5,748,454	X	X	X
3. Loans	6,808,999	X	X	X	8,899,331	X	X	X
3.1 Repurchase agreements	5,635,000	X	X	X	6,821,435	X	X	X
3.2 Other	1,173,999	X	X	X	2,077,896	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	236,867	X	X	X	262,303	X	X	X
6. Other payables	1,212,291	X	X	X	1,257,891	X	X	X
Total	**117,436,048**	**2,591**	**5,130,975**	**111,073,205**	**108,396,697**	**3,593**	**6,938,328**	**101,451,848**

Amounts due to customers increased by €9 billion compared with December 2020, mainly reflecting the increase in balances on current accounts and demand deposits.

The sub-item “Repurchase agreements” is mainly composed of transactions with the Clearing and Guarantee Fund, decreasing by about €1.1 billion compared with the previous year.

The sub-item “Loans-other” comprises €0.5 billion in respect of a loan from CDP.

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

	Total 31/12/2021				Total 31/12/2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	6,617,687	3,587,834	3,039,067	-	8,308,713	3,363,710	5,035,742	-
1.1 structured	4,930	-	4,930	-	4,875	-	4,875	-
1.2 other	6,612,757	3,587,834	3,034,137	-	8,303,838	3,363,710	5,030,867	-
2. Other securities	4,688,793	-	4,215,411	542,992	5,409,783	-	325,322	5,161,485
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	4,688,793	-	4,215,411	542,992	5,409,783	-	325,322	5,161,485
Total	**11,306,480**	**3,587,834**	**7,254,478**	**542,992**	**13,718,495**	**3,363,710**	**5,361,064**	**5,161,485**

Bonds, which totaled €6.6 billion, declined by about €1.7 billion compared with the end of 20202 as securities matured during the year.

“Other securities – other” include certificates of deposit issued by Group banks.

1.4 BREAKDOWN OF SUBORDINATED DEBT/SECURITIES

	31/12/2021	31/12/2020
A.1 Subordinated debt	**-**	**1,021**
- banks	-	1,021
- customers	-	-
B.1 Subordinated securities	**797,191**	**608,177**
- banks	777,177	595,411
- customers	20,014	12,766
Total	797,191	609,198

The sub-item B.1 "Subordinated securities – banks" includes €700 million in respect of subordinated bonds issued by Iccrea Banca SpA and subscribed by non-Group banks, while the remainder is represented by bonds issued by the Group mutual banks.

1.5 BREAKDOWN OF STRUCTURED DEBT

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

1.6 LEASE LIABILITIES

Right of use	Falling due within 5 years	Falling due after 5 years
Buildings	126,127	90,989
Movables	3,391	-
Electronic systems	3,077	45
Other	7,910	8,597

The table provides a breakdown by maturity of lease liabilities, as required under IFRS 16.

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 31/12/2021					Total 31/12/2020				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	48,692	48.507	198	-	48,705	133	153	-	-	153
2. Due to customers	330	195	1	-	194	125	120	-	-	120
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3. Other	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**49,022**	**48,702**	**199**	**-**	**48,899**	**258**	**273**	**-**	**-**	**273**
B. Derivatives										
1. Financial derivatives	X	347	79,719	508	X	X	150	242,649	736	X
1.1 Trading	X	347	79,719	-	X	X	150	242,649	-	X
1.2 Associated with fair value option	X	-	-	508	X	X	-	-	736	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**347**	**79,719**	**508**	**X**	**X**	**150**	**242,649**	**736**	**X**
Total (A+B)	**X**	**49,049**	**79,918**	**508**	**X**	**X**	**423**	**242,649**	**736**	**X**

Key:
NV=nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3
* Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

The sub-item A.1 “Due to banks” reports technical overdrafts connected with Parent Company operations.

The sub-item B.1.1 “Financial derivatives – trading” includes the negative value of trading derivatives entered into almost entirely by the Parent Company, which decreased compared with the previous year.

2.2 BREAKDOWN OF “FINANCIAL LIABILITIES HELD FOR TRADING”: SUBORDINATED LIABILITIES

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

2.3 BREAKDOWN OF “FINANCIAL LIABILITIES HELD FOR TRADING”: STRUCTURED LIABILITIES

The table has not been completed because there were no such positions as of the reporting 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 31/12/2021					Total 31/12/2020				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	0
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees issued	-	X	X	X	X	X	X	X	X	X
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees issued	-	X	X	X	X	X	X	X	X	X
3. Debt securities	**249**	**133**	**123**	**-**	**123**	**3,026**	**2,868**	**249**	**-**	**2,849**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	249	133	123	-	X	3,026	2,868	249	-	X
Total	**249**	**133**	**123**	**-**	**123**	**3,026**	**2,868**	**249**	**-**	**2,849**

Key:
NV= nominal 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 decrease in sub-item 3.2 “Debt securities – Other” is mainly attributable to the maturity of bonds issued by a number of affiliated banks hedged with interest rate derivatives measured in accordance with the fair value option pursuant to IFRS 9.

3.2 BREAKDOWN OF “FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE”: SUBORDINATED LIABILITIES

	31/12/2021	31/12/2020
A. Financial liabilities designated as at fair value – Subordinated liabilities	**133**	**268**
A.1 Due to banks	-	-
A.2 Due to customers	-	-
A.3 Securities issued	133	268

SECTION 4 - HEDGING DERIVATIVES – ITEM 40

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

	Fair value 31/12/2021			NV	Fair value 31/12/2020			NV
	L1	L2	L3	31/12/2021	L1	L2	L3	31/12/2020
A) Financial derivatives	**372**	**494,896**	**-**	**10,894,543**	**93**	**514,650**	**-**	**8,968,599**
1) Fair value	372	461,917	-	10,522,914	93	469,649	-	7,615,797
2) Cash flows	-	32,979	-	371,629	-	45,001	-	1,352,801
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**372**	**494,896**	**-**	**10,894,543**	**93**	**514,650**	**-**	**8,968,599**

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

4.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair value							Cash flows		
	Specific									
	Debt securities and interest rates	Equity securities and stock indices	Foreign currencies and gold	Credit	Commodities	Other	Generic	Specific	Generic	Foreign investments
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortized cost	400,927	X	486	-	X	X	X	32,979	X	X
3. Portfolio	X	X	X	X	X	X	60,250	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**400,927**	**-**	**486**	**-**	**-**	**-**	**60,250**	**32,979**	**-**	**-**
1. Financial liabilities	626	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**626**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

The table reports the negative fair values of hedging derivatives, broken down by hedged asset or liability and type of hedge.

As indicated in Part A "Accounting policies" of these notes to the financial statements, 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 5 - VALUE ADJUSTMENTS OF GENERICALLY HEDGED LIABILITIES - ITEM 50

5.1 VALUE ADJUSTMENTS OF HEDGED FINANCIAL LIABILITIES

		Total 31/12/2021	Total 31/12/2020
1. Positive adjustment of financial liabilities		-	-
2. Negative adjustment of financial liabilities		187	1,672
	Total	187	1,672

SECTION 6 – TAX LIABILITIES – ITEM 60

See section 11 under assets.

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

At December 31, 2021, the Group presents liabilities associated with the Parent Company's e-money operations under liabilities associated with assets held for sale.

Please see table 12.1 "Non-current assets and disposal groups held for sale: composition by type" in section 12 under assets.

SECTION 8 - OTHER LIABILITIES – ITEM 80

8.1 OTHER LIABILITIES: COMPOSITION

		Total 31/12/2021	Total 31/12/2020
Amounts due to social security institutions and State		107,658	103,876
Trade payables		155,606	170,020
Securities to be settled		6,893	1,632
Amounts available to customers		846,730	688,689
Non-recurring transactions (acquisitions)		1,085	1,161
Liabilities for future premiums on derivatives		2,848	13,455
Tax payables due to tax authorities		467,541	359,559
Payables due to employees		183,624	175,042
Financial liabilities in respect of loans granted for a specific transaction		3,916	14,412
Guarantees issued and credit derivatives		5,199	10
Accrued expenses not attributable to separate line item		8,562	8,009
Deferred income not attributable to separate line item		18,062	18,242
Items in transit and items being processed		657,483	476,857
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)		342,099	446,964
Balance of illiquid portfolio items		507,923	539,957
Dividends to be paid		109	177
Tax consolidation mechanism		-	11
	Total	3,315,338	3,018,072

The item "Amounts available to customers" mainly regards pension and wage payments from other banks awaiting payment to customers by mutual banks acting as intermediaries.

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

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

The item "Other" includes residual items not attributable to other specific items, and includes, among the main items, liabilities due to third parties for collections and/or withholdings such as, for example, amounts collected from mutual bank customers for the payment of utilities, the collection of insurance policies or the collection of amounts for prepaid cards.

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

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	Total 31/12/2021	Total 31/12/2020
A. Opening balance	**295,178**	**306,254**
B. Increases	**15,543**	**12,776**
B.1 Provisions for the period	6,995	7,824
B.2 Other increases	8,548	4,952
C. Decreases	**33,193**	**23,852**
C.1 Benefit payments	21,787	19,908
C.2 Other decreases	11,406	3,944
D. Closing balance	**277,528**	**295,178**
Total	277,528	295,178

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.

9.2 OTHER INFORMATION

With regard to the provision for TFR benefits, service cost totaled €2.5 million, while interest cost came to €0.5 million. Net actuarial losses amounted to €7.4 million and break down as follows:

- €2.3 million of losses from change in discount rate;
- €5.1 million of gains from experience adjustments.

The following are the main actuarial and demographic assumptions adopted in measuring the provision at the reporting date:

- discount rate: Euro Composite AA yield curve at December 31, 2021;
- expected rate of increase in remuneration: between 0.50% and 3.5%;
- turn-over: 2.07% average;
- mortality tables published by State Accountant General's Office and INPS disability tables.

The following reports the findings of the sensitivity analysis of the present value of the defined benefit obligation (DBO) at the end of the period using a discount rate adjusted by +0.25% and -0.25% compared with that actually used:

- in the case of an increase of 0.25%, the TFR provision would amount to €274.2 million;
- in the case of a decrease of 0.25% the TFR provision would amount to €281.6 million.

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

		Total 31/12/2021	Total 31/12/2020
1. Provisions for credit risk in respect of commitments and financial guarantees issued		293,183	232,346
2. Provisions for other commitments and guarantees issued		-	-
3. Company pension plans		-	-
4. Other provisions for risks and charges		225,458	295,761
4.1 legal disputes		82,503	93,651
4.2 personnel expense		66,042	70,769
4.3 other		76,913	131,341
	Total	518,641	528,107

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 increase on the previous year reflects the Group’s more conservative approach to determining ECLs.

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 decrease in the amount under sub-item 4.3 “Other” reflects the use of €35 million in provisions connected with the DGS, created at the end of the previous year pending the decision of the European Commission on the petition to reduce the target level of the resources of the DGS for mutual banks from 0.8% of guaranteed deposits to 0.5%.

10.2 PROVISIONS FOR RISKS AND CHARGES: CHANGE FOR THE PERIOD

	Provisions in respect of commitments and other guarantees issued	Retirement provisions	Other provisions	Total
A. Opening balance	**-**	**-**	**295,761**	**295,761**
B. Increases	**-**	**-**	**92,278**	**92,278**
B.1 Provisions for the year	-	-	73,559	73,559
B.2 Changes due to passage of time	-	-	654	654
B.3 Changes due to changes in the discount rate	-	-	409	409
B.4 Other increases	-	-	17,656	17,656
C. Decreases	**-**	**-**	**162,581**	**162,581**
C.1 Use during the period	-	-	108,514	108,514
C.2 Changes due changes in the discount rate	-	-	97	97
C.3 Other decreases	-	-	53,970	53,970
D. Closing balance	**-**	**-**	**225,458**	**225,458**

10.3 PROVISIONS FOR CREDIT RISK IN RESPECT OF COMMITMENTS AND FINANCIAL GUARANTEES ISSUED

	Provisions for credit risk in respect of commitments and financial guarantees issued				Total
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	
Commitments to disburse funds	41,879	40,788	18,671	-	101,338
Financial guarantees issued	89,563	34,321	67,961	-	191,845
Total	**131,442**	**75,109**	**86,632**	**-**	**293,183**

10.4 PROVISIONS IN RESPECT OF OTHER COMMITMENTS AND GUARANTEES ISSUED

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

10.5 DEFINED-BENEFIT COMPANY PENSION PLANS

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

10.6 PROVISIONS - OTHER

Please see the comments to table 10.1 “Provisions for risks and charges: composition”.

SECTION 11 - TECHNICAL RESERVES - ITEM 110

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

SECTION 12 - REDEEMABLE SHARES - ITEM 130

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

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 €989,071,241 (€901,771,280 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 (-)	(24,154,240)	-
A.2 Shares in circulation: opening balance	**2,971,519**	-
B. Increases	-	-
B.1 new issues	-	-
- for consideration:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sales of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**(39,544)**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	(39,544)	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**2,931,975**	-
D.1 Treasury shares (+)	24,193,784	-
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 €2,302,816,732 is represented only by ordinary shares (subscribed share capital, fully paid up).

13.4 EARNINGS RESERVES: OTHER INFORMATION

Group reserves amount to a total €8.7 billion.

In particular, earning reserves amount to €8.7 billion and include, among the largest, the legal reserve in the amount of €10.4 billion as well as a negative IFRS 9 reserve of €1.6 billion.

13.5 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

The item amounts to €30 million and is represented by six Additional Tier 1 bonds issued by the mutual banks between 2016 and 2018. No new bond issues were carried out during the year.

SECTION 14 - NON-CONTROLLING INTERESTS – ITEM 190

14.1 BREAKDOWN OF ITEM 190 "NON-CONTROLLING INTERESTS"

	31/12/2021	31/12/2020
Equity investments in consolidated companies with significant non-controlling interests		
1. Banca Mediocredito del F.V.G. SpA	41,534	39,537
2. Coopersystem Società Cooperativa	23,725	19,070
3. BCC Risparmio&Previdenza SGRpA	-	8,441
Other investments	942	4,469
Total	**66,201**	**71,517**

NON-CONTROLLING INTERESTS: COMPOSITION

	31/12/2021	31/12/2020
1. Share capital	58,820	64,570
2. Share premium reserve	3,999	4,338
3. Reserves	(1,209)	(4,351)
4. Treasury shares	-	-
5. Valuation reserves	785	433
6. Equity instruments	-	-
7. Gain (loss) pertaining to non-controlling interests	3,806	6,527
Total	**66,201**	**71,517**

14.2 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

The consolidated capital of the Iccrea Cooperative Banking Group does not include equity instruments issued by Group companies that are not wholly owned.

OTHER INFORMATION

1. GUARANTEES ISSUED AND COMMITMENTS

	Nominal value of financial guarantees issued and commitments				Total 31/12/2021	Total 31/12/2020
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
Commitments to disburse funds	**19,669,187**	**1,652,793**	**203,762**	**-**	**21,525,741**	**22,829,782**
a) Central banks	-	-	-	-	-	-
b) Government entities	860,667	34,281	550	-	895,499	915,404
c) Banks	50,530	27,548	-	-	78,078	604,325
d) Other financial companies	255,938	132,217	1,850	-	390,004	1,366,164
e) Non-financial companies	15,706,461	1,061,449	173,795	-	16,941,705	16,772,607
f) Households	2,795,591	397,298	27,567	-	3,220,455	3,171,281
Financial guarantees issued	**2,631,548**	**569,610**	**97,714**	**-**	**3,298,872**	**3,246,751**
a) Central banks	-	-	-	-	-	-
b) Government entities	31,247	8,479	-	-	39,726	40,852
c) Banks	480,356	32,779	-	-	513,136	520,333
d) Other financial companies	7,216	41,014	1,085	-	49,315	59,928
e) Non-financial companies	1,833,630	328,391	88,693	-	2,250,713	2,162,924
f) Households	279,099	158,947	7,937	-	445,983	462,714

2. OTHER COMMITMENTS AND GUARANTEES ISSUED

	Nominal value	
	Total 31/12/2021	Total 31/12/2020
Other guarantees issued		
of which: impaired credit exposures	-	-
a) Central banks	-	-
b) Government entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	87	177
f) Households	-	-
Other commitments		
of which: impaired credit exposures	-	-
a) Central banks	-	-
b) Government entities	-	-
c) Banks	-	-
d) Other financial companies	171	174
e) Non-financial companies	-	-
f) Households	-	-

3. ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

	Amount 31/12/2021	Amount 31/12/2020
1. Financial assets measured at fair value through profit or loss	324,560	11,628
2. Financial assets measured at fair value through other comprehensive income	2,349,433	2,909,955
3. Financial assets measured at amortized cost	44,118,798	37,880,911
4. Property, plant and equipment	-	-
of which: property, plant and equipment classified as inventories	-	-

4. COMPOSITION OF INVESTMENTS ASSOCIATED WITH UNIT-LINKED AND INDEX-LINKED POLICIES

There were no such positions at December 31, 2021.

5. MANAGEMENT AND INTERMEDIATION SERVICES

	Amount 31/12/2021
1. Order execution on behalf of customers	**17,092,051**
a) Purchases	10,248,694
1. settled	10,186,009
2. not settled	62,684
b) Sales	6,843,357
1. settled	6,834,210
2. not settles	9,148
2. Asset management	**11,342,023**
a) Individual	6,939,833
b) Collective	4,402,190
3. Securities custody and administration	**211,840,576**
a) Third-party securities held as part of custodian bank services (excluding asset management)	80,001
1. Securities issued by consolidated companies	-
2. other securities	80,001
b) Other third-party securities on deposit (excluding asset management): other	96,508,240
1. Securities issued by consolidated companies	6,738,338
2. other securities	89,769,902
c) Third-party securities deposited with third parties	95,836,468
d) Securities owned by bank deposited with third parties	115,252,334
4. Other transactions	**20,202,854**

6. FINANCIAL ASSETS OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

	Gross amount of financial assets (a)	Financial liabilities offset (b)	Net amount of financial assets reported (c=a-b)	Related amounts not offset		Net amount (f=c-d-e) 31/12/2021	Net amount 31/12/2020
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	842,097	113,078	729,020	657,307	22,423	49,289	55,170
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2021	**842,097**	**113,078**	**729,020**	**657,307**	**22,423**	**49,289**	**X**
Total 31/12/2020	**365,133**	**5,413**	**359,720**	**237,335**	**67,215**	**X**	**55,170**

7. FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

	Gross amount of financial liabilities (a)	Financial assets offset (b)	Net amount of financial liabilities reported (c=a-b)	Related amounts not offset		Net amount (f=c-d-e) 31/12/2021	Net amount 31/12/2020
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	1,317,290	113,078	1,204,213	15,226	422,129	766,858	617,752
2. Repurchase agreements	375,269	-	375,269	372,290	2,096	884	13,171
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2021	**1,692,559**	**113,078**	**1,579,482**	**387,516**	**424,224**	**767,741**	**X**
Total 31/12/2020	**1,713,989**	**5,431**	**1,708,558**	**867,597**	**210,038**	**X**	**630,923**

8. SECURITIES LENDING TRANSACTIONS

No information to report.

9. DISCLOSURES ON JOINT ARRANGEMENTS

No information to report.

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 31/12/2021	Total 31/12/2020
1. Financial assets measured at fair value through profit or loss	**13,663**	**720**	**-**	**14,383**	**16,704**
1.1 Financial assets held for trading	1,071	7	-	1,078	720
1.2 Financial assets designated at fair value	2,308	85	-	2,393	2,741
1.3 Other financial assets mandatorily at fair value	10,284	628	-	10,912	13,243
2. Financial assets measured at fair value through other comprehensive income	**47,496**	**-**	**X**	**47,496**	**51,223**
3. Financial assets measured at amortized cost	**744,052**	**2,218,878**	**X**	**2,962,930**	**2,711,155**
3.1 Due from banks	15,048	2,243	X	17,291	21,657
3.2 Loans to customers	729,004	2,216,635	X	2,945,639	2,689,498
4. Hedging derivatives	**X**	**X**	**(221,628)**	**(221,628)**	**(27,832)**
5. Other assets	**X**	**X**	**16,587**	**16,587**	**2,544**
6. Financial liabilities	**X**	**X**	**X**	**344,385**	**245,718**
Total	805,211	2,219,599	(205,041)	3,164,153	2,999,512
of which: interest income on impaired financial assets	15	160,691	-	160,705	193,598
of which: interest income on finance leases	X	127,651	X	127,651	136,193

Interest on loans to customers include interest income in respect of loans to customers of €2.2 billion, essentially unchanged on 2020, mainly on loans to households and non-financial companies.

Interest income on debt securities came to €805.2 million and mainly includes interest on securities issued by government entities. The total represents an increase on the €462.3 million posted in 2020, reflecting the expansion of the securities portfolio and the improved performance of BTPi associated with the increase in inflation.

“Hedging derivatives” include differences on hedging derivatives adjusting interest income on the hedged financial instruments.

The amount reported under “Other assets” regards interest income on tax credits associated with government tax incentive programs established in response to the COVID-19 pandemic (the “ecobonus” building renovation program).

The item “Financial liabilities” includes interest on funding operations at negative interest rates. In particular, the increase compared with the balance of the previous year came to €99 million and reflected the additional monetary policy measures adopted by the ECB to mitigate the effects of the pandemic (the “special period”), as discussed in greater detail in the Report on Operations and in part A of these notes. Compared with the previous year, the item reports interest at a rate of -1% applied for the entire year on a larger average balance associated with greater uses of funding.

1.2 INTEREST AND SIMILAR INCOME: OTHER INFORMATION

1.2.1 INTEREST INCOME ON FOREIGN-CURRENCY FINANCIAL ASSETS

Interest received on financial assets in foreign currency totals approximately €13.8 million and mainly regards current accounts and deposits (€9.2 million) and other financing (€3.8 million).

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 31/12/2021	Total 31/12/2020
1. Financial liabilities measured at amortized cost	**(191,677)**	**(171,142)**	**X**	**(362,820)**	**(428,158)**
1.1 Due to central banks	(7,215)	X	X	(7,215)	(364)
1.2 Due to banks	(7,101)	X	X	(7,101)	(7,604)
1.3 Due to customers	(177,361)	X	X	(177,361)	(210,285)
1.4 Securities issued	X	(171,143)	X	(171,143)	(209,905)
2. Financial liabilities held for trading	**-**	**-**	**(263)**	**(263)**	**(226)**
3. Financial liabilities designated at fair value	**-**	**(55)**	**(49)**	**(103)**	**(331)**
4. Other liabilities and provisions	**X**	**X**	**(1,497)**	**(1,497)**	**(1,833)**
5. Hedging derivatives	**X**	**X**	**(176)**	**(176)**	**1,987**
6. Financial assets	**X**	**X**	**X**	**(38,562)**	**(49,829)**
Total	**(191,677)**	**(171,198)**	**(1,985)**	**(403,422)**	**(478,391)**
of which: interest expense on finance leases	(9,311)	X	X	(9,311)	(8,139)

The item 1.4 "Securities issued" regards interest expense accrued in the period on bonds and certificates of deposit measured at amortized cost. The decline on 2020 is connected with the decrease in funding using those instruments.

The item 6. "Financial assets" includes interest on investment transactions at negative interest rates.

1.4 INTEREST AND SIMILAR EXPENSE: OTHER INFORMATION

1.4.1 INTEREST EXPENSE ON FOREIGN-CURRENCY LIABILITIES

Interest expense incurred by the Group on foreign-currency liabilities amounted to €3.4 million and is essentially accounted for by current accounts and deposits.

1.5 DIFFERENCES ON HEDGING TRANSACTIONS

	Total 31/12/2021	Total 31/12/2020
A. Positive differences on hedging transactions:	1,975	20,316
B. Negative differences on hedging transactions:	(223,779)	(46,161)
C. Balance (A-B)	**(221,804)**	**(25,845)**

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	Total 31/12/2021	Total 31/12/2020
a) Financial instruments	77,622	68,862
1. Securities placement	27,859	30,650
1.1 With underwriting and/or with irrevocable commitment	489	799
1.2 Without irrevocable commitment	27,370	29,851
2. Order receipt and transmission and order execution for customers	19,104	21,195
2.1 Order receipt and transmission for one or more financial instruments	15,894	15,595
2.2 Order execution for customers	3,210	5,600
3. Other fees and commission connected with financial instruments	30,659	17,017
of which: trading on own account	776	444
of which: individual portfolio management	29,883	16,573
b) Corporate finance	2,600	3,590
1. Merger and acquisition advisory services	-	-
2. Treasury services	-	-
3. Other fees and commissions connected with corporate finance services	2,600	3,590
c) Investment advisory services	2,274	2,416
d) Clearing and settlement	-	-
e) Collective portfolio management	66,423	48,579
f) Custody and administration	7,838	9,005
1. Depository bank	-	-
2. Other fees and commissions connected with custody and administration services	7,838	9,005
g) Central administrative services for collective portfolio management	-	-
h) Trustee services	-	-
i) Payment services	943,078	941,960
1. Current accounts	518,185	509,964
2. Credit cards	2,572	3,087
3. Debit cards and other payment cards	227,993	249,628
4. Credit transfers and other payment orders	147,008	127,839
5. Other fees and commissions connected with payment services	47,320	51,442
j) Distribution of third-party services	237,530	197,270
1. Collective portfolio management	171	133
2. Insurance products	111,008	95,989
3. Other products	126,351	101,148
of which: individual portfolio management	5,832	6,814
k) Structured finance	-	84
l) Securitization servicing	2,393	2,678
m) Commitments to disburse funds	-	-
n) Financial guarantees issued	24,286	24,391
of which: credit derivatives	-	-
o) Lending transactions	28,406	33,017
of which: for factoring transactions	4,941	4,092
p) Currency trading	5,613	4,574
q) Goods	-	-
r) Other fee and commission income	64,886	60,231
of which: for management of multilateral trading facilities	-	-
of which: for management of organized trading facilities	-	-
Total	1,462,949	1,396,658

The table has been prepared in application of the 7th update of Circular 262. The comparative figures have been restated to ensure comparability.

The composition of fee and commission income reflects the operations of the Group’s mutual banks, which are typically composed of customer current accounts (€518.2 million), other payment services (€424.9 million), distribution of third-party products and services (€237.5 million, including insurance products for €111 million) and securities placement (€27.9 million).

The recovery in fee and commission income compared with the previous year reflected the general recovery in the economy compared with the previous year, which had been affected by lockdowns. This was partially offset by the classification of fees related to the electronic money operations of the Parent Company under item 320 Profit (loss) after tax on discontinued operations (€67 million).

Fees and commissions concerning item e) collective portfolio management came to €€66.4 million and regard asset management activities, which are exclusively performed by the Group asset management company.

The following table provides disclosures on the breakdown by business segment of revenues from contracts with customers, as required under IFRS 15, paragraphs 114 and 115.

€/thousands	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Guarantees issued	64	2,772	2	23,496	(2,048)	24,286
Management, intermediation and advisory services	-	28,572	86,696	168,763	(127,279)	156,752
Holding and management of current accounts	25	349	402	517,489	(80)	518,185
Collection and payment services	19	44,863	551	410,045	(30,317)	425,161
Distribution of third-party products	8,131	-	116,946	153,156	(40,703)	237,530
Other services	6,156	49,710	776	92,881	(48,488)	101,035
Fee and commission income	**14,395**	**126,266**	**205,373**	**1,365,830**	**(248,915)**	**1,462,949**

As regards the other disclosures required under IFRS 15, the main types of revenues from contracts with customers are recognized as follows:

- fees and commissions from the management of individual and collective portfolios are mainly recognized “over time”;
- fees and commissions from securities placement are recognized “at a point in time”;
- fees and commissions from order collections and transmission are mainly recognized “at a point in time”;
- fees from the distribution of third-party products are typically recognized “at a point in time”;
- fees and commissions from collection and payment services are recognized “at a point in time”;
- fees and commissions from holding and managing current accounts and other services are recognized “at a point in time” or “over time”, depending on the specific nature of the fees and commissions.

2.2 FEE AND COMMISSION EXPENSE: COMPOSITION

		Total 31/12/2021	Total 31/12/2020
a) Financial instruments		(8,816)	(8,721)
of which: trading in financial instruments		(708)	(908)
of which: placement of financial instruments		(3,529)	(2,753)
of which: individual portfolio management		(4,579)	(4,086)
- Own		(3,780)	(3,717)
- Delegated to third parties		(799)	(369)
b) Clearing and settlement		(1,389)	(997)
c) Collection portfolio management		-	-
1. Own		-	-
2. Delegated to third parties		-	-
d) Custody and administration		(5,322)	(5,242)
e) Collection and payment services		(141,916)	(101,987)
of which: credit cards, debit cards and other payment cards		(131,071)	(89,365)
f) Securitization servicing		(2,309)	(1,988)
g) Commitments to receive funds		-	-
h) Financial guarantees received		(1,142)	(1,535)
of which: credit derivatives		-	-
i) Off-premises marketing of financial instruments, products and services		-	-
l) Currency trading		(534)	(328)
m) Other fee and commission expense		(15,381)	(13,900)
	Total	(176,809)	(134,698)

The change in item e) Collection and payment services reflects the presentation of fees related to the electronic money operations of the Parent Company under item 320 Profit (loss) after tax on discontinued operations (€27 million).

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

		Total 31/12/2021		Total 31/12/2020	
		Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading		94	230	89	19
B. Other financial assets mandatorily measured at fair value		1,684	683	690	2,431
C. Financial assets measured at fair value through other comprehensive income		10,994	-	2,466	57
D. Equity investments		525	-	587	-
	Total	13,297	913	3,832	2,507

The main components of this item include dividends received on the interest held in the Bank of Italy in the amount of €9.4 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	**735**	**27,508**	**(1,219)**	**(13,875)**	**13,149**
1.1 Debt securities	597	13,938	(857)	(6,801)	6,877
1.2 Equity securities	27	644	(121)	(503)	47
1.3 Units in collective investment undertakings	111	261	(240)	(92)	40
1.4 Loans	-	-	(1)	-	(1)
1.5 Other	-	12,665	-	(6,479)	6,186
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**	**(165,986)**
4. Derivatives	**76,528**	**38,173**	**(35,414)**	**(78,442)**	**171,958**
4.1 Financial derivatives:	76,528	38,173	(35,414)	(78,442)	171,958
- on debt securities and interest rates	74,590	37,882	(35,120)	(76,611)	741
- on equity securities and equity indices	1,938	291	(294)	(1,831)	104
- on foreign currencies and gold	X	X	X	X	171,113
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	77,263	65,681	(36,633)	(92,317)	19,121

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 31/12/2021	Total 31/12/2020
A. Gain on:		
A.1 Fair value hedges	355,067	33,480
A.2 Hedged financial assets (fair value)	188,831	193,068
A.3 Hedged financial liabilities (fair value)	2,309	2,473
A.4 Cash flow hedges	4,382	1,185
A.5 Assets and liabilities in foreign currencies	294	2,955
Total income on hedging activities (A)	**550,883**	**233,161**
B. Loss on:		
B.1 Fair value hedges	(227,004)	(220,963)
B.2 Hedged financial assets (fair value)	(305,529)	(9,673)
B.3 Hedged financial liabilities (fair value)	(374)	(300)
B.4 Cash flow hedges	(1,500)	(3,425)
B.5 Assets and liabilities in foreign currencies	(3,082)	(2,078)
Total expense on hedging activities (B)	**(537,489)**	**(236,439)**
C. Net gain (loss) on hedging activities (A - B)	**13,394**	**(3,278)**
of which: net gain (loss) of hedges of net positions	-	-

As indicated in Part A “Accounting policies” of these notes to the financial statements, for the purposes of accounting for the results of hedging, the Group has exercised the option provided for in paragraph 7.2.21 of IFRS 9 to continue applying the provisions on hedge accounting envisaged by IAS 39.

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

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	Total 31/12/2021			Total 31/12/2020		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortized cost	509,504	(156,633)	352,871	377,409	(207,557)	169,852
1.1 Due from banks	3,243	(308)	2,935	3,264	(152)	3,112
1.2 Loans to customers	506,261	(156,325)	349,936	374,145	(207,405)	166,740
2. Financial assets measured at fair value through other comprehensive income	97,086	(16,773)	80,313	118,354	(23,238)	95,116
2.1 Debt securities	97,086	(16,773)	80,313	118,354	(23,238)	95,116
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**606,590**	**(173,406)**	**433,184**	**495,763**	**(230,795)**	**264,968**
Financial liabilities measured at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	612	(4,582)	(3,970)	1,696	(2,037)	(341)
Total liabilities (B)	**612**	**(4,582)**	**(3,970)**	**1,696**	**(2,037)**	**(341)**

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 €429.2 million and is mainly attributable to the disposal of debt securities measured at amortized cost and assets measured at FV through other comprehensive income (€424.7 million) and, to a lesser extent, the disposal of loans as part of the Group’s de-risking operations (€8.4 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	**24**	**229**	**(5,109)**	**(365)**	**(5,221)**
1.1 Debt securities	9	229	(4,870)	(365)	(4,997)
1.2 Loans	15	-	(239)	-	(224)
2. Financial liabilities	**3**	**36**	**-**	**-**	**39**
2.1 Securities issued	3	36	-	-	39
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	**-**	**-**	**-**	**-**	**-**
3. Financial assets and liabilities: foreign exchange rate differences	**-**	**-**	**-**	**-**	**-**
Total	27	265	(5,109)	(365)	(5,182)

The net gain for the item includes €5 million in respect of securities in which the liquidity of the Guarantee Scheme is invested.

7.2 NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) - (C+D)]
1. Financial assets	**33,602**	**11,172**	**(25,980)**	**(3,140)**	**15,654**
1.1 Debt securities	1,822	280	(2,491)	(252)	(641)
1.2 Equity securities	15,751	4,386	(3,519)	(1,530)	15,088
1.3 Units in collective investment undertakings	6,810	6,465	(13,669)	(1,270)	(1,664)
1.4 Loans	9,219	41	(6,301)	(88)	2,871
2. Financial assets: foreign exchange rate differences	**X**	**X**	**X**	**X**	**198**
Total	33,602	11,172	(25,980)	(3,140)	15,852

Item 1.2 Equity securities includes the capital gains realized on a number of equity securities, including Nexi in the amount of €9.5 million.

SECTION 8 - NET LOSSES/RECOVERIES FOR CREDIT RISK – ITEM 130

8.1 NET LOSSES/RECOVERIES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST: COMPOSITION

	Losses (1)						Recoveries (2)				Total 31/12/2021	Total 31/12/2020
			Stage 3		Purchased or originated credit-impaired							
	Stage 1	Stage 2	Writeoffs	Other	Writeoffs	Other	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		
A. Due from banks	**(2,922)**	**(3,111)**	**-**	**(203)**	**-**	**-**	**3,372**	**1,142**	**232**	**-**	**(1,490)**	**(6,892)**
- loans	(1,075)	(1,429)	-	(203)	-	-	3,124	233	1	-	651	(5,483)
- debt securities	(1,847)	(1,682)	-	-	-	-	248	909	231	-	(2,141)	(1,409)
B. Loans to customers	**(392,620)**	**(312,712)**	**(85,315)**	**(1,464,567)**	**(136)**	**(4,838)**	**243,905**	**117,747**	**712,838**	**1,006**	**(1,184,692)**	**(824,914)**
- loans	(386,778)	(308,107)	(85,315)	(1,464,090)	(136)	(4,838)	243,026	116,910	712,838	1,006	(1,175,484)	(812,766)
- debt securities	(5,843)	(4,605)	-	(477)	-	-	880	837	-	-	(9,208)	(12,148)
Total	(395,542)	(315,823)	(85,315)	(1,464,771)	(136)	(4,838)	247,277	118,889	713,069	1,006	(1,186,182)	(831,806)

The value adjustments reported in the “Stage 1 and 2” column regard collective writedowns on performing loans.

The value adjustments in the “Stage 3 - Other” column regard analytical writedowns of impaired past-due loans and those classified as unlikely to pay and bad loans, while those reported in the “Stage 3 - Writeoffs” column reflect extinguishing events, with the losses recognized following the definitive derecognition of the financial instruments.

Compared with the end of the previous year, net losses for credit risk in respect of loans to customers increased by €362.7 million, mainly reflecting the more conservative approach adopted in calculating ECLs on performing positions and more prudent valuation policies for NPLs, partly due to the adoption of disposal scenarios for part of the portfolio.

8.1A NET LOSSES/RECOVERIES FOR CREDIT RISK IN RESPECT OF LOANS MEASURED AT AMORTIZED COST INVOLVED IN COVID-19 SUPPORT MEASURES: COMPOSITION

	Net writeoffs						Total 31/12/2021	Total 31/12/2020
			Stage 3		Purchased or originated credit-impaired			
	Stage 1	Stage 2	Writeoffs	Other	Writeoffs	Other		
1. Loans subject to forbearance measures compliant with guidelines	(3,937)	(29,167)	(6)	(31,650)	-	-	(64,760)	(25,416)
2. Loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures	(3)	121	(3)	(156)	-	-	(41)	-
3. Loans subject to other forbearance measures	1,328	(1,121)	(5)	(13,579)	-	-	(13,377)	(27,891)
4. New loans	(6,780)	(579)	-	(14,071)	-	-	(21,430)	(9,880)
Total	(9,392)	(30,746)	(14)	(59,456)	-	-	(99,608)	(63,186)

The table reports net writeoffs for loans subject to moratoriums or other forbearance measures outstanding at the reporting date, or which represent new liquidity granted through public guarantee mechanisms.

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

	Losses (1)						Recoveries (2)				Total 31/12/2021	Total 31/12/2020
	Stage 1	Stage 2	Stage 3		Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		
	Write-off	Altre	Writeoffs	Other	Writeoffs	Other						
A. Debt securities	(3,025)	(3,249)	-	-	-	-	112	596	29	-	(5,537)	(5,727)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(3,025)**	**(3,249)**	**-**	**-**	**-**	**-**	**112**	**596**	**29**	**-**	**(5,537)**	**(5,727)**

8.2.A NET LOSSES FOR CREDIT RISK IN RESPECT OF LOANS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME INVOLVED IN COVID-19 SUPPORT MEASURES: COMPOSITION

The Group has not granted loans measured at fair value through other comprehensive income.

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

9.1 GAINS (LOSSES) FROM CONTRACT MODIFICATIONS: COMPOSITION

The item, a negative €2 million (-€3.2 million at December 31, 2020), includes the impact of modifications of medium/long-term loan contracts with customers that, in compliance with IFRS 9, do not produce the derecognition of the assets but rather involve the recognition in profit or loss of the changes in the contractual cash flows.

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

SECTION 10 - NET PREMIUMS - ITEM 160

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

SECTION 11 - NET OTHER INCOME (EXPENSE) FROM INSURANCE ACTIVITIES - ITEM 170

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

SECTION 12 - ADMINISTRATIVE EXPENSES – ITEM 190

12.1 PERSONNEL EXPENSES: COMPOSITION

	Total 31/12/2021	Total 31/12/2020
1) Employees	(1,639,968)	(1,666,673)
a) wages and salaries	(1,131,946)	(1,137,804)
b) social security contributions	(278,521)	(279,525)
c) termination benefits	(44,584)	(44,866)
d) pension expenditure	-	-
e) allocation to employee termination benefit provision	(9,408)	(10,109)
f) allocation to provision for post-employment benefits and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	(76,367)	(76,687)
- defined contribution	(76,086)	(76,486)
- defined benefit	(281)	(201)
h) costs from share-based payment plans	-	-
i) other employee benefits	(99,143)	(117,681)
2) Other personnel	(16,561)	(13,780)
3) Board of Directors and members of Board of Auditors	(49,770)	(48,710)
4) Retired personnel	-	-
Total	**(1,706,299)**	**(1,729,164)**

Group personnel expenses are essentially unchanged on the previous year, taking account of the increase in extraordinary items recorded in 2020 (early termination incentives and income support fund).

12.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

	Total 31/12/2021	Total 31/12/2020
Employees:	**21,336**	**21,455**
a) senior management	395	402
b) middle management	6,113	6,117
c) other employees	14,828	14,936
Other personnel	**277**	**275**
Total	**21,613**	**21,730**

12.3 DEFINED-BENEFIT COMPANY PENSION PLANS: TOTAL COSTS AND REVENUES

At the reporting date, the company had no defined-benefit pension plans, with no associated costs or revenues.

12.4 OTHER EMPLOYEE BENEFITS

		Total 31/12/2021	Total 31/12/2020
Early termination incentives and income support fund		(16,209)	(40,373)
Lunch vouchers		(31,029)	(30,567)
Insurance policies		(8,465)	(12,600)
Medical checkups		(380)	(2,421)
Training		(4,760)	(5,695)
Other benefits		(38,300)	(26,025)
	Total	**(99,143)**	**(117,681)**

The item includes, among others, charges for early termination incentives and the income support fund in the amount of €16.2 million (down from €40.4 million in the previous year), lunch vouchers in the amount of €31 million and insurance policies for employees in the amount of €8.5 million.

12.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

		Total 31/12/2021	Total 31/12/2020
Information technology		(191,584)	(227,711)
Property and movables		(86,790)	(85,600)
- rental and fees		(10,917)	(12,223)
- ordinary maintenance		(65,922)	(63,003)
- security		(9,951)	(10,374)
Goods and services		(163,258)	(162,663)
- telephone and data transmission		(66,241)	(60,928)
- postal		(18,510)	(25,631)
- asset transport and counting		(19,198)	(19,034)
- electricity, heating and water		(34,475)	(32,904)
- transportation and travel		(12,222)	(10,091)
- office supplies and printed materials		(10,065)	(11,303)
- subscriptions, magazines and newspapers		(2,547)	(2,772)
Professional services		(187,519)	(197,728)
- professional fees (other than audit fees)		(83,395)	(86,720)
- audit fees		(6,203)	(8,246)
- legal and notary costs		(60,376)	(69,144)
- court costs, information and title searches		(37,545)	(33,618)
Administrative services		(41,158)	(56,608)
Insurance		(23,778)	(22,283)
Promotional, advertising and entertainment expenses		(34,942)	(35,017)
Association dues		(27,451)	(30,320)
Donations		(4,145)	(7,385)
Other		(48,811)	(55,919)
Indirect taxes and duties		(402,484)	(377,598)
	Total	**(1,211,920)**	**(1,258,832)**

Other administrative expenses totaled €1,211.9 million, a decrease compared with the previous year mainly reflecting:

- the reclassification to item 320 "Profit (loss) after tax on discontinued operations" of e-money operations held for sale, equal to €67.1 million (including €23.1 million in IT expenses, €16.6 million in administrative services, €12.9 million in indirect taxes and duties and €6.3 million in telephone and data transmission costs);
- a general decrease in spending on professional services compared with 2020 (-€10.2 million), reflecting in part the decrease in costs incurred for the formation of the Group;
- charges connected with the ordinary contribution to the Deposit Guarantee Fund, which in 2021 was entirely recognized under this item. In 2020, part of these charges, totaling €35 million, were recognized in the provisions for risks pending the decision by the European Commission regarding the petition presented through the industry association for a reduction in the target level of the resources of the Deposit Guarantee Fund for mutual banks from 0.8% of guaranteed deposits to 0.5%.

Indirect tax and duties include the contribution to the Single Resolution Fund (BRRD) totaling €49 million, the contribution to the National Resolution Fund for bank crises of €24.8 million and the contribution to the Deposit Guarantee Fund for €66.7 million.

Pursuant to Article 2427, paragraph 16-bis of the Italian Civil Code, we set out below the fees paid in 2021 to the audit firm Mazars Italia SpA, (and its network) by the Iccrea Group companies:

- statutory audit of the annual accounts (including the auditing of the interim financial statements) for €0.5 million;
- other audit-related services (DCNF, MIFID II/MIFIR, GACS, Comfort Letter) for €0.3 million.

Moreover, we set out below audit fees paid to the audit firm EY SpA engaged to conduct the statutory audit of the financial statements of the affiliated banks and a number of Group companies other than the Parent Company:

- statutory audit of the annual accounts and limited audit of the half-year reporting package for €2.3 million;
- other audit-related services (TLTRO 3 program, FNG, signing of tax returns) for €1.5 million;
- These amounts are reported net of VAT, CONSOB fees and expenses.

SECTION 13 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 200

This section provides details of the provisions and write-backs relating to the following categories of provisions for risks and charges:

- provisions for credit risk in respect of commitments to disburse funds and financial guarantees issued falling within the scope of IFRS 9;
- provisions for other commitments and guarantees not falling within the scope of IFRS 9;
- other provisions for risks and charges.

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

	31/12/2021		
	Provisions	Reallocations of excesses	Total
Commitments to disburse funds Stage 1	(40,950)	21,090	(19,860)
Commitments to disburse funds Stage 2	(38,763)	11,453	(27,310)
Commitments to disburse funds Stage 3	(16,350)	18,214	1,864
Financial guarantees issued Stage 1	(20,509)	5,653	(14,856)
Financial guarantees issued Stage 2	(15,742)	6,505	(9,237)
Financial guarantees issued Stage 3	(16,801)	22,466	5,665
Total	**(149,115)**	**85,381**	**(63,734)**

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.

13.2 NET PROVISIONS IN RESPECT OF OTHER COMMITMENTS TO DISBURSE FUNDS AND GUARANTEES ISSUED: COMPOSITION

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

13.3 NET PROVISIONS FOR OTHER RISKS AND CHARGES: COMPOSITION

	31/12/2021		
	Provisions	Reallocations of excesses	Total
Legal disputes	(21,576)	16,505	(5,071)
Other	(7,319)	2,800	(4,520)
Total	**(28,895)**	**19,305**	**(9,590)**

The decline on the previous year is mainly attributable to the developments associated with the contribution to the Deposit Guarantee Fund noted earlier.

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

14.1. NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT: COMPOSITION

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Property, plant and equipment				
A.1 Operating assets	(183,233)	(1,938)	-	(185,171)
- Owned	(125,587)	(1,935)	-	(127,522)
- Right-of-use assets in respect of leases	(57,646)	(3)	-	(57,649)
A.2 Investment property	(3,147)	(2,151)	-	(5,298)
- Owned	(3,147)	(2,151)	-	(5,298)
- Right-of-use assets in respect of leases	-	-	-	-
A.3 Inventories	X	(927)	-	(927)
B. Assets held for sale	**X**	**(112)**	**-**	**(112)**
Total	**(186,380)**	**(5,128)**	**-**	**(191,508)**

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	(32,217)	(1,398)	-	(33,616)
A.1 Owned	(40,485)	(1,398)	-	(41,883)
- generated internally by the Bank	(1,347)	(1)	-	(1,348)
- other	(39,138)	(1,397)	-	(40,535)
A.2 Acquired under finance leases	-	-	-	-
B. Assets held for sale	X	-	-	-
Total	**(40,485)**	**(1,399)**	**-**	**(41,883)**

SECTION 16 - OTHER OPERATING EXPENSES/INCOME - ITEM 230

16.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 31/12/2021	Total 31/12/2020
Charges connected with lease services (consultants, insurance, taxes and duties, capital losses)	(28,073)	(38,479)
Reductions in assets and prior-year expenses not attributable to separate line item	(14,110)	(12,219)
Costs of outsourced services	(92)	(54)
Settlement of disputes and claims	(1,654)	(1,148)
Amortization of expenditure for leasehold improvements	(10,273)	(11,110)
Other expense	(18,398)	(19,837)
Total	(72,600)	(82,847)

16.2 OTHER OPERATING INCOME: COMPOSITION

	Total 31/12/2021	Total 31/12/2020
A) Cost recovery	**279,032**	**283,265**
Recovery of taxes	221,313	220,766
Recovery of sundry charges	23,973	22,669
Insurance premiums	2,773	3,355
Property rental income	9	-
Recovery of costs from customers	10,164	12,321
Recovery of costs on bad loans	20,800	24,154
B) Other income	**115,146**	**127,592**
Insourcing revenues	3,067	5,447
Property rental income	4,465	3,352
Reductions in liabilities and prior-year income not attributable to separate line item	28,395	20,491
Other income from finance leases	15,877	15,685
Other income	49,461	64,815
Accelerated processing fees	9,971	17,251
Consolidation adjustments	3,910	551
Total	394,178	410,857

The recovery of taxes and duties (stamp duty and tax in lieu), totaling €221.3 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 31/12/2021	Total 31/12/2020
1) Joint ventures		
A. Gains	-	-
1. Revaluations	-	-
2. Gains on disposals	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Losses	-	-
1. Writedowns	-	-
2. Impairment	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net profit (loss)	**-**	**-**
2) Entities under significant influence		
A. Gains	19,264	2,242
1. Revaluations	4,922	2,242
2. Gains on disposals	14,342	-
3. Writebacks	-	-
4. Other income	-	-
B. Losses	-	(9,984)
1. Writedowns	-	(2,118)
2. Impairment	-	(7,866)
3. Losses on disposal	-	-
4. Other expenses	-	-
Net profit (loss)	**19,264**	**(7,742)**
Total	**19,264**	**(7,742)**

The item reports the financial impact of the equity measurement of investments in associates and the gain recognized on the sale of the investment in Satispay.

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

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

			Exchange rate differences		
	Revaluations (a)	Writedowns (b)	Positive (c)	Negative (d)	Net result (a-b+c-d)
A. Property, plant and equipment	**-**	**(15,836)**	**-**	**-**	**(15,836)**
A.1 Operating assets:	-	-	-	-	-
- Owned	-	-	-	-	-
- Acquired under finance leases	-	-	-	-	-
A.2 Investment property:	-	(15,836)	-	-	(15,836)
- Owned	-	(15,836)	-	-	(15,836)
- Acquired under finance leases	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
- Internally generated	-	-	-	-	-
- Other	-	-	-	-	-
B.2 Acquired under finance leases	-	-	-	-	-
Total	**-**	**(15,836)**	**-**	**-**	**(15,836)**

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

SECTION 19 - GOODWILL IMPAIRMENT - ITEM 270

19.1 GOODWILL IMPAIRMENT: COMPOSITION

The item includes the impairment loss on goodwill recognized by the Group mutual banks prior to formation of the Group in respect of business combination (mergers/branch acquisitions). During 2021 impairment loss on goodwill came to €1.8 million.

For more information on the results of the assessment of the recoverability of goodwill, please see the section “Part B - Section 10.3 Other information” of these notes to the financial statements.

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

20.1 GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS: COMPOSITION

	Total 31/12/2021	Total 31/12/2020
A. Property	450	(275)
- Gains on disposal	1,808	847
- Losses on disposal	(1,358)	(1,122)
B. Other assets	(365)	(359)
- Gains on disposal	836	223
- Losses on disposal	(1,201)	(582)
Net gain (loss)	**85**	**(634)**

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

21.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 31/12/2021	Total 31/12/2020
1. Current taxes (-)	(31,994)	(36,446)
2. Change in current taxes from previous period (+/-)	25,010	38,359
3. Reduction of current taxes for the period (+)	14,005	17,281
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	97,294	15,395
4. Change in deferred tax assets (+/-)	(150,450)	(34,332)
5. Change in deferred tax liabilities (+/-)	43,797	(15)
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(2,339)**	**242**

“Income taxes for the year” benefited from the impact of a number of factors, mainly attributable to the application of the tax legislation introduced by the Government to support the economy following the COVID-19 pandemic, such as:

- the effects of adjusting the tax values of property, plant and equipment and intangible assets to their higher carrying amounts in the financial statements pursuant to Article 110 “General revaluation of company assets and shareholdings 2020”, paragraphs 8 and 8-bis, of the Decree Law 104 of August 14, 2020 “Urgent measures to support and relaunch the economy”, ratified with amendments with Law 126/2020. The realignment option allowed the deferred tax liabilities net of a 3% tax due for the realignment to be recognized as income in the tax item in the net positive amount of about €35 million;
- the recognition of new DTAs with impact on profit or loss convertible into tax credits following the assignment of past-due loans, in accordance with the provisions of Article 19, paragraph 1, of Decree Law 73 of May 25, 2021 (the second “Support Decree”) which revived the mechanism for the transformation into tax credits of deferred tax assets deriving from tax losses and excess ACE granted for the sale of impaired loans. The provisions extended to 2021 the time limits provided for in Article 44-bis of Decree Law 34/2019, already replaced by Article 55 of Decree Law 18/2020 (the “Cure Italy Decree”) and subsequently amended by Article 72, paragraph 1-ter, of Decree Law 104/2020 (the “August Decree”). As a result of assignments during the year, the Group’s affiliated banks recognized DTAs of about €21.5 million.

21.2 RECONCILIATION OF THEORETICAL TAX LIABILITY AND ACTUAL TAX LIABILITY RECOGNIZED

IRES	31/12/2021	
	Taxable income	Tax
Profit (loss) before tax on continuing operations (item 260 IS)	438,139	-
Current rate		24%
Theoretical tax liability (24%)	-	(105,133)
Greater tax liability due to increases	345,867	(83,008)
Temporary	-	-
- Changes during the year	211,131	-
Definitive	-	-
- Reversal of temporary differences of previous years	12,631	-
- Changes during the year	122,105	-
Lower tax liability due to decreases	1,352,895	324,695
Temporary	-	-
- Changes during the year	84,308	-
Definitive	-	-
- Reversal of temporary differences of previous years	755,738	-
- Changes during the year	405,261	-
- Deductions up to limit of taxable income	107,588	-
Net increase in entities with tax losses	704,759	(169,142)
Taxable income (loss)	135,870	-
Current gross tax (effective tax charge)	-	(32,609)
IRES surtax	-	(1,583)
IRES income from consolidated taxation mechanism	-	30,931
Tax credits	-	-
Current net tax in income statement	-	(3,261)
Changes in current tax/deferred tax assets/deferred tax liabilities(+/-)	-	37,540
Tax liability for the year (a)	-	34,280
IRAP	Taxable income	Tax
Profit (loss) before tax on continuing operations (item 260 IS)	438,139	-
Current rate	-	4,65%
Theoretical tax liability (ordinary rate 4.65%)	-	(20,373)
Items not included in determination of income	287,088	(13,350)
- Revenue and income (-)	(1,458,232)	-
- Costs and charges (+)	1,745,320	-
Greater tax liabilities due to increases	715,999	(33,294)
Temporary	-	-
- Changes during the year	6,489	-
Definitive	-	-
- Reversal of temporary differences of previous years	10,012	-
- Changes during the year	699,498	-
Lower tax liability due to decreases	1,059,391	49,262
Temporary	-	-
- Changes during the year	48,794	-
Definitive	-	-
- Reversal of temporary differences of previous years	405,164	-
- Changes during the year	605,432	-
Net decrease in entities with tax losses	149,247	(6,940)
Value of production	531,083	-
Current tax	-	(24,695)
Effect of regional surtaxes/tax relief (+/-)	-	(4,038)
Current tax in income statement	-	(28,734)
Changes in current tax/deferred tax assets/deferred tax liabilities (+/-)	-	(7,885)
Tax liability for the year (b)	-	(36,619)
Total income tax expense (item 300 IS) (a+b)		**(2,339)**

SECTION 22 - PROFIT (LOSS) AFTER TAXES ON DISCONTINUED OPERATIONS - ITEM 320

22.1 PROFIT (LOSS) AFTER TAXES ON DISCONTINUED OPERATIONS: COMPOSITION

	Total	Total
	31/12/2021	31/12/2020
1. Revenue	73,691	-
2. Expense	(39,045)	-
3. Result of measurement of groups of assets and associated liabilities	-	-
4. Gain (loss) on realization	-	-
5. Taxes and duties	(9,876)	-
Profit (loss)	**24,770**	**-**

The item reports the net profit of the e-money operations of Iccrea Banca, which have been reclassified as held for sale.

22.2 BREAKDOWN OF INCOME TAXES OF DISCONTINUED OPERATIONS

	Total	Total
	31/12/2021	31/12/2020
1. Current taxes (-)	(9,875)	-
2. Change in deferred tax assets (+/-)	-	-
3. Change in deferred tax liabilities (-/+)	-	-
4. Income taxes for the period (-1+/-2+/-3)	**(9,875)**	**-**

SECTION 23 - PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS – ITEM 340

23.1 BREAKDOWN OF ITEM 340 “PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS”

	31/12/2021	31/12/2020
Consolidated equity investments with significant non-controlling interests		
1. Banca Mediocredito del F.V.G. SpA	(1,442)	(1,429)
2. BCC Risparmio & Previdenza SGrpA	-	1,978
3. Coopersystem Società Cooperativa	5,267	5,899
Other equity investments	(19)	79
Total	**3,806**	**6,527**

SECTION 24 - OTHER INFORMATION

No other information necessary.

SECTION 25 - EARNINGS PER SHARE

The ordinary shares of the Parent Company, Iccrea Banca, are not traded on a public market and the company does not file its financial statements with CONSOB in order to issue ordinary shares on a public market. Accordingly, IAS 33 does not apply.

25.1 AVERAGE NUMBER OF ORDINARY SHARES IN DILUTED SHARE CAPITAL

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

25.2 OTHER INFORMATION

No further information to report.

PART D - CONSOLIDATED COMPREHENSIVE INCOME

BREAKDOWN OF COMPREHENSIVE INCOME

		31/12/2021	31/12/2020
10.	**Net profit (loss) for the period**	**460,571**	**202,320**
	Other comprehensive income not recyclable to profit or loss	**7,833**	**(12,768)**
20.	Equity securities designated as at fair value through other comprehensive income:	17,042	(7,568)
	a) fair value changes	16,412	(12,359)
	b) transfers to other elements of shareholders' equity	630	4,791
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	(35)	(103)
60.	Intangible assets	-	-
70.	Defined-benefit plans	(6,942)	(6,045)
80	Non-current assets held for sale	-	-
90.	Valuation reserves of equity investments accounted for with equity method	-	-
100.	Income taxes on other comprehensive income not recyclable to profit or loss	(2,232)	949
	Other comprehensive income recyclable to profit or loss	**(43,346)**	**11,384**
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:	25,274	(44,612)
	a) fair value changes	10,901	(38,332)
	b) reversal to income statement	11,902	(5,309)
	c) other changes	2,471	(971)
	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:	(91,297)	66,055
	a) fair value changes	(41,324)	70,809
	b) reversal to income statement	(48,262)	(3,357)
	- adjustments for credit risk	4,708	4,406
	- gain/loss on realization	(52,970)	(7,764)
	c) other changes	(1,710)	(1,396)
160.	Non-current assets and disposal groups held for sale:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
170.	Valuation reserves of equity investments accounted for with equity method:	1,173	(1,792)
	a) fair value changes	1,173	(1,792)
	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	21,503	(8,267)
190.	**Total other comprehensive income**	**(35,513)**	**(1,383)**
200.	**Comprehensive income (item 10+190)**	**425,057**	**200,936**
210.	Consolidated comprehensive income pertaining to non-controlling interests	4,119	6,483
220.	**Consolidated comprehensive income pertaining to shareholders of the Parent Company**	**420,938**	**194,453**

PART E - RISK AND RISK MANAGEMENT POLICIES

INTRODUCTION

The Iccrea Cooperative Banking Group (ICBG) conducts its business in accordance with the principles of prudence and risk containment, based on the need for stability associated with banking activity and the main characteristics of the mutual banks and their customers. Consistent with these principles, the Group pursues its growth objectives in accordance with the needs of the mutual banking system, ensuring, through balanced risk management, reliable and sustainable generation of value over time.

The risk governance policies represent the reference model in organizational and process development and in the systematic execution of all the operational and business activities performed by Group companies and are an integral part of the risk management process (RMP) adopted by the Group, ensuring sound and prudent management and supporting sustainable implementation of the overall risk strategy. The internal control system (ICS) governs the RMP, ensuring the completeness, appropriateness, functionality (in terms of effectiveness and efficiency) and reliability of the policies in a context of strict consistency with the governance framework defined at Group level.

The Risk Management function operates within the internal control system.

THE RISK MANAGEMENT FUNCTION

The Chief Risk Officer area is responsible at the Group level for second-level control activities connected with the management of credit, financial and operational risks, including IT risks. It is the contact for the corporate bodies of the Parent Company for matters within its scope of responsibility, providing an integrated and composite vision of the set of risks that are being assumed and managed by the individual entities and by the Group as a whole.

In 2021, the organizational structure of Risk Management function underwent fine-tuning. This intervention was part of the continuation of the overall finalizing of the structure of the CRO area and was intended to incorporate lessons learned with regard to the overall operating model of the Risk Management function.

The organizational structure of the Risk Management function of the Parent Company of the Iccrea Cooperative Banking Group includes the following:

- a "*Risk Governance & Strategy*" unit that (i) oversees all risk governance and risk strategy issues for the Group in respect of the affiliated banks, the companies within the direct scope and the Parent Company, including the management of the EWS and stress testing framework for the purposes of the Guarantee Scheme; (ii) performs activities connected with the preparation of the area's annual activity plan and the institutional reporting document submitted to the corporate bodies and the supervisory authorities; (iii) coordinates and monitors strategic projects for the CRO area, as well as overseeing activities pertaining to the CRO area concerning 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, in close collaboration with the Mutual Bank Risk Management units (Northern Area, Central Area, Southern Area) and in concert with the other competent units of the Risk Management function, (i) develops the Risk Appetite proposal for the affiliated banks with the related limits and triggers broken down into risk categories by operational and business segment; (ii) supports the Group Risk Governance & RM SPD unit in the definition and maintenance of the methodological framework of the Group Risk Governance processes (RAF/RAS, analysis and assessments connected with capital adequacy, stress testing, OMR and incentive system), as well as in the definition of the guidelines to support the preparation of the annual plans and the respective institutional reports of the activities of the Risk Management function broken down by individual mutual bank and, in close collaboration with the Mutual Bank Risk Management units, the efficient and effective operational implementation within the affiliated banks, (iii) supports the Group Risk Management unit in the definition and maintenance of the methodological framework for specific risks, as well as in the related assessment and monitoring activity, in order to enable efficient and effective operational implementation within the affiliated banks and identify any risk mitigation

  measures required. The unit also has Risk Management specialists who provide support to the Mutual Bank RM units (Northern Area, Central Area, Southern Area) and to the risk managers of the affiliated banks for the implementation and application of the risk management framework and the correct and uniform performance of the related risk management activities in compliance with the qualitative and quantitative standards dictated by the Parent Company;

  - a "Group Risk Governance & RM SPD" unit, which defines and maintains the methodological framework of the Group's Risk Governance processes (RAF/RAS, ICAAP, Recovery Plan, stress testing, OMR, incentive system). The unit covers the Group and the companies within the direct scope, in close collaboration with the Planning & Management Control unit and in concert with the other competent units of the Parent Company's Risk Management function and, with regard to the affiliated banks, in collaboration with the Mutual Bank Risk Governance unit. It also represents the top management structure for the Risk Management departments of the companies within the direct scope, whose centralization within the Parent Company under outsourcing arrangements was completed during the first quarter of the year. It ensures the coordination of the risk managers of the individual companies;

- a "Group Risk Management" unit, which (i) supervises and coordinates the organizational units dedicated to the individual risk categories, which within their areas of responsibility are involved in the development and maintenance of the methodological framework for the assumption and management of specific risks, as well as the assessment and monitoring of those risks, the identification of any risk mitigation measures; (ii) 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 and the companies within the direct scope;

- a "Mutual Bank Risk Management" unit, which represents the "control center" for the risk profile of the individual affiliated banks, representing the top management structure for the local Risk Management units. Local risk managers report to the unit through the Mutual Bank RM units (Northern Area, Central Area, Southern Area). It coordinates communication with the other specialized units of the Risk Management function. The Mutual Bank RM units (i) have organizational responsibility for the overall execution of the Risk Management activities outsourced for the macro-area; (ii) represent the top management structure for the Risk Management controls of the area, which is responsible for the execution the outsourced second-level control activities for risk management; and (iii) coordinate the managers in charge of the Risk Management functions of the affiliated banks. Each Mutual Bank RM unit (Northern Area, Central Area, Southern Area) has a Deputy Area Manager who supports the unit in its operational supervision and coordination of the mutual bank risk managers in the event of the absence or impediment of the unit manager.

- 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. In this area, the Risk Management function ensures that the framework for the assumption and management of risks is compliant with applicable regulations, in line with market best practice, functional in respect of internal operational conditions and consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) of the Group;

- developing the Risk Appetite Framework and its operational implementation (the Risk Appetite Statement) at the consolidated level and, with the support of the affiliated banks and Group companies, at the individual level, consistent with capital adequacy objectives (ICAAP) and the adequacy of the liquidity profile (ILAAP) of the Group;

- monitoring the risk profile of the individual affiliated banks with the appropriate territorial organization of risk management arrangements and the Early Warning System (EWS) and the Guarantee Mechanism. In this area, the Risk Management function:

  - handles the development and updating of the methodological framework and develops tools for managing the Guarantee Mechanism, as well as assessing, classifying and monitoring the affiliated banks within the scope of EWS management processes;

  - is responsible, through the action of its local units as well, for the determination and adoption by each affiliated bank of strategies, policies and principles for the assessment and measurement of the risks identified at the Group level.

- monitoring developments in the risk profile and the various types of risk to which the Group as a whole and its individual members are exposed, verifying the ongoing consistency between the actual risk assumed and the specified risk objectives. In this context, the Risk Management function:

  - develops methodologies and models for measuring and assessing risks, validating those models, periodically checking their operation, predictive capacity and performance, and their consistency over time with operational practices and regulatory requirements;

- performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible, identifying any needs for fine tuning/corrective or evolutionary maintenance and providing support – within the scope of its duties – in implementing the associated actions;
- identifies any risk developments exceeding the limits set out in the Risk Appetite Statement, in the Risk Governance Policies or in external regulations and, in general, potentially harmful or unfavorable situations in order to assess possible mitigation initiatives to implement;
- analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement and Group policies in this area;
- assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (ICAAP) and the appropriateness of the Group's liquidity profile (ILAAP);
- assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to be implemented for the restructuring plan and within resolution procedures;
- reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining and implementing strategic policy and risk policy and the associated implementation of those policies;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The Group devotes special attention to managing, assessing and understanding risk. All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Parent Company. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies, updating risk measurement and estimation approaches to ensure consistency with sector best practices;
- the specification of risk limits;
- the periodic monitoring of exposures and compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the Group companies in the long term, systematic and independent Internal Auditing units, etc.).

THE GROUP RISK GOVERNANCE FRAMEWORK

The overall Risk Governance framework developed and adopted by the Group reflects the specific features of the ICBG, whose participatory mechanisms are based on a Cohesion Contract, signed by the banks, that provides for internal stability mechanisms characterized by intercompany mutual support agreements regulated specifically by applicable external legislation.

Accordingly, the complex reference framework that characterizes typical risk governance models and processes reflects and incorporates these specific features by way of the close integration of those models and processes, using shared metrics and efficient and effective operational mechanisms to support the implementation of roles and functions for policy-setting, coordination and control by the Parent Company for all Group banks/companies.

The Risk Appetite Framework (RAF) defined and adopted by the Iccrea Cooperative Banking Group is an integral and key part of the overall risk governance arrangements of the Group, as it is closely correlated with the strategic governance and control processes of the Group and with the internal stability mechanisms. The overall structure of the RAF is articulated at the Group level and is organized at the operational level by company/business unit and operating areas. Its dimensions can be expressed both in terms of metrics and limits and in terms of guidelines/qualitative indicators. In defining the key elements of the Group RAF, and in the definition of the related operating model, consideration had been given not only to applicable regulations but also to the specific aspects that characterize the ICBG as a group whose members are affiliated by contract, with a view to encapsulating those elements within an organic and integrated framework. In this context, therefore, the RAF makes it possible:

- to reinforce knowledge and awareness in the assumption, management and, more generally, governance of corporate risks;
- to rapidly and effectively direct the system for monitoring and communicating the risk profile;
- to guide risk management and mitigation decisions in a manner consistent with developments in the actual levels of risk assumed and managed.

In line with the principles underlying the ICBG Risk Governance model and with the aim of implementing an integrated system for governing, managing and controlling the Group's risks, the Group Risk Appetite Framework takes account of the Risk Governance mechanisms and processes established by applicable legislation and underlying the establishment of the Iccrea Cooperative Banking Group, as discussed in the Report on Operations.

SECTION 1 – RISKS WITHIN SCOPE OF ACCOUNTING CONSOLIDATION

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

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

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

	Bad loans	Unlikely to be repaid	Impaired past due exposures	Performing past due positions	Other performing positions	Total
1. Financial assets measured at amortized cost	600,159	1,472,866	332,697	1,722,820	155,101,658	159,230,200
2. Financial assets measured at fair value through other comprehensive income	55	-	-	-	7,524,088	7,524,144
3. Financial assets designated as at fair value	-	-	-	-	275,467	275,467
4. Other financial assets mandatorily measured at fair value	16	-	-	4,872	902,227	907,115
5. Financial assets held for sale	-	-	2	-	644	645
Total 31/12/2021	**600,231**	**1,472,866**	**332,699**	**1,727,692**	**163,804,085**	**167,937,570**
Total 31/12/2020	**1,200,060**	**2,329,465**	**212,473**	**1,729,542**	**154,651,918**	**160,123,459**

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

	Impaired assets				Performing assets			
	Gross exposure	Total adjustments	Net exposure	Total partial writeoffs	Gross exposure	Total adjustments	Net exposure	Total (net exposure)
1. Financial assets measured at amortized cost	6,447,892	4,042,170	2,405,722	282,901	158,069,366	1,244,888	156,824,478	159,230,200
2. Financial assets measured at fair value through other comprehensive income	55	-	55	-	7,534,651	10,562	7,524,088	7,524,144
3. Financial assets designated as at fair value	-	-	-	-	X	X	275,467	275,467
4. Other financial assets mandatorily measured at fair value	16	-	16	-	X	X	907,099	907,115
5. Financial assets held for sale	2	-	2	-	647	3	644	645
Total 31/12/2021	**6,447,965**	**4,042,170**	**2,405,795**	**282,901**	**165,604,663**	**1,255,454**	**165,531,775**	**167,937,570**
Total 31/12/2020	**8,445,386**	**4,703,387**	**3,741,999**	**326,084**	**156,064,119**	**917,815**	**156,381,460**	**160,123,459**

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	101	164,382
2. Hedging derivatives	-	-	42,960
Total 31/12/2021	**-**	**101**	**207,342**
Total 31/12/2020	**1,393**	**411**	**271,812**

* Values to be reported for information purposes

B. DISCLOSURES ON STRUCTURED ENTITIES (OTHER THAN SECURITIZATION VEHICLES)

Consistent with IFRS 12, the Group defines structured entities as entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

A structured entity often has some or all of the following features or attributes:

- restricted activities;
- a narrow and well-defined objective, such as to provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support;
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

The Group has exposures to structured entities that mainly operate as special purpose vehicles for securitizations and closed- or open-end securities/real estate investment funds in which the Group has subscribed units or to which it has lent funds.

For the purpose of this section, transactions carried out with special purpose securitization vehicles are not considered. For more on that type of structured entity, please see section C. Securitization and section E. Disposals in Part E of the notes to the consolidated financial statements.

B.1 CONSOLIDATED STRUCTURED ENTITIES

In the Group, consolidated structured entities are represented by closed-end real estate investment funds over which the Group exercises control in accordance with international accounting standards as a result of the subscription of a number of units sufficient to expose the Group to variable returns from the involvement and give it the ability to manage the underlying portfolio directly or indirectly.

The following table summarizes the on-and off-balance-sheet exposures held by Group companies in respect of those entities.

Type of structured entity	Total assets	Off-balance-sheet exposures
Investment funds	440,473	-

B.2 STRUCTURED ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES

B.2.1. STRUCTURED ENTITIES CONSOLIDATED FOR SUPERVISORY PURPOSES

The Group does not have exposures to structured entities that are unconsolidated for accounting purposes but consolidated for supervisory purposes.

B.2.2. OTHER STRUCTURED ENTITIES

QUALITATIVE DISCLOSURES

The Group has exposures to unconsolidated structured entities, mainly regarding units subscribed and loans granted to securities/real estate investment funds (collective investment undertakings - CIUs).

These entities are not consolidated since the Group only holds minority interests, is not the fund manager and is not able to influence its returns.

During the period under review, the Group did not provide and does not intend to provide financial or other support to unconsolidated structured entities and has not acted as a sponsor of these entities.

QUANTITATIVE DISCLOSURES

	Asset portfolios (*)	Total assets (A)	Liability portfolios	Total liabilities (B)	Net carrying amount (C=A-B)	Maximum exposure to loss risk (E)	Difference between exposure to loss risk and carrying amount (E=D-C)
1. Vehicles	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2. CIUs							
	HFT	3,009			3,009	3,009	
	MFV	307,331			307,331	307,331	

(*) MFV = financial assets mandatorily measured at fair value; HFT= financial assets held for trading

SECTION 2 – RISKS WITHIN SCOPE OF PRUDENTIAL CONSOLIDATION

1.1 CREDIT RISK

QUALITATIVE DISCLOSURES

1. GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca determines credit risk management policies at the Group level, setting guidelines and coordinating their implementation within the individual entities. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the subsidiaries, in agreement with the Parent Company;
- the Risk Management function supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the credit risk exposure of the Parent Company and all the Group companies.

This model also relies on the current governance structure, which provides for organizational separation between the units responsible for the operational management of lending (the Chief Lending Officer area, hereinafter also the CLO area) and control units (under the Risk Management function).

With regard to management of lending, the mechanisms for interaction between the Parent Company and the Group companies - defined on the basis of the Cohesion Contract – comprise specific credit governance rules, which on the one hand govern the related responsibilities and on the other ensure the compliance of the credit risk framework with the applicable regulatory framework to which the Parent Company is subject.

With regard to the management and coordination role, the Parent Company assumes responsibility for the following areas: lending rules (principles, policies and processes), credit strategies and credit risk limits, management of large exposures, guidelines for the main credit product categories by customer segment, the monitoring and reporting of portfolio credit risk.

In line with these credit governance rules, the Group companies must request the opinion of the CLO area ("credit opinion") before approving new credit lines or significant modifications to existing positions with individual counterparties/groups of connected clients if those facilities exceed predetermined amount thresholds both in absolute value considering the overall risk exposure of the Iccrea Cooperative Banking Group and with regard to compliance with credit risk concentration limits relation to the own funds of the individual Group bank.

The mapping of groups of connected clients, which seeks to identify and assess legal and financial connections between clients is conducted in accordance with principles and rules valid for the entire Banking Group and with the most recent regulatory guidelines in this field (EBA guidelines on connected clients, EBA/GL/2017/15).

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

Credit risk represents the preponderant component of the overall risks to which the Group is exposed, considering that credit exposures account for a dominant share of assets.

In light of this circumstance and in compliance with the applicable provisions concerning the internal control system (see Bank of Italy Circular No. 285/2013, Part One, Title IV, Chapter 3), the Group has adopted a governance structure and operational arrangements to ensure the adequate monitoring of credit risk in the various phases of the process.

Moreover, in relation to the application of the provisions of IFRS 9 and the related initiatives to ensure their implementation, especially as regards the classification and measurement of credit exposures, the Group further strengthened its risk management arrangements, with particular regard to the definition of credit classification and measurement policies, as well as the development of a structured framework of second-level controls of credit exposures, with particular regard to impaired positions.

The entire credit management and control process is governed by internal rules that also define risk control, management and mitigation activities, developing a structured system involving the various organizational units.

The Parent Company, in exercising the powers of strategic management and coordination granted to it under provisions of the Cohesion

Contract, defines the strategies, policies and principles for assessing and measuring risks and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level. With regard to the lending process, the Parent Company defines the credit approval process and the management of the associated risk (management of guarantees, including real estate, monitoring of exposures, classification of risk positions, management and measurement of impaired exposures).

From an organizational point of view, the CLO area assumes responsibility on behalf of the Parent Company and the companies in the direct scope of consolidation (directly owned by the Parent Company) for the supervision of all phases of the lending process from loan approval to the management of non-performing positions.

The main activities of the lending process performed by the CLO area are:

- issuing guidelines for the definition of the loan management model, issuing guidelines for the loan approval and disbursement process, and finalizing and defining/developing the lending authority model for the decision-making bodies;
- approving the general and specific exceptions for Group companies with respect to Group guidelines on customer segments/credit products;
- monitoring the Group's performing portfolio by analyzing and monitoring existing exposures and by issuing opinions (credit opinions) on credit exposures that exceed specified limits;
- defining the framework for assessing the creditworthiness of corporate, retail and banking counterparties;
- assessing the creditworthiness of banks and financial institutions to which the Parent Company and the companies in the direct scope of consolidation have granted credit;
- performing activities connected with the operational management of the rating models, carrying out rating overrides and providing assistance to Group companies in relation to the general principles and the reasons for the ratings assigned to individual counterparties.

With regard to credit monitoring, in addition to the definition of guidelines at Group level and the minimal set of early warning indicators for the interception and management of positions to be "monitored", the CLO area monitors the positions of the Parent Company and the companies within the direct scope that present an increase in credit risk, as well as examining the correct execution of the process implemented by the affiliated banks. Furthermore, the CLO area monitors the "most relevant" positions.

As part of the second-level controls, the Risk Management function has defined the overall methodological and operational framework in this area. It is applicable to the entire Group. The framework, which is governed with a specific body of regulatory and process documentation, covers all the activities and controls aimed at verifying, on a periodic basis, the appropriateness of the classifications of exposures, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

More generally, the Risk Management function oversees the risk management of the individual entities from a consolidated and individual perspective:

- overseeing the measurement of credit risk from a current and forward-looking perspective, considering both conditions of normal operations and stress scenarios;
- monitoring the capacity of the risk limits, including those defined within the RAF/RAS with regard to the associated credit risk metrics;
- defining and updating the methods and measurement models for credit risk, including those used in the performance of credit stress tests, ensuring their ongoing compliance with regulatory developments and market best practice.

2.2 MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

IDENTIFICATION OF RISKS

As noted in the previous section, in compliance with the provisions of Circular no. 285/2013 of the Bank of Italy as updated, the Parent Company determines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level, thus exercising the powers of strategic management and coordination aimed at ensuring the unity of the Group's strategic management and control system, as governed by the Cohesion Contract.

With particular regard to the lending process, the Parent Company governs lending and the management of the related risk. This also comprises the management of guarantees, including real estate, exposure monitoring, the classification of risk positions, and the management and valuation of impaired exposures.

In all of these phases, the Group uses qualitative and quantitative methods for assessing counterparty creditworthiness, supported by IT procedures that undergo periodic verification and maintenance.

With specific reference to the loan approval phase, the Group rules establish the key principles underpinning all phases of the process of approving/renewing loans, together with the roles and associated responsibilities of the various actors involved, specifying the procedures through which the Group intends to assume credit risk in respect of its customers, i.e. by identifying eligible counterparties and the admissible technical forms of credit for each customer segment.

In this specific context, a direct assessment is carried out to ascertain the needs and requirements of the applicant and therefore the purposes of the credit line and to accurately assess the credit risk profile: granting a loan requires an in-depth analysis of the risk associated with (i) the counterparty as well as the economic context in which it operates, (ii) the purpose and characteristics of the transaction to be financed, (iii) the guarantees available and (iv) other forms of credit risk mitigation.

The analysis of the counterparty is conducted so as to assess the overall profitability of the relationship using the associated valuation tools/models. The assessment of creditworthiness focuses, in turn, on an analysis of the borrower's ability to repay, without prejudice to the principle that credit can only be granted if it is clear how it will be repaid.

Without prejudice to the prudential limits set by applicable regulations, which are commensurate with own funds with regard to both the magnitude of the exposure to the individual counterparty and the total amount of larger exposures, the credit strategies provide for risk limitations on the basis of specific elements, such as, for example, the nature of the transaction (e.g. transactions intended to finance real estate whose repayment will be financed by sale or lease), the situation of the specific real estate market (type of asset, economic sector, geographical area, market demand, etc.), a current and forward-looking evaluation of the asset, the accurate quantification of timing and costs of carrying out the initiative.

In general, given the recent establishment of the Iccrea Cooperative Banking Group, the management, measurement and control systems at the individual affiliated mutual banks are being developed to adapt them to the new consolidated context and evolve them in accordance with industry best practice. In this direction, Group policies were issued for all phases of the lending process and, therefore, the granting and disbursement of credit, management of guarantees, loan monitoring, loan classification, assessment of impaired positions, management of substandard positions and NPLs.

As noted earlier, the central moment of the preliminary phase of the lending process is that linked to the assessment and measurement of the credit risk of the transaction in question. The assessment is based on qualitative/quantitative information and is typically supported by the use of automated rating/scoring models designed to measure the creditworthiness of the counterparty and/or the possibility of proceeding with the transaction.

Ratings plays a key role lending, as they represent an essential element of the assessments made during the loan approval, review and renewal processes. The rating assignment involves an analysis of all the quantitative and qualitative information available to support the application approval process in order to accurately assess the risk profile of the transaction and to monitor the creditworthiness of existing counterparties over time.

For the companies in the direct scope of consolidation, the rating and scoring systems are already fully integrated into credit processes. Lending policies already provide indications concerning the minimum level of the decision-approval bodies - based on the technical form of financing, the guarantees securing the loan and the counterparty rating - and the related mechanisms for exceptions, which are granted and monitored by the Parent Company. Affiliated mutual banks have rating systems to support the loan approval/management process. In view of the recent establishment of the Group and the different information systems used by the mutual banks, a number of activities are being completed to integrate ratings in all the processes of the Group companies.

The evaluation models in use take into consideration:

- the specific features of the different types of counterparties, with particular reference to the Corporate segment (companies/producer households), Retail (consumers) and Institutional (bank counterparties);
- the specific features of the product involved, distinguishing between short, medium and long-term types of credit, or specialized technical forms (leases, factoring, consumer credit).

In general, the evaluation models use all the available updated information on the counterparty/transaction, drawn both from external sources (e.g. the Bank of Italy Central Credit Register and similar association databases, credit bureaus, financial statements, registry events) and internal sources (internal performance information).

The Group adopts a counterparty approach in assigning ratings except in specific cases in which the counterparty assessment is supplemented by a product-perspective evaluation, in consideration of any special features of a business. Using rating/scoring models, the Group assigns the counterparty a representative credit rating, adopting an on-line processing procedure, which is typically accessed through the electronic application processing system but also in batch mode, with the latter being adopted for periodic updating of ratings for all Bank customers (the loan position performance rating).

In compliance with the supervisory provisions governing the correct identification of the risk assumed, or to be assumed, in respect of a "group of connected clients", any legal or economic connections between clients are detected and evaluated by those responsible for analyzing creditworthiness during the application assessment phase of the lending process.

These objectives are achieved through an analysis that involves the acquisition of all available information such as financial statements, where available at Group level, or aggregated financial statements of the main entities involved, for subsequent processing, ad hoc information on intercompany items of a financial and operating nature that may not be reported in the financial statements, or on operating flows between Group companies, on the presence of centralized treasury operations and, more generally, on the activities, the market and the competitors of the Group and all entities connected with it.

The monitoring process envisaged by the model is independent with respect to classification status (for example, a position on which payments are being made regularly but has been classified as unlikely to pay due to another non-performing exposure in the system). It is based on the following:

- the use of early warning indicators that permit timely detection of risk signals;
- the definition and attribution of responsibilities in the monitoring process;
- the definition and execution of risk mitigation actions;
- the generation of appropriate information flows between the bank and the Parent Company.

More specifically, within the process we distinguish:

- a phase in which early warning signals are identified, using risk indicators to detect exposures affected by an appreciable increase in credit risk in order to analyze their risk profile and take appropriate management actions;
- a management phase, aimed at examining the identified positions and taking, where necessary, specific management actions in order to promptly mitigate the risk of a deterioration in the position.

The identification of the positions under observation, using IT support procedures, can be carried out manually (i.e. based on the “manual” acquisition of information about, for example, significant changes in the corporate group to which the counterparty belongs, failure to comply with covenants, voluntary declarations of difficulties made by the counterparty, news reports, etc.), or using automated processes, i.e. procedures based on a set of indicators (from external or internal sources, regarding the relationship between the bank and the counterparty, or the capital structure and financial resources of the latter) that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship.

Automated identification must be based on a set of indicators that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship (directly related to the client’s relationship with the Bank or the client’s financial structure, based on data from external or internal sources). These indicators are differentiated on two levels (1 and 2) that indicate an increasing degree of risk, In the case of level 2 indicators, the position undergoes an analysis of counterparty creditworthiness, which may involve a re-examination of the borrower, in order to verify the capacity of the client to honor its commitments through to full repayment.

The process of managing “watch list” exposures therefore enables the analysis of the risk profile of “watch list” counterparties and the definition of appropriate management actions in the context of the monitoring processes with a view to returning the position to normal status or mitigating the risk connected with the exposure.

RISK MEASUREMENT AND ASSESSMENT

For the purpose of calculating prudential requirements for credit risk, the Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The adoption of the standardized approach to determine the capital requirement against credit risk involves the subdivision of exposures into portfolios and the application of differentiated prudential treatments to each, possibly using assessments of creditworthiness (external ratings) issued by external agencies (ECAI) or by export credit agencies (ECA) recognized for prudential purposes on the basis of the provisions of Regulation (EU) No. 575/2013.

Depending on the type of counterparty and the sector in which it operates, the Group’s operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral).

For the purposes of determining internal capital for concentration risk for individual counterparties or groups of connected clients, the Group uses the regulatory granularity adjustment (GA) algorithm, based on the Herfindahl index. In accordance with regulatory provisions, the reference portfolio consists of on-balance-sheet and off-balance sheet exposures (the latter considered at their credit equivalent amount) falling within the regulatory portfolios “corporates and other borrowers”, “short-term exposures to corporates” and exposures to corporates included in the asset classes “in default”, “secured by real estate”, “equity exposures” and “other exposures”.

Furthermore, for the purpose of quantifying geo-sectorial concentration risk, the Group adopts the methodology developed by the “Geo-Sectoral Concentration Risk Laboratory” of the Italian Banking Association (ABI), which sets geographical and product categories against a national asset allocation benchmark.

The Group periodically performs stress tests for credit and concentration risks in order to assess - in terms of potential losses - the impact of expected risk developments on the financial profile of the Group and the individual entities under both normal and adverse operating conditions.

The stress test methods are based on regulatory practices and are applied in various management and risk governance processes, starting with the capital adequacy assessment process (ICAAP), as well as in the performance of supervisory exercises.

The methodological and calculation structure of credit stress tests is based on the use of internal risk models and parameters and incorporates a credit risk projection approach (transitions between stages/risk states) and determination of related losses over the scenario years (12-month or lifetime expected credit loss) based on the measurement of IFRS 9 impairment.

The projections of the estimates for the scenario years are performed considering the macroeconomic scenario assumptions in the adopted scenarios (in baseline or adverse conditions), using internally developed models ("satellite" models), which estimate the relationship between risk factors and developments in macroeconomic variables.

RISK MONITORING AND CONTROL

In accordance with supervisory regulations (Bank of Italy Circular no. 285/2013), the Risk Management function performs - at both the consolidated and individual legal entity levels – second-level control activities to verify the adequacy, effectiveness and consistency over time of policies and limits, processes and delegated powers with regard to the credit risk management process, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management function through analysis of developments in the exposure to credit risk of the Group as a whole and of the individual entities.

The Internal Audit unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

The locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives and limits (appetite, tolerance and capacity) at both the consolidated and individual entity levels, with compliance ensured by the monitoring and control activities of the function.

Monitoring and reporting on the credit risk profile is characterized by activities that involve both the business functions and the control functions, in accordance with their respective responsibilities. In particular, monitoring is ensured both by aggregate portfolio performance analyzes and by analyzes carried out on individual positions.

The Risk Management function monitors the credit risk profile – at both the consolidated and individual affiliated bank and Group company level, using an analytical framework and related reporting based on a system of key risk indicators. It is designed to monitor the loan portfolio, at both the time exposures are taken on and during their lifetime, the outcomes of which are reported regularly to top management. In this context, the analytical methods and the related reporting undergo constant fine-tuning in order to represent the drivers underlying developments in credit risks in an ever more effective manner, reflecting changes in the regulatory environment as well as management requirements and to support decision-making.

As noted earlier, Risk Management developed the Group second-level control framework, which comprises control activities aimed at ascertaining, on a periodic basis, the consistency of exposure classifications, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

The control methods envisaged by the framework undergo constant refinement and evolution, with a view to directing second-level controls ever more effectively in response to developments in the credit risks of the Group.

2.3 METHODS FOR MEASURING EXPECTED CREDIT LOSSES

The Group has adopted a framework for determining impairment based on risk assessment models and the corresponding parameters used in operational and management practices by the Parent Company and individual Group entities. In accordance with the provisions of IFRS 9, the methods for measuring expected losses on impaired exposures are based on the following elements:

- 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 newly issued exposures and all exposures in respect of counterparties classified as performing that, as at the reporting date, meet the condition for the low credit risk exemption, or that do not show a significant increase in credit risk with respect to the level measured at the date of disbursement or purchase;
- stage 2, which includes all performing positions/tranches that at the time of assessment simultaneously meet the following two conditions: (i) they have a PD greater than the threshold, (ii) they have experienced a significant increase in credit risk with respect to the level measured at the origination date. In the absence of a rating/PD at the reporting date, exposures are generally allocated to stage 2 (without prejudice to the additional considerations and practices addressed below);
- stage 3, which includes all exposures that, as at the evaluation date, are classified as non-performing under the default definition adopted and governed by specific internal rules in conformity with supervisory regulations.

The staging method of the Group was developed on the basis of the following drivers.

The method developed for the loan portfolio envisages:

- the use of the low credit risk (LCR) criterion, under which credit risk is deemed to have not increased significantly if the exposure shows a low level of credit risk at the reporting date, essentially defined as a PD threshold at the reporting date equal to the investment grade threshold;
- the use of quantitative criteria based on rating/scoring systems, involving the analysis and comparison of the PD/rating at origination with the PD/rating at the reporting date. This identifies, on the basis of thresholds of significance defined in terms of the number of notches that a rating has changed, any significant increase in credit risk on the position;
- the use of qualitative staging criteria to identify the riskiest positions in the performing portfolio. These criteria have been defined independently of the use (or not) of the quantitative criteria referred to in the previous point and are based on the identification of objective evidence of impairment, such as the presence of forbearance measures, positions more than 30 days past due.

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 an approach based, in general, on the observation of historical loss rates on non-performing positions and on the application of the danger rate matrices, corresponding to the probability of a counterparty being classified as non-performing, regardless of the intermediate default states.

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, 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 specific multipliers for each forecast year,[51] to be applied to the parameters, estimated on the basis of the scenarios and forecast values for the exogenous macroeconomic variables. In order to reflect the different forward-looking riskiness of the positions assessed in the ECL estimates, these multipliers 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, also taking account of the greater alignment of the baseline scenario with typical market conditions.

The sensitivity analysis of the expected credit loss (ECL) metrics was performed by the Parent Company at the consolidated level pursuant to IFRS 9 for 2021. This analysis was carried out on a representative sub-portfolio of performing loans allocated to Stage 1 and Stage 2 in respect of corporate and retail customers. For the purposes of the sensitivity analysis, the "worst plausible" scenario was used as the main reference scenario, having already been used at the end of 2021 to determine the ECL together with the baseline scenario, i.e. that used as the benchmark for the calculation of the ECL at December 31, 2021. The results show that, at the consolidated level, this simulated measure (based on the conditions prevailing at the reporting date) shows an increase of about 13% in Expected Credit Loss compared with that at December 31, 2021.

The IFRS 9 framework was updated to ensure regulatory compliance with new provisions such as the New Definition of Default (New DoD), adopted by the Group starting from January 1, 2021 and first applied for the purposes of calculating credit adjustments starting from the closing of the accounts at March 31, 2021.

Note that the New DoD was intended by the authorities (ECB, EBA, EU Commission) to strengthen the comparability of risk metrics (internal parameters, RWA, NPE ratio) between different institutions, seeking to achieve greater uniformity and comparability in the logic underlying the classification of impaired loans, reduce compliance costs for transnational institutions and minimize the variability of RWAs among banks with similar risk profiles. Given the foregoing, the interventions to ensure compliance with the New DoD performed by the Group included the updating and recalibration of the models for measuring credit risk (PD, LGD) so as to incorporate the impacts of the new rules for past due classification and the effect of the mandatory propagation of default status at the Group level for common customers. In particular, the probability of default has been adapted to the new regulatory framework in order to take account of the impact on the probability of occurrence of the default event connected with changes in the process of determining default itself. The LGD parameters were recalibrated to take account of the impacts of the New DoD both in terms of new default flows generated by the adoption of the new definition and the consequent new composition of the impaired portfolio.

IMPACT OF COVID-19

As part of the comprehensive set of initiatives launched by the Group for the purposes of managing the COVID-19 emergency on a structural basis, the work connected with the review of the credit risk forecasting metrics was of particular importance, factoring the new analytical determinants associated with this new context into the ordinary measurement processes, and in particular within the IFRS 9 impairment framework for the purposes of estimating expected losses on performing loans (expected credit losses, ECL).[52]

The sharp discontinuity in market conditions generated by the effects of COVID-19 has required the implementation of a series of extraordinary methodological and implementation measures to incorporate the potential impacts of the pandemic into the impairment model. The introduction of measures to support the economy and customers, with particular reference to the initiatives undertaken by the Group under the provisions of the relevant decree laws, the measures agreed with industry associations and the private initiatives implemented by individual entities led to the implementation of additional methodological changes in the IFRS 9 impairment framework in order to reflect its impact in the calculation of expected credit losses.[53]

The following sections set out the measures taken to adjust the impairment framework in connection with the COVID-19 pandemic, which impacted the calculation of expected credit losses at the reporting date.

[51] Applied specifically to each reference period in the first three years of the projection. For subsequent years it is calculated as an average of the multipliers for the first three years.

[52] Starting with the closure of the 2020 interim financial statements, the Stage 3 impairment add-on was applied so that the reduction in recoveries in the new market conditions engendered by the COVID-19 crisis would be reflected within the analytical process envisaged by the credit assessment policy.

[53] Including the revision of the probation period for exposures involved in payment moratoriums previously allocated to stage 2.

Determining the presence of a significant increase in credit risk (SICR)

The measures implemented in response to the pandemic, with specific regard to determining whether a significant increase in credit risk has occurred, concerned the inclusion of the loan repayment moratoriums for households and micro, small and medium-sized enterprises contained in Decree Law 18/2020 (the "Cure Italy Decree"), as ratified with Law 27/2020. The management of the impact of these support measures included the adaptation of automatic staging mechanisms in order to ensure that the stage allocation criteria were consistent with the methods and purposes of the support measures, while still using an appropriate degree of prudence in assessing such positions.

Measurement of expected losses

The contingent circumstances associated with the COVID-19 emergency made it necessary to take additional specific steps to adjust estimates of expected credit losses and consequently to modify the quantification of IFRS 9 impairment losses to take account of the pandemic. More specifically, in addition to the measures taken to assess the impact of the moratoriums described above, the measures introduced to calculate ECL in order to reflect COVID-19 impacts involved the use of macroeconomic forecast scenarios updated in response to the evolution of the pandemic and market conditions. In particular, in order to enable the adaptation of the IFRS 9 methodological framework to the pandemic, the difficulty of modeling its peculiar characteristics using ordinary tools (satellite models) prompted the use of forward-looking projection metrics to be applied to the risk parameters (PD, LGD) estimated on the basis of the forecast values of the exogenous macroeconomic variables provided by an external provider. These measures were differentiated, for example by Probability of Default, by type of counterparty, sector of economic activity and geographical area in order to reflect differences in the potential impacts of the pandemic at the sectoral and territorial levels more precisely in the estimate of provisions. The exercise used two different scenarios, a baseline scenario and an alternative scenario. The weights of the individual scenarios used for calculating expected credit losses were 90% for the baseline scenario and 10% for the worst plausible scenario.

A sample of the main macroeconomic variables used to apply the forward-looking conditioning factors includes: Italian real GDP growth, the general consumer price index for Italy, the Italian unemployment rate, 3-month Euribor, the 3-year swap rate, the 10-year BTP rate, etc. With regard to the macroeconomic environment in Italy, the economy is posting a recovery, albeit one potentially slowed by current inflation strains.

2.4 CREDIT RISK MITIGATION TECHNIQUES

As required by Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms (CRR), the Group is strongly committed to compliance with all the requirements for the appropriate application of credit risk mitigation (CRM) techniques in accordance with the standardized approach for the calculation of capital requirements both for internal management and regulatory purposes.

Specific guidelines issued by the Parent Company are currently in force for the Group. They define common rules and principles for the direction, governance and standardized management of risk mitigation techniques, best practices and regulatory requirements in this field.

Specifically, under the current credit policy, the CRM techniques recognized for all capital requirement calculation methods are divided into two general categories:

- funded credit protection, consisting of:
  - collateral, represented by cash deposits, financial instruments that meet certain requirements, and gold. These guarantees can be provided through pledge agreements, transfer of ownership with a guarantee function, repurchase agreements or securities lending arrangements. The Group has implemented systems to a) verify the acceptability of these guarantees and value the assets at the time of acceptance and, where applicable, determine the haircuts to be applied to the collateral; and b) ensure the continuing compliance of the guarantees with eligibility requirements through continuous monitoring, governed and supported appropriately by internal procedures;
  - master netting agreements that involve repurchase agreements, securities lending arrangements, loans with margins as well as OTC derivatives;
  - on-balance-sheet netting;
  - real estate mortgages and property lease transactions involving properties that have the characteristics required by law;
- unfunded credit protection, consisting of unsecured guarantees and credit derivatives.

Unsecured guarantees eligible for CRM purposes consist of all forms of credit protection provided by the entities (providers) specified in Article 201 of the CRR (central governments, central banks, international organizations, public sector entities, regional governments and local authorities, multilateral development banks, supervised intermediaries). Accordingly, guarantees issued by natural persons or legal entities not included in the list indicated in the legislation do not fall within the risk mitigation techniques for calculating capital requirements, but are not excluded from the Group's catalog of guarantees, which comprises not only the guarantees eligible for CRM purposes, but also guarantees not eligible for CRM purposes, as mentioned above.

Credit risk mitigation techniques may include guarantees provided by collective loan guarantee consortia in accordance with applicable regulations in the presence of suitable counter-guarantees (for example the Central Guarantee Fund for SMEs) for the portion they secure.

The different CRM techniques, whether funded or unfunded, are subject to both general and specific eligibility requirements that must be met at the time the guarantee is established and for the entire duration of the guarantee.

The general requirements, which are intended to ensure legal certainty and the effectiveness of the guarantees, mainly concern:

- the binding nature of the legal commitment between the parties and its enforceability in court;
- the technique used to provide the credit protection together with the actions and steps taken and procedures and policies implemented by the lending institution shall be such as to result in credit protection arrangements which are legally effective and enforceable in all relevant jurisdictions. The lending institution shall provide, upon request of the competent authority, the most recent version of the independent, written and reasoned legal opinion or opinions that it used to establish whether its credit protection arrangement or arrangements meet the condition laid down in the first subparagraph" (see Article 194 of the CRR);
- the lending institution shall take all appropriate steps to ensure the effectiveness of the credit protection arrangement and to address the risks related to that arrangement;
- the timeliness with which the guarantee may be liquidated in the event of default;
- the formalization of techniques and operating procedures adequate to ensure continuing compliance over time with the general and specific requirements required for CRM techniques. These procedures must be valid and applied by all Group companies in order to avoid possible inconsistencies in the assessment. Checks shall be carried out in relation to the current legal value of the documentation submitted, the impact of any changes in the regulatory framework and the consequent initiatives to be taken. Risks related to the ineffectiveness, reduction or termination of the protection ("residual risks") as well as valuation and potential concentration risks in respect of specific counterparties shall also be controlled and managed.

Specific requirements are established for the individual CRM techniques in relation to their features and are intended to ensure a high level of effectiveness of the credit protection.

3. IMPAIRED CREDIT EXPOSURES

3.1 MANAGEMENT STRATEGIES AND POLICIES

According to the EBA definition, non-performing exposures satisfy either or both of the following criteria:

- material exposures which are more than 90 days past-due;
- the debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Impaired exposures are classified by increasing degree of severity in the following three categories:

- impaired past due and or overlimit exposures: exposures continuously past due or overlimit by more than 90 days in an amount exceeding the materiality thresholds (a relative materiality threshold equal to 1% of the entire exposure and an absolute materiality threshold of €100 or €500 for retail or corporate counterparties respectively;
- unlikely to pay (UTP) exposures: on- and off-balance sheet exposures for which the institution considers that the obligor is unlikely, without recourse to actions such as realizing security, to pay its credit obligations (principal and/or interest);
- default: on- and off-balance sheet exposures to an obligor in a state of insolvency (even if not declared by a court) or a substantially comparable situation, regardless of any expected loss.

The regulations also require that individual exposures, regardless of the classification of the counterparty, be identified as forborne exposures when they have been granted forbearance measures that meet the regulatory definition of such measures.

Such forborne exposures are in turned distinguished into:

- performing forborne, if the counterparty is classified as performing at the time the forbearance measures are granted and such measures do not require that the counterparty be classified differently;
- non-performing forborne, if the counterparty is already classified in one of the categories of non-performing at the time the forbearance measures are granted and such measures require that the counterparty be classified as non-performing.

Any other types of customer segmentation adopted by the affiliated banks and companies within the direct scope of consolidation for internal management purposes only (for example "watch list exposures") in order to assess of specific situations, whether performed using automated system or manually, are mapped to the above categories, ensuring that the mapping method is immediately understandable and transparent.

In identifying forborne exposures, the regulations require a transaction-by-transaction approach, regardless of their classification (impaired past due and/or overlimit exposures, unlikely to pay exposures or defaults): although the state of financial difficulty must be ascertained at level of the debtor, only the exposures referred to the latter that have actually been granted forbearance measures must be classified as forborne.

These classification rules are further supplemented by that established in IFRS 9, according to which credit exposures must be allocated to three stages (for more details, see the previous discussion). Among impaired exposures, allocation to stage "3" is underscored, which occurs when the customer's status changes to "non-performing".

In organizational terms, the Group has governance and operational structures to enable the efficient and sustainable management of impaired loans. Specifically, the individual Group companies will implement their policies for the management and recovery of anomalous positions and NPLs by drafting of internal rules customized to reflect the characteristics of the territory in which they operate, the scale of operations, their business model and related organizational structure, always in compliance with the provisions of Group policy.

For the purposes of identifying non-performing exposures, the Group:

- applies a unified and harmonized definition of NPLs in all Group companies, consistent with the applicable regulatory provisions;
- considers legal and financial connections between counterparties and adopts a group perspective in identifying the exposure of a debtor as impaired (default propagation).

The Parent Company defines the strategy for managing non-performing exposures, which is approved and monitored by its Board of Directors. Specifically, the Parent Company defines the objectives in terms of reducing expected NPE levels at Group level and establishes, with the support of the Group companies, the objectives for the individual companies and the related management strategies to ensure a common commitment and a consistent approach to achieving the objectives. The implementation of the strategy is supported by the Parent Company through the delivery of specialized support services, the provision of tools to facilitate the uniform management of impaired positions and a Group operational plan, which is also approved by the Parent Company's Board of Directors.

Furthermore, in order to enhance the commitment of the resources dedicated to the management of non-performing exposures in order to achieve the defined objectives, all Group companies have developed a system for measuring the performance of senior management and the organizational structures dedicated to management of non-performing exposures, which promotes, based on specific indicators, the commitment to managing such exposures.

In accordance with the principle of proportionality, the individual Group companies define their own performance evaluation and monitoring systems in line with Group policy. Specifically, it is considered necessary for Group companies to adopt performance indicators that take account of a set of quantitative and qualitative factors, including for example:

- developments in the stock of gross and net non-performing exposures, in line with the Group's Strategic Plan;
- methods for applying forbearance measures;
- the total amount recovered on the loan portfolio with a focus on collections, liquidations and asset sales;
- the aging of positions by recovery management phases;
- the regular performance of agreed restructuring plans;
- the application of writeoffs;
- the reduction of arrears and the improvement of portfolio quality.

3.2 WRITEOFFS

Writeoff means the derecognition from the financial statements of a loan, or part of a loan, and the consequent recognition of a loss ascertainment that the exposure cannot be collected or it is uneconomic to continue any associated recovery activities under way. It may occur before the legal action to recover the financial assets are completed and does not necessarily entail waiver of the bank's right to the asset. A writeoff may be total, and therefore regard the entire amount of a financial, or partial (in all those cases in which the claim recognized is smaller than the carrying amount, for example in insolvency proceedings). The amount of the writeoff must always take account of any expenses, including legal costs, accrued and not yet invoiced at the time of analysis.

A writeoff involves:

- the reversal of total writedowns against the gross value of the financial asset;

- for any part exceeding total writedowns, the impairment loss on the financial asset is recognized directly in profit or loss.

Any recoveries from collection after the recognition of the writeoff are recognized in profit or loss as writebacks.

Writeoffs recognized for unrecoverability refer to cases in which the Bank is in possession of documentation certifying the significant probability that the loan may not be recovered, in whole or in part. Specifically, the irrecoverable status of the loan must be attested to by certain and specific circumstances, such as for example:

- the obligor, co-obligors and/or connected guarantors are untraceable or destitute;
- there has been no recovery from enforcement of guarantees or collateral and seizures;
- the period of limitations has passed;
- insolvency proceedings have been closed with incomplete restitution for the bank, in the absence of further guarantees that could be enforced;
- it is impossible to take further action in consideration of the overall financial position and income situation of the obligors and co-obligors (guarantors included);
- all legal or out-of-court actions have, following a careful examination of updated documentation (by way of partial example, commercial information, title searches, searches, etc.), already been carried out or are deemed inappropriate.

Writeoffs recognized because further action would be uneconomic occur when it is recognized, and can be demonstrated, that the costs related to the continuation of loan recovery actions (for example: legal, administrative and other costs) would exceed the value of the financial asset that is expected to be recovered.

3.3 FINANCIAL ASSETS PURCHASED OR ORIGINATED CREDIT-IMPAIRED

Financial assets 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

Renegotiations of financial instruments that result in a change in the contractual conditions may be associated with:

- commercial initiatives that may be defined specifically for each customer or applied to categories of customer, perhaps as a result of dedicated initiatives promoted by public bodies or banking associations;
- the renegotiation of financial instruments prompted by the debtor's financial difficulties (forbearance).

The key objective of granting forbearance measures is to pave the way for non-performing borrowers to exit their non-performing status, or to prevent performing borrowers from reaching a non-performing status. Forbearance measures should always aim to return the exposure to a situation of sustainable repayment.

The status of forborne must be associated with the individual exposure. Accordingly, a forborne exposure can be classified as performing forborne or non-performing forborne depending on the status of the counterparty to which these exposures are attributable.

In order to classify new concessions granted to a customer as forbearance measures, the following must occur:

- compliance of the measures with the notion of "forbearance" provided for in Regulation (EU) 227/2015;
- the borrower must currently or prospectively be in a situation of financial difficulty at the date of the measure is approved.

The applicable regulations define the following concessions to be potentially identifiable as forbearance*:*

- contract modifications granted by a bank in favor of a debtor solely in consideration of the debtor's financial difficulties;
- the grant of total or partial refinancing by a bank to a debtor in financial difficulties in order to enable the debtor to repay an existing obligation to the bank; this case also includes additional finance operations aimed at the completion-optimization of an existing obligation to the bank;
- contract modifications that can be requested by a debtor under the terms of a contract already agreed by the Bank in the knowledge that the debtor is experiencing financial difficulties (embedded forbearance clauses).

Concessions qualifying as forbearance measures, regardless of the form adopted (renegotiation or refinancing) must therefore give the borrower more favorable treatment compared with to the contractual terms originally agreed with the Group company or compared with the terms conditions that would be granted to other borrowers with the same risk profile. Furthermore, they must be exclusively intended to enable the borrower to honor the new commitments and deadlines.

Contract modifications and renegotiations granted solely for commercial reasons/practice do not qualify as forbearance measures since, even though the modification may be a concession measure, the debtor is not experiencing financial difficulties. Debtors can always request modifications to the contractual terms of their loans without experiencing difficulty in meeting their financial obligations.

Loan moratoriums (payment holidays) granted without discrimination between type of obligation or debtor in order to support areas hit by natural disasters also do not qualify as forbearance measures.

Finally, the forbearance measures must always be financially sustainable for the debtor and not increase costs (main and ancillary), as this might qualify the transaction as usury (Article 644, third paragraph, of the Criminal Code).

Forbearance measures may be short- or long-term depending on the temporary or permanent nature of the financial difficulty. In particular, Short-term forbearance measures are defined as restructured repayment conditions of a temporary nature that do not address the resolution of outstanding arrears and generally do not exceed two years.

An assessment of the financial situation of the debtor should not be limited to exposures with apparent signs of financial difficulties. An assessment of financial difficulties should also be conducted for exposures where the debtor does not have apparent financial difficulties, but where market conditions have changed significantly in a way that could impact the ability to repay.

The assessment of any financial difficulties on the part of a debtor should be based on the situation of the debtor only, disregarding collateral or any guarantees provided by third parties. Furthermore, the notion of "debtor" should include all the natural and legal persons belonging to the debtor's group: the assessment must comprise such persons in order to determine whether situations of difficulty at the group level could compromise the capacity of the debtor to fulfill its obligations to the Group lender.

For a description of the impact of the economic support measures implemented by the government and trade associations on the SICR assessment process and on the measurement of expected credit losses, please see section 2.3 Methods for measuring expected credit losses.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 - IMPAIRED AND PERFORMING CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR

A.1.1 - PRUDENTIAL CONSOLIDATION - DISTRIBUTION OF FINANCIAL ASSETS BY TIME PAST DUE (CARRYING AMOUNT)

	Stage 1			Stage 2			Stage 3			Purchased or originated credit impaired		
	Up to 30 days	From 30 to 90 days	More than 90 days	Up to 30 days	From 30 to 90 days	More than 90 days	Up to 30 days	From 30 to 90 days	More than 90 days	Up to 30 days	From 30 to 90 days	More than 90 days
1. Financial assets measured at amortized cost	1,063,193	23,852	19,815	400,846	176,811	38,303	132,774	137,891	1,201,509	1,385	-	4,269
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total 31/12/2021	**1,063,193**	**23,852**	**19,815**	**400,846**	**176,811**	**38,303**	**132,774**	**137,891**	**1,201,509**	**1,385**	**-**	**4,269**
Total 31/12/2020	**917,266**	**14,485**	**18,516**	**341,270**	**266,347**	**137,401**	**163,399**	**148,897**	**2,334,969**	**88**	**40**	**21,018**

A.1.2 - PRUDENTIAL CONSOLIDATION - FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND GUARANTEES ISSUED: DEVELOPMENTS IN TOTAL WRITEDOWNS AND TOTAL PROVISIONS

	Total writedowns																	
	Stage 1						Stage 2						Stage 3					
	Demand claims on banks and central banks	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual writedowns	of which: collective writedowns	Demand claims on banks and central banks	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual writedowns	of which: collective writedowns	Demand claims on banks and central banks	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual writedowns	of which: collective writedowns
Opening balance	**2,060**	**299,913**	**2,401**	**3**	**2,434**	**301,944**	**2,161**	**604,921**	**6,348**	**-**	**11,103**	**602,324**	**-**	**4,687,123**	**12**	**-**	**4,585,278**	**101,858**
Increases in financial assets purchased or originated	1	4,131	312	-	203	4,242	-	7,118	1,058	-	3	8,173	-	146	-	-	146	-
Derecognition other than write-offs	-	(4,876)	(504)	-	(150)	(5,230)	-	(5,875)	(1,802)	-	(12)	(7,665)	-	(794,990)	(2)	-	(792,235)	(2,756)
Net writedowns/writebacks for credit risk	(1,106)	216,444	128	-	2,658	212,808	(1,092)	138,400	2,638	677	4,483	136,139	-	537,737	(5)	-	518,204	19,528
Contractual modifications without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	460	-	-	460	-
Change in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Writeoffs not recognized directly through profit or loss	-	(22)	-	-	-	(22)	-	(89)	-	-	-	(89)	-	(380,382)	(5)	-	(377,077)	(3,310)
Other changes	654	(7,293)	(33)	-	(93)	(6,583)	385	(7,986)	17	-	(3,240)	(4,341)	-	(20,457)	-	-	(20,479)	23
Closing balance	**1,609**	**508,296**	**2,303**	**3**	**5,051**	**507,157**	**1,453**	**736,487**	**8,259**	**677**	**12,336**	**734,541**	**-**	**4,029,638**	**-**	**-**	**3,914,296**	**115,343**
Recoveries from collection on written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	1,026	-	-	1,026	-
Writeoffs recognized directly through profit or loss	-	(1,347)	-	-	-	(1,347)	-	(85)	-	-	(4)	(81)	(5)	(35,967)	(11)	-	(32,244)	(3,738)

	Total writedowns					Total provisions for commitments to disburse funds and financial guarantees issued				
	Financial assets purchased or originated credit impaired									
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual writedowns	of which: collective writedowns	Stage 1	Stage 2	Stage 3	Commitments to disburse funds and financial guarantees purchased or originated credit impaired	Total
Opening balance	**16,330**	**-**	**-**	**16,278**	**78**	**88,200**	**51,166**	**92,874**	**-**	**5,853,511**
Increases in financial assets purchased or originated	X	X	X	X	X	-	-	-	-	**12,766**
Derecognition other than write-offs	(983)	-	-	(982)	(1)	(85)	(26)	(621)	-	**(809,763)**
Net writedowns/writebacks for credit risk	248	-	-	251	(3)	47,130	34,445	2,481	-	**978,124**
Contractual modifications without derecognition	-	-	-	-	-	-	-	-	-	**460**
Change in estimation method	-	-	-	-	-	-	-	-	-	**-**
Writeoffs not recognized directly through profit or loss	(281)	-	-	(281)	-	-	-	-	-	**(380,780)**
Other changes	(2,548)	-	-	(2,575)	-	(3,803)	(10,476)	(8,102)	-	**(59,643)**
Closing balance	**12,766**	**-**	**-**	**12,691**	**74**	**131,442**	**75,109**	**86,632**	**-**	**5,594,674**
Recoveries from collection on written-off financial assets	-	-	-	-	-	-	-	-	-	**(1,026)**
Writeoffs recognized directly through profit or loss	(15)	-	-	(15)	-	-	-	-	-	**(37,429)**

A.1.3 - CONSOLIDATION - FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED: TRANSFERS BETWEEN CREDIT RISK STAGES (GROSS AND NOMINAL VALUES)

	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortized cost	9,447,224	4,905,569	1,364,276	679,846	765,271	130,007
2. Financial assets measured at fair value through other comprehensive income	12,141	12,219	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	720,123	892,408	25,407	9,550	44,435	13,233
Total 31/12/2021	10,179,488	5,810,197	1,389,683	689,395	809,706	143,241
Total 31/12/2020	4,657,531	5,255,474	615,393	288,570	364,341	74,496

A.1.3A - LOANS INVOLVED IN COVID-19 SUPPORT MEASURES: TRANSFERS BETWEEN CREDIT RISK STAGES (GROSS VALUES)

	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
A. Loans measured at amortized cost	**812,755**	**62,527**	**68,606**	**6,536**	**75,082**	**4,621**
A.1 Loans subject to forbearance measures compliant with guidelines	725,889	17,180	54,965	2,171	19,394	53
A.2 Loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures	858	-	569	68	-	-
A.3 Loans subject to other forbearance measures	46,699	17,241	11,521	4,272	5,209	63
A.4 New loans	39,309	28,106	1,552	25	50,479	4,505
B. Loans measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Loans subject to forbearance measures compliant with guidelines	-	-	-	-	-	-
B.2 Loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures	-	-	-	-	-	-
B.3 Loans subject to other forbearance measures	-	-	-	-	-	-
B.4 New loans	-	-	-	-	-	-
Total 31/12/2021	812,755	62,527	68,606	6,536	75,082	4,621
Total 31/12/2020	593,039	715,471	60,574	35,097	39,604	4,578

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	**875,878**	**645,931**	**229,947**	**-**	**-**	**2,940**	**1,487**	**1,453**	**-**	**-**	**872,938**	**-**
a) Impaired	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	875,878	645,931	229,947	X	-	2,940	1,487	1,453	X	-	872,938	-
A.2 Other	**9,741,793**	**8,989,419**	**672,500**	**1,292**	**-**	**15,124**	**2,308**	**11,746**	**1,072**	**-**	**9,726,668**	**-**
a) Bad loans	16	X	-	-	-	-	X	-	-	-	16	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely to be repaid	1,292	X	-	1,292	-	1,072	X	-	1,072	-	220	-
- of which: forborne exposures	519	X	-	519	-	517	X	-	517	-	2	-
c) Impaired past due exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past due exposures	86	-	86	X	-	3	-	3	X	-	83	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing assets	9,740,398	8,989,419	672,414	X	-	14,049	2,308	11,742	X	-	9,726,349	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
Total (A)	**10,617,671**	**9,635,350**	**902,447**	**1,292**	**-**	**18,064**	**3,795**	**13,199**	**1,072**	**-**	**10,599,607**	**-**
B. Off-balance-sheet exposures												
a) Impaired	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	646,925	442,938	60,421	X	-	70,910	66,122	4,787	X	-	576,015	-
Total (B)	**646,925**	**442,938**	**60,421**	**-**	**-**	**70,910**	**66,122**	**4,787**	**-**	**-**	**576,015**	**-**
Total (A+B)	**11,264,596**	**10,078,288**	**962,868**	**1,292**	**-**	**88,974**	**69,917**	**17,986**	**1,072**	**-**	**11,175,622**	**-**

* 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						
		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Net exposure	Total partial writeoffs *
A. On-balance-sheet exposures												
a) Bad loans	2,834,554	X	-	2,832,418	2,110	2,234,340	X	-	2,232,401	1,922	600,215	274,478
- of which: forborne exposures	555,379	X	-	554,125	1,228	386,766	X	-	385,553	1,197	168,613	30,403
b) Unlikely to be repaid	3,191,274	X	-	3,186,475	4,798	1,718,628	X	-	1,715,805	2,822	1,472,646	8,207
- of which: forborne exposures	1,880,324	X	-	1,877,026	3,298	989,334	X	-	987,644	1,690	890,989	6,776
c) Impaired past due exposures	420,830	X	-	420,830	-	88,131	X	-	88,131	-	332,699	215
- of which: forborne exposures	63,870	X	-	63,870	-	12,488	X	-	12,488	-	51,382	-
d) Performing past due exposures	1,790,431	1,117,130	668,389	X	26	62,783	10,269	52,513	X	17	1,727,648	-
- of which: forborne exposures	159,211	2,836	156,374	X	-	11,803	14	11,789	X	-	147,407	-
e) Other performing assets	154,560,075	142,241,677	11,140,585	X	1,207	1,178,743	498,018	680,650	X	74	153,381,332	170
- of which: forborne exposures	2,425,350	30,727	2,394,287	X	335	171,657	188	171,453	X	15	2,253,693	-
Total (A)	**162,797,164**	**143,358,807**	**11,808,974**	**6,439,723**	**8,141**	**5,282,626**	**508,288**	**733,163**	**4,036,338**	**4,835**	**157,514,539**	**283,070**
B. Off-balance-sheet exposures												
a) Impaired	301,476	X	-	301,476	-	86,632	X	-	86,632	-	214,844	-
b) Performing	24,415,933	21,791,992	2,162,964	X	-	136,628	66,561	69,438	X	-	24,279,305	-
Total (B)	**24,717,408**	**21,791,992**	**2,162,964**	**301,476**	**-**	**223,259**	**66,561**	**69,438**	**86,632**	**-**	**24,494,149**	**-**
Total (A+B)	**187,514,573**	**165,150,798**	**13,971,938**	**6,741,199**	**8,141**	**5,505,885**	**574,849**	**802,601**	**4,122,969**	**4,835**	**182,008,688**	**283,070**

* Values to be reported for information purposes

A.1.5A LOANS INVOLVED IN COVID-19 SUPPORT MEASURES: 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. Bad loans	**3,190**	**-**	**-**	**3,190**	**-**	**2,374**	**-**	**-**	**2,374**	**-**	**816**	**-**
a) Loans subject to forbearance measures compliant with guidelines	786	-	-	786	-	548	-	-	548	-	238	-
b) Loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures	135	-	-	135	-	109	-	-	109	-	27	-
c) Loans subject to other forbearance measures	2,021	-	-	2,021	-	1,684	-	-	1,684	-	337	-
d) New loans	248	-	-	248	-	34	-	-	34	-	214	-
B. Unlikely to pay	**214,905**	**-**	**-**	**214,807**	**-**	**94,102**	**-**	**-**	**93,550**	**-**	**120,803**	**8**
a) Loans subject to forbearance measures compliant with guidelines	109,356	-	-	109,280	-	42,582	-	-	42,531	-	66,774	8
b) Loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures	1,020	-	-	1,020	-	531	-	-	531	-	489	-
c) Loans subject to other forbearance measures	58,707	-	-	58,707	-	37,727	-	-	37,727	-	20,980	-
d) New loans	45,822	-	-	45,801	-	13,262	-	-	12,761	-	32,561	-
C. Impaired past due	**29,289**	**-**	**-**	**29,226**	**-**	**5,625**	**-**	**-**	**5,575**	**-**	**23,664**	**-**
a) Loans subject to forbearance measures compliant with guidelines	6,890	-	-	6,890	-	1,192	-	-	1,192	-	5,698	-
b) Loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures	71	-	-	71	-	25	-	-	25	-	46	-
c) Loans subject to other forbearance measures	2,331	-	-	2,331	-	922	-	-	922	-	1,409	-
d) New loans	19,997	-	-	19,935	-	3,485	-	-	3,435	-	16,512	-
D. Performing past-due	**94,528**	**75,291**	**12,918**	**-**	**-**	**1,060**	**232**	**813**	**-**	**-**	**93,467**	**-**
a) Loans subject to forbearance measures compliant with guidelines	7,904	2,091	5,813	-	-	371	23	348	-	-	7,534	-
b) Loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures	109	-	109	-	-	3	-	3	-	-	106	-
c) Loans subject to other forbearance measures	7,122	616	6,506	-	-	381	18	363	-	-	6,741	-
d) New loans	79,392	72,584	489	-	-	306	192	99	-	-	79,086	-
E. Other performing	**10,221,244**	**8,624,515**	**1,595,960**	**-**	**-**	**114,554**	**19,490**	**94,989**	**-**	**-**	**10,106,690**	**-**
a) Loans subject to forbearance measures compliant with guidelines	2,081,386	667,598	1,413,019	-	-	88,524	6,781	81,733	-	-	1,992,861	-
b) Loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures	12,622	316	12,305	-	-	324	7	317	-	-	12,298	-
c) Loans subject to other forbearance measures	169,019	59,228	109,790	-	-	9,292	1,398	7,894	-	-	159,727	-
d) New loans	7,958,218	7,897,372	60,846	-	-	16,414	11,304	5,045	-	-	7,941,804	-
Total (A+B+C+D+E)	**10,563,155**	**8,699,806**	**1,608,878**	**247,224**	**-**	**217,714**	**19,722**	**95,802**	**101,498**	**-**	**10,345,441**	**8**

* Values to be reported for information purposes

A.1.6 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS IMPAIRED POSITIONS

	Bad loans	Unlikely to pay	Impaired past-due
A. Opening gross exposure	**16**	**1,071**	**-**
- of which: exposures assigned but not derecognized	-	104	-
B. Increases	**-**	**221**	**-**
B.1 from performing exposures	-	-	-
B.2 from purchased or originated impaired financial assets	-	-	-
B.3 from other categories of impaired exposures	-	-	-
B.4 contractual modifications without derecognition	-	-	-
B.5 other increases	-	221	-
C. Decreases	**-**	**-**	**-**
C.1 to performing exposures	-	-	-
C.2 writeoffs	-	-	-
C.3 collections	-	-	-
C.4 realization from disposal	-	-	-
C.5 losses on disposals	-	-	-
C.6 to other categories of impaired exposures	-	-	-
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross exposure	**16**	**1,292**	**-**
- of which: exposures assigned but not derecognized	-	-	-

A.1.6 BIS - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS FORBORNE EXPOSURES BY CREDIT QUALITY

	Impaired forborne exposures	Performing forborne exposures
A. Opening gross exposure	**305**	**-**
- of which: exposures assigned but not derecognized	-	-
B. Increases	**214**	**-**
B.1 from performing exposures with no forbearance	-	-
B.2 from performing exposures with forbearance	-	X
B.3 from impaired exposures with forbearance	X	-
B.4 from impaired exposures with no forbearance	-	-
B.5 other increases	214	-
C. Decreases	**-**	**-**
C.1 to performing exposures with no forbearance	X	-
C.2 to performing exposures with forbearance	-	X
C.3 to impaired exposures with forbearance	X	-
C.4 writeoffs	-	-
C.5 collections	-	-
C.6 realization from disposal	-	-
C.7 losses on disposals	-	-
C.8 other decreases	-	-
D. Closing gross exposure	**519**	**-**
- of which: exposures assigned but not derecognized	-	-

A.1.7 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS IMPAIRED POSITIONS

	Bad loans	Unlikely to pay	Impaired past-due
A. Opening gross exposure	**4,053,593**	**4,132,566**	**258,140**
- of which: exposures assigned but not derecognized	9,232	31,839	1,314
B. Increases	**834,870**	**1,304,392**	**405,955**
B.1 from performing exposures	75,428	737,282	347,364
B.2 from purchased or originated impaired financial assets	-	-	-
B.3 from other categories of impaired exposures	547,078	102,903	9,297
B.4 contractual modifications without derecognition	828	3,053	80
B.5 other increases	211,536	461,153	49,214
C. Decreases	**2,053,909**	**2,245,684**	**243,265**
C.1 to performing exposures	317	334,500	36,137
C.2 writeoffs	321,860	49,273	715
C.3 collections	495,781	685,621	77,946
C.4 realized on disposals	311,547	138,174	4,952
C.5 losses on disposals	220,403	51,305	2,789
C.6 to other categories of impaired exposures	23,750	532,398	103,131
C.7 contractual modifications without derecognition	-	26	2,081
C.8 other decreases	680,251	454,387	15,514
D. Closing gross exposure	**2,834,555**	**3,191,275**	**420,830**
- of which: exposures assigned but not derecognized	10,224	31,638	3,531

A.1.7 BIS - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS FORBORNE EXPOSURES BY CREDIT QUALITY

	Impaired forborne exposures	Performing forborne exposures
A. Opening gross exposure	**3,190,351**	**1,655,259**
- of which: exposures assigned but not derecognized	33,942	19,682
B. Increases	**925,869**	**1,849,780**
B.1 from performing exposures with no forbearance	301,475	1,600,742
B.2 from performing exposures with forbearance	196,227	X
B.3 from impaired exposures with forbearance	X	221,425
B.4 from impaired exposures with no forbearance	26,591	111
B.5 other increases	401,576	27,502
C. Decreases	**1,616,646**	**920,478**
C.1 to performing exposures with no forbearance	X	404,584
C.2 to performing exposures with forbearance	221,425	X
C.3 to impaired exposures with forbearance	X	196,227
C.4 writeoffs	78,375	158
C.5 collections	484,695	268,178
C.6 realization from disposal	192,153	2,657
C.7 losses on disposals	86,176	-
C.8 other decreases	553,822	48,674
D. Closing gross exposure	**2,499,573**	**2,584,560**
- of which: exposures assigned but not derecognized	52,418	74,384

A.1.8 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET IMPAIRED CREDIT EXPOSURES TO BANKS: CHANGE IN TOTAL ADJUSTMENTS

	Bad loans		Unlikely to be repaid		Impaired past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**-**	**-**	**658**	**304**	**-**	**-**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-
B. Increases	**-**	**-**	**414**	**214**	**-**	**-**
B.1 writedowns of purchased or originated credit-impaired assets	-	X	200	X	-	X
B.2 other writedowns	-	-	214	214	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 from other categories of impaired positions	-	-	-	-	-	-
B.5 contractual modifications without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 writebacks from valuations	-	-	-	-	-	-
C.2 writebacks from collections	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 writeoffs	-	-	-	-	-	-
C.5 to other categories of impaired positions	-	-	-	-	-	-
C.6 contractual modifications without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Total closing adjustments	**-**	**-**	**1,072**	**517**	**-**	**-**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-

A.1.9 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET IMPAIRED CREDIT EXPOSURES TO CUSTOMERS: CHANGE IN TOTAL ADJUSTMENTS

	Bad loans		Unlikely to be repaid		Impaired past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**2,853,548**	**487,493**	**1,803,514**	**969,194**	**45,667**	**10,589**
- of which: exposures assigned but not derecognized	4,348	176	9,536	3,732	48	1
B. Increases	**926,293**	**263,491**	**1,003,587**	**599,594**	**86,668**	**13,236**
B.1 writedowns of purchased or originated credit-impaired assets	7	X	-	X	-	X
B.2 other writedowns	484,949	115,037	821,127	478,994	78,861	12,312
B.3 losses on disposal	66,824	20,661	23,039	13,484	62	-
B.4 from other categories of impaired positions	250,193	97,462	22,690	8,718	3,829	205
B.5 contractual modifications without derecognition	-	-	-	-	-	-
B.6 other increases	124,321	30,332	136,731	98,397	3,917	718
C. Decreases	**1,545,501**	**364,218**	**1,088,472**	**579,454**	**44,204**	**11,337**
C.1 writebacks from valuations	100,023	19,403	86,805	46,424	4,338	979
C.2 writebacks from collections	310,425	50,841	260,851	135,321	8,520	341
C.3 gains on disposal	71,971	19,236	21,501	14,523	199	-
C.4 writeoffs	321,860	51,021	49,273	27,350	715	5
C.5 to other categories of impaired positions	5,679	2,740	248,494	96,537	22,538	7,109
C.6 contractual modifications without derecognition	-	-	-	-	-	-
C.7 other decreases	735,544	220,977	421,549	259,299	7,894	2,903
D. Total closing adjustments	**2,234,340**	**386,766**	**1,718,628**	**989,334**	**88,131**	**12,488**
- of which: exposures assigned but not derecognized	7,705	481	13,927	6,213	225	1

A.2 - CLASSIFICATION OF EXPOSURES ON THE BASIS OF EXTERNAL AND INTERNAL RATINGS

A.2.1 - PRUDENTIAL CONSOLIDATION - DISTRIBUTION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BY EXTERNAL RATING GRADES (GROSS VALUES)

	External rating grades						Not rated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortized cost	**97,197**	**160,064**	**59,789,358**	**716,866**	**164,074**	**5,908**	**103,584,302**	**164,517,769**
- Stage 1	58,415	46,139	59,192,484	467,093	151,211	2,760	85,849,065	145,767,168
- Stage 2	38,782	113,924	595,038	249,638	12,863	3,148	11,288,103	12,301,497
- Stage 3	-	-	1,836	135	-	-	6,438,993	6,440,963
- purchased or originated credit-impaired assets	-	-	-	-	-	-	8,141	8,141
B. Financial assets measured at fair value through other comprehensive income	**15,289**	**24,526**	**7,183,763**	**111,516**	**11,487**	**12,547**	**182,109**	**7,541,238**
- Stage 1	13,200	23,451	7,152,363	34,251	14	-	132,357	7,355,635
- Stage 2	2,090	1,076	31,401	77,257	11,473	12,547	49,704	185,548
- Stage 3	-	-	-	8	-	-	47	55
- purchased or originated credit-impaired assets	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**1,213**	**1,213**
- Stage 1	-	-	-	-	-	-	1,211	1,211
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	2	2
- purchased or originated credit-impaired assets	-	-	-	-	-	-	-	-
Total (A+B+C)	**112,486**	**184,590**	**66,973,121**	**828,381**	**175,562**	**18,455**	**103,767,624**	**172,060,220**
D. Commitments to disburse funds and financial guarantees issued	**63,243**	**34,372**	**546,647**	**36,281**	**4,045**	**2,242**	**24,138,809**	**24,825,639**
- Stage 1	45,755	27,419	465,291	36,121	1,008	2,238	21,722,903	22,300,735
- Stage 2	17,488	6,953	81,349	160	3,037	5	2,114,437	2,223,429
- Stage 3	-	-	7	-	-	-	301,469	301,476
- purchased or originated credit-impaired assets	-	-	-	-	-	-	-	-
Total (D)	**63,243**	**34,372**	**546,647**	**36,281**	**4,045**	**2,242**	**24,138,809**	**24,825,639**
Total (A+B+C+D)	**175,729**	**218,962**	**67,519,768**	**864,662**	**179,607**	**20,698**	**127,906,433**	**196,885,859**

A.2.2 - PRUDENTIAL CONSOLIDATION - DISTRIBUTION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BY INTERNAL RATING GRADES (GROSS VALUES)

	Internal rating grades							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8
A. Financial assets measured at amortized cost	**2,101,336**	**7,190,131**	**17,660,363**	**14,219,964**	**7,992,013**	**7,934,724**	**7,554,639**	**914,760**
- Stage 1	2,010,368	6,970,490	17,005,925	13,256,971	7,122,867	6,979,835	5,813,305	423,843
- Stage 2	90,968	218,468	650,086	962,271	866,278	933,053	1,732,435	490,422
- Stage 3	-	1,132	4,353	607	2,743	21,836	8,606	495
- purchased or originated credit-impaired assets	-	41	-	115	124	-	293	-
B. Financial assets measured at fair value through other comprehensive income	**28,372**	**308**	**491,450**	**3,391**	**13**	**-**	**-**	**-**
- Stage 1	28,372	308	490,050	160	13	-	-	-
- Stage 2	-	-	1,401	3,231	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
- purchased or originated credit-impaired assets	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
- purchased or originated credit-impaired assets	-	-	-	-	-	-	-	-
Total (A+B+C)	2,129,708	7,190,439	18,151,814	14,223,355	7,992,026	7,934,724	7,554,639	914,760
D. Commitments to disburse funds and financial guarantees issued	**445,891**	**574,606**	**893,583**	**5,887,815**	**3,111,049**	**3,039,637**	**2,182,017**	**188,133**
- Stage 1	425,883	549,094	845,552	5,664,177	2,991,939	2,906,191	1,964,894	146,914
- Stage 2	20,008	25,512	47,732	223,483	118,965	129,548	216,349	41,164
- Stage 3	-	-	300	154	145	3,897	774	54
- purchased or originated credit-impaired assets	-	-	-	-	-	-	-	-
Total (D)	445,891	574,606	893,583	5,887,815	3,111,049	3,039,637	2,182,017	188,133
Total (A+B+C+D)	2,575,599	7,765,045	19,045,397	20,111,171	11,103,075	10,974,360	9,736,656	1,102,893

	Internal rating grades							Total (A+B+C+D)
	Class 9	Class 10	Class 11	Class 12	Class 13	Class 14	Not rated	
A. Financial assets measured at amortized cost	**539,175**	**315,022**	**180,443**	**186,582**	**-**	**-**	**97,728,617**	**164,517,769**
- Stage 1	191,051	29,101	17,468	12,212	-	-	85,933,733	145,767,168
- Stage 2	347,066	285,524	162,945	173,796	-	-	5,388,184	12,301,497
- Stage 3	1,058	396	30	574	-	-	6,399,133	6,440,963
- purchased or originated credit-impaired assets	-	-	-	-	-	-	7,568	8,141
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**7,017,703**	**7,541,238**
- Stage 1	-	-	-	-	-	-	6,836,733	7,355,635
- Stage 2	-	-	-	-	-	-	180,916	185,548
- Stage 3	-	-	-	-	-	-	55	55
- purchased or originated credit-impaired assets	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**1,213**	**1,213**
- Stage 1	-	-	-	-	-	-	1,211	1,211
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	2	2
- purchased or originated credit-impaired assets	-	-	-	-	-	-	-	-
Total (A+B+C)	539,175	315,022	180,443	186,582	-	-	104,747,534	172,060,220
D. Commitments to disburse funds and financial guarantees issued	**111,465**	**37,360**	**29,212**	**17,631**	**-**	**-**	**8,307,240**	**24,825,639**
- Stage 1	59,853	8,118	2,963	940	-	-	6,734,216	22,300,735
- Stage 2	51,611	29,241	26,250	16,691	-	-	1,276,874	2,223,429
- Stage 3	-	1	-	-	-	-	296,151	301,476
- purchased or originated credit-impaired assets	-	-	-	-	-	-	-	-
Total (D)	111,465	37,360	29,212	17,631	-	-	8,307,240	24,825,639
Total (A+B+C+D)	650,639	352,381	209,655	204,213	-	-	113,054,774	196,885,859

A.3 - DISTRIBUTION OF SECURED CREDIT EXPOSURES BY TYPE OF GUARANTEE

A.3.1 - PRUDENTIAL CONSOLIDATION – ON- AND OFF-BALANCE SHEET SECURED CREDIT EXPOSURES TO BANKS

			Collateral (1)				Unsecured guarantees (2)									
							Credit derivatives					Guarantees				
								Other derivatives								
	Gross exposure	Net exposure	Properties - Mortgages	Properties - Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other	Government entities	Banks	Other financial companies	Other	Total (1)+(2)
1. Secured on-balance-sheet credit exposures:	**146,431**	**145,739**	**-**	**-**	**136,848**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**317**	**-**	**7,940**	**145,105**
1.1 fully secured	145,931	145,265	-	-	136,848	-	-	-	-	-	-	-	317	-	7,485	144,650
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	500	474	-	-	-	-	-	-	-	-	-	-	-	-	455	455
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance-sheet credit exposures:	**3,373**	**3,368**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**288**	**3,080**	**3,368**
2.1 fully secured	328	323	-	-	-	-	-	-	-	-	-	-	-	288	35	323
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	3,045	3,045	-	-	-	-	-	-	-	-	-	-	-	-	3,045	3,045
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 - PRUDENTIAL CONSOLIDATION – ON- AND OFF-BALANCE SHEET SECURED CREDIT EXPOSURES TO CUSTOMERS

			Collateral (1)				Unsecured guarantees (2)									
							Credit derivatives					Guarantees				
								Other derivatives								
	Gross exposure	Net exposure	Properties - Mortgages	Properties - Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other	Government entities	Banks	Other financial companies	Other	Total (1)+(2)
1. Secured on-balance-sheet credit exposures:	**81,661,924**	**77,134,941**	**47,516,402**	**2,361,611**	**525,624**	**2,169,645**	**-**	**-**	**-**	**-**	**-**	**14,149,849**	**144,585**	**469,118**	**8,220,843**	**75,557,678**
1.1 fully secured	71,598,719	67,481,082	46,882,188	2,320,096	441,193	1,971,618	-	-	-	-	-	7,387,160	100,144	345,395	7,911,193	67,358,988
- of which: impaired	5,307,975	2,085,173	1,664,948	138,167	2,708	33,301	-	-	-	-	-	92,742	314	17,693	135,296	2,085,168
1.2 partially secured	10,063,205	9,653,859	634,214	41,515	84,431	198,027	-	-	-	-	-	6,762,689	44,441	123,723	309,650	8,198,690
- of which: impaired	518,999	176,992	91,632	276	1,306	3,222	-	-	-	-	-	50,279	26	4,452	13,670	164,862
2. Secured off-balance-sheet credit exposures:	**9,636,073**	**9,553,614**	**6,655**	**-**	**250,882**	**303,354**	**-**	**-**	**-**	**-**	**38**	**626,914**	**23,627**	**58,619**	**7,888,676**	**9,158,766**
2.1 fully secured	7,684,379	7,634,450	6,655	-	241,004	254,412	-	-	-	-	-	222,893	6,317	36,531	6,865,203	7,633,013
- of which: impaired	67,879	38,611	388	-	93	3,288	-	-	-	-	-	1,642	350	244	32,538	38,542
2.2 partially secured	1,951,694	1,919,164	-	-	9,879	48,942	-	-	-	-	38	404,021	17,310	22,088	1,023,473	1,525,752
- of which: impaired	85,289	71,826	-	-	92	1,665	-	-	-	-	-	3,967	86	1,531	61,847	69,189

A.4 - PRUDENTIAL CONSOLIDATION - FINANCIAL AND NON-FINANCIAL ASSETS OBTAINED THROUGH ENFORCEMENT OF GUARANTEES RECEIVED

	Derecognized credit exposure	Gross value	Total writedowns	Carrying amount	
					of which obtained during the year
A. Property, plant and equipment	**85,441**	**99,733**	**17,454**	**82,279**	**2,363**
A.1. Used in operations	740	1,493	72	1,421	-
A.2. Investment property	34,493	43,692	8,873	34,819	385
A.3. Inventories	50,209	54,548	8,510	46,038	1,979
B. Equity and debt securities	**-**	**-**	**-**	**-**	**-**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets and disposal groups held for sale	**4,998**	**10,944**	**657**	**10,287**	**323**
D.1. Property, plant and equipment	4,998	10,944	657	10,287	323
D.2. Other assets	-	-	-	-	-
Total 31/12/2021	**90,440**	**110,677**	**18,111**	**92,566**	**2,686**
Total 31/12/2020	**107,905**	**122,678**	**13,949**	**108,729**	**9,665**

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY SECTOR

	Government entities		Financial companies		Financial companies (of which: insurance undertakings)	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance sheet						
A.1 Bad loans	16	-	924	5,957	-	-
- of which: forborne exposures	-	-	617	1,447	-	-
A.2 Unlikely to be repaid	5	35	8,909	16,056	-	-
- of which: forborne exposures	-	-	3,936	4,861	-	-
A.3 Impaired past due exposures	7,336	37	1,955	314	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	66,331,217	20,576	5,684,004	95,039	147,222	-
- of which: forborne exposures	10,657		21,628	329	-	-
Total (A)	**66,338,574**	**20,648**	**5,695,792**	**117,366**	**147,222**	**-**
B. Off-balance sheet						
B.1 Impaired exposures	530	20	1,962	79	-	-
B.2 Performing exposures	932,763	1,912	435,400	8,297	-	-
Total (B)	**933,293**	**1,932**	**437,363**	**8,376**	**-**	**-**
Total (A+B) 31/12/2021	**67,271,867**	**22,580**	**6,133,155**	**125,742**	**147,222**	**-**
Total (A+B) 31/12/2020	**63,824,125**	**17,706**	**8,206,402**	**142,872**	**146,229**	**-**

	Non-financial companies		Households	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance sheet				
A.1 Bad loans	372,482	1,558,923	226,793	669,459
- of which: forborne exposures	106,539	266,033	61,456	119,286
A.2 Unlikely to be repaid	874,701	1,215,447	589,031	487,091
- of which: forborne exposures	550,689	725,384	336,364	259,090
A.3 Impaired past due exposures	103,847	27,515	219,561	60,265
- of which: forborne exposures	16,838	5,311	34,544	7,177
A.4 Performing exposures	41,882,676	684,563	41,210,268	441,348
- of which: forborne exposures	1,503,039	128,978	865,623	53,870
Total (A) Total (A)	**43,233,706**	**3,486,449**	**42,245,653**	**1,658,163**
B. Off-balance sheet				
B.1 Impaired exposures	183,544	79,815	28,808	6,717
B.2 Performing exposures	18,847,123	100,677	3,646,609	25,742
Total (B)	**19,030,667**	**180,492**	**3,675,417**	**32,459**
Total (A+B) 31/12/2021	**62,264,373**	**3,666,941**	**45,921,070**	**1,690,622**
Total (A+B) 31/12/2020	**61,264,701**	**4,023,058**	**44,100,530**	**1,598,273**

B.2 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY GEOGRAPHICAL AREA

		Italy		Other European countries		Americas	
		Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet							
A.1 Bad loans		599,262	2,230,236	719	2,298	28	1,712
A.2 Unlikely to be repaid		1,466,796	1,710,115	4,914	5,068	854	1,002
A.3 Impaired past due exposures		325,748	87,328	2,475	330	2,601	473
A.4 Performing exposures		154,292,797	1,233,679	643,926	6,161	111,169	1,485
	Total A	156,684,603	5,261,357	652,035	13,857	114,652	4,673
B. Off-balance-sheet							
B.1 Impaired exposures		214,777	86,631	38	-	2	-
B.2 Performing exposures		23,743,087	133,182	93,353	2,993	7,764	146
	Total (B)	23,957,864	219,813	93,391	2,993	7,766	146
Total (A+B)	31/12/2021	180,642,467	5,481,170	745,425	16,850	122,418	4,820
Total (A+B)	31/12/2020	176,522,607	5,769,153	731,037	9,323	86,476	2,724

		Asia		Rest of the world	
		Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet					
A.1 Bad loans		-	12	206	81
A.2 Unlikely to be repaid		73	2,440	8	3
A.3 Impaired past due exposures		-	-	1,874	-
A.4 Performing exposures		43,448	118	16,824	83
	Total A	43,521	2,570	18,912	168
B. Off-balance-sheet					
B.1 Impaired exposures		15	-	12	-
B.2 Performing exposures		7,045	3	10,646	304
	Total (B)	7,060	3	10,658	304
Total (A+B)	31/12/2021	50,582	2,573	29,569	472
Total (A+B)	31/12/2020	21,915	116	33,721	593

B.3 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS BY GEOGRAPHICAL AREA

	Italy		Other European countries		Americas	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet						
A.1 Bad loans	-	-	16	-	-	-
A.2 Unlikely to be repaid	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-
A.4 Performing exposures	10,842,182	13,864	495,019	2,252	22,440	687
Total (A)	**10.842.182**	**13,864**	**495,035**	**2,252**	**22,440**	**687**
B. Off-balance-sheet						
B.1 Impaired exposures	-	-	-	-	-	-
B.2 Performing exposures	565,187	70,687	41,764	8	3,100	1
Total (B)	**565.187**	**70,687**	**41,764**	**8**	**3,100**	**1**
Total (A+B) 31/12/2021	**11,407,370**	**84,551**	**536,799**	**2,260**	**25,540**	**688**
Total (A+B) 31/12/2020	**13,032,336**	**69,034**	**607,647**	**1,218**	**28,945**	**486**

	Asia		Rest of the world	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet				
A.1 Bad loans	-	-	-	-
A.2 Unlikely to be repaid	-	-	220	1.072
A.3 Impaired past due exposures	-	-	-	-
A.4 Performing exposures	1,213	3	19,821	187
Total (A)	**1.213**	**3**	**20,041**	**1,258**
B. Off-balance-sheet				
B.1 Impaired exposures	-	-	-	-
B.2 Performing exposures	1,745	3	4,115	211
Total (B)	**1,745**	**3**	**4,115**	**211**
Total (A+B) 31/12/2021	**2,958**	**6**	**24,156**	**1,470**
Total (A+B) 31/12/2020	**3,731**	**7**	**22,158**	**676**

B.4 LARGE EXPOSURES

The rules governing the concentration of exposures define a large exposure as one to a customer or group of connected customers that (regardless of the weighted position) is equal to or greater than 10% of the eligible capital of the reporting entity. In addition, at the consolidated level, reporting entities must report:

- the ten largest exposures to exposures to government agencies and the ten largest exposures to unregulated entities operating in the financial sector;
- exposures equal to or greater than €300 million but less than 10% of the entity's Tier 1 capital.

The following reports exposures associated with individual positions or groups of connected customers included in the report of large exposures.

The following represents the situation at December 31, 2021:

- number of positions: 27;
- value of exposure: €96,713 million;
- weighted value: €4,261 million.

C. SECURITIZATIONS

QUALITATIVE DISCLOSURES

In accordance with the definitions provided for in prudential regulations, the Group operates in the securitization market as both an originator, through the assignment of loans to special purpose vehicles (SPVs) for the issue of notes in its own securitizations, and an investor, subscribing the notes issued by third parties in their securitizations.

Own securitizations can be broken down as follows:

- securitization transactions whose notes are placed in whole or in part on the market and originated in order to generate economic benefits from the optimization of the loan portfolio, the diversification of funding sources, the reduction of their cost and the alignment the natural maturities of assets with those of liabilities (securitizations in the strict sense);
- securitization transactions whose notes are retained entirely by the originator and are intended to diversify and leverage available funding tools, through the transformation of the assigned loans into refinanceable securities (self-securitizations). Self-securitization transactions are part of the more general policy of strengthening the Group's liquidity position and do not form part of securitizations in the strict sense since they do not transfer risks outside the Group. For this reason, qualitative information and numerical data on these operations are not included in this section, in accordance with the Bank of Italy instructions contained in Circular 262/2005.

OWN SECURITIZATIONS

The following provides disclosures on own securitizations carried out by the Group and still outstanding at the reporting date, distinguishing between operations carried out during the year and those carried out in previous years.

OWN SECURITIZATIONS CARRIED OUT DURING THE YEAR

"GACS V" SECURITIZATION

In November 2021 a multi-originator securitization was completed (the fifth of its kind for the Group) with the presentation to the Ministry for the Economy and Finance (MEF) of a preliminary application for admission to the State Guarantee Scheme on the liabilities issued (so-called "GACS" – Guarantee of Securitizations of Bad Loans) pursuant to Decree Law 18 of February 14, 2016, ratified with Law 49 of April 8, 2016, subsequently implemented with the MEF Decree of August 3, 2016, the MEF Decree of November 21, 2017 and the MEF Decree of October 10, 2018 and subsequently amended by Law 41 of May 20, 2019 ratifying Decree Law 22 of March 25, 2019 with amendments and the extension decree of the MEF of July 15, 2021.

The operation involved Iccrea Banca (participating as assignor, promotor and joint arranger), BancaImpresa, Mediocredito FVG and 71 other mutual banks belonging to the ICBG and three banks not belonging to the Group (Banca Ifis, Cassa di Risparmio di Asti and Guber Banca) in the sale pursuant to Law 130 of April 30, 1999 of the same number of portfolios of unsecured loans and mortgage loans, mainly backed by first mortgages, classified as bad loans at the date of sale, and receivables in respect of finance leases due to debtors classified as bad loans for a total of about €1.3 billion at the date of the transaction took financial effect, to a specifically established securitization vehicle company called "BCC NPLs 2021 Srl", which simultaneously granted a management engagement to a third-party servicer independent of the ICBG.

The transaction was carried out with the aim of reducing the stock of bad loans, thereby decreasing their impact on total assets and, consequently, improving the company risk profile.

On November 16, 2021, the SPV purchased the il portfolio from the assignor banks, financed through the issue of asset-backed securities, pursuant to the combined provisions of Articles 1 and 5 of Law 130, in the total nominal value of €336.5 million, divided into the classes indicated below:

- €284 million of Senior Notes, maturing in January 2046, rated Baa2, BBB and BBB respectively by Moody's Italia Srl, Scope Ratings and ARC Ratings;
- €39.5 million of Mezzanine Notes, maturing in January 2046, rated Caa2, CCC and CCC+ respectively by Moody's Italia Srl e Scope Ratings e ARC Ratings;
- €13 million of Junior Notes, maturing in January 2046 and not rated.

The securities are not listed on a regulated market.

In order to meet the requirement to retain a net economic interest of 5% in the transaction, as referred to in Article 6 of Regulation (EU) No. 2017/2402 of the European Parliament and of the Council of December 12, 2017, laying down a general framework for securitization and creating a specific framework for simple, transparent and standardized securitizations and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) no. 1060/2009 and (EU) no. 648/2012, the assignor banks have subscribed - and will undertake to retain for the entire duration of the securitization - at least 5% of the nominal value of each tranche of notes issued in the transaction (the "vertical slice" approach). The remainder of the mezzanine and junior notes were subscribed by a third-party investor independent of the assignors on November 29.

At closing, the SPV also entered into a hedging arrangement with two non-ICBG operators to cover the interest rate risk present in the structure with a cap option on rates for an initial amount equal to the overall nominal value of the senior and mezzanine notes and an amortization plan in line with that envisaged in the notes.

The following table summarizes the amount and annual rates of the notes issued:

Tranche	Amount issued (€/million)	Rate
Senior Notes	284.0	Euribor 6m + 0.35%
Mezzanine Notes	39.5	Euribor 6m + 8.00%
Junior Notes	13.0	10% + Class J Notes Variable Return
Total	**336.5**	

In addition, as part of the transaction:

- a cash reserve was set up to manage the risk of any mismatches between the funds generated by collections and the amounts due in respect of the costs of the operation and interest on the senior notes. In accordance with market practice, this reserve was financed at the time of the issue of the notes by an interest-bearing limited recourse loan, equal to €13.52 million, of which €11.95 million granted by Iccrea Banca and the remainder by Cassa di Risparmio di Asti, Banca Ifis and Guber Banca. In view of the characteristics of the operation, it does not represent implicit support pursuant to the provisions of Article 250 of the CRR;
- the establishment pursuant to Article 7.1 of the Securitization Act of a vehicle company called ICBG LeaseCo Srl, having as its exclusive corporate purpose the task of acquiring, managing and valorizing, in the exclusive interest of the securitization, the real estate assets involved in finance leases and the legal relationships deriving from the termination of the same, connected to the receivables deriving from said finance leases transferred by Iccrea BancaImpresa, pursuant to the provisions of Article 7.1 of the Securitization Act.

The transaction is structured in such a way so that the senior notes can benefit from the State guarantee referred to earlier, pending the deconsolidation by the assignor banks of the loans involved in the transaction in accordance with the IAS/IFRS. In order to obtain admission to the state guarantee scheme, Iccrea Banca – under a specific delegation from the assignor banks – submitted an application to the MEF on December 24, 2021.

The following table shows the positions in respect of the securitization held by the Group at December 31, 2021.

Class	Nominal amount (€/millions)	Fair value (€/millions)
Class A	239.0	245.8
Class B	1.8	0.5
Class C	0.5	-
Limited-recourse loan	11.9	11.9

The operation also provides for:

- the legal separation, once transferred to the SPV, of the securitized assets from the assignors and creditors, as supported by a legal opinion issued on November 29, 2021;
- time call and clean-up call options in order to allow early repayment of notes before maturity:
  - optional redemption: the option can be exercised by the SPV on the first Payment Date immediately following the Payment Date on which the Class A notes are fully redeemed;
  - redemption for tax reasons: the option can be exercised by the SPV upon the occurrence of regulatory or legislative changes, or official interpretations of the competent authorities that entail an increase in costs for the noteholders or the SPV.

In addition, the notes must be redeemed immediately in the event of specific trigger events (non-payment, non-performance of other obligations, insolvency or violations of laws). Note that the SPV may also redeem the notes by way of the full or partial transfer to third parties of the portfolio of bad loans through a competitive auction.

The securitization's payment waterfall is material in understanding the level of subordination of creditors in the transaction. There are two payment waterfalls. The first Pre-acceleration Priority of Payment is used for payments if the portfolio's performance is in line with expectations. In the event of Issuer Trigger Events, Redemption for Tax Reasons or Redemption on Final Maturity Date, the Post-acceleration Priority of Payment is used instead. In addition, the waterfall provides for the possibility of changing the payment priority order of certain items in the event of a "subordination event" or if: (i) the aggregate cumulative collections for the period immediately preceding the calculation are 90% lower than the expected collections envisaged for the same date in the securitization contracts; (ii) interest is not paid on the Class A notes; (iii) the ratio between the present value of recoveries, for which the respective procedure has been completed, and the sum of target prices indicated in the business plan by the servicer is less than 90%. In these circumstances, in the post-acceleration waterfall all interest due on the mezzanine notes is temporarily deferred in favor of payment of the principal of the senior notes until the payment date on which these events cease to obtain.

The derecognition of the bad loans took place following the sale of the mezzanine and junior tranches to a third-party non-ICBG investor, which, as noted, took place for both tranches on November 29, 2021. The investor subscribed (i) 94.38% of the principal of the mezzanine notes on the issue date at a price equal to 27.85% of the relative principal amount and (ii) 94.38% of the principal of the junior notes on the issue date at a price equal to 0.08% of the relative principal amount.

With regard to the accounting treatment of the transaction, paragraph 3.2.12 of IFRS 9 provides that on derecognition of the financial asset in its entirety, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) shall be recognized in profit or loss for the year.

Consequently, at the conclusion of the transaction, each assignor:

- derecognized the loans involved in the assignment;
- recognized in the income statement under item "100 - Gain (loss) on the disposal or repurchase of financial assets measured at amortized cost" the overall capital loss determined as the difference between the gross aggregate value at the date of assignment of the loans, less writedowns and inclusive of any collections on the loans attributable to the SPV at the assignment date (equal to about €245.9 million at the consolidated level) and the consideration received (equal to about €244.9 million at the consolidated level); at the consolidated level, the difference showed a total capital loss of about €939 thousand;
- recognized the notes subscribed in its balance sheet, for a total consolidated value of €239 million in senior notes, €500 thousand in mezzanine notes and €455 million in junior notes.

In view of the intention to continue holding the senior notes, they were assigned to the held-to-collect (HTC) business model. Taking account of the fact that the SPPI test was passed, this enabled measurement at amortized cost, using the effective interest rate method. The placement fees for the senior notes have been added to the value of the securities and are released progressively through profit or loss over the expected life of the notes using the effective interest rate (IRR).

The mezzanine and junior notes subscribed by the Group banks were also assigned to the HTC business model, as they are being held on a permanent basis in compliance with the retention rule. As they did not pass the SPPI test, the mezzanine and junior securities are measured at FVTPL.

The placement fees for the mezzanine and junior notes and the structuring fees were recognized through profit or loss.

OWN SECURITIZATIONS CARRIED OUT IN PREVIOUS YEARS

"GACS I" SECURITIZATION

In June 2018, the Group undertook the first securitization involving non-performing loans that qualified for the State guarantee mechanism for the liabilities issued (the so-called "GACS" mechanism) pursuant to Decree Law 18 of February 14, 2016, with a view to reducing Bank's the stock of bad loans and, consequently, improve the company risk profile.

The transaction saw Iccrea Banca participate as promoter and joint arranger (together with JP Morgan Securities Limited) and 23 other banks (including 21 mutual banks, Iccrea BancaImpresa and Banca Sviluppo) as assignors of the same number of portfolios of non-performing unsecured and mortgage loans, mainly secured by first mortgages, with a total carrying amount of €1,046 billion.

The exposures were assigned to a special purpose securitization vehicle denominated "BCC NPLs 2018 Srl", with the simultaneous grant of a servicing contract by the latter to a third-party servicer independent of the assignors.

As part of the transaction, the special purpose vehicle acquired the portfolio from the assignor banks, financing the purchase by issuing (on July 10, 2018) asset-backed securities not listed on any regulated market with a total nominal value of about €323.9 million, divided into the following classes:

- €282 million of senior notes, corresponding to 26.95% of the value of the assigned loans, which have been assigned an investment grade rating of Baa3 by Moody's and BBB- by Scope Rating, subscribed by the assignors in proportion to the exposures assigned;
- €31.4 million of mezzanine notes, corresponding to 3% of the value of the assigned loans, which have been assigned a rating of Caa2 by Moody's and B+ by Scope Rating, which were sold, together with the junior notes and with the exception of highlighted below, to qualified investors without any connection, interest or participation with the assignors;

- €10.46 million of junior notes, corresponding to 1% of the value of the assigned loans, not rated.

In order to meet the requirement to retain a net economic interest of 5% in the transaction, the assignors have undertaken to retain a holding of at least 5% of the nominal value of each tranche of notes issued as part of the securitization (the "vertical slice" approach): in this regard, on July 10, 2018 the assignor banks sold approximately 95% of the mezzanine and junior noes to Good Hill Partners, which subscribed:

- 94.96% of the principal amount of the mezzanine notes at the issue date, equal to €29.8 million at a price equal to 33.063% of the relative principal amount, i.e. €9.8 million; and
- 95% of the principal amount of the junior notes at the issue date, equal to €9.9 million at a price equal to 1.006% of the relative principal amount, i.e. €99.9 thousand.

The following table shows the positions held by the Group in respect of the securitization at the reporting date.

Class	Nominal amount (€/million)	Fair value (€/million)
Class A	188.5	191.7
Class B	1.5	0.4
Class C	0.5	-
Limited-recourse loan	10.5	9.1

As noted previously, the securitization was structured to possess the characteristics envisaged by the regulations mentioned earlier so that the senior notes would be eligible for the State guarantee, in view of the deconsolidation by the assignors of the transferred loan portfolio, in accordance with IAS/IFRS. The State guarantee was issued with a measure dated September 7, 20188.

"GACS II" SECURITIZATION

In December 2018, the Group undertook the second securitization involving non-performing loans that qualified for the State guarantee mechanism for the liabilities issued (the so-called "GACS" mechanism) pursuant to Decree Law 18 of February 14, 2016, with a view to reducing Bank's the stock of bad loans and, consequently, ensure that the company's exposure to risk was contained within sustainable limits.

The transaction involved multiple portfolios of unsecured and mortgage loans to debtors classified as defaulted, with an average expected life of 5 years and an estimated maturity of July 2032 (on the basis of the business plan prepared by Italfondiario SpA). As part of the operation, on December 27, 2018 the assignor banks submitted a preliminary application to the Ministry for the Economy and Finance (MEF) for admission to the State guarantee mechanism for the liabilities issued (the so-called "GACS" mechanism) pursuant to Decree Law 18 of February 14, 2016.

The assigned portfolio consists of loans classified as bad loans at the assignment date (December 7, 2018), originated by 73 banks (71 mutual banks, Banca Sviluppo and Iccrea BancaImpresa), with a total value of over €2 billion in terms of gross carrying amount, with the establishment of a securitization involving:

- the issue of notes by the SPV with the simultaneous subscription of the senior notes and approximately 5% of the mezzanine and junior notes by the assignors and the subscription of about 95% of the mezzanine and junior notes by an institutional investor independent of the assignors and Iccrea Banca, JP Morgan Securities Plc, with the simultaneous payment of the purchase price. The senior notes were assigned an external rating on December 20, 2018 by two rating agencies;
- the derecognition of the assigned loans on December 20, 2018. The assignment of the non-performing loans produced financial effects as from March 31, 2018. Collections between April 1, 2018, inclusive, and the assignment date of the portfolio, inclusive (December 7, 2018) were transferred to the SPV.

More specifically, a securitization vehicle specifically set up pursuant to Law 130 of April 30, 1999 denominated "BCC NPLs 2018-2 Srl" purchased the portfolio from the banks on December 7, financing its purchase by issuing asset-backed securities not listed on any regulated market with a total nominal value of about €558.17 million, as indicated below:

- €478 million of senior Class A Asset Backed Floating Rate Notes due July 2042, granted an investment grade rating of BBB (low) by DBRS Ratings Limited and BBB by Scope Rating, subscribed by the assignors in proportion to the exposures assigned;
- €60.13 million of mezzanine Class B Asset Backed Floating Rate Notes due July 2042, with a CCC rating by DBRS Ratings Limited and B + by Scope Rating;
- €20.04 million of junior Class J Asset Backed Floating Rate and Variable Return Notes securities, unrated.

In order to meet the requirement to retain a net economic interest of 5% in the transaction, the assignors have undertaken to retain a holding of at least 5% of the nominal value of each tranche of notes issued as part of the securitization (the "vertical slice" approach).

In this regard, on December 20, 2018 the mezzanine and junior tranches were sold to J.P. Morgan Securities Plc, which subscribed:

- 94.52% of the principal amount of the mezzanine notes at the issue date, equal to €56.8 million at a price equal to 11.309% of the relative principal amount (corresponding to a subscription price of €6.4 million);
- 94.58% of the principal amount of the junior notes at the issue date, equal to €18.9 million at a price equal to 0.998% of the relative principal amount (corresponding to a subscription price of €189 thousand).

The following table shows the positions held by the Group in respect of the securitization at the reporting date.

Class	Nominal amount (€/million)	Fair value (€/million)
Class A	416.2	424.9
Class B	3.3	0.7
Class C	1.0	-
Limited-recourse loan	13.3	11.2

As noted previously, the securitization was structured to possess the characteristics so that the senior notes would be eligible for the State guarantee, in view of the deconsolidation by the assignors of the transferred loan portfolio, in accordance with IAS/IFRS. The State guarantee was issued with a measure dated March 5, 2019.

GACS III" SECURITIZATION

In December 2019, a securitization was completed (the third of its kind for the Group) involving multiple portfolios of receivables in respect of mortgage loans or unsecured loans to debtors classified as defaulted. As part of the operation, on January 10, 2020, the assignor banks submitted to the Ministry for the Economy and Finance (MEF) a preliminary application for admission to the State Guarantee Scheme on the liabilities issued (so-called "GACS" – Guarantee of Securitization of Bad loans) pursuant to Decree Law 18 of February 14, 2016, ratified with Law 49 of April 8, 2016, subsequently implemented with the MEF Decree of August 3, 2016, the MEF Decree of November 21, 2017 and the MEF Decree of October 10, 2018.

The transaction was carried out with the aim of reducing the stock of bad loans, partly in response to the need to achieve the objectives set by the ECB for the Mutual Banking Group, thereby decreasing their impact on total assets and, consequently, improving the company risk profile. The securitization mechanism and the State guarantee on the senior class of notes made it possible to obtain a higher sale value than in an ordinary market operation and contained the impacts of the disposal.

More specifically, the transaction involved the disposal of a portfolio of loans identified "en bloc" classified as bad loans at the date of sale, originated by Iccrea Banca, Iccrea BancaImpresa, Banca Sviluppo and 65 mutual banks belonging to the Group with total value of over €1.3 billion in terms of gross carrying amount, through a securitization carried out in the following phases:

- the assignment without recourse, on December 2, 2019, of the portfolio to the securitization vehicle BCC NPLS 2019 (hereinafter the "SPV") established pursuant to Law 130 of April 30, 1999 as amended;
- the payment of the consideration for the assignment by the SPV, financed through the issue of asset-backed securities, pursuant to the combined provisions of Articles 1 and 5 of Law 130, in the total nominal value of about €421.2 million, divided into the classes indicated below:
  - €355 million of senior Class A Asset Backed Floating Rate Notes, maturing in January 2044, rated Baa2, BBB + and BBB respectively by Moody's Investor Services, Scope Rating AG and DBRS Ratings Limited;
  - €53 million of mezzanine Class B Asset Backed Floating Rate Notes, maturing in January 2044, rated B3, B- and CCC respectively by Moody's Investor Services, Scope Rating AG and DBRS Ratings Limited;
  - €13.2 million of junior Class J Asset Backed Floating Rate and Variable Return Notes, maturing in January 2044 and not rated.

In order to meet the requirement to retain a net economic interest of 5% in the transaction, as referred to in Article 6 of Regulation (EU) No. 2017/2402 of the European Parliament and of the Council of December 12, 2017, laying down a general framework for securitization and creating a specific framework for simple, transparent and standardized securitizations, the assignor banks have subscribed - and will undertake to retain for the entire duration of the securitization - at least 5% of the nominal value of each tranche of notes issued in the transaction (the "vertical slice" approach). The remainder of the mezzanine and junior notes were subscribed by a third-party investor independent of the assignors and the Parent Company, Iccrea Banca, with the simultaneous payment of the purchase price.

The non-performing loans were derecognized by each of the assignors following the sale of the mezzanine and junior tranches to Bracebridge Capital LLC, which took place on December 19, 2019 for both tranches. More specifically, Bracebridge Capital LLC subscribed (i) 94.57% of the principal of the mezzanine notes, equal on the issue date to €50.1 million at a price equal to 51.26% of the principal amount and (ii) 94.57% of the principal of the junior notes, equal on the issue date to €12.5 million at a price equal to 0.008% of the principal amount.

The following table summarizes the amount and annual rates of the notes issued.

Class	Nominal amount (€/million)	Fair value (€/million)
Class A	317.8	326.0
Class B	2.9	1.8
Class C	0.1	-
Limited-recourse loan	10.0	10.0

As noted previously, the securitization was structured to possess the characteristics envisaged by the regulations mentioned earlier so that the senior notes would be eligible for the State guarantee, in view of the deconsolidation by the assignors of the transferred loan portfolio, in accordance with IAS/IFRS. The State guarantee was issued with a measure dated March 25, 2020.

"GACS IV" SECURITIZATION

In November 2020 a securitization was completed (the fourth of its kind for the Group) involving multiple portfolios of receivables in respect of mortgage loans or unsecured loans to debtors classified as defaulted. As part of the operation, on December 22, 2020, the assignor banks submitted to the Ministry for the Economy and Finance (MEF) a preliminary application for admission to the State Guarantee Scheme on the liabilities issued (so-called "GACS" – Guarantee of Securitizations of Bad Loans) pursuant to Decree Law 18 of February 14, 2016, ratified with Law 49 of April 8, 2016, subsequently implemented with the MEF Decree of August 3, 2016, the MEF Decree of November 21, 2017 and the MEF Decree of October 10, 2018 and subsequently amended by Law 41 of May 20, 2019 ratifying Decree Law 22 of March 25, 2019 with amendments.

The transaction was carried out with the aim of reducing the stock of bad loans, thereby decreasing their impact on total assets and, consequently, improving the company risk profile. The securitization mechanism and the State guarantee on the senior class of notes made it possible to obtain a higher sale value than in an ordinary market operation and contained the impacts of the disposal.

More specifically, the transaction involved the disposal of a portfolio of loans identified "en bloc" classified as bad loans at the date of sale, originated by Iccrea Banca, Banca Sviluppo, Iccrea BancaImpresa, Banca Mediocredito FVG, and 84 mutual banks belonging to the Group as well as 2 banks not belonging to the ICBG (Banca Ifis and Banca Popolare Valconca) with total value of over €2.3 billion in terms of gross carrying amount, through a securitization carried out in the following phases:

- the assignment without recourse, on November 18, 2020, of the portfolio to the securitization vehicle BCC NPLS 2020 (hereinafter the "SPV") established pursuant to Law 130 of April 30, 1999 as amended;
- the payment of the consideration for the assignment by the SPV, financed through the issue of asset-backed securities, pursuant to the combined provisions of Articles 1 and 5 of Law 130, in the total nominal value of about €585 million, divided into the classes indicated below:
    - €520 million of Senior Notes, maturing in January 2045, rated Baa2 and BBB respectively by Moody's Italia Srl and Scope Rating AG;
    - €41 million of Mezzanine Notes, maturing in January 2045, rated Caa2 and CC respectively by Moody's Italia Srl and Scope Rating AG;
    - €24 million of Junior Notes, maturing in January 2045, and not rated.

In order to meet the requirement to retain a net economic interest of 5% in the transaction, as referred to in Article 6 of Regulation (EU) No. 2017/2402 of the European Parliament and of the Council of December 12, 2017, laying down a general framework for securitization and creating a specific framework for simple, transparent and standardized securitizations and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) no. 1060/2009 and (EU) no. 648/2012, the assignor banks have subscribed - and will undertake to retain for the entire duration of the securitization - at least 5% of the nominal value of each tranche of notes issued in the transaction (the "vertical slice" approach). The remainder of the mezzanine and junior notes were subscribed by a third-party investor independent of the assignors on November 30.

The non-performing loans were derecognized by each of the assignors following the sale of the mezzanine and junior tranches to Bracebridge Capital LLC, which took place on November 30, 2020 for both tranches. More specifically, Bracebridge Capital LLC subscribed (i) 94,40% of the principal of the mezzanine notes, equal on the issue date to €38.7 million at a price equal to 44.51% of the principal amount and (ii) 94.40% of the principal of the junior notes, equal on the issue date to over €22.6 million at a price equal to 0.042% of the principal amount.

The following table shows the positions held by the Group in respect of the securitization at the reporting date.

Class	Nominal mount (€/million)	Fair value (€/million)
Class A	431.9	441.7
Class B	2.0	0.9
Class C	1.2	-
Limited-recourse loan	13.8	13.7

As noted previously, the securitization was structured to possess the characteristics so that the senior notes would be eligible for the State guarantee, in view of the deconsolidation by the assignors of the transferred loan portfolio, in accordance with IAS/IFRS. The State guarantee was issued with a measure dated April 21, 2021.

CREDICO FINANCE 18 SRL SECURITIZATION

A securitization was carried out in the third quarter of 2019 in which 14 mutual banks assigned without recourse an initial portfolio of monetary claims in respect of mortgage and other loans granted to small and medium-sized enterprises to the special purpose vehicle Credico Finance 18 Srl (hereinafter also the SPV), in which the Group does not hold an interest nor do its employees hold positions as corporate officers.

The operation made it possible to raise significant financial resources as an alternative to direct borrowing, enabling a reduction in exposures for the purposes of solvency ratios, without excluding the originator from managing relationships with customers: it is a tool for funding on international markets to finance the Group's lending and falls with the scope of expectations to support for the development of the local economy, in line with the company's strategic guidelines.

The transaction was involved a number of separate contracts, with the operation unfolding as follows:

- the assignment without recourse by the originator banks of a portfolio of performing loans identified as "en block", with a total residual principal amount of about €519.4 million;
- the acquisition of the loans by the SPV, which raised funds by issuing notes tranched into different levels of repayment priority;
- the subscription of the senior Class A1 notes by Société Generale and the senior Class A2 notes by EIB;
- the subscription by the individual originator banks of the 14 tranches of junior Class J securities.

The purchase of the portfolio by the SPV was financed through the issue of two categories of asset backed securities, in the total amount of €519.4, broken down as follows:

- senior Class A notes in the amount of €290 million, maturing April 2057 with a rating assigned by Moody's, Scope Ratings and DBRS Ratings, which are in turn divided into two sub-classes (A1 Notes and A2 Notes) listed on the Euronext Dublin market and subscribed, respectively, by the EIB and Société Generale;
- junior Class J notes in the amount of €229.4 million, maturing expiring April 2057, not rated, unlisted and fully subscribed by the originator banks themselves.

More specifically, the junior securities were divided into 14 series, each of an amount proportional to the value of the loans assigned respectively by the individual participating banks. Each of the banks has subscribed exclusively the series of subordinate securities pertaining to it, with payment of the relative price at par.

The following table summarizes the amount and annual interest rates of the notes issued by the SPV:

Tranche	Amount issued (€/million)	Rate
Senior Notes – Class A1	90.0	Euribor 3m + 0.58%
Senior Notes – Class A2	200.0	Euribor 3m + 0.8%
Junior Notes – Class J	229.4	Variable Return
Total	**519.4**	

The SPV has not entered into derivative contracts to hedge interest rate risk.

Each assignor bank has established a cash reserve in favor of the SPV (in the form of a limited-recourse loan), as an additional guarantee for payment flows. The cash reserve provides a form of liquidity support to enable the special purpose vehicle to promptly settle payment of the amounts due on the senior notes in the specified percentage shares, as well as to meet the costs of the securitization.

The financing will be repaid in a single instalment at the end of the transaction, or at the time the originating banks should exercise the option to repurchase the loans (clean-up call). The banks have also been granted a partial repurchase option under which they have the right to repurchase without recourse, in one or more instalments, a certain amount of uncollected loans.

The priority of payment of any interest on the financing by the SPV will only exceed that for the interest and principal of the junior notes.

In addition, the assignor banks have been engaged under a special servicing contract with the special purpose vehicle to continue managing the assigned positions. In particular, they will collect the payments on the loans and will handle, if necessary, any litigation in accordance with the criteria specified in the contract. For the services rendered, they will receive an all-inclusive annual fee equal to 0.003% of the performing loans under management and 6% of the amounts recovered on non-performing exposures. Out-of-pocket expenses, including legal fees, will also be reimbursed for the latter receivables, up to contractually specified ceilings.

Given the financial structure of the transaction, the maximum exposure retained by the assignor banks at the reporting date totals €241 million, represented exclusively by the sum of the amount of the junior notes subscribed (equal to €229.4 million) and the value of the liquidity reserve established for the benefit of the SPV (€11.6 million).

As regards the accounting treatment of the transaction, the securitization does not meet the requirements necessary for the derecognition of the assets transferred to the vehicle (loans) since the subscription of the junior securities means that assignor banks have retained all the risks and rewards connected with the loans. In consideration of this circumstance, the assigned assets continue to be recognized in their entirety, while the notes subscribed and held by the assignor banks do not represent new financial instruments acquired by the banks but instead represent guarantees issued against the assigned assets and consequently are not reported in the financial statements.

NEPAL SRL SECURITIZATION

In 2019 BCC di San Giorgio Quinto Valle Agno carried out a non-recourse assignment of non-performing loans, represented by mortgage and other loans to the securitization vehicle "Nepal Srl", established pursuant to Law 130 of April 30, 1999 as amended.

The operation was carried out to reduce the stock of bad loans as a percentage of total assets, consequently improving the company risk profile.

The transaction involved the disposal of a portfolio of non-performing loans originated by BCC di San Giorgio Quinto Valle Agno and 18 other banks not belonging to the Group with a total value of about €734 million in terms of gross carrying amount, of which about €32.6 million were assigned by BCC di San Giorgio Quinto Valle Agno.

As part of the transaction, the SPV acquired the portfolio from the assignor banks, financing part of the purchase by issuing asset-backed securities not listed on any regulated market with a total nominal value of about €181.1 million, divided into the classes indicated below:

- €126.6 million of senior Class A Asset Backed Floating Rate Notes, maturing in 2037;
- €54.5 million of junior Class B Asset Backed Floating Rate and Variable Return Notes, maturing in 2037; and the remainder by paying about €75.7 million to the assignor banks, of which €51.8 million deriving from the subscription of 95% of the junior securities by third-party investors and €23.9 million from the liquid assets of the SPV connected with recovery activities performed by the securitization's servicer.

As part of the securitization:

- the assignor banks subscribed 100% of the Class A notes and 5% of the Class B notes;
- the SPV entered into a servicing agreement with Guber Banca SpA, which is responsible for: (i) the management, administration, recovery and collection of loans; and (ii) certain reporting activities relating to the loans;
- an interest cash reserve was established to support payments to the subscribers of the Senior notes in the applicable order of priority until a trigger event occurs and a recovery expenses cash reserve was set up to pay all costs and expenses incurred in debt collection activities.

With regard to the accounting treatment of the transaction, the securitization meets the requirements for derecognition of the loans since following the sale of 95% of the junior tranche to Guber Banca SpA, Varde Partners, Inc and Barclays Bank Plc, substantially all the risks and rewards connected with the exposures have been transferred. Paragraph 3.2.12 of IFRS 9 states that on derecognition of a financial asset in its entirety, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) shall be recognized in profit or loss for the year.

Consequently, at the conclusion of the operation, BCC di San Giorgio Quinto Valle Agno:

- derecognized the loans involved in the assignment at the time the placement of the junior tranches on the market was settled;
- recognized in the income statement under the item "Gain (loss) on the disposal or repurchase of financial assets measured at amortized cost" the overall capital loss determined as the difference between the gross aggregate value at the date of assignment of

the loans, less writedowns and inclusive of any collections on the loans attributable to the SPV at the assignment date (equal to about €32.6 million) and the consideration received (equal to about €9.3 million);

- recognized the notes subscribed in its balance sheet, for a value of more than €5.7 million in senior notes, €126 thousand in junior notes.

The following table summarizes the positions in respect of the securitization held by the BCC di San Giorgio Quinto Valle Agno at the reporting date.

Class	Nominal amount (€/million)	Fair value (€/million)
Senior	5.8	4.8
Junior	0.1	0.1

LEONE SPV SECURITIZATION

In December 2018, BCC di Milano carried out a non-recourse assignment of a portfolio of non-performing loans, of which €25.8 million in loans classified as bad loans and €1.9 million in loans classified as unlikely to pay as at the assignment date.

The operation was carried out with the aim of reducing the bank's stock of non-performing loans and improving its risk profile.

The exposures were assigned to a securitization vehicle specially created in accordance with Law 130 of April 30, 1999 denominated "Leone SPV Srl". BCC di Milano does not hold an interest in the vehicle nor do its employees hold positions as corporate officers.

The sale price of the loan portfolio was set at €20.9 million. The special purpose vehicle financed the purchase of the loans by issuing asset-backed securities divided into two classes:

- senior notes in the amount of €12.6 million, maturing July 2030 and paying interest half-yearly;
- junior notes in the amount of €8.4 million, maturing July 2030 and paying interest half-yearly.

With regard to the accounting treatment of the transaction, the securitization meets the requirements for derecognition of the loans since substantially all the risks and rewards connected with the exposures have been transferred.

The following table shows the positions held by BCC di Milano in respect of the securitization at the reporting date.

Class	Nominal amount (€/million)	Fair value (€/million)
Senior	12.6	7.7
Junior	0.4	0.4

MARMAROLE SPV SECURITIZATION

In 2018, a securitization transaction was completed pursuant to Law 130 of April 30, 1999, with the participation of three mutual banks (BCC Ravennate - BCC Rimini and Gradara (formerly RiminiBanca) and BCC Agrobresciano) and 8 other banks not belonging to the ICBG as assignors of the same number of portfolios of unsecured and mortgage loans, with a total carrying amount of €568.3 million.

The portfolios were purchased by a special purpose vehicle set up pursuant to Law 130, denominated "Marmarole SPV Srl". The SPV financed the purchase of the loans by issuing the following classes of securities:

- €113.9 million of senior Class A Asset Backed Notes, maturing June 2031;
- €48.8 million of junior Class B Asset Backed Notes securities, maturing June 2031.

The securities have not been rated and are not listed on any regulated market.

On February 28, 2018, the senior notes and 5% of the junior notes were subscribed by the assignor banks in proportion to the price received by each for the sale of the related portfolio and the remaining junior notes were subscribed by an unrelated institutional investor.

With regard to the accounting treatment of the transaction, the securitization meets the requirements for derecognition of the loans since substantially all the risks and rewards connected with the exposures have been transferred.

The following table shows the positions held by BCC Ravennate, BCC Rimini and Gradara and BCC Agrobresciano in respect of the securitization at the reporting date.

Class	Nominal amount (€/million)	Fair value (€/million)
Class A	26.2	12.5
Class B	0.6	0.6

SPV PROJECT 1714 SECURITIZATION

In December 2018, in line with its NPL reduction targets, Banca Alpi Marittime completed the securitization of a portfolio of loans classified as non-performing with a total gross value of €109.7 million.

The exposures were assigned to a securitization vehicle specially created in accordance with Law 130/99 denominated "SPV Project 1714" which financed the purchase by issuing asset-backed securities divided into two classes:

- €17.2 million of senior notes;
- €11.4 million of junior notes.

Both classes of securities are unrated. The senior notes were subscribed by the bank, while the junior notes were placed with institutional investors.

The bank retained a 5% share of the loans for retention purposes in order to maintain the required net economic interest in the securitization.

With regard to the accounting treatment of the transaction, the securitization meets the requirements for derecognition of the loans in view of the structure of the operation and the fact that substantially all the risks and rewards connected with the exposures have been transferred.

The following table shows the positions held by Banca Alpi Marittime in respect of the securitization at the reporting date.

Class	Nominal amount (€/million)	Fair value (€/million)
Senior	14.0	7.8
Junior	3.1	1.8

ICCREA SME CART 2016 SECURITIZATION

In 2016, a securitization was finalized with the assignment of future receivables in an initial portfolio of €1.37 billion of performing lease contracts originated by Iccrea BancaImpresa and the issue of the associated securities by Iccrea SME Cart 2016 S.r.l, with the concomitant payment of the assignment price of €1.37 billion, including €617.5 million of the Class D (junior) notes subscribed by Iccrea BancaImpresa.

The operation was carried out to acquire new funding for lease financing and loans to small and medium-sized enterprises, or projects sponsored by mid-caps, thereby diversifying funding sources and at the same time obtaining new funding (with an expected average life of about 4 years) with an attractive maturity and cost, especially in view of current market conditions. The transaction did not pursue capital objectives, as under the provisions of the relevant supervisory regulations the characteristics of the transaction do not permit any reduction in capital requirements for the assignor bank.

The transaction involved Iccrea Banca as sole arranger. As part of the transaction, on August 10, 2016 the special purpose entity issued ABSs amounting to €1.37 billion.

Tranche	Amount issued (€/million)	Rate
Senior Notes – Class A1	202.3	Euribor 3m + 0.10%
Senior Notes – Class A2	480.0	Euribor 3m + 0.85%
Senior Notes – Class B	65.0	Euribor 3m + 1.15%
Senior Notes – Class C	9.4	Euribor 3m + 1.20%
Junior Notes – Class D	617.5	Variable Return
Total	**1,374.2**	

The Class A1, A2 and B notes are listed on the Irish Stock Exchange. The Class A1 and A2 are ranked pari passu for payment of interest but are amortized on a different schedule except in the case of post enforcement, in which case amortization will also be pari passu and have priority with respect to all other notes.

The Class C notes were redeemed in December 2018. Redemption of the Class A1 notes began in December 2018 at the end of the two-year revolving period and was completed in 2019. In December 2021 the A2 notes were redeemed in full and redemption started for the Class B notes, which at the reporting date, amounted to €37.9 million (58.36% of the original amount).

As regards the accounting treatment of the transaction, the securitization does not meet the requirements necessary for the derecognition of the assets transferred to the vehicle (loans) since the subscription of the junior securities means that assignor banks have retained all the risks and rewards connected with the loans.

THIRD-PARTY SECURITIZATIONS

The Group holds securities in respect of securitizations carried out by third parties in the total amount of €67.7 million.

Financial instruments	Nominal amount (€/million)	Carrying amount (€/million)
Senior notes	223.7	55.7
Mezzanine notes	12.0	12.0
Total	**235.7**	**67.7**

The Group does not perform any servicer activities for third-party securitizations and does not hold any interest in the related special purpose vehicles.

The main exposures to third-party securitizations include, with a carrying amount of €135.8 million, senior unrated notes issued by the vehicle company Lucrezia Securitization Srl as part of the interventions of the Institutional Guarantee Fund for the resolution of crises at banks subjected to extraordinary administration procedures by the supervisory authorities (Bank of Italy). These notes are reported among the assets of the Group's balance sheet under "Financial assets measured at amortized cost".

The assets underlying these notes securities consist of impaired loans, largely secured in full by real estate.

With regard to the details of the transactions in which the Group operates as an investor, please see table "C.4 Prudential consolidation - Unconsolidated special purpose securitization vehicles", which among other things reports the Group's exposure to this type of vehicle.

QUANTITATIVE DISCLOSURES

C.1 - PRUDENTIAL CONSOLIDATION - EXPOSURES IN RESPECT OF MAIN OWN SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

	On-balance-sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Writedowns/writebacks	Carrying amount	Writedowns/writebacks	Carrying amount	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks
A. Fully derecognized																		
Non-performing receivables	1,664,078	(203)	4,344		1,051													
Loans	55,856	(3,773)																
B. Partially derecognized																		
C. Not derecognized																		
Performing receivables					740,871													

Securitization transactions with on-balance-sheet exposures, guarantees and other forms of credit enhancement as underlying assets are reported in the table.

In particular, the “Loans” sub-item includes the exposure for the limited-recourse loans granted by the Parent Company to the securitization vehicles of the GACS transactions. Writedowns/writebacks refer to 2021 only.

C.2 - PRUDENTIAL CONSOLIDATION - EXPOSURES IN RESPECT OF MAIN THIRD-PARTY SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

	On-balance-sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Writedowns/writebacks	Carrying amount	Writedowns/writebacks	Carrying amount	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks	Net exposure	Writedowns/writebacks
Non-performing receivables	55,052	(674)	300															
Performing receivables	12,642	(16)																

The table reports the exposures assumed by the Group in respect of third-party securitizations. Writedowns/writebacks refer to 2021 only.

C.3 - PRUDENTIAL CONSOLIDATION – INVOLVEMENT IN SPECIAL PURPOSE SECURITIZATION VEHICLES

The Group does not have an involvement in securitization vehicles. The following table reports information on the vehicle companies used by the Group to carry out its own securitizations.

	Registered office	Consolidation	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
1. BCC NPLS 2018 Srl	Conegliano, Via V. Alfieri,1	no	138,491	-	-	188,522	14,044	1,909
2. BCC NPLS 2018-2 Srl	Conegliano, Via V. Alfieri,1	no	306,556	-	-	416,189	26,658	7,885
3. BCC NPLS 2019 Srl	Conegliano, Via V. Alfieri,1	no	313,749	-	-	317,845	29,350	1116
4. BCC NPLS 2020 Srl	Conegliano, Via V. Alfieri,1	no	475,812			487,705	19,274	1,089
5. BCC NPLS 2021 Srl	Conegliano, Via V. Alfieri,1	no	271,040			284,000	11,000	10
6. Credico Finance 18 Srl	Rome, Via Barberini, 47	no	413,898	-	-	208,803	-	229,430
7. Marmarole SPV Srl	Conegliano, Via V. Alfieri,1	no	111,693	-	-	64,979	-	48,850
8.SPV Project 1714 Srl	Milan, Via Pestalozza 12/14	no	18,314	-	-	9,930	-	11,440
9. Leone SPV Srl	Milan, Via San Prospero,4	no	16,429	,	-	9,428	-	7,737
10. Nepal Srl	Milan, Via San Prospero,4	no	105,411	-	-	93,448	-	54,525
11. Iccrea Smecart 2016 Srl	Rome, Via Barberini, 47	no	42,315		18	134,669	65,000	617,460

C.4 - PRUDENTIAL CONSOLIDATION - UNCONSOLIDATED SPECIAL PURPOSE SECURITIZATION VEHICLES

	Accounting classification of assets	Total assets	Accounting classification of liabilities	Total liabilities	Net carrying amount	Maximum loss exposure	Difference between loss exposure and carrying amount
	(*)	(A)		(B)	(C=A-B)	(D)	(E=D-C)
A. Own securitizations with full derecognition of assigned assets							
BCC NPLS 2018 Srl	AC	200,818			200,818	200,818	
	MFV	361			361	361	
BCC NPLS 2018-2 Srl	AC	436,069			436,069	436,069	
	MFV	714			714	714	
BCC NPLS 2019 Srl	AC	336,072			336,072	336,072	
	MFV	1,810			1,810	1,810	
BCC NPLS 2020 Srl	AC	455,401			455,401	455,401	
	MFV	993			993	993	
BCC NPLS 2021 Srl	AC	257,619			257,619	257,619	
	MFV	511			511	511	
Marmarole SPV Srl	AC	12,545			12,545	12,545	
	MFV	562			562	562	
SPV Project 1714 Srl	AC	9,673			9,673	9,673	
Leone SPV Srl	AC	7,685			7,685	7,685	
	MFV	335			335	335	
Nepal Srl	AC	4,052			4,052	4,052	
	MFV	110			110	110	
B. Own securitizations with no derecognition of assigned assets							
Iccrea Sme Cart 2016 Srl	AC	845,284	PFAC	227,824	617,460	617,460	
Credico Finance 18 Srl	AC	352,841	PFAC	229,430	123,411	123,411	
C. Third-party securitizations							
Lucrezia Securitisation Srl - Padovana Irpinia	AC	24,739			24,739	24,739	
Lucrezia Securitisation Srl - Crediveneto	AC	15,338			15,338	15,338	
Lucrezia Securitisation Srl - Teramo	AC	4,816			4,816	4,816	
Eridano II SPV Srl	AC	11,998			11,998	11,998	
Borghese Uno Srl	AC	3,535			3,535	3,535	
Viveracqua Hydrobond Srl	MFV	644			644	644	
La Colombo SPV Srl	AC	3,880			3,880	3,880	
Belvedere SPV Srl	AC	3,260			3,260	3,260	

(*) AC= financial assets measured at amortized cost; MFV = financial assets mandatorily measured at fair value; PFAC = financial liabilities measured at amortized cost

C.5 - PRUDENTIAL CONSOLIDATION – SERVICER ACTIVITIES - COLLECTIONS ON SECURITIZED ASSETS AND REDEMPTION OF SECURITIES ISSUED BY SECURITIZATION VEHICLE

At December 31, 2021 the Group did not perform servicer activities for own securitizations in which the assigned assets had been derecognized pursuant to IFRS 9.

C.6 - PRUDENTIAL CONSOLIDATION - CONSOLIDATED SPECIAL PURPOSE SECURITIZATION VEHICLES

There were no consolidated special purpose securitization vehicles at the reporting date.

D. DISPOSALS

A. FINANCIAL ASSETS ASSIGNED BUT NOT FULLY DERECOGNIZED

QUALITATIVE DISCLOSURES

The operations mainly regard the use of government securities holdings for short- and medium-term repurchase transactions and receivables from customers assigned in the Group’s securitization of its own assets.

QUANTITATIVE DISCLOSURES

D.1 - PRUDENTIAL CONSOLIDATION - FINANCIAL ASSETS ASSIGNED BUT FULLY RECOGNIZED AND ASSOCIATED FINANCIAL LIABILITIES: CARRYING AMOUNTS

	Financial assets assigned but fully recognized				Associated financial liabilities		
	Carrying amount	of which: securitized	of which: with sale and repurchase agreement	of which impaired	Carrying amount	of which: securitized	of which: with sale and repurchase agreement
A. Financial assets held for trading	**48,083**	**-**	**48,083**	**X**	**48,925**	**-**	**48,925**
1. Debt securities	48,083	-	48,083	X	48,925	-	48,925
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated as at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**3,903**	**-**	**3,903**	**-**	**2,720**	**-**	**2,720**
1. Debt securities	3,903	-	3,903	-	2,720	-	2,720
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortized cost	**7,427,845**	**1,001,466**	**6,421,123**	**20,177**	**6,770,758**	**147,719**	**6,622,920**
1. Debt securities	6,421,123	-	6,421,123	-	6,622,920	-	6,622,920
2. Loans	1,006,722	1,001,466	-	20,177	147,838	147,719	-
Total 31/12/2021	**7,479,831**	**1,001,466**	**6,473,109**	**20,177**	**6,822,403**	**147,719**	**6,674,565**
Total 31/12/2020	**8,645,671**	**1,407,769**	**7,231,009**	**24,176**	**7,598,462**	**399,682**	**7,197,323**

D.2 - PRUDENTIAL CONSOLIDATION - FINANCIAL ASSETS ASSIGNED AND PARTIALLY RECOGNIZED AND ASSOCIATED FINANCIAL LIABILITIES: CARRYING AMOUNTS

The table has not been completed because there were no such positions at the reporting date.

D.3 - PRUDENTIAL CONSOLIDATION - DISPOSALS INVOLVING LIABILITIES WITH RECOURSE ONLY ON ASSIGNED ASSETS NOT DERECOGNIZED: FAIR VALUE

	Fully recognized	Partially recognized	Total	Total
			31/12/2021	31/12/2020
A. Financial assets held for trading	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets designated as at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**-**	**23,931**
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	23,931
E. Financial assets measured at amortized cost (fair value)	**22,861**	**-**	**22,861**	**152,899**
1. Debt securities	-	-	-	42,417
2. Loans	22,861	-	22,861	110,482
Total financial assets	**22,861**	**-**	**22,861**	**152,899**
Total associated financial liabilities	**9,158**	**-**	**X**	**34,142**
Net value 31/12/2021	**13,703**	**-**	**22,861**	**X**
Net value 31/12/2020	**118,757**	**-**	**X**	**118,757**

B. FINANCIAL ASSETS ASSIGNED AND DERECOGNIZED WITH RECOGNITION OF CONTINUING INVOLVEMENT

At the reporting date, there are no transactions for the assignment of derecognized financial assets with the recognition of continuing involvement.

C. FINANCIAL ASSETS ASSIGNED AND DERECOGNIZED

QUALITATIVE DISCLOSURES

As at December 31, 2020, the Group held shares in investment funds acquired as part of multi-originator assignments of loan portfolios.

In accordance with the provisions of the Bank of Italy Communication of December 23, 2019, information on the transactions carried out by certain Group banks during the year is reported below.

CUVÉE DISPOSAL

On December 3, 2021, Iccrea Banca and the Cassa Rurale ed Artigiana di Binasco, with their participation in Wave 4 of the Cuvée Project, completed the sale of unlikely-to-pay (UTP) loans with the subscription of the units of a restricted Italian alternative closed-end securities investment fund called Back2Bonis, managed by Prelios SGR SpA. The fund, established in 2019 by the Prelios Group and AMCO, works to create a multi-originator platform to manage UTP positions, consisting of loans and credit lines granted to companies operating in the real estate sector or to real estate funds.

The operation took the form of i) the sale without recourse of a portfolio of UTP loans owed to companies operating in the real estate sector or to real estate funds to a securitization vehicle pursuant to Law 130/99 called Ampre Srl (ii) the subscription of the securities issued by the securitization vehicle by the Back2Bonis fund and (iii) subscription of the Fund units against the loans being assigned.

Participation in the multi-originator platform to manage UTP positions in respect of loans and credit lines granted to companies operating in the real estate sector sponsored by AMCO (Special and Master Servicer) and Prelios (Real Estate Partner and manager of the Fund through Prelios SGR) was intended to achieve the following main objectives:

- increase potential recoveries thanks to specific skills in the real estate sector;
- enhance the efficiency of the management of real estate projects through the restructuring of the financial position of the borrowers and the new finance made available by the fund;
- maximize of the sale value of the properties on the basis of agreed business plans, with a consequent financial benefit from the recovery of the loans;
- deconsolidate the impaired loans contributed to Back2Bonis (and consequent recognition of the fund units) and reduce the NPE ratio.

As part of the transaction, which saw the participation of leading Italian banking groups:

- Iccrea Banca assigned a portfolio consisting of 3 positions with a gross carrying amount of €8.5 million and subscribed 9.1 units with a nominal value of €4.3 million (€467 thousand per unit);
- CRA Binasco assigned a portfolio of 11 positions with a gross carrying amount of €39.2 million euros and subscribed 42.7 units with a nominal value of €19.9 million (€467 thousand euros per unit).

Overall, the ICBG holds 51.8 units, equal to 4.5% of the 1,155.2 units issued by the fund.

The assignment of the loans involved the transfer to the fund of all the rights connected with the realization of the assigned positions, i.e. the right to collect the cash flows, including rights to collateral and unsecured guarantees, various accessory rights and the right to pursue actions to achieve borrower performance. In return for the sale, each assignor received shares of the fund in proportion to the value of the loans transferred by the bank at the cut-off date of June 30, 2021. An external expert was engaged to assess the appropriateness of the criteria adopted by the asset management company in valuing the loan portfolios and to verify that the valuation of the various loans contributed by the bank participating in the transaction was carried out on a uniform basis. This valuation is at the basis of the transfer price of the loans.

ILLIMITY CREDIT & CORPORATE TURNAROUND DISPOSAL

On April 1, 2021, Iccrea Banca, BCC Ravennate Forlivese e Imolese, Chiantibanca and Iccrea BancaImpresa completed the assignment of unlikely-to-pay (UTP) loans to the Illimity Credit & Corporate Turnaround fund, a restricted Italian alternative closed-end investment fund established on the same date, receiving units of the fund, which is managed by Illimity SGR, in exchange.

Subsequently, the Group participated in a second closing on October 21, 2021, with the assignment of loans by Iccrea BancaImpresa, Riviera Banca and Credito Padano.

The Illimity CCT fund focuses on UTP exposures and, in general, on loans to companies experiencing financial strain but which could be saved and relaunched through restructuring, a market segment in which Illimity Bank is already present with its SME division.

For the assignor banks, the objective of the transaction is to achieve the following main benefits:

- increase potential recoveries thanks to specific skills in the sectors of the target companies and restructuring operations;
- stabilize the financial condition of the borrowers, including through the provision of new finance made available by the fund;
- achieve economies of scale to maximize the value of receivables from the same Target assigned by different banks;
- deconsolidate the impaired loans contributed and recognize the units of the fund, with a consequent reduction in the NPE ratio of the assignor banks.

The structure of the transaction, in which other Italian banking groups also took part, provided for the non-recourse assignment to the fund of a portfolio of UTP loans due from companies. All rights connected with the realization of the assigned loans are transferred assigned to the fund, i.e. the right to collect cash flows, including rights to collateral and unsecured guarantees, various accessory rights and the right to pursue actions to achieve borrower performance.

In particular, the fund will issue 3 classes of units: (i) “A Units” (or the “Loan Units”): subscribed by the assignor banks and paid with the assignment or transfer of loans and/or financial instruments and/or with cash payments for any adjustments required by the fund rules; (ii) “B Units” (or the “Finance Units”), subscribed by professional investors and paid in cash. The liquidity will be invested by the fund in the purchase of UTP positions and/or in the provision of new finance or capital to the borrowers connected with the assigned loans, all as part of the fund’s strategy to maximize the likelihood of success of the restructuring of these companies and to optimize the recovery of exposures; and (iii) the “C Units”, reserved for the asset management company and the members of the fund’s management team and paid in cash.

Against the assignment of the loans, each bank subscribed class A units of the fund in proportion to the value of the loans assigned by the bank.

With successive closings, the ICBG assigned total UTP positions in respect of 12 borrowers with a gross carrying amount of €57 million, subscribing 22.3% of the fund’s Loan Units, with a total NAV of €36.5 million. The positions were sold directly to the fund, with the exception of the establishment of a securitization structure without tranching for the lease receivables sold by Iccrea BancaImpresa in order to enable the transfer of ownership of the leased assets.

The above assignment led to the full derecognition of the assigned loans by the assignor banks, as the assignment transferred substantially all the risks and rewards connected with ownership of the assets transferred to the assignee. Similarly, the requirements for the application of IFRS 10 and for the consequent consolidation of the funds do not obtain, despite being exposed to the variable returns deriving from the activities of the fund, since the banks do not have the power or the ability to determine or affect the investment strategies of the fund, a power that the governance arrangements established with the fund rules attribute solely to the asset management company.

The fund units are classified under “Financial assets mandatorily measured at fair value through profit or loss”, since their nature and contractual characteristics mean they do not pass the SPPI test. For further information, please see Part A “Accounting Policies” of these notes to the consolidated financial statements.

The investment in the funds presents a level of risk related to the intrinsic characteristics of the underlying real estate product. The risk profile of the funds is determined using a scoring assessment method, which considers the qualitative and quantitative elements of the risk factors described below:

- market risk, represented by the risk that the value of the fund units will decrease as a result of fluctuations in the value of the assets in which the Fund’s resources are invested (for example, due to the effect of price developments over time in relation to the type of properties and the geographical area in which they are located);
- liquidity risk, consisting in the risk that the fund will be unable (due in part to the low liquidity and the variable valuations of the real estate assets) to meet its commitments in respect of its creditors and investors due to the insufficiency of its funds with respect to liabilities or to the less than optimal balance between readily liquidable assets and enforceable liabilities;
- concentration risk, deriving from an excessive exposure to individual real estate initiatives, individual counterparties, entities belonging to the same economic sector or located in the same geographical area;
- counterparty risk, represented by the risk that the counterparty in one of the transactions will default before final settlement of the cash flows of the transaction, thus affecting the performance of the assets in which the funds invest;
- interest rate risk, represented by the risk of changes in interest rates that could impact loan agreements and any derivative contracts, in particular with regard to interest expense and the differences that the fund is required to pay to credit institutions;
- other risks, such as, but not limited to: changes in the legislative framework, failure to obtain the necessary authorizations, delays or interruptions in the execution of the contracted works, unexpected environmental charges, exceptional events not covered by insurance policies, legal or tax disputes, other operational risks related to the management of the assets or risks related to the use of leverage as governed by the fund rules.

As regards procedures for monitoring these risks, the Group continues to use the management tools they use for other investments in their portfolio and verifies that the operations as a whole are managed in accordance with the law and the fund rules, based on the reports that the asset management company periodically submits to subscribers.

The table reports the underlying assets of the disposals carried out by the Group during the year.

QUANTITATIVE DISCLOSURES

DISPOSALS INVOLVING ASSETS ASSIGNED AND FULLY DERECOGNIZED: CARRYING AMOUNTS

	Performing exposures		Impaired exposures		Total	
	Carrying amount	Total value adjustments	Carrying amount	Total value adjustments	Carrying amount	Total value adjustments
A. Financial assets held for trading	**-**	X	X	X	**-**	X
1. Debt securities		X	X	X		X
2. Equity securities		X	X	X		X
3. Loans		X	X	X		X
4. Derivatives		X	X	X		X
B. Other financial assets mandatorily measured at fair value	**-**	X	**-**	**-**	**-**	**-**
1. Debt securities		X				
2. Equity securities		X				
3. Loans		X				
C. Financial assets designated as at fair value	**-**	X	**-**	**-**	**-**	**-**
1. Debt securities		X				
2. Loans		X				
D. Financial assets measured at fair value through other comprehensive income	**-**	-	**-**	**-**	**-**	**-**
1. Debt securities						
2. Equity securities						
3. Loans						
E. Financial assets measured at amortized cost	**-**	**-**	**80,000**	**50,684**	**80,000**	**50,684**
1. Debt securities					-	**-**
2. Loans			80,000	50,684	80,000	**50,684**
Total financial assets 31/12/2021	**-**	**-**	**80,000**	**50,684**	**80,000**	**50,684**
Total financial assets 31/12/2020	**-**	**-**	**14,419**	**12,194**	**14,419**	**12,194**

D. TRANSACTIONS IN COVERED BONDS

In 2021, the structuring of a covered bond program was completed, giving the Group an additional medium-long term funding channel. The program, the first in the cooperative banking industry in Italy, involves Iccrea Banca as the issuer of covered bonds and a number of affiliated banks as assignors and servicers of a portfolio of primary credit quality mortgages pledged to secure the bonds issued.

The program, which gives investors a secured product that can be used to improve their medium/long-term financial profile, given the evolution of the financial markets, is part of a broader strategy aimed at:

- containing funding costs, thanks to considerable attractiveness of covered bonds as instruments issued directly by a bank whose repayment is also secured by a segregated asset pool (in this case, residential mortgage loans). Thanks to their ability, in the event of bankruptcy of the issuing bank, to recover their position against specially segregated high quality assets, the holders of covered bonds are willing to accept a lower return than that they would demand for similar unsecured bonds;
- diversifying funding sources on the international market as well;
- lengthening the average maturity of debt.

The Program, allowing the Group to enter a new market characterized by particular complexity, both operational and legal, was based on a governance and control process entrusted to the responsibility of Iccrea Banca (which also plays a management role and coordination, centralizing the management and control activities of the cover pool, the role of master servicer and test calculation agent) and is based on offer documentation submitted to the approval of the Commission de Surveillance du Secteur Financier (CSSF) of the Grand Duchy of Luxembourg. With the approval of the Program, Iccrea Banca can issue Covered Bonds in the amount of up to €10 billion over a period of 10 years.

The structuring of the Group's covered bond program involved the implementation of the following activities:

- an initial assignment by a number of mutual banks to a specially formed SPV called Iccrea Covered Bond Srl of a portfolio of loans held by the assignor banks, which will represent the segregated assets pursuant to and for the purposes of the provisions of Law 130 on securitizations. The program permits additional assignments of loans, which will form part of the segregated assets, both by the initial assignor banks and by any additional affiliated banks who intend participate in the program subsequently;
- the grant to the SPV by the assignor banks of a subordinated loan to provide the SPV with the resources to purchase the loans being assigned;

- the issue by the SPV of an autonomous, irrevocable and unconditional first demand guarantee to the exclusive benefit of the investors holding the covered bonds and senior creditors of the program (the guarantee provides for limited recourse against the assets in the cover pool held by the SPV, which performs the role of Guarantor);
- the issue by Iccrea of the covered bonds and the proportional transfer of the liquidity raised to the assignor banks.

On June 28, 2021 the first portfolio was sold to Iccrea Covered Bond Srl, for a total nominal amount of €674 million by eight initial assignor banks, as detailed in the following table:

Assignor banks	Residual debt at the assignment date (€/million)	Intercompany liquidity post issue (€/million)
Emil Banca - Credito Cooperativo - Società Cooperativa	83.8	62.0
Banca Centro - Credito Cooperativo Toscana-Umbria Societa' Cooperativa	50.0	37.0
Credito Cooperativo Friuli - Societa' Cooperativa	138.7	103.0
Banca Di Credito Cooperativo Di Milano - Societa' Cooperativa	40.5	30.0
Credito Cooperativo Ravennate, Forlivese E Imolese - Societa' Cooperativa	135.1	100.0
Banca Patavina Credito Cooperativo Di Sant'Elena E Piove Di Sacco - Societa' Cooperativa	63.0	47.0
Centromarca Banca - Credito Cooperativo Di Treviso E Venezia	60.6	45.0
Banca Di Credito Cooperativo Di Staranzano E Villesse - Societa' Cooperativa	102.6	76.0
Total	**674.4**	**500.0**

Following the first sale, on 23 September 2021, Iccrea Banca initiated the issue of covered bonds in the nominal amount of €500 million, which were placed with professional investors. They have a maturity of 7 years (maturing on September 23, 2028), an Aa3 rating from Moody's, annual coupons with a fixed rate of 0.01% gross per annum and a re-offer yield of -0.003%.

As regards the accounting treatment of the operation:

- the assigned loans continue to be recognized by the assignor banks under item 40 b) "Financial assets measured at amortized cost: loans to customers", under the sub-item "medium/long-term loans" , as the assignors retain the risks and rewards associated with the ownership of the assigned loans. The loan granted by the assignors to the SPV is not recognized as a separate item, as it is offset by the debt to the vehicle connected with the initial transfer price. This loan is therefore not subject to assessment for credit risk purposes, as the risk is entirely reflected in the valuation of the assigned loans, which continue to be recognized in the financial statements of the assignors;
- the value of the loans changes on the basis of events affecting them (account movements and valuations). Loan payments collected by assignors (who act as servicers) are paid daily to the vehicle on the "collection account" and accounted for by the assignors as follows: (i) the collection of the principal amount from the borrower is recognized against a decrease in the receivable from the same borrower; (ii) the payment of the principal amount to the vehicle is recognized against the recognition of a receivable from the vehicle, which is closed at the time of repayment of the subordinated loan;
- the interest collected from the borrower is recognized under item 10 of the income statement "Interest income: loans to customers" (interest on loans continues to be recognized on an accruals basis through the allocation of amounts accruing);
- the payment of interest to the vehicle is recognized against the recognition of a receivable from the vehicle, which will be closed at the time of collection of interest on the subordinated loan;
- Iccrea Covered Bond Srl, owned by Iccrea Banca, is recognized under item 70 "Equity investments";
- the covered bonds issued are recognized in liabilities under item 10c) "Financial liabilities measured at amortized cost: securities issued" and the related interest expense is recognized on an accruals basis.

In order to enable the assignee company to fulfill the obligations of the guarantee granted, Iccrea Banca uses appropriate asset and liability management techniques to ensure the overall balance between the cash flows generated by the assigned assets and the payments due in respect of the covered bonds issued and other transaction costs.

The program has been structured in accordance with applicable laws and regulations, which permit the issue of covered bonds on the condition of compliance with certain capital requirements for the assignor and issuing banks.

The structure of the Iccrea Banca program is subject to stringent regulatory constraints and provides for continuous oversight by the CFO and CRO areas, as well as monitoring by the Internal Audit function and an external auditor (Deloitte & Touche) in the role of Asset Monitor. In particular, the measures concern:

- assessments of the supervisory capital requirements for bond issues;

- audits of the quality and integrity of the assigned assets, in particular the estimated value of the properties to which the mortgages are attached. Action may consist of instructions to the assignor banks to carry out repurchases, make additions or conduct new sales of supplementary assets;
- audits of the maintenance of the correct relationship between the covered bonds issued and the assets transferred as collateral (cover pool);
- audits of compliance with the transfer limits and portfolio supplementation procedures.

Information on the nature of the risks associated with maintaining the Covered Bond Program is provided below:

- portfolio supplementation risks: the contractual documentation provides for an obligation to supplement the portfolio in order to comply with the tests required by applicable legislation. Failure to comply with these tests would represent an issuer event of default, with the consequent activation of the guarantee issued by the SPV. This risk is mitigated by the control mechanisms described above;
- risks relating to cross-collateralization: the participation of the mutual banks - as assignor banks within the program - means that they compete, pari passu with each other as subordinated creditors of the vehicle and, above all, assume the obligation for compliance with regulatory tests and maintaining the quality and integrity of the assets pledged as collateral for the covered bonds. This implies that the limitation of the liability of each assignor bank to the portion of the portfolio transferred to the SPV and the connection of the portfolio supplementation obligations of each assignor bank if the quality of its portfolio should deteriorate only has contractual force between the assignor banks, but is not in any way enforceable against the vehicle and the investors. In order to minimize these consequences, the contractual documentation envisages a coordinating role in the management of the portfolio aimed at limiting the possible impact of a sudden deterioration in the quality of the cover pool;
- liability under the Framework Servicing Agreement: under the provisions of this agreement, the SPV grants (i) the role of Master Servicer to Iccrea Banca and (ii) the role of Servicer to the banks, which thus act as the entities responsible for collections on the loans each has assigned to the SPV. The liability risk of Iccrea Banca as Master Servicer are therefore limited to the fulfillment of the obligations undertaken by the latter pursuant to the Framework Servicing Agreement and does not extend to the actions of the servicers, who are in turn directly liable to the SPV on an individual basis. Iccrea Banca also assumes the role of entity responsible for verifying the compliance of transactions with the law and the prospectus pursuant to Law 130.

E. PRUDENTIAL CONSOLIDATION – MODELS FOR MEASURING CREDIT RISK

The section has not been completed because the Group does not use internal portfolio models for measuring its exposure to credit risk.

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 €15 million in 1-day VaR with a 99% confidence level has been established. In the second half of 2021, the risk profile of all trading operations never breached the RAS limit.

The average VaR of the trading book was €0.59 million, with a minimum of €0.32 million and a maximum of €1.16 million (registered on December 14, 2021).

At December 31, 2021 the VaR was €0.91 million.

Daily VaR Trading Book	Notional (in €/millions) al 31/12/2021	VaR	
		Limit	Risk Profile
ICBG	5,769	15	0.91

The following table reports sensitivities by risk factor at December 31, 2021, which correspond to the change in the market value of the trading book as the risk factors change (see section "Deterministic Metrics, Sensitivity and Greeks of Options").

	Sensitivity Value (in €)	Note
Interest Rates	(52,179)	Sensitivity calculated in relation to 1 bp change
Inflation Rates	6,685	
Credit spread	(13,553)	
Equity	36,963	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 particular; in order to monitor this risk category, parallel and non-parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged for regulatory purposes, in the standard outlier test, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
- basis risk: the analysis provides for the segmentation of the banking book based on the market parameters to which the items involved are indexed and the analysis of the time series of basis spreads with respect to the pivot rate (3-month Euribor) for the purpose of determining the size of the shocks to be applied to each;
- option risk: the analysis includes a preliminary identification of the automatic/behavioral option components in the assets and liabilities of the Bank's banking book and the subsequent:
  - historical analysis of the observed changes in volatility, to determine the magnitude of the shocks to be applied for the purpose of quantifying the automatic option risk;
  - verification of the impact of interest rate shocks on the behavioral model parameters, for the purpose of quantifying the behavioral option risk.
- CSRBB: internally defined scenarios are used based on prudential assessments and historical analyses of the observed changes in credit spreads.

In order to monitor risk limits, parallel and non-parallel shock scenarios are adopted. To monitor the additional metrics subject to reporting requirements, scenarios involving shocks to the yield curves are also envisaged in addition to those adopted as a reference for the determination of risk limits. As part of stress testing, further scenarios are used on periodic basis to signal potential areas of weakness in the presence of particular market conditions.

Risk prevention and attenuation

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework, taking account of the nature, objectives and complexity of Group operations.

The system of limits (EWS, RAS and Risk Limits) is defined by the Parent Company in accordance with its management and coordination role and implemented through 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 December 31, 2021 is reported below.

€/million	Scenario	
	-100 bp	+100 bp
Impact on economic value	- 468	+ 659
Impact on net interest income	- 134	+ 399

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.

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QUANTITATIVE DISCLOSURES

1. DISTRIBUTION BY CURRENCY OF ASSETS, LIABILITIES AND DERIVATIVES

	Currency					
	USD	GBP	JPY	CAD	CHF	OTHER CURRENCIES
A. Financial assets	**119,946**	**4,866**	**4,772**	**-**	**20,972**	**1,316**
A.1 Debt securities	26,765	193	-	-	-	1,316
A.2 Equity securities	22,634	3,933	-	-	123	-
A.3 Loans to banks	11,857	-	-	-	-	-
A.4 Loans to customers	58,690	740	4,772	-	20,849	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**23,305**	**9,227**	**2,348**	**4,847**	**8,838**	**10,570**
C. Financial liabilities	**205,769**	**15,294**	**6,776**	**3,829**	**27,519**	**8,016**
C.1 Due to banks	44,185	4,044	6,253	201	11,720	3,791
C.2 Due to customers	161,584	11,250	523	3,628	15,799	4,225
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**231**	**-**	**-**	**-**	**8**	**86**
E. Financial derivatives						
- Options						
+ Long position	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives						
+ Long positions	593,865	4,210	-	-	-	1,423
+ Short positions	555,741	625	39	206	465	4,308
Total assets	**737,116**	**18,303**	**7,120**	**4,847**	**29,810**	**13,309**
Total liabilities	**761,741**	**15,919**	**6,815**	**4,035**	**27,992**	**12,410**
Difference (+/-)	**(24,625)**	**2,384**	**305**	**812**	**1,818**	**899**

2. INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODS

There is no information to report.

1.3. DERIVATIVES AND HEDGING POLICIES

1.3.1 FINANCIAL DERIVATIVES HELD FOR TRADING

A. FINANCIAL DERIVATIVES

A.1 FINANCIAL DERIVATIVES HELD FOR TRADING: END-PERIOD NOTIONAL VALUES

	Total 31/12/2021				Total 31/12/2020			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		Covered by netting arrangements	Not covered by netting arrangements			Covered by netting arrangements	Not covered by netting arrangements	
1. Debt securities and interest rates	-	3,118,151	1,404,963	-	-	3,361,355	1,478,225	-
a) Options	-	425,368	268,769	-	-	569,174	325,149	-
b) Swaps	-	2,692,783	1,096,157	-	-	2,747,381	1,006,239	-
c) Forwards	-	-	37	-	-	-	146,838	-
d) Futures	-	-	40,000	-	-	44,800	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	-	-	1,714	-	-	4,922	4,211	-
a) Options	-	-	1,132	-	-	4,369	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	570	-	-	-	4,211	-
d) Futures	-	-	12	-	-	553	-	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign currencies and gold	-	865,160	243,265	-	-	13,028,889	727,949	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	3,564	3,564	-
c) Forwards	-	865,160	243,265	-	-	13,025,325	724,385	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other underlyings	-	-	-	-	-	-	-	-
Total	-	3,983,311	1,649,942	-	-	16,395,166	2,210,385	-

A.2 FINANCIAL DERIVATIVES HELD FOR TRADING: GROSS POSITIVE AND NEGATIVE FAIR VALUE – BREAKDOWN BY PRODUCT

	31/12/2021				31/12/2020			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		Covered by netting arrangements	Not covered by netting arrangements			Covered by netting arrangements	Not covered by netting arrangements	
1. Positive fair value								
a) Options	-	1,981	89	-	-	525	53	-
b) Interest rate swaps	-	120,773	19,879	-	-	73,199	41,262	-
c) Cross currency swaps	-	-	-	-	-	73	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	8,230	5,818	-	-	130,772	253	-
f) Futures	-	-	305	-	-	56	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**130,984**	**26,091**	**-**	**-**	**204,625**	**41,568**	**-**
2. Negative fair value								
a) Options	-	696	1,900	-	-	1,066	434	-
b) Interest rate swaps	-	140,316	1,143	-	-	114,395	736	-
c) Cross currency swaps	-	-	-	-	-	-	73	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	12,882	71	-	-	109,400	22,098	-
f) Futures	-	-	284	-	-	62	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**153,894**	**3,398**	**-**	**-**	**224,923**	**23,341**	**-**

A.3 OVER-THE-COUNTER FINANCIAL DERIVATIVES HELD FOR TRADING: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY

	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	X	49,427	25,091	1,330,446
- positive fair value	X	1,443	183	18,560
- negative fair value	X	793	1	2,534
2) Equity securities and equity indices				
- notional value	X	1,144	570	-
- positive fair value	X	87	-	-
- negative fair value	X	-	-	-
3) Foreign currencies and gold				
- notional value	X	-	240,332	2,933
- positive fair value	X	-	5,797	21
- negative fair value	X	-	-	71
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other assets				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	-	2,950,366	167,784	-
- positive fair value	-	120,967	1,787	-
- negative fair value	-	137,187	3,825	-
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	595,868	269,292	-
- positive fair value	-	1,734	6,496	-
- negative fair value	-	12,882	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other assets				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 RESIDUAL LIFE OF OVER-THE-COUNTER FINANCIAL DERIVATIVES: NOTIONAL VALUES

	Up to 1 year	More than 1 year and up to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	2,709,596	809,892	1,003,626	4,523,114
A.2 Financial derivatives on equity securities and equity indices	1,144	-	570	1,714
A.3 Financial derivatives on exchange rates and gold	1,107,902	523	-	1,108,425
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2021	**3,818,642**	**810,415**	**1,004,196**	**5,633,253**
Total 31/12/2020	**16,025,541**	**1,796,196**	**858,814**	**18,680,551**

B. CREDIT DERIVATIVES

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

1.3.2 HEDGE ACCOUNTING

QUALITATIVE DISCLOSURES

For the purposes of hedge accounting, the Group applies the provisions contained in IAS 39 since at the time of initial application of IFRS 9 it elected the option provided for in paragraph 7.2.21 of that standard to continue to apply in full the rules of IAS 39 for all types of hedging (micro and macro).

The hedge contracts are transacted on the basis of the provisions of specific company policies and mainly used to manage interest rate risk on the banking book arising from the normal business operations of the individual banks and the Parent Company, pursuing the objective of reducing the risk profile within the limits of the Risk Appetite Framework as defined and quantified by their respective competent bodies. These limits concern the exposure of the Group both in terms of net interest income sensitivity and economic value sensitivity.

In particular, all the hedges established by the affiliated banks with the Parent Company with respect to which the latter enters into an identical and opposite position in derivatives with the market are represented in the same way at the consolidated level: hedges originally established by the affiliated banks regard portfolios of loans to customers, securities holdings and, to a marginal extent, bonds in issue. On the other hand, transactions involving the hedging of loans to customers or securities of a minor nature (mainly by notional amount) between the affiliated banks and the Parent Company, provide for the latter to manage the consequent risk position on a "synthetic" basis, which is reported in the consolidated financial statements through the designation of generic fair value hedges established in respect of interest rate risk. The life cycle of a hedge accounting relationship starts with the so-called "designation" phase. With the designation of the hedging relationship, the company identifies the instruments through which it intends to implement the hedging strategy, as defined by the manager of the risk being hedged and in compliance with the principles established in the Group Hedging Policy, which defines the methods of measuring effectiveness by type of hedge.

Once a hedging relationship has been designated, it must be demonstrated that the hedge is highly effective in offsetting fair value changes attributable to the hedged risk or stabilizing the cash flows attributable to the hedged risk during the period for which the hedge is designated.

The effectiveness of the hedge is demonstrated at the inception date and measured at the periodic reporting dates (March 31, June 30, September 30 and December 31).

The effectiveness of the hedge is measured by conducting so-called effectiveness tests (prospective and retrospective) based on both qualitative and quantitative methods, complying with the criterion of continuity. A hedging relationship is considered effective if at each measurement date both tests (prospective and retrospective) are passed. The failure of the effectiveness test(s) should result in the discontinuance of the hedging relationship, i.e. the termination of hedge accounting.

A. FAIR VALUE HEDGING

Fair value hedging is used to immunize changes in the fair value, attributable to the different risk factors, of financial assets and liabilities or portions of them, of groups of assets/liabilities, of irrevocable commitments and portfolios of financial assets and liabilities.

The Group adopts both specific hedges (micro fair value hedges) and generic hedges (macro fair value hedges). These hedges therefore apply both to well-identified financial instruments (government securities – both fixed rate and indexed to European and Italian inflation – deposits, bond issues, loans and other financing) and to portfolios of fixed-rate and variable-rate financial instruments (government securities, loans).

Within the scope of micro fair value hedging, hedges are mainly used for securities holdings and bonds issued, while macro hedging is applied to portfolios of fixed-rate loans, variable-rate loans and a single portfolio of debt securities classified as FVOCI under the HTCS business model.

The main types of derivatives used are represented by plain or structured interest rate swaps (IRS), and asset and yield swaps (ASW) entered into with third parties to ensure compliance with the requirement to externalize risk, which is necessary to qualify for hedge accounting at the consolidated level, in compliance with the provisions of paragraph 73 of IAS 39. These derivatives are not listed on regulated markets, but are traded on OTC markets.

The effects of designating the hedging relationship begin at the inception of the hedge with the identification of the portion and the type of hedged risk, the hedging strategy and the hedging instrument in accordance with the principles the Group has established concerning the methodology used to assess the effectiveness of the hedging relationship.

B. CASH FLOW HEDGING

Cash flow hedging seeks to hedge the exposure to the variability of future cash flows attributable to particular risks associated with balance sheet items or highly probable forecast transactions or to hedge exchange rate risk.

The Group adopts specific hedges of assets (micro cash flow hedge) represented by fixed-rate, variable rate (CCTs) and euro inflation-linked government securities.

In addition, at December 31, 2021 forward sales of government securities falling under the accounting model in question were outstanding, designating the variability of cash flows deriving from a highly probable forecast transactions as the hedged risk. In particular, the fixing – at the trade date - of the sale price of the hedged instrument make these transactions suitable for inclusion in the cash flow hedge model due to the stabilization of cash flows with respect to the risk that the price of the security could change in the opposite direction with respect to the Bank's strategic intention. These transactions are carried out using combinations of purchases and sales of put and call bondoptions, so as to financially replicate a forward contract. These derivative instruments are traded on OTC circuits.

C. HEDGING OF INVESTMENTS IN FOREIGN OPERATIONS

In 2021, the Group did not undertake hedging of exchange rate risk on foreign currency transactions.

D. HEDGING INSTRUMENTS

Designated hedging transactions, with formal documentation identifying the relationship between the hedged instrument and the hedging instrument, are considered effective if at inception and for the entire duration of the hedging relationship changes in the fair value or the cash flows of the hedged instrument are almost completely offset by changes in the fair value or cash flows of the hedging derivative. The effectiveness of the hedge depends on the extent to which the changes in the fair value of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is quantified by comparing the aforementioned changes, taking account of the intent pursued by the company at the time the hedge was established.

A hedge is effective when the changes in the fair value (or cash flows) of the hedging instrument almost entirely, i.e. within the specified limits, offset the changes in the hedged instrument for the risk being hedged.

Effectiveness is assessed at each annual or interim reporting date using:

- prospective tests aimed at demonstrating that changes in the fair value or cash flows of the hedging instrument attributable to the hedged risk will be such as to offset changes in the fair value or cash flows of the hedged item. They are performed adopting both qualitative (Critical Term Match) and quantitative methods ("cumulative scenario method" or "linear regression method with curve simulation");
- retrospective tests aimed at measuring the actual effectiveness of the hedging relationship between the date of designation and the test date, determining the deviation of hedging relationships from the result that would be achieved with a perfect hedge. These tests are performed using quantitative methods, i.e. the dollar offset method and the volatility risk reduction method.

The main causes of ineffectiveness are attributable to the following:

- a misalignment between the notional of the derivative and the nominal of the hedged instrument at the time of the initial designation or generated subsequently, as in the case of partial repayments or full extinguishment of loans or the repurchase of bonds;
- the approach of the expiry of the transaction.

The ineffectiveness of the hedge is recognized promptly for the purposes of:

- determining the impact on profit or loss;
- assessing the possibility of continuing to apply hedge accounting rules.

If the assessments do not confirm the effectiveness of the hedge, the relationship considered terminated as of the last date from which the relationship was shown to be effective. This date coincides with the beginning of the period in which the effectiveness test was failed. However, if the event or the circumstances that led to the hedging relationship no longer meeting the criteria for effectiveness are identified and it is shown that the hedge was effective before the event or change in the circumstances occurred, hedge accounting is discontinued from the date of the event or change in those circumstances. The hedging derivative, if not extinguished, may be designated as a hedging instrument in another relationship that meets the relevant or be reclassified as a trading instrument.

The Group does not use dynamic hedges, as defined in IFRS 7, paragraph 23C.

E. HEDGED ITEMS

At the Group level, hedged items designated as being in a hedge accounting relationship using micro and macro hedges are mainly government securities, bond issues of the Parent Company and loans to customers in the form of residential mortgages and leases as well as a loan to a company within the direct scope of consolidation.

These hedges are both total and partial and the hedged risk is mainly interest rate risk.

Debt securities held

These are hedged using micro fair value hedge, macro fair value hedge and micro cash flow hedge, involving IRSs, ASWs and bond options as hedging instruments (for the latter, only as cash flow hedges). In fair value hedges, interest rate and inflation risk are hedged for the duration of the obligation, while in cash flow hedges, as discussed above, the risk of changes in the sale price of the underlying instrument is hedged. The effectiveness tests are carried out using the dollar offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

Debt securities issued

The Group currently has active micro fair value hedging relationships for bond funding, using IRSs and CCSs 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, using derivatives such as 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:

a) 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

b) 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	4,773,618
Hedge of securities holdings	6,362,108
Hedge of bonds issued	9,000

c) for more on how the entity is managing the process to transition to alternative benchmark rates, please see the Report on Operations;;

d) a description of significant assumptions or judgements the entity made in applying those paragraphs (for example, the assessments or assumptions regarding the moment in which there is no longer any uncertainty deriving from the reform of benchmark rates for the determination of interest rates as regards the timing and amount of cash flows related to the interest rates benchmark). Please see the Report on Operations with regard to transition activities completed, planned or under way with regard to transactions in OTC derivatives involved in hedging relationships designated as being treated with hedge accounting;

e) 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	4,773,618
Hedge of securities holdings	6,607,458
Hedge of bonds issued	9,000

QUANTITATIVE DISCLOSURES

A. FINANCIAL HEDGING DERIVATIVES

A.1 FINANCIAL HEDGING DERIVATIVES: END-PERIOD NOTIONAL VALUES

	Total 31/12/2021				Total 31/12/2020			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		Covered by netting arrangements	Not covered by netting arrangements			Covered by netting arrangements	Not covered by netting arrangements	
1. Debt securities and interest rates	**-**	**14,609,927**	**9,764**	**-**	**-**	**9,395,024**	**11,813**	**-**
a) Options	-	277,448	-	-	-	1,007,150	-	-
b) Swaps	-	14,332,479	9,764	-	-	8,387,874	11,813	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign currencies and gold	**-**	**882**	**26,050**	**-**	**-**	**73,545**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	52,651	-	-
c) Forwards	-	882	26,050	-	-	20,894	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	-	14,610,809	35,814	-	-	9,468,569	11,813	-

A.2 FINANCIAL HEDGING DERIVATIVES: GROSS POSITIVE AND NEGATIVE FAIR VALUE - BREAKDOWN BY PRODUCT

	Positive and negative fair value								Change in value used to calculate hedge effectiveness	
	Total 31/12/2021				Total 31/12/2020					
	Over the counter			Organized markets	Over the counter			Organized markets	Total 31/12/2021	Total 31/12/2020
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties				
		Covered by netting arrangements	Not covered by netting arrangements			Covered by netting arrangements	Not covered by netting arrangements			
Positive fair value										
a) Options	-	3,622	-	-	-	14	-	-	-	-
b) Interest rate swaps	-	39,158	-	-	-	9,578	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	1,455	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	1	178	-	-	715	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**42,781**	**178**	**-**	**-**	**11,762**	**-**	**-**	**-**	**-**
Negative fair value										
a) Options	-	-	-	-	-	33,353	-	-	-	-
b) Interest rate swaps	-	494,055	727	-	-	476,536	1,499	-	-	-
c) Cross currency swaps	-	-	-	-	-	3,374	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	21	465	-	-	95	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**494,076**	**1,192**	**-**	**-**	**513,358**	**1,499**	**-**	**-**	**-**

A.3 OVER-THE-COUNTER FINANCIAL HEDGING DERIVATIVES: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY

	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	X	9,764	-	-
- positive fair value	X	-	-	-
- negative fair value	X	727	-	-
2) Equity securities and equity indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Foreign currencies and gold				
- notional value	X	512	-	25,538
- positive fair value	X	6	-	172
- negative fair value	X	-	-	465
4) Other assets				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	-	13,708,207	901,720	-
- positive fair value	-	42,513	268	-
- negative fair value	-	406,450	87,605	-
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	-	-	882
- positive fair value	-	-	-	1
- negative fair value	-	-	-	21
4) Other assets				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 RESIDUAL LIFE OF OVER-THE-COUNTER FINANCIAL DERIVATIVES: NOTIONAL VALUES

	Up to 1 year	More than 1 year and up to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	3,959,012	3,807,173	6,853,507	14,619,691
A.2 Financial derivatives on equity securities and equity indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	26,931	-	-	26,932
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2021	**3,985,943**	**3,807,173**	**6,853,507**	**14,646,623**
Total 31/12/2020	**3,433,136**	**2,009,878**	**3,969,310**	**9,412,325**

B. CREDIT HEDGING DERIVATIVES

The section has not been completed because there are no such positions.

C. NON-DERIVATIVE HEDGING INSTRUMENTS

The section has not been completed because there are no such positions.

D. HEDGED ITEMS

Although the Group has made use of the exception envisaged by IFRS 9, consisting in the possibility of continuing to apply the provisions governing hedging of IAS 39, the information on the hedged instruments required in this section is provided below.

D.1 FAIR VALUE HEDGES

		Micro hedges		
	Micro hedges: carrying amount	Cumulative value of fair value changes of the hedged instrument	Change in value used to calculate hedge effectiveness	Macro hedges: carrying amount
A. ASSETS				
1. Financial assets measured a fair value through other comprehensive income – hedges of:	**227,968**	**(1,161)**	**-**	**16,300**
1.1 Debt securities and interest rates	227,968	(1,161)	-	X
1.2 Equity securities and equity indices	-	-	-	X
1.3 Foreign currencies and gold	-	-	-	X
1.4 Loans	-	-	-	X
1.5 Other assets	-	-	-	X
2. Financial assets measured at amortized cost – hedges of:	**10,528,196**	**188,980**	**-**	**4,981,601**
1.1 Debt securities and interest rates	10,528,196	188,980	-	X
1.2 Equity securities and equity indices	-	-	-	X
1.3 Foreign currencies and gold	-	-	-	X
1.4 Loans	-	-	-	X
1.5 Other assets	-	-	-	X
Total 31/12/2021	**10,756,164**	**187,819**	**-**	**4,997,901**
Total 31/12/2020	**6,001,810**	**154,520**	**8,475**	**2,093,556**
B. LIABILITIES				
1. Financial liabilities measured at amortized cost – hedges of:	**94,645**	**(1,705)**	**-**	**9,592**
1.1 Debt securities and interest rates	94,645	(1,705)	-	X
1.2 Foreign currencies and gold	-	-	-	X
1.3 Other assets	-	-	-	X
Total 31/12/2021	**94,645**	**(1,705)**	**-**	**9,592**
Total 31/12/2020	**100,478**	**(2,616)**	**-**	**46,363**

D.2 CASH FLOW HEDGES AND HEDGES OF INVESTMENTS IN FOREIGN OPERATIONS

	Change in value used to calculate hedge effectiveness	Hedge reserves
A. CASH FLOW HEDGES		
1. Assets	(1,683)	(5,877)
1.1 Debt securities and interest rates	(1.683)	(5,877)
1.2 Equity securities and equity indices	-	-
1.3 Foreign currencies and gold	-	-
1.4 Loans	-	-
1.5 Other	-	-
2. Liabilities	-	-
1.1 Debt securities and interest rates	-	-
1.2 Foreign currencies and gold	-	-
1.3 Other	-	-
Total A 31/12/2021	**(1,683)**	**(5,877)**
Total A 31/12/2020	**(20,412)**	**(24,538)**
B. HEDGES OF INVESTMENTS IN FOREIGN OPERATIONS	**X**	**-**
Total A+B 31/12/2021	**(1,683)**	**(5,877)**
Total A+B 31/12/2020	**(20,412)**	**(24,538)**

E. EFFECTS OF HEDGING TRANSACTIONS IN EQUITY

The table has not been completed because the Group has made use of the exception envisaged by IFRS 9, consisting in the possibility of continuing to apply the provisions governing hedging of IAS 39.

1.3.3 OTHER INFORMATION ON TRADING AND HEDGING DERIVATIVES

A. FINANCIAL AND CREDIT DERIVATIVES

A.1 OVER-THE-COUNTER FINANCIAL AND CREDIT DERIVATIVES: NET FAIR VALUE BY COUNTERPARTY

	Central counterparties	Banks	Other financial companies	Other
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	-	9,562,961	-	-
- positive fair value	-	32,812	-	-
- negative fair value	-	13,592	-	-
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5)Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
B. Credit derivatives				
1) Purchases of protection				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Sales of protection				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

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 Bank develops scenarios characterized by stress scenarios associated with the occurrence of systemic or idiosyncratic events in order to test potential liquidity vulnerabilities.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses:

- sensitivity analysis: analysis of liquidity position to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- scenario analysis: analysis consisting in the assessment of the Bank’s ability to cope with a potential deterioration in its liquidity profile based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

The types of stress test that characterize the framework provide for the occurrence of sever but plausible events (scenarios) that can be classified into three categories:

- stress scenarios caused by a systemic event, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy and therefore for the Iccrea Cooperative Banking Group;
- stress scenarios caused by specific events (idiosyncratic), i.e. an event (or combination of events) whose occurrence generates/involves highly adverse consequences for the Iccrea Cooperative Banking Group. In defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Group;
- stress scenarios generated by a combination of specific and systemic events, i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimated inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Group to cope with any liquidity strains.

For each scenario, the Group has incorporated shocks generated by the main risk variables, which have been identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of asset to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of health emergency.

QUANTITATIVE DISCLOSURES

DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY

EURO

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Unspecified maturity
A. On-balance-sheet assets	**9,763,204**	**515,503**	**635,470**	**1,582,615**	**4,286,662**	**6,632,697**	**10,483,361**	**72,401,273**	**54,993,441**	**8,023,831**
A.1 Government securities	1,546	-	212,876	157,328	253,870	2,891,851	3,764,776	38,304,183	17,996,061	1
A.2 Other debt securities	4,675	106	625	9,245	45,824	98,355	182,884	1,365,320	2,583,344	9,509
A.3 Units in collective investment undertakings	215,071	-	-	-	-	-	-	-	-	-
A.4 Loans	9,541,912	515,397	421,968	1,416,042	3,986,968	3,642,490	6,535,701	32,731,771	34,414,036	8,014,321
- banks	1,499,607	7,184	41,619	49,695	41,896	35	2,433	15,022	5,523	8,014,321
- customers	8,042,306	508,214	380,350	1,366,347	3,945,072	3,642,455	6,533,268	32,716,748	34,408,513	-
B. On-balance-sheet liabilities	**106,199,820**	**4,581,118**	**350,444**	**811,959**	**2,055,630**	**1,978,397**	**3,586,389**	**41,181,912**	**2,855,140**	**-**
B.1 Deposits and current accounts	105,107,596	56,826	111,748	178,864	548,947	629,186	1,128,549	1,777,057	6,214	-
- banks	244,753	600	-	-	-	-	30,126	-	-	-
- customers	104,862,843	56,226	111,748	178,864	548,947	629,186	1,098,423	1,777,057	6,214	-
B.2 Debt securities	48,256	63,412	82,775	168,182	1,012,359	700,825	1,952,187	5,374,431	1,921,381	-
B.3 Other liabilities	1,043,968	4,460,880	155,921	464,913	494,324	648,386	505,653	34,030,424	927,545	-
C. Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	23,267	255,982	7,942	540,848	8,949	6,187	17,115	16,954	-
- short positions	-	46,307	49	8,853	529,399	24,341	3,813	32,873	268,703	-
C.2 Financial derivatives without exchange of principal										
- long positions	467,213	-	90	-	5,106	5,308	9,085	-	-	-
- short positions	704,732	53	-	19	13,925	20,735	44,015	-	-	-
C.3 Deposits and loans to receive										
- long positions	-	3,805,962	50,859	515,764	204,194	2,562,415	3,511,411	571,198	-	-
- short positions	-	-	51,161	479,966	779,013	3,116,345	5,141,201	1,654,117	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	129,677	217,088	2,344	14,927	55,640	45,548	112,281	325,548	580,333	-
- short positions	1,439,568	93,326	160	180	122,172	38	152	43	867	-
C.5 Financial guarantees issued	22,128	36	164	545	1,301	13,723	13,220	11,910	28,293	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

OTHER CURRENCIES

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Unspecified maturity
A. On-balance-sheet assets	**16,982**	**795**	**12,844**	**8,488**	**27,734**	**9,235**	**3,484**	**25,830**	**9,605**	**1,766**
A.1 Government securities	-	4	1	5	25	71	106	9,169	2,243	-
A.2 Other debt securities	9	-	9,160	-	15	1,130	1,206	2,388	924	1,766
A.3 Units in collective investment undertakings	1,375	-	-	-	-	-	-	-	-	-
A.4 Loans	15,599	792	3,683	8,483	27,693	8,034	2,172	14,273	6,438	-
- banks	4,924	-	271	420	-	916	889	7,691	-	-
- customers	10,675	792	3,412	8,062	27,693	7,118	1,283	6,581	6,438	-
B. On-balance-sheet liabilities	**224,668**	**17,180**	**8,296**	**-**	**140**	**112**	**1**	**152**	**185**	**-**
B.1 Deposits and current accounts	206,035	17,180	8,296	-	140	112	-	-	-	-
- banks	9,433	17,158	8,296	-	19	-	-	-	-	-
- customers	196,602	22	-	-	121	112	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	18,633	-	-	-	-	-	1	152	185	-
C. Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	31,519	78	9,139	530,921	24,874	3,705	51	405	-
- short positions	-	12,406	1,185	8,116	526,876	6,556	6,026	584	619	-
C.2 Financial derivatives without exchange of principal										
- long positions	1,670	-	-	-	-	-	-	-	-	-
- short positions	2,544	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to receive										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

DISCLOSURES ON SELF-SECURITIZATIONS

The Group has implemented securitization transactions in which all the liabilities issued by the vehicle companies involved were underwritten by the Group's banks.

The following provides information on the self-securitization transactions carried out by the banks of the Group and still in place at the reference date of the financial year.

CREDICO FINANCE 9 SECURITIZATION

In 2011, a self-securitization was completed through which 18 mutual banks (of which 14 are members of the ICBG) sold an initial portfolio of performing residential mortgage loans equal to €637.2 million without recourse to the vehicle company Credico Finance 9 Srl The transaction involved the participation of Iccrea Banca as arranger.

The purchase of the portfolio by the SPV was financed through the issue of two categories of asset backed notes in the total amount of €637.2 million, broken down as follows:

- senior Class A notes amounting to €554.4 million, maturing in November 2050, listed on the Irish Stock Exchange;
- junior Class B notes amounting to €82.8 million, maturing in November 2050, unlisted and fully subscribed by the originator banks.

More specifically, the junior securities were divided into 18 series, each of an amount proportional to the amount of the loans respectively assigned by the individual participating banks. Each of the latter subscribed only the series of notes pertaining to their share, with payment of the relative price at par. To hedge the interest rate risk, the SPV has entered into a derivative contract (swap) with J.P. Morgan Securities Ltd.

Originally, the assignor banks had assumed the role of Limited Recourse Loan Providers, making government securities available to the SPV in order to provide a form of liquidity support. Following the downgrade of Italy by Standard & Poor's and Moody's, Italian government securities ceased to meet the criteria of the rating agencies. Therefore, with this contract modification between the parties involved in the transaction, the liquidity line was replaced by a cash reserve (with the simultaneous return of the government securities to the individual participating banks), which for the banks of the Group amounts to €23.7 million.

The following table reports the main characteristics of the ABSs subscribed by the banks of the Group at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A - Senior	Moody's Aa3/DBRS AAA	49.1
Class B - Junior	no rating	68.5

CREDICO FINANCE 10 SECURITIZION

In 2012, a self-securitization was completed through which 30 mutual banks (of which 20 are members of the ICBG) sold an initial portfolio of performing residential mortgage loans equal to €1.6 billion without recourse to the vehicle company Credico Finance 10 Srl The transaction involved the participation of Iccrea Banca as arranger.

The purchase of the portfolio by the SPV was financed through the issue of two categories of asset backed notes, broken down as follows:

- senior Class A notes amounting to €1.3 billion, maturing in October 2050, listed on the Irish Stock Exchange;
- junior Class B notes amounting to €249.3 million, maturing in October 2050, unlisted and fully subscribed by the originator banks.

More specifically, the junior securities were divided into 30 series, each of an amount proportional to the amount of the loans respectively assigned by the individual participating banks. Each of the latter subscribed only the series of notes pertaining to their share, with payment of the relative price at par.

The following table reports the main characteristics of the ABSs subscribed by the banks of the Group at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A - Senior	Moody's Aa3/DBRS AAA	88.0
Class B - Junior	no rating	188.4

On December 22, 2021, the date of legal effect, the participating banks purchased he remaining loans and on the payment date of January 18, 2022 redeemed the notes in full.

CREDICO FINANCE 12 SECURITIZION

In 2013, a self-securitization was completed through which 35 mutual banks (of which 28 are members of the ICBG) sold an initial portfolio of performing residential mortgage loans equal to €1 billion without recourse to the vehicle company Credico Finance 12 Srl The transaction involved the participation of Iccrea Banca as arranger.

The purchase of the portfolio by the SPV was financed through the issue of two categories of asset backed notes, broken down as follows:

- senior Class A notes amounting to €916.4 million, maturing in December 2052, listed on the Irish Stock Exchange;
- junior Class B notes amounting to €125 million, maturing in December 2052, unlisted and fully subscribed by the originator banks.

More specifically, the junior securities were divided into 35 series, each of an amount proportional to the amount of the loans respectively assigned by the individual participating banks. Each of the latter subscribed only the series of notes pertaining to their share, with payment of the relative price at par.

The following table reports the main characteristics of the ABSs subscribed by the banks of the Group at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A - Senior	S&P A+/DBRS AAA	131.6
Class B - Junior	no rating	113.2

CREDICO FINANCE 16 SECURITIZION

In 2016, a self-securitization was completed through which 16 mutual banks (of which 11 are members of the ICBG) sold an initial portfolio of performing residential mortgage loans equal to €660.8 million without recourse to the vehicle company Credico Finance 16 Srl The transaction involved the participation of Iccrea Banca as arranger.

The purchase of the portfolio by the SPV was financed through the issue of two categories of asset backed notes, broken down as follows:

- senior Class A notes amounting to €561.7 million, maturing in December 2056, listed on the Irish Stock Exchange;
- junior Class B notes amounting to €99.1 million, maturing in December 2056, unlisted and fully subscribed by the originator banks.

More specifically, the junior securities were divided into 16 series, each of an amount proportional to the amount of the loans respectively assigned by the individual participating banks. Each of the latter subscribed only the series of notes pertaining to their share, with payment of the relative price at par.

The following table reports the main characteristics of the ABSs subscribed by the banks of the Group at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A - Senior	Moody’s Aa3/DBRS AAA	143.4
Class B - Junior	no rating	78.7

CREDIPER CONSUMER SECURITIZATION

At the end of 2018, a self-securitization denominated “Crediper Consumo” was completed, in which BCC CreditoConsumo sold a portfolio of performing loans deriving from personal loan contracts with a total value of €650 million to the securitization vehicle Crediper Consumer Srl The transaction involved the participation of Iccrea Banca as arranger.

As part of the transaction, the SPV issued two classes of notes listed on the Irish Stock Exchange:

- €520 million of Class A notes, corresponding to 80% of the value of the loans sold, which have been assigned an investment grade rating of AA by DBRS Ratings Limited and AA- by Fitch;
- €140.5 million of Class B notes.

All the securities were subscribed by the originator and the Class A notes were used as underlying assets for refinancing operations with the European Central Bank.

BCC SME FINANCE 1 SECURITIZATION

In 2012, a securitization transaction was completed in which Banca Centromarca, Credito Romagnolo, Banca d’Alba, Emilbanca and another 24 banks not belonging to the Group assigned without recourse performing loans granted to small and medium-sized enterprises to the vehicle BCC SME Finance 1 Srl in the total amount of €2.2 million (of which about €600 thousand assigned by ICBG banks).

The SPV financed the purchase of the loans by issuing notes divided into two classes:

- Class A1 senior notes paying an annual floating rate of 6M Euribor plus a spread of 20 bps in the total amount of €1.5 billion, which have been assigned a rating of “A2” by Moody’s Investors Service and “A+” by DBRS Ratings Limited;
- junior Class B notes - unrated floating rate notes in the total amount of €656.7 million.

The transaction was restructured in 2017 with the issue of a new Senior A2 notes in the total amount of €449.9 million, the partial reduction of the value of the junior notes and the repayment of all limited-recourse loans granted at the time to the SPV.

The A1 and A2 Class notes, which are listed on the Irish Stock Exchange, were fully repurchased on a pro-rated basis by the originator banks.

The banks carried out financing transactions secured by the ABSs subscribed as part of the securitization, using all of the senior notes described above.

The following table reports the main characteristics of the ABSs subscribed by the banks of the Group at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A2 - Senior	Moody’s Aa2/DBRS AA	18.9
Class B - Junior	no rating	58.5

KOBE SECURITIZATION

In 2018, Banca Alpi Marittime and another bank not belonging to the ICBG completed a self-securitization with the assignment without recourse of performing residential mortgage loans in the total amount of about €300.6 million (of which €148.5 million assigned by Banca Alpi Marittime). The purchase of the portfolio by the SPV was financed through the issue of senior Class A notes in the amount of €260 million, mezzanine notes in the amount of €10.5 million and junior Class B notes in the amount of €39.3 million.

The following table reports the main characteristics of the ABSs subscribed by Banca Alpi Marittime at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A - Senior	Moody’s AA3/DBRS AA low	72.1
Class B - Mezzanine	Moody’s Ba2/DBRS BBB high	19.4
Class J - Junior	no rating	5.2

PONTORMO RMBS SECURITIZATION

In 2017, BCC di Pisa e Fornacette and another bank not belonging to the ICBG completed a self-securitization with the assignment of an initial portfolio of mortgage loans, which was restructured in 2019 with the sale of a second portfolio. The transaction involved the assignment of performing residential mortgage loans to the securitization vehicle Pontormo RMBS S.r.l in the total amount of €1.4 billion (of which €393.4 million assigned by BCC di Pisa e Fornacette).

The purchase of the loans by the SPV was financed through the issue of senior Class A notes in the total amount of €986.2 million and junior Class B notes in the amount of €166.4 million.

The following table reports the main characteristics of the ABSs subscribed by BCC di Pisa e Fornacette at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A 2017 - Senior	Fitch AA/S&P AA	73.8
Class B 2017 - Junior	no rating	54.1
Class A 2019 - Senior	Fitch AA/S&P AA	102.0
Class B 2019 - Junior	no rating	3.4

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 & IT Risk Management unit has been established and charged with centralized responsibility for policy-making and coordinating the operational risks for the Iccrea Cooperative Banking Group as a whole. This unit operates as a specialist hub for operational and IT risks, supporting the risk management functions of the companies within the direct scope and the affiliated banks.

With regard to current Group governance arrangements for the internal control system, the Risk Committee of the Board of Directors of the Parent Company provides support to that Board with regard to risks and the internal control system, including aspects concerning the frameworks for the management of operational risk and IT risk.

In particular, the Board Risk Committee:

- supports activities to verify the correct implementation of Group strategies, compliance with policies for the governance and management of operational risk and IT risk, requesting any appropriate technical analyses and acquiring the necessary documentation for the evaluation of management and mitigation actions for the risks involved;
- conducts a preliminary review of the annual activity programs and reports of the Operational & IT Risk Management unit submitted to the Board of Directors;
- expresses its assessment, prior to approval by the Board of Directors, of Group policies on operational and IT risks.

OPERATIONAL RISK MANAGEMENT POLICIES

Consistent with the risk management process, the Operational & IT Risk Management framework is structured into the following phases:

- identification of risks (knowledge): a set of activities directed at identifying operational and IT risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (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)[54], which provides for the application of a fixed percentage (15%) to the average of the last three observations of the "relevant indicator" determined in accordance with the provisions of the CRR.

Following the creation of the Iccrea Cooperative Banking Group, and the consequent affiliation of the mutual banks, the components of the operational and IT risk management framework already adopted by the companies of the former Iccrea Banking Group were revised and gradual adoption by the affiliated banks has begun.

The methodological aspects underlying the management framework and the related procedures for application to the Group companies were formalized and approved at the end of 2019 as part of specific Group Policies (Operational Risk Management Framework, IT Risk Management Framework, Loss Data Collection, Operational Risk Self-Assessment and IT Risk Self-Assessment), which are currently being adopted by all Group companies. In 2021, activities leading up to the development of the application system to support operational and IT risk management activities continued.

The loss data collection process has currently been adopted by all the Group companies that contribute, with a specified frequency, to the collection of historical events and losses through the Group application solution, which is available to both the companies within the direct scope of the Group and the affiliated banks.

As regards the assessment processes for operational risks (OR-SA) and IT risk (IR-SA), the identification and assessment of prospective risks have been initiated and conducted for certain companies within the direct scope and are continuing in 2021 with regard to application of the process to the affiliated banks. IT risk management activities included the completion, in March 2021, of the annual information risk profile assessment, which involved Iccrea Banca, BCC Sistemi Informatici and Iccrea BancaImpresa.

In 2021, the development of the related application system continued in support of risk assessment processes. With specific regard to IT risk, the application component supporting IR-SA activities has been rolled out and was used to assess the IT risk profile of Iccrea Banca, BCC Sistemi Informatici and Iccrea BancaImpresa

In addition, throughout the first half of 2021, consistent with efforts the previous year and in step with the evolution of the management framework and the release of applications, the informational and training effort for the Operational Risk Management framework continued,

[54] One affiliated bank adopts the Traditional Standardized Approach (TSA).

with specific attention being paid to operating approaches and support applications. The Risk Management function also supported the collection of operational loss events at the Group level for QIS and COREP regulatory reporting purposes.

RISK PREVENTION AND ATTENUATION

The units involved in operations perform first-level controls to assess and report any irregularities associated with operational issues.

Second-level control units oversee the appropriateness and effectiveness of the organizational and management arrangements taken to address operational and IT risk within the Group's internal control systems. These include the Operational Risks, Compliance and Anti-Money-Laundering units of the Parent Company, the individual subsidiaries and the affiliated banks. These units are active in planning the system and, above all, in verifying its ongoing operation, assessing its adequacy and effectiveness in managing internal and external risks.

Third-level controls are performed by Internal Audit, which assesses the control system's overall appropriateness and efficiency, as well as its regular operation.

The locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a system of monitoring thresholds and limits (tolerance and capacity), with compliance ensured by the monitoring and control activities of the competent units.

The Group RAS sets out, at the level of the individual legal entities, the main indicators of operational risk, namely:

- maximum operational loss (a monitoring indicator measured at the consolidated level and for the affiliated banks);
- minimum acceptable level in respect of the findings of controls of individual relationships with regard to operational and IT risks (an indicator specified for the entire scope of application of the RAF);
- number of significant incidents (measured at the consolidated level).

Monitoring and reporting

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. In particular, these activities are governed by the unified management framework described earlier and defined within the applicable policies.

In this area, the Risk Management function prepares the necessary periodic reporting, bringing it to the attention of the various internal structures involved (Board of Directors, senior management, operating units).

Risk management and mitigation

Operational and IT risk management and mitigation activities are governed by a set of codified and formalized rules that include:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in the risks assumed;
- the adoption of a set of measures for managing the problems found as part of the risk assessment framework;
- the actions to be taken in the event of breaches of monitoring thresholds or risk tolerances and the risk limits set out in the Risk Appetite Statement;
- the actions to be taken in the event of breaches of the limits defined in risk policies.

QUANTITATIVE DISCLOSURES

As provided for in Circular 285/2013 of the Bank of Italy as updated, for reporting purposes the Group calculates operational risks using the Basic Indicator Approach.

Under the Basic Indicator Approach, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the volume of business, which in the case of Iccrea is the relevant indicator.

In particular, the Group capital requirement, equal to 15% of the average of the last three observations of the relevant indicator at the end of the previous year, amounted to €631 million.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2021	T	4,458,790
- at December 31, 2020	T-1	4,145,171
- at December 31, 2019	T-2	4,027,636
Relevant indicator average		**4,210,532**
Regulatory coefficient		**15%**
Capital requirement		**631,580**

SECTION 3 - RISKS OF INSURANCE UNDERTAKINGS

No information to report.

SECTION 4 - RISKS OF OTHER ENTITIES

The scale of the risks to which “Other entities” are exposed is not material. Accordingly, this section has not been prepared.

PART F - INFORMATION ON CONSOLIDATED CAPITAL

SECTION 1 - CONSOLIDATED CAPITAL

A. QUALITATIVE DISCLOSURES

The Group's strategic priorities include monitoring the amount and dynamics of its capital. Capital constitutes the first bulwark against the risks associated with operations and the main reference parameter for assessments of the Group's solvency by supervisory authorities and investors. It contributes positively to the formation of operating income, funds the Group's technical and financial fixed assets and supports dimensional growth, representing a decisive element in the development phases.

Managing capital adequacy at the consolidated and individual levels involves defining the scale and optimal combination of different capital instruments, in compliance with regulatory constraints and consistent with the risk profile assumed by the Group.

The notion of capital adopted by the Group in its assessments is the "own funds" aggregate as established with Regulation (EU) No. 575/2013 (CRR), broken down into the three components of Common Equity Tier 1 (CET 1), Tier 1 and Tier 2. The capital thus defined, the main resource for supporting corporate risks according to prudential supervisory regulations, is the best foundation for the effective management of risk, both from a strategic and operational standpoint, as it a financial resource capable of absorbing the possible losses produced by the Group's exposure to all the risks it has assumed.

Current and forward-looking capital adequacy is therefore monitored in two spheres:

- regulatory capital to cover Pillar I risks;
- total internal capital to cover Pillar II risks, for ICAAP purposes.

In the evolutionary sizing of the Group's own funds, the specific policies for allocating the net profit of the affiliated banks play an important role, seeking to support the constant strengthening of reserves. In compliance with the specific sector regulations, these banks allocate a large majority of their net profits to indivisible reserves. Capital adequacy compliance is pursued not only through careful policies for the distribution of the available component of profits but also through the prudent management of investments, in particular loans, in line with risk represented by counterparties and the related capital requirements, and with plans for strengthening capitalization based on the expansion of the shareholder base and the issue by the Parent Company of subordinated liabilities or additional equity instruments eligible for inclusion in the relevant own funds aggregates.

More specifically, in order to constant maintain its capital adequacy, the Group has deployed processes and tools to determine the level of internal capital adequate to face any type of risk assumed, as part of an assessment of the current, prospective and "stressed" exposure that takes account of corporate strategies, growth objectives and developments in the reference context.

A careful assessment of the compatibility of projections is carried out annually as part of the process of setting budget targets. Depending on the expected developments in balance sheet and income statement aggregates, any necessary initiatives are taken at this stage to ensure financial balance and the availability of financial resources consistent with the strategic and development objectives of the individual entity and the Group as a whole.

Compliance with supervisory requirements and the consequent adequacy of capital is verified on a quarterly basis. The aspects subject to verification are mainly the ratios connected with the Group's financial structure (loans, impaired exposures, non-current assets, total assets) and the degree of risk coverage.

Additional specific analyzes for the purpose of the preventive assessment of capital adequacy are carried out when necessary prior to extraordinary operations such as mergers and acquisitions, or the sale of assets.

The minimum capital requirements are those established by applicable supervisory regulations (Article 92 of the CRR), according to which the Common Equity Tier 1 ratio must be at least 4.5% of total risk weighted assets ("CET1 capital ratio"), Tier 1 capital must represent at least 6% of total risk weighted assets ("Tier 1 capital ratio") and total own funds must be at least 8% of total weighted assets ("Total capital ratio").

In addition, the competent supervisory authorities periodically issue a specific decision regarding the capital requirements that the Group must comply with following the prudential review and evaluation process ("SREP") conducted pursuant to Article 97 et seq. of Directive 2013/36/EU (CRD IV).

In particular, Article 97 of the CRD IV establishes that the competent authorities shall periodically review the arrangements, strategies, processes and mechanisms that groups and supervised banks implement to face the risks to which they are exposed. With the SREP, the competent authorities therefore review and evaluate the process of determining capital adequacy conducted internally by the Group, analyze its risk profile individually and from an aggregate perspective, including under stress conditions, and assess its contribution to systemic risk; assess the corporate governance system, the operation of corporate bodies, the organizational structure and the internal control system; and verifies compliance with all prudential rules.

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

Accordingly, the consolidated own funds requirements for 2021 remained:

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

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

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

On January 24, 2022 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 March 1, 2022 (broken down into own funds requirements and qualitative requirements).

With this decision, which replaces the 2019 SREP decision that was applied for all of 2021 in view of the pandemic, the supervisory authorities established consolidated own funds requirements for the 2022:

- an additional Pillar 2 requirement (P2R) of 2.83% (of which 8 bps for the NPE P2R in reflection of calendar provisioning, 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 2022 the Iccrea Cooperative Banking Group is therefore required to meet:

- a Total SREP Capital Requirement (TSCR) of 10.83%;
- an OCR equal to 13.33%;
- a Target Requirement (including P2G) of 15.08%.

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	2,361,637	-	-	-	2,361,637
2. Share premium reserve	152,345	-	-	-	152,345
3. Reserves	8,733,980	-	-	-	8,733,980
4. Equity instruments	30,139	-	-	-	30,139
5. (Treasury shares)	(1,263,218)	-	-	-	(1,263,218)
6. Valuation reserves:	219,450	-	-	-	219,450
- Equity securities designated as at fair value through other comprehensive income	6,776	-	-	-	6,776
- 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	22,260	-	-	-	22,260
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedging of investments in foreign operations	-	-	-	-	-
- Cash flow hedges	(5,877)	-	-	-	(5,877)
- 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	(62,981)	-	-	-	(62,981)
- Share of valuation reserves of equity investments accounted for using equity method	2,493	-	-	-	2,493
- Special revaluation laws	256,779	-	-	-	256,779
7. Net profit (loss) for the period (+/-)	460,571	-	-	-	460,571
Shareholders' equity	**10,694,904**	**-**	**-**	**-**	**10,694,904**

B.2 VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Prudential consolidation		Insurance undertakings		Other entities		Consolidation eliminations and adjustments		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	49,557	27,297	-	-	-	-	-	-	49,557	27,297
2. Equity securities	13,771	6,995	-	-	-	-	-	-	13,771	6,995
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2021	**63,329**	**34,293**	**-**	**-**	**-**	**-**	**-**	**-**	**63,329**	**34,293**
Total 31/12/2020	**96,866**	**19,111**	**-**	**-**	**-**	**-**	**-**	**-**	**96,866**	**19,111**

B.3 VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: CHANGE FOR THE PERIOD

	Debt securities	Equity securities	Loans
1. Opening balance	**85,385**	**(7,630)**	**-**
2. Increases	**18,372**	**17,403**	**-**
2.1 Fair value gains	13,236	15,968	-
2.2 Writedowns for credit risk	4,058	X	-
2.3 Reversal to income statement of negative reserves: from realization	814	X	-
2.4 Transfers to other components of shareholders' equity (equity securities)	-	1,022	-
2.5 Other changes	265	413	-
3. Decreases	**81,497**	**2,997**	**-**
3.1 Fair value losses	41,151	2,312	-
3.2 Writebacks for credit risk	1,042	-	-
3.3 Reversal to income statement of positive reserves: from realization	37,396	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	-	385	-
3.5 Other changes	1,908	300	-
4. Closing balance	**22,260**	**6,776**	**-**

B.4 VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

Valuation reserves for defined-benefit plans were a negative €62.9 million at the end of 2021. The following table reports changes in the period as a result of changes in financial assumptions and the time value effect.

	31/12/2021
1. Opening balance	**(57,088)**
2. Increases	**1,592**
2.1 Actuarial gains from changes in financial assumptions	271
2.2 Actuarial gains from changes in demographic assumptions	87
2.3 Other increases	1,234
3. Decreases	**7,485**
3.1 Actuarial losses from changes in financial assumptions	3,534
3.2 Actuarial losses from changes in demographic assumptions	1,395
3.3 Other decreases	2,556
4. Closing balance	**(62,981)**

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

See the disclosures on own funds and capital adequacy in the Third Pillar disclosures.

PART G - BUSINESS COMBINATIONS

SECTION 1 – TRANSACTIONS CARRIED OUT DURING THE YEAR

During the period no business combinations involving the acquisition of control pursuant to IFRS 3 were carried out.

For corporate reorganization purposes, the following mergers of mutual banks were carried out that had no impact on the consolidated financial statements. In compliance with the accounting practices for such transactions, these operations were accounted for on an unchanged values basis and regarded:

- the merger of BCC del Cilento di Sassano e Vallo di Diano e della Lucania and BCC Buonabitacolo, leading to the creation of Banca 2021 – CC del Cilento, Vallo di Diano e Lucania S.C. with effect from January 1, 2021;
- the merger of Banca di Verona Credito Cooperativo Cadidavid s.c.p.a into Banca San Giorgio Quinto Valle Agno - Credito Cooperativo - Società Cooperativa, with effect from April 1, 2021;
- the merger of Banca Valdichiana Credito Cooperativo di Chiusi e Montepulciano – S.C. into Banca Terre Etrusche e di Maremma – S.C., with effect from July 1, 2021;
- the merger of Banca di Credito Cooperativo di Borghetto Lodigiano – S.C. into Banca Centropadana – S.C., with effect from September 1, 2021.

SECTION 2 – TRANSACTIONS AFTER THE CLOSE OF THE PERIOD

In the last quarter of 2021 the ECB authorized the merger between Cerea Banca 1897 Credito Cooperativo S.C. into BCC Verona e Vicenza - Credito Cooperativo S.C., as well as the merger of BCC di Massafra S.C. into Banca di Taranto – Banca di Credito Cooperativo S.C., with effect from January 1, 2022.

Moreover, in January 2022, the supervisory authorities authorized the merger between BCC di Spinazzola S.C. and BCC di Oppido Lucano S.C., with effect from April 1, 2022.

The merger between BCC di S. Giuseppe Madonie and BCC di Gangi was authorized in February, 2022, with effect from April 1, 2022.

In March 2022 the ECB authorized:

- the merger between BCC del Vibonese S.C., BCC di Cittanova S.C., BCC del Crotonese S.C. and BCC Catanzarese S.C., leading to the creation of BCC della Calabria Ulteriore, with effect from April 1, 2022;
- the merger of Banca di Credito Cooperativo Bergamo e Valli - Società cooperativa into Banca di Credito Cooperativo di Milano - Società cooperativa, with effect from June 1, 2022.

These transactions will have no impact on the consolidated financial statements since they were carried out on an unchanged values basis for corporate reorganization purposes.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

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

PART H - TRANSACTIONS WITH RELATED PARTIES

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table provides information on the remuneration paid in 2021 to key management personnel as required by IAS 24. Key management personnel are managers who have the power and responsibility, directly or indirectly, for the planning, management and control of the Group's activities, including the directors and members of the supervisory bodies.

	Total 31/12/2021				
	Short term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
Key management personnel	9,430	319	-	-	-

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

For the purposes of the preparation of these disclosures, pursuant to IAS 24 a related party is a person or entity who is related to the entity preparing the financial statements.

In application of that standard, the related parties of the Group include:

- unconsolidated subsidiaries;
- associated companies and their subsidiaries;
- key management personnel of the Group;
- members of the immediate family of key management personnel and companies controlled, alone or jointly, by key management personnel or members of their immediate family;
- post-employment benefit plans for Group employees.

The Iccrea Cooperative Banking Group has adopted a document governing the principles and rules applicable to related party transactions in compliance with supervisory regulations contained in Circular no. 263/2006 of the Bank of Italy.

Transactions between the Iccrea Cooperative Banking Group and corporate officers regard normal Group operations and were carried out, where applicable, applying the terms reserved for all employees. Transactions with subsidiaries not consolidated on a line-by-line basis and transactions with associated companies regarded ordinary operations within a multi-functional banking organization.

In compliance with supervisory regulations, all transactions carried out by Group companies with their related parties were carried out in compliance with the principles of substantive and procedural fairness, on terms analogous to those applied to transactions with independent non-Group counterparties. No unusual or atypical transactions were carried out by Group companies with related parties, nor were any such transactions carried out with other counterparties.

The following table summarizes transactions and their financial effects carried out in 2020 with the related parties of the Group other than fully consolidated intercompany transactions.

	Total 31/12/2021			
	Unconsolidated subsidiaries	Associated companies	Key management personnel	Other related parties
Financial assets	71,871	124,107	1,400	4,156
Total other assets	250	5,019	-	-
Financial liabilities	17,815	18,838	3,508	12,995
Total other liabilities	25	3,486	83	507
Commitments and financial guarantees issued	2,633	5,118	88	869
Commitments and financial guarantees received	5,940	-	840	6,786
Provisions for doubtful accounts	-	2,461	-	-

	Total 31/12/2021			
	Unconsolidated subsidiaries	Associated companies	Key management personnel	Other related parties
Interest income	133	153	12	600
Interest expense	(24)	-	(23)	(81)
Dividends	44	-	-	-
Fee and commission income	1,838	31,293	7	67
Fee and commission expense	(376)	(324)		(3)
Net gain (loss) on trading activities	-	-	-	-
Net gain (loss) on hedging activities	-	-	-	-
Other operating expenses/income	(3,107)	(134)	(14)	(1,551)
Writedowns/writebacks of impaired financial assets	11	8	-	-

PART I - SHARE-BASED PAYMENTS

The Iccrea Cooperative Banking Group has no payment agreements based on its own equity instruments in place.

PART L - OPERATING SEGMENTS

A. PRIMARY REPORTING BASIS

The companies within the Group mainly operate exclusively in the following segments:

- Institutional: business conducted with institutional counterparties (mutual banks, other banks and public institutions), such as payment services, financial intermediation (trading and capital markets), and foreign activities, as well as additional support services for affiliated banks. The segment includes the operations of the Parent Company, BCC Sistemi Informatici, BCC Gestione Crediti, BCC Solutions, BCC Beni Immobili, Sinergia, Sigest e Coopersystem;
- Corporate: business focused mainly on financing small and medium-sized companies that are customers of the mutual banks. The segment includes the operations of Iccrea BancaImpresa, BCC Lease, BCC Factoring e Banca Mediocredito del F.V.G.;
- Retail: mainly asset management activities on an individual and collective basis for retail customers (BCC Risparmio&Previdenza), consumer credit (BCC CreditoConsumo) and the traditional banking activities of Banca Sviluppo;
- Mutual banks: includes all of the mutual banks that have joined the Group and the associated Guarantee Scheme.

The following reports a summary income statement and key financial aggregates by business segment. The column reporting inter-segment transactions includes intercompany eliminations between the companies included in different segments.

The breakdown by segment has not change compared with that reported in the annual report at December 31, 2020.

A.1 DISTRIBUTION BY BUSINESS SEGMENT: INCOME STATEMENT

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Net interest income	132,374	175,307	54,644	2,380,374	18,032	2,760,731
Net fee and commission income	9,322	105,193	61,400	1,161,398	(51,173)	1,286,140
Other financial expense and income	9,838	127,582	(438)	374,347	(24,720)	486,610
Gross income	**151,534**	**408,082**	**115,606**	**3,916,120**	**(57,861)**	**4,533,481**
Net value adjustments	(138,491)	(67,638)	(10,155)	(977,404)	-	(1,193,688)
Net gains (losses) on financial operations	**13,043**	**340,444**	**105,451**	**2,938,716**	**(57,861)**	**3,339,793**
Operating expenses	(66,955)	(251,547)	(50,930)	(2,549,491)	15,566	(2,903,357)
Other costs and revenues	87	(11,207)	(0)	(7,677)	45,271	26,473
Profit/(loss) from continuing operations before tax	**(53,825)**	**77,690**	**54,520**	**381,548**	**2,976**	**462,909**
Income tax for the period on continuing operations	12,654	(7,162)	(16,883)	7,346	1,706	(2,339)
Profit/(loss) for the period	**(41,171)**	**70,528**	**37,637**	**388,894**	**4,683**	**460,571**
Profit/(loss) for the period pertaining to non-controlling interests	**(1,442)**	**5,268**	**(20)**	**-**	**-**	**3,806**
Profit/(loss) for the period pertaining to shareholders of the Parent Company	**(39,729)**	**65,260**	**37,656**	**388,894**	**4,683**	**456,765**

A.2 DISTRIBUTION BY BUSINESS SEGMENT: BALANCE SHEET

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Financial assets	378,133	13,470,952	68,730	60,340,461	(3,429,010)	70,829,265
Due from banks	97,017	30,960,093	2,531	15,041,458	(36,835,744)	9,265,356
Loans to customers	5,325,012	5,931,618	1,218,831	78,397,053	(2,114,739)	88,757,775
Funding from banks	5,013,837	39,351,914	1,141,110	32,060,865	(42,982,366)	34,585,361
Funding from customers	566,906	7,389,022	149,184	109,399,432	(68,495)	117,436,048
Securities and other financial liabilities	45,956	4,762,093	2,319	9,234,746	(2,113,636)	11,931,478

B. SECONDARY REPORTING BASIS

As regards the secondary reporting basis, please note that the Group operates almost exclusively in Italy

PART M - LEASE DISCLOSURES

SECTION 1 – LESSEE

QUALITATIVE DISCLOSURES

At the reporting date, the Group had 3,177 lease/rental contracts falling within the scope of IFRS 16 as they refer to operating leases involving property, plant and equipment in the following classes of assets:

- capital equipment (printers and other office equipment, personal computers, servers, smartphones/tablets, cars and company vehicles, advanced ATMs, etc.);
- real estate, in particular the premises in which the branches operate and spaces for ATMs.

These assets are mainly intended for use in the normal operations of the company and for this reason they are mainly classified under assets held for use in operations. For more details on the recognition and measurement criteria involved, please see Part A “Accounting Policies” of these notes to the financial statements.

The rental contracts entered into by the Group normally provide for fixed payments for a specified period of time and, with the exception of property leases, do not envisage an extension option. Based on the foregoing, the effective term of the individual leases is taken into account for the purpose of accounting for the rights of use, while in cases in which an extension option is envisaged and its exercise is considered highly probable, the Group considers the contractual term inclusive of the extension period, unless factors or specific situations envisaged within the contract suggest a different assessment. This is because the properties in question are functional to the performance of the activities of the Group companies and non-exercise of the extension option is only considered in cases where impediments have arisen independently on the intentions of the companies themselves, i.e. the decision not to extend the lease was prompted by initially unforeseeable circumstances (e.g. changes of location, increase in lease payments, etc.).

If provided for by the lease agreement, the Group also does not consider early termination options unless factors or specific circumstances make it highly probable that the option will be exercised before the expiry of the lease (such as, for example, the impediments or the specific needs mentioned above).

QUANTITATIVE DISCLOSURES

For further quantitative information concerning the assets acquired by the Group through leases, please see the disclosures provided in the tables in the sections of the notes to the financial statements indicated below:

- part B, assets, section 9, as regards rights of use in respect of leased assets held at the reporting date;
- part B, liabilities, section 1, as regards lease liabilities outstanding at the reporting date;
- part C, section 1, as regards interest expense on leasing liabilities accrued during the year;
- part C, section 14, as regards depreciation of rights of use recognized during the year.

Note that in determining the depreciation rates to be applied to the rights of use in respect of assets acquired under leases, reference has been made to the contractual term of the underlying leases, also taking account any extension/termination options where the probability that they will be exercised is considered high, depending on the nature of the transaction (finance/operating lease) and the type of asset.

The details of the depreciation charges recognized in through profit or loss for the year are shown below, broken down by category of leased assets.

Depreciation	31/12/2021	31/12/2020
a) buildings	48,460	49,966
b) electronic systems	3,607	3,138
c) cars	4,051	3,598
d) other	75	62
Total	**56,193**	**56,764**

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 year are recognized in profit or loss under operating income.

For more details on the recognition and measurement criteria involved, please see Part A "Accounting Policies" of these notes to the financial statements.

QUANTITATIVE DISCLOSURES

1. INFORMATION IN THE BALANCE SHEET AND INCOME STATEMENT

For additional quantitative information on 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 year;
- 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	Total
	31/12/2021	31/12/2020
	Payment to be received for leases	Payment to be received for leases
Up to 1 year	901,773	812,137
From more than 1 year up to 2 years	721,466	722,372
From more than 2 years up to 3 years	570,796	581,869
From more than 3 years up to 4 years	437,389	441,169
From more than 4 years up to 5 years	324,831	322,164
From more than 5 years	1,600,778	1,799,443
Total payments to be received for leases	**4,557,033**	**4,679,154**
Reconciliation with financing	**1,243,213**	**1,410,160**
Financial income not accrued (-)	581,704	718,457
Unguaranteed residual value (-)	661,509	691,703
Lease financing	**3,313,820**	**3,268,994**

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	Total
	31/12/2021	31/12/2020
	Lease payments to receive	Lease payments to receive
Up to 1 year	3,235	3,461
From more than 1 year up to 2 years	2,954	3,227
From more than 2 years up to 3 years	2,195	2,801
From more than 3 years up to 4 years	1,468	2,111
From more than 4 years up to 5 years	1,127	1,467
From more than 5 years	1,170	1,596
Total	**12,149**	**14,664**

3.2 OTHER INFORMATION

No other information to report.

REPORT OF THE BOARD OF AUDITORS

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 no. 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)

REPORT OF THE BOARD OF AUDITORS

TO THE SHAREHOLDERS' MEETING PURSUANT TO ARTICLE 2429 OF THE CIVIL CODE

Dear Shareholders,

In the year ended December 31, 2021, the Board of Auditors of Iccrea Banca S.p.A. performed its oversight duties in accordance with the Italian Civil Code, Legislative Decree 385/1993 (the Consolidated Banking Act) and Legislative Decree 39/2010 as amended, the provisions of the articles of association, the regulations issued by the authorities performing supervisory and control duties, and the rules of conduct for the Boards of Auditors of unlisted companies recommended by the National Council of the Italian accounting profession, as applicable.

Appointment and activity of the Board of Auditors

The current Board of Auditors was appointed by the Iccrea Banca S.p.A. Shareholders' Meeting on April 30, 2019 for a term of three years and, therefore, until the date of the meeting called to approve the financial statements for the year ended December 31, 2021. The Bank's Board of Auditors is also charged with performing the role of Supervisory Body pursuant to the provisions of Legislative Decree 231 of June 8, 2001, on the basis of the instructions contained in Bank of Italy Circular no. 285 of December 17, 2013.

During 2021, the Board of Auditors (or at least one of its members) participated in all meetings of the Board of Directors, the Executive Committee and the Board Committees. During the year, the

Board of Auditors met independently 81 times to perform the additional oversight duties pertaining to it and 21 times in its capacity as the 231/01 Supervisory Body.

The activities of the Bank and the Iccrea Cooperative Banking Group in 2021

The Report on Operations prepared by the directors provides extensive information on developments in the operations of the Parent Company and the Iccrea Cooperative Banking Group, on key operational events during 2021, on the structural and operational characteristics of the ICBG, on the internal control system, on the prudential regulatory framework and on the main processes performed in this area and on events subsequent to the reporting date.

In line with the instructions on timing contained in the SREP Letter 2021, at the end of April 2022 the Board of Directors approved the 2022-2024 Strategic Plan, which specifies the performance and financial objectives that the ICBG intends to attain over the planning period in order to improve its positioning with respect to market benchmarks, setting more ambitious objectives for the main ratios, especially with regard to the NPL portfolio, and operating profitability. The planning cycle took place in a macroeconomic climate that, as regards the environmental variables prevailing at the beginning of 2022, does not take account of the impacts that the conflict between Russia and Ukraine could have in the short and medium term on the international and domestic macroeconomic scenario. These impacts, where significant and likely persistent, must be taken into account in an update of the Strategic Plan to be performed possibly in the second half of 2022. The 2022-2024 Strategic Plan incorporates the various sector plans (commercial, IT, funding, sustainability, etc.) developed during the planning process and was built on the basis of methodological uniformity and integration with the other tools and processes that are also a constituent part of prudential supervision arrangements, such as the Recovery Plan, the Resolution Plan and MREL requirements, the RAS/RAF and the ICAAP/ILAAP.

As part of the progressive implementation of the "transformation" program involving the direct subsidiaries of Iccrea Banca S.p.A., which is intended to rationalize their structures, strengthen their commercial and income potential and, for some, restore a satisfactory state of financial balance, the Report on Operations discusses a number of key events in 2021, including:

- the transfer – with effect from 1 January 2021 - of the non-lease lending operations of Iccrea BancaImpresa (ordinary lending, special and international credit and extraordinary corporate finance, as well as a number of equity investments) to Iccrea Banca, with Iccrea BancaImpresa retaining the lease-related business only;

- the spin-off of the "Electronic Money" operations of Iccrea Banca and all their functional and technological components to the subsidiary BCC Pay S.p.A., authorized to operate as an IMEL by the supervisory authorities on October 5, 2021. The company has formed a strategic partnership with another financial operator to promote the development of BCC Pay;
- the structuring of a Covered Bond Program in order to give ICBG an additional channel of medium/long-term funding. The Board of Auditors expressed its opinion on the regulatory compliance of the transaction in compliance with the provisions of Circular 285 of the Bank of Italy.

Internal control and risk management system

A specific section of the Report on Operations describes the structure and main components of the ICBG internal control system, which is based on the structure envisaged in supervisory regulations calling for three levels of control:

- first-level controls, performed by the corporate units responsible for the business/operating activities;
- second-level controls, performed by the Compliance (including the DPO), AML (Anti-Money Laundering) and Risk Management units;
- third-level controls, performed by Internal Audit.

The Report on Operations provides a description of the organizational arrangements adopted by the second- and third-level control functions, consistent with the specific characteristics of the ICBG and aimed at ensuring effective coverage of control activities both at the Parent Company and its direct subsidiaries and at the affiliated mutual banks. The organizational model of the control functions, which have been outsourced by the ICBG companies to the Parent Company, gives the Parent Company responsibility for the definition of strategies, processes and control methodologies, tools, and planning and reporting standards.

The Board of Auditors regularly exchanged information with the control functions during the year, including through direct participation in the meetings of the Board Committees, receiving information flows generated by those units for the corporate bodies (and the Supervisory Body), governed by specific rules.

The Parent Company, Iccrea Banca

With regard to the Parent Company, Iccrea Banca, the results of the monitoring and assessment activities of the control functions found, in brief:

- for Compliance, an average “medium-low” exposure to residual compliance risk, as assessed on the basis of the potential risks and the existing control arrangements in relation to the individual regulations governing this area. This evaluation represents an average of the risk levels in the various regulatory areas. The assessment of compliance of regulatory arrangements and processes under the 2021 audit plan, while generally positive, nevertheless found a number of specific regulatory areas requiring improvement;
- for AML, the self-assessment exercise – conducted on the basis of the method recommended in supervisory regulations and applied by the function – found a “low” residual risk (net of the control arrangements). The activities conducted by the Anti-Money Laundering function over the course of the year produced a final overall assessment of “partially satisfactory”, taking due account of the outcome of the remediation actions implemented during the year;
- for Risk Management, the continuous and structured management and reporting of the risks included within the function’s scope of responsibility, with periodic quantitative and qualitative reporting at a variety of frequencies, did not reveal any significant issues concerning the main risk exposures (credit, liquidity, market, interest rate). The function also defined and maintained the methodological framework for the Group risk governance processes (RAF/RAS, ICAAP/ILAAP, EWS), as well as managing the associated processes and the production of the final outputs in agreement and collaboration with the corporate units responsible for the areas of risk examined;

- for Internal Audit, the 2021 Audit Plan envisaged numerous audits, responding in part to requests from the supervisory authorities, in the different areas of "governance", "market" and "support" in which the taxonomy of Group processes is structured. The audit findings were largely favorable, although certain critical areas and/or areas for improvement in the management of business lines remain.

The Board of Auditors analyzed the findings of the assessments conducted for Iccrea Banca S.p.A. by the control functions, which had produced unsatisfactory judgments in the past concerning certain organizational aspects of control arrangements or compliance issues regarding procedural systems, such as regulatory compliance, and verified the resolution of the irregularities or monitored the implementation of the related intervention plans, urging the directors and management to perform the actions requested.

The affiliated banks

With regard to the larger population of the mutual banks, the findings of the oversight activity of the control functions in the various areas for which they are responsible were generally positive, with limited instances of non-compliance with external, regulatory or Group rules or the internal control system. In these situations, it is the prerogative of the control functions to assess the need to activate the specific indicators of the EWS classification system for the affiliated banks, leading to a change in their status, with a consequent reduction in the degree of management independence of the individual bank and the issue of binding instructions.

The activities performed in 2021 by Internal Audit with the affiliated banks included the implementation of some 1,600 interventions, of which about 90% were carried out within the scope of the 2021 Audit Plan and the remaining 10% in response to special requests. As usual, the measures concerned the governance, business and support processes of the banks, the ICT area and audits of the branches of the banks. With regard to the composition of the process audits, the Plan called for a significant share in response to "mandatory" requirements, which accompanied by "consolidated" audits (with the same scope of work for different ICBG entities, both mutual banks and companies of the direct scope of consolidation) and mainly "risk based" audits.

The number of adverse audit findings was small. At present, the unfavorable assessments of the internal control system of the affiliated banks account for about 5% of the total. However, areas for significant improvement emerge, on which the Parent Company's guidance activities will have to focus in order to ensure the effective operation of control systems.

In accordance with applicable supervisory regulations, Internal Audit prepared the Group Report on audits performed for essential or important functions outsourced outside the Group for 2021. The Report acknowledges the substantial changes in the regulatory framework and process operations rules that the Parent Company has created for application to all ICBG affiliated companies and banks, as well as the completion of the IT support for the processes involved, thereby ensuring the consistency and traceability of the required compliance arrangements. Following the audits performed in 2021, the Report did not reveal any significant issues regarding the control and compliance of relations with suppliers of essential or important functions, but only areas for improvement. Even the ad hoc audits of a sample of affiliated banks did not reveal any significant problems.

With regard to the Compliance function, the results acquired from the individual affiliated banks (and the companies within the direct scope) indicated that the Group's exposure to compliance risk - as determined by the risk assessment performed – was "medium-low", indicating that the control measures taken are, as a whole, adequate and effective in proportion to the different risk exposures of the regulatory areas applicable to the Group, while highlighting the need to make certain adjustments to the regulatory and IT system to ensure continued compliance with applicable regulations and developments within the Group. As noted, the findings of the system and operation audits performed during the year were largely positive.

With regard to the activity of the Data Protection Officer (DPO) for 2021, the ICBG's organizational model for the protection of personal data calls for centralization of the DPO function at Iccrea Banca S.p.A.. The function is part of the CCO Area (Chief Compliance Officer). The Group DPO reports directly to the Board of Directors and the Board of Auditors of the Parent Company and the companies within the direct scope of consolidation and the affiliated banks that have outsourced the service. Under the provisions of the outsourcing agreements, Iccrea Banca is the DPO for each affiliated bank and company of the ICBG, with the associated responsibilities and obligations being specified in the service level agreements set out in those contracts.

In 2021, following on the activity performed the previous year, the DPO conducted a redesign of the procedures and organizational model of the function, which was approved by the Board of Directors of the Parent Company. The changes strengthened the autonomy and independence of the function, lent a more precise definition of process rules at the central and local levels and implemented a reorganization based on the establishment of three specialist skill hubs reporting directly to the Group DPO.

The DPO function also performed a cycle of system and operational audits using a risk-based approach at the companies within the direct scope and the affiliated banks that have outsourced the service to the Parent Company and the Parent Company itself, finding the situation to be positive while identifying certain areas for improvements, which were accompanied by a remedial action plan. As in the previous year, these activities were accompanied by collaborative initiatives in the development of technical-IT interventions to ensure that applications met regulatory requirements and satisfied the enquiries of the Data Protection Authority, the performance of numerous impact assessments, ongoing consulting with the legal entities of the ICBG, coordination and support in the management of privacy obligations related to government measures connected with the COVID-19 health emergency, management of follow-ups and remediation interventions carried out following the risk assessments conducted by the Group DPO function or the audits performed by Internal Audit.

Following the activities and audits performed, the ICBG DPO found that the organizational arrangements required by the regulations had been correctly implemented at the ICBG level. In order to raise the degree of compliance of privacy safeguards not only in the implementation phase but also during operations, the DPO identified areas requiring improvement involving the refinement of certain processes, the ongoing upgrading of the internal regulatory framework and impact assessments and the effective implementation of training activities.

With regard to the assessment of AML arrangements and the activity of the second-level function responsible for this area, the actions – undertaken both in response to supervisory recommendations following inspections and at the independent initiative of the Parent Company - continued during 2021 with increased intensity. They included completion of the Group regulatory framework, a major evolution of IT applications to support AML processes, the completion and reporting to the supervisory authorities of planned interventions at individual affiliated banks, and the training of bank operators and the members of the AML function itself.

On the basis of the audits performed during the year at each legal entity to ensure compliance with the applicable regulatory framework governing anti-money laundering operations, the final summary assessment (equal to the average of the summary assessments provided by each affiliated mutual bank and the companies within the direct scope) as at December 31, 2021 was "partially satisfactory", with only 5% of the affiliated banks receiving an unfavorable evaluation. Nevertheless, the Report of the AML function highlights the persistence of critical areas in the monitoring of specific risks with regard to the affiliated mutual banks.

The Board of Auditors brought to the attention of the Board of Directors how the growing complexity of AML obligations, due in part to the need to management them across the entire Group, requires further progress in the organization of processes and their IT support, with the investment of more dedicated resources and the adoption of targeted measures for difficult situations - temporary or structural – at the individual banks, as has already ready been pursued with positive results.

The self-assessment exercise performed at the Group level, on the basis of the methodology set out in the applicable regulatory standards and following the self-assessment of money laundering and terrorist financing risks conducted by each entity, determined that the Group's residual risk at the consolidated level was "low", unchanged on the previous year.

During 2021, the Board of Auditors, supported by the AML function, pursued an autonomous initiative to conduct the control body's audits of AML processes in agreement with the boards of auditors of the affiliated mutual banks.

The activity of the Risk Management function was especially intense, not only addressing the risk areas most pertinent to the core banking business (credit, interest rate and counterparty risk) but also operational and IT risks, strengthening the internal regulatory framework and extending controls of affiliated banks in a structured manner, devoting specific attention to local IT units in the specific areas requiring improvement that were identified during the year.

Oversight of the adequacy of the organizational structure

As part of the oversight of the organizational and functional adequacy of governance and business areas, the Board of Auditors - during the meetings of the Risk Committee and the Board of Directors – of the progressive updating and supplementation of the Risk Governance Policies, the Rules, the General Process Rules, the Directives relating both to the internal processes of the Parent Company and the main operating processes of the affiliated banks and the companies within the direct scope of consolidation, in line with the ICBG objective to essentially complete the Group's rules, with particular regard to the identification, measurement, management and control of risks. Other sources included operational communications and circulars addressing more specialized issues, which are transmitted on an ongoing basis to the affiliated banks and the ICBG companies.

As regards the performance of specific studies and assessments of the appropriateness of organizational structures, the Board of Auditors - in compliance with supervisory instructions – continued in 2021 to monitor the corporate control functions and the state of progress of their structuring of organizational and methodological arrangements, with a focus on the staffing of the units, on the development of methods, operating rules and control instruments, audit support systems and on the training of personnel and managers. More specifically, the Board of Auditors expressed its opinion on the self-assessment of the skills and staffing levels of the personnel of the Risk Management and Compliance functions, in accordance with the recommendations contained in the SREP Letter 2021, emphasizing a number of opportunities for additional upgrading of the units beyond the assessments prepared by the functions themselves. Human resources planning for 2022 provides for the coverage of resource shortfalls where they emerged in the above organizational analyses.

As regards to the second and third-level control functions in general, the Board of Auditors emphasizes that the structural complexity of the ICBG and its governance mechanisms, and the ever greater legislative and regulatory pressure make it necessary both to periodically reassess staffing requirements to ensure the complete and timely fulfillment of the institutional duties of the functions and to achieve a rapid reduction of the residual shortfall with respect to those requirements.

The Board of Auditors examined the action plans for 2022 submitted by the control functions for the ICBG. These plans – implemented using criteria that consider external regulatory constraints, risk-based logic and the need to cover business processes – will require a significant effort, progress on which will be audited in 2022.

With regard to the adequacy of the organizational structure of the Parent Company, Iccrea Banca S.p.A., it should be emphasized that the launch of the ICBG involved a radical change in the Bank’s mission and a major expansion of the scope of its activities. The Board of Auditors, with the support of the Chief Operating Officer’s unit, periodically carries out an analysis of the reorganization measures in progress in order to produce a general assessment of the adequacy of the solutions adopted or proposed, especially in relation to the demanding guidance and coordination duties of the Parent Company. In this respect, the effort associated with providing guidance and support to the numerous affiliated banks places severe pressure on the units of the Parent Company (whether operational or control functions), thus requiring periodic assessments and monitoring of adequacy and effectiveness. In 2021, targeted interventions to rationalize and strengthen the governance of the Parent Company were implemented and additional actions were planned for 2022, an especially important step in view of the role played in the direction and coordination of the affiliated banks.

Significant progress was also achieved within the "transformation" program that the Board of Directors – acting on a proposal of senior management - has been pursuing for some time at the companies of the direct scope (i.e. the direct subsidiaries of Iccrea Banca S.p.A.), aimed at reconfiguring their mission in some cases and, in general, at achieving greater profitability or rebalancing their financial position.

Corporate governance

The governance mechanisms of Iccrea Banca and the ICBG, as delineated by the Group's body of rules, contain significant special features and complexities, which derive from the legal-formal structure of the ICBG, from the choices concerning the design of governance arrangements laid out in special legislation and supervisory regulations, from the special functions performed by the Parent Company in performance of its mission of providing management and coordination guidance for the affiliated banks and from the sheer number of banks involved. The Board of Auditors participated closely in the activity of the corporate bodies of the Parent Company, consisting of the body with strategic supervision and management functions (the Board of Directors), the Executive Committee, and the four Board Committees (the Appointments Committee, the Remuneration Committee, the Risk Committee and the Affiliated Bank Control and Intervention Committee) providing advice, preliminary assessments and recommendations to the Board of Directors.

The Board of Auditors informed the Board of Directors of the continuing need to enhance the efficiency of governance processes in order to render the governance "machine" more effective and improve the operating conditions of the strategic oversight and management body in view of the start of operations of the Cooperative Banking Group and the ever growing complexity of the issues it is called upon to analyze and decide. The supervisory authorities are also paying significant attention to this issue.

The Board of Auditors periodically reports to the Board of Directors on the main activities carried out and the consequent recommendations. Thanks to its participation in the meetings of the corporate bodies, the Board received the information flows provided for by the corporate rules.

The Board of Auditors conducted its own self-assessment of the adequacy of its membership and the proper and effective functioning of the body (drawing on the assistance of an external advisor), in accordance with the supervisory instructions on corporate governance for banks and with the recommendations in the document "Self-assessment of the Board of Auditors" issued by the National Council of the Italian accounting profession. The Board of Auditors found that its membership was generally appropriate in terms of competence, experience and gender diversity. However, organizational and operational aspects that could benefit from remedial actions were identified.

During the year, the members of the Board of Auditors participated in the Board of Directors training program, expressing its intention to supplement this activity, including on an individual basis, with targeted training in the key issues for the performance of its oversight duties.

Relations with the supervisory authorities and prudential supervision

Supervisory review and evaluation process (SREP)

On January 24, 2022 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 March 1, 2022 (broken down into own funds requirements and qualitative requirements). With this decision, the supervisory authorities established consolidated own funds requirements for 2022:

- an additional Pillar 2 requirement (P2R) of 2.83% (of which 8 bps for the NPE P2R in reflection of calendar provisioning, 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 2022 the Iccrea Cooperative Banking Group is therefore required to meet:

- a Total SREP Capital Requirement (TSCR) of 10.83%;
- an OCR equal to 13.33%.
- a Target Requirement (including P2G) of 15.08%.

Through participation in the meetings of the Board Committees and of the Board of Directors, as well as information exchanges with the control functions and the Supervisory Authority Relations unit, the Board of Auditors monitored the response to the numerous horizontal issues highlighted in the SREP letter.

The state of progress of this process, as with all requests formulated by the supervisory authorities, was subject to periodic reporting.

Comprehensive Assessment

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

- an asset quality review (AQR) at December 31, 2019, performed using sample analyses (the credit file review) and statistics (the challenger model);
- a stress test to assess the Group's capital strength on a forward-looking basis with respect to two macroeconomic scenarios, the baseline and adverse (both of which include COVID-19 effects).
- a join-up exercise to integrate the results of the AQR with those from the stress test.

The results for the exercise were disclosed by the ECB on July 9 and highlighted the stability of the capital buffers compared with the minimums set in the AQR and Stress Test exercises.

The Report on Operations provides a detailed discussion of both the quantitative impact of the Asset Quality Review on the various portfolios being analyzed and the results of the Stress Test. The impacts of the associated accounting adjustments influenced the quantification of the cost of risk in the preparation of the 2020 and 2021 financial statements, significantly strengthening the coverage of non-performing positions and enhancing the conditions for the continuation of the significant derisking policies implemented by the ICBG over the last three years.

ICAAP and ILAAP

As regards ICAAP and ILAAP, the Board of Auditors oversaw compliance with regulatory requirements, participating in the work of the Risk Committee, noting the structure of the related documents, of the information provided on the state of progress of the processes, of the results, of the improvement measures implemented in compliance with the instructions of banking supervisors.

In the examination of the ICAAP conducted jointly with the Risk Committee, the Board of Auditors found that the processes for identifying and measuring risks were substantially adequate, reinforced by the work carried out both by the central and local units of the Risk Management function. In the most recent ICAAP and ILAAP exercise, carried out in April this year, the recommendations contained in the SREP letter for the development of improvements regarding methodological-operational risk identification and risk measurement arrangements were incorporated, in addition to the more general indications addressed by the ECB to all significant banks.

The most recent ICAAP exercise also took into initial account - among other factors - of climate and environmental risks and assessments regarding the possible impacts of the Russia-Ukraine conflict.

That most recent exercise, which as noted was conducted exclusively on a consolidated basis, took as its starting point the qualitative and quantitative composition of the ICBG balance sheet as at December 31, 2021 and the 2022-2024 Strategic Plan. The exercise highlighted compliance with the minimum capital and liquidity requirements both in the baseline scenario and in the adverse scenario, which was prepared using stress scenarios.

Recovery Plan

The preparation and finalization of the Recovery Plan, which took place in January 2022, was as usual the outcome of discussions on the matter with the ECB Joint Supervisory Team, which requested the resolution of areas for improvement concerning recovery options to be activated to restore compliance with prudential requirements, additional analysis of the impact of the activation of the recovery options and the supplementation of certain recovery indicators. These were accompanied by the recommendations contained in the guide transmitted by the ECB to significant institutions in June 2021.

The exercise highlighted the fact that the Group has recovery options that can bring the Group's overall technical profile (both in terms of capital and liquidity) to sustainable levels within the time limits associated with the opening of crisis. This exercise significantly improved the recovery capacity compared with previous conditions, with a comprehensive analysis and evaluation of the feasibility of the options, seeking to optimize the time needed to implement them while incorporating elements of prudence in the valuation.

MREL

In early 2022, Iccrea Banca, as the Parent Company, received the decision of the Single Resolution Board (SRB) on the determination of the minimum requirement of own funds and eligible liabilities (MREL - Minimum Requirement of Eligible Liabilities) at the consolidated level of Iccrea Banca and at the individual level for the Relevant Legal Entities ("RLEs") identified during the 2021 resolution cycle (Iccrea BancaImpresa, BCC di Roma, BCC Alba, BCC Ravennate and EMIL Banca).

As regards the external MREL requirement at the consolidated level for Iccrea Banca, the approach adopted by the SRB remains the "general-hybrid" approach, which for the calibration of the MREL considers the Group's risk-weighted assets (RWAs) and, for compliance with that requirement, the Group own funds and eligible liabilities for the external MREL of Iccrea Banca only.

The decision provides for a minimum mandatory target for the external MREL, to be met by January 1, 2026, of 24.75% of consolidated RWAs (including the combined buffer requirement of 2.5% of consolidated RWAs) and 6.57% of the consolidated leverage ratio exposure (LRE).

As indicated in the Report on Operations, at December 31, 2021, Iccrea Banca Iccrea Banca complied with the intermediate target for:

- the consolidated MREL, with a surplus of about €360 million;
- the subordination requirement, with a surplus of about €1,827 million.

The Bank is involved in ongoing discussions with the Resolution Authority aimed at completing, in accordance with the deadlines set by regulators, the complex process of building the management framework, reporting flows and the governance model of the resolution mechanism for the ICBG.

Investigations and inspections

As discussed in the Report on Operations, the supervisory authorities conducted an on-site inspection at Iccrea Banca S.p.A. from September 30 to November 24, 2021, involving an assessment of the appropriate calculation of capital ratios (capital adequacy), with a particular focus on risk-weighted assets (RWAs) for credit risk at the consolidated level, governance and internal policies for the calculation of capital requirements, the reconciliation process and data quality assurance, the appropriate credit risk weighting for specific portfolios, as well as the credit risk mitigation framework. The outcome of the inspection, which was disclosed in the first quarter of 2022, did not find any particular issues overall, although a number of weaknesses in oversight systems were identified, for which the Parent Company promptly initiated remediation actions.

On December 22, 2021, a notice was received from the European Central Bank (ECB) announcing the start of an on-site inspection to be conducted at the Group level, focusing on credit and counterparty risk associated with asset quality in the Commercial Real Estate sector.

More specifically, the inspection will be conducted in order to assess compliance in the implementation of IFRS 9, performing a Credit Quality Review of selected portfolios and assessing credit risk processes, including any ancillary aspects of this issue. The on-site inspection began on March 31, 2022.

At the request of the ECB's Joint Supervisory Team ("JST") as part of its supervisory activity, the Chairman of the Board of Auditors met with the JST on March 11, 2022 to address a specified agenda of issues concerning various aspects of the governance of the Bank, the activity of the control functions and that of the Board of Auditors. The meeting did not identify any problems that would require mention in this report.

In the Report on Operations, management also reported on the precautionary measures taken by law enforcement authorities with regard to BCC del Crotonese.

Oversight of statutory audit activities, the independence of the statutory audit firm and the financial reporting process

The individual and consolidated financial statements of Iccrea Banca S.p.A. at December 31, 2021 undergo statutory audit by the audit firm Mazars S.p.A. pursuant to Legislative Decree 39 of January 27, 2010 and in execution of the shareholders' resolution of May 28, 2021.

In its capacity as "Internal Control and Audit Committee", the Board of Auditors, pursuant to Legislative Decree no. 39/2010 and Regulation (EU) no. 537/2014, performed its oversight functions in this area, which primarily involved:

a) monitoring the activity of the audit firm, implementing the usual exchange of information on the relevant issues and on the various aspects of its work;
b) ongoing verification of the independence of the audit firm Mazars S.p.A. in conjunction with the assessment of acceptability of proposals for non-audit engagements of Mazars S.p.A.

As regards the activity referred to in point a), in 2021 and early 2022 the Board of Auditors met periodically with the audit firm to exchange information, acquiring other information concerning the approach and methods chosen with regard to:

- the audit of the data at June 30, 2021 of both the Parent Company, Iccrea Banca, and the consolidation of the ICBG at the same date, focusing on the audit strategy followed, the IT tools used, the key audit issues that emerged with regard to the affiliated banks with relevance at the consolidated level and the key audit matters of the separate financial statements of the Parent Company;

- the audit plan for the separate 2021 financial statements of Iccrea Bank and the consolidated financial statements of the ICBG, analyzing together with the independent auditors the contents of the operational planning for the performance of the audit, the main components (timing, required resources and specialists), major accounting application issues, operating systems and processes (also with reference to the affiliated banks), materiality and significance thresholds. The Board of Auditors acquired information on the methodological system adopted by the audit firm, receiving updates on the progress of the audit engagement and on the main issues being examined by the audit firm.

The Board of Auditors provided summary reports on the main issues to the Board of Directors of Iccrea Banca, briefing the directors on the main themes addressed and any problems detected. We have no particular comments in this regard.

With regard to the activities referred to in point b), during 2021 the Board of Auditors performed careful oversight of proposals for non-audit engagements to be performed by the statutory auditor, submitted by company units for specific advisory and methodological support needs, mainly originating with legislative and regulatory requirements. The requests - to be submitted in accordance with Regulation (EU) 537/2014 for pre-approval by the "Internal Control and Audit Committee" of the individual public-interest entity (in Italian law Legislative Decree 39/2010 designates the board of auditors for this role) – underwent examination and analysis by the Board of Auditors, which, appropriate, issued its authorization.

The matter was monitored by the Board of Auditors also in the context of the "close liaison" with the oversight bodies of the Group companies, raising the awareness and engagement of those bodies with the activities to be performed by the Board in its capacity as the Internal Control and Audit Committee.

The notes to the consolidated financial statements report the fees for 2021 paid to the firms engaged to perform the statutory audit of the accounts of the Iccrea Cooperative Banking Group.

During the period under review, the Board, again in light of the duties established by Legislative Decree 39/2010 in its capacity as the Internal Control and Audit Committee, constantly exchanged information with the Chief Financial Officer area of the Parent Company in order to acquire information on the financial reporting process of Iccrea Banca S.p.A., on its main constituent elements (processes, systems, resources) and on its functionality and effectiveness.

From the information acquired, including that gained in discussions with the audit firm, no shortcomings in the administrative and accounting procedures of particular significance were reported with regard to the objective of providing an accurate representation of operational events in compliance with international accounting standards.

Transactions with related parties

The Board took note of the periodic examination by the Committee for Transactions with Related Parties - coinciding with the Affiliated Bank Interventions Committee – of transactions with related parties carried out by the Iccrea Cooperative Banking Group and related amounts at the end of the period. This examination did not reveal any transactions that did not comply with the external regulations or the Group's internal rules.

With regard to the ICBG, in compliance with the related parties rules established under supervisory regulations, the Parent Company defined its policy for such transactions, disseminating it with a specific directive to all Group companies. In 2022, the Board of Directors of Iccrea Banca approved an update of that policy to take account of the 35th update of Circular 285/2013, with which the Bank of Italy required banks to comply, by January 30, 2022, with the provisions of Article 88, paragraph 1, indents 4 and 5, of Directive 2013/36/EU (CRD), as amended by Directive 2019/878/EU (CRD-V) concerning loans to corporate officers and their related parties.

Compared with the ordinary arrangements established in supervisory regulations, in certain cases the policy envisages more conservative mechanisms in order to ensure the effective and uniform application of the rules. It should be noted that, also in response to recommendations received from the supervisory authorities, a functional indicator has been included in the Risk Appetite Framework to measure exposures to related parties and persons closely associated with them at both the consolidated level and at the individual level of the Group banks, with a view to strengthening the controls over this type of transaction.

Compliance and Internal Audit carry out periodic audits of the compliance of the regulatory and process arrangements in this area and the application of the policy at all the companies of the Banking Group. The findings of these audits indicate raising the quality of IT support is an area for improvement.

The draft financial statements report the information relating to transactions with related parties (Part H - Transactions with related parties), in compliance with the provisions of IAS 24.

ICBG remuneration and incentive policies

The Board of Directors of Iccrea Banca S.p.A. approved the “2022 ICBG Remuneration and Incentive Policies”, to be submitted to the Shareholders’ Meeting, together with the “Standard document of remuneration and incentive policies for the affiliated banks” and the “Material risk takers identification process for the Parent Company, companies in the direct scope and associated outcomes”.

Following a comprehensive revision of the policies in previous years that addressed all fundamental aspects of the issue, which was implemented with the cooperation of the relevant units and the Compliance and Risk Management functions, each in its area of responsibility, the current update of the policies presented to the Shareholders’ Meeting includes additional refinements of the various and complex mechanisms for identifying and measuring the objectives of the incentive system and its beneficiaries. The Board of Auditors monitored this additional review carried out by Iccrea Banca, focusing its attention on compliance with regulatory constraints regarding the configuration of the incentive system for the corporate control functions in order to safeguard their independence, acting in close cooperation with the Remuneration Committee.

With regard to the 2021 Internal Audit Report on Remuneration and Incentive Policies and Practices, prepared by the Internal Audit function, the analyses found that remuneration practices were generally compliant with the policies approved by the Board of Directors and the Shareholders' Meeting, as well as the applicable supervisory regulations, indicating a number of minor areas for improvement within internal procedures.

Supervisory Body pursuant to Legislative Decree 231/2001

With specific regard to the functions of the Supervisory Body pursuant to Legislative Decree 231/2001, during the period under review the Board of Auditors monitored the functioning and observance of the Compliance Model, receiving the reporting provided for under the Model and acquiring any relevant information from the verification activities of the control functions on the possible presence of cases falling within the criminal risk areas of Legislative Decree 231/01.

During the period under review in this Report, the general tenor of the performance of company operations and of the decisions and conduct of the Board of Directors and management was generally correct and appropriate. There were therefore no significant events or anomalies of relevance under the provisions of Legislative Decree 231/01 during the reference period.

Note that following the radical evolution of the governance structure and organization of the Bank and the new offenses introduced in the catalog of Legislative Decree 231/01, during the first quarter of 2021 the Board of Directors approved the revision of the Compliance Model of Iccrea Banca S.p.A.. The Supervisory Body oversaw the main phases of the project, positively evaluating the contents of the new Model, although refinements are already planned for 2022 in response to subsequent changes in the Legislative Decree 231/01 "offense catalogue" and additional organizational changes under way.

COVID-19 emergency

The Report on Operations prepared by the directors examines the main organizational and operational measures taken by the Parent Company and the Group companies in 2021 to manage the impact of the pandemic on the operation of business and governance processes. In particular, the Covid-19 Emergency Task Force, set up at the Parent Company in 2020, continued to work as an inter-functional emergency unit charged with continuously assessing the evolution of the pandemic, ensuring adequate coordination mechanisms and guaranteeing the harmonization within the Group of interpretations of the regulations and the application of the various provisions and guidelines issued by the Government, Community bodies and other national and EU authorities.

The main issues addressed, analyzed and managed therefore concerned safety and operational continuity, the activation of the initiatives envisaged in government measures and industry agreements, and the actions to be taken to ensure the monitoring of credit developments and the related risk factors, and the measures to adapt the methods and processes of the Group’s credit risk assessment and management framework.

Through the disclosures periodically provided to the Board of Directors and the Risk Committee, which were strengthened considerably in 2021 in response to the recommendations of the supervisory authorities for the entire banking system, the Board of Auditors has taken cognizance of the measures indicated above, the activation of emergency plans and the continuous monitoring of the orderly conduct of the company’s daily business.

Specific monitoring and reporting was produced – including for the benefit of the supervisory Authorities, on the liquidity situation of the ICBG and other key performance and financial parameters and indicators. Risk monitoring was appropriate, with the production of periodic reports to the management and oversight bodies on developments in the main indicators on conditions in the financial markets, on liquidity risk (operational and structural) at the level of the ICBG and liquidity subgroups and on market and counterparty risks, and operational risks. The strengthening of reporting on credit risk monitoring in the COVID-19 environment was highly structured, although most of the extraordinary measures activated in 2020 have been wound down.

In its capacity as the 231/01 Supervisory Body, the Board of Auditors assessed the risk of criminal offenses that could potentially be amplified by the COVID-19 emergency, which essentially regarded the protection of employee health, IT risks and risks in relations with the government entities. The audits performed did not find any problems.

Non-Financial Statement

The Consolidated Non-Financial Statement (NFS) reports information on the non-financial activities of the Iccrea Cooperative Banking Group, supplementing the financial information provided with the financial statements and with the public disclosure required by prudential regulations. It is prepared in compliance with Legislative Decree 254/2016 and in accordance with Global Reporting Initiative (GRI) Standard 2016.

The Board has taken note of the report issued by the audit firm on April 20, 2022, which reports that there is no evidence to suggest that the ICBG's Non-Financial Statement for the year ended December 31, 2021 has not been prepared in all significant aspects in compliance with the applicable legislation.

On the basis of the information acquired, the Board of Auditors certifies that, during its examination of the Non-Financial Statement, no evidence of non-compliance and/or violation of the applicable regulatory provisions came to its attention.

Further information on the oversight activity of the Board of Auditors

In the light of the oversight activity performed in the period covered by this Report, we report that:

- the Board of Auditors is not aware of transactions carried out during the period under review in this report that did not comply with the principles of correct administration, that were authorized and executed in violation of law or the articles of association or were not performed in the interest of Iccrea Banca S.p.A., in conflict with the resolutions of the Shareholders' Meeting, or were manifestly imprudent or risky, lacking the necessary information in the event of the existence of interests of the directors or were such as to compromise the integrity of corporate assets;
- there were no atypical and/or unusual transactions carried out with third parties, related parties or group companies;

- no complaints were received by the Board of Auditors pursuant to Article 2408 of the Civil Code and that, following the checks performed, no omissions, censurable facts or significant irregularities were found that would merit mention in this report.

In the exercise of its functions, the Board of Auditors exchanged information with the boards of auditors of the banks directly controlled by the Parent Company, as required by supervisory regulations, concerning the administration and control systems and developments in company operations. The Board of Auditors is engaged in activities to ensure "close liaison" with the boards of auditors of the affiliated banks in certain areas of prime interest to the oversight bodies of the banks, such as AML and statutory audit. The Board of Auditors exchanged information with the oversight bodies of the affiliated banks and a number of companies within the direct scope in relation to specific circumstances.

In addition to the information already provided in this report, during the year the Board of Auditors issued the opinions and provided the reports required of it under applicable legislation, supervisory regulations and the articles of association.

The Board of Auditors also declares that:

- it verified compliance with independence requirements on the part of the individual members of the Board of Auditors and that it both periodically and on a case-by-case basis took note of and assessed the notices received from its individual members regarding the number of other positions held/terminated and the related time commitment;
- it found that compliance with the integrity and experience requirements for corporate officers was appropriately assessed by the Board of Directors, as was the verification of other positions held for the purpose of the prohibition on interlocking officerships under Article 36 of Decree Law 201/2011.

Draft financial statements and Report on Operations

The Board of Auditors examined the company financial statements for the year ended December 31, 2021. As the Board is not charged with the statutory audit of the financial statements, we performed an overall summary check of the general layout of the financial statements and their general compliance with the law with regard to their formation and structure, and in this regard we have no particular observations to report. The Board of Auditors also monitored compliance with the procedural rules governing the preparation of the consolidated financial statements.

The Board of Auditors also declares it has examined the following reports prepared by Mazars S.p.A.:

- the audit reports (individual and consolidated) issued on April 20, 2022 in accordance with Article 14 of Legislative Decree 39/2010 and Article 10 of Regulation (EU) no. 537/2014;
- the additional report issued on April 20, 2022 in accordance with Article 11 of Regulation (EU) no. 537/2014, to the Board of Auditors in its capacity as the Internal Control and Audit Committee. This Report contains the annual confirmation of independence issued pursuant to Article 6, paragraph 2, letter a) of Regulation (EU) no. 537/2014. The Board informed the management body of the audited entity of the outcome of the statutory audit and sent the additional report referred to in Article 11 of Regulation (EU) no. 537/2014 to that body.

The above reports on the audit of the separate financial statements and the consolidated financial statements of the Group indicate that both documents provide a true and fair view of the financial position of Iccrea Banca S.p.A. and the ICBG at December 31, 2021, as well as the performance and cash flows for the year ended on that date in accordance with the International Financial Reporting Standards endorsed by the European Union and the measures issued in implementation of Article 9 of Legislative Decree 38/05 and Article 43 of Legislative Decree 136/15. Moreover, in the opinion of the auditor, the Report on Operations is consistent with the financial statements and the consolidated financial statements of the ICBG at December 31, 2021 and has been prepared in compliance with the law.

The statutory auditor, with whom we met periodically for the purpose of exchanging information, did not report any acts or facts deemed censurable or any irregularities to the Board of Auditors.

In view of all of the foregoing and the content of the reports drafted by the statutory auditor, the Board of Auditors, within the scope of its responsibilities, finds no impediment to the approval of the draft separate financial statements at December 31, 2021 of Iccrea Banca S.p.A. and the allocation of the result for the year proposed by the Board of Directors.

We bring to your attention the fact that with the approval of the financial statements at December 31, 2021, the terms of the Board of Directors and the Board of Auditors have come to an end. Thanking you for the confidence you have shown us, we therefore invite you to appoint new management and oversight bodies for 2022-2024.

Rome, May 19, 2022

For the Board of Auditors

The Chairman

Fernando Sbarbati

REPORT OF THE AUDIT FIRM

mazars

Iccrea Banca S.p.A.

Independent auditors’ report in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

(translation of the original report issued in Italian)*

Consolidated financial statements as of 31 December 2021

ORMB/NSDN/vbrb – R2022/00506

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Independent auditor’s report in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

(translation of the original report issued in Italian)*

To the Shareholders of Iccrea Banca S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Gruppo Bancario Cooperativo Iccrea (the “Group”), which comprise the consolidated balance sheet as at December 31, 2021, the income statement, the statement of comprehensive income, the statement of changes in shareholder’s equity and the statement of cash flows for the year then ended, and notes to the financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of the consolidated result of its operations and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the measured issued in implementation article 43 of Legislative Decree No. 136/2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the section of this report titled *Auditor’s responsibilities for the audit of the consolidated financial statements*. We are independent of Iccrea Banca S.p.A. (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and valuation of financial loans to customers measured at amortized cost

For further information, please refer to the Explanatory Notes:

“Part A – Accounting policies" – Section A.2 paragraph 3. “Financial assets measured at amortized cost "

“Part B – Information on the balance sheet” - Section 4 “Financial assets measured at amortized cost"

"Part C – Information on the income statement”: Section 8 “Net losses/recoveries for credit risk”

"Part E – Risk and risk management policies”: “Section 1 Credit risk"

Description of the key audit matters	Audit procedures
Loans to customers measured at amortized cost, which are reported in line item 40 b) of the balance sheet assets, amount to Euro 88.758, representing 50% of total assets. The classification and valuation of loans to customers are relevant for the audit due to the significance amount of the loans and to the intrinsic complexity of the evaluation of expected credit loss due to the uncertainty of the revised estimates to reflect the impacts deriving from the persistence of the Covid-19 pandemic, as well as government support measures, including the moratoriums granted to private customers, micro-enterprises, and SMEs. Amongst the estimation factors, are of particularly significant the determination of the parameters for the estimation of expected credit losses (ECL), with the inclusion of forward-looking factors for the determination of Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) and the determination of future cash flows deriving from impaired loans. In 2021, changes were made to the ECL parameters, which can be qualified as refinements of the models, also with the aim to factorise the evolution of the market context and considering the results deriving from Asset Quality Review (AQR), in the scope of the Comprehensive Assessment conducted and concluded by the ECB on the Gruppo Bancario Cooperativo Iccrea. On non-performing exposures, “sales scenarios” were also adopted on a portion of the portfolio in line with the further derisking strategies that the Group intends to pursue.	In response to this key aspect, the audit approach adopted involved the following procedures: • analysis and understanding of the internal control system and internal procedures relating to quality of monitoring and managing the credit risk; • verification of the correct implementation and operational effectiveness of controls, relevant for the purposes of the credit classification and assessment process, including the controls concern the IT system; • verification of the accurate determination of the parameters of PD, LGD and EAD relevant for the purpose of determining the value adjustments, as well as the verification of the classification criteria used in order to link loans to customers to the homogeneous categories of risk envisaged by the accounting standard IFRS 9 (so-called "staging allocation"); • execution of comparative analysis procedures with reference to the most significant variations in the cost of risk compared to the data of the previous year, by obtaining and analysing the monitoring reports internally prepared and discussing the results with the Head of Risk Management; • performing compliance and testing procedures on a sample base of practices aimed at verifying the correct classification and valuation of credit exposures; • verification of the correct accounting treatment related to the transfer of non-performing loans and unlikely to pay carried during the year 2021 conforming to the implementation of the derisking plans;

Classification and valuation of financial loans to customers measured at amortized cost	
Additional and significant aspects to the audit are the derisking activities coordinated by the Parent Company through the transferring of impaired credit exposures, as well as the evolution of the regulatory and methodological framework on credit risk, in particular deriving from the implementation of the "new definition of Default" and the prudential requirements set in terms of «Calendar provisioning». In consideration of the significance of the assessments made by the directors for the purposes of the classification and valuation of loans to customers measured at amortized cost, we have considered that these factors represent a key aspect of the audit of the Company's financial statements.	• verification of the adequacy and compliance of the information provided in the explanatory notes. The procedures described above were also carried out with the support of experts and specialists of the Mazars organization in the field of valuation models and financial tools and information systems.

Other matter

The consolidated financial statements of Gruppo Bancario Cooperativo Iccrea for the year ended 31 December 2020 were audited by another auditor, who expressed an unmodified opinion on those statements on 5 May 2021.

Responsibilities of the directors and board of statutory auditors for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union with the regulations issued to implement article 43 of Legislative Decree No. 136/2015 and, according to the terms prescribed by law, for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error or unintentional behavior or events..

The directors are responsible for assessing the Group's ability to continue as a going concern and for the appropriateness of the use of the going concern assumption in the preparation of the consolidated financial statements, and for appropriate disclosure thereof. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless directors either intend to liquidate the parent company Iccrea Banca S.p.A or to cease operations or has no realistic alternative but to do so.

The board of statutory auditors ("collegio sindacale") is responsible for overseeing, according to the terms prescribed by law, the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain a reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit performed in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of the audit in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures in response to those risks; we obtained sufficient and appropriate audit evidence on which to base our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- we obtained an understanding of the internal control relevant to the audit in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. Where a material uncertainty exists, we are required to draw attention, in our auditor's report, to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, subsequent events or conditions may cause the Group to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in such a manner as to give a true and fair view;
- we obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated to those charged with governance, identified at an appropriate level as required by ISA Italia, among other matters, the scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated to them any circumstances that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to those charged with governance, we identified those that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore representing the key audit matters. We described these matters in our auditor's report.

Additional disclosures required by article 10 of Regulation (EU) No. 537/2014

On 24 May 2021, the shareholders of Iccrea Banca S.p.A in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2021 to 31 December 2029.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors ("collegio sindacale"), in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on compliance with other laws and regulations

Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 [and article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Iccrea Banca S.p.A. are responsible for preparing a directors' report of Gruppo Bancario Cooperativo Iccrea as at 31.12.2021, including its consistency with the relevant consolidated financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the directors' report with the consolidated financial statements of Gruppo Bancario Cooperativo Iccrea as at 31 December 2021 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the directors' report is consistent with the consolidated financial statements of Gruppo Bancario Cooperativo Iccrea as at 31 December 2021 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, No. 254

The directors of Iccrea Banca S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, No. 254.

We verified the approval by the directors of the non-financial statement.

Pursuant to art. 3, paragraph 10, of Legislative Decree 30 December 2016, No. 254, this statement is subject of a separate attestation issued by us.

Rome, 20 April 2022

Mazars Italia S.p.A.

Signed on the original

Olivier Rombaut
Partner – Registered auditor

(*)This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

REPORT AND SEPARATE FINANCIAL STATEMENTS OF THE PARENT COMPANY ICCREA BANCA SPA

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

Following the Board of Directors' resolution of November 29, 2018, regarding a project to rationalize the electronic money business - which calls for the spin-off of the activities relating to this sector into a new company (BCC Pay S.p.A), which was established on December 20, 2018 — in application of IFRS 5, in the separate financial statements of Iccrea Banca at December 31, 2021, the items attributable to the aforementioned branch have been reclassified to the balance sheet and income statement items for assets held for sale.

In order to enable the comparison of the performance of the Parent Company compared with the previous year, in the reclassified schedules shown below, the information concerning the business unit in the process of being sold has been allocated to the relevant items of the separate financial statements.

In addition, with effect from January 1, 2021, in order to maximize potential synergies and model/process efficiencies to better serve the affiliated mutual banks as part of the evolution of the "Corporate", which involves the reorganization of the direct scope companies operating within it, the transfer of the non-lease lending operations of Iccrea BancaImpresa (ordinary lending, special and international credit and extraordinary corporate finance) to Iccrea Banca was completed, with Iccrea BancaImpresa retaining the lease-related business only.

For more information on these lending operations, please see the section in the 2020 annual report on the "Reorganization of the Group's corporate segment".

BALANCE SHEET

Assets

€/thousands	31/12/2021	31/12/2020
Financial assets measured at amortized cost – *Due from banks – Loans and securities*	32,171,399	32,556,711
Financial assets measured at amortized cost –*Due from customers – Loans*	5,984,049	4,501,678
Financial assets measured at amortized cost – *Due from customers – Securities*	10,816,923	9,791,187
Financial assets measured at fair value through profit or loss	1,287,573	1,335,470
Financial assets measured at fair value through other comprehensive income	510,674	311,207
Equity investments	998,822	1,206,207
Other assets	681,328	300,457
Total interest-bearing assets	**52,450,768**	**50,002,917**
Other non-interest-bearing assets	1,327,841	956,241
Total assets	**53,778,609**	**50,959,158**

Al December 31, 2021 total assets amounted to €53.8 billion, an increase compared with the €51 billion posted at the end of December 2020, mainly reflecting the following developments:

- loans measured at amortized cost increased by €2.1 billion compared with the end of 2020, with a slight decrease in amounts due from banks being offset by an increase in amounts due from customers. More specifically:
  - the increase in amounts due from customers is largely attributable to the acquisition of the assets – notably medium/long-term loans following the reorganization of the "Corporate" segment - of Iccrea BancaImpresa (+€2.5 billion) and an increase in investments in debt securities (+1.0 billion, largely Italian government securities) and other loans (+€0.6 billion), offset by a reduction in repo transactions with the Clearing & Guarantee Fund (-€1.6 billion);
  - the decrease in amounts due from banks reflects a decrease in loans (-€4.0 billion, partly in relation to a decline in the funding needs of Iccrea BancaImpresa), only partially offset by the growth in the reserve requirement maintained on behalf of the mutual banks (+€2.9 billion) and an increase in investments in debt securities (+€0.7 billion);
- financial assets measured at FVTPL were broadly unchanged (€1.3 billion), attributable to the net effect of the following developments:
  - the increase in other financial assets mandatorily measured at fair value (+€132 million), mainly due to the acquisition of the funds previously held by Iccrea BancaImpresa following the reorganization of the "Corporate" segment (in particular units of CIUs in the amount of €97.3 million) and, to a lesser extent, an increase in purchases of debt securities (+€18.4 million) and equity securities (€+€9.5 million);
  - the decrease in assets held for trading, mainly attributable to a decline in the value of trading derivatives (-€176.2 million, partially offset by purchase of government securities (+€63.8 million);
  - the reduction of assets originally designated as at fair value (-€68 million), represented by the assets included in the Guarantee Scheme managed by the Parent Company;

- an increase of about €200 million in financial assets measured at fair value through comprehensive income, which are held under the HTCS business model, reflecting the joint effect of the purchase of debt securities (especially government and bank issues) in the amount of €115 million and equity securities of banks in the amount of €86 million (almost entirely Bank of Italy shares);
- a decrease in equity investments (-€207 million), which mainly reflected the repayment of capital (-€350 million) during the year by Iccrea BancaImpresa – authorized by the European Central Bank – in order reduce the excess own funds generated by the reorganization of the "Corporate". Also contributing to the decrease were the impairment losses recognized on the equity investments in Iccrea BancaImpresa (-€73.7 million, partially offset by income of €38.2 million from the capital reduction cited above), in Banca Mediocredito FVG (-€2.9 million) and in BCC Factoring (-€0.9 million). In addition, the investment in Satispay was sold (-€8.1 million). Conversely, increases in equity investments – attributable to the acquisition of interests previously held by Iccrea BancaImpresa following the reorganization of the "Corporate" segment – were recorded for BCC Sistemi Informatici (+€0.5 million), Banca Mediocredito FVG (+€15 million) and BCC Factoring (+€19.1 million) as well as an increase in the investments in Banca Sviluppo (+€28.4 million), BCC Risparmio e Previdenza (+€26 million), BIT SpA (+€2.6 million), Sinergia (+€0.2 million) and BCC PAY SpA (+€0.2 million). In addition, 2021 also saw the acquisition of an interest in Pitagora SpA (€10.9 million). Another significant contribution came from equity investments acquired under Article 150-ter of the Consolidated Banking Act:
    - in Iccrea's capacity as the manager of the Guarantee Scheme in: BCC di Massafra (+€1.3 million), Vival Banca (+€16 million), Banca Centropadana (+€13.2 million), Banca Val di Chiana (+€35 million), and Banca di Pisa e Fornacette (+€19 million);
    - the Parent Company's direct subscription of shares totaling €2.8 million in BCC del Crotonese, BCC del Vibonese, Banca del Catanzarese and BCC di Cittanova.

€/thousands	31/12/2021	31/12/2020
Mutual banks	20,103,869	20,288,532
Other credit institutions	12,067,530	12,268,179
Due from banks	**32,171,399**	**32,556,711**

Amounts due from banks largely include lending to the affiliated banks (€20 billion, largely unchanged on 2020). These loans, disbursed against pool collateral, include about €16 billion in operations with the ECB (TLTRO III), with the residual component being other forms of collateralized financing. Amounts due from other credit institutions (including debt securities) include €4 billion in intercompany lending (about €3.6 billion to Iccrea BancaImpresa) and deposits with third parties for the remainder.

€/thousands	31/12/2021	31/12/2020
Current accounts	234,053	276,755
Medium/long-term loans	2,566,541	59,566
Repurchase transactions	143,286	1,772,307
Other transactions	2,977,544	2,387,353
Impaired assets	62,625	5,696
Loans to customers	**5,984,049**	**4,501,678**

Loans to ordinary customers amounted to €6.0 billion, an increase compared with the €4.5 billion posted at the end of December 2020. They included €2.1 billion in intercompany loans. The increase in medium/long-term loans (+€2.5 billion) was attributable to the transfer of the "Corporate" lending operations of Iccrea BancaImpresa, while other financing also increased (€0.6 billion). This was partially offset by a reduction in repurchase agreements with the Clearing & Guarantee Fund (-€1.6 billion).

Liabilities and equity

€/thousands	31/12/2021	31/12/2020
Financial liabilities measured at amortized cost – *Due to banks*	39,337,080	33,889,855
Financial liabilities measured at amortized cost – *Due to customers*	7,510,089	9,740,677
Financial liabilities measured at amortized cost – *Securities issued*	3,748,638	4,186,006
Financial liabilities held for trading	430,857	563,511
Financial liabilities designated as at fair value	335,392	340,957
Other liabilities	418,410	391,585
Total interest-bearing liabilities	**51,780,466**	**49,112,591**
Other non-interest-bearing liabilities	309,029	215,700
Shareholders' equity	1,635,936	1,697,663
Profit for the period	53,178	(66,795)
Total liabilities and equity	**53,778,609**	**50,959,158**

The increase in liabilities and equity in 2021 is attributable to the increase of €2.7 billion in interest-bearing funding, which is the net effect of the following factors:

- an increase of €5.4 billion in amounts due to banks to €39.3 billion, due to an increase in time deposits (+€2.6 billion, entirely intercompany), ECB funding (+€2 billion) and current accounts and demand deposits (+€0.6 billion);
- a reduction of €2.7 billion in amounts due to customers and securities issued, which declined to €11.3 billion, due to: (i) a decrease in repurchase agreements with the Clearing & Guarantee Fund (-€1.1 billion); (ii) a reduction in OPTES operations with the MEF (-€1 billion); and (iii) a decrease in securities issued due almost entirely to the redemption of maturing securities (-€1.7 billion), partially offset by new issues (+€1.5 billion, of which €300 million in subordinated securities);
- a decrease in liabilities held for trading, attributable mainly to the decline in the value of trading derivatives (-€133 million, connected with the analogous development in the corresponding asset item);
- a slight decrease in financial liabilities designated as at fair value in respect of financing received from the affiliated banks (the Ex Ante Quota) in connection with the Guarantee Scheme as a result of the distribution of income accrued in 2020.

€/thousands	31/12/2021	31/12/2020
Mutual banks	17,459,981	13,853,920
Other credit institutions	21,877,100	20,035,935
Due to banks	**39,337,080**	**33,889,855**

Amounts due to banks, which include €7.1 billion in deposits of the affiliated banks to meet reserve requirements, include: (i) €17.5 billion in positions with the affiliated banks mainly in respect of time deposits (€13.4 billion) and amounts held on the daily settlement account (€3.5 billion); (ii) €21.9 billion in amounts due to other credit institutions, nearly all related to financing from the ECB under TLTRO III (€21 billion). The remainder regards intercompany transactions with companies within the direct scope.

€/thousands	31/12/2021	31/12/2020
Current accounts and deposits	829,417	941,373
Financing	6,094,575	8,212,042
Other payables	586,097	587,262
Due to customers	**7,510,089**	**9,740,677**

Funding with customers amounted to €7.5 billion, down €2.2 billion compared with December 31, 2020. The decrease is attributable to a decline in repurchase transactions (-€1.1 million) and OPTES transactions with the MEF (-€1 billion).

Equity

At December 31, 2021, the share capital of Iccrea Banca, represented by 27,125,759 ordinary shares with a par value of €51.65 each, was equal to €1.4 billion, unchanged from 2020. Shareholders' equity, excluding profit for the year, amounted to €1.6 billion, a decrease of €62 million compared with December 31, 2020. The change is mainly due to the loss carried forward from 2020 (-€66.8 million) and the increase in valuation reserves (+€7.3 million), mainly due to changes in the cash flow hedge reserve as a result of hedges expiring during the period and, to a lesser extent, an improvement in valuations of securities in the FVOCI portfolio.

Income statement

€/thousands	31/12/2021	31/12/2020
Net interest income	**176,085**	**86,457**
Other gains/losses on financial transactions	89,745	48,177
Dividends	28,441	37,216
Net fee and commission income	**186,812**	**152,470**
Other operating expenses/income	194,470	169,327
Gross income	**675,554**	**493,647**
Personnel expenses	(190,919)	(196,489)
Other administrative expenses	(316,537)	(305,095)
Net adjustments of property, plant and equipment and intangible assets	(3,538)	(11,671)
Total operating expenses	**(510,994)**	**(513,256)**
Gross operating profit	**164,559**	**(19,608)**
Net provisions for risks and charges	(4,876)	(1,875)
Net losses/recoveries on impairment of loans and other financial transactions	(67,639)	(8,706)
Total provisions and adjustments	**(72,514)**	**(10,581)**
Profit/(loss) from equity investments	(27,116)	(44,038)
Profit/(loss) before tax	**64,929**	**(74,227)**
Income tax expense	(11,751)	7,432
Profit/(loss) for the period	**53,178**	**(66,795)**

Net profit for the period came to €53.2 million, a recovery of €120 million from 2020 (a net loss of €66.8 million). The main developments leading to this performance for the period include:

- an increase of €181.9 million in gross income to €675.6 million, reflecting:
  - an increase in net interest income (+€89.6 million) mainly attributable to: (i) income on the loans involved in the transfer of the "Corporate" operations of Iccrea BancaImpresa (+€71 million), partially offset by the restructuring of the funding granted to the companies in the direct scope, notably Iccrea BancaImpresa following the transfer (-€35.5 million); ii) an increase in interest income on secured funding and investment operations (+€25.8 million, of which +€19.4 million through TLTRO III); iii) an increase in the overall contribution to net interest income from yields and assets under management in the securities sector (+€21.1 million, almost all attributable to Italian government securities); and iv) restructuring of funding through the issue of bonds, mainly aimed at financing the mutual banks (including for MREL purposes) with a consequent savings on interest expense (+€9.3 million);
  - an increase in net fee and commission income (+€34.3 million), mainly reflecting: i) services connected with customers acquired from Iccrea BancaImpresa (+€24 million); ii) the growth in fees on e-money operations (+€11 million), which recovered thanks to an increase in transaction values compared with the previous year, which had been strongly affected by lockdown measures; iii) an increase in the contribution from collection and payment services (+€3.8 million), iv) all partially offset by a decrease (-€4 million) in fees and commission from IT services provided to Group companies following the transfer of the IT business unit to BCC Sistemi Informatici;
  - an increase in other gains/losses on financial transactions (to €89.7 million, +€41.6 million on the previous year), driven by an increase of in gains from the disposal of 10% of the securities (almost exclusively government securities) held in the HTC portfolio, which generated a profit of €74.4 million (+€18 million on December 2020). This performance was bolstered by the recovery in the value of the HTCS portfolio (+€16.3 million compared with the previous year, which had also been affected by the first-time application of the liquidity adjustment), mainly reflecting a decrease in adjustments of units in CIUs (+€14 million) and an increase in the values of equities and debt securities (+€2.3 million). A positive contribution also came from the trading in the securities and derivatives sector (+€4.6 million) and hedging activities (+€3.1 million);
  - a decrease in dividend income in 2021 (-€8.8 million, to €28.4 million), largely (-€13.3 million) attributable to a deterioration in performance in 2020 compared with the previous year or losses posted by a number of direct investees, only partially offset by dividends from the equity interest in the Bank of Italy acquired during the year (+€3.8 million);
  - an increase in in net other operating income (+€25.1 million), mainly attributable to an increase in revenues from the services rendered to the affiliated mutual banks. Income from Class 1 services increased by €5.4 million (from €60 to 65.4 million), while income from Class 2 services rose by €11.6 million (from €45.3 to 56.9 million) and revenue from design services increased by €4.6 million (from €25 to €29.6 million). The contribution of centralized services also increased by €8 million (from €8.6 to 16.6 million) all partly offset by the absence of income from IT services following the transfer of those operations to BCC Sistemi Informatici (-€5 million);
- a reduction in losses recognized on controlling interests (-€16.9 million), reflecting a decrease in impairment losses recognized on direct-scope companies. More specifically, during the year impairment losses were recognized on Iccrea BancaImpresa (-€73.7

million, partially offset by income of €38.2 million from the capital reduction noted earlier), Banca Mediocredito FVG (-€2.9 million) and BCC Factoring (-€0.9 million). Also significant was the gain recognized on the sale of the investment in Satispay (+€12 million);

- the general stability of operating expenses, which totaled €511 million in the period, mainly reflecting net outcome of the following developments: (i) a decrease in personnel expenses (€5.6 million, from €196.5 million to €190.9 million), which was affected by the offsetting impacts of the sale of IT operations to BCC SI, the acquisition of the IBI business line and a one-off component represented by provisions recognized at the end of 2020 connected with the activation of the Solidarity Funds for employees; (ii) an increase in other administrative expenses (+€11.4 million, from €305.1 million to €316.5 million), mainly reflecting the billing of IT services by BCC Sistemi Informatici (+€15.9 million, to be considered together with the reduction in costs deriving from the transfer of personnel and recoveries from the affiliated banks for IT-related projects) and the costs relating to the services provided to the mutual banks transferred by Iccrea BancaImpresa regarding MCC servicing (+€9 million, although these were recouped), only partially offset by a decrease in the Resolution Fund (BRRD) contribution (-€2 million), workstations costs (-€3.2 million) and savings of €8.8 million on professional and legal fees; and (iii) a decrease of €8.1 million in depreciation and amortization on non-current assets owing to the disposal of the IT business to BCCSI;

- an increase in impairment losses on on-balance-sheet and off-balance-sheet exposures (+€63.9 million), reflecting provisions on the loan portfolio acquired from Iccrea BancaImpresa and the application of even more prudent valuation policies for performing and non-performing exposures.

2. ASSETS HELD FOR SALE – ELECTRONIC MONEY BUSINESS UNIT

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

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

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

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

Balance sheet

€/thousands	31/12/2021	31/12/2020
Financial assets measured at amortized cost	645	580
Property, plant and equipment	48	-
Intangible assets	2,709	3,380
Other assets	203,467	185,472
Total assets	**206,869**	**189,432**

€/thousands	31/12/2021	31/12/2020
Financial liabilities measured at amortized cost	115,692	108,728
b) Due to customers	115,692	108,728
Other liabilities	63,514	59,426
Post-employment benefits	432	465
Provisions for risks and charges	2,461	2,194
Profit/(loss) for the period (+/-)	24,770	18,619
Total liabilities and equity	**206,869**	**189,432**

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

Income statement

€/thousands	31/12/2021	31/12/2020
Fee and commission income	413,335	340,487
Fee and commission expense	(319,264)	(260,158)
Net fee and commission income	**94,072**	**80,330**
Gross income	**94,072**	**80,330**
Net income/(loss) from financial operations	**94,072**	**80,330**
Administrative expenses:	(72,865)	(69,386)
a) personnel expenses	*(5,737)*	*(5,492)*
b) other administrative expenses	*(67,128)*	*(63,894)*
Net provisions for risks and charges	(253)	(444)
b) other net provisions	*(253)*	*(444)*
Net losses/recoveries on impairment of loans and other transactions	-	6
Net writedowns/writebacks of property, plant and equipment	(38)	-
Net writedowns/writebacks of intangible assets	(911)	(723)
Other operating expenses/income	14,641	16,295
Operating expenses	**(59,426)**	**(54,253)**
Profit/(loss) before tax on continuing operations	**34,646**	**26,076**
Income tax expense	**(9,875)**	**(7,457)**
Profit/(loss) for the period	**24,770**	**18,619**

3. 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.

4. PROPOSED ALLOCATION OF PROFIT

With regard to the profit for the year, which amounts to €53,177,917 and also in consideration of the recommendations of the supervisory authorities regarding prudent dividend distribution policies and of the uncertainty of the current macroeconomic situation connected with the persistence of the pandemic and the possible impacts of the conflict between Russia and Ukraine, we propose the following allocation to the shareholders:

- €5,317,792 to the legal reserve (in accordance with the provisions of the articles of association);
- €47,860,125.00 to cover previous losses, reducing the accumulated losses of previous years from €229,844,303.11 to €181,984,178.11.

Furthermore, also in relation to the restoration of profitability at the Parent Company, we proposed to cover the residual €181,984,178.11 of losses carried forward from previous years using the extraordinary reserve – now equal to €337,298. 984.48 and fully available, in the corresponding amount, bringing it to €155,314,806.37.

SEPARATE FINANCIAL STATEMENTS

BALANCE SHEET

Assets		31/12/2021	31/12/2020
10.	Cash and cash equivalents	1,214,581,917	845,491,052
20.	Financial assets measured at fair value through profit or loss	1,287,573,138	1,335,469,718
	a) financial assets held for trading	461,893,796	573,876,462
	b) financial assets designated as at fair value	295,250,168	363,255,123
	c) other financial assets mandatorily measured at fair value	530,429,174	398,338,133
30.	Financial assets measured at fair value through other comprehensive income	510,673,621	311,207,037
40.	Financial assets measured at amortized cost	48,971,725,459	46,848,996,443
	a) due from banks	32,171,398,850	32,556,711,366
	b) loans to customers	16,800,326,609	14,292,285,077
50.	Hedging derivatives	37,112,184	8,710,139
60.	Value adjustments of financial assets hedged generically (+/-)	(607,133)	1,157,992
70.	Equity investments	998,822,259	1,206,206,868
80.	Property, plant and equipment	4,251,443	3,513,953
90.	Intangible assets	822,062	2,127,456
100.	Tax assets	68,924,159	91,859,287
	a) current	53,916,033	62,357,835
	b) deferred	15,008,126	29,501,452
110.	Non-current assets and disposal groups held for sale	206,868,648	189,432,272
120.	Other assets	477,861,409	114,985,436
	Total assets	**53,778,609,166**	**50,959,157,653**

Liabilities and shareholders’ equity		31/12/2021	31/12/2020
10.	Financial liabilities measured at amortized cost	50,480,116,372	47,707,808,743
	a) due to banks	39,337,080,204	33,889,854,635
	b) due to customers	7,394,397,770	9,631,948,553
	c) securities issued	3,748,638,398	4,186,005,555
20.	Financial liabilities held for trading	430,857,148	563,511,152
30.	Financial liabilities designated as at fair value	335,391,646	340,957,044
40.	Hedging derivatives	247,018,407	173,821,352
60.	Tax liabilities	1,649,779	1,173,410
	b) deferred	1,649,779	1,173,410
70.	Liabilities associated with assets held for sale	182,098,339	170,812,935
80.	Other liabilities	354,895,626	332,159,604
90.	Employee termination benefits	15,347,312	16,179,392
100.	Provisions for risks and charges:	42,121,031	21,866,555
	a) commitments and guarantees granted	31,971,538	69,648
	c) other provisions for risks and charges	10,149,493	21,796,907
110.	Valuation reserves	45,353,084	38,050,327
140.	Reserves	183,455,648	252,485,541
150.	Share premium reserve	6,081,405	6,081,405
160.	Share capital	1,401,045,452	1,401,045,452
180.	Net profit (loss) for the period (+/-)	53,177,917	(66,795,259)
	Total liabilities and shareholders’ equity	**53,778,609,166**	**50,959,157,653**

INCOME STATEMENT

		31/12/2021	31/12/2020
10.	Interest and similar income	466,450,694	361,633,233
	of which: interest income calculated using effective interest rate method	336,235,095	172,956,543
20.	Interest and similar expense	(290,365,624)	(275,176,256)
30.	**Net interest income**	**176,085,070**	**86,456,977**
40.	Fee and commission income	113,546,963	92,539,854
50.	Fee and commission expense	(20,806,420)	(24,455,514)
60.	**Net fee and commission income (expense)**	**92,740,543**	**68,084,340**
70.	Dividends and similar income	28,441,294	37,216,258
80.	Net gain (loss) on trading activities	20,115,001	15,547,019
90.	Net gain (loss) on hedging activities	107,961	(3,000,069)
100.	Net gain (loss) on the disposal or repurchase of:	77,151,365	58,882,629
	a) financial assets measured at amortized cost	76,471,483	56,541,149
	b) financial assets measured at fair value through other comprehensive income	4,356,738	1,941,415
	c) financial liabilities	(3,676,856)	400,066
110.	Net gain (loss) on financial assets and liabilities measured at fair value through profit or loss	(7,629,497)	(23,252,401)
	a) financial assets and liabilities designated as at fair value	(3,128,102)	(2,436,124)
	b) other financial assets mandatorily measured at fair value	(4,501,395)	(20,816,276)
120.	**Gross income**	**387,011,737**	**239,934,754**
130.	Net losses/recoveries for credit risk in respect of:	(67,638,212)	(8,711,665)
	a) financial assets measured at amortized cost	(68,088,368)	(8,129,970)
	b) financial assets measured at fair value through other comprehensive income	450,156	(581,695)
150.	**Net income (loss) from financial operations**	**319,373,525**	**231,223,089**
160.	Administrative expenses:	(434,591,270)	(393,763,404)
	a) personnel expenses	(185,182,226)	(183,154,814)
	b) other administrative expenses	(249,409,044)	(210,608,590)
170.	Net provisions for risks and charges	(4,622,729)	(1,430,632)
	a) commitments and guarantees granted	(5,072,741)	(28,661)
	b) net provisions for other risk and charges	450,012	(1,401,971)
180.	Net adjustments of property plant and equipment	(2,171,105)	(1,698,078)
190.	Net adjustments of intangible assets	(417,755)	(589,636)
200.	Other operating expenses/income	179,828,677	150,464,575
210.	**Operating expenses**	**(261,974,182)**	**(247,017,175)**
220.	Profit (loss) from equity investments	(27,115,826)	(44,037,820)
260.	**Profit (loss) before tax on continuing operations**	**30,283,517**	**(59,831,906)**
270.	Income tax expense from continuing operations	(1,875,909)	14,889,225
280.	**Profit (loss) on continuing operations after tax**	**28,407,608**	**(44,942,681)**
290	Profit (loss) on discontinued operations after tax	24,770,309	(21,852,578)
300.	**Profit (loss) for the period**	**53,177,917**	**(66,795,259)**

STATEMENT OF COMPREHENSIVE INCOME

		31/12/2021	31/12/2020
10.	**Net profit (loss) for the period**	**53,177,917**	**(66,795,259)**
	Other comprehensive income net of taxes not recyclable to profit or loss	**5,168,564**	**(2,707,683)**
20.	Equity securities designated as at fair value through other comprehensive income	5,588,345	(2,485,415)
70.	Defined benefit plans	(419,781)	(222,268)
	Other comprehensive income net of taxes recyclable to profit or loss	**2,134,193**	**(8,689,663)**
120.	Cash flow hedges	4,605,457	(10,003,333)
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(2,471,264)	1,313,670
170.	**Total other comprehensive income net of taxes**	**7,302,757**	**(11,397,346)**
180.	**Comprehensive income (item 10+170)**	**60,480,674**	**(78,192,605)**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2021

				Allocation of net profit of previous year		Change in the period									
							Equity transactions								
	As at 31/12/2020	Change in opening balance	As at 1/1/2021	Reserves	Dividends and other destinations	Change in reserves	Issue of new shares	Purchase of treasury shares	Interim dividends	Extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock options	Comprehensive income at 31/12/2021	Shareholders' equity 31/12/2021
Share capital:															
a) ordinary shares	1,401,045,452	X	1,401,045,452	-	X	X	-	-	X	X	X	X	X	X	1,401,045,452
b) other shares	-	X	-	-	X	X	-	-	X	X	X	X	X	X	-
Share premium reserve	6,081,405	X	6,081,405	-	X	-	-	X	X	X	X	X	X	X	6,081,405
Reserves:															
a) earnings	252,485,541	-	252,485,541	(66,795,259)	X	(2,234,633)	-	-	X	-	X	X	X	X	183,455,648
b) other	-	-	-	-	X	-	-	X	X	-	X	-	-	X	-
Valuation reserves	38,050,326	-	38,050,326	-	X	-	X	X	X	X	X	X	X	7,302,757	45,353,084
Equity instruments	-	X	-	X	X	X	X	X	X	X	-	X	X	X	-
Treasury shares	-	X	-	X	X	X	-	-	X	X	X	X	X	X	-
Net profit (loss) for the period	(66,795,259)	-	(66,795,259)	66,795,259	-	X	X	X	X	X	X	X	X	53,177,917	53,177,917
Total shareholders' equity	**1,630,867,465**	**-**	**1,630,867,465**	**-**	**-**	**(2,234,633)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**60,480,674**	**1,689,113,506**

STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY 2020

				Allocation of net profit of previous year		Change in the period									
							Equity transactions								
	As at 31/12/2019	Change in opening balance	As at 1/1/2020	Reserves	Dividends and other destinations	Change in reserves	Issue of new shares	Purchase of treasury shares	Interim dividends	Extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock options	Comprehensive income at 31/12/2020	Shareholders’ equity 31/12/2020
Share capital:															
a) ordinary shares	1,401,045,452	X	1,401,045,452	-	X	X	-	-	X	X	X	X	X	X	1,401,045,452
b) other shares	-	X	-	-	X	X	-	-	X	X	X	X	X	X	-
Share premium reserve	6,081,405	X	6,081,405	-	X	-	-	X	X	X	X	X	X	X	6,081,405
Reserves:															
a) earnings	379,938,902	-	379,938,902	(127,416,948)	X	(36,414)	-	-	X	-	X	X	X	X	252,485,541
b) other	-	-	-	-	X	-	-	X	X	-	X	-	-	X	-
Valuation reserves	49,447,673	-	49,447,673	-	X	-	X	X	X	X	X	X	X	(11,397,347)	38,050,326
Equity instruments	-	X	-	X	X	X	X	X	X	X	-	X	X	X	-
Treasury shares	(4,607,698)	X	(4,607,698)	X	X	X	4,607,698	-	X	X	X	X	X	X	-
Net profit (loss) for the period	(127,416,948)	-	(127,416,948)	127,416,948	-	X	X	X	X	X	X	X	X	(66,795,259)	(66,795,259)
Total shareholders’ equity	**1,704,488,787**	**-**	**1,704,488,787**	**-**	**-**	**(36,414)**	**4,607,698**	**-**	**-**	**-**	**-**	**-**	**-**	**(78,192,605)**	**1,630,867,465**

STATEMENT OF CASH FLOWS: INDIRECT METHOD

	31/12/2021	31/12/2020
A. OPERATING ACTIVITIES		
1. Operations	**(183,290,885)**	**632,898**
- net profit (loss) for the period (+/-)	53,177,917	(66,795,259)
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	18,606,022	36,298,186
- gains (losses) on hedging activities (-/+)	(107,961)	3,000,069
- net losses/recoveries on impairment (+/-)	(9,808,464)	8,711,822
- net adjustments of property plant and equipment and intangible assets (+/-)	2,588,860	2,287,714
- net provisions for risks and charges and other costs/revenues (+/-)	14,617,381	54,017,589
- taxes, duties and tax credits to be settled (+/-)	(383,804)	(14,548,969)
- other adjustments (+/-)	(261,980,835)	(22,338,254)
2. Net cash flows from/used in financial assets	**(2,629,380,041)**	**(5,000,035,150)**
- financial assets held for trading	101,809,385	(189,689,117)
- financial assets designated as at fair value	63,670,970	23,084,570
- other assets mandatorily measured at fair value	(137,128,199)	78,284,054
- financial assets measured at fair through other comprehensive income	(193,913,597)	124,440,496
- financial assets measured at amortized cost	(2,187,048,933)	(4,964,429,612)
- other assets	(276,769,667)	(71,725,541)
3. Net cash flows from/used in financial liabilities	**2,902,663,197**	**4,957,965,975**
- financial liabilities measured at amortized cost	2,895,920,348	4,764,194,951
- financial liabilities held for trading	(132,691,680)	181,645,807
- financial liabilities designated as at fair value	(4,222,480)	(86,626,922)
- other liabilities	143,657,009	98,752,139
Net cash flows from/used in operating activities (A)	**89,992,271**	**(41,436,278)**
B. INVESTING ACTIVITIES		
1. Cash flows from	**74,854,580**	**103,804,055**
- sale of equity investments	50,330,850	-
- dividends on equity investments	23,404,091	36,741,467
- sale of property plant and equipment	-	14,258,573
- sale of intangible assets	1,119,639	52,804,015
2. Cash flows used in	**204,244,014**	**(103,684,290)**
- purchases of equity investments	207,384,609	(99,763,971)
- purchases of property plant and equipment	(2,908,595)	(2,345,467)
- purchases of intangible assets	(232,000)	(1,574,853)
Net cash flows from/used in investing activities (B)	**279,098,594**	**119,764**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	-	4,607,698
Net cash flows from/used in financing activities C(+/-)	**-**	**4,607,698**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C	**369,090,865**	**(36,708,815)**

RECONCILIATION

	31/12/2021	31/12/2020
Cash and cash equivalents at beginning of period (E)	845,491,052	246,136,800
Net increase/decrease in cash and cash equivalents (D)	369,090,865	(36,708,815)
Cash and cash equivalents: effect of exchange rate changes (F)	-	-
Re-presentation of demand amounts due from banks 7th update of Circ. 262	-	636,063,068
Cash and cash equivalents at end of period (G)=E+/-D+/-F	1,214,581,917	845,491,052

NOTES TO THE FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

SECTION 1 – DECLARATION OF CONFORMITY WITH INTERNATIONAL ACCOUNTING STANDARDS

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, the separate financial statements of Iccrea Banca have been prepared in condensed form and in accordance with the recognition and measurement criteria of the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRS-IC), endorsed by the European Commission and in force as of the reporting date.

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

These financial statements have been prepared using the main tables provided for in Circular no. 262 of December 22, 2005 governing the format and rules for the preparation of bank financial statements, – 7th update of October 29, 2021 issued by the Bank of Italy in the exercise of the powers established by Article 43 of Legislative Decree 136/2015, as well as 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, updated with a Communication of the Bank of Italy on December 21, 2021.[55]

The IASs/IFRSs applied in preparing the financial statements were those endorsed and in force at December 31, 2021. The following table sets out the new international accounting standards and amendments to existing accounting standards, with the related endorsement regulations of the European Commission, that took effect that took effect, either on a mandatory basis or with the option of early adoption, as from January 1, 2021.

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
2097/2020	**Amendments to IFRS 4 - Extension of the Temporary Exemption from Applying IFRS 9** On June 25, 2020 the IASB published the amendment *"Extension of the Temporary Exemption from Applying IFRS 9* (*Amendments to IFRS 4*)". The amendments to IFRS 4 seek to remedy the temporary accounting consequences of the mismatch between the date of entry into force of IFRS 9 Financial Instruments and the date of entry into force of the future IFRS 17 Insurance Contracts. In particular, the amendments to IFRS 4 extend the expiry of the temporary exemption from the application of IFRS 9 (Deferral Approach, Temporary exemption) until 2023 in order to align the date of entry into force of IFRS 9 with the new IFRS 17. The adoption of the amendment did not have an impact on the Bank's financial statements.	Annual reporting periods beginning on or after January 1, 2021
25/2021	**Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform—Phase 2** In the light of the interbank interest rate benchmark reform, on August 27, 2020 the IASB published *Interest Rate Benchmark Reform—Phase 2,* which contains amendments to the following standards: - IFRS 9 *Financial Instruments*; - IAS 39 *Financial Instruments: Recognition and Measurement*; - IFRS 7 *Financial Instruments: Disclosures*; - IFRS 4 *Insurance Contracts*; e - IFRS 16 *Leases*. The amendments came into force on January 1, 2021 and provide for specific accounting treatment to distribute changes in the value of financial instruments or leases contracts attributable to the replacement of the benchmark index for determining interest rates over time, thus avoiding immediate repercussions on profit or loss and the unnecessary termination of hedging relationships following the replacement of an interest rate benchmark index. For more information on the impact of the adoption of those amendments on the Bank's financial statements, please see the discussion in Section 4.	Annual reporting periods beginning on or after January 1, 2021

[55] See the "Aggiornamento delle integrazioni alle disposizioni della Circolare n. 262 - Il bilancio bancario: schemi e regole di compilazione" concerning the impact of COVID-19 and the measures to support the economy.

The following is a list of IFRS accounting standards, amendments and interpretations endorsed by the European Union that are not yet mandatorily in effect and have not been adopted early as at December 31, 2021.

1. On May 14, 2020, the IASB published the following amendments:

- *Amendments to IFRS 3 Business Combinations*: the amendments are intended to update references in IFRS 3 to the revised Conceptual Framework without changing the provisions of the standard.
- *Amendments to IAS 16 Property, Plant and Equipment*: the amendments prohibit the deduction from the cost of an item of property, plant and equipment of proceeds of the sale of items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Such proceeds and the related costs shall therefore be recognized through profit or loss.
- *Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets*: the amendment clarifies that in estimating the potential cost of a contract, all costs directly attributable to the contract must be considered. Consequently, the measurement of the potential cost of a contract shall include not only incremental costs (such as, for example, the cost of the material directly used in production), but also all the costs that the company cannot avoid as it has entered into the contract (such as, for example, the share of the depreciation of the machinery used to fulfill the contract).
- Annual Improvements 2018-2020: the amendments involved IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples of IFRS 16 Leases.

All the amendments will take effect for annual periods beginning on or after January 1, 2022. Management is evaluating the possible effects of the introduction of these amendments on the Bank's financial statements.

2. On March 31, 2021, the IASB published the amendment "*COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)*", which extends by one year the period of application of the amendment issued in 2020, which allowed lessees to recognize rent concessions granted in connection with COVID-19 without having to assess whether the concession constituted a lease modification under IFRS 16. Lessees who applied this amendment in 2020 recognized the effects of the rent concessions directly through profit or loss at the effective date of the concession. The 2021 amendment, which is available only for entities that had already applied the 2020 amendment, takes effect from April 1, 2021 and early adoption is permitted. The adoption of these amendments did not have an impact on the Bank's financial statements.

3. On May 18, 2017, the IASB published IFRS 17 - *Insurance Contracts*, which is intended to replace IFRS 4 - *Insurance Contracts*.

The objective of the new standard is to ensure that an entity provides material information that faithfully represents the rights and obligations deriving from the insurance contracts it writes. The IASB developed the standard to eliminate inconsistencies and weaknesses in existing accounting policies by providing a single principle-based framework to account for all types of insurance contracts, including the reinsurance contracts that an insurer holds.

The new standard also provides for presentation and disclosure requirements to improve comparability between entities in this sector.

The new standard measures an insurance contract based on a General Measurement Model or a simplified version of this, called the Premium Allocation Approach ("PAA").

The main features of the General Measurement Model are:

- the estimates and assumptions of future cash flows are always current;
- the measurement reflects the time value of money;
- the estimates make extensive use of information observable on the market;
- there is a current and explicit measurement of risk;
- expected profit is deferred and aggregated into groups of insurance contracts at the time of initial recognition;
- expected profit is recognized over the contractual coverage period, taking account of adjustments deriving from changes in the assumptions relating to the cash flows of each group of contracts.

The PAA approach provides for the measurement of the liability for the residual coverage of a group of insurance contracts provided that, at the time of initial recognition, the entity expects that this liability reasonably represents an approximation of the General Model. Contracts with a coverage period of one year or less are automatically eligible for the PAA approach. The simplifications resulting from the application of the PAA method do not apply to the assessment of liabilities for outstanding claims, which are measured with the General Measurement Model. However, it is not necessary to discount those cash flows if it is expected that the balance will be paid or collected within one year of the date on which the claim is made.

Entities shall apply the new standard to insurance contracts written, including reinsurance contracts written, reinsurance contracts held and investment contracts with a discretionary participation feature (DPF).

The standard shall take effect from January 2023, but early application is permitted for entities that apply IFRS 9 - *Financial Instruments* and IFRS 15 - *Revenue from Contracts with Customers*. Adoption of the standard is not expected to have a significant impact on the Bank's financial statements.

At reporting date, the competent bodies of the European Union have not yet concluded the process necessary for the endorsement of the standards, amendments and interpretations summarized below:

- on January 23, 2020, the IASB published "*Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current*". The document seeks to clarify how to current and non-current liabilities. The changes take effect from January 1, 2023, but early application is permitted. The possible impact of the introduction of the amendment is being evaluated;
- on February 12, 2021, the IASB published "Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2" and "Definition of Accounting Estimates - Amendments to IAS 8". The amendments seek to improve disclosure of accounting policies in order to provide more useful information to investors and other primary users of financial statements as well as to help entities distinguish changes in accounting estimates from changes in accounting policies. The changes will take effect from January 1, 2023, but early application is permitted. The possible impact of the introduction of the amendments is being evaluated;
- on May 7, 2021, the IASB published "*Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction*". The document seeks to clarify how to account for deferred tax on certain transactions that can generate assets and liabilities of the same amount, such as leases and decommissioning obligations. The amendments will take effect from January 1, 2023, but early application is permitted. The possible impact of the introduction of the amendments are being evaluated;
- on 9 December 2021, the IASB published "*Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 - Comparative Information*". The amendment is a transition option relating to comparative information on financial assets presented on initial application of IFRS 17. The amendment seeks to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore to improve the usefulness of comparative information for users of financial statements. The amendments will take effect from January 2023, together with IFRS 17. No significant effects are expected from the adoption of this amendment.

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 notes to the financial statements 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 year.

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

Reference is also made to the documents issued by European Securities and Markets Authority (ESMA) regarding the application of specific provisions of the IFRS, with particular regard to the methods of accounting for the effects of the COVID-19 pandemic (ESMA statements of March 25, 2020, May 20, 2020, October 28, 2020 and October 29, 2021).

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.

These 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 – 7th update of October 29, 2021, 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 comparative figures at December 31 2020, have been restated, where necessary, to reflect the update of Circular 262. The main changes concern (i) the reclassification of demand deposits and current accounts with banks and central banks from "financial assets at amortized cost" to "cash and cash equivalents", (ii) the specific and separate indication of the financial assets purchased or originated impaired in the tables of the explanatory notes for financial assets, (iii) an indication in the tables reporting COVID-19 support measures of loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures, and (iv) a revision of the tables concerning fees and commissions.

For the purposes of preparing the financial statements, the guidelines, documents and warning notices issued by ESMA, EBA, ECB, CONSOB and the IASB HAVE also been considered, as more fully discussed in the Report on Operations accompanying the consolidated financial statements, for the consistent application of international accounting standards, in particular IFRS 9, in the countries of the European Union with reference to the exceptional measures taken in response to the COVID-19 pandemic.

In accordance with the provisions of IAS 1, these financial statements have been drawn up on a going-concern basis.

In this regard, management is not aware of any significant uncertainties, events or conditions that could lead to the emergence of serious doubts about the Bank's ability to continue operating as a going concern in operation in the foreseeable future, taking into particular account the cross guarantee scheme on which the Iccrea Cooperative Banking Group is based, a discussion of which is provided in the Report on Operations. The uncertainties surrounding the current economic environment, even if they have generated/are likely to generate impacts on the financial statements, do not undermine the going-concern assumption.

In light of this information and assessments, and with regard to the information provided in Document 2 of February 6, 2009 and Document 4 of March 3, 2010, issued jointly by the Bank of Italy, CONSOB and ISVAP, as updated, the Bank has a reasonable expectation of continuing to operate as a going concern in the foreseeable future and has therefore prepared the financial statements at December 31, 2021 on basis of the going-concern assumption.

Content of the financial statements and the notes to the financial statements

Balance sheet and income statement

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

Statement of comprehensive income

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

Statement of changes in equity

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

Statement of cash flows

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

Content of the notes to the financial statements

The 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 – 7th update of October 29, 2021, 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 – 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 April 8, 2022, with the exceptions indicated below, no events occurred that would entail a modification of the financial data approved at that meeting.

Amendments introduced with Decree Law 17 of March 1, 2022 (the Energy Decree)

On March 1, 2022, Decree Law 17 was approved. Article 42 of the measure governs the deferral, in equal instalments, to the tax period under way at December 31, 2022 and the three subsequent tax periods, of the deduction of 12 per cent of the negative components envisaged, for the purposes of the corporate income tax and regional business tax, in paragraphs 4 and 9, respectively, of Article 16 of Decree Law 83 of June 27, 2015, ratified with amendments with Law 132 of August 6, 2015.

The provision in question is considered as a non-adjusting event in the financial statements at December 31, 2021, pursuant to paragraphs 46 and 47 of IAS 12, and, accordingly, the consequent financial effects have not been reflected in the balances at the same date.

Russia – Ukraine conflict

In addition to the consequences of the COVID-19 pandemic, where the positive effects of the actions taken to revive economic growth were beginning to emerge, the current macroeconomic environment has been buffeted by a new round of uncertainties associated with the conflict between Russia and Ukraine.

In February 2022, the serious geopolitical tensions between the two countries, which then led to war, had a significant adverse impact on the entire global economic and financial situation, with an immediate impact on inflation and exports as well as potentially long-term repercussions for the nascent growth trend (which has been sharply influenced by developments in energy commodity prices, reflecting the significant dependence on energy supplies from the area affected by the conflict).

In response to the aggression against Ukraine, the European Union swiftly adopted the most sweeping sanctions package in its history against Russia. It is clear that even these measures will not leave the European economy unscathed.

The repercussions of the crisis on global macroeconomic conditions, which were already characterized by tensions in global supply chains, are therefore likely to have consequences for the European economy in terms of greater volatility and impacts on production. However, it is currently not possible to determine which effects could arise as a result of these developments, as at the moment we cannot rule out the risk of recession despite the strong economic recovery that has begun, thanks in part to the key support of national and European fiscal policies.

The Bank considers the aforementioned events to be a non-adjusting event subsequent to the close of the financial statements pursuant to IAS 10. In consideration of the constant and rapid evolution of the situation, it is not currently considered possible to produce a quantitative estimate of the potential impact that these geopolitical tensions could have on the performance and financial situation of the Bank and the Group (the determinants are many and difficult to assess, and in large part not yet fully defined). These analyses will consequently be updated progressively in formulating accounting estimates for 2022. Specifically, the determination of Expected Credit Loss - ECL, the economic and financial projections used to test goodwill for impairment and the probability test conducted to support the recognition of deferred tax assets were developed on the basis of the macroeconomic conditions expected at December 31, 2021 and, therefore, do not take into consideration the possible future impacts resulting from the current geopolitical tensions.

The Parent Company, which operates through its Representative Office in Moscow, has a net exposure totaling €4.8 million, which is mainly represented by an on-balance-sheet exposure of €4.3 million in respect of Russian companies belonging to Italian groups, which is 100% guaranteed by the Italian parent companies, as well as a non-recourse bill discount exposure of €0.1 million, which is 100% guaranteed by SACE against political risk, and a guarantee position of which €0.4 million has been used.

In the extreme and scarcely probable scenario in which all these exposures were not fully recovered, the impact on the Group's CET1 ratio at the end of 2021 would be negligible. The Bank's capital position would therefore enable it, even in the most catastrophic circumstances, to absorb this unlikely impact while still maintaining its capital well above requirements.

The Bank also operates in line with instructions contained in the joint press release issued by the Bank of Italy, CONSOB, IVASS and UIF of March 7, 2022 (which draws the attention of supervised entities to the need for full compliance with the restrictive measures imposed by the European Union in response to situation in Ukraine), both with regard to full compliance with the sanctions defined by the European Union and with regard to the IT risk (cyber risk), security and business continuity issues potentially linked to the conflict, with the aim of ensuring full compliance with the sanctions, the adequacy of business continuity plans and the correct functioning and prompt restoration of backups, as well as specific operating instructions aimed at raising staff awareness of the safe use of IT resources (e-mail, internet browsing, workstations).

SECTION 4 – OTHER MATTERS

Consolidated tax mechanism option

Iccrea Banca SpA and the Group subsidiaries belonging to the so-called “direct scope” (the former Iccrea Banking Group) have adopted the “consolidated tax mechanism”, governed by Articles 117-129 of the Uniform Income Tax Code (“TUIR”), introduced with Legislative Decree 344/2003. It consists of an optional tax regime under which total net income or the tax losses of each subsidiary taking part in the tax consolidation –along with withholdings, deductions and tax credits – are transferred to the parent company. Only one taxable income or tax loss that can be carried forward (the algebraic sum of the parent company’s and its participating subsidiaries’ income/losses resulting in a single tax payable/receivable) is calculated and attributed to the parent company. Under this option, the Group companies that participate in the consolidated tax mechanism calculate their tax liabilities and the corresponding taxable income, which is transferred to the parent company. If one or more subsidiaries reports negative taxable income, the tax losses are transferred to the parent company when there is consolidated income for the period or a high probability of future taxable income.

Risks and uncertainties associated with the use of estimates

In conformity with the IAS/IFRS, management is required to formulate accounting estimates that can impact the values of the assets, liabilities, costs and revenues recognized in the separate financial statements. The formulation of these estimates is based on prior experience, available information, the adoption of assumptions and subjective judgements.

Estimation processes were used to support the carrying amount of some of the largest items recognized in the consolidated financial statements, such as:

- the verification of compliance with the requirements for classifying financial assets in the accounting portfolios that adopt the amortized cost criterion (SPPI test), with particular regard to the performance of the benchmark test;
- the quantification of impairment losses on loans and, more generally, other financial assets;
- the assessment of the appropriateness of the value of equity investments and other non-financial assets;
- the use of valuation techniques in the recognition of the fair value of financial assets not listed on active markets;
- the estimation and assumptions concerning the recoverability of deferred tax assets;
- the determination of discount rates for lease liabilities;
- the quantification of provisions for personnel and provisions for legal and tax risks and charges.

The description of the accounting policies applied to the main financial statement aggregates provides the information necessary to identify the main assumptions and subjective assessments used in the preparation of the financial statements.

In particular:

- for allocation to the three stages of credit risk provided for under IFRS 9 of loans and debt securities classified under financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income and the associated calculation of expected losses, the main estimates regard the determination of the parameters representing a significant increase in credit risk, the inclusion of forward-looking factors in determining PD, EAD and LGD and the determination of future cash flows from impaired loans;
- for the quantification of provisions for risks and charges, the estimation of the amount of outlays necessary to discharge liabilities, taking account of the effective probability of having to employ resources to do so.

For further information concerning the composition and associated carrying amounts of the items affected by these estimates, please see the specific sections in the notes to the financial statements.

By their nature, estimates may vary from year to year and, therefore, it cannot be ruled out that in subsequent years the current values recorded in the financial statements may differ significantly as a result of changes in the subjective assessments employed.

In line with the ESMA statements published in March and May 2020 as well as with the IOSCO document of April 2020, CONSOB published several warning notices, in April and July 2020 and February and March 2021, that emphasized the importance of providing updated disclosures on the risks associated with COVID-19 that may have an impact on performance, financial position or cash flows, on any actions taken or planned to mitigate said risks, on the potential impacts relevant to the estimation of future developments. The attention of management was also drawn to the need to carefully assess the present and future impact of COVID-19 on strategic planning and plan targets, on financial performance, on the financial position and on cash flows, as well as on the going-concern assumption.

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

A key element of the comprehensive set of actions implemented by the Group for the structural management of the COVID-19 emergency was the effort to revise the credit risk forecasting metrics to factor the conditions associated with the emergency into ordinary valuation processes and, in particular, within the IFRS 9 impairment framework in order to calculate the expected credit loss (ECL) on performing loans.

The great discontinuities in market conditions brought about COVID-19 have prompted a number of exceptional changes in methodology and implementation that have made it possible to incorporate the potential impact of the pandemic into the impairment model, taking consideration in particular of recent developments in the pandemic. At the same time, the introduction of measures to support customers and the economy, with a particular emphasis on actions taken by the Group in relation to applicable legislative measures enacted in Italy, the measures agreed with industry association and the initiatives undertaken by individual organization led to the introduction of further methodological changes to the IFRS 9 impairment framework in order to take account of the impact of the emergency in calculating expected credit losses.[56]

More specifically, the measures to adapt the impairment framework to incorporate the effects of the COVID-19 pandemic in the calculation of expected credit losses included:

- the use of forecast scenarios updated in response to developments in macroeconomic conditions. In particular, in order to enable the adaptation of the IFRS 9 methodological framework to the pandemic, the difficulty of modeling its peculiar characteristics using ordinary tools (satellite models) prompted the use of forward-looking projection metrics to be applied to the risk parameters (PD, LGD) estimated on the basis of the forecast values of the exogenous macroeconomic variables, differentiated, for example, for Probability of Default by type of counterparty, sector of economic activity and geographical area;
- the management of the impacts related to the implementation of customer support measures, with particular regard to loan payment moratoriums and measures to support the liquidity of companies. More specifically, loan moratoriums were managed by adapting automatic staging mechanisms in order to make the stage allocation criteria consistent with application of the support measures, considering at the same time an appropriate degree of prudence in the assessment of these positions in the light of the evolution of market conditions and the expectations of the supervisory authorities in this regard. The handling of measures to support liquidity called for the application of coverage levels set to take account of the mitigating effects on credit risk of the specific guarantees to support operations in this area.

These exceptional changes to the IFRS 9 impairment framework in response to COVID-19 were introduced in concert with the ordinary maintenance of the estimation models planned prior to the pandemic, thereby lending continuity to the updating and fine-tuning of the risk parameters (PD and LGD) used to calculate ECL within the IFRS 9 framework, in line with applicable financial reporting standards. These updates over the course of the year led to the development of a version of the models and measurements of the related parameters that are more stable and more accurate in measuring the characteristics of risk typical of the loan portfolios.

Impact of the Comprehensive Assessment

Following the Comprehensive Assessment conducted in 2020 by the European Central Bank, which included an Asset Quality Review (AQR), the Group was asked to further strengthen risk safeguards with a conservative provisioning policy for, among other things, the performing loan portfolio.

In 2021, our response to the findings of the AQR was implemented in full, involving specific measures impacting the Group's performing and non-performing portfolios, which raised the level of prudence adopted in position classification and valuation, producing a generalized increase in the coverage of the portfolios in question. These measures can be categorized as refinements of our models and involved, among other modifications, changes to the parameters used in estimating ECLs.

The broader range of measures taken include the incorporation of greater prudence into the ECL IFRS 9 framework for performing portfolios, with the increase in provisioning being implemented with the introduction of distinct elements of prudence, both in the determination of risk metrics conditional on macroeconomic scenarios and in the staging of performing exposures. As regards the determination of conditional risk metrics, more conservative approaches have been implemented in the parameter conditioning models for measuring credit risk and specific conservation buffers in quantifying the probability of cure. With regard to the stage allocation logic for performing exposures, additional criteria were considered for determining the allocation to Stage 2 for positions associated with customers operating in high-risk sectors who had been granted debt service relief/rescheduling (suspension of payments, etc.) not strictly connected with specific financial difficulties of the individual borrower.

[56] Including the revision of the probation period for exposures involved in moratoriums previously assigned to *Stage* 2.

Disposal scenarios

Taking into account our NPE reduction strategies, which among other options provide for the reduction of the stock of impaired credit exposures through disposals, for the purpose of valuing bad loans and UTP positions that could potentially be involved in sale, we identified a pool of exposures to which a probabilistic disposal scenario has been applied. This assessment is connected with the provisions of IFRS 9 that require companies to consider all forward-looking information available at the time of preparation of the financial statements, including the methods the Bank plans to use to recover the loans, which in addition to initiatives to recover against debtors or the guarantees they have pledged to secure their debt also include the sale of loans to third parties.57

The identification of the positions conducted as part of the ordinary analyses and evaluation of the corporate portfolio (including an examination of clauses or conditions that could make certain exposures non-transferrable) was performed on the basis of the following priority selection criteria:

- exposures classified as non-performing, starting with those with the oldest vintage;
- exposures classified as unlikely to pay (UTP) with a vintage of over 36 months, starting with those with the oldest vintage.

The positions identified were assessed through the application of a sale probability of 80% (consequently, the exposures within scope are adjusted by 20% in accordance with the idiosyncratic recovery estimates in the ordinary internal management of the positions and by 80% on the basis of the estimated theoretical transfer prices).

To determine the theoretical transfer price for valuation purposes, the Bank considered models, parameters, methods (and related results) it has defined based on the determination of a range of prices using an evaluation of the individual transactions of the affiliated entities (subsequently grouped by uniform clusters at the Group level) in terms of quantitative factors such as expected gross flows, the cost and timing of recovery, as well as qualitative factors such as (i) classification (bad debt - UTP), (ii) type of loan (secured/unsecured), (iii) borrower size, (iv) debtor counterparty and (v) vintage.

The analytical determination method selected, applied on the basis of the idiosyncratic characteristics of the portfolio, was the discounted cash flow (DCF) approach, a method that determines the fair value of loans by discounting the associated cash flows from recovery with a specific discount rate and making use of prudential metrics and parameters derived from the current market conditions such that the theoretical potential value of the expected sale does not differ significantly from the value estimated as a portfolio average, under the same conditions prevailing at the time of any sale. Subsequently, the result was evaluated analytically and with market metrics (comparison/benchmarks).

The main assumptions applied to estimate the prices of each position are summarized below.

For the purposes of separate reporting of secured and unsecured exposures, only transactions backed by a first mortgage were considered secured.

The valuation model for secured positions estimated the expected recovery value by applying specific percentage haircuts to the most recent property value, broken down by category of property (residential/non-residential) and calibrated as a function of the classification of the loan (bad debt or UTP).

The timing of recoveries was estimated on the basis of the average timing recorded for the relevant court, separating positions by type of proceeding. For these purposes, the relevant court was selected on the basis of the province in which the property is located, where available; alternatively, the debtor’s province of residence was considered an adequate proxy, taking account of the specific constraints associated with the operation of mutual banks. Where a proceeding was found to be at an advanced stage, a specific haircut was applied to the average time taken for such a proceeding in the relevant court (assuming that, *ceteris paribus*, expected flows from positions at a more advanced procedural stage will take less time to recover).

If the type of proceeding is not known, a bankruptcy proceeding has been assumed.

For unsecured positions, 15-year benchmark historical recovery curves obtained on the basis of the recovery curves used by the main Italian servicers in recent market transactions, differentiated by type and size of borrower, were applied to the claim (estimated on the basis of historical data for previous Iccrea Group sales).

The relevant portion of the recovery curve was applied to each position, considering as the starting point the number of years elapsed from the date of transition to bad-loan status for bad loans and the date of transition to impaired status for UTPs.

In order to determine the net recovery value, average legal and servicing fees are applied.

[57] The issue of probable sales of NPL portfolios has been addressed by the Transition Resource Group for Impairment of Financial Instruments, a working group established by the IASB to provide interpretations concerning the application of IFRS 9. As part of broader recommendations concerning specific aspects of measuring ECLs, that group clarified that where a company expects to recover part of the cash flows from exposures through a sale, these must be included in the measurement of ECLs if the following conditions hold:

- selling the loan is one of the recovery methods that the entity expected to pursue in a default scenario;
- the entity is neither legally nor practically prevented from realising the loan using that recovery method;
- the entity has reasonable and supportable information upon which to base its expectations and assumptions.

The discount rate used to discount net recovery flows was estimated on the basis of current market conditions, credit status, type of portfolio, as well as the hypothetical target capital structure.

Moratoriums

Since the beginning of the COVID-19 health emergency, the Bank has adopted an articulated series of measures aimed at facilitating a prompt response to customer needs, working promptly in acknowledging and, where necessary, adapt to the initiatives undertaken by the various national and European Authorities, with the aim of facilitating as much as possible the timely activation of the support measures gradually defined.

In this context, they:

- streamlined loan-origination processes and the acceptance of applications by customers given the exceptional nature of this period, while also preserving the principle of sound and prudent credit management;
- applied the exceptions to the Group policies defined by the Parent Company, on a temporary basis and limited to the lending operations falling with the scope of application of the measures envisaged in government decrees in this area, by ABI moratoriums and by initiatives taken by the Bank on its own;
- enhanced the constant monitoring and control of the measures granted;
- maintained and reinforced the principle of the separation of roles as governed by Group policies with regard to the granting and execution of credit and the close observation of borrowers who had already shown anomalies prior to the pandemic, while assessing the resilience of exposures and the validity of the management strategies undertaken.

The tolerance regime envisaged by the EBA regarding the classification of exposures involved in legislative and non-legislative moratoriums as forborne was promptly incorporated, based on the criteria specified in the guidelines issued on the subject by the EBA.

Specifically, in April 2020 the EBA issued its guidelines in EBA/GL/2020/02, which allowed banks to not classify as forborne all exposures for which they had granted, by June 30, 2020, changes in the related repayment plans under the provisions of legislative and non-legislative measures that complied with certain requirements. On June 18, 2020, with the European economies not yet fully reopened and considering the impacts of the crisis generated by the pandemic, the EBA extended this mechanism for another 3 months, setting September 30, 2020 as the deadline for banks to grant moratoriums without classification of positions as forborne.

On December 2, 2020, the EBA decided to reactivate the EBA/ GL/2020/02 guidelines by setting March 31, 2021 as the new deadline for their application, replacing the previous time limit of September 30, 2020. These guidelines were then reflected in ABI's renewal of initiatives to suspend loan repayments already governed by specific agreements with business and consumer associations. Developments on the legislative front included the possibility envisaged in Decree Law 78/2021 (the second Support Decree) of an extension until December 2021 of legislative moratoriums expiring on June 30, 2021, if requested by borrowers by June 15, 2021. The measure also provided for debtors to resume paying the interest portion of their instalments.

On September 8, 2021, the Joint Committee of European Supervisory Authorities (ESAs) published the report "On Risk and Vulnerabilities in the EU Financial System", which noted that after more than a year from the start of the COVID-19 pandemic, the financial sector had largely proved resilient in the face of its severe economic impact. Despite the generally positive outlook, the Joint Committee underscored that expectations for economic recovery remained uncertain and uneven across the Member States, while vulnerabilities in the financial sector are increasing, not least because of the side effects of the crisis measures (such as rising debt levels and upward pressure on asset prices). In addition, expectations of inflation and yield growth, as well as increased investor risk-taking and financial interconnectedness issues, could put additional pressure on the financial system. In addition to the economic vulnerabilities, the financial sector is also increasingly exposed to cyber risk and information and communication technology (ICT) related vulnerabilities. In light of these risks and uncertainties, the Joint Committee advises regulatory and supervisory authorities, financial institutions and market participants to take a range of policy actions. These actors need to be prepared for a possible deterioration of asset quality in the financial sector, despite the improvement in the economic outlook. In light of persistent risks and high uncertainty, banks may need to withstand increasing credit risk losses, as a consequence of expiring payment moratoriums and other public support measures, while maintaining adequate lending volumes. The report emphasizes that banks and borrowers experiencing financial difficulties should proactively work together to find appropriate solutions for their specific circumstances, which should include not only financial restructuring, but also a timely recognition of credit losses.

The Bank has developed guidelines and support measures addressing this issue. These have included application solutions to facilitate the operational the management of extensions and the specific rules for classifying positions involved in a legislative moratorium as forborne. In addition, in December 2021 the Parent Company issued additional operational instructions and guidelines for positions involved in a moratorium (both expired and ongoing), helping to ensure the appropriate classification in terms of staging and forbearance.

Measures to suspend payments and/or extend the maturity of installment transactions or extend the maturities of advances, when granted, involve a modification of the original contract conditions and can be construed as contractual modifications of financial assets, which under IFRS 9 calls for verification of whether the circumstances permit the asset to continue to be recognized in the financial statements or, conversely, require that the original instrument be derecognized and a new financial instrument be recognized.

QUANTITATIVE DISCLOSURES

Moratoriums under Art. 56 of the Cure Italy decree

	Number	Amount	Amount guaranteed
Applications received	5	4,302	192
Applications approved	5	4,302	192
% applications approved	100%	100%	100%

In thousands of euros

New lending under Art. 13 of the Liquidity Decree

	Number	Amount approved
Applications received	397	361,520
Financing granted	152	127,500
% financing granted	38%	35%

In thousands of euros

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 Bank uses its own valuation policies and, where necessary, applies liquidity discounts to the NAV of the units held.

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.

The findings of this assessment activity prompted the recognition of impairment losses totaling €77.4 million.

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.

The tests conducted on the basis of the projections for expected profitability prepared by the competent units of the Parent Company indicate the tax consolidation mechanism will be able to absorb all recognized DTAs by 2026, even those that by definition could be carried forward indefinitely (i.e. DTAs on tax losses and the ACE) and those for which reversal is expected beyond the observation period.

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 31 December 2021, the Bank had checked:

- developments in the rates used to discount lease payments;
- 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 financial instruments not listed on an active market

Except as specified below regarding the units held in CIUs, at December 31, 2021, the method for determining the fair value of financial instruments and the inputs of the valuation techniques used are unchanged compared with the financial statements at December 31, 2020.

There are no significant changes within Level 3 of the fair value hierarchy. For more details, please see the section "Fair value disclosures" of these financial statements.

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 December 31, 2021, 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.

Targeted Longer -Term Refinancing Operations (TLTRO) with the ECB

Loans under TLTRO III program are variable rate loans, indexed to ECB rates, with a reward mechanism for determining the final rate applicable to each operation based on the achievement of certain performance objectives for eligible loans in the period April 1, 2019 - March 31, 2021. Interest is settled in arrears. Achievement of the performance targets are notified by the Bank of Italy to the participating banks.

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 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, currently equal to 0 bp, which can be modified by the ECB during the term of the loans;
- 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), currently -50bp, which can be modified by the ECB during the term of the 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 equal to the sum of:

- a fixed spread;
- the weighted average of the ECB's MRO or DF rate;
- any performance achieved.

On September 10, 2021, the Bank of Italy announced that the target for the special reference period had been achieved. Accordingly, for the funding obtained in the first 7 auctions for the period from June 24, 2020 to June 23, 2021 the rate of -1% (DF rate + spread of –0.5%) is definitive.

The rates for the additional special interest rate period will be announced by the Bank of Italy on June 10, 2022.

On the basis of the performance monitoring exercise at October 31, 2021, net lending was reasonably higher than the net lending benchmark. Consequently the conditions for recognizing in profit or loss - for the period June-December 2021 - the incentivized rates granted in recognition of the achievement of the specific performance target, i.e. the greater negative interest rate of 0.50% potentially applicable in the special additional special interest rate period, were met.

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"),[58] 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.

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

As part of this regulatory and market framework, in July 2019 the ECB sent the banks a communication seeking information on the actions taken or under way to address the global interest rate reform, to which the Parent Company Iccrea Banca replied for the entire Iccrea Cooperative Banking Group, providing both a qualitative assessment of the exposure to the various IBORs (EONIA, EURIBOR and LIBOR), and a qualitative evaluation of the impacts on specific issues. The same request, with a new information set, was made by the authorities in November 2020 and Iccrea Banca responded last January with disclosures on the Group's operations as at 30/09/2020 indexed to benchmark rates (IBOR and RFR) and on the progress of the BMR project.

Following the preliminary analysis conducted in order to respond to the first ECB request for information, the Parent Company launched an assessment in January 2020, which was completed in July with:

- the identification of the areas of intervention necessary to ensure compliance with the new regulations, with particular regard to IBOR rates (i.e. EONIA, EURIBOR and LIBOR), in the Product & Strategy, Legal & Documentation, Risk & Analytics, Finance & Accounting areas;
- the definition of a masterplan of the interventions to be implemented by December 2021 in order to manage the transition.

[58] 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 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 derivatives operations, the Bank makes use of the centralized management arrangements and services of the Parent Company. The planning activities for this matter are consequently handled directly by the Parent Company and are primarily focused on the measures necessary to adapt the front to back process for OTC derivatives operations, with particular reference to the adjustment of the valuation framework, the management of collateral, the modification of agreements with counterparties, the management of hedging operations and netting accounting.

The BMR underwent extensive analysis to determine the business processes affected and develop the consequent action plan. An activity program was launched to formulate and incorporate fallback clauses in the various commercial and financial contracts. 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).

The transition from EONIA Discounting to €STR Discounting, given the EONIA equivalence of €STR+8.5 bps, involved a parallel variation of 8.5 bps in the discount curve, with an impact on the measurements (MTM) of financial instruments held at the date agreed for the transfer with the individual counterparty.

The change in MTM connected with the change in methodology was managed through cash compensation, i.e. offsetting the change in the value of one’s positions through a cash settlement with the counterparty of the amount corresponding to the change in the MTM value.

Scope of risks and progress towards completion of the transition

With specific regard to operations in euros, the Parent Company, Iccrea Banca, has adopted the ISDA 2021 EONIA Collateral Agreement Fallbacks Protocol in order to manage the entry of the new index. In 2021, 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.

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, Iccrea Banca has begun a review of CSA contracts providing for the use of €STR Flat instead of EONIA Discounting. At December 31, 2021, contracts with 26 counterparties were adapted using the cash compensation mechanism to manage the impact deriving from the change in methodology. The process is ongoing, and for the other counterparties the standard methodology provided for by the ISDA has been applied (i.e. an increase of 8.5 basis points over the €STR rate).

With regard to transactions carried out to manage interest rate risk, the finalization of the transition to €STR Flat Discounting for the affiliated banks is planned to take place in 2022. As long as the transition process is not completed, the €STR rate increased by 8.5 bps will apply, in line with the provisions of Implementing Regulation (EU) 2021/1848 issued on October 21, 2021 by the European Commission.

The action plan being implemented made it possible to manage the transition to the new benchmarks, minimizing the model risks underlying the new methodology and the new indexing parameters (such as EONIA vs €STR).

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.

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:

(€/thousand)	Non-derivative financial assets	Non-derivative financial liabilities	Derivatives
	Carrying amount	Carrying amount	Notional value
BENCHMARK			
EONIA	45,013	-	-
- of which Intercompany	*31,072*	-	-
EURIBOR 1 M	6,300	-	10,031,305
- of which Intercompany	-	-	*4,869,753*
EURIBOR 3 M	5,305,246	4,882,312	2,352,111
- of which Intercompany	*3,169,407*	*3,773,559*	*1,014,753*
EURIBOR 6 M	2,110,767	2,450,739	14,995,797
- of which Intercompany	*210,205*	*1,056,067*	*3,172,709*
LIBOR USD	-	-	412,250
- of which Intercompany	-	-	-
Other	39,904	700,364	74,100
- of which Intercompany	-	*82,289*	-
Total	**7,507,230**	**8,033,415**	**27,865,563**

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 granted by a supplier, with the supplier either receiving a corresponding tax credit or transferring the original credit to third parties.

The credits can be used in compensation by the assignee on the basis of the residual installments of the credit not used by the original beneficiary, with no annual limit on the amount.[59] The assignees of the tax credits must use them specifically, having regard to the individual installments of the tax credit that would have been due each year to the original beneficiary of the tax credit, offsetting them again the tax liability they report in their income tax return.

If the assignee cannot can offset the entire installment of the tax credit for the year, it can be transferred to third parties or be recorded as a loss equal to the part not offset. With regard to the possibility of re-assignment of the credit, Article 28 of the third Support Decree (Decree Law 4 of January 27, 2022) repealed the option of assignments subsequent to the first. The measure, in force since January 27, 2022, provides for a transitional regime, however, that applies to all credits purchased as of February 17, under which assignees may make an additional assignment beyond the first. The provision, which has not yet been ratified into law, has undergone subsequent amendments, which would allow supervised entities to carry out two further transfers after the initial assignment.

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[60] - 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 bank shall adjust 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) 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.

[59] The offsetting limits pursuant to Article 34 of Law 388 of December 23, 2000 do not apply.

[60] Adjusted by any positive/negative capitalizable components.

Covered bonds

In 2021, a Covered Bond Program was structured to provide the Group with an additional source of medium/long-term funding, with the direct participation of Iccrea Banca as issuer of the covered bonds and a number of affiliated banks as assignors and servicers of a portfolio of primary credit quality loans pledged as collateral for the bonds issued.

More specifically, the affiliated banks participating in the program assigned high credit quality assets to a vehicle as part of a multi-originator transaction. 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 by Iccrea Banca. 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 of the assets, the Parent Company issued the covered bonds backed by the guarantee. Completing the transaction, the Parent Company subsequently granted a loan, thanks to the liquidity generated with the placement of the bonds with third parties, with interest rate and maturity characteristics consistent with those of the covered bonds issued to the affiliated banks that contributed the assets to be sold.

The scheme outlined above creates a segmentation of the Group’s liabilities, creating a category of creditors with pre-emption rights over a portion of its assets, but does not actually change the substantive risk profile.

With regard to the presentation of the transaction in the financial statements:

- the vehicle Iccrea Covered Bond Srl, owned by Iccrea Banca, is recognized under item 70 “Equity investments”;
- he covered bonds issued by Iccrea Banca are recognized in liabilities under item 10 c) “Financial liabilities measured at amortized cost: securities issued” and the related interest expense is recognized on an accruals basis.

More generally, with regard to the overall structure of the transaction and the participation in the program by the affiliated banks as assignors:

- the assigned loans continue to be recognized by the assignor banks under item 40 b) “Financial assets measured at amortized cost: loans to customers”, under the sub-item “medium/long-term loans”, as the assignors retain the risks and rewards associated with the ownership of the assigned loans. The loan granted by the assignors to the SPV is not recognized as a separate item, as it is offset by the debt to the vehicle connected with the initial transfer price. This loan is therefore not subject to assessment for credit risk purposes, as the risk is entirely reflected in the valuation of the assigned loans, which continue to be recognized in the financial statements of the assignors;
- the value of the loans changes on the basis of events affecting them (account movements and valuations). Loan payments collected by assignors (who act as servicers) are paid daily to the vehicle on the “collection account” and accounted for by the assignors as follows:
  - the collection of the principal amount from the borrower is recognized against a decrease in the receivable from the same borrower;
  - the payment of the principal amount to the vehicle is recognized against the recognition of a receivable from the vehicle;
  - the receivable is closed at the time of repayment of the subordinated loan;
- the interest collected from the borrower is recognized under item 10 of the income statement “Interest income: loans to customers” (interest on loans continues to be recognized on an accruals basis through the allocation of amounts accruing);
- the payment of interest to the vehicle is recognized against the recognition of a receivable from the vehicle;
- the receivable is closed at the time of collection of interest on the subordinated loan.

Other issues

The separate financial statements have been audited by Mazars Italia SpA which was engaged for this purpose for the period 2021-2029 in execution of the shareholders’ resolution of May 28, 2021.

A.2 – THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

This section sets out the accounting policies adopted in preparing the financial statements. The presentation of these accounting policies is broken down into stages – classification, recognition, measurement and derecognition - for the various asset and liability items. A description of the impact on profit or loss, where material, is provided for each stage.

Classification of financial assets

Financial assets are classified in the categories envisaged by IFRS 9 on the basis of both of the following elements:

- the business model used to manage the financial assets;
- the characteristics of the contractual financial flows of the financial asset (the "SPPI test" - *Solely Payments of Principal and Interest*).

If the business model is identified as hold to collect and the asset passes the SPPI test, the asset is recognized at amortized cost (AC).

If the business model is identified as hold to collect and sell and the asset passes the SPPI test, the asset is recognized at fair value through other comprehensive income (FVTOCI).

Finally, if the business model differs from those specified above or the asset does not pass the SPPI test in both of the two previous cases, the asset is recognized at fair value through profit or loss (FVTPL).

The business model

IFRS 9 identifies three different business models, which in turn reflect the ways in which financial assets are managed:

- "Hold to collect": this includes financial assets held with the objective of collecting contractual cash flows, retaining the financial instrument to maturity, with the exception of sales permitted under Group policies in line with IFRS 9;
- "Hold to collect and sell": this includes financial assets held with the aim of both collecting contractual cash flows over the life of the assets and the proceeds from the sale of those assets;
- "Other": this is a residual business model that includes financial instruments that cannot be classified in the previous categories, mainly represented by financial assets held for the purpose of generating cash flows through sale.

The business model does not depend on management's intentions for each individual instrument, but is determined at a higher level of aggregation. It is therefore possible for an entity to adopt more than one business model in managing financial instruments, including in respect of the same financial asset. For example, a tranche of a security could be purchased as part of a hold to collect business model, while a second tranche of the same instrument could be acquired both to collect the contractual cash flows and to sell it (HTCS). The assessment of which business model has been adopted is based on reasonably possible scenarios and not on scenarios that unlikely to occur (such as "worst case" or "stress case" scenarios), taking account, among other things, of the way in which:

- the performance of the business model and the assets at initial recognition are evaluated by key management personnel;
- risks that impact the performance of the business model and the assets involved in initial recognition are managed;
- the managers of the business are remunerated.

From an operational point of view, the 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 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 Iccrea Cooperative Banking Group has elected to exercise the option to continue to apply the rules provided for in IAS 39 governing hedge accounting (the "opt-out" option).

Classification

Risk hedging transactions are intended to neutralize the potential losses recognized on a given element or group of elements attributable to a given risk in the event that risk should actually be realized.

The types of hedges 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.

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. 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, furniture, furnishings and equipment. The item includes assets held for use in the production and supply of goods and services, for lease to third parties or for administrative purposes that are expected to be held for more than one year. The item also includes assets held under finance leases, even though the lessor retains legal title to 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.

A right-of-use asset shall be recognized at the time in which the leased asset effectively becomes available for use.

Measurement

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

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 item 180 “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 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

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.

While taking account of the adoption of the national consolidated taxation mechanism by the companies forming part of the "direct scope" of the Group (the former Iccrea Banking Group), the tax positions of each Group company are managed separately for administrative purposes.

Deferred taxation is determined using the balance sheet liability method, taking account of the tax effect of temporary differences between the carrying amount of assets and liabilities and their value for tax purposes, which will give rise to taxable or deductible amounts in future periods. To that end, "taxable temporary differences" are those that in future periods will give rise to taxable amounts and "deductible temporary differences" are those that in future periods will give rise to deductible amounts. Deferred taxes are recognized on all taxable temporary differences, with the following exceptions: i) deferred tax liabilities arising from the initial recognition of goodwill or ii) an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect either the balance sheet or the tax situation.

Deferred tax assets are recognized against all deductible temporary differences, tax receivables and unused tax losses that can be carried forward, insofar as it is probable that sufficient future taxable income will be available to allow the use of the deductible temporary differences and the tax receivables and losses carried forward, except for cases in which the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect either the balance sheet or the tax situation.

Deferred tax is calculated by applying the tax rates established in applicable tax law, laws already issued or substantially in force at the reporting date that are expected to be applied during the year in which those assets are realized or those assets are extinguished to taxable temporary differences for which it is likely that a tax charge will be incurred and to deductible temporary differences for which it is reasonable certain there were be future taxable income at the time they become deductible (the probability test).

Current tax assets and liabilities and deferred tax assets and liabilities are offset in the financial statements if, and only if, they relate to income taxes applied by the same taxation authority and there is a legally enforceable right to set off current tax assets against current tax liabilities.

Recognition and measurement

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

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

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

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

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

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

Recognition of income components

Income taxes are recognized through profit or loss, with the exception of those debited or credited directly to equity. Current income taxes are calculated based on taxable income for the period.

In determining income taxes, any uncertainties over tax treatments are taken into account, in accordance with the provisions of IFRIC 23.

Current tax payables and receivables are recognized at the value that payment to or recovery from the tax authorities is expected by applying current tax rates and regulations. Deferred income tax assets and liabilities are calculated 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;
- 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 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 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 notes to the financial statements.

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 Bank:

- 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.

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.

From January 1, 2021, new regulatory provisions concerning the definition of default (New DoD) will apply, on the basis of which the Group has adjusted its lending and risk management processes, as well as any affected reporting processes. From the entry into force of the new regulations, a "past-due engine" designed to identify impaired past-due and over-limit exposures on the basis of the new criteria for counting days past due has been activated.

The IFRS 9 framework underwent updates to ensure regulatory compliance with these new provisions, applied for the first time for the purposes of calculating impairment losses on loans starting from the closing date at March 31, 2021. Measures to implement the New DoD by the Group include the updating and recalibration of the models for the measurement of credit risk (PD, LGD), designed to incorporate the impacts of the new past-due classification rules and the effect of the mandatory Group-wide propagation of default status for joint customers. In particular, the probabilities of default have been adapted to the new regulatory framework in order to take account of the impact on the probability of occurrence of the "default" event connected with the changes in the process of determining the default itself. LGD parameters underwent recalibration to take account of the impact of the New DoD both in terms of new default flows generated by the adoption of the new definition and the consequent new composition of the impaired portfolio.

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.

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

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 adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer;
- 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 inputs used are yield curves and credit spreads for the issuer, and volatility and correlation surfaces for the underlying;
- 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 matric for those instruments and interest rates;
- 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 matric, as well as the inclusion of discrete dividends through the escrowed dividend model. The inputs used are the price of the underlying equity, the volatility surface and the dividend curve;
- derivatives on exchange rates are 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;
- derivatives on inflation, such as zero-coupon indexed inflation swaps and CPI swaps, are measured using discounted cash flow models measured on the basis of the forward inflation curve 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 (adjusted if not fully representative of the fair value) made available by the asset management companies. These investments include private equity funds, real estate investment funds and hedge funds;
- medium/long-term loans to customers are measured on the basis of a mark-to-model process using the discounted cash flow approach for the positions and other models for estimating option components where applicable;
- for medium/long-term liabilities, represented by securities for which the fair value option was chosen, the fair value is determined alternatively by either discounting the residual contractual cash flows using the zero-coupon yield curve, by applying the asset swap method or by using other yield curves deemed representative of the Bank's credit standing.

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.

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

	31/12/2021			31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss of which	370,684	486,690	430,200	358,503	948,358	28,609
a) financial assets held for trading	71,096	390,794	3	6,201	567,670	5
b) financial assets designated as at fair value	272,555	22,695	-	341,076	22,179	-
c) other financial assets mandatorily measured at fair value	27,033	73,200	430,196	11,225	358,509	28,604
2. Financial assets measured at fair value through comprehensive income	368,242	134,005	8,426	271,590	32,811	6,806
3. Hedging derivatives	-	37,112	-	-	8,710	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	738,926	657,807	438,626	630,093	989,879	35,415
1. Financial liabilities held for trading	48,985	381,872	-	391	563,120	-
2. Financial liabilities designated as at fair value	-	335,392	-	-	340,957	-
3. Hedging derivatives	-	247,018	-	-	173,821	-
Total	48,985	964,282	-	391	1,077,899	-

Paragraph 93 letter c) of IFRS 13 requires that, in addition to reporting the fair value hierarchy, entities shall disclose information on significant transfers between Level 1 and Level 2 and the reasons for the transfer. Please note that there were no such transfers during the period.

In addition, with regard to the quantitative impact on the determination of the fair value of financial derivative instruments, the Credit Value Adjustment (for default risk of counterparties) involved a decrease of about €9 thousand, while the Debt Value Adjustment (for default risk of the Bank) did not give rise to any changes.

A.4.5.2. CHANGE FOR THE PERIOD IN FINANCIAL ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3)

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**28,609**	**5**	**-**	**28,604**	**6,806**	**-**	**-**	**-**
2. Increases	**431,218**	**-**	**-**	**431,218**	**2,187**	**-**	**-**	**-**
2.1 Purchases	15,365	-	-	15,365	-	-	-	-
2.2 Profits recognized in:	1,301	-	-	1,301	1,740	-	-	-
2.2.1 Income statement	1,301	-	-	1,301	-	-	-	-
- of which: capital gains	1,301	-	-	1,301	-	-	-	-
2.2.2 Shareholders' equity	-	X	X	X	1,740	-	-	-
2.3 Transfers from other levels	400,161	-	-	400,161	-	-	-	-
2.4 Other increases	14,392	-	-	14,392	446	-	-	-
3. Decreases	**29,627**	**2**	**-**	**29,626**	**566**	**-**	**-**	**-**
3.1 Sales	2	2	-	-	-	-	-	-
3.2 Repayments	-	-	-	-	-	-	-	-
3.3 Losses recognized in:	2	-	-	2	-	-	-	-
3.3.1 Income statement	2	-	-	2	-	-	-	-
- of which: capital losses	2	-	-	2	-	-	-	-
3.3.2 Shareholders' equity	-	X	X	X	-	-	-	-
3.4 Transfers to other levels	29,624	-	-	29,624	566	-	-	-
3.5 Other decreases	-	-	-	-	-	-	-	-
4. Closing balance	**430,200**	**3**	**-**	**430,196**	**8,426**	**-**	**-**	**-**

With regard to paragraph 93 letter e) of IFRS 13, the table reports, for Level 3 fair value assessments only and for each category of financial instrument, a reconciliation of the opening and closing balances, with separate indication of the changes that occurred during the period and attributable to purchases, sales and gains/losses, distinguishing in the latter case between those recognized directly in profit or loss and those recognized through other comprehensive income.

Note also that during the year there were no changes in one or more inputs relating to reasonably possible alternative assumptions that would change the fair value significantly.

A.4.5.3 CHANGE FOR THE PERIOD IN FINANCIAL LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3)

The table has not been completed because there were no such positions as at the reporting date.

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

	31/12/2021				31/12/2020			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortized cost	48,971,725	10,615,281	33,636,011	4,776,516	46,848,996	9,548,438	30,455,325	7,319,397
2. Investment property								
3. Non-current assets and disposal groups held for sale	206,869		-		189,432			
Total	**49,178,594**	**10,615,281**	**33,636,011**	**4,776,516**	**47,038,429**	**9,548,438**	**30,455,325**	**7,319,397**
1. Financial liabilities measured at amortized cost	50,480,116	2,674,293	46,044,882	1,693,878	47,707,809	2,289,566	42,822,391	3,140,426
2. Liabilities associated with assets held for sale	182,098				170,813			
Total	**50,662,215**	**2,674,293**	**46,044,882**	**1,693,878**	**47,878,622**	**2,289,566**	**42,822,391**	**3,140,426**

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

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 31/12/2021	Total 31/12/2020
a) Cash	164,614	129,048
b) Current accounts and demand deposits with central banks	356,665	80,380
c) Current accounts and demand deposits with banks	693,303	636,063
Total	1,214,582	845,491

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 €25 million and about €331 million in respect of instant payments.

In application of the 7th update of Circular 262, line c) reports current accounts and demand deposits with banks previously reported under financial assets at amortized cost. The figure for December 31, 2020 has been restated for comparative purposes.

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 31/12/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**69,568**	**31**	**-**	**4,586**	**2**	**3**
1.1 structured securities	494	-	-	1,865	-	-
1.2 other debt securities	69,074	31	-	2,722	2	3
2. Equity securities	**730**	**-**	**3**	**345**	**3**	**2**
3. Units in collective investment undertakings	**438**	**-**	**-**	**987**	**118**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	70,736	31	3	5,918	122	5
B. Derivatives						
1. Financial derivatives	**359**	**390,764**	**-**	**283**	**567,548**	**-**
1.1 trading	359	390,764	-	283	567,548	-
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	359	390,764	-	283	567,548	-
Total (A+B)	71,096	390,794	3	6,201	567,670	5

2.2 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY DEBTOR/ISSUER/COUNTERPARTY

	Total 31/12/2021	Total 31/12/2020
A. On-balance-sheet assets		
1. Debt securities	**69,599**	**4.591**
a) Central banks	-	-
b) Government entities	64,455	689
c) Banks	2,579	2.301
d) Other financial companies	1,175	96
of which: insurance undertakings	-	-
e) Non-financial companies	1,390	1.505
2. Equity securities	**733**	**349**
a) Banks	227	-
b) Other financial companies	2	145
of which: insurance undertakings	-	143
c) Non-financial companies	505	204
d) Other issuers	-	-
3. Units in collective investment undertakings	**438**	**1.106**
4. Loans	**-**	**-**
a) Central banks	-	-
b) Government entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance undertakings	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	70,770	6.046
B. Derivatives	-	-
a) Central counterparties	-	527
b) Other	391,123	567.304
Total (B)	391,123	567.831
Total (A+B)	461,893	573.876

The distribution of assets by economic sector of the debtors or the issuers was carried out on the basis of the classification criteria provided for by the Bank of Italy.

2.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE: COMPOSITION BY TYPE

	Total 31/12/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**272,555**	**22,695**	**-**	**341,076**	**22,179**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	272,555	22,695	-	341,076	22,179	-
2. Loans	**-**	**-**	**-**	**-**	**-**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other	-	-	-	-	-	-
Total	272,555	22,695	-	341,076	22,179	-

The amount is entirely attributable to financial instruments subscribed by the Parent Company in accordance with the investment policy for the Ex Ante Quota of the Readily Available Funds connected with the Guarantee Scheme.

2.4 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

	Total 31/12/2021	Total 31/12/2020
1. Debt securities	**295,250**	**363,255**
a) Central banks	-	-
b) Government entities	236,177	292,585
c) Banks	55,181	64,788
d) Other financial companies	3,892	5,882
of which: insurance undertakings	-	-
e) Non-financial companies	-	-
2. Loans	**-**	**-**
a) Central banks	-	-
b) Government entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance undertakings	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	295,250	363,255

The distribution of assets by economic sector of the debtors or the issuers was carried out on the basis of the classification criteria provided for by the Bank of Italy.

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

	Total			Total		
	31/12/2021			31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**18,740**	**35,205**	**505**	**6,851**	**25,345**	**2,142**
1.1 structured securities	7,827	5,155	291	-	5,095	2,128
1.2 other debt securities	10,913	30,050	215	6,851	20,250	15
2. Equity securities	**8,292**	**37,995**	**4**	**4,374**	**824**	**26,456**
3. Units in collective investment undertakings	**-**	**-**	**429,683**	**-**	**332,340**	**-**
4. Loans	**-**	**-**	**5**	**-**	**-**	**5**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	5	-	-	5
Total	27,033	73,200	430,196	11,225	358,509	28,604

“Units in collective investment undertakings” includes, among others, the units of the closed-end investment funds “Securis Real Estate” managed by Investire SGR SpA:

- Securis Real Estate III, in the amount of €93,376 thousand;
- Securis Real Estate II, in the amount of €108,364 thousand;
- Securis Real Estate I, in the amount of €185,908 thousand.

2.6 OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

	Total 31/12/2021	Total 31/12/2020
1.Equity securities	**46,291**	**31,654**
of which: banks	4,678	-
of which: other financial companies	22,198	21,727
of which: non-financial companies	19,415	9,927
2. Debt securities	**54,451**	**34,339**
a) Central banks	-	-
b) Government entities	-	-
c) Banks	40,599	22,191
d) Other financial companies	10,791	7,380
of which: insurance companies	1,118	-
e) Non-financial companies	3,061	4,768
3. Units in collective investment undertakings	**429,683**	**332,340**
4. Loans	**5**	**5**
a) Central banks	-	-
b) Government entities	-	-
c) Banks	-	-
d) Other financial companies	5	5
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	530,429	398,338

The distribution of assets by economic sector of the debtors or the issuers was carried out on the basis of the classification criteria provided for by the Bank of Italy.

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 31/12/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**368,242**	**4,725**	**-**	**248,854**	**9,187**	**-**
1.1 structured securities	18,439	-	-	6,544	-	-
1.2 other debt securities	349,803	4,725	-	242,310	9,187	-
2. Equity securities	**-**	**129,280**	**8,426**	**22,736**	**23,624**	**6,806**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	368,242	134,005	8,426	271,590	32,811	6,806

3.2 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY DEBTOR/ISSUER

	Total 31/12/2021	Total 31/12/2020
1. Debt securities	**372,967**	**258,041**
a) Central banks	-	-
b) Government entities	302,281	172,685
c) Banks	34,370	31,802
d) Other financial companies	16,840	31,026
of which: insurance companies	-	-
e) Non-financial companies	19,476	22,528
2. Equity securities	**137,707**	**53,166**
a) Banks	120,001	34,120
b) Other issuers:	17,705	19,046
- other financial companies	15,004	13,509
of which: insurance companies	4,912	8,164
- non-financial companies	2,702	5,537
- other	-	-
3. Loans	**-**	**-**
a) Central banks	-	-
b) Government entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	510,674	311,207

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		357,091	320,406	16,427	-	-	(166)	(384)	-	-	-
Loans		-	-	-	-	-	-	-	-	-	-
Total	**31/12/2021**	**357,091**	**320,406**	**16,427**	**-**	**-**	**(166)**	**(384)**	**-**	**-**	**-**
Total	**31/12/2020**	**225,994**	**202,422**	**33,047**	**-**	**-**	**(102)**	**(898)**	**-**	**-**	**-**

**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 31/12/2021						Total 31/12/2020					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
A. Claims on central banks	**6,710,286**	**-**	**-**	**-**	**6,710,286**	**-**	**3,858,522**	**-**	**-**	**-**	**-**	**3,858,522**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	6,710,286	-	-	X	X	X	3,858,522	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**25,461,113**	**-**	**-**	**121,890**	**24,022,736**	**1,249,137**	**28,698,189**	**-**	**-**	**37,486**	**27,553,536**	**1,253,205**
1. Financing	24,249,808	-	-	-	22,981,695	1,198,918	28,261,125	-	-	-	27,202,952	1,202,805
1.1. Current accounts and demand deposits	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Fixed-term deposits	386,712	-	-	X	X	X	352,723	-	-	X	X	X
1.3. Other financing:	23,863,096	-	-	X	X	X	27,908,401	-	-	X	X	X
- Repurchase agreements	48,519	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	23,814,578	-	-	X	X	X	27,908,401	-	-	X	X	X
2. Debt securities	1,211,306	-	-	121,890	1,041,041	50,219	437,065	-	-	37,486	350,584	50,400
2.1 Structured securities	63,538	-	-	6,957	56,963	-	-	-	-	-	-	-
2.2 Other debt securities	1,147,768	-	-	114,933	984,077	50,219	437,065	-	-	37,486	350,584	50,400
Total	**32,171,399**	**-**	**-**	**121,890**	**30,733,021**	**1,249,137**	**32,556,711**	**-**	**-**	**37,486**	**27,553,536**	**5,111,727**

Loans connected with pool collateral operations amount to €18,939 million of which €15,738 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 €23,236 million net of the haircut applied to the various types of securities.

In addition, during the period financing with the assignment of loans through the "ABACO" procedure continued. At the end of the period loans received from Iccrea BancaImpresa securing the collateral pool amounted to €1,448 million, which net of the haircut decreased to about €1,013 million.

In application of the 7th update of Circular 262, line B.1.1 no longer includes current accounts and demand deposits with banks, which have been reclassified under the item "Cash and cash equivalents". The figure for December 31, 2020 has been restated to ensure comparability.

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

	Total 31/12/2021						Total 31/12/2020					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
1. Loans	**5,920,779**	**62,625**	**-**	**-**	**2,611,714**	**3,378,790**	**4,495,402**	**5,696**	**-**	**-**	**2,388,774**	**2,166,632**
1.1. Current accounts	234,053	17,568	-	X	X	X	276,755	27	-	X	X	X
1.2. Repurchase agreements	143,286	-	-	X	X	X	1,772,307	-	-	X	X	X
1.3. Medium/long term loans	2,566,541	43,432	-	X	X	X	59,566	5,504	-	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from pensions/wages	-	-	-	X	X	X	-	-	-	X	X	X
1.5. Finance leases	37	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other loans	2,976,861	1,626	-	X	X	X	2,386,774	166	-	X	X	X
2. Debt securities	**10,816,771**	**152**	**-**	**10,493,390**	**291,276**	**148,589**	**9,791,187**	**-**	**-**	**9,510,953**	**513,016**	**41,037**
2.1 Structured securities	145,399	-	-	69,584	7,583	102,239	102,092	-	-	5,362	68,102	28,923
2.2 Other debt securities	10,671,372	152	-	10,423,806	283,693	46,350	9,689,095	-	-	9,505,590	444,913	12,115
Total	16,737,550	62,777	-	10,493,390	2,902,990	3,527,379	14,286,589	5,696	-	9,510,953	2,901,789	2,207,670

4.3 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: COMPOSITION BY DEBTOR/ISSUER OF LOANS TO CUSTOMERS

	Total 31/12/2021			Total 31/12/2020		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired
1. Debt securities	**10,816,771**	**152**	**-**	**9,791,187**	**-**	**-**
a) Government entities	10,545,272	-	-	9,664,477	-	-
b) Other financial companies	199,109	-	-	98,099	-	-
of which: insurance companies	6,673	-	-	6,834	-	-
c) Non-financial companies	72,391	152	-	28,611	-	-
2. Loans to:	**5,920,779**	**62,625**	**-**	**4,495,402**	**5,696**	**-**
a) Government entities	14	-	-	-	-	-
b) Other financial companies	3,177,531	1,853	-	4,382,814	-	-
of which: insurance companies	-	-	-	2	-	-
c) Non-financial companies	2,605,327	53,735	-	67,620	646	-
d) Households	137,907	7,037	-	44,968	5,050	-
Total	16,737,550	62,777	-	14,286,589	5,696	-

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	of which: purchased or originated credit-impaired	Stage 1	Stage 2	Stage 3	of which: purchased or originated credit-impaired	Partial writeoffs*
Debt securities		11,950,881	10,695,448	88,697	217	-	(3,079)	(8,423)	(65)	-	-
Loans		35,836,982	68,848	1,122,085	269,745	-	(20,086)	(58,109)	(207,120)	-	(24.681)
Total	**31/12/2021**	**47,787,863**	**10,764,296**	**1,210,782**	**269,962**	**-**	**(23,165)**	**(66,532)**	**(207,185)**	**-**	**(24.681)**
Total	**31/12/2020**	**46,529,576**	**9,825,445**	**327,131**	**30,140**	**-**	**(7,007)**	**(6,400)**	**(24,444)**	**-**	**(373)**

* *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				
		Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	of which: purchased or originated credit-impaired	Stage 1	Stage 2	Stage 3	of which: purchased or originated credit-impaired	Partial writeoffs*
1. Loans subject to forbearance measures compliant with guidelines		106,646	-	187,726	11,850	-	(1,021)	(11,004)	(4,823)	-	-
2 Loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures		-	-	-	-	-	-	-	-	-	-
3. Loans subject to other forbearance measures		-	-	21,271	16,719	-	-	(1,458)	(14,532)	-	-
4. New loans		277,233	-	12,351	2,393	-	1,104	(1,517)	(300)	-	-
Total	**31/12/2021**	**383,879**	**-**	**221,348**	**30,961**	**-**	**2,125**	**(13,979)**	**(19,655)**	**-**	**-**
Total	**31/12/2020**	**591**	**-**	**-**	**-**	**-**	**6**	**-**	**-**	**-**	**-**

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

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

	FV	31/12/2021		NV	FV	31/12/2020		NV
	L1	L2	L3	31/12/2021	L1	L2	L3	31/12/2020
A. Financial derivatives								
1. Fair value	-	37,029	-	3,303,997	-	6,834	-	321,877
2. Cash flows	-	84	-	80,000	-	1,877	-	74,128
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**37,112**	**-**	**3,383,997**	**-**	**8,710**	**-**	**396,006**

NV=notional value
L1=Level 1
L2= Level 2
L3= Level 3

5.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair value							Cash flows		Investments in foreign operations
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and equity indices	currencies and gold	loans	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortized cost	34,105	X	-	-	X	X	X	84	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**34,105**	**-**	**-**	**-**	**-**	**-**	**-**	**84**	**-**	**-**
1. Financial liabilities	2,923	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**2,923**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

SECTION 6 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY – ITEM 60

6.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	Total 31/12/2021	Total 31/12/2020
1. Positive adjustments	**-**	**1,158**
1.1 of specific portfolios:	-	1,158
a) financial assets measured at amortized cost	-	-
b) financial assets measured at fair value through comprehensive income	-	1,158
1.2 comprehensive	-	-
2. Negative adjustments	**(607)**	**-**
2.1 of specific portfolios:	(607)	-
a) financial assets measured at amortized cost	-	-
b) financial assets measured at fair value through comprehensive income	(607)	-
2.2 comprehensive	-	-
Total	**(607)**	**1,158**

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	% holding	% votes
A. Subsidiaries				
Iccrea BancaImpresa SpA	Rome	Rome	100.0	100.0
BCC Beni Immobili Srl	Milan	Rome	100.0	100.0
BCC Factoring SpA	Rome	Milan	100.0	100.0
BCC Pay SpA	Rome	Rome	100.0	100.0
BCC Sistemi Informatici SpA	Milan	Milan	100.0	100.0
BCC Risparmio&Previdenza SGrpA	Milan	Milan	100.0	100.0
BCC Gestione Crediti SpA	Rome	Rome	100.0	100.0
BCC Solutions SpA	Rome	Rome	100.0	100.0
BCC CreditoConsumo SpA	Rome	Udine	100.0	100.0
BCC Accademia S.c.p.A.	Rome	Rome	100.0	100.0
Sinergia SpA	Milan	Treviglio	100.0	100.0
BCC Servizi Assicurativi Srl	Milan	Milan	100.0	100.0
Banca Sviluppo SpA	Rome	Rome	99.3	99.3
Iccrea Covered Bond Srl	Rome	Rome	90.0	90.0
Banca MedioCredito FVG SpA	Udine	Udine	52.0	52.0
BIT - Servizi per L'Investimento sul Territorio SpA	Parma	Parma	82.8	82.8
Banca Centropadana Credito Cooperativo S.C.	Lodi	Lodi	22.7	96.4
Banca TEMA - Terre Etrusche di Valdichiana e di Maremma S.C.	Chiusi	Chiusi	57.4	98.6
Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	Pistoia	Pistoia	53.7	98.9
BCC di Massafra S.C.	Massafra	Massafra	27.3	95.4
BCC Pisa e Fornacette Credito Cooperativo S.C.	Pisa	Pisa	25.19	93.3
Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese S.C.	Vibo Valentia	Vibo Valentia	15.9	90.3
BCC di Cittanova S.C.	Cittanova	Cittanova	78.0	94.5
BCC del Crotonese - Credito Cooperativo S.C.	Crotone	Crotone	58.8	91.2
Banca del Catanzarese - Credito Cooperativo S.C.	Marcellinara	Marcellinara	51.2	93.2
B. Joint ventures				
C. Companies subject to significant influence				
Hbenchmark Srl	Vicenza	Vicenza	10.0	10.0
Pitagora SpA	Turin	Turin	9.9	9.9
Hi-Mtf SpA	Milan	Milan	20.0	20.0
BCC Vita SpA	Milan	Milan	30.3	30.3
BCC Assicurazioni SpA	Milan	Milan	30.3	30.3

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 during the year 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

	Carrying amount	Fair value	Dividends received
A. Subsidiaries			
Iccrea BancaImpresa SpA	322,609	-	-
BCC Beni Immobili Srl	13,157	-	-
BCC Factoring SpA	18,203	-	-
BCC Pay SpA	550	-	-
BCC Sistemi Informatici SpA	108,485	-	-
BCC Risparmio&Previdenza SGrpA	48,474	-	7,905
BCC Gestione Crediti SpA	4,021	-	864
BCC Solutions SpA	75,700	-	2,003
BCC CreditoConsumo SpA	57,841	-	12,600
BCC Accademia S.c.p.A.	800	-	33
Sinergia SpA	1,643	-	-
BCC Servizi Assicurativi Srl	982	-	-
Banca Sviluppo SpA	122,702	-	-
Iccrea Covered Bond Srl	14	-	-
Banca MedioCredito FVG SpA	28,607	-	-
BIT - Servizi per L'Investimento sul Territorio SpA	4,297	-	-
Banca Centropadana Credito Cooperativo S.C.	13,200	-	-
Banca TEMA - Terre Etrusche di Valdichiana e di Maremma S.C.	35,000		-
Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	16,000		-
BCC di Massafra S.C.	1,300	-	-
BCC Pisa e Fornacette Credito Cooperativo S.C.	19,000	-	-
Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese S.C.	700	-	-
BCC di Cittanova S.C.	700	-	-
BCC del Crotonese - Credito Cooperativo S.C.	700	-	-
Banca del Catanzarese - Credito Cooperativo S.C.	700	-	-
B. Joint ventures			
C. Companies subject to significant influence			
Hbenchmark Srl	500		-
Pitagora SpA	10,890		-
Hi-Mtf SpA	1,000		-
BCC Vita SpA	84,600		-
BCC Assicurazioni SpA	6,447		
Total	**998,822**	**-**	**23,405**

7.3 SIGNIFICANT EQUITY INVESTMENTS: ACCOUNTING DATA

The table has not been completed because the Bank prepares consolidated financial statements pursuant to the provisions of Circular 262 of December 22, 2005 - 7th update of October 29, 2021.

7.4 NON-SIGNIFICANT EQUITY INVESTMENTS: ACCOUNTING DATA

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

7.5 EQUITY INVESTMENTS: CHANGE FOR THE PERIOD

	Total 31/12/2021	Total 31/12/2020
A. Opening balance	**1,206,207**	**1,150,481**
B. Increases	**228,488**	**101,452**
B.1 Purchases	155,717	96,532
B.2 Writebacks	-	-
B.3 Revaluations	-	-
B.4 Other increases	72,771	4,920
C. Decreases	**435,873**	**45,726**
C.1 Sales	8,426	1,688
C.2 Impairment losses	77,447	44,038
C.3 Writedowns	-	-
C.4 Other decreases	350,000	-
D. Closing balance	**998,822**	**1,206,207**
E. Total revaluations	**-**	**-**
F. Total impairment losses	**198,249**	**120,803**

The sub-item “B.1 Purchases” refers to the acquisition of:

- further interests in: BIT (+€2.6 million), BCC Servizi Assicurativi (+€0.04 million), BCC Pay (+€0.2 million) (ex Ventis SpA), BCC Risparmio&Previdenza (+€26 million), HI MTF (+€0.06 million), Banca Sviluppo (+€28.45 million), Sinergia (+€0.18 million);
- a new investment in Pitagora SpA (+€10.89 million);
- the subscription of investments pursuant to Article 150 ter of the Consolidated Banking Act:
  - as manager of the Guarantee Scheme in: BCC di Massafra (+€1.30 million), Vival Banca (+€16 million), Banca Centropadana (+€13.20 million), Banca Valdichiana, now Banca TEMA - Terre Etrusche di Valdichiana e di Maremma, (+€35 million), Banca di Pisa e Fornacette (+€19 million),
  - directly by the Parent Company in: BCC del Crotonese (+€0.70 million), BCC del Vibonese (+€0.70 million), Banca del Catanzarese (+€0.70 million), BCC di Cittanova (+€0.70 million).

The sub-item “B.4 other increase” includes the interest previously held by Iccrea BancaImpresa in: BCC Sistemi Informatici (+0,54 million), BCC Factoring (+19 million), Banca Mediocredito del F.V.G. (+15 million). The sub-item also includes the income (+€38.2 million) recognized following the capital reduction by Iccrea BancaImpresa connected with the transfer of its corporate lending operations.

The sub-item “C.1 Sales” reports the sale of the interest held in Satispay (-€8.11 million) and HI MTF (-€0.31 million).

The sub-item “C.2 Impairment losses” reflects the impairment recognized on the interest held in BCC Factoring (-€0.87 million); Iccrea BancaImpresa (-€73.65 million) Banca Mediocredito del F.V.G. (-€2.9 million).

The sub-item “C.4 Other decreases“ is entirely attributable to the repayment (€350 million) carried out by Iccrea BancaImpresa with the authorization of the European Central Bank in order to reduce the excess own funds generated by the transfer of corporate lending operations to Iccrea Banca.

Impairment testing of equity investments

As required by the IFRS, in the presence of triggers that could indicate possible impairment, equity investments undergo impairment testing to assess whether there is objective evidence indicating that the carrying amount of such assets is not fully recoverable and determine the amount of any writedown.

Impairment indicators can essentially be divided into two categories:

- qualitative indicators such as the posting of losses or significant divergences in performance from budget objectives or targets in long-term plans, the announcement/initiation of insolvency proceedings or restructuring plans or a downgrading by a specialized agency;
- quantitative indicators, represented by a reduction in fair value below the carrying amount of more than 30% or for more than 24 months, a carrying amount of an equity investment in the separate financial statements that exceeds the carrying amount in the consolidated financial statements of the net assets and goodwill of the investee or the distribution by the latter of a dividend in excess of its comprehensive income. If there is evidence of impairment, the amount of any impairment loss is determined on the

basis of the difference between the carrying amount and the recoverable value, with the latter represented by the greater between the fair value less any costs to sell and the value in use.

As regards the investments held by Iccrea Banca where there is a difference between the carrying amount recognized in the separate financial statements and the fraction of equity recognized in the financial statements of the subsidiary, the impairment tests have been updated.

More specifically, the recoverability of the carrying amount was assessed with various methods, including shareholders' equity, market multiples, the dividend discount model, equity with inclusion of funding and appraisal value.

For more information on impairment testing, please see Part A – Accounting Policies of the notes to the financial statements.

7.6 COMMITMENTS IN RESPECT OF INVESTMENTS IN JOINT VENTURES

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

7.7 COMMITMENTS IN RESPECT OF INVESTMENTS IN COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE

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

7.8 SIGNIFICANT RESTRICTIONS

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

7.9 OTHER INFORMATION

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

SECTION 8 - PROPERTY, PLANT AND EQUIPMENT – ITEM 80

8.1 OPERATING PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

	Total 31/12/2021	Total 31/12/2020
1. Owned assets	**226**	**291**
a) land	-	-
b) building	-	-
c) movables	187	206
d) electrical plants	11	44
e) other	28	41
2. Right-of-use assets acquired under finance leases	**4,025**	**3,223**
a) land	-	-
b) building	526	997
c) movables	-	-
d) electrical plants	-	-
e) other	3,499	2,227
Total	4,251	3,514
of which: obtained through enforcement of guarantees received	-	-

The item “Right-of-use assets acquired under finance leases” includes the right of use connected with leased assets (leased buildings and automobiles) in line with the provisions of IFRS 16.

8.2 INVESTMENT PROPERTY: COMPOSITION OF ASSETS CARRIED AT COST

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

8.3 OPERATING PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF REVALUED ASSETS

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

8.4 INVESTMENT PROPERTY: COMPOSITION OF ASSETS CARRIED AT FAIR VALUE

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

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

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

8.6 OPERATING PROPERTY, PLANT AND EQUIPMENT: CHANGE FOR THE PERIOD

	Land	Buildings	Movables	Electronic plant	Other	Total
A. Opening gross balance	**-**	**1,800**	**3,029**	**25,600**	**4,433**	**34,862**
A.1 Total net writedown	-	803	2,823	25,556	2,165	31,348
A.2 Opening net balance	**-**	**997**	**206**	**44**	**2,268**	**3,514**
B. Increases:	**-**	**198**	**118**	**-**	**3,323**	**3,639**
B.1 Purchases	-	198	117	-	3,320	3,636
- of which business combinations	-	-	-	-	-	-
B.2 Capitalized improvement costs	-	-	-	-	-	-
B.3 Writebacks	-	-	-	-	-	-
B.4 Fair value gains recognized in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	X	X	X	-
B.7 Other changes	-	-	1	-	2	3
C. Decreases:	**-**	**669**	**137**	**33**	**2,064**	**2,902**
C.1 Sales	-	-	1	-	2	2
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	571	19	33	1,549	2,171
C.3 Writedowns for impairment recognized in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Fair value losses recognized in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to:	-	8	-	-	39	48
a) investment property	-	-	X	X	X	-
b) discontinuing operations	-	8	-	-	39	48
C.7 Other changes	-	89	118	-	474	681
D. Closing net balance	**-**	**526**	**187**	**11**	**3,527**	**4,251**
D.1 Total net writedowns	-	1,791	2,959	152	9,338	14,241
D.2 Closing gross balance	**-**	**2,317**	**3,146**	**163**	**12,865**	**18,492**
E. Measurement at cost	-	-	-	-	-	-

8.7 INVESTMENT PROPERTY: CHANGE FOR THE PERIOD

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

8.8 INVENTORIES OF PROPERTY, PLANT AND EQUIPMENT WITHIN THE SCOPE OF IAS 2: CHANGE FOR THE PERIOD

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

8.9 COMMITMENTS TO ACQUIRE PROPERTY, PLANT AND EQUIPMENT

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

SECTION 9 – INTANGIBLE ASSETS – ITEM 90

9.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 31/12/2021		Total 31/12/2020	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**-**	**X**	**-**
A.2 Other intangible assets	**822**	**-**	**2,127**	**-**
Of which: Software	822	-	2,127	-
A.2.1 Assets carried at cost	822	-	2,127	-
a) internally generated intangible assets	-	-	-	-
b) other assets	822	-	2,127	-
A.2.2 Assets designated at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	822	-	2,127	-

The decrease in the item reflects the reclassification of items connected with e-money operations to item A110 “Non-current assets and disposal groups held for sale” and the disposal in the period of IT operations (ATMs) to BCC Sistemi Informatici in the residual amount of about €1.2 million.

9.2 INTANGIBLE ASSETS: CHANGE FOR THE PERIOD

	Goodwill	Other intangible assets internally generated		Other intangible assets: other		Total
		Finite life	Indefinite life	Finite life	Indefinite life	
A. Opening balance	**-**	**-**	**-**	**2,127**	**-**	**2,127**
A.1 Total net writedown	-	-	-	-	-	-
A.2 Opening net balance	**-**	**-**	**-**	**2,127**	**-**	**2,127**
B. Increases	**-**	**-**	**-**	**232**	**-**	**232**
B.1 Purchases	-	-	-	-	-	-
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Writebacks	X	-	-	-	-	-
B.4 Fair value gains recognized in	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	232	-	232
C. Decreases	**-**	**-**	**-**	**1,537**	**-**	**1,537**
C.1 Sales	-	-	-	1,120	-	1,120
C.2 Writedowns	-	-	-	418	-	418
- Amortization	X	-	-	418	-	418
- Impairment	-	-	-	-	-	-
+ equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Fair value losses recognized in	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Closing net balance	**-**	**-**	**-**	**822**	**-**	**822**
D.1 Total net writedown	-	-	-	-	-	-
E. Closing gross balance	**-**	**-**	**-**	**822**	**-**	**822**
F. Measurement at cost	-	-	-	-	-	-

9.3 INTANGIBLE ASSETS: OTHER INFORMATION

Under the provisions of IAS 38, paragraphs 122 and 124, we report:

- there are no revalued intangible assets; consequently, there are no impediments to the distribution to shareholders of gains on revalued intangible assets (IAS 38, paragraph 124, letter b);
- there are no intangible assets acquired with government grants (IAS 38, paragraph 122, letter c);
- there are no intangible assets pledged as security for liabilities (IAS 38, paragraph 122, letter d);
- there are no intangible assets involved in lease transactions.

SECTION 10 - TAX ASSETS AND LIABILITIES – ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

10.1 DEFERRED TAX ASSETS: COMPOSITION

	31/12/2021		Total	31/12/2020		Total
	IRES	IRAP		IRES	IRAP	
- Recognized in income statement	**10,977**	**23**	**11,001**	**21,879**	**28**	**21,907**
a) DTA pursuant to Law 214/2011	**1,945**	**23**	**1,969**	**2,444**	**28**	**2,472**
Writedowns of loans to customers	1,945	23	1,969	2,316	28	2,344
Tax losses/negative value of production as per Law 214/2011	-	-	-	128	-	128
b) Other	**9,032**	**-**	**9,032**	**19,435**	**-**	**19,435**
Writedowns of amounts due from banks	1,629	-	1,629	1,547	-	1,547
Writedowns of loans to customers	96	-	96	109	-	109
Goodwill and other intangible assets	-	-	-	-	-	-
Tax losses	-	-	-	9,631	-	9,631
Writedowns of financial assets held for trading and financial assets measured at fair value	-	-	-	-	-	-
Writedowns of securities in circulation	-	-	-	-	-	-
Writedowns of financial liabilities held for trading and financial liabilities measured at fair value	-	-	-	-	-	-
Writedowns of impairment of guarantees issued recognized under liabilities	4,341	-	4,341	-	-	-
Provisions for risks and charges	2,903	-	2,903	5,839	-	5,839
Costs of predominantly administrative nature	-	-	-	-	-	-
Difference between tax value and carrying amount of property, plant and equipment and intangible assets	-	-	-	-	-	-
Other	64	-	64	2,309	-	2,309
- Recognized in shareholders' equity	**3,386**	**622**	**4,007**	**6,372**	**1,222**	**7,594**
a) Valuation reserves:	**979**	**198**	**1,178**	**2,049**	**415**	**2,464**
Capital losses on financial assets measured through OCI	979	198	1,178	2,049	415	2,464
b) Other:	**2,406**	**423**	**2,830**	**4,323**	**807**	**5,130**
Actuarial gains/losses on provisions for employees	316	-	316	341	-	341
Other	2,090	423	2,513	3,982	807	4,789
A. Total deferred tax assets	**14,363**	**645**	**15,008**	**28,252**	**1,250**	**29,501**
B. Offsetting with deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets - Total 100 b)	**14,363**	**645**	**15,008**	**28,252**	**1,250**	**29,501**

10.2 DEFERRED TAX LIABILITIES: COMPOSITION

	31/12/2021		Total	31/12/2020		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:	**1,372**	**278**	**1,650**	**976**	**198**	**1,173**
Valuation reserves:						
Capital gains on financial assets measured through OCI	1,372	278	1,650	976	198	1,173
Revaluation of property	-	-	-	-	-	-
Other	-	-	-	-	-	-
A. Total deferred tax liabilities	**1,372**	**278**	**1,650**	**976**	**198**	**1,173**
B. Offsetting with deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets -Total sub-item 60 b)	**1,372**	**278**	**1,650**	**976**	**198**	**1,173**

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

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	**21,907**	**31,328**
2. Increases	**4,996**	**5,138**
2.1 Deferred tax assets recognized during the period	4,996	5,138
a) in respect of previous period	-	215
b) due to change in accounting policies	-	-
c) writebacks	-	-
d) other	4,996	4,923
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**15,902**	**14,558**
3.1 Deferred tax assets derecognized during the period	6,051	876
a) reversals	6,051	876
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	9,852	13,681
a) transformation in tax credits pursuant to Law 214/2011	220	185
b) other	9,631	13,496
4. Closing balance	**11,001**	**21,907**

10.3 BIS CHANGES IN DEFERRED TAX ASSETS PURSUANT TO LAW 214/2011

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	**2,472**	**2,658**
2. Increases	**-**	**128**
3. Decreases	**503**	**315**
3.1 Reversals	283	130
3.2 Conversion into tax credits	220	185
a) arising from losses for the year	92	185
b) arising from tax losses	128	-
3.3 Other decreases	-	-
4. Closing balance	**1,969**	**2,472**

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

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

10.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	**7,594**	**1,934**
2. Increases	**-**	**5,660**
2.1 Deferred tax assets recognized during the period	-	5,660
a) in respect of previous periods	-	80
b) due to change in accounting policies	-	-
c) other	-	5,580
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**3,587**	**-**
3.1 Deferred tax assets derecognized during the period	3,587	-
a) reversals	3,587	-
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**4,007**	**7,594**

10.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	**1,173**	**1,407**
2. Increases	**476**	**-**
2.1 Deferred tax liabilities recognized during the period	476	-
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	-
c) other	476	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**233**
3.1 Deferred tax liabilities derecognized during the period	-	233
a) reversals	-	-
b) due to change in accounting policies	-	233
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,650**	**1,173**

10.7 OTHER INFORMATION

As regards the Bank's tax position:

- for the financial years 2016, 2017, 2018, 2019 and 2020 (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 conducted a probability test in order to verify whether the conditions existed for maintaining the registration of existing and newly recognized deferred tax assets.

The test did not consider deferred tax assets associated with Law 214/2011, as they can be transformed into a tax credit, and those which are likely to be reversed in periods subsequent to those adopted as the time horizon used. In any case, even those deferred tax assets would be recoverable in the period covered by the test.

With regard to the probability test conducted:

- the tax income or loss (IRES/IRAP) was estimated over a five-year forecast period (from 2022-2026);
- and the sufficiency of the estimated taxable income to absorb the temporary deductible differences that will be reversed in the reference period was verified and gave rise to the recognition of DTAs.

In addition, with regard to DTAs reversing subsequent to the aforementioned time horizon, a further assessment was carried out that demonstrated their recoverability within the forecast period of the plan.

The estimations and assumptions concerning the recoverability of deferred tax assets were made on the basis of the latest approved strategic plan, which incorporates the forecasts contained in the macroeconomic scenario provided to all the companies in scope, developing its commercial dynamics and the associated evolution in performance and financial position.

	31/12/2021				31/12/2020			
	IRES	IRAP	Other	Total	IRES	IRAP	Other	Total
Current tax liabilities (-)	(1,036)	(4,263)	-	(5,300)	-	-	-	-
Payments on account (+)	-	-	-	-	35,046	6,707	-	41,753
Other tax receivables (+)	36,322	12,537	-	48,859	15,370	5,050	-	20,420
Tax credit pursuant to Law 214/2011 (+)	10,357	-	-	10,357	185	-	-	185
Withholding tax (+)	-	-	-	-	-	-	-	-
Debtor balance of item 60 a) of liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Creditor balance	**45,643**	**8,273**	**-**	**53,916**	**50,601**	**11,757**	**-**	**62,358**
Non-offsettable tax receivables: principal	-	-	-	-	-	-	-	-
Non-offsettable tax receivables: interest	-	-	-	-	-	-	-	-
Balance of non-offsettable tax receivables	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Creditor balance of item 110 a) of assets	**45,643**	**8,273**	**-**	**53,916**	**50,601**	**11,757**	**-**	**62,358**

SECTION 11 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 110 OF ASSETS AND ITEM 70 OF LIABILITIES

11.1 CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY TYPE

	31/12/2021	31/12/2020
A. Assets held for sale		
A.1 Financial assets	645	580
A.2 Equity investments	-	-
A.3 Property, plant and equipment	48	-
of which: obtained through enforcement of guarantees received	-	-
A.4 Intangible assets	2,709	3,381
A.5 Other non-current assets	203,467	185,472
Total A	**206,869**	**189,432**
of which carried at cost	206,869	189,432
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated as at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortized cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which carried at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
C. Liabilities associated with assets held for sale		
C.1 Debt	115,644	108,728
C.2 Securities	-	-
C.3 Other liabilities	66,454	62,085
Total C	**182,098**	**170,813**
of which carried at cost	182,098	170,813
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortized cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated as at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total D	**-**	**-**
of which carried at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-

During the period, the Bank classified the assets and liabilities of the electronic money operations of Iccrea Banca under non-current assets and disposal groups held for sale and associated liabilities.

11.2 OTHER INFORMATION

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

SECTION 12 - OTHER ASSETS – ITEM 120

12.1 OTHER ASSETS: COMPOSITION

	Total 31/12/2021	Total 31/12/2020
- Receivables for future premiums on derivatives	9,243	11,267
- Fees and commissions and interest to be received	5,224	3,959
- Tax receivables due from central govt. tax authorities and other tax agencies (including VAT credits)	32,582	2,803
- Tax receivables	203,498	-
- Items in transit between branches and items being processed	40,071	38
- Financial assets in respect of loans granted for a specific transaction	70,504	71,677
- Accrued income not attributable to separate line item	60	27
- Prepaid expenses not attributable to separate line item	5,602	262
- Subsidiaries – Group VAT	10,187	4,957
- Tax consolidation mechanism	20,121	11,277
- Other (security deposits, assets not attributable to other items)	80,769	8,719
Total	477,861	114,985

The item “Financial assets in respect of loans granted for a specific transaction” regards the Parent Company’s contribution to the Guarantee Scheme.

“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.

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 31/12/2021				Total 31/12/2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to central banks	**21,049,571**	X	X	X	**18,885,985**	X	X	X
2. Due to banks	**18,287,509**	X	X	X	**15,003,870**	X	X	X
2.1 Current accounts and demand deposits	3,896,383	X	X	X	3,297,431	X	X	X
2.2 Fixed term deposits	13,531,501	X	X	X	10,951,417	X	X	X
2.3 Loans	687,050	X	X	X	751,396	X	X	X
2.3.1 Repurchase agreements	448,517	X	X	X	451,538	X	X	X
2.3.2 Other	238,533	X	X	X	299,858	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-	X	X	X	-	X	X	X
2.6 Other payables	172,575	X	X	X	3,626	X	X	X
Total	39,337,080	-	39,772,252	506,468	33,889,855	-	33,801,540	596,759

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

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

	Total 31/12/2021				Total 31/12/2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and demand deposits	829,417	X	X	X	886,361	X	X	X
2. Fixed-term deposits	-	X	X	X	55,012	X	X	X
3. Loans	6,094,575	X	X	X	8,212,042	X	X	X
3.1 Repurchase agreements	5,594,575	X	X	X	6,712,276	X	X	X
3.2 Other	500,000	X	X	X	1,499,767	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	4,203	X	X	X	3,227	X	X	X
6. Other liabilities	466,202	X	X	X	475,306	X	X	X
Total	7,394,398	-	5,141,479	1,187,410	9,631,949	-	7,097,326	2,543,666

The sub-item “Repurchase agreements” is composed entirely of transactions with the Clearing and Guarantee Fund.
The sub-item “Lease liabilities” regards the liability represented by future payments to lessors until the end of the term of the lease agreement, in accordance with IFRS 16.
The item “Other payables” comprises bankers’ drafts issued but not yet presented for settlement and sundry other payables.

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

	Total 31/12/2021				Total 31/12/2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	3,748,638	2,674,293	1,131,152	-	4,186,006	2,289,566	1,923,524	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	3,748,638	2,674,293	1,131,152	-	4,186,006	2,289,566	1,923,524	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	**3,748,638**	**2,674,293**	**1,131,152**	**-**	**4,186,006**	**2,289,566**	**1,923,524**	**-**

The item comprises bonds issued by the Bank and hedged against interest rate risk using derivatives, the amount of which is adjusted by changes in fair value attributable to the hedged risk accrued as of the reporting date, as well as unhedged bonds issued measured at amortized cost. The fair value of securities issued is calculated by discounting future cash flows using the swap yield curve as at the reporting date.

The sub-item “1.2 Bonds - other” includes subordinated securities amounting to €700 million.

1.4 BREAKDOWN OF SUBORDINATED DEBT/SECURITIES

	31/12/2021	31/12/2020
A.1 Subordinated debt	**-**	**-**
- banks	-	-
- customers	-	-
B.1 Subordinated securities	**700,364**	**433,475**
- banks	700,364	433,475
- customers	-	-
Total	**700,364**	**433,475**

At December 31, 2021 the item includes two subordinated loans with the following features:

- issue date November 28, 2019, Maturity date November 28, 2029, residual nominal value at December 31, 2021: €397.36 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, 2021: €298.62 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	487	-
Movables	-	-
Electrical plant	-	-
Other	3,717	-

Lease liabilities regard property leases and automobile rentals, in accordance with the provisions of IFRS16.

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 31/12/2021					Total 31/12/2020				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	48,692	48,507	198	-	48,705	133	153	-	-	153
2. Due to customers	330	193	1	-	194	125	120	-	-	120
3. Debt securities	-	-	-	-		-	-	-	-	X
3.1 Bonds	-	-	-	-		-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3. Other	-	-	-	-		-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**49,022**	**48,701**	**199**	**-**	**48,899**	**258**	**273**	**-**	**-**	**273**
B. Derivatives										
1. Financial derivatives		284	381,674	-		X	117	563,120	-	X
1.1 Trading	X	284	381,674	-	X	X	117	563,120	-	X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives		-	-	-		X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**284**	**381,674**	**-**	**X**	**X**	**117**	**563,120**	**-**	**X**
Total (A+B)	**X**	**48,985**	**381,872**	**-**	**X**	**X**	**391**	**563,120**	**-**	**X**

Key:
NV= nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3
Fair value*= Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

2.2 BREAKDOWN OF “FINANCIAL LIABILITIES HELD FOR TRADING”: SUBORDINATED LIABILITIES

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

2.3 BREAKDOWN OF “FINANCIAL LIABILITIES HELD FOR TRADING”: STRUCTURED LIABILITIES

The table has not been completed because there were no such positions as of the reporting 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 31/12/2021					Total 31/12/2020				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**335,958**	**-**	**335,392**	**-**	**335,392**	**337,431**	**-**	**340,957**	**-**	**340,957**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	335,958	-	335,392	-	X	337,431	-	340,957	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees issued	-	X	X	X	X	X	X	X	X	X
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees issued	-	X	X	X	X	X	X	X	X	X
3. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
Total	**335,958**	**-**	**335,392**	**-**	**335,392**	**337,431**	**-**	**340,957**	**-**	**340,957**

Key:
NV= nominal 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

3.2 BREAKDOWN OF "FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE": SUBORDINATED LIABILITIES

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

SECTION 4 - HEDGING DERIVATIVES – ITEM 40

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

	Fair value 31/12/2021			NV	Fair value 31/12/2020			NV
	L1	L2	L3	31/12/2021	L1	L2	L3	31/12/2020
A) Financial derivatives	**-**	**247,018**	**-**	**3,176,949**	**-**	**173,821**	**-**	**4,595,948**
1) Fair value	-	223,341	-	2,917,320	-	151,146	-	3,923,876
2) Cash flows	-	23,677	-	259,629	-	22,676	-	672,071
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**247,018**	**-**	**3,176,949**	**-**	**173,821**	**-**	**4,595,948**

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

4.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair value							Cash flows		Foreign investments
	Specific									
	Debt securities and interest rates	Equity securities and stock indices	Foreign currencies and gold	Credit	Commodities	Other	Generic	Specific	Generic	
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortized cost	222,458	X	-	-	X	X	X	23,677	X	X
3. Portfolio	X	X	X	X	X	X	257	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**222,458**	**-**	**-**	**-**	**-**	**-**	**257**	**23,677**	**-**	**-**
1. Financial liabilities	626	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**626**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

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 31/12/2021	Total 31/12/2020
Amounts due to social security institutions and State	21,488	13,777
Amounts available to customers	27,495	6,826
Liabilities for future premiums on derivatives	2,850	3,696
Tax payables due to tax authorities	36,891	28,051
Payables due to employees	28,924	25,516
Financial liabilities in respect of loans granted for a specific transaction	70,504	71,677
Accrued expenses not attributable to separate line item	113	113
Deferred income not attributable to separate line item	2,354	5,344
Items in transit and items being processed	94,421	71,571
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)	20,694	75,836
Subsidiaries – Group VAT	743	186
Consolidated taxation mechanism	48,419	29,568
Total	354,896	332,160

The sub-item “Financial liabilities in respect of loans granted for a specific transaction” regards the Parent Company’s contribution to the Guarantee Scheme.

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	Total 31/12/2021	Total 31/12/2020
A. Opening balance	**16,179**	**18,003**
B. Increases	**3,282**	**1,327**
B.1 Provisions for the period	1,209	652
B.2 Other increases	2,073	674
C. Decreases	**4,114**	**3,150**
C.1 Benefit payments	2,821	1,116
C.2 Other decreases	1,293	2,035
D. Closing balance	**15,347**	**16,179**
Total	15,347	16,179

9.2 OTHER INFORMATION

	Total 31/12/2021	Total 31/12/2020
Opening amount (civil code rules)	15,042	16,705
Increases	2,097	652
Decreases	3,558	2,315
Closing amount (civil code rules)	**13,581**	**15,042**
Surplus / (Deficit)	1,767	1,137
Employee termination benefits provision IAS 19	15,347	16,179

Employee termination benefits cover the entire entitlement accrued as at the reporting date by employees, in conformity with applicable law, the collective bargaining agreement and supplementary company-level contract. The liability calculated pursuant to Art. 2120 of the Civil Code amounted to €13,581 thousand.

The actuarial assumptions used by an independent actuary to calculate the liability as at the reporting date are as follows:

- demographic parameters: drawn from ISTAT’s 2004 mortality tables and the INPS disability tables. As regards the probability of leaving work for reasons other than death, the calculation used turnover rates consistent with past experience, with the annual rate of exit from work set at 1.50%;

- financial parameters: the valuations were calculated on the basis of the Euro Composite AA curve at 31/12/2021;
- economic parameters: the rate of inflation was assumed to be 1.75% while the rate of increase in salaries was 2.813% for all categories of employee and used only for seniority purposes.

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	Total 31/12/2021	Total 31/12/2020
1. Provisions for credit risk in respect of commitments and financial guarantees issued	31,972	70
2. Provisions for other commitments and guarantees issued	-	-
3. Company pension plans	-	-
4. Other provisions for risks and charges	10,149	21,797
4.1 legal disputes	3,189	3,735
4.2 personnel expense	3,200	13,837
4.3 other	3,761	4,224
Total	42,121	21,867

10.2 PROVISIONS FOR RISKS AND CHARGES: CHANGE FOR THE PERIOD

	Provisions in respect of commitments and other guarantees issued	Retirement provisions	Other provisions	Total
A. Opening balance	**-**	**-**	**21,797**	**21,797**
B. Increases	**-**	**-**	**2,505**	**2,505**
B.1 Provisions for the year	-	-	1,738	1,738
B.2 Changes due to passage of time	-	-	-	-
B.3 Changes due to changes in the discount rate	-	-	-	-
B.4 Other increases	-	-	767	767
- of which: business combinations	-	-	767	767
C. Decreases	**-**	**-**	**14,152**	**14,152**
C.1 Use during the period	-	-	1,753	1,753
C.2 Changes due changes in the discount rate	-	-	-	-
C.3 Other decreases	-	-	12,399	12,399
- of which: business combinations	-	-	-	-
D. Closing balance	**-**	**-**	**10,149**	**10,149**

10.3 PROVISIONS FOR CREDIT RISK IN RESPECT OF COMMITMENTS AND FINANCIAL GUARANTEES ISSUED

	Provisions for credit risk in respect of commitments and financial guarantees issued				Total
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	
1. Commitments to disburse funds	1,143	3,257	2,726	-	7,125
2. Financial guarantees issued	6,678	11,322	6,846	-	24,846
Total	7,821	14,579	9,571	-	31,972

10.4 PROVISIONS IN RESPECT OF OTHER COMMITMENTS AND GUARANTEES ISSUED

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

10.5 DEFINED-BENEFIT COMPANY PENSION PLANS

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

10.6 PROVISIONS - OTHER

“Other” main regards the provision of €3,761 thousand for Deposit Guarantee Fund interventions.

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 31/12/2021	Total 31/12/2020
A. Share capital		
A.1 Ordinary shares	1,401,045	1,401,045
A.2 Savings shares	-	-
A.3 Preference shares	-	-
A.4 Other shares	-	-
B. Treasury shares		
B.1 Ordinary shares	-	-
B.2 Savings shares	-	-
B.3 Preference shares	-	-
B.4 Other shares	-	-

12.2 SHARE CAPITAL – NUMBER OF SHARES OF THE PARENT COMPANY: CHANGE FOR THE PERIOD

	Ordinary	Other
A. Shares at the start of the year	**27,125,759**	**-**
- fully paid	27,125,759	-
- partially paid	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares in circulation: opening balance	**27,125,759**	**-**
B. Increases	**-**	**-**
B.1 new issues	-	-
- for consideration:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sales of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**27,125,759**	**-**
D.1 Treasury shares(+)	-	-
D.2 Shares at the end of the year	27,125,759	-
- fully paid	27,125,759	-
- partially paid	-	-

12.3 SHARE CAPITAL: OTHER INFORMATION

Share capital is represented only by ordinary shares equal to subscribed share capital, fully paid up.

12.4 EARNINGS RESERVES: OTHER INFORMATION

Reserves amount to €183,456 thousand and include: the legal reserve (€50,785 thousand), the reserve established in the articles of association (€205 thousand), the extraordinary reserve (€337,299 thousand), a IAS FTA reserve (€15,378 thousand), a reserve from IFRS 9 FTA (€9,922 thousand), a reserve (€1,843 thousand) created following the transfer of the Corporate business unit to Iccrea BancaImpresa in 2007, a negative reserve (€236 thousand) from the merger of Bcc Multimedia, a positive reserve (€162 thousand) relate to the transfer of properties to BCC Beni Immobili and a positive reserve (€234 thousand) related to the transfer of the "Branch Services" business unit to Banca Sviluppo; a negative earnings reserve on equity securities sold (€2,291 thousand). Reserves also include the loss carryforward from 2018 in the amount of €35.6 million, from 2019 in the amount of €127.4 million and from 2020 in the amount of €66.8 million for a total €229.8 million. Pursuant to the provisions of the articles of association, at least one-tenth of net profit for the period shall be allocated to the legal reserve until that reserve is equal to one-fifth of share capital. The remaining nine-tenths are available for allocation by the Shareholders' Meeting, which decides on the basis of a proposal of the Board of Directors.

AVAILABILITY AND FORMATION OF EQUITY RESERVES

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

	Amount	Possible uses (*)	Available amount	Summary of uses in last three years	
				For loss coverage	Other uses
Share capital	1,401,045				
Share premium account	6,081				
Treasury shares					
Reserves:					
a) legal reserve	50,785	B	50,785		
b) reserve in articles of association	205	A – B – C	205		
c) extraordinary reserve	337,299	A – B – C	337,299		
d) other reserves	(289)	A – B – C	-		
e) FTA reserve	25,300	A – B – C	25,300		
Valuation reserves:			-		
a) Financial assets measured at fair value through other comprehensive income (FVOCI)	1,506				
b) Cash flow hedges	(5,087)		-		
c) Actuarial gains (losses) on defined-benefit plans	(3,127)		-		
Valuation reserves (Law 342 of 22/11/2000)	52,062	A – B – C(**)	52,062		
Retained earnings (loss carryforward)	(229,844)		-		
Net profit (loss) for the period	53,178				
Total	**1,689,114**				

(*)a = capital increase; b = loss coverage; c = distribution to shareholders

(**) if the reserve is used to cover losses, profits may not be distributed until the reserve has been restored or reduced to a corresponding extent. Any such reduction must be approved by the Extraordinary Shareholders' Meeting without the need to comply with the provisions of paragraphs 2 and 3 of Article 2445 of the Civil Code. If the reserve is not allocated to share capital, it may only be reduced in compliance with the provisions of paragraphs 2 and 3 of Article 2445 of the Civil Code. If it is distributed to shareholders, it shall form part of the taxable income of the company and the shareholders.

12.5 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

There were no such positions as of the reporting date.

12.6 OTHER INFORMATION

There were no such positions as of the reporting date.

OTHER INFORMATION

1. GUARANTEES ISSUED AND COMMITMENTS (OTHER THAN THOSE DESIGNATED AS AT FAIR VALUE)

	Nominal value of financial guarantees issued and commitments				Total 31/12/2021	Total 31/12/2020
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
Commitments to disburse funds	**8,361,652**	**57,202**	**5,573**	**-**	**8,424,427**	**6,702,428**
a) Central banks	-	-	-	-	-	-
b) Government entities	-	-	-	-	-	-
c) Banks	7,358,790	19,534	-	-	7,378,324	5,159,912
d) Other financial companies	760,084	12,215	1,585	-	773,885	1,439,067
e) Non-financial companies	237,622	25,340	3,702	-	266,664	103,449
f) Households	5,155	113	286	-	5,554	-
Financial guarantees issued	**555,684**	**121,273**	**7,349**	**-**	**684,305**	**80,138**
a) Central banks	-	-	-	-	-	-
b) Government entities	12,245	-	-	-	12,245	-
c) Banks	53,752	4,800	-	-	58,551	71,803
d) Other financial companies	5,144	1,308	-	-	6,452	5,303
e) Non-financial companies	476,666	114,365	7,349	-	598,380	3,032
f) Households	7,877	800	-	-	8,677	-

The nominal value of “commitments to disburse funds” represents the amount that the Bank could be called upon to disburse at the request of the counterparty net of amounts already disbursed and gross of total provisions.

The nominal value of “financial guarantees issued” represents the maximum about the Bank could be called upon to pay in event the guarantees are enforced. It reports the nominal value net of enforcements of unsecured financial guarantees issued by the Bank and repayments by the secured debtor and gross of total provisions.

2. OTHER COMMITMENTS AND GUARANTEES ISSUED

There were no such positions as of the reporting date.

3. ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

	Amount 31/12/2021	Amount 31/12/2020
1. Financial assets measured at fair value through profit or loss	322,431	347,120
2. Financial assets measured at fair value through other comprehensive income	-	24,934
3. Financial assets measured at amortized cost	6,321,371	2,466,120
4. Property, plant and equipment	-	-
of which: property, plant and equipment classified as inventories	-	-

4. MANAGEMENT AND INTERMEDIATION SERVICES

	Amount 31/12/2021
1. Order execution on behalf of customers	**16,800,180**
a) Purchases	10,000,850
1. settled	9,938,165
2. not settled	62,684
b) Sales	6,779,330
1. settled	6,790,183
2. not settles	9,148
2. Asset management (individual)	**-**
3. Securities custody and administration	**130,207,054**
a) Third-party securities held as part of custodian bank services (excluding asset management)	80,001
1. Securities issued by consolidated companies	-
2. other securities	80,001
b) Other third-party securities on deposit (excluding asset management): other	78,186,458
1. Securities issued by consolidated companies	2,688,304
2. other securities	75,498,154
c) Third-party securities deposited with third parties	78,186,355
d) Securities owned by bank deposited with third parties	51,940,594
4. Other transactions	**-**

5. FINANCIAL ASSETS OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

	Gross amount of financial assets (a)	Financial liabilities offset (b)	Net amount of financial assets reported (c=a-b)	Related amounts not offset		Net amount (f=c-d-e) 31/12/2021	Net amount 31/12/2020
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	1,469,615	113,078	1,356,538	949,267	133,213	274,058	279,625
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2021	**1,469,615**	**113,078**	**1,356,538**	**949,267**	**133,213**	**274,058**	**X**
Total 31/12/2020	**740,206**	**5,413**	**734,793**	**232,918**	**222,250**	**X**	**279,625**

6. FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

	Gross amount of financial liabilities (a)	Financial assets offset (b)	Net amount of financial liabilities reported (c=a-b)	Related amounts not offset		Net amount (f=c-d-e) 31/12/2021	Net amount 31/12/2020
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	1,687,731	113,078	1,574,653	329,774	377,582	867,297	637,413
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2021	**1,687,731**	**113,078**	**1,574,653**	**329,774**	**377,582**	**867,297**	**X**
Total 31/12/2020	**929,259**	**5,413**	**923,846**	**111,447**	**174,986**	**X**	**637,413**

7. SECURITIES LENDING TRANSACTIONS

No information to report.

8. DISCLOSURES ON JOINT ARRANGEMENTS

No information to report.

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 31/12/2021	Total 31/12/2020
1. Financial assets measured at fair value through profit or loss	**5,716**	**-**	**-**	**5,716**	**4,668**
1.1 Financial assets held for trading	993	-	-	993	559
1.2 Financial assets designated at fair value	3,098	-	-	3,098	3,357
1.3 Other financial assets mandatorily at fair value	1,625	-	-	1,625	752
2. Financial assets measured at fair value through other comprehensive income	**1,411**	**-**	**X**	**1,411**	**2,632**
3. Financial assets measured at amortized cost	**230,308**	**104,516**	**X**	**334,824**	**156,324**
3.1 Due from banks	16,693	18,964	X	35,657	64,657
3.2 Loans to customers	213,615	85,552	X	299,167	91,667
4. Hedging derivatives	**X**	**X**	**(123,326)**	**(123,326)**	**47**
5. Other assets	**X**	**X**	**1,052**	**1,052**	**281**
6. Financial liabilities	**X**	**X**	**X**	**246,774**	**197,681**
Total	**237,435**	**104,516**	**(122,274)**	**466,451**	**361,633**
of which: interest income on impaired financial assets	-	147	-	147	142
of which: interest income from finance leases	X	-	X	-	-

1.2 INTEREST AND SIMILAR INCOME: OTHER INFORMATION

1.2.1 INTEREST INCOME ON FOREIGN-CURRENCY FINANCIAL ASSETS

	31/12/2021	31/12/2020
1. Mortgage loans	-	-
2. Current accounts and deposits	434	412
3. Other loans	70	382
4. Debt securities	379	547
5. Other	171	55
Total	**1,054**	**1,397**

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 31/12/2021	Total 31/12/2020
1. Financial liabilities measured at amortized cost	(46.803)	(70.004)	X	(116.807)	(122.711)
1.1 Due to central banks	(6.468)	X	X	(6.468)	(99)
1.2 Due to banks	(37.114)	X	X	(37.114)	(40.986)
1.3 Due to customers	(3.221)	X	X	(3.221)	(4.291)
1.4 Securities issued	X	(70.004)	X	(70.004)	(77.335)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	(82)	(82)	(230)
5. Hedging derivatives	X	X	(1.287)	(1.287)	200
6. Financial assets	X	X	X	(172.189)	(152.436)
Total	**(46.803)**	**(70.004)**	**(1.369)**	**(290.366)**	**(275.176)**
of which: interest expense on lease liabilities	(60)	X	X	(60)	(70)

1.4 INTEREST AND SIMILAR EXPENSE: OTHER INFORMATION

1.4.1 INTEREST EXPENSE ON FOREIGN-CURRENCY LIABILITIES

	31/12/2021	31/12/2020
1. Current accounts and deposits	(389)	(1,018)
2. Loans	-	-
3. Other	(739)	(2,444)
Total	**(1,128)**	**(1,128)**

1.5 DIFFERENCES ON HEDGING TRANSACTIONS

	31/12/2021	31/12/2020
A. Positive differences on hedging transactions	-	14.693
B. Negative differences on hedging transactions	(124,613)	(14,446)
C. Balance (A-B)	**(124,613)**	**247**

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	Total 31/12/2021	Total 31/12/2020
a) Financial instruments	20,160	29,975
1. Securities placement	13,907	24,107
1.1 With underwriting and/or with irrevocable commitment	-	-
1.2 Without irrevocable commitment	13,907	24,107
2. Order receipt and transmission and order execution for customers	6,253	5,868
2.1 Order receipt and transmission for one or more financial instruments	1,440	-
2.2 Order execution for customers	4,813	-
3. Other fees and commission connected with financial instruments	-	-
of which: trading on own account	-	-
of which: individual portfolio management	-	-
b) Corporate finance	2,081	2,502
1. Merger and acquisition advisory services	-	-
2. Treasury services	-	-
3. Other fees and commissions connected with corporate finance services	2,081	2,502
c) Investment advisory services	-	-
d) Clearing and settlement	-	-
e) Custody and administration	6,330	5,956
1. Depository bank	-	-
2. Other fees and commissions connected with custody and administration services	6,330	5,956
f) Central administrative services for collective portfolio management	-	-
g) Trustee services	-	-
h) Payment services	45,218	39,271
1. Current accounts	353	211
2. Credit cards	-	-
3. Debit cards and other payment cards	-	-
4. Credit transfers and other payment orders	1,788	-
5. Other fees and commissions connected with payment services	43,077	39,059
i) Distribution of third-party services	-	-
1. Collective portfolio management	-	-
2. Insurance products	-	-
3. Other products	-	-
of which: individual portfolio management	-	-
j) Structured finance	-	-
k) Securitization servicing	-	-
l) Commitments to disburse funds	-	-
m) Financial guarantees issued	2,783	643
of which: credit derivatives	-	-
n) Lending transactions	18,890	-
of which: for factoring transactions	-	-
o) Currency trading	65	41
p) Goods	-	-
q) Other fee and commission income	18,019	14,152
of which: for management of multilateral trading facilities	-	-
of which: for management of organized trading facilities	-	-
Total	113,547	92,540

The table has been prepared in application of the 7th update of Circular 262. The comparative figures have been restated to ensure comparability.

2.2 FEE AND COMMISSION INCOME: DISTRIBUTION CHANNELS FOR PRODUCTS AND SERVICES

	Total 31/12/2021	Total 31/12/2020
a) own branches:	**13,907**	**24,107**
1. asset management	-	-
2. securities placement	13,907	24,107
3. third-party services and products	-	-
b) off-premises distribution:	**-**	**-**
1. asset management	-	-
2. securities placement	-	-
3. third-party services and products	-	-
c) other distribution channels:	**-**	**-**
1. asset management	-	-
2. securities placement	-	-
3. third-party services and products	-	-

2.3 FEE AND COMMISSION EXPENSE: COMPOSITION

		Total 31/12/2021	Total 31/12/2020
a) Financial instruments		(7,918)	(12,938)
of which: trading in financial instruments		(268)	(396)
of which: placement of financial instruments		(7,650)	(12,542)
of which: individual portfolio management		-	-
- Own		-	-
- Delegated to third parties		-	-
b) Clearing and settlement		(1,389)	(997)
c) Custody and administration		(5,177)	(5,227)
d) Collection and payment services		(2,549)	(2,763)
of which: credit cards, debit cards and other payment cards		-	-
e) Securitization servicing		-	-
f) Commitments to receive funds		-	-
g) Financial guarantees received		(549)	(796)
of which: credit derivatives		-	-
h) Off-premises marketing of financial instruments, products and services		-	-
i) Currency trading		(21)	(11)
j) Other fee and commission expense		(3,203)	(1,723)
	Total	**(20,806)**	**(24,456)**

The table has been prepared in application of the 7th update of Circular 262. The comparative figures have been restated to ensure comparability.

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 31/12/2021		Total 31/12/2020	
	Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading	2	222	-	-
B. Other financial assets mandatorily measured at fair value	313	3	146	20
C. Financial assets measured at fair value through other comprehensive income	4,498	-	309	-
D. Equity investments	23,404	-	36,741	-
Total	28,216	225	37,197	20

Dividends received mainly regard:

- BCC CreditoConsumo €12.6 million;
- BCC Risparmio&Previdenza €7.9 million;
- BCC Solutions SpA €2 million;
- BCC Gestione Crediti €0.9 million.

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net gain (loss) (A+B) – (C+D)
1. Financial assets held for trading	**571**	**13,398**	**(1,050)**	**(6,953)**	**5,966**
1.1 Debt securities	571	13,000	(831)	(6,456)	6,284
1.2 Equity securities	-	322	(102)	(426)	(206)
1.3 Units in collective investment undertakings	-	68	(117)	(71)	(120)
1.4 Loans	-	-	-	-	-
1.5 Other	-	7	-	-	7
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**	**(167,197)**
4. Derivatives	**418,664**	**110,258**	**(412,468)**	**(104,922)**	**181,346**
4.1 Financial derivatives:	418,664	110,258	(412,468)	(104,922)	181,346
- on debt securities and interest rates	416,726	109,967	(412,174)	(103,092)	11,427
- on equity securities and equity indices	1,938	291	(294)	(1,830)	104
- on foreign currencies and gold	X	X	X	X	169,815
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	419,235	123,655	(413,518)	(111,876)	20,115

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

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	Total 31/12/2021	Total 31/12/2020
A. Gain on:		
A.1 Fair value hedges	147,100	25,390
A.2 Hedged financial assets (fair value)	107,783	75,606
A.3 Hedged financial liabilities (fair value)	1,349	506
A.4 Cash flow hedges	4,315	1,098
A.5 Assets and liabilities in foreign currencies	294	2,955
Total income on hedging activities (A)	**260,841**	**105,556**
B. Loss on:		
B.1 Fair value hedges	(137,830)	(99,697)
B.2 Hedged financial assets (fair value)	(118,177)	(3,377)
B.3 Hedged financial liabilities (fair value)	(183)	(74)
B.4 Cash flow hedges	(1,461)	(3,330)
B.5 Assets and liabilities in foreign currencies	(3,082)	(2,077)
Total expense on hedging activities (B)	**(260,733)**	**(108,556)**
C. Net gain (loss) on hedging activities (A - B)	**108**	**(3,000)**
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 31/12/2021			Total 31/12/2020		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortized cost	113,252	(36,780)	76,471	85,316	(28,775)	56,541
1.1 Due from banks	-	(136)	(136)	1,434	(10)	1,423
1.2 Loans to customers	113,252	(36,644)	76,608	83,883	(28,765)	55,118
2. Financial assets measured at fair value through other comprehensive income	5,571	(1,214)	4,357	4,763	(2,822)	1,941
2.1 Debt securities	5,571	(1,214)	4,357	4,763	(2,822)	1,941
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**118,822**	**(37,994)**	**80,828**	**90,080**	**(31,597)**	**58,483**
Financial liabilities measured at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	12	(3,689)	(3,677)	731	(331)	400
Total liabilities (B)	**12**	**(3,689)**	**(3,677)**	**731**	**(331)**	**400**

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	**526**	**229**	**(4,860)**	**(366)**	**(4,471)**
1.1 Debt securities	526	229	(4,860)	(366)	(4,471)
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**1,771**	**-**	**(428)**	**-**	**1,343**
2.1 Securities issued	-	-	-	-	-
2.2 Due to banks	1,771	-	(428)	-	1,343
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	2,297	229	(5,288)	(366)	(3,128)

7.2 NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) - (C+D)]
1. Financial assets	**13,640**	**1,521**	**(18,923)**	**(739)**	**(4,501)**
1.1 Debt securities	89	85	(1,752)	(185)	(1,763)
1.2 Equity securities	9,664	234	(1,282)	(8)	8,608
1.3 Units in collective investment undertakings	3,883	1,201	(15,889)	(546)	(11,350)
1.4 Loans	5	-	-	-	5
2. Financial assets: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	13,640	1,521	(18,923)	(739)	(4,501)

SECTION 8 - NET LOSSES/RECOVERIES FOR CREDIT RISK – ITEM 130

8.1 NET LOSSES/RECOVERIES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST: COMPOSITION

	Losses (1)						Recoveries (2)				Total 31/12/2021	Total 31/12/2020
	Stage 1	Stage 2	Stage 3		Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		
			Writeoffs	Other	Writeoffs	Other						
A. Due from banks	**-**	**(714)**	**-**	**-**	**-**	**-**	**1,769**	**295**	**-**	**-**	**1,350**	**(4,038)**
- loans	-	(714)	-	-	-	-	1,769	-	-	-	1,055	(4,096)
- debt securities	-	-	-	-	-	-	-	295	-	-	295	58
B. Loans to customers	**(12,271)**	**(36,374)**	**(10,214)**	**(75,242)**	**-**	**-**	**8,090**	**14,471**	**42,102**	**-**	**(69,439)**	**(4,092)**
- loans	(11,623)	(36,295)	(10,214)	(75,177)	-	-	7,782	14,471	42,102	-	(68,955)	(1,308)
- debt securities	(648)	(80)	-	(65)	-	-	309	-	-	-	(484)	(2,783)
Total	(12,271)	(37,089)	(10,214)	(75,242)	-	-	9,860	14,766	42,102	-	(68,088)	(8,130)

8.1A NET LOSSES/RECOVERIES FOR CREDIT RISK IN RESPECT OF LOANS MEASURED AT AMORTIZED COST INVOLVED IN COVID-19 SUPPORT MEASURES: COMPOSITION

There were no such positions as of the reporting date.

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

	Losses (1)						Recoveries (2)				Total 31/12/2021	Total 31/12/2020
	Stage 1	Stage 2	Stage 3		Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		
	Writeoffs	Other	Writeoffs	Other	Writeoffs	Other						
A. Debt securities	-	-	-	-	-	-	69	382	-	-	450	(582)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**69**	**382**	**-**	**-**	**450**	**(582)**

8.2.A NET LOSSES FOR CREDIT RISK IN RESPECT OF LOANS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME INVOLVED IN COVID-19 MEASURES: COMPOSITION

There were no such positions as of the reporting date.

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 31/12/2021	Total 31/12/2020
1) Employees		(187,193)	(185,443)
a) wages and salaries		(132,055)	(116,476)
b) social security contributions		(30,787)	(30,857)
c) termination benefits		(2,484)	(2,315)
d) pension expenses		-	-
e) allocation to employee termination benefit provision		(258)	(292)
f) allocation to provision for post-employment benefits and similar obligations:		-	-
- defined contribution		-	-
- defined benefit		-	-
g) payments to external pension funds:		(11,952)	(10,868)
- defined contribution		(11,952)	(10,868)
- defined benefit		-	-
h) costs in respect of agreements to make payments in own equity instruments		-	-
i) other employee benefits		(9,657)	(24,634)
2) Other personnel		(404)	(393)
3) Board of Directors and members of Board of Auditors		(3,120)	(3,226)
4) Retired personnel		-	-
5) Recovery of expenses for employees seconded to other companies		6,473	8,322
6) Reimbursement of expenses for third-party employees seconded to the Company		(939)	(2,415)
	Total	(185,182)	(183,155)

10.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

	Total 31/12/2021	Total 31/12/2020
Employees:	**1,976**	**1,775**
a) senior management	103	96
b) middle management	1,082	983
c) other employees	791	696
Other personnel	**-**	**-**
Total	1,976	1,775

The average number of employees is calculated as the weighted average number of employees using the number of months worked during the year as weights. Part-time employees are included at 50%.

10.3 DEFINED-BENEFIT COMPANY PENSION PLANS: COSTS AND REVENUES

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

10.4 OTHER EMPLOYEE BENEFITS

		31/12/2021	31/12/2020
early termination incentives and the income support fund		(676)	(16,852)
meal vouchers		(3,061)	(2,371)
insurance policies for the employees		(1,156)	(1,456)
healthcare		-	-
training		(941)	(976)
training Leg. Decree 81/08		-	-
loyalty bonuses		(1,300)	(615)
other benefits		(2,522)	(2,364)
	Total	(9,657)	(24,634)

10.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

		Total 31/12/2021	Total 31/12/2020
Information technology		(120,597)	(76,780)
Property and movables		(52)	(404)
- rental and fees		(52)	(404)
- ordinary maintenance		-	-
- security		-	-
Goods and services		(6,548)	(5,203)
- telephone and data transmission		(2,834)	(2,355)
- postal		-	-
- asset transport and counting		(402)	(355)
- electricity, heating and water		-	(196)
- transportation and travel		(2,887)	(1,905)
- office supplies and printed materials		(79)	(96)
- subscriptions, magazines and newspapers		(346)	(296)
Professional services		(48,952)	(56,528)
- professional fees (other than audit fees)		(41,317)	(46,258)
- audit fees		(1,365)	(2,054)
- legal and notary costs		(6,270)	(8,216)
- court costs, information and title searches		-	-
Administrative services		(12,487)	(3,654)
Insurance		(2,415)	(1,063)
Promotional, advertising and entertainment expenses		(2,158)	(3,185)
Association dues		(1,600)	(2,260)
Donations		-	(513)
Other		(21,004)	(26,830)
Indirect taxes and duties		(33,596)	(34,188)
- stamp duty		(1,219)	(286)
- tax under DPR 601/73		(89)	-
- municipal property tax		-	-
- financial transaction fee		(186)	-
- other indirect taxes and duties		(32,102)	(33,902)
	Total	(249,409)	(210,609)

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

		31/12/2021	
	Provisions	Reallocation of excesses	Total
Commitments to disburse funds Stage 1	(4,961)	2,409	(2,552)
Commitments to disburse funds Stage 2	(8,482)	7,022	(1,460)
Commitments to disburse funds Stage 3	(4,110)	2,901	(1,209)
Financial guarantees issued Stage 1	(497)	-	(497)
Financial guarantees issued Stage 2	-	646	646
Financial guarantees issued Stage 3	-	-	-
Total	**(18,051)**	**12,978**	**(5,073)**

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.

11.2 NET PROVISIONS IN RESPECT OF OTHER COMMITMENTS TO DISBURSE FUNDS AND GUARANTEES ISSUED: COMPOSITION

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

11.3 NET PROVISIONS FOR OTHER RISKS AND CHARGES: COMPOSITION

		31/12/2021	
	Provisions	Reallocation of excesses	Total
Legal disputes	(366)	486	120
Other	-	330	330
Total	**(366)**	**816**	**450**

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	(2,171)	-	-	(2,171)
- owned	(66)	-	-	(66)
- right-of-use assets acquired under leases	(2,105)	-	-	(2,105)
A.2 Investment property	-	-	-	-
- owned	-	-	-	-
- right-of-use assets acquired under leases	-	-	-	-
A.3 Inventories	X	-	-	-
B. Assets held for sale	**X**	**-**	**-**	**-**
Total	**(2,171)**	**-**	**-**	**(2,171)**

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	(418)	-	-	(418)
A.1 Owned	(418)	-	-	(418)
- generated internally by the Bank	-	-	-	-
- other	(418)	-	-	(418)
A.2 Right-of-use assets acquired under	-	-	-	-
B. Assets held for sale	X	-	-	-
Total	**(418)**	**-**	**-**	**(418)**

SECTION 14 - OTHER OPERATING EXPENSES - ITEM 200

14.1 OTHER OPERATING EXPENSES: COMPOSITION

		Total 31/12/2021	Total 31/12/2020
Charges connected with lease services (consultants, insurance, taxes and duties, capital losses)		-	-
Reductions in assets and prior-year expenses not attributable to separate line item		-	(8)
Costs of outsourced services		-	-
Settlement of disputes and claims		-	-
Amortization of expenditure for leasehold improvements		-	-
Other charges – extraordinary transactions			-
Other charges		(2,616)	(1,400)
	Total	**(2,616)**	**(1,407)**

14.2 OTHER OPERATING INCOME: COMPOSITION

		Total 31/12/2021	Total 31/12/2020
A) Recoveries		**29,875**	**25,396**
Recovery of taxes		216	291
Recovery of sundry charges		29,644	25,068
Insurance premiums		-	-
Property rental income		-	-
Recovery of costs from customers		-	-
Recovery of costs on bad debts		16	36
B) Other income		**152,569**	**126,476**
Insourcing revenues		118,464	105,240
Property rental income		-	-
Reductions in liabilities and prior-year income not attributable to separate line item		617	370
Other income from finance leases		-	-
Other income		33,488	20,866
Fees and commissions on accelerated application processing		-	-
	Total	**182,445**	**151,872**

SECTION 15 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 220

15.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total 31/12/2021	Total 31/12/2020
A. Income	**50,331**	**-**
1. Revaluations	-	-
2. Gains on disposal	50,331	-
3. Writebacks	-	-
4. Other income	-	-
B. Expenses	**(77,447)**	**(44,038)**
1. Writedowns	-	-
2. Impairment losses	(77,447)	(44,038)
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	**(27,116)**	**(44,038)**

SECTION 16 - NET ADJUSTMENT TO FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS - ITEM 230

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

SECTION 17 - GOODWILL IMPAIRMENT - ITEM 240

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

SECTION 18 - GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS - ITEM 250

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

SECTION 19 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS – ITEM 270

19.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 31/12/2021	Total 31/12/2020
1. Current taxes (-)	(12,257)	3,344
2. Change in current taxes from previous period (+/-)	1,560	(172)
3. Reduction of current taxes for the period (+)	9,875	7,457
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	220	185
4. Change in deferred tax assets (+/-)	(1,275)	4,076
5. Change in deferred tax liabilities (+/-)	-	-
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(1,876)**	**14,889**

19.2 RECONCILIATION OF THEORETICAL TAX LIABILITY AND ACTUAL TAX LIABILITY RECOGNIZED

IRES	31/12/2021		31/12/2020	
	Taxable income	Tax	Taxable income	Tax
Profit (loss) before tax on continuing operations (item 260 IS)	30,284		(59,832)	
Profit before tax on continuing operations (item 260 IS)	30,284		-	
Loss before tax on continuing operations (item 260 IS)	-		(59,832)	
Current rate		-		-
Theoretical tax liability (24%)		(7,268)		14,360
Greater tax liability due to increases (taxable income)/Greater tax liability due to increases (tax)	126,733	(30,416)	23,787	-
Temporary				
- Changes during the year	20,816		20,444	
Definitive				
- Reversal of prior-year temporary differences	-		-	
- Changes during the year	105,917		3,344	
Lower tax liability due to decreases	106,672	25,601	72,372	-
Temporary				
- Changes during the year	16,119		3,605	
Definitive				
- Reversal of prior-year temporary differences	90,554		-	
- Changes during the year	-		68,767	
- Deductions up to limit of taxable income	-		-	
Taxable income (loss)	50,344		-	
Current gross tax		(12,083)		-
IRES surtax rate		-		
IRES surtax		(184)		-
IRES income from consolidated taxation mechanism		4,146		
Tax credits		-		-
Current net tax in income statement		(8,121)		3,344
Changes in current tax/deferred tax assets/deferred tax liabilities (+/-)		10,382		11,547
Tax liability for the year		2,260		14,891

IRAP	31/12/2021		31/12/2020	
	Taxable income	Tax	Taxable income	Tax
Profit (loss) before tax for IRAP purposes (item 260 IS)	30,284		(59,832)	
Profit before tax on continuing operations (item 260 IS)	30,284		-	
Loss before tax on continuing operations (item 260 IS)				
Current rate		-		-
Theoretical tax liability (ordinary rate 4.65%)		(1,408)		2,782
Items not included in determination of income	353,079	(16,418)	294,291	-
- Revenue and income (-)	(179,829)		(150,465)	
- Costs and charges (+)	532,908		444,755	
Greater tax liabilities due to increases (taxable income)/Greater tax liabilities due to increases (tax)	**182,612**	**(8,491)**	-	-
Temporary	-		152,417	
- Changes during the year	-		-	
Definitive				
- Reversal of prior-year temporary differences	-		-	
- Changes during the year	182,612		152,417	
Lower tax liability due to decreases	**491,670**	**22,863**	-	-
Temporary	-		-	
- Changes during the year	-		28	
Definitive				
- Reversal of prior-year temporary differences	-		-	
- Changes during the year	491,670		396,828	
Value of production	74,244	-	-	-
Current tax		(3,455)		-
Increase in IRAP rate		-		-
Effect of regional surtaxes/tax relief (+/-)		(680)		-
Current tax in income statement		(4,135)		-
Changes in current tax/deferred tax assets/deferred tax liabilities (+/-)		(1)		(2)
Tax liability for the year		(4,136)		-

TAX IN LIEU	Taxable income	Tax	Taxable income	Tax
Tax in lieu		-		-
Total income tax expense (item 270 IS)		(1,876)		14,891

SECTION 20 - PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX - ITEM 290

20.1 PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX: COMPOSITION

	Total 31/12/2021	Total 31/12/2020
1. Revenue	427,977	356,788
2. Expense	(393,331)	(330,711)
3. Result of measurement of groups of assets and associated liabilities	-	-
4. Gain (loss) on realization	-	(40,472)
5. Taxes and duties	(9,875)	(7,457)
Profit (loss)	**24,770**	**(21,853)**

20.2 BREAKDOWN OF INCOME TAXES ON DISCONTINUED OPERATIONS

	31/12/2021	31/12/2020
1. Current taxes (-)	(9,875)	(7,457)
2. Change in deferred tax assets (+/-)	-	-
3. Change in deferred tax liabilities (-/+)	-	-
4. Income taxes for the period (-1+/-2+/-3)	**(9,875)**	**(7,457)**

SECTION 21 – OTHER INFORMATION

No other information necessary.

SECTION 22 - EARNINGS PER SHARE

22.1 AVERAGE NUMBER OF ORDINARY SHARES IN DILUTED SHARE CAPITAL

The section is not completed in these notes to the financial statements; please see the same section in the notes to the consolidated financial statements.

22.2 OTHER INFORMATION

The section is not completed in these notes to the financial statements; please see the same section in the notes to the consolidated financial statements.

PART D - COMPREHENSIVE INCOME

BREAKDOWN OF COMPREHENSIVE INCOME

		31/12/2021	31/12/2020
10.	**Net profit (loss) for the period**	**53,178**	**(66,795)**
	Other comprehensive income not recyclable to profit or loss	**5,169**	**(2,708)**
20.	Equity securities designated as at fair value through other comprehensive income:	8,350	(3,713)
	a) fair value changes	8,350	(3,713)
	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	(579)	(307)
80.	Non-current assets held for sale	-	-
90.	Valuation reserves of equity investments accounted for with equity method	-	-
100.	Income taxes on other comprehensive income not recyclable to profit or loss	(2,602)	1,312
	Other comprehensive income recyclable to profit or loss	**2,134**	**(8,690)**
110.	Hedging of investments in foreign operations:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
120.	Foreign exchange differences:	-	-
	a) value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
130.	Cash flow hedges:	6,881	(14,946)
	a) fair value changes	9,099	(17,925)
	b) reversal to income statement	(2,218)	2,979
	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:	(3,428)	1,729
	a) fair value changes	(2,114)	1,489
	b) reversal to income statement	(1,314)	241
	- adjustments for credit risk	(450)	472
	- gain/loss on realization	(864)	(231)
	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	(1,319)	4,527
190.	**Total other comprehensive income**	**7,303**	**(11,397)**
200.	**Comprehensive income (item 10+190)**	**60,481**	**(78,193)**

PART E - RISK AND RISK MANAGEMENT POLICIES

INTRODUCTION

The Iccrea Cooperative Banking Group (ICBG) conducts its business in accordance with the principles of prudence and risk containment, based on the need for stability associated with banking activity and the main characteristics of the mutual banks and their customers. Consistent with these principles, the Group pursues its growth objectives in accordance with the needs of the mutual banking system, ensuring, through balanced risk management, reliable and sustainable generation of value over time.

The risk governance policies represent the reference model in organizational and process development and in the systematic execution of all the operational and business activities performed by Group companies and are an integral part of the risk management process (RMP) adopted by the Group, ensuring sound and prudent management and supporting sustainable implementation of the overall risk strategy. The internal control system (ICS) governs the RMP, ensuring the completeness, appropriateness, functionality (in terms of effectiveness and efficiency) and reliability of the policies in a context of strict consistency with the governance framework defined at Group level.

The Risk Management function operates within the internal control system.

THE RISK MANAGEMENT FUNCTION

The Chief Risk Officer area is responsible at the Group level for second-level control activities connected with the management of credit, financial and operational risks, including IT risks. It is the contact for the corporate bodies of the Parent Company for matters within its scope of responsibility, providing an integrated and composite vision of the set of risks that are being assumed and managed by the individual entities and by the Group as a whole.

In 2021, the organizational structure of Risk Management function underwent fine-tuning. This intervention was part of the continuation of the overall finalizing of the structure of the CRO area and was intended to incorporate lessons learned with regard to the overall operating model of the Risk Management function. The organizational structure includes the following:

- a "*Risk Governance & Strategy*" unit that (i) oversees all risk governance and risk strategy issues for the Group in respect of the affiliated banks, the companies within the direct scope and the Parent Company, including the management of the EWS and stress testing framework for the purposes of the Guarantee Scheme; (ii) performs activities connected with the preparation of the area's annual activity plan and the institutional reporting document submitted to the corporate bodies and the supervisory authorities; (iii) coordinates and monitors strategic projects for the CRO area, as well as overseeing activities pertaining to the CRO area concerning 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, in close collaboration with the Mutual Bank Risk Management units (Northern Area, Central Area, Southern Area) and in concert with the other competent units of the Risk Management function, (i) develops the Risk Appetite proposal for the affiliated banks with the related limits and triggers broken down into risk categories by operational and business segment; (ii) supports the Group Risk Governance & RM SPD unit in the definition and maintenance of the methodological framework of the Group Risk Governance processes (RAF/RAS, analysis and assessments connected with capital adequacy, stress testing, OMR and incentive system), as well as in the definition of the guidelines to support the preparation of the annual plans and the respective institutional reports of the activities of the Risk Management function broken down by individual mutual bank and, in close collaboration with the Mutual Bank Risk Management units, the efficient and effective operational implementation within the affiliated banks, (iii) supports the Group Risk Management unit in the definition and maintenance of the methodological framework for specific risks, as well as in the related assessment and monitoring activity, in order to enable efficient and effective operational implementation within the affiliated banks and identify any risk mitigation measures required. The unit also has Risk Management specialists who provide support to the Mutual Bank RM units (Northern Area, Central Area, Southern Area) and to the risk managers of the affiliated banks for the implementation and application of the

risk management framework and the correct and uniform performance of the related risk management activities in compliance with the qualitative and quantitative standards dictated by the Parent Company;

  - a "Group Risk Governance & RM SPD" unit, which defines and maintains the methodological framework of the Group's Risk Governance processes (RAF/RAS, ICAAP, Recovery Plan, stress testing, OMR, incentive system). The unit covers the Group and the companies within the direct scope, in close collaboration with the Planning & Management Control unit and in concert with the other competent units of the Parent Company's Risk Management function and, with regard to the affiliated banks, in collaboration with the Mutual Bank Risk Governance unit. It also represents the top management structure for the Risk Management departments of the companies within the direct scope, whose centralization within the Parent Company under outsourcing arrangements was completed during the first quarter of the year. It ensures the coordination of the risk managers of the individual companies;

- a "*Group Risk Management*" unit, which (i) supervises and coordinates the organizational units dedicated to the individual risk categories, which within their areas of responsibility are involved in the development and maintenance of the methodological framework for the assumption and management of specific risks, as well as the assessment and monitoring of those risks, the identification of any risk mitigation measures; (ii) 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 and the companies within the direct scope;

- a "*Mutual Bank Risk Management*" unit, which represents the "control center" for the risk profile of the individual affiliated banks, representing the top management structure for the local Risk Management units. Local risk managers report to the unit through the Mutual Bank RM units (Northern Area, Central Area, Southern Area). It coordinates communication with the other specialized units of the Risk Management function. The Mutual Bank RM units (i) have organizational responsibility for the overall execution of the Risk Management activities outsourced for the macro-area; (ii) represent the top management structure for the Risk Management controls of the area, which is responsible for the execution the outsourced second-level control activities for risk management; and (iii) coordinate the managers in charge of the Risk Management functions of the affiliated banks. Each Mutual Bank RM unit (Northern Area, Central Area, Southern Area) has a Deputy Area Manager who supports the unit in its operational supervision and coordination of the mutual bank risk managers in the event of the absence or impediment of the unit manager.

- 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. In this area, the Risk Management function ensures that the framework for the assumption and management of risks is compliant with applicable regulations, in line with market best practice, functional in respect of internal operational conditions and consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) of the Group;

- developing the Risk Appetite Framework and its operational implementation (the Risk Appetite Statement) at the consolidated level and, with the support of the affiliated banks and Group companies, at the individual level, consistent with capital adequacy objectives (ICAAP) and the adequacy of the liquidity profile (ILAAP) of the Group;

- monitoring the risk profile of the individual affiliated banks with the appropriate territorial organization of risk management arrangements and the Early Warning System (EWS) and the Guarantee Mechanism. In this area, the Risk Management function:
  - handles the development and updating of the methodological framework and develops tools for managing the Guarantee Mechanism, as well as assessing, classifying and monitoring the affiliated banks within the scope of EWS management processes;
  - is responsible, through the action of its local units as well, for the determination and adoption by each affiliated bank of strategies, policies and principles for the assessment and measurement of the risks identified at the Group level.

- monitoring developments in the risk profile and the various types of risk to which the Group as a whole and its individual members are exposed, verifying the ongoing consistency between the actual risk assumed and the specified risk objectives. In this context, the Risk Management function:
  - develops methodologies and models for measuring and assessing risks, validating those models, periodically checking their operation, predictive capacity and performance, and their consistency over time with operational practices and regulatory requirements;
  - performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible, identifying any needs for fine tuning/corrective or evolutionary maintenance and providing support – within the scope of its duties – in implementing the associated actions;

- identifies any risk developments exceeding the limits set out in the Risk Appetite Statement, in the Risk Governance Policies or in external regulations and, in general, potentially harmful or unfavorable situations in order to assess possible mitigation initiatives to implement;
- analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement and Group policies in this area;
- assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (ICAAP) and the appropriateness of the Group's liquidity profile (ILAAP);
- assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to be implemented for the restructuring plan and within resolution procedures;
- reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining and implementing strategic policy and risk policy and the associated implementation of those policies;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The Group devotes special attention to managing, assessing and understanding risk. All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Parent Company. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies, updating risk measurement and estimation approaches to ensure consistency with sector best practices;
- the specification of risk limits;
- the periodic monitoring of exposures with verification of compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the Group companies in the long term, systematic and independent Internal Auditing units, etc.).

THE GROUP RISK GOVERNANCE FRAMEWORK

The overall Risk Governance framework developed by Iccrea Banca and adopted by the Group reflects the specific features of the Iccrea Cooperative Banking Group as a group whose participatory mechanisms are based on a Cohesion Contract, signed by the banks, that provides for internal stability mechanisms characterized by intercompany mutual support agreements regulated specifically by applicable external legislation.

Accordingly, the complex reference framework that characterizes typical risk governance models and processes reflects and incorporates these specific features by way of the close integration of those models and processes, using shared metrics and efficient and effective operational mechanisms to support the implementation of roles and functions for policy-setting, coordination and control by the Parent Company for all of the participating banks/companies.

The Risk Appetite Framework (RAF) defined and adopted by the Iccrea Cooperative Banking Group is an integral and key part of the overall risk governance arrangements of the Group, as it is closely correlated with the strategic governance and control processes of the ICBG and with the internal stability mechanisms specific to the Group itself. The overall structure of the RAF is articulated at the Group level and is organized at the operational level by company/business unit and operating areas. Its dimensions can be expressed both in terms of metrics and limits and in terms of guidelines/qualitative indicators. In defining the key elements of the Group RAF, and in the definition of the related operating model, consideration had been given not only to applicable regulations but also to the specific aspects that characterize the ICBG as a group whose members are affiliated by contract, with a view to encapsulating those elements within an organic and integrated framework. In this context, therefore, the RAF makes it possible:

- to reinforce knowledge and awareness in the assumption, management and, more generally, governance of corporate risks;
- to rapidly and effectively direct the system for monitoring and communicating the risk profile;

- to guide risk management and mitigation decisions in a manner consistent with developments in the actual levels of risk assumed and managed.

In line with the principles underlying the ICBG Risk Governance model and with the aim of implementing an integrated system for governing, managing and controlling the Group's risks, the Group Risk Appetite Framework takes account of the risk governance mechanisms and processes established by applicable legislation and underlying the establishment of the Iccrea Cooperative Banking Group, as discussed in the Report on Operations.

SECTION 1 – CREDIT RISK

QUALITATIVE DISCLOSURES

1. GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Cooperative Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca coordinates and directs the credit risk assumption policies of the individual companies and affiliated banks. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the individual entities, in agreement with the Parent Company;
- the Risk Management function supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the credit risk exposure of the Parent Company and all the Group companies.

This model also relies on the current governance structure, which provides for organizational separation between the units responsible for the operational management of lending (the Chief Lending Officer area, hereinafter also the CLO area) and control units (under the Risk Management function).

With regard to management of lending, the mechanisms for interaction between the Parent Company and the Group companies - defined on the basis of the Cohesion Contract – comprise specific credit governance rules, which on the one hand govern the related responsibilities and on the other ensure the compliance of the credit risk framework with the applicable regulatory framework to which the Parent Company is subject.

With regard to the management and coordination role, which is also being implemented in accordance with the principles envisaged in the Cohesion Contract, the Parent Company assumes responsibility for the following areas: lending rules (principles, policies and processes), credit strategies and credit risk limits, management of large exposures, guidelines for the main credit product categories by customer segment, the monitoring and reporting of portfolio credit risk.

In line with these credit governance rules, the Group companies must request the opinion of the CLO area (“credit opinion”) before approving new credit lines or significant modifications to existing positions with individual counterparties/groups of connected clients if those facilities exceed predetermined amount thresholds both in absolute value considering the overall risk exposure of the Group and with regard to compliance with credit risk concentration limits relation to the own funds of the individual Group bank.

The mapping of groups of connected clients, which seeks to identify and assess legal and financial connections between clients is conducted in accordance with principles and rules valid for the entire Banking Group and with the most recent regulatory guidelines in this field (EBA guidelines on connected clients, EBA/GL/2017/15).

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

Credit risk represents the preponderant component of the overall risks to which the Group is exposed, considering that credit exposures account for a dominant share of assets.

In light of this circumstance and in compliance with the applicable provisions concerning the internal control system (see Circular No. 285/2013, Part One, Title IV, Chapter 3), Iccrea Banca has adopted a governance structure and operational arrangements to ensure the adequate monitoring of credit risk at the Group level in the various phases of the process.

Moreover, in relation to the application of the provisions of IFRS 9 and the related initiatives to ensure their implementation, especially as regards the classification and measurement of credit exposures, the Group further strengthened its risk management arrangements, with particular regard to the definition of credit classification and measurement policies, as well as the development of a structured framework of second-level controls of credit exposures, with particular regard to impaired positions.

The entire credit management and control process is governed by internal rules that also define risk control, management and mitigation activities, developing a structured system involving the various organizational units.

The Parent Company, in exercising the powers of strategic management and coordination granted to it under provisions of the Cohesion Contract, defines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level. With particular regard to the lending process, the Parent Company defines guidelines for the credit approval process and the management of the associated risk (management of guarantees, including real estate, monitoring of exposures, classification of risk positions, management and measurement of impaired exposures).

From an organizational point of view, the CLO area assumes responsibility on behalf of the Parent Company and the companies in the direct scope of consolidation (directly owned by the Parent Company) for the supervision of all phases of the lending process - from loan approval to the management of non-performing positions – and for the performance of management and coordination activities with respect to the affiliated banks. It is also responsible for overseeing credit quality, defining lending policies and verifying their application.

The main activities of the lending process performed by the CLO area are:

- issuing guidelines for the definition of the loan management model, issuing guidelines for the loan approval and disbursement process, and finalizing and defining/developing the lending authority model for the decision-making bodies;
- approving the general and specific exceptions for Group companies with respect to Group guidelines on customer segments/credit products;
- monitoring the Group's performing portfolio by analyzing and monitoring existing exposures and by issuing opinions (credit opinions) on credit exposures that exceed specified limits;
- defining the framework for assessing the creditworthiness of corporate, retail and banking counterparties;
- assessing the creditworthiness of banks and financial institutions to which the Parent Company and the companies in the direct scope of consolidation have granted credit;
- performing activities connected with the operational management of the rating models, carrying out rating overrides and providing assistance to Group companies in relation to the general principles and the reasons for the ratings assigned to individual counterparties.

With regard to credit monitoring, in addition to the definition of guidelines at Group level and the minimal set of early warning indicators for the interception and management of positions to be "monitored", the CLO area monitors the positions of the Parent Company and the companies within the direct scope of consolidation that present an increase in credit risk, as well as examining the correct execution of the process implemented by the affiliated banks. Furthermore, the CLO area monitors the "most relevant" positions.

As part of the second-level controls, the Risk Management function has defined the overall methodological and operational framework in this area. It is applicable to the entire Group. The framework, which is governed with a specific body of regulatory and process documentation, covers all the activities and controls aimed at verifying, on a periodic basis, the appropriateness of the classifications of exposures, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

More generally, the Risk Management function oversees the risk management of the individual entities from a consolidated and individual perspective:

- overseeing the measurement of credit risk from a current and forward-looking perspective, considering both conditions of normal operations and stress scenarios;
- monitoring the capacity of the risk limits, including those defined within the RAF/RAS with regard to the associated credit risk metrics;
- defining and updating the methods and measurement models for credit risk, including those used in the performance of credit stress tests, ensuring their ongoing compliance with regulatory developments and market best practice.

2.2 MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

IDENTIFICATION OF RISKS

As noted in the previous section, in compliance with the provisions of Circular no. 285/2013 of the Bank of Italy as updated, the Parent Company determines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level, thus exercising the powers of strategic management and coordination aimed at ensuring the unity of the Group's strategic management and control system, as governed by the Cohesion Contract.

With particular regard to the lending process, the Parent Company governs lending and the management of the related risk. This also comprises the management of guarantees, including real estate, exposure monitoring, the classification of risk positions, and the management and valuation of impaired exposures.

In all of these phases, the Group uses qualitative and quantitative methods for assessing counterparty creditworthiness, supported by IT procedures that undergo periodic verification and maintenance.

With specific reference to the loan approval phase, the Group rules establish the key principles underpinning all phases of the process of approving/renewing loans, together with the roles and associated responsibilities of the various actors involved, specifying the procedures through which the Group intends to assume credit risk in respect of its customers, i.e. by identifying eligible counterparties and the admissible technical forms of credit for each customer segment.

In this specific context, a direct assessment is carried out to ascertain the needs and requirements of the applicant and therefore the purposes of the credit line and to accurately assess the credit risk profile: granting a loan requires an in-depth analysis of the risk associated:

- with the counterparty as well as the economic context in which it operates;
- with the purpose and characteristics of the transaction to be financed;
- with the guarantees available;
- with other forms of credit risk mitigation.

The analysis of the counterparty is conducted by each bank so as to assess the overall profitability of the relationship using the associated valuation tools/models. The assessment of creditworthiness focuses, in turn, on an analysis of the borrower's ability to repay, without prejudice to the principle that credit can only be granted if it is clear how it will be repaid.

Without prejudice to the prudential limits set by applicable regulations, which are commensurate with own funds with regard to both the magnitude of the exposure to the individual counterparty and the total amount of larger exposures, the credit strategies provide for risk limitations on the basis of specific elements, such as, for example, the nature of the transaction (e.g. transactions intended to finance real estate whose repayment will be financed by sale or lease), the situation of the specific real estate market (type of asset, economic sector, geographical area, market demand, etc.), a current and forward-looking evaluation of the asset, the accurate quantification of timing and costs of carrying out the initiative.

In general, given the recent establishment of the Iccrea Cooperative Banking Group, the management, measurement and control systems at the individual affiliated mutual banks are being developed to adapt them to the new consolidated context and evolve them in accordance with industry best practice. In this direction, Group policies were issued for all phases of the lending process and, therefore, the granting and disbursement of credit, management of guarantees, loan monitoring, loan classification, assessment of impaired positions, management of substandard positions and NPLs.

As noted earlier, the central moment of the preliminary phase of the lending process is that linked to the assessment and measurement of the credit risk of the transaction in question. The assessment is based on qualitative/quantitative information and is typically supported by the use of automated rating/scoring models designed to measure the creditworthiness of the counterparty and/or the possibility of proceeding with the transaction.

Ratings plays a key role lending, as they represent an essential element of the assessments made during the loan approval, review and renewal processes. The rating assignment involves an analysis of all the quantitative and qualitative information available to support the application approval process in order to accurately assess the risk profile of the transaction and to monitor the creditworthiness of existing counterparties over time.

For the companies in the direct scope of consolidation, the rating and scoring systems are already fully integrated into credit processes. Lending policies already provide indications concerning the minimum level of the decision-approval bodies - based on the technical form of financing, the guarantees securing the loan and the counterparty rating - and the related mechanisms for exceptions, which are granted and monitored by the Parent Company. Affiliated mutual banks have rating systems to support the loan approval/management process. In view of the recent establishment of the Group and the different information systems used by the mutual banks, a number of activities are being completed to integrate ratings in all the processes of the Group companies.

The evaluation models in use take into consideration:

- the specific features of the different types of counterparties, with particular reference to the Corporate segment (companies/producer households), Retail (consumers) and Institutional (bank counterparties);
- the specific features of the product involved, distinguishing between short, medium and long-term types of credit, or specialized technical forms (leases, factoring, consumer credit).

In general, the evaluation models use all the available updated information on the counterparty/transaction, drawn both from external sources (e.g. the Bank of Italy Central Credit Register and similar association databases, credit bureaus, financial statements, registry events) and internal sources (internal performance information).

The Group adopts a counterparty approach in assigning ratings except in specific cases in which the counterparty assessment is supplemented by a product-perspective evaluation, in consideration of any special features of a business. Using rating/scoring models, the Group assigns the counterparty a representative credit rating, adopting an on-line processing procedure, which is typically accessed through the electronic application processing system but also in batch mode, with the latter being adopted for periodic updating of ratings for all Bank customers (the loan position performance rating).

In compliance with the supervisory provisions governing the correct identification of the risk assumed, or to be assumed, in respect of a "group of connected clients", any legal or economic connections between clients are detected and evaluated by those responsible for analyzing creditworthiness during the application assessment phase of the lending process.

These objectives are achieved through an analysis that involves the acquisition of all available information such as financial statements, where available at Group level, or aggregated financial statements of the main entities involved, for subsequent processing, ad hoc information on intercompany items of a financial and operating nature that may not be reported in the financial statements, or on operating flows between Group companies, on the presence of centralized treasury operations and, more generally, on the activities, the market and the competitors of the Group and all entities connected with it.

The monitoring process envisaged by the model is independent with respect to classification status (for example, a position on which payments are being made regularly but has been classified as unlikely to pay due to another non-performing exposure in the system). It is based on the following:

- the use of early warning indicators that permit timely detection of risk signals;
- the definition and attribution of responsibilities in the monitoring process;
- the definition and execution of risk mitigation actions;
- the generation of appropriate information flows between the bank and the Parent Company.

More specifically, within the process we distinguish:

- a phase in which early warning signals are identified, using risk indicators to detect exposures affected by an appreciable increase in credit risk in order to analyze their risk profile and take appropriate management actions;
- a management phase, aimed at examining the identified positions and taking, where necessary, specific management actions in order to promptly mitigate the risk of a deterioration in the position.

The identification of the positions under observation, using IT support procedures, can be carried out manually (i.e. based on the "manual" acquisition of information about, for example, significant changes in the corporate group to which the counterparty belongs, failure to comply with covenants, voluntary declarations of difficulties made by the counterparty, news reports, etc.), or using automated processes, i.e. procedures based on a set of indicators (from external or internal sources, regarding the relationship between the bank and the counterparty, or the capital structure and financial resources of the latter) that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship.

Automated identification must be based on a set of indicators that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship (directly related to the client's relationship with the Bank or the client's financial structure, based on data from external or internal sources). These indicators are differentiated on two levels (1 and 2) that indicate an increasing degree of risk, In the case of level 2 indicators, the position undergoes an analysis of counterparty creditworthiness, which may involve a re-examination of the borrower, in order to verify the capacity of the client to honor its commitments through to full repayment.

The process of managing "watchlist" exposures therefore enables the analysis of the risk profile of "watchlist" counterparties and the definition of appropriate management actions in the context of the monitoring processes with a view to returning the position to normal status or mitigating the risk connected with the exposure.

RISK MEASUREMENT AND ASSESSMENT

For the purpose of calculating prudential requirements for credit risk, the Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The adoption of the standardized approach to determine the capital requirement against credit risk involves the subdivision of exposures into portfolios and the application of differentiated prudential treatments to each, possibly using assessments of creditworthiness (external ratings) issued by external agencies (ECAI) or by export credit agencies (ECA) recognized for prudential purposes on the basis of the provisions of Regulation (EU) 575/2013.

Depending on the type of counterparty and the sector in which it operates, the Group's operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral).

For the purposes of determining internal capital for concentration risk for individual counterparties or groups of connected clients, the Group uses the regulatory granularity adjustment (GA) algorithm, based on the Herfindahl index. In accordance with regulatory provisions, the reference portfolio consists of on-balance-sheet and off-balance sheet exposures (the latter considered at their credit equivalent amount) falling within the regulatory portfolios "corporates and other borrowers", "short-term exposures to corporates" and exposures to corporates included in the asset classes "in default", "secured by real estate", "equity exposures" and "other exposures".

Furthermore, for the purpose of quantifying geo-sectorial concentration risk, the Group adopts the methodology developed by the "Geo-Sectoral Concentration Risk Laboratory" of the Italian Banking Association (ABI), which sets geographical and product categories against a national asset allocation benchmark.

The Group periodically performs stress tests for credit and concentration risks in order to assess - in terms of potential losses - the impact of expected risk developments on the financial profile of the Group and the individual entities under both normal and adverse operating conditions.

The stress test methods are based on regulatory practices and are applied in various management and risk governance processes, starting with the capital adequacy assessment process (ICAAP), as well as in the performance of supervisory exercises.

The methodological and calculation structure of credit stress tests is based on the use of internal risk models and parameters and incorporates a credit risk projection approach (transitions between stages/risk states) and determination of related losses over the scenario years (12-month or lifetime expected credit loss) based on the measurement of IFRS 9 impairment.

The projections of the estimates for the scenario years are performed considering the macroeconomic scenario assumptions in the adopted scenarios (in baseline or adverse conditions), using internally developed models ("satellite" models), which estimate the relationship between risk factors and developments in macroeconomic variables.

The sensitivity analysis of the expected credit loss (ECL) metrics was performed by the Parent Company at the consolidated level pursuant to IFRS 9 for 2021. This analysis was carried out on a sub-portfolio of performing loans and securities representative of the Group, given the general similarity of the nature, characteristics and composition of the portfolio across the various entities of the Iccrea Cooperative Banking Group, increasing the probability of occurrence of the worst macroeconomic scenario used at the end of 2021 for the determination of the ECL together with the baseline scenario, i.e. that used as the benchmark for the calculation of the ECL at December 31, 2021. The results show that, at the consolidated level, this simulated measure (based on the conditions prevailing at the reporting date) shows an increase in expected credit losses of about 13% compared with that at December 31, 2020.

With regard to stress testing of single-name concentration risk, the granularity adjustment approach is applied using the PD determined in the adverse scenario, while for the purpose of quantifying the geo-sectorial concentration risk in stress conditions, the calculation provides for an increase in the exposure to the sector (ATECO classification) with the greatest concentration, in addition to the corresponding level of risk tolerance defined in the RAS framework.

RISK MONITORING AND CONTROL

In accordance with supervisory regulations (Bank of Italy Circular no. 285/2013), the Risk Management function performs - at both the consolidated and individual legal entity levels – second-level control activities to verify the adequacy, effectiveness and consistency over time of policies and limits, processes and delegated powers with regard to the credit risk management process, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management function through analysis of developments in the exposure to credit risk of the Group as a whole and of the individual entities.

The Internal Audit unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

The locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives and limits (appetite, tolerance and capacity) at both the consolidated and individual entity levels, with compliance ensured by the monitoring and control activities of the function.

Monitoring and reporting on the credit risk profile is characterized by activities that involve both the business functions and the control functions, in accordance with their respective responsibilities. In particular, monitoring is ensured both by aggregate portfolio performance analyzes and by analyzes carried out on individual positions.

The Risk Management function monitors the credit risk profile – at both the consolidated and individual affiliated bank and Group company level, using an analytical framework and related reporting based on a system of key risk indicators. It is designed to monitor the loan portfolio, at both the time exposures are taken on and during their lifetime, the outcomes of which are reported regularly to top management. In this context, the analytical methods and the related reporting undergo constant fine-tuning in order to represent the drivers underlying developments in credit risks in an ever more effective manner, reflecting changes in the regulatory environment as well as management requirements and to support decision-making.

As noted earlier, Risk Management developed the Group second-level control framework, which comprises control activities aimed at ascertaining, on a periodic basis, the consistency of exposure classifications, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

The control methods envisaged by the framework, the first operational application of which was launched at the end of the first half of the year for the entire Group, undergo constant refinement and evolution, with a view to directing second-level controls ever more effectively in response to developments in the credit risks of the Group.

2.3 METHODS FOR MEASURING EXPECTED LOSSES

Iccrea Banca has adopted a framework for determining impairment based on risk assessment models and the corresponding parameters used in operational and management practices by the Parent Company and individual Group entities. In accordance with the provisions of IFRS 9, the methods for measuring expected losses on impaired exposures are based on the following elements:

- a 3-stage (stage allocation) approach, based on changes in credit quality, defined on a model of 12-month expected loss or lifetime expected loss if a significant increase in credit risk is detected. The standard provides for three different categories that reflect the deterioration in credit quality since initial recognition:
  - Stage 1: financial assets originated and/or purchased that do not exhibit objective evidence of impairment at the date of initial recognition or that have not experienced a significant deterioration in their credit quality since the date of initial recognition or which have low credit risk (low credit risk exemption);
  - Stage 2: financial assets whose credit quality has deteriorated significantly since the date of initial recognition;
  - Stage 3: financial assets that exhibit objective evidence of loss at the reporting date. The population of these exposures is consistent with those considered "impaired" under IAS 39.
- application of "point-in-time" formulations of the parameters for measuring credit risk for the purpose of calculating impairment;
- calculation of lifetime expected credit loss for exposures not classified in Stage 1, using lifetime parameters;
- inclusion of forward-looking conditioning in the calculation of ECL, considering the average loss from each scenario and the associated probability-weighted likelihood of each outcome;
- staging and transfers of financial assets between the stages.

In accordance with the standard, the Iccrea Group allocates each asset/tranche to one of the following three stages:

- stage 1, which includes all newly issued exposures and all exposures in respect of counterparties classified as performing that, as at the reporting date, meet the condition for the low credit risk exemption (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 generated by internal "satellite" models to the PIT PD and the definition of a series of possible scenarios and the associated probability of occurrence that incorporate future macroeconomic conditions in the estimates;
- the transformation of the 12-month PD into a lifetime PD in order to estimate the PD term structure over the entire residual life of the loans.

Loss Given Default (LGD) is determined using an approach based, in general, on the observation of historical loss rates on non-performing positions and on the application of the danger rate matrices, corresponding to the probability of a counterparty being classified as non-performing, regardless of the intermediate default states.

For the securities portfolio, the unconditioned LGD measures are the same for both stage 1 and stage 2 exposures. In particular, an unconditioned LGD of 45% is used, subsequently subjected to forward-looking conditioning, consistent with the scenarios and the probabilities of occurrence used for conditioning the PD.

Exposure at Default (EAD) is calculated on the basis of the amortized cost schedules of the individual relationships for both loans and debt securities. For exposures relating to margins, EAD is determined by applying a specific Credit Conversion Factor (CCF) to the nominal value of the position.

For the purposes of calculating ECL under IFRS 9, the risk parameters are estimated from a forward-looking perspective through conditioning to macroeconomic scenarios. The approach adopted consists in the use of implicit multipliers to be applied to the parameters, in particular the PD, estimated on the basis of the scenarios and forecast values for the exogenous macroeconomic variables provided by our external provider. In order to reflect the different forward-looking riskiness of the positions assessed in the ECL estimates, these multipliers are differentiated by type of counterparty, sector of economic activity and geographical area. To determine the macroeconomic conditioning measures to be applied in the calculation, two types of scenarios are used, the first relating to an ordinary economic situation (or "baseline"), the other to an adverse situation ("worst plausible scenario "), which is associated, using judgment, with the corresponding probability of occurrence, also taking account of the greater alignment of the baseline scenario with typical market conditions.

On January 1, 2021, Iccrea Banca launched the effective operation of the corporate lending business unit sold by Iccrea BancaImpresa. For this portion of the portfolio, we apply the criteria for staging and calculating the PD, LGD and EAD risk parameters defined for the customer segments already present in the original portfolio.

The IFRS 9 framework was updated to ensure regulatory compliance with new provisions such as the New Definition of Default (New DoD), adopted by the Group starting from January 1, 2021 and first applied for the purposes of calculating credit adjustments starting from the closing of the accounts at March 31, 2021.

Note that the New DoD was intended by the authorities (ECB, EBA, EU Commission) to strengthen the comparability of risk metrics (internal parameters, RWA, NPE ratio) between different institutions, seeking to achieve greater uniformity and comparability in the logic underlying the classification of impaired loans, reduce compliance costs for transnational institutions and minimize the variability of RWAs among banks with similar risk profiles. Given the foregoing, the interventions to ensure compliance with the New DoD performed by the Group included the updating and recalibration of the models for measuring credit risk (PD, LGD) so as to incorporate the impacts of the new rules for past due classification and the effect of the mandatory propagation of default status at the Group level for common customers. In particular, the probability of default has been adapted to the new regulatory framework in order to take account of the impact on the probability of occurrence of the default event connected with changes in the process of determining default itself. The LGD parameters were recalibrated to take account of the impacts of the New DoD both in terms of new default flows generated by the adoption of the new definition and the consequent new composition of the impaired portfolio.

Finally, consistent with the Group's performing portfolios, in 2021 Iccrea Banca fully implemented the management of the impact of the Asset Quality Review (AQR). The broader range of measures implemented included the application of the more prudent measures incorporated in the IFRS 9 ECL framework for performing portfolios, both in the determination of risk measures conditional on macroeconomic scenarios and in the stage allocation of performing exposures.

MODIFICATIONS DUE TO COVID-19

As part of the comprehensive set of initiatives launched by the Group for the purposes of managing the COVID-19 emergency on a structural basis, the work connected with the review of the credit risk forecasting metrics was of particular importance, factoring the new analytical determinants associated with this new context into the ordinary measurement processes, and in particular within the IFRS 9 impairment framework for the purposes of estimating expected losses on performing loans (expected credit losses, ECL).[61]

The sharp discontinuity in market conditions generated by the effects of COVID-19 has required the implementation of a series of extraordinary methodological and implementation measures to incorporate the potential impacts of the pandemic into the impairment model. The introduction of measures to support the economy and customers, with particular reference to the initiatives undertaken by the Group under the provisions of the relevant decree laws, the measures agreed with industry associations and the private initiatives implemented by individual entities prompted the maintenance of methodological changes in the IFRS 9 impairment framework already adopted in 2020, in order to reflect its impact in the calculation of expected credit losses. [62]

Assessing the significant increase in credit risk (SICR)

The measures implemented in response to the pandemic, with specific regard to assessing the significant increase in credit risk, concerned the inclusion of the loan repayment moratoriums for households and micro, small and medium-sized enterprises contained in Decree Law 18/2020 (the "Cure Italy Decree"), as ratified with Law 27/2020. The management of the impact of these support measures included the adaptation of automatic staging mechanisms in order to ensure that the stage allocation criteria were consistent with the methods and purposes of the support measures, while still using an appropriate degree of prudence in assessing such positions.

2.4 CREDIT RISK MITIGATION TECHNIQUES

As required by Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms (CRR), the Group is strongly committed to compliance with all the requirements for the appropriate application of credit risk mitigation (CRM) techniques in accordance with the standardized approach for the calculation of capital requirements both for internal management and regulatory purposes.

Specific guidelines issued by the Parent Company are currently in force for the Group. They define common rules and principles for the direction, governance and standardized management of risk mitigation techniques, best practices and regulatory requirements in this field.

Specifically, under the current credit policy, the CRM techniques recognized for all capital requirement calculation methods are divided into two general categories:

- funded credit protection, consisting of:
  - collateral, represented by cash deposits, financial instruments that meet certain requirements, and gold. These guarantees can be provided through pledge agreements, transfer of ownership with a guarantee function, repurchase agreements or securities lending arrangements. The Group has implemented systems to a) verify the acceptability of these guarantees and value the assets at the time of acceptance and, where applicable, determine the haircuts to be applied to the collateral; and b) ensure the continuing compliance of the guarantees with eligibility requirements through continuous monitoring, governed and supported appropriately by internal procedures;
  - master netting agreements that involve repurchase agreements, securities lending arrangements, loans with margins as well as OTC derivatives;
  - on-balance-sheet netting;
  - real estate mortgages and property lease transactions involving properties that have the characteristics required by law;
- unfunded credit protection, consisting of: (i) unsecured guarantees; (ii) credit derivatives.

Unsecured guarantees eligible for CRM purposes consist of all forms of credit protection provided by the entities (providers) specified in Article 201 of the CRR (central governments, central banks, international organizations, public sector entities, regional governments and local authorities, multilateral development banks, supervised intermediaries). Accordingly, guarantees issued by natural persons or legal entities not included in the list indicated in the legislation do not fall within the risk mitigation techniques for calculating capital requirements, but are not excluded from the Group's catalog of guarantees, which comprises not only the guarantees eligible for CRM purposes, but also guarantees not eligible for CRM purposes, as mentioned above.

Credit risk mitigation techniques may include guarantees provided by collective loan guarantee consortia in accordance with applicable 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.

[61] Starting with the closure of the 2020 half-year financial statements, the Stage 3 impairment add-on was applied so that the reduction in recoveries in the new market conditions engendered by the COVID-19 crisis would be reflected within the analytical process envisaged by the credit assessment policy.

[62] Including the revision of the probation period for exposures involved in moratoriums previously assigned to *Stage* 2.

The general requirements, which are intended to ensure legal certainty and the effectiveness of the guarantees, mainly concern:

- the binding nature of the legal commitment between the parties and its enforceability in court;
- the technique used to provide the credit protection together with the actions and steps taken and procedures and policies implemented by the lending institution shall be such as to result in credit protection arrangements which are legally effective and enforceable in all relevant jurisdictions. The lending institution shall provide, upon request of the competent authority, the most recent version of the independent, written and reasoned legal opinion or opinions that it used to establish whether its credit protection arrangement or arrangements meet the condition laid down in the first subparagraph" (see Article 194 of the CRR);
- the lending institution shall take all appropriate steps to ensure the effectiveness of the credit protection arrangement and to address the risks related to that arrangement;
- the timeliness with which the guarantee may be liquidated in the event of default;
- the formalization of techniques and operating procedures adequate to ensure continuing compliance over time with the general and specific requirements required for CRM techniques. These procedures must be valid and applied by all Group companies in order to avoid possible inconsistencies in the assessment. Checks shall be carried out in relation to the current legal value of the documentation submitted, the impact of any changes in the regulatory framework and the consequent initiatives to be taken. Risks related to the ineffectiveness, reduction or termination of the protection ("residual risks") as well as valuation and potential concentration risks in respect of specific counterparties shall also be controlled and managed.

Specific requirements are established for the individual CRM techniques in relation to their features and are intended to ensure a high level of effectiveness of the credit protection.

3. IMPAIRED CREDIT EXPOSURES

3.1 MANAGEMENT STRATEGIES AND POLICIES

According to the EBA definition, non-performing exposures satisfy either or both of the following criteria:

- material exposures which are more than 90 days past-due;
- the debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Impaired exposures are classified by increasing degree of severity in the following three categories:

- impaired past due and or overlimit exposures: exposures continuously past due or overlimit by more than 90 days in an amount exceeding the materiality thresholds (a relative materiality threshold equal to 1% of the entire exposure and an absolute materiality threshold of €100 or €500 for retail or corporate counterparties respectively;
- unlikely to pay (UTP) exposures: on- and off-balance sheet exposures for which the institution considers that the obligor is unlikely, without recourse to actions such as realizing security, to pay its credit obligations (principal and/or interest);
- default: on- and off-balance sheet exposures to an obligor in a state of insolvency (even if not declared by a court) or a substantially comparable situation, regardless of any expected loss.

The regulations also require that individual exposures, regardless of the classification of the counterparty, be identified as forborne exposures when they have been granted forbearance measures that meet the regulatory definition of such measures.

Such forborne exposures are in turned distinguished into:

- performing forborne, if the counterparty is classified as performing at the time the forbearance measures are granted and such measures do not require that the counterparty be classified differently;
- non-performing forborne, if the counterparty is already classified in one of the categories of non-performing at the time the forbearance measures are granted and such measures require that the counterparty be classified as non-performing.

Any other types of customer segmentation adopted by the affiliated banks and companies within the direct scope of consolidation for internal management purposes only (for example "watch list exposures") in order to assess of specific situations, whether performed using automated system or manually, are mapped to the above categories, ensuring that the mapping method is immediately understandable and transparent.

In identifying forborne exposures, the regulations require a transaction-by-transaction approach, regardless of their classification (impaired past due and/or overlimit exposures, unlikely to pay exposures or defaults): although the state of financial difficulty must be ascertained at level of the debtor, only the exposures referred to the latter that have actually been granted forbearance measures must be classified as forborne.

These classification rules are further supplemented by that established in IFRS 9, according to which credit exposures must be allocated to three stages (for more details, see the previous discussion). Among impaired exposures, allocation to stage "3" is underscored, which occurs when the customer's status changes to "non-performing".

In organizational terms, the Group has governance and operational structures to enable the efficient and sustainable management of impaired loans. Specifically, the individual Group companies will implement their policies for the management and recovery of anomalous positions and NPLs by drafting of internal rules customized to reflect the characteristics of the territory in which they operate, the scale of operations, their business model and related organizational structure, always in compliance with the provisions of Group policy.

For the purposes of identifying non-performing exposures, the Group:

- applies a unified and harmonized definition of NPLs in all Group companies, consistent with the applicable regulatory provisions;
- considers legal and financial connections between counterparties and adopts a group perspective in identifying the exposure of a debtor as impaired (default propagation).

The Parent Company defines the strategy for managing non-performing exposures, which is approved and monitored by its Board of Directors. Specifically, the Parent Company defines the objectives in terms of reducing expected NPE levels at Group level and establishes, with the support of the Group companies, the objectives for the individual companies and the related management strategies to ensure a common commitment and a consistent approach to achieving the objectives. The implementation of the strategy is supported by the Parent Company through the delivery of specialized support services, the provision of tools to facilitate the uniform management of impaired positions and a Group operational plan, which is also approved by the Parent Company's Board of Directors.

Furthermore, in order to enhance the commitment of the resources dedicated to the management of non-performing exposures in order to achieve the defined objectives, all Group companies have developed a system for measuring the performance of senior management and the organizational structures dedicated to management of non-performing exposures, which promotes, based on specific indicators, the commitment to managing such exposures.

In accordance with the principle of proportionality, the individual Group companies define their own performance evaluation and monitoring systems in line with Group policy. Specifically, it is considered necessary for Group companies to adopt performance indicators that take account of a set of quantitative and qualitative factors, including for example:

- developments in the stock of gross and net non-performing exposures, in line with the Group's Strategic Plan;
- methods for applying forbearance measures;
- the total amount recovered on the loan portfolio with a focus on collections, liquidations and asset sales;
- the aging of positions by recovery management phases;
- the regular performance of agreed restructuring plans;
- the application of writeoffs;
- the reduction of arrears and the improvement of portfolio quality.

In recent years, as the adverse macroeconomic environment has persisted, a complete review has been conducted of the entire process of managing impaired loans, with a complete revision of the organizational and operational model guided in part by the instructions and guidelines issued by the supervisory authorities (most recently, "Final Report - Guidelines on management of non-performing and forborne exposures" of October 31, 2018) setting out the near-term expectations of banking supervisors for management strategies, governance arrangements and operating model for the optimization and reduction of bank's non-performing assets, with a view to monitoring, provisioning and evaluating the underlying collateral.

Continuing the activities started in 2017, the Group has pursued the projects envisaged in the NPE Operational Plan in order to achieve the objectives set in the NPE Strategic Plan.

In this context and in consideration of the creation of the CLO (Chief Lending Officer) Area at the Parent Company in 2018 and the acquisition of the lending operations of Iccrea BancaImpresa as of January 1, 2021, the Bank has reorganized the operating workout units handling NPEs under the Impaired Loan unit, reporting directly to the CLO, whose objectives include overseeing the appropriate management of unresolved impaired credit positions in the portfolios of Iccrea Banca, Banca MediocreditoFVG, Banca Sviluppo and the companies of the direct scope, for which a specific service contract is in place, as well as providing operational supervision of unresolved impaired credit positions managed by the affiliated banks in the cases provided for by the Group's policies in this area.

Unit reporting to the Impaired Loan unit are:

- the Loan Recovery unit for the management of impaired positions in the pre-litigation stage, which handles the activities of non-performing loan managers (dedicated and specialized personnel distributed on a territorial basis) and non-performing loan back office activities are conducted;
- the Industrial Loan Restructuring unit for the restructuring of impaired and/or anomalous positions with "industrial" borrowers and for the monitoring of loan positions;
- the Real Estate Loan Restructuring unit for the restructuring of impaired and/or anomalous positions with "real estate" borrowers and the monitoring of loan positions.

Other organizational phases of the recovery process include:

- initial default (so-called phone collection), a phase managed internally and conducted in a coordinated manner by the various business areas for the activities within their sphere of competence in order to ensure timely evaluation of the customer situation and effectively take the appropriate actions;
- positions in a state of impairment/default such as to trigger activation of the acceleration clause of loan agreements, preparatory to the subsequent transfer to the Group company BCC GECRE to handle dispute procedures (both in and out of court).

The loan recovery process makes use of an information platform (GeCre 2.5) to manage roles, scheduling and recovery actions in a flexible and structured manner. The platform can be used to quickly implement changes in roles and recovery actions, enabling the Bank to entrust the management of impaired positions by internal or external agents on the basis of effectiveness and efficiency.

3.2 WRITEOFFs

Writeoff means the derecognition from the bank's financial statements of a loan, or part of a loan, and the consequent recognition of a loss ascertainment that the exposure cannot be collected or it is uneconomic to continue any associated recovery activities under way. It may occur before the legal action to recover the financial assets are completed and does not necessarily entail waiver of the Bank's right to the asset. A writeoff may be total, and therefore regard the entire amount of a financial, or partial (in all those cases in which the claim recognized is smaller than the carrying amount, for example in insolvency proceedings). The amount of the writeoff must always take account of any expenses, including legal costs, accrued and not yet invoiced at the time of analysis.

A writeoff involves:

- the reversal of total writedowns against the gross value of the financial asset;
- for any part exceeding total writedowns, the impairment loss on the financial asset is recognized directly in profit or loss.

Any recoveries from collection after the recognition of the writeoff are recognized in profit or loss as writebacks.

In 2018, in line with bank supervisor expectations, the Bank issued specific writeoff policies, distinguishing between:

- writeoffs for non-recoverability;
- writeoffs for uneconomic positions;
- other categories of.

Writeoffs recognized for unrecoverability refer to cases in which the Bank is in possession of documentation certifying the significant probability that the loan may not be recovered, in whole or in part. Specifically, the irrecoverable status of the loan must be attested to by certain and specific circumstances, such as for example:

- the obligor, co-obligors and/or connected guarantors are untraceable or destitute;
- there has been no recovery from enforcement of guarantees or collateral and seizures;
- the period of limitations has passed;
- insolvency proceedings have been closed with incomplete restitution for the bank, in the absence of further guarantees that could be enforced;
- it is impossible to take further action in consideration of the overall financial position and income situation of the obligors and co-obligors (guarantors included);
- all legal or out-of-court actions have, following a careful examination of updated documentation (by way of partial example, commercial information, title searches, searches, etc.), already been carried out or are deemed inappropriate.

Writeoffs recognized because further action would be uneconomic occur when it is recognized, and can be demonstrated, that the costs related to the continuation of loan recovery actions (for example: legal, administrative and other costs) would exceed the value of the financial asset that is expected to be recovered.

3.3 FINANCIAL ASSETS PURCHASED OR ORIGINATED CREDIT-IMPAIRED

Financial assets purchase or originated credit impaired ("POCI") are credit exposures that are impaired upon initial recognition.

Such exposures may arise both from the purchase of impaired credit exposures from third parties or from the restructuring of impaired exposures that involved the grant of new financing that is significant in absolute or relative terms in proportion to the amount of the original exposure.

These exposures are managed, measured and monitored in accordance with the principles discussed in previous sections. In particular, the expected credit losses recorded at initial recognition in the carrying amount of the instrument are reviewed periodically based on the processes described in the preceding sections.

The expected loss for these exposures is always calculated over their lifetime and the exposures are conventionally reported under stage 3, or stage 2 if, following an improvement in the credit quality of the counterparty since initial recognition, the assets are performing.

Such assets are never classified under stage 1 since the expected credit loss must be calculated on a lifetime basis.

4 FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONS AND EXPOSURES GRANTED FORBEARANCE MEASURES

The category concerns exposures involved in renegotiations and/or refinancing arrangements - so-called forbearance measures – granted to performing or non-performing exposures. The category includes, in a broad sense, all new measures and amendments to the original contractual provisions aimed at avoiding default on the part of borrowers in financial difficulty.

It therefore includes both credit exposures involved in management restructurings (not only statutory arrangements) and normal renegotiations of borrower payments.

A borrower can be classified as being in a state of financial difficulty when the borrower is objectively in one or more of the following states:

- the borrower is classified as "non-performing";
- at least one of the outstanding positions with the borrower is more than 30 days past due in the three months prior to the start of the forbearance procedure;
- a borrower report of financial difficulty.

Other elements indicating a borrower's financial difficulty, which the loan officer must evaluate in order to classify any intervention as "forbearance", can be:

- an increase in the probability of default (PD) of the rating class over a given period of time from the opening of the forbearance procedure;
- the presence of a borrower in the worst rating classes;
- the presence of an exposure on the watch-list during the three months prior to the opening of the forbearance procedure.

If these characteristics are not present, the loan officer or approval body may still classify the intervention as "forbearance" if they find evidence of a situation of "financial difficulty".

As indicated by the ECB in "Guidance to banks on non-performing loans", the following is a list of features for categorizing forbearance measures as viable:

- a solution including short-term forbearance measures should only be considered viable where:
  - the bank can demonstrate (based on reasonable documented financial information) that the borrower can realistically afford the forbearance solution;
  - short-term measures are truly applied temporarily and the institution has satisfied itself and is able to attest, based on reasonable financial information, that the borrower demonstrates the ability to repay the original or agreed modified amount on a full principal and interest basis commencing from the end of the short-term temporary arrangement expiry date;
  - the solution does not result in multiple consecutive forbearance measures having been granted to the same exposure (even if separate loan agreements are involved because the loan was refinanced during a previous forbearance procedure).

- a solution including long -term forbearance measures should only be considered viable where:
  - the bank can demonstrate (based on reasonable documented financial information) that the borrower can realistically afford the forbearance solution;
  - the resolution of outstanding arrears is fully addressed and a significant reduction in the borrower's balance in the medium to long term is expected;
  - in cases where there have been previous forbearance solutions granted in respect of an exposure, including any previous long-term forbearance measures, the bank should ensure that additional internal controls are implemented to ensure this subsequent forbearance treatment meets the viability criteria. These controls should include, at a minimum, explicit approval of the relevant senior decision-making body within the bank.

Any viability assessment should be based on the financial characteristics of the borrower and the forbearance measures to be granted at that time.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 IMPAIRED AND PERFORMING CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR

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

	Bad loans	Unlikely to be repaid	Impaired past due exposures	Performing past due positions	Other performing positions	Total
1. Financial assets measured at amortized cost	22,024	38,302	2,451	35,497	48,873,451	48,971,725
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	372,967	372,967
3. Financial assets designated as at fair value	-	-	-	-	295,250	295,250
4. Other financial assets mandatorily measured at fair value	-	-	-	-	54,456	54,456
5. Financial assets held for sale	-	-	2	-	644	645
Total 31/12/2021	**22,024**	**38,302**	**2,452**	**35,497**	**49,596,768**	**49,695,043**
Total 31/12/2020	**4,496**	**1,136**	**65**	**176**	**48,135,407**	**48,141,280**

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

	Impaired				Unimpaired			
	Gross exposure	Total writedowns	Net exposure	Total partial writeoffs *	Gross exposure	Total writedowns	Net exposure	Total (net exposure)
1. Financial assets measured at amortized cost	269,962	207,185	62,777	24,681	48,998,645	89,697	48,908,949	48,971,725
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	373,517	550	372,967	372,967
3. Financial assets designated as at fair value	-	-	-	-	X	X	295,250	295,250
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	54,456	54,456
5. Financial assets held for sale	2	-	2	-	647	3	644	645
Total 31/12/2021	**269,963**	**207,185**	**62,779**	**24,681**	**49,372,810**	**90,250**	**49,632,265**	**49,695,043**
Total 31/12/2020	**30,140**	**24,444**	**5,696**	**373**	**47,754,357**	**16,373**	**48,135,584**	**48,141,280**

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	460,722
2. Hedging derivatives	-	-	37,112
Total 31/12/2021	**-**	**-**	**497,835**
Total 31/12/2020	**-**	**-**	**581,132**

**Values to be reported for information purposes*

A.1.3 DISTRIBUTION OF FINANCIAL ASSETS BY TIME PAST DUE (CARRYING AMOUNT)

	Stage 1			Stage 2			Stage 3			Purchased or originated credit impaired		
	Up to 30 days	From 30 to 90 days	More than 90 days	Up to 30 days	From 30 to 90 days	More than 90 days	Up to 30 days	From 30 to 90 days	More than 90 days	Up to 30 days	From 30 to 90 days	More than 90 days
1. Financial assets measured at amortized cost	6,609	63	-	19,151	4,156	5,518	1,244	1,086	35,704	-	-	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total 31/12/2021	**6,609**	**63**	**-**	**19,151**	**4,156**	**5,518**	**1,244**	**1,086**	**35,704**	**-**	**-**	**-**
Total 31/12/2020	**61**	**-**	**-**	**-**	**115**	**-**	**-**	**33**	**4,801**	**-**	**-**	**-**

A.1.4 FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND GUARANTEES ISSUED: DEVELOPMENTS IN TOTAL WRITEDOWNS AND TOTAL PROVISIONS

	Total writedowns																	
	Stage 1						Stage 2						Stage 3					
	Demand claims on banks and central banks	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual writedowns	of which: collective writedowns	Demand claims on banks and central banks	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual writedowns	of which: collective writedowns	Demand claims on banks and central banks	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual writedowns	of which: collective writedowns
Opening balance	**744**	**7,007**	**102**	**3**	**-**	**7,857**	**1,218**	**6,400**	**898**	**-**	**-**	**8,516**	**-**	**24,444**	**-**	**-**	**24,444**	**-**
Increases in financial assets purchased or originated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derecognition other than write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	(47,769)	-	-	(47,769)	-
Net writedowns/writebacks for credit risk	(744)	4,476	64	-	-	3,796	(1,213)	28,599	(514)	-	-	26,872	-	29,570	-	-	29,570	-
Contractual modifications without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Writeoffs not recognized directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	(17,195)	-	-	(17,195)	-
Other changes	635	11,682	-	-	-	12,318	171	31,533	-	-	-	31,705	-	218,134	-	-	218,134	-
Closing balance	636	23,165	166	3	-	23,971	177	66,532	384	-	-	67,092	-	207,185	-	-	207,185	-
Recoveries from collection on written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Writeoffs recognized directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	Total writedowns					Total provisions for commitments to disburse funds and financial guarantees issued				Total
	of which: purchased and originated credit-impaired									
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual writedowns	of which: collective writedowns	Stage 1	Stage 2	Stage 3	Commitments to disburse funds and financial guarantees purchased or originated credit impaired	
Opening balance	**-**	**-**	**-**	**-**	**-**	**52**	**18**	**-**	**-**	**40,887**
Increases in financial assets purchased or originated	X	X	X	X	X	-	-	-	-	**-**
Derecognition other than write-offs	-	-	-	-	-	-	-	-	-	(47,769)
Net writedowns/writebacks for credit risk	-	-	-	-	-	7,769	14,561	9,571	-	92,140
Contractual modifications without derecognition	-	-	-	-	-	-	-	-	-	-
Change in estimation method	-	-	-	-	-	-	-	-	-	-
Writeoffs not recognized directly through profit or loss	-	-	-	-	-	-	-	-	-	(17,195)
Other changes	-	-	-	-	-	-	-	-	-	262,156
Closing balance	**-**	**-**	**-**	**-**	**-**	**7,821**	**14,579**	**9,571**	**-**	**330,220**
Recoveries from collection on written-off financial assets	-	-	-	-	-	-	-	-	-	(17,264)
Writeoffs recognized directly through profit or loss	-	-	-	-	-	-	-	-	-	**-**

A.1.5 FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED: TRANSFERS BETWEEN CREDIT RISK STAGES (GROSS AND NOMINAL VALUES)

	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortized cost	758,940	35,515	4,917	19,687	1,499	372
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued		-	-	-	-	-
Total 31/12/2021	**758,940**	**35,515**	**4,917**	**19,687**	**1,499**	**372**
Total 31/12/2020	**101,327**	**-**	**187**	**-**	**66**	**-**

A.1.5A LOANS INVOLVED IN COVID-19 SUPPORT MEASURES: TRANSFERS BETWEEN CREDIT RISK STAGES (GROSS VALUES)

The table has not been completed because there were no such positions at the reporting date.

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						
		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Net exposure	Total partial writeoffs*
A. On-balance-sheet exposures												
A.1 Demand	1,050,781	1,031,111	19,670	-	-	813	636	177	-	-	1,049,968	-
a) Impaired	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	1,050,781	1,031,111	19,670	X	-	813	636	177	X	-	1,049,968	-
A.2 Other	32,308,603	31,838,825	371,419	-	-	4,474	922	3,553	-	-	32,304,129	-
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	32,308,603	31,838,825	371,419	X	-	4,474	922	3,553	X	-	32,304,129	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
Total (A)	**33,359,384**	**32,869,936**	**391,088**	**-**	**-**	**5,287**	**1,558**	**3,730**	**-**	**-**	**33,354,097**	**-**
B. Off-balance-sheet exposures						-	-	-	-	-		
a) Impaired	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	7,884,329	7,403,453	24,333	X	-	222	6	216	X	-	7,884,107	-
Total (B)	**7,884,329**	**7,403,453**	**24,333**	**-**	**-**	**222**	**6**	**216**	**-**	**-**	**7,884,107**	**-**
Total (A+B)	**41,243,712**	**40,273,389**	**415,421**	**-**	**-**	**5,509**	**1,564**	**3,945**	**-**	**-**	**41,238,203**	**-**

**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	110,613	X	-	110,613	-	88,589	X	-	88,589	-	22,024	24,681
- of which: forborne exposures	39,340	X	-	39,340	-	26,878	X	-	26,878	-	12,463	-
b) Unlikely to be repaid	155,265	X	-	155,265	-	116,963	X	-	116,963	-	38,302	-
- of which: forborne exposures	110,212	X	-	110,212	-	83,876	X	-	83,876	-	26,336	-
c) Impaired past due exposures	4,086	X	-	4,086	-	1,633	X	-	1,633	-	2,452	-
- of which: forborne exposures	516	X	-	516	-	106	X	-	106	-	410	-
d) Unimpaired past due exposures	40,099	6,836	33,263	X	-	4,602	164	4,438	X	-	35,497	-
- of which: forborne exposures	9,888	-	9,888	X	-	195	-	195	X	-	9,693	-
e) Other unimpaired assets	17,443,413	16,299,940	822,528	X	-	81,175	22,249	58,925	X	-	17,362,238	-
- of which: forborne exposures	79,518	229	79,289	X	-	7,077	1	7,075	X	-	72,441	-
Total (A)	**17,753,475**	**16,306,776**	**855,790**	**269,963**	**-**	**292,961**	**22,413**	**63,363**	**207,185**	**-**	**17,460,514**	**24,681**
B. Off-balance-sheet exposures												
a) Impaired	12,922	X	-	12,922	-	9,571	X	-	9,571	-	3,351	-
b) Unimpaired	2,091,680	1,496,223	154,141	X	-	22,178	7,815	14,363	X	-	2,069,502	-
Total (B)	**2,104,602**	**1,496,223**	**154,141**	**12,922**	**-**	**31,750**	**7,815**	**14,363**	**9,571**	**-**	**2,072,852**	**-**
Total (A+B)	**19,858,077**	**17,802,998**	**1,009,932**	**282,886**	**-**	**324,711**	**30,228**	**77,726**	**216,756**	**-**	**19,533,366**	**24,681**

**Values to be reported for information purposes*

A.1.7A LOANS INVOLVED IN COVID-19 SUPPORT MEASURES: 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. Bad loans	**621**	**-**	**-**	**621**	**-**	**490**	**-**	**-**	**490**	**-**	**131**	**-**
a) Loans subject to forbearance measures compliant with guidelines	348	-	-	348	-	244	-	-	244	-	104	-
b Loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
c) Loans subject to other forbearance measures	272	-	-	272	-	246	-	-	246	-	27	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
B. Unlikely to pay	**30,340**	**-**	**-**	**30,340**	**-**	**19,165**	**-**	**-**	**19,165**	**-**	**11,175**	**-**
a) Loans subject to forbearance measures compliant with guidelines	11,501	-	-	11,501	-	4,579	-	-	4,579	-	6,922	-
b) Loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
b) Loans subject to other forbearance measures	16,446	-	-	16,446	-	14,286	-	-	14,286	-	2,161	-
c) New loans	2,393	-	-	2,393	-	300	-	-	300	-	2,092	-
C. Impaired past-due	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Loans subject to forbearance measures compliant with guidelines	-	-	-	-	-	-	-	-	-	-	-	-
b) Loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
c) Loans subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
D. Performing past-due	**1,233**	**-**	**1,233**	**-**	**-**	**38**	**-**	**38**	**-**	**-**	**1,195**	**-**
a) Loans subject to forbearance measures compliant with guidelines	-	-	-	-	-	-	-	-	-	-	-	-
b) Loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
c) Loans subject to other forbearance measures	1,233	-	1,233	-	-	38	-	38	-	-	1,195	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
E. Other performing	**603,994**	**383,879**	**220,115**	**-**	**-**	**16,066**	**2,125**	**13,941**	**-**	**-**	**587,928**	**-**
a) Loans subject to forbearance measures compliant with guidelines	294,372	106,646	187,726	-	-	12,025	1,021	11,004	-	-	282,348	-
b) Loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
c) Loans subject to other forbearance measures	20,038	-	20,038	-	-	1,420	-	1,420	-	-	18,618	-
d) New loans	289,584	277,233	12,351	-	-	2,621	1,104	1,517	-	-	286,963	-
Total (A+B+C+D+E)	**636,189**	**383,879**	**221,348**	**30,961**	**-**	**35,759**	**2,125**	**13,979**	**19,655**	**-**	**600,429**	**-**

* Values to be reported for information purposes

A.1.8 BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS IMPAIRED POSITIONS

The table has not been completed because there were no such positions at the reporting date.

A.1.8 BIS ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS FORBORNE EXPOSURES BY CREDIT QUALITY

The table has not been completed because there were no such positions at the reporting date.

A.1.9 ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS IMPAIRED POSITIONS

	Bad loans	Unlikely to pay	Impaired past-due
A. Opening gross exposure	**28,561**	**1,514**	**66**
- of which: exposures assigned but not derecognized	-	-	-
B. Increases	**156,837**	**376,028**	**6,166**
B.1 from performing exposures	2,243	64,361	2,691
B.2 from purchased or originated impaired financial assets	-	-	-
B.3 from other categories of impaired exposures	23,809	66	-
B.4 contractual modifications without derecognition	-	-	-
B.5 other increases	130,785	311,601	3,476
C. Decreases	**74,785**	**222,277**	**2,146**
C.1 to performing exposures	-	22,085	-
C.2 writeoffs	6,763	10,427	-
C.3 collections	29,504	130,917	2,081
C.4 realized on disposals	9,598	11,451	-
C.5 losses on disposals	-	-	-
C.6 to other categories of impaired exposures	-	23,809	66
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	28,920	23,587	-
D. Closing gross exposure	**110,613**	**155,265**	**4,086**
- of which: exposures assigned but not derecognized	-	-	-

A.1.9BIS ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS FORBORNE EXPOSURES BY CREDIT QUALITY

	Impaired forborne exposures	Unimpaired forborne exposures
A. Opening gross exposure	**1,128**	**371**
- of which: exposures assigned but not derecognized	-	-
B. Increases	**290,666**	**114,487**
B.1 from performing exposures	50,186	65,443
B.2 from purchased or originated impaired financial assets	-	X
B.3 from other categories of impaired exposures	X	17,012
B.4 contractual modifications without derecognition	-	-
B.5 other increases	240,480	32,033
C. Decreases	**141,726**	**25,452**
C.1 to performing exposures	X	573
C.2 writeoffs	17,012	X
C.3 collections	X	-
C.4 realized on disposals	7,509	3
C.5 losses on disposals	94,582	24,877
C.6 to other categories of impaired exposures	7,569	-
C.7 contractual modifications without derecognition	-	-
C.8 other decreases	15,055	-
D. Closing gross exposure	**150,067**	**89,406**
- of which: exposures assigned but not derecognized	-	-

A.1.10 ON-BALANCE-SHEET IMPAIRED CREDIT EXPOSURES TO BANKS: CHANGE IN TOTAL ADJUSTMENTS

The table has not been completed because there were no such positions at the reporting date.

A.1.11 ON-BALANCE-SHEET IMPAIRED CREDIT EXPOSURES TO CUSTOMERS: CHANGE IN TOTAL ADJUSTMENTS

	Bad loans		Unlikely to be repaid		Impaired past due exposures	
	Total	which: forborne exposures	Total	which: forborne exposures	Total	which: forborne exposures
A. Total opening adjustments	**24,066**	**-**	**377**	**341**	**1**	**1**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-
B. Increases	**116,587**	**30,451**	**226,962**	**151,930**	**1,741**	**106**
B.1 writedowns of purchased or originated credit-impaired assets	-	X	-	X	-	X
B.2 other writedowns	14,840	5,208	91,378	64,162	1,633	106
B.3 losses on disposal	-	-	-	-	-	-
B.4 from other categories of impaired positions	12,525	4,125	1	1	-	-
B.5 contractual modifications without derecognition	-	-	-	-	-	-
B.6 other increases	89,222	21,118	135,583	87,768	107	-
C. Decreases	**52,064**	**3,573**	**110,377**	**68,396**	**108**	**1**
C.1 writebacks from valuations	7,767	1,151	3,398	1,445	-	-
C.2 writebacks from collections	11,239	-	57,906	40,225	107	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 writeoffs	6,763	-	10,427	7,509	-	-
C.5 to other categories of impaired positions	-	-	12,525	4,125	1	1
C.6 contractual modifications without derecognition	-	-	-	-	-	-
C.7 other decreases	26,295	2,423	26,120	15,093	-	-
D. Total closing adjustments	**88,589**	**26,878**	**116,963**	**83,876**	**1,633**	**106**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-

A.2 - CLASSIFICATION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BY EXTERNAL RATING GRADES

A.2.1 1 DISTRIBUTION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BY EXTERNAL RATING GRADES (GROSS VALUES)

	External rating grades						Not rated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortized cost	**79,884**	**134,702**	**12,040,426**	**62,291**	**22,874**	**172**	**36,928,258**	**49,268,607**
- Stage 1	41,102	23,612	11,685,854	16,641	12,369	172	36,008,113	47,787,863
- Stage 2	38,782	111,090	354,192	45,651	10,505	-	650,563	1,210,782
- Stage 3	-	-	379	-	-	-	269,582	269,962
- Purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
B. Financial assets measured at fair value through other comprehensive income	**10,181**	**16,840**	**331,946**	**14,551**	**-**	**-**	**-**	**373,517**
- Stage 1	8,092	15,764	331,142	2,093	-	-	-	357,091
- Stage 2	2,090	1,076	804	12,457	-	-	-	16,427
- Stage 3	-	-	-	-	-	-	-	-
- Purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**649**	**649**
- Stage 1	-	-	-	-	-	-	647	647
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	2	2
- Purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
Total (A+B+C)	**90,065**	**151,542**	**12,372,371**	**76,842**	**22,874**	**172**	**36,928,907**	**49,642,773**
D. Commitments to disburse funds and financial guarantees issued	**62,916**	**33,944**	**528,531**	**35,045**	**3,205**	**1,271**	**8,443,821**	**9,108,732**
- Stage 1	45,427	26,990	463,937	34,885	179	1,271	8,344,646	8,917,335
- Stage 2	17,488	6,953	64,594	160	3,027	-	86,253	178,475
- Stage 3	-	-	-	-	-	-	12,922	12,922
- Purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
Total (D)	**62,916**	**33,944**	**528,531**	**35,045**	**3,205**	**1,271**	**8,443,821**	**9,108,732**
Total (A+B+C+D)	**152,981**	**185,486**	**12,900,902**	**111,887**	**26,079**	**1,443**	**45,372,728**	**58,751,505**

The distribution of the exposures shown in the table shows the breakdown by rating grade of the debtors referred to in the prudential regulations of the Bank of Italy and are provided by the Fitch rating agency as the ECAI (External Credit Assessment Institution).

A.2.2 DISTRIBUTION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BY INTERNAL RATING GRADES (GROSS AMOUNTS)

The table has not been completed because as at the reporting date external ratings were used.

A.3 DISTRIBUTION OF SECURED CREDIT EXPOSURES BY TYPE OF GUARANTEE

A.3.1 ON- AND OFF-BALANCE SHEET SECURED CREDIT EXPOSURES TO BANKS

			Collateral (1)				Unsecured guarantees (2)									
							Credit derivatives					Guarantees				
								Other derivatives								
	Gross exposure	Net exposure	Properties - Mortgages	Properties - Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other	Government entities	Banks	Other financial companies	Other	Total (1)+2)
1. Secured on-balance-sheet credit exposures:	**18,992,802**	**18,992,308**	**811**	**-**	**18,658,695**	**328,365**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,822**	**18,991,693**
1.1 fully secured	18,992,802	18,992,308	811	-	18,658,695	328,365	-	-	-	-	-	-	-	-	3,822	18,991,693
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance-sheet credit exposures:	**4,606**	**4,601**	**-**	**-**	**1,268**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**288**	**3,045**	**4,601**
2.1 fully secured	1,561	1,556	-	-	1,268	-	-	-	-	-	-	-	-	288	-	1,556
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	3,045	3,045	-	-	-	-	-	-	-	-	-	-	-	-	3,045	3,045
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 ON- AND OFF-BALANCE SHEET SECURED CREDIT EXPOSURES TO CUSTOMERS

			Collateral (1)				Unsecured guarantees (2)									
							Credit derivatives					Guarantees				
								Other derivatives								
	Gross exposure	Net exposure	Properties - Mortgages	Properties - Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other	Government entities	Banks	Other financial companies	Other	Total (1)+(2)
1. Secured on-balance-sheet credit exposures:	**2,543,746**	**2,318,503**	**1,197,254**	**-**	**147,274**	**81,259**	**-**	**-**	**-**	**-**	**-**	**620,827**	**31,653**	**1,227**	**100,770**	**2,180,264**
1.1 fully secured	1,956,040	1,738,404	1,195,281	-	146,040	61,496	-	-	-	-	-	185,973	20,138	1,227	99,004	1,709,160
- of which: impaired	231,459	57,683	53,377	-	-	2,248	-	-	-	-	-	427	154	679	798	57,683
1.2 partially secured	587,706	580,099	1,973	-	1,233	19,763	-	-	-	-	-	434,854	11,515	-	1,766	471,105
- of which: impaired	5,157	2,830	667	-	-	-	-	-	-	-	-	2,162	-	-	-	2,830
2. Secured off-balance-sheet credit exposures:	**265,059**	**263,396**	**996**	**-**	**213,360**	**623**	**-**	**-**	**-**	**-**	**38**	**328**	**2,774**	**133**	**32,345**	**250,597**
2.1 fully secured	224,049	223,712	996	-	213,360	493	-	-	-	-	-	-	497	-	8,366	223,712
- of which: impaired	1,633	1,633	-	-	-	-	-	-	-	-	-	-	48	-	1,585	1,633
2.2 partially secured	41,010	39,684	-	-	-	130	-	-	-	-	38	328	2,277	133	23,979	26,885
- of which: impaired	256	167	-	-	-	-	-	-	-	-	-	-	-	-	167	167

A.4 FINANCIAL AND NON-FINANCIAL ASSETS OBTAINED THROUGH ENFORCEMENT OF GUARANTEES RECEIVED

The table has not been completed because there were no such positions at the reporting date.

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY SECTOR

	Government entities		Financial companies		Financial companies(of which: insurance undertakings)	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance sheet						
A.1 Bad loans	-	-	-	1,608	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.2 Unlikely to be repaid	-	-	1,853	4,233	-	-
- of which: forborne exposures	-	-	1,250	574	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.4 Unimpaired exposures	11,148,199	2,660	3,409,195	11,720	-	-
- of which: forborne exposures	-	-	8,205	114	-	-
Total (A)	**11,148,199**	**2,660**	**3,411,048**	**17,561**	**-**	**-**
B. Off-balance sheet						
B.1 Impaired exposures	-	-	1,585	-	-	-
B.2 Unimpaired exposures	12,210	35	784,268	58	-	-
Total (B)	**12,210**	**35**	**785,854**	**58**	**-**	**-**
Total (A+B) 31/12/2021	**11,160,409**	**2,696**	**4,196,901**	**17,619**	**-**	**-**
Total (A+B) 31/12/2020	**10,130,438**	**2,178**	**5,960,892**	**8,044**	**-**	**-**

	Non-financial companies		Households	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance sheet				
A.1 Bad loans	20,761	65,745	1,263	21,235
- of which: forborne exposures	11,979	25,025	484	1,853
A.2 Unlikely to be repaid	31,283	106,047	5,166	6,683
- of which: forborne exposures	23,803	80,915	1,283	2,387
A.3 Impaired past due exposures	1,843	1,496	610	137
- of which: forborne exposures	-	-	410	106
A.4 Unimpaired exposures	2,701,644	69,286	138,698	2,111
- of which: forborne exposures	71,798	7,042	2,131	116
Total (A)	**2,755,530**	**242,574**	**145,737**	**30,166**
B. Off-balance sheet				
B.1 Impaired exposures	1,480	9,571	286	-
B.2 Unimpaired exposures	832,264	21,729	23,353	356
Total (B)	**833,744**	**31,300**	**23,639**	**356**
Total (A+B) 31/12/2021	**3,589,274**	**273,874**	**169,376**	**30,522**
Total (A+B) 31/12/2020	**232,143**	**7,070**	**60,160**	**16,360**

B.2 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY GEOGRAPHICAL AREA

	Italy		Other European countries		Americas	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet						
A.1 Bad loans	22,024	86,981	-	-	-	1,608
A.2 Unlikely to be repaid	34,582	110,560	3,616	3,763	56	222
A.3 Impaired past due exposures	2,452	1,633	-	-	-	-
A.4 Unimpaired exposures	17,037,229	83,636	299,637	1,662	53,803	398
Total A	**17,096,287**	**282,810**	**303,253**	**5,425**	**53,858**	**2,228**
B. Off-balance-sheet						
B.1 Impaired exposures	3,351	9,571	-	-	-	-
B.2 Unimpaired exposures	1,540,634	18,961	88,594	2,785	6,849	128
Total (B)	**1,543,985**	**28,532**	**88,594**	**2,785**	**6,849**	**128**
Total (A+B) 31/12/2021	**18,640,272**	**311,343**	**391,846**	**8,210**	**60,708**	**2,356**
Total (A+B) 31/12/2020	**16,082,652**	**31,592**	**271,943**	**387**	**22,971**	**1,672**

	Asia		Rest of the world	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet				
A.1 Bad loans	-	-	-	-
A.2 Unlikely to be repaid	49	2,416	-	-
A.3 Impaired past due exposures	-	-	-	-
A.4 Unimpaired exposures	3,634	38	3,433	43
Total A	**3,683**	**2,455**	**3,433**	**43**
B. Off-balance-sheet				
B.1 Impaired exposures	-	-	-	-
B.2 Unimpaired exposures	5,504	-	10,514	304
Total (B)	**5,504**	**-**	**10,514**	**304**
Total (A+B) 31/12/2021	**9,187**	**2,455**	**13,947**	**346**
Total (A+B) 31/12/2020	**1,091**	**-**	**4,976**	**1**

B.3 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS BY GEOGRAPHICAL AREA

	Italy		Other European countries		Americas	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet						
A.1 Bad loans	-	-	-	-	-	-
A.2 Unlikely to be repaid	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-
A.4 Unimpaired exposures	32,877,242	2,927	442,510	2,068	14,431	271
Total (A)	**32,877,242**	**2,927**	**442,510**	**2,068**	**14,431**	**271**
B. Off-balance-sheet						
B.1 Impaired exposures	-	-	-	-	-	-
B.2 Unimpaired exposures	7,803,783	-	41,758	8	3,052	-
Total (B)	**7,803,783**	**-**	**41,758**	**8**	**3,052**	**-**
Total (A+B) 31/12/2021	**40,681,024**	**2,927**	**484,268**	**2,076**	**17,482**	**271**
Total (A+B) 31/12/2020	**39,190,721**	**6,050**	**470,739**	**1,051**	**17,304**	**119**

	Asia		Rest of the world	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet				
A.1 Bad loans	-	-	-	-
A.2 Unlikely to be repaid	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-
A.4 Unimpaired exposures	1,212	3	18,702	17
Total (A)	**1.212**	**3**	**18,702**	**17**
B. Off-balance-sheet				
B.1 Impaired exposures	-	-	-	-
B.2 Unimpaired exposures	1,745	3	4,115	211
Total (B)	**1.745**	**3**	**4,115**	**211**
Total (A+B) 31/12/2021	**2,957**	**6**	**22,817**	**229**
Total (A+B) 31/12/2020	**3,450**	**7**	**20,236**	**7**

B.4 LARGE EXPOSURES

a) Amount (carrying amount)	55,900,792
b) Amount (weighted value)	130,321
c) Number	8

C. SECURITIZATIONS

QUALITATIVE DISCLOSURES

The following discusses the main transactions in which Iccrea Banca participated as originator:

GACS III

On March 1, 2019, the Board of Directors of Iccrea Banca, as the Parent Company and Central Body, which together with the affiliated mutual banks, composes the reporting entity and, together with the subsidiaries, the "Iccrea Cooperative Banking Group", approved the implementation of a multioriginator securitization of a portfolio of non-performing loans, submitting to the Ministry for the Economy and Finance (MEF) an application for admission to the State Guarantee Scheme on the liabilities issued (so-called "GACS") pursuant to Decree Law 18 of February 14, 2016, ratified with Law 49 of April 8, 2016, implemented with the MEF Decree of August 3, 2016, the MEF Decree of November 21, 2017 and the MEF Decree of October 10, 2018.and subsequently amended by Law 41 of May 20, 2019 ratifying with amendment Decree Law 22 of March 25, 2019 (hereinafter the "Transaction"), in which Iccrea Banca acts as both the assignor and the promoter and joint arranger (together with JP Morgan Securities Limited) of the securitization.

The Transaction provided for Iccrea Banca, Banca Sviluppo and Iccrea BancaImpresa, as well as 65 mutual banks belonging to the Iccrea Cooperative Banking Group, to sell pursuant to Law 130 of April 30, 1999 the same number of portfolios of unsecured or mortgage loans, mainly secured by first mortgages, deriving from loans classified as defaulted at the assignment for a total credit claim of about €1.3 billion, to a special purpose securitization vehicle specifically formed for the Transaction denominated "BCC NPLs 2019 Srl", with the concomitant grant of a servicing engagement by the latter to a third-party servicer independent of the ICBG.

As part of the Transaction, on December 2, 2019 the SPV acquired the portfolio from the assignors, financed through the issue of asset-backed securities, pursuant to the combined provisions of Articles 1 and 5 of Law 130, in the total nominal value of about €421.2 million, divided into the classes indicated below:

- €355,000,000.00 of senior notes, maturing in January 2044, rated Baa2, BBB + and BBB respectively by Moody's Investor Services, Scope Rating AG and DBRS Ratings Limited;
- €53,000,000.00 of mezzanine notes, maturing in January 2044, rated B3, B- and CCC respectively by Moody's Investor Services, Scope Rating AG and DBRS Ratings Limited;
- €13,200,000.00 of junior notes, maturing in January 2044 and not rated.

Tranche	Amount issued (euros)	Rate
Senior Notes	355,000,000	Euribor 6m + 0.30%
Mezzanine Notes	53,000,000	Euribor 6m + 6.50%
Junior Notes	13,200,000	12% + Class J Notes Variable Return (any additional return)
Total	**421,200,000**	

The notes are not listed on a regulated market.

In order to meet the requirement to retain a net economic interest of 5% in the Transaction, as referred to in Article 6 of Regulation (EU) No. 2017/2402 of the European Parliament and of the Council of December 12, 2017, laying down a general framework for securitization and creating a specific framework for simple, transparent and standardized securitizations and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulation (EC) No. 648/2012, the banks subscribed and undertook to retain for the entire duration of the securitization at least 5% of the nominal value of each tranche of notes issued in the Transaction (the "vertical slice" approach). The remainder of the mezzanine and junior notes were subscribed by an independent third-party investor.

In addition, as part of the Transaction:

- the SPV has entered into two derivative contracts to hedge interest rate risk;
- a cash reserve was set up in an amount equal to 3% of the nominal value of the senior notes (€10.65 million) to manage the risk of any mismatches between the funds generated by collections and the amounts due in respect of the senior costs of the Transaction and interest on the senior notes. In accordance with market practice, this reserve was financed at the time of the issue of the notes by an interest-bearing limited recourse loan granted by Iccrea.

The securitization has been structured in such a way as to ensure that the senior notes are eligible for the aforementioned State guarantee, given the deconsolidation by the assignor banks of the exposures involved in the Transaction in accordance with the IASs/IFRSs. For the purposes of admission to the State Guarantee Scheme, Iccrea Banca - as the Parent Company of the ICBG and by way of specific delegation from the banks – submitted an application to the MEF. The documentation was transmitted by Iccrea by means of a single certified e-mail message, containing the documentation relating to the operation as a whole. The banks also delegated Iccrea to transmit the documentation relating to the Transaction to the competent supervisory authorities in order to obtain recognition of the significant transfer of risk for prudential purposes. On January 10, 2020, a preliminary application was submitted to the MEF to obtain GACS coverage for the senior notes.

The operation also provides for:

- the legal separation, once transferred to the SPV, of the securitized assets from the assignors and creditors, as supported by a legal opinion from Orrick Herrington & Sutcliffell, issued on December 19, 2019;
- time call and clean-up call options in order to allow early repayment of notes before maturity:
  - Optional Redemption: the option can be exercised by the SPV on the first Payment Date immediately following the Payment Date on which the Class A notes are fully redeemed;
  - Redemption for Tax Reasons: the option can be exercised by the SPV upon the occurrence of regulatory or legislative changes, or official interpretations of the competent authorities that entail an increase in costs for the noteholders or the SPV.

In addition, the notes must be redeemed immediately in the event of specific trigger events (non-payment, non-performance of other obligations, insolvency or violations of laws).

Note that the SPV may also carry out repayments through the partial or full sale to third parties of the portfolio of non-performing loans, as part of a competitive auction.

Finally, as part of the Transaction, at the time of the issue of the notes, a cash reserve was established in the form of a limited-recourse loan granted by Iccrea Banca. Based on the characteristics of the Transaction, these circumstances do not constitute implicit support for the Transaction by the ICBG pursuant to Article 250 of the CRR.

The securitization's payment waterfall is material in understanding the level of subordination of creditors in the transaction. There are two payment waterfalls. The first Pre-acceleration Priority of Payment is used for payments if the portfolio's performance is in line with expectations. In the event of Issuer Trigger Events, Redemption for Tax Reasons or Redemption on Final Maturity Date, the Post-acceleration Priority of Payment is used instead.

In addition, the waterfall provides for the possibility of changing the payment priority order of certain items in the event of a "subordination event" or if: (i) the aggregate cumulative collections for the period immediately preceding the calculation are 90% lower than the expected collections envisaged for the same date in the securitization contracts; (ii) interest is not paid on the Class A notes; (iii) the ratio between the present value of recoveries, for which the respective procedure has been completed, and the sum of target prices indicated in the business plan by the servicer is less than 90%.

In these circumstances, in the post-acceleration waterfall all interest due on the mezzanine notes is temporarily deferred in favor of payment of the principal of the senior notes until the payment date on which these events cease to obtain.

With regard to Iccrea Banca SpA, the credit claim at the date of economic effectiveness is equal to €11.525,779.1 and the gross value at the date of legal transfer of the loans net of writedowns and inclusive of any collections on those loans pertaining to the SPV received by the Bank between the date of determination of the carrying amount and the assignment date, certified on the basis of the accounting records, of €2,524,328.5 (of which collections equal to €62,747.23) assigned for €3,390,011.15.

The following table shows the positions in respect of the securitization held by Iccrea Banca SpA following the issue:

Class	Nominal amount	Fair value	ISIN
Class A	3,149,000	3,149,000	IT0005394348
Class B	23,507	12,101	IT0005394355
Class C	5,855	-	IT0005394363
Limited-recourse loan	10,900,000	10,859,259	

GACS IV

On February 7, 2020, the Board of Directors of Iccrea Banca, as the Parent Company and Central Body, which together with the affiliated mutual banks, composes the reporting entity and, together with the subsidiaries, the "Iccrea Cooperative Banking Group", approved the implementation of a multioriginator securitization of a portfolio of non-performing loans, submitting to the Ministry for the Economy and Finance (MEF) an application for admission to the State Guarantee Scheme on the liabilities issued (so-called "GACS") pursuant to Decree Law 18 of February 14, 2016, ratified with Law 49 of April 8, 2016, implemented with the MEF Decree of August 3, 2016, the MEF Decree of November 21, 2017 and the MEF Decree of October 10, 2018.and subsequently amended by Law 41 of May 20, 2019 ratifying with amendment Decree Law 22 of March 25, 2019 (hereinafter the "Transaction"), in which Iccrea Banca acts as both the assignor and the promoter and joint arranger (together with JP Morgan Securities Limited) of the securitization.

The Transaction provided for Iccrea Banca, Banca Sviluppo, Iccrea BancaImpresa and Mediocredito FVG, as well as 84 mutual banks belonging to the Iccrea Cooperative Banking Group (hereinafter, the ICBG assignor banks) and two banks not belonging to the ICBG, Banca Ifis and Banca Popolare Valconca (hereinafter the "Open Market Banks" and, together with the ICBG, the "Banks" or the "Assignor Banks"), to sell pursuant to Law 130 of April 30, 1999 (hereinafter, "Law 130") the same number of portfolios of unsecured or mortgage loans, mainly secured by first mortgages, deriving from loans classified as defaulted at the assignment (hereinafter, the "Portfolio") for a total credit claim of about €2.3 billion at the date of economic effectiveness,[63] to a special purpose securitization vehicle specifically formed for the Transaction denominated "BCC NPLs 2020 Srl" (the SPV), with the concomitant grant of a servicing engagement by the latter to a third-party servicer independent of the ICBG.

As part of the Transaction, on November 18, 2020 the SPV acquired the portfolio from the assignors, financed through the issue of asset-backed securities, pursuant to the combined provisions of Articles 1 and 5 of Law 130, in the total nominal value of about €585 million, divided into the classes indicated below

- €520,000,000.00 of senior notes, maturing in January 2045, rated Baa2, and BBB respectively by Moody's Italia Srl and Scope Rating AG;
- €41,000,000.00 of mezzanine notes, maturing in January 2045, rated Caa2 and CC respectively by Moody's Italia Srl and Scope Rating AG;
- €24,000,000.00 of junior notes, maturing in January 2045 and not rated.

As noted, the transfer by the Banks to the SPV of the non-performing loans included in the portfolio took place on November 18, 2020 at a price equal to about 22.9% of the related claim at the date of economic effectiveness.

The transfer of non-performing loans to the Vehicle produces economic effects from the date of economic effectiveness. Collections from customers from the day following the date of economic effectiveness up to and including the date of transfer of the portfolio, or November 18, 2020, were transferred to the SPV.

The subsequent finalization of the operation involved:

- the issue of the notes by the SPV with simultaneous subscription of all the senior notes and about 5% of the mezzanine and junior Notes by the Assignor Banks and the subscription of about 95% of the mezzanine and junior notes by an institutional investor independent of the Assignor Banks, Bracebridge Capital LLC, with simultaneous payment of the purchase price and, consequently, derecognition of the assigned loans;
- the preliminary request for GACS support (submitted by Iccrea Banca on December 22, 2020).

The following table summarizes the amount and annual rates of the notes issued:

Tranche	Amount issued (euros)	Rate
Senior Notes	520,000,000	Euribor 6m + 0.25%
Mezzanine Notes	41,000,000	Euribor 6m + 8%
Junior Notes	24,000,000	10% + Class J Notes Variable Return (any additional return)
Total	**585,000,000**	

The notes are not listed on a regulated market.

In order to meet the requirement to retain a net economic interest of 5% in the Transaction, as referred to in Article 6 of Regulation (EU) No. 2017/2402 of the European Parliament and of the Council of December 12, 2017, laying down a general framework for securitization and creating a specific framework for simple, transparent and standardized securitizations and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulation (EC) No. 648/2012, the banks subscribed and undertook to retain for the entire duration of the securitization at least 5% of the nominal value of each tranche of notes issued in the Transaction (the "vertical slice" approach). The remainder of the mezzanine and junior notes were subscribed by an independent third-party investor on November 30.

In addition, as part of the Transaction:

- the SPV has entered into two derivative contracts to hedge interest rate risk with third parties independent of the Assignor Banks;
- a cash reserve was set up to manage the risk of any mismatches between the funds generated by collections and the amounts due in respect of the senior costs of the Transaction and interest on the senior notes. In accordance with market practice, this reserve was financed at the time of the issue of the notes by an interest-bearing limited recourse loan, for a total amount of €16 million, granted by Iccrea Banca (€14,168,985), Banca Ifis (€1,694,677) and Banca Valconca (€136,338). In view of the characteristics of the operation, it does not represent implicit support pursuant to the provisions of Article 250 of the CRR.

The securitization has been structured in such a way as to ensure that the senior notes are eligible for the aforementioned State guarantee, given the deconsolidation by the assignor banks of the exposures involved in the Transaction in accordance with the IASs/IFRSs. For the purposes of admission to the State Guarantee Scheme, Iccrea Banca as the Parent Company of the ICBG and by way of specific delegation from the banks – submitted an application to the MEF. The documentation was transmitted by Iccrea by means of a single certified e-mail message, containing the documentation relating to the operation as a whole. The banks also delegated Iccrea to transmit the

[63] The date of economic effectiveness is generally established at December 31, 2019, March 31, 2020 and June 30, 2020 or, for a limited number of banks, August 31, 2020.

documentation relating to the Transaction to the competent supervisory authorities in order to obtain recognition of the significant transfer of risk for prudential purposes. More specifically, in accordance with the above scheme, on November 18, 2020, the Assignor Banks and the SPV signed a loan assignment agreement under which they assigned without recourse the bad loan portfolios to the SPV with a total claim of about €2.3 billion. In order to finance the purchase of these portfolios, on November 30, 2020, the SPV issued €520,000,000.00 in Class A Asset Backed Floating Rate Notes, maturing in January 2045, €41,000,000.00 Class B in Asset Backed Floating Rate Notes, maturing in January 2045 and €24,000,000.00 in Class J Asset Backed Floating Rate and Variable Return Notes maturing in January 2045.

Each assignor subscribed a pro-rated amount of senior securities issued. Furthermore, in application of the retention rule provided for by Article 6 of Regulation (EU) 2017/2402 of the European Parliament and of the Council, each assignor undertakes to retain about 5% of the mezzanine and junior notes subscribed for the entire duration of the transaction.[64]

On December 22, 2020 a preliminary application was submitted to the MEF to obtain GACS coverage for the senior notes.

The derecognition of the bad loans by each of the Assignor Banks took place following the sale of the mezzanine and junior tranches to Bracebridge Capital LLC. The sale took place for both tranches on November 30, 2020. In particular, Bracebridge Capital LLC subscribed (i) 94.40% of the principal amount of the mezzanine notes on the issue date equal to €38,703,317 at a price equal to 44.51% of the related principal amount (corresponding to a subscription price of €17,228,640) and (ii) 94.40% of the principal amount of the junior notes at the issue date equal to €22,655,588.00 at a price equal to 0.042% of the relative principal amount (corresponding to a subscription price of €9,440)

With regard to Iccrea Banca SpA, the credit claim at the date of economic effectiveness is equal to €469,388,234.71 and the gross value at the date of legal transfer of the loans net of writedowns and inclusive of any collections on those loans pertaining to the SPV received by the Bank between the date of determination of the carrying amount and the assignment date, certified on the basis of the accounting records, of €69,122,678.19 (of which collections equal to €1,036,108.77) assigned for €70,004,046.15.

The following table shows the positions in respect of the securitization held by Iccrea Banca SpA following the issue:

Class	Nominal amount	Fair value	ISIN
Class A	67,629,000.00	67,629,000.00	IT0005428245
Class B	409,966.00	182,494.87	IT0005428286
Class C	239,980	99.99	IT0005428294
Limited-recourse loan	14,168,985	14,168,985	

GACS V

On February 12, 2021, the Board of Directors of Iccrea Banca, as the Parent Company and Central Body, which together with the affiliated mutual banks, composes the reporting entity and, together with the subsidiaries, the "Iccrea Cooperative Banking Group", approved the implementation of a multi-originator securitization of a portfolio of bad loans, submitting application to the Ministry for the Economy and Finance (MEF) for admission to the State Guarantee Scheme on the liabilities issued (so-called "GACS") pursuant to Decree Law 18 of February 14, 2016, ratified with Law 49 of April 8, 2016, and subsequently amended by Law 41 of May 20, 2019 ratifying with amendments Decree Law 22 of March 25, 2019, implemented with the MEF Decree of August 3, 2016, the MEF Decree of November 21, 2017, the MEF Decree of October 10, 2018, the MEF Decree of October 14, 2019, the MEF Decree of May 20, 2020 and the MEF Decree of July 15, 2021 (hereinafter the "Transaction"), in which Iccrea Banca acts as both the assignor and the promoter and joint arranger (together with JP Morgan Securities Limited) of the securitization.

The Transaction provided for Iccrea Banca SpA - Istituto Centrale del Credito Cooperativo ("Iccrea Banca"), Iccrea BancaImpresa SpA ("Iccrea BancaImpresa") and Banca Mediocredito del Friuli Venezia Giulia SpA, 71 mutual banks belonging to the Iccrea Cooperative Banking Group, as well as three non-ICBG banks, namely Banca Ifis SpA, Cassa di Risparmio di Asti SpA and Guber Banca SpA (hereinafter the "Open Market Banks" and together with the ICBG, the "Banks" or the "Assignor Banks"), to sell pursuant to Law 130 of April 30, 1999 (hereinafter, "Law 130") the same number of portfolios of unsecured loans and mortgage loans classified as bad loans and receivables in respect of finance leases classified as past due or subject to termination or resolution under Article 72 quarter or Article 169 bis of the Bankruptcy Act classified as bad loans (hereinafter, the "Portfolio"), for a total credit claim of about €1.3 billion at the date of economic effectiveness, to a special purpose securitization vehicle specifically formed for the Transaction denominated "BCC NPLS 2021 Srl" (the "SPV"), with the concomitant grant of a servicing engagement by the latter to a third-party servicer independent of the ICBG.

The operation was carried out in the following stages:

- the assignment without recourse on November 16, 2021 of the Portfolio to the vehicle BCC NPLS 2021 Srl (the "SPV") established pursuant to Law 130 of April 30, 1999 as amended ("Law 130");

[64] More specifically, the amount retained in the net economic interest was distributed among the Assignor Banks as follows:
Retention of individual assignor = MAX (X; Y)
Where:
X = 5% of the entire tranche, allocated among the assignors on the basis of the ration of the claim of the individual assignor and the total claim represented by the portfolio.
Y = 5% of the virtual tranche attributed to the individual assignor.

- preparatory to the operation, on July 13, 2021, a special purpose vehicle called "GBCI LeaseCo Srl" ("LeaseCo") was formed pursuant to Article 7.1 of the Securitization Act with the exclusive corporate purpose of purchasing, managing and valorizing, valorizing, in the exclusive interest of the securitization, the real estate assets involved in finance leases and the legal relationships deriving from the termination of the same, connected to the receivables deriving from said finance leases transferred by Iccrea BancaImpresa. On November 18, 2021 Iccrea Banca SpA assigned to Banca Finanziaria Internazionale S.p.A the interest held by the former in LeaseCo Srl. Pursuant to Article 7.1 of the Securitization Act, at the reporting date LeaseCo is consolidated by Banca Finanziaria Internazionale SpA and has no direct or indirect connection with any of the banks participating in the Transaction as assignors;
- in order to preserve the financial relationship between the claim of the SPV in respect of the receivables deriving from finance leases forming part of the Portfolio and the assets involved in those finance leases: the disposal of the properties available for immediate sale and the associated legal relationships to LeaseCo pursuant to Article 7.1, paragraphs 4 and 5, of Law 130 and Article 58 of Legislative Decree 385 of September 1, 1993; and (b) the assignment of properties not immediately available for sale and the related legal relationships to LeaseCo as part of a demerger carried out by Iccrea BancaImpresa (as the demerged company) pursuant to Articles 2506 et seq. of the Civil Code, also in light of the interpretative provisions referred to in Article 1, paragraph 215, of Law 178 of December 30, 2020;
- the financing of the purchase by the SPV through the issue of asset-backed securities, pursuant to the combined provisions of Articles 1 and 5 of Law 130, in the total nominal value of about €336.5 million, divided into the classes indicated below:
    - €284,000,000.00 of senior notes, maturing in April 2046, rated Baa2(sf), BBB(sf) and BBB(sf) respectively by Moody's Italia Srl ("Moody's"), Scope Rating GmbH ("Scope") and ARC Ratings S.A. ("ARC");
    - €39,500,000.00 of mezzanine notes, maturing in April 2046, rated Caa2(sf), CCC(sf) and CCC+(sf) respectively by Moody's, Scope and ARC Ratings;
    - €13,000,000.00 of junior notes, maturing in April 2046 and not rated.

As noted, the transfer by the Banks to the SPV of the non-performing loans included in the portfolio took place on November 16, 2021 at a price equal to about 22.18% of the related claim at the date of economic effectiveness.

The transfer of non-performing loans to the Vehicle produces economic effects from the date of economic effectiveness (for more details, please see section 5 of these notes to the financial statements). Collections from customers from the day following the date of economic effectiveness up to and including the date of transfer of the portfolio, or November 16, 2021, were transferred to the SPV.

The subsequent finalization of the operation involved:

- the issue of the notes by the SPV with simultaneous subscription of all the senior notes and about 5.62% of the mezzanine and junior Notes by the Assignor Banks and the subscription of about 94.38% of the mezzanine and junior notes by an institutional investor independent of the Assignor Banks, Bracebridge Capital LLC, with simultaneous payment of the purchase price and, consequently, derecognition of the assigned loans;
- the preliminary request for GACS support (submitted by Iccrea Banca on December 24, 2021).

The following table summarizes the amount and annual rates of the notes issued:

Tranche	Amount issued (euros)	Rate
Senior Notes	284,000,000	Euribor 6m + 0.35%
Mezzanine Notes	39,500,000	Euribor 6m + 8,00%
Junior Notes	13,000,000	10% + Class J Notes Variable Return (any additional return)
Total	**336,500,000**	

The notes are not listed on a regulated market.

In order to meet the requirement to retain a net economic interest of 5% in the Transaction, as referred to in Article 6 of Regulation (EU) No. 2017/2402 of the European Parliament and of the Council of December 12, 2017- as amended by Regulation (EU) 557/2021 - laying down a general framework for securitization and creating a specific framework for simple, transparent and standardized securitizations and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulation (EC) No. 648/2012, the banks subscribed on a pro-rated basis 100% of the Senior Notes and about 5.6% of the Mezzanine Notes and the Junior Notes and undertake to hold at least the minimum amount necessary of those notes to ensure compliance with the retention rule over the entire course of the Transaction. The remainder of the mezzanine and junior notes were subscribed by an independent third-party investor on November 29.

In addition, as part of the Transaction:

- the SPV has entered into two derivative contracts to hedge interest rate risk with third parties independent of the Assignor Banks;
- a cash reserve was set up to manage the risk of any mismatches between the funds generated by collections and the amounts due in respect of the senior costs of the Transaction and interest on the senior notes. In accordance with market practice, this reserve was financed at the time of the issue of the notes by an interest-bearing limited recourse loan, for a total amount of €13.52 million, granted by Iccrea Banca (about €11,950,510) of which about €3,600,000 to fully finance the establishment of the LeaseCo Recovery Expenses Cash Reserve, Banca Ifis (about €273,254), Cassa di Risparmio Asti SpA (about €966,047) Guber Banca SpA (about €330,189). In view of the characteristics of the operation, it does not represent implicit support pursuant to the provisions of Article 250 of the CRR.

The securitization has been structured in such a way as to ensure that the senior notes are eligible for the aforementioned State guarantee, given the deconsolidation by the assignor banks of the exposures involved in the Transaction in accordance with the IASs/IFRSs. For the purposes of admission to the State Guarantee Scheme, Iccrea Banca - by way of specific delegation from the Assignor Banks – submitted an application to the MEF. The documentation was transmitted by Iccrea by means of a single certified e-mail message, containing the documentation relating to the operation as a whole. The banks also delegated Iccrea to transmit the documentation relating to the Transaction to the competent supervisory authorities in order to obtain recognition of the significant transfer of risk for prudential purposes. More specifically, in accordance with the above scheme, on November 16, 2021 the Assignor Banks and the SPV signed a loan assignment agreement under which they assigned without recourse the bad loan portfolios to the SPV with a total claim of about €1.3 billion. In order to finance the purchase of these portfolios, on November 29, 2021 the SPV issued €284,000,000.00 Class A Asset Backed Floating Rate Notes, maturing in April 2046, €39,500,000.00 Class B Asset Backed Floating Rate Notes, maturing in April 2046 and €13,000,000.00 Class J Asset Backed Floating Rate and Variable Return Notes maturing in April 2046.

Each assignor subscribed a pro-rated amount of senior securities issued. Furthermore, in application of the retention rule provided for by Article 6 of Regulation (EU) 2017/2402 of the European Parliament and of the Council, each assignor undertakes to retain about 5.6% of the mezzanine and junior notes subscribed for the entire duration of the transaction.[65]

On December 24, 2021 a preliminary application was submitted to the MEF to obtain GACS coverage for the senior notes.

The derecognition of the bad loans by each of the Assignor Banks took place following the sale of the mezzanine and junior tranches to Bracebridge Capital LLC, an asset manager with its registered office in Boston, USA. The sale took place for both tranches on November 29, 2021. In particular, Bracebridge Capital LLC subscribed (i) 94.38% of the principal amount of the mezzanine notes on the issue date equal to €37,280,786 at a price equal to 27.84810127% of the related principal amount (corresponding to a subscription price of €10,381,991.04) and (ii) 94.38% of the principal amount of the junior notes at the issue date equal to €12,269,600 at a price equal to 0.07692308% of the relative principal amount (corresponding to a subscription price of €9,438.15).

With regard to Iccrea Banca SpA, the credit claim at the date of economic effectiveness is equal to €31,629,007.29 and the gross value at the date of legal transfer of the loans net of writedowns and inclusive of any collections on those loans pertaining to the SPV received by the Bank between the date of determination of the carrying amount and the assignment date, certified on the basis of the accounting records, of €4,684,635.52 (of which collections equal to about €15,000) assigned for €4,461,666.54.

[65] More specifically, the amount retained in the net economic interest was distributed among the Assignor Banks as follows:
Retention of individual assignor = MAX (X; Y)
Where:
X = 5% of the entire tranche, allocated among the assignors on the basis of the ration of the claim of the individual assignor and the total claim represented by the portfolio.
Y = 5% of the virtual tranche attributed to the individual assignor.
For Iccrea Banca only, that amount, as specified in Article 6 of Regulation (EU) No. 2017/2402 as amended by Regulation (EU) 557/2021, shall be increased by any "*fees that may in practice be used to reduce the effective material net economic interest*", determined conventionally as equal to the gross fee received net of a reasonable estimated of costs incurred in connection with the transaction.

Class	Nominal amount	Fair value	ISIN
Class A	4,355,000	4,355,000	IT0005469116
Class B	82,452	22,961	IT0005469124
Class C	27,136	21	IT0005469132
Limited-recourse loan	11,950,510	-	

Paragraph 3.2.12 of IFRS 9 establishes that "on derecognition of a financial asset in its entirety, the difference between:

a) the carrying amount (measured at the date of derecognition) and

b) the consideration received (including any new asset obtained less any new liability assumed)

shall be recognized in profit or loss."

Consequently, at the settlement date of the sale of the junior and mezzanine notes:

- the assigned loans were derecognized by the Assignor Banks belonging to the ICBG;
- the total capital loss/gain determined as the difference between the gross value at the date of assignment of the loans, less accumulated impairment losses at the date of transfer of legal title and including any collections on the loans pertaining to the SPV at the same date (for the ICBG about €245,874,455.00 and for the Bank €4,684,635.52), and the price received (for the ICBG €244,935,072.78, equal to the sum of liquidity and the Senior, Mezzanine and Junior notes and for the Bank €4,461,666.54) was recognized in the income statement under item 100 "Net gain (loss) on the disposal or repurchase of financial assets measured at amortized cost. For the ICBG that difference amounted to a capital loss of about 939,382.22 and for the Bank one of €222,968.97;
- the fair value of the Senior, Mezzanine and Junior notes subscribed was recognized in the amounts of:
  - for the ICBG, €239,067,000.00, €500,209.82 and €454.76 respectively;
  - for the Bank, €4,355,000.00, €22,961.32 and €20.87 respectively.

The main operations deriving from the acquisition of the corporate lending operations from Iccrea BancaImpresa are described below:

GACS I

In July 2018 the Bank completed a multioriginator securitization of a portfolio of non-performing loans ("GACS I").

The Transaction provided for 21 mutual banks, as well as two banks belonging to the former Iccrea Banking Group, including Iccrea Banca Impresa, to sell, pursuant to Law 130 of April 30, 1999 the same number of portfolios of non-performing unsecured and mortgage loans, mainly secured by first mortgages, deriving from loans classified as defaulted at the assignment for a total credit claim of €1,046 billion to a special purpose securitization vehicle specifically formed for the Transaction denominated "BCC NPLs 2018 Srl (hereinafter the "SPV") with the simultaneous grant of a servicing engagement by the latter to a third-party servicer independent of the assignors.

As part of the transaction, the special purpose vehicle acquired the portfolio from the assignor banks, financing the purchase by issuing (on July 10, 2018) asset-backed securities, pursuant to the combined provisions of Articles 1 and 5 of Law 130, with a total nominal value of about €323.86 million, divided into the following classes:

- 282 million of senior notes, corresponding to 26.95% of the value of the assigned loans, which have been assigned an investment grade rating of Baa3 by Moody's and BBB- by Scope Rating, subscribed by the assignors in proportion to the exposures assigned;
- €31.4 million of mezzanine notes, corresponding to 3% of the value of the assigned loans, which have been assigned a rating of Caa2 by Moody's and B+ by Scope Rating, which were sold, together with the junior notes and with the exception of highlighted below, to qualified investors without any connection, interest or participation with the assignors;
- €10.46 million of junior notes, corresponding to 1% of the value of the assigned loans, not rated.

The following table summarizes the amount and annual rates of the notes issued:

Tranche	Amounts (Euro)	Rates
Senior Notes	282,000,000	Euribor 6m + 0.40%
Mezzanine Notes	31,400,000	Euribor 6m + 6%
Junior Notes	10,460,000	12% + Class J Notes Variable
Total	**323,860,000**	

The notes are not listed on any regulated market.

In order to meet the requirement to retain a net economic interest of 5% in the transaction as referred to in (i) Article 405, paragraph 1, letter

a) of Regulation (EU) 575/2013 (the “CRR”), (ii) Article 51, paragraph 1, letter a) of Delegated Regulation (EU) 231/2013 (the “AIMFD Regulation”) and (iii) Article 254, paragraph 2, letter A) of Delegated Regulation (EU) 35/2015 (the “Solvency II Regulation”), the assignors have undertaken to retain a holding of at least 5% of the nominal value of each tranche of notes issued as part of the securitization (the “vertical slice” approach).

The SPV also obtained two cap options on interest rates in an initial amount equal to the total nominal value of the senior and mezzanine notes.

The operation also provides for:

- the legal separation, once transferred to the SPV, of the securitized assets from the assignors and creditors;
- time call and clean-up call options in order to allow early repayment of notes before maturity:
    - Optional Redemption: the option can be exercised by the SPV on the first Payment Date immediately following the Payment Date on which the Class A notes are fully redeemed;
    - Redemption for Tax Reasons: the option can be exercised by the SPV upon the occurrence of regulatory or legislative changes, or official interpretations of the competent authorities that entail an increase in costs for the noteholders or the SPV.

In addition, the notes must be redeemed immediately in the event of specific trigger events (non-payment, non-performance of other obligations, insolvency or violations of laws).

Note that the SPV may also carry out repayments through the partial or full sale to third parties of the portfolio of non-performing loans, as part of a competitive auction.

Finally, as part of the Transaction, a cash reserve was set up in an amount equal to 5.0088% of the nominal value of the senior notes (€14.125 million*)*, to manage the risk of any mismatches between the funds generated by collections and the amounts due in respect of the senior costs of the Transaction and interest on the senior notes. In accordance with market practice, this reserve was financed at the time of the issue of the notes by an interest-bearing limited recourse loan granted by Iccrea.

The securitization’s payment waterfall is material in understanding the level of subordination of creditors in the transaction. There are two payment waterfalls. The first Pre-acceleration Priority of Payment is used for payments if the portfolio’s performance is in line with expectations. In the event of Issuer Trigger Events, Redemption for Tax Reasons or Redemption on Final Maturity Date, the Post-acceleration Priority of Payment is used instead. In addition, the waterfall provides for the possibility of changing the payment priority order of certain items in the event of a “subordination event” or if: (i) the aggregate cumulative collections for the period immediately preceding the calculation are 90% lower than the expected collections envisaged for the same date in the securitization contracts; (ii) interest is not paid on the Class A notes; (iii) the ratio between the present value of recoveries, for which the respective procedure has been completed, and the sum of target prices indicated in the business plan by the servicer is less than 90%.

In these circumstances, in the post-acceleration waterfall all interest due on the mezzanine notes is temporarily deferred in favor of payment of the principal of the senior notes until the payment date on which these events cease to obtain.

The portfolio securitized by Iccrea BancaImpresa includes loans classified as bad loans at the assignment date with a gross book value at December 31, 2017 of €64,829,208.88 and an aggregate gross value at the assignment date, net of impairment adjustments and including any collections on the loans pertaining to the SPV received by the assignor company between the date of determination of the carrying amount and the assignment date, certified on the basis of the accounting records, of €18,889,734.72 (of which collections equal to €222,554.53), assigned for €17,622,893.85.

The following table shows the positions in respect of the securitization held by Iccrea Banca SpA following the issue:

Class	Amount	ISIN
Class A	16,991,000	IT0005338717
Class B	98,000	IT0005338741
Class C	32,407	IT0005338758

The Mezzanine class was purchased for a total of €32,401.74, while the Junior notes were purchased for €326.01.

On October 4, 2018, Iccrea Banca announced that the MEF had - with a Decree of September 5, 2018, registered by the Court of Auditors on September 27, 2018 and by the Central Budget Office of the MEF on October 2, 2018 , granted the State guarantee (GACS) for the senior tranche of the securitization. The State guarantee on this tranche is effective from the date of the decree (September 5, 2018).

Note that the acknowledgement of the significant risk transfer was made on the basis of the report at September 30, 2018, deconsolidating the securitized portfolio of bad loans from that date for prudential purposes as well.

GACS II

In December 2018, the Bank completed a second multioriginator securitization of a portfolio of non-performing loans (GACS II).

The Transaction provided for 71 mutual banks, as well as two banks belonging to Iccrea Banking Group including Iccrea Banca Impresa, to sell, pursuant to Law 130 of April 30, 1999, the same number of portfolios of unsecured and mortgage loans, mainly secured by first mortgages, deriving from loans classified as defaulted at the assignment for a total credit claim of €2.005 billion to a special purpose securitization vehicle specifically formed for the Transaction denominated "BCC NPLs 2018-2 Srl", with the simultaneous grant of a servicing engagement by the latter to a third-party servicer independent of the assignors.

As part of the transaction, on December 7, 2018, the special purpose vehicle acquired the portfolio from the assignor banks, financing the purchase by issuing (on July 10, 2018) asset-backed securities, pursuant to the combined provisions of Articles 1 and 5 of Law 130, with a total nominal value of about €558.2 million, divided into the following classes:

- €478 million of senior notes granted investment grade of BBB by Scope Rating AG and BBB (*low*) by DBRS Rating Limited, subscribed by the assignors in proportion to the exposures assigned;
- €60.129 million of mezzanine notes with a B+ rating Scope Rating AG and CCC by DBRS Rating Limited, which were sold, together with the junior notes and with the exception of highlighted below, to qualified investors without any connection, interest or participation with the assignors;
- €20.043 million of junior notes, unrated.

The following table summarizes the amount and annual rates of the notes issued:

Tranche	Amount (euros)	Rate
Senior Notes	478,000,000	Euribor 6m + 0.30%
Mezzanine Notes	60,129,000	Euribor 6m + 6%
Junior Notes	20,043,080	12% + Class J Notes Variable Return (any additional return)
Total	**558,172,080**	

The notes are not listed on any regulated market.

In order to meet the requirement to retain a net economic interest of 5% in the transaction as referred to (i) Article 405, paragraph 1, letter a) of Regulation (EU) 575/2013 (the "CRR"), (ii) Article 51, paragraph 1, letter a) of Delegated Regulation (EU) 231/2013 (the "AIMFD Regulation") and (iii) Article 254, paragraph 2, letter A) of Delegated Regulation (EU) 35/2015 (the "Solvency II Regulation"), the assignors have undertaken to retain a holding of at least 5% of the nominal value of each tranche of notes issued as part of the securitization (the "vertical slice" approach).

The SPV also obtained two derivatives to hedge interest rate risk in an initial amount equal to the total nominal value of the senior and mezzanine notes.

The operation also provides for:

- the legal separation, once transferred to the SPV, of the securitized assets from the assignors and creditors;
- time call and clean-up call options in order to allow early repayment of notes before maturity:
  - Optional Redemption: the option can be exercised by the SPV on the first Payment Date immediately following the Payment Date on which the Class A notes are fully redeemed;
  - Redemption for Tax Reasons: the option can be exercised by the SPV upon the occurrence of regulatory or legislative changes, or official interpretations of the competent authorities that entail an increase in costs for the noteholders or the SPV.

In addition, the notes must be redeemed immediately in the event of specific trigger events (non-payment, non-performance of other obligations, insolvency or violations of laws).

Note that the SPV may also carry out repayments through the partial or full sale to third parties of the portfolio of non-performing loans, as part of a competitive auction.

Finally, as part of the Transaction, a cash reserve was set up in an amount equal to 3% of the nominal value of the senior notes (€14.34 million*)*, to manage the risk of any mismatches between the funds generated by collections and the amounts due in respect of the senior costs of the Transaction and interest on the senior notes. In accordance with market practice, this reserve was financed at the time of the issue of the notes by an interest-bearing limited recourse loan granted by Iccrea.

The securitization's payment waterfall is material in understanding the level of subordination of creditors in the transaction. There are two payment waterfalls. The first Pre-acceleration Priority of Payment is used for payments if the portfolio's performance is in line with expectations. In the event of Issuer Trigger Events, Redemption for Tax Reasons or Redemption on Final Maturity Date, the Post-acceleration Priority of Payment is used instead. In addition, the waterfall provides for the possibility of changing the payment priority order of certain items in the event of a "subordination event" or if: (i) the aggregate cumulative collections for the period immediately preceding the calculation are 80% lower than the expected collections envisaged for the same date in the securitization contracts; (ii) interest is not paid on the Class A notes; (iii) the ratio between the present value of recoveries, for which the respective procedure has been completed, and the sum of target prices indicated in the business plan by the servicer is less than 80%.

In these circumstances, in the post-acceleration waterfall all interest due on the mezzanine notes is temporarily deferred in favor of payment of the principal of the senior notes until the payment date on which these events cease to obtain.

The portfolio securitized by Iccrea BancaImpresa includes loans classified as bad loans at the assignment date with a gross book value at December 31, 2018 of €60,773,866.91 and an aggregate gross value at the assignment date, net of impairment adjustments and including any collections on the loans pertaining to the SPV received by the Bank between the date of determination of the carrying amount and the assignment date, certified on the basis of the accounting records, of €16,856,504.19 (of which collections equal to €0.00), assigned for €16,455,673.35

The following table shows the positions in respect of the securitization held by Iccrea Banca SpA following the issue:

Class	Amount	ISIN
Class A	16,219,000	16.219.000
Class B	102,000	11.535
Class C	33,878	338

The derecognition of the bad loans from the Bank's financial statements took place on December 20, 2018, following the assignment of about 95% of the Mezzanine and Junior notes to a fully independent third-party investor. From a prudential point of view, however, for reasons connected with the deadlines for the relevant notices to the competent authorities, the derecognition of the assigned portfolio was not completed by the end of December 2018. In calculating the prudential requirements, therefore, the Bank considered the securitized assets as if the transaction had not been carried out.

On December 27, 2018 Iccrea Banca submitted, on behalf of the participants in the operation, an application for admission to the State Guarantee Scheme for the senior notes to the Ministry for the Economy and Finance (MEF).

The State Guarantee on the liabilities issued was issued on March 5, 2019 upon completion of the procedure provided for by the MEF.

For the purposes of calculating the capital requirement relating to own securitization transactions carried out in previous years, the Bank has applied the derogation provided for by Regulation (EU) 2017/2401 consisting in the possibility of continuing to use the standardized method until December 31, 2019 (as governed by Regulation (EU) 575/2013, Part Three, Title II, Chapter 5, Section 3, Subsection 3, prior to the amendment introduced with Regulation (EU) 2017/2401) for all securitization transactions completed before January 1, 2019 (the "grace period").

GACS III

For more information on the transaction, please see the earlier section on securitizations carried out as "Originator".

The following table shows the positions effectively subscribed by the Bank in respect of the securitization.

Class	Nominal amount held	Fair value	ISIN
Class A	30,962,000	30,962,000	IT0005394348
Class B	4,622,588	118,483	IT0005394355
Class C	1,151,286	5	IT0005394363

GACS IV

For more information on the transaction, please see the earlier section on securitizations carried out as "Originator".

The following table shows the positions effectively subscribed by the Bank in respect of the securitization.

Class	Nominal amount held	Fair value	ISIN
Class A	25,283,000	25,283,000	IT0005428245
Class B	114,932	51,162	IT0005428286
Class C	67,277	28	IT0005428294

QUANTITATIVE DISCLOSURES

C.1 EXPOSURES IN RESPECT OF MAIN OWN SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

		On-balance-sheet exposures						Guarantees issued						Credit lines					
		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
		Carrying amount	Writedowns/ writebacks	Carrying amount	Writedowns/ writebacks	Carrying amount	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks
A. Fully derecognized																			
BCC NPLS 2018-2/TV ABS 20420731	impaired exposures	14,837	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans	impaired exposures	9,120	(1,385)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 2018/12 ABS 20380630 J	impaired exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 2018/TV ABS 20380630 M	impaired exposures	-	-	22	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 2018/TV ABS 20380630 S	impaired exposures	11,884	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans	impaired exposures	11,202	(2,105)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 2018-2/12 ABS 20420731	impaired exposures	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 2018-2/TV ABS 20420731	impaired exposures	-	-	21	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 20 19/44 TV CL J	impaired exposures	-	-	-	-	3	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans	impaired exposures	9,973	(79)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 20 19/44 TV	impaired exposures	-	-	165	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 20 19/44 CL A	impaired exposures	31,554	(5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 20 20/45 TV CL J	impaired exposures	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 20 20/45 TV CL B	impaired exposures	-	-	268	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 20 20/45 TV CL A	impaired exposures	88,314	(13)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans	impaired exposures	13,706	(109)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 21 CL A	impaired exposures	4,355	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 21 CL B	impaired exposures	-	-	24	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 21 CL C	impaired exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans	impaired exposures	11,856	(94)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Partially derecognized																			
C. Not derecognized																			

The exposures reported in the table regard to the securitization transaction referred to below, carried out pursuant to Law 130/91, different from the self-securitization transactions in which at the time of issue the Bank repurchased the full amount of the notes issued by the special purpose vehicle.

More specifically, at the reporting date, the Bank's overall exposure to "own" securitizations - which led to the full derecognition the securitized exposures - comprises:

- ABSs issued by the special purpose vehicle BCC NPLs 2018 Srl as part of the multioriginator securitization (GACS I) carried out in 2018 and involving a portfolio of non-performing loans assigned by 23 mutual banks, in which the senior class of notes benefits from the State guarantee ("GACS ") pursuant to Decree Law 18/2016 ratified with Law 49/2016. In particular, the Bank has subscribed:
  - Class A Asset Backed Floating Rate Notes, ISIN IT0005338717, maturing in June 2038, in the amount of €16,991 thousand, with a carrying amount at the reporting date of €11,884 thousand; with total writedowns of €2 thousand; recognized by the Bank in assets under item 40. "Financial assets measured at amortized cost";
  - Class B Asset Backed Floating Rate Notes, ISIN IT0005338741, maturing in June 2038, in the amount of €98 thousand, with a carrying amount at the reporting date of €22 thousand; recognized under item 20. "Financial assets measured at fair value through profit or loss: c) other financial assets mandatorily measured at fair value", since they did not pass the SPPI test at initial recognition;
  - Class J Asset Fixed Rate and Variable Return Notes due, ISIN IT0005338758, maturing in June 2038, in the amount of €32 thousand, with a carrying amount at the reporting date of €zero; recognized under item 20. "Financial assets measured at fair value through profit or loss: c) other financial assets mandatorily measured at fair value", since they did not pass the SPPI test at initial recognition;
- BCC NPLs 2018 Srl as part of the multioriginator securitization (GACS I) carried out in 2018 and involving a portfolio of non-performing loans assigned by 23 mutual banks, in which the senior class of notes benefits from the State guarantee ("GACS ") pursuant to Decree Law 18/2016 ratified with Law 49/2016 (nominal amount disbursed €14,125 thousand, with total writedowns of €1,385 thousand).

The exposures reported in the table regard to the securitization transaction referred to below, carried out pursuant to Law 130/91, different from the self-securitization transactions in which at the time of issue the Bank repurchased the full amount of the notes issued by the special purpose vehicle.

More specifically, at the reporting date, the Bank's overall exposure to "own" securitizations - which led to the full derecognition the securitized exposures – comprises:

- ABSs issued by the special purpose vehicle BCC NPLs 2018-2 S.r.l as part of the multioriginator securitization (GACS II) carried out in 2018 and involving a portfolio of non-performing loans assigned by 73 mutual banks, in which the senior class of notes benefits from the State guarantee ("GACS ") pursuant to Decree Law 18/2016 ratified with Law 49/2016. In particular, the Bank has subscribed:
  - Class A Asset Backed Floating Rate Notes, ISIN IT0005356925, maturing in July 2042, in the amount of €16,219 thousand, with a carrying amount at the reporting date of €14,837 thousand; with total writedowns of €2 thousand; recognized by the Bank in assets under item 40. "Financial assets measured at amortized cost";
  - Class B Asset Backed Floating Rate Notes, ISIN IT0005356933, maturing in July 2042, in the amount of €102 thousand, with a carrying amount at the reporting date of €21 thousand; recognized under item 20. "Financial assets measured at fair value through profit or loss: c) other financial assets mandatorily measured at fair value", since they did not pass the SPPI test at initial recognition;
  - Class J Asset Fixed Rate and Variable Return Notes due, ISIN IT0005356941, maturing in July 2042, in the amount of €34 thousand, with a carrying amount at the reporting date of €1 thousand; recognized under item 20. "Financial assets measured at fair value through profit or loss: c) other financial assets mandatorily measured at fair value", since they did not pass the SPPI test at initial recognition;
- BCC NPLs 2018-2 Srl as part of the multioriginator securitization (c.d. GACS II) carried out in 2018 and involving a portfolio of non-performing loans assigned by 73 mutual banks in which the senior class of notes benefits from the State guarantee ("GACS ") pursuant to Decree Law 18/2016 ratified with Law 49/2016 (nominal amount disbursed €16,140 thousand, writedowns of €2,105 thousand).

The exposures reported in the table regard to the securitization transaction referred to below, carried out pursuant to Law 130/91, different from the self-securitization transactions in which at the time of issue the Bank repurchased the full amount of the notes issued by the special purpose vehicle.

More specifically, at the reporting date, the Bank's overall exposure to "own" securitizations - which led to the full derecognition the securitized exposures – comprises:

- ABSs issued by the special purpose vehicle BCC NPLs 2019 Srl as part of the multioriginator securitization (c.d. GACS III) carried out in 2019 and involving a portfolio of non-performing loans assigned by 68 mutual banks, in which the senior class of notes benefits from the State guarantee ("GACS ") pursuant to Decree Law 18/2016 ratified with Law 49/2016. In particular, the Bank has subscribed:
  - Class A Asset Backed Floating Rate Notes, ISIN IT0005394348, maturing in a January 2044, in the amount of €34,111 thousand, with a carrying amount at the reporting date of €31,554 thousand; with total writedowns of €5 thousand, recognized by the Bank in assets under item 40. "Financial assets measured at amortized cost";
  - Class B Asset Backed Floating Rate Notes, ISIN IT0005394355, maturing in January 2044, in the amount of €4,647 thousand, with a carrying amount at the reporting date of €165 thousand; recognized under item 20. "Financial assets measured at fair value through profit or loss: c) other financial assets mandatorily measured at fair value", since they did not pass the SPPI test at initial recognition;
  - Class J Asset Fixed Rate and Variable Return Notes due, ISIN IT0005394363, maturing January 2044, in the amount of €1,157 thousand, with a carrying amount at the reporting date of €3 thousand; recognized under item 20. "Financial assets measured at fair value through profit or loss: c) other financial assets mandatorily measured at fair value", since they did not pass the SPPI test at initial recognition.
- an interest-bearing limited-recourse loan granted to the SPV BCC NPLs 2019 S.r.l as a cash reserve to manage any mismatches between funds from collections and amounts due in respect of the senior costs of the Transaction and interest on the Senior notes; maturing in January 2044, in the nominal amount of €10,900 thousand, with a carrying amount at the reporting date of €9,973 thousand, with total writedowns of €79 thousand; recognized by the Bank in assets under item 40. "Financial assets measured at amortized cost".

The exposures reported in the table regard to the securitization transaction referred to below, carried out pursuant to Law 130/91, different from the self-securitization transactions in which at the time of issue the Bank repurchased the full amount of the notes issued by the special purpose vehicle.

More specifically, at the reporting date, the Bank's overall exposure to "own" securitizations - which led to the full derecognition the securitized exposures – comprises:

- ABSs issued by the special purpose vehicle BCC NPLs 2020 Srl as part of the multioriginator securitization (c.d. GACS IV) carried out in 2020 and involving a portfolio of non-performing loans assigned by mutual banks, in which the senior class of notes benefits from the State guarantee ("GACS ") pursuant to Decree Law 18/2016 ratified with Law 49/2016. In particular, the Bank has subscribed:
  - Class A Asset Backed Floating Rate Notes, ISIN IT0005428245, maturing in a January 2045, in the amount of €92,12 thousand, with a carrying amount at the reporting date of €88,14 thousand; with total writedowns of €13 thousand, recognized by the Bank in assets under item 40. "Financial assets measured at amortized cost";
  - Class B Asset Backed Floating Rate Notes, ISIN IT0005428286, maturing in January 2045, in the amount of €525 thousand, with a carrying amount at the reporting date of €268 thousand; recognized under item 20. "Financial assets measured at fair value through profit or loss: c) other financial assets mandatorily measured at fair value", since they did not pass the SPPI test at initial recognition;
  - Class J Asset Fixed Rate and Variable Return Notes due, ISIN IT0005428294, maturing January 2045, in the amount of €307 thousand, with a carrying amount at the reporting date of €1 thousand; recognized under item 20. "Financial assets measured at fair value through profit or loss: c) other financial assets mandatorily measured at fair value", since they did not pass the SPPI test at initial recognition.
- an interest-bearing limited-recourse loan granted to the SPV BCC NPLs 2020 S.r.l as a cash reserve to manage any mismatches between funds from collections and amounts due in respect of the senior costs of the Transaction and interest on the Senior notes; maturing in January 2045, in the nominal amount of €14,169 thousand, with a carrying amount at the reporting date of €13,706 thousand, with total writedowns of €109 thousand; recognized by the Bank in assets under item 40. "Financial assets measured at amortized cost".

The exposures reported in the table regard to the securitization transaction referred to below, carried out pursuant to Law 130/91, different from the self-securitization transactions in which at the time of issue the Bank repurchased the full amount of the notes issued by the special purpose vehicle.

More specifically, at the reporting date, the Bank's overall exposure to "own" securitizations - which led to the full derecognition the securitized exposures – comprises:

- ABSs issued by the special purpose vehicle BCC NPLs 2021 Srl as part of the multioriginator securitization (c.d. GACS V) carried out in 2021 and involving a portfolio of non-performing loans assigned by the Parent Company, Iccrea BancaImpresa SpA ("Iccrea BancaImpresa") and Banca Mediocredito del Friuli Venezia Giulia SpA, 71 mutual banks of the Iccrea Cooperative Banking Group (the "ICBG") and three non-Group banks (Banca Ifis SpA, Cassa di Risparmio di Asti SpA and Guber Banca SpA), in which the senior class of notes benefits from the State guarantee ("GACS ") pursuant to Decree Law 18/2016 ratified with Law 49/2016. In particular, the Bank has subscribed:

- Class A Asset Backed Floating Rate Notes, ISIN IT0005469116, maturing in April 2046, in the amount of €4,355 thousand, with a carrying amount at the reporting date of €4,355 thousand; with total writedowns of €1 thousand, recognized by the Bank in assets under item 40. "Financial assets measured at amortized cost";
- Class B Asset Backed Floating Rate Notes, ISIN IT0005469124, maturing in April 2046, in the amount of €82 thousand, with a carrying amount at the reporting date of €24 thousand; recognized under item 20. "Financial assets measured at fair value through profit or loss: c) other financial assets mandatorily measured at fair value", since they did not pass the SPPI test at initial recognition;
- Class J Asset Fixed Rate and Variable Return Notes due, ISIN IT0005469132, maturing in April 2046, in the amount of €27 thousand, with a carrying amount at the reporting date of €0.00; recognized under item 20. "Financial assets measured at fair value through profit or loss: c) other financial assets mandatorily measured at fair value", since they did not pass the SPPI test at initial recognition.

- an interest-bearing limited-recourse loan granted to the SPV BCC NPLs 2021 S.r.l as a cash reserve to manage any mismatches between funds from collections and amounts due in respect of the senior costs of the Transaction and interest on the Senior notes; maturing in April 2046, in the nominal amount of €10,951 thousand, with a carrying amount at the reporting date of €11,856 thousand, with total writedowns of €94 thousand; recognized by the Bank in assets under item 40. "Financial assets measured at amortized cost".

C.2 EXPOSURES IN RESPECT OF MAIN THIRD-PARTY SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

		On-balance-sheet exposures						Guarantees issued						Credit lines					
		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
		Carrying amount	Writedowns/ writebacks	Carrying amount	Writedowns/ writebacks	Carrying amount	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks
A. Fully derecognized																			
LUCREZIA SECURISATION SRL - TERAMO	impaired exposures	136	(1,054)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LUCREZIA SECURISATION SRL - PADOVANA IRPINIA	impaired exposures	1,353	(2,184)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LUCREZIA SECURISATION SRL - CREDIVENETO	impaired exposures	833	(578)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The exposures reported in the table refer to securities held and loans disbursed by the Bank in respect of third-party securitizations that, at the reporting date, totaled €102,300 thousand (carrying amount).

More specifically, they regard:

- unrated securities issued by the special purpose vehicle "Lucrezia Securitization Srl" in connection with the securitization of portfolios of bad loans acquired as part of the intervention to resolve crises at the following mutual banks:
  - Banca Padovana and BCC Irpina (nominal value in portfolio €6,746 thousand, writedowns of €2,184 thousand);
  - Crediveneto (nominal value in portfolio €2,463 thousand, writedowns of €578 thousand);
  - BCC Teramo (nominal value in portfolio €1,385 thousand, writedowns of €1,054 thousand).

C.3 SPECIAL PURPOSE SECURITIZATION VEHICLES

	Registered office	Consolidation	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
1. BCC NPL 2018	Via V. Alfieri n. 1 31015 CONEGLIANO (TV) Italia	no	172,922			188,522	14,044	1,909
2. BCC NPL 2018-2	Via V. Alfieri n. 1 31015 CONEGLIANO (TV) Italia	no	415,022			416,189	26,658	7,885
3. BCC NPLS 2019	Via V. Alfieri n. 1 31015 CONEGLIANO (TV) Italia	no	354,286			317,845	29,350	1,116
4. BCC NPLS 2020	Via V. Alfieri n. 1 31015 CONEGLIANO (TV) Italia	no	538,261			487,705	19,274	1,089
5. BCC NPLS 2021	Via V. Alfieri n. 1 31015 CONEGLIANO (TV) Italia	no	271,040			284,000	11,000	10

C.4 UNCONSOLIDATED SPECIAL PURPOSE SECURITIZATION VEHICLES

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

C.5 SERVICER ACTIVITIES – OWN SECURITIZATIONS: COLLECTIONS ON SECURITIZED ASSETS AND REDEMPTION OF SECURITIES ISSUED BY SECURITIZATION VEHICLE

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

D. DISCLOSURES ON UNCONSOLIDATED STRUCTURED ENTITIES (OTHER THAN SECURITIZATION VEHICLES)

QUANTITATIVE DISCLOSURES

	Classification under assets	Total assets (A)	Classification under liabilities	Total liabilities (B)	Net carrying amount (C=A-B)	Maximum loss exposure (D)	Difference between loss exposure and carrying amount (E=D-C)
1. Vehicle company							
2. CIU							
	Financial assets held for trading	429,683			429,683	429,683	-
	Other financial assets mandatorily measured at fair value	598			598	429,683	-

E. DISPOSALS

A. FINANCIAL ASSETS ASSIGNED BUT NOT FULLY DERECOGNIZED

QUALITATIVE DISCLOSURES

The operations mainly regard the use of government securities holdings for short- and medium-term repurchase transactions and receivables from customers assigned in the Group's securitization of its own assets.

QUANTITATIVE DISCLOSURES

E.1. FINANCIAL ASSETS ASSIGNED BUT FULLY RECOGNIZED AND ASSOCIATED FINANCIAL LIABILITIES: CARRYING AMOUNTS

	Financial assets assigned but fully recognized				Associated financial liabilities		
	Carrying amount	of which: securitized	of which: sold with agreement to repurchase	of which: impaired	Carrying amount	of which: securitized	of which: sold with agreement to repurchase
A. Financial assets held for trading	**48,083**	**-**	**48,083**	**X**	**48,925**	**-**	**48,925**
1. Debt securities	48,083	-	48,083	X	48,925	-	48,925
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated as at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortized cost	**864,678**	**-**	**864,678**	**-**	**1,083,705**	**-**	**1,083,705**
1. Debt securities	864,678	-	864,678	-	1,083,705	-	1,083,705
2. Loans	-	-	-	-	-	-	-
Total 31/12/2021	**912,760**	**-**	**912,760**	**-**	**1,132,630**	**-**	**1,132,630**
Total 31/12/2020	**772,800**	**-**	**772,800**	**-**	**825,675**	**-**	**825,675**

E.2 FINANCIAL ASSETS ASSIGNED AND PARTIALLY RECOGNIZED AND ASSOCIATED FINANCIAL LIABILITIES: CARRYING AMOUNTS

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

E.3 DISPOSALS INVOLVING LIABILITIES WITH RECOURSE ONLY ON ASSIGNED ASSETS NOT DERECOGNIZED: FAIR VALUE

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

B. FINANCIAL ASSETS ASSIGNED AND DERECOGNIZED WITH RECOGNITION OF CONTINUING INVOLVEMENT

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

C. FINANCIAL ASSETS ASSIGNED AND DERECOGNIZED

QUALITATIVE DISCLOSURES

As at December 31, 2020, Iccrea Banca held shares in investment funds acquired as part of multi-originator assignments of loan portfolios.

In accordance with the provisions of the Bank of Italy Communication of December 23, 2019, information on the transactions carried out during the year is reported below.

CUVÉE DISPOSAL

Description of the disposal

On December 3, 2021, Iccrea Banca SpA and the affiliated bank Cassa Rurale ed Artigiana di Binasco Credito Cooperativo S.C. completed the assignment of unlikely-to-pay (UTP) loans to an SPV formed under the provisions of Law 130, receiving in return units of a restricted Italian alternative closed-end securities investment fund called Back2Bonis, managed by Prelios SGR SpA.

Iccrea Banca and CRA Binasco have no interest in the vehicle and do not act as servicers for the transaction.

The disposal is part of a broader operation called Project Cuvée involving Italy’s leading banking groups, including Intesa, Unicredit, MPS and BPM.

Objective of the disposal

AMCO (Special and Master Servicer, one of the leading operators in the Italian NPE market) and PRELIOS (Real Estate Partner and fund manager through Prelios Sgr) sponsored a multi-originator platform to manage UTP positions, consisting of loans and credit lines granted to companies operating in the real estate sector with the objective of offering the assignor banks the following main benefits:

- increase potential recoveries thanks to specific skills in the real estate sector;
- enhance the efficiency of the management of real estate projects through the restructuring of the financial position of the borrowers and the new finance made available by the fund. Note that the Back2Bonis fund has already obtained financing of more than €130 million from AMCO;
- maximize of the sale value of the properties on the basis of agreed business plans, with a consequent financial benefit from the recovery of the loans;
- deconsolidate the impaired loans contributed to Back2Bonis (and consequent recognition of the fund units) and the consequent reduction of the NPE ratios of the assignor banks.

Implementation of the disposal

Iccrea Banca participated in Wave 4 of Project Cuvée with a portfolio consisting of 3 positions with a gross carrying amount of €8.5 million. The Back2Bonis fund thus reached €1.1 billion of loans under management.

In return for the loans sold, Iccrea Banca received 9.1 units with a nominal value of €4.3 million (€467 thousand per unit), representing a 0.8% stake in the Fund’s capital. Overall, the ICBG holds 51.8 units, equal to 4.5% of the 1,155.2 units issued by the fund.

ILLIMITY CREDIT & CORPORATE TURNAROUND DISPOSAL

Description of the disposal

On April 1, 2021, Iccrea Banca SpA and the Group banks BCC Ravennate Forlivese e Imolese, Chiantibanca and Iccrea BancaImpresa completed the assignment of unlikely-to-pay (UTP) loans to the Illimity Credit & Corporate Turnaround fund, a restricted Italian alternative closed-end investment fund established on the same date, receiving units of the fund, which is managed by Illimity SGR, in exchange.

Iccrea Banca and the Group banks do not act as servicers for the transaction.

The disposal is part of a broader operation involving Italy's leading banking groups, including the BPER Group, BNL, B. Pop. di Sondrio, Banca Sella, CR Ravenna, Banco Desio, Credit Agricole and CR Asti.

Objective of the disposal

Illimity CCT (the "Fund") is the first fund being launched by Illimity SGR, an asset management company set up and invested in by Illimity Bank. The Fund will focus on UTP exposures and in general on loans to companies experiencing financial strain but which could be saved and relaunched through restructuring (the "Target" companies), a market segment in which Illimity Bank is already present with its SME division.

The Fund has a maximum size of €600 million, with participation divided into Loan Units, subscribed by the banks assigning the UTP loans, and Finance Units, subscribed by independent third-party investors, with a repayment waterfall and specified returns.

On the basis of the latest business plan available, the estimated IRR for the Loan Units is around 1%, with the Fund potentially closing in 2029.

For the assignor banks, the objective of the transaction is to achieve the following main benefits:

- increase potential recoveries thanks to specific skills in the sectors of the target companies and restructuring operations;
- stabilize the financial condition of the borrowers, including through the provision of new finance made available by the Fund. Note that the Fund has already obtained funding commitments of €20 million from Illimity Bank and €5 million from other investors;
- achieve economies of scale to maximize the value of receivables from the same Target assigned by different banks;
- deconsolidate the impaired loans contributed and recognize the units of the fund, with a consequent reduction in the NPE ratio of the assignor banks.

Implementation of the disposal

Iccrea Banca participated in Wave 1 with a portfolio of 4 positions with a gross carrying amount of €16.9 million, receiving in return Fund units with a nominal value of €11.6 million, representing about 7% of the Loan Units of the Fund.

With successive closings, the ICBG assigned total UTP positions in respect of 12 borrowers with a gross carrying amount of €57 million, with a total NAV of €36.5 million, subscribing 22.3% of the Fund's Loan Units at December 31, 2021.

QUANTITATIVE DISCLOSURES

	Performing exposures		Impaired exposures		Total	
	Carrying amount	Total value adjustments	Carrying amount	Total value adjustments	Carrying amount	Total value adjustments
A. Financial assets held for trading	**-**	X	X	X	**-**	X
1. Debt securities		X	X	X		X
2. Equity securities		X	X	X		X
3. Loans		X	X	X		X
4. Derivatives		X	X	X		X
B. Other financial assets mandatorily measured at fair value	**-**	X	**-**	**-**	**-**	**-**
1. Debt securities		X				
2. Equity securities		X				
3. Loans		X				
C. Financial assets designated as at fair value	**-**	X	**-**	**-**	**-**	**-**
1. Debt securities		X				
2. Loans		X				
D. Financial assets measured at fair value through other comprehensive income	**-**	-	**-**	**-**	**-**	**-**
1. Debt securities						
2. Equity securities						
3. Loans						
E. Financial assets measured at amortized cost	**-**	**-**	**12,169**	**(13,959)**	**12,169**	**(13,959)**
1. Debt securities						
2. Loans			12,169	(13,959)	12,169	(13,959)
Total 31/12/2021	**-**	**-**	**12,169**	**(13,959)**	**12,169**	**(13,959)**
Total 31/12/2020	**-**	**-**	**-**	**-**	**-**	**-**

	31/12/2021	31/12/2020
Operating income distributed during the period (+)	-	-
Capital losses/gains recognized through profit or loss (+/-)	(2,020,522)	-
Gain/losses on disposal (+/-)	3,731,225	-
Expenses and fees charged to the subscriber bank (-)	-	-
Profit/(loss) of the operation	**1,710,702**	**-**

D. TRANSACTIONS IN COVERED BONDS

In 2021, the structuring of a covered bond program was completed, giving the Group an additional medium-long term funding channel. The program, the first in the cooperative banking industry in Italy, involves Iccrea Banca as the issuer of covered bonds and a number of affiliated banks as assignors and servicers of a portfolio of primary credit quality mortgages pledged to secure the bonds issued.

The program, which gives investors a secured product that can be used to improve their medium/long-term financial profile, given the evolution of the financial markets, is part of a broader strategy aimed at:

- contain funding costs, thanks to considerable attractiveness of covered bonds as instruments issued directly by a bank whose repayment is also secured by a segregated asset pool (in this case, residential mortgage loans). Thanks to their ability, in the event of bankruptcy of the issuing bank, to recover their position against specially segregated high quality assets, the holders of covered bonds are willing to accept a lower return than that they would demand for similar unsecured bonds;
- diversify funding sources on the international market as well;
- lengthen the average maturity of debt.

The Program, allowing the Group to enter a new market characterized by particular complexity, both operational and legal, was based on a governance and control process entrusted to the responsibility of Iccrea Banca (which also plays a management role and coordination, centralizing the management and control activities of the cover pool, the role of master servicer and test calculation agent) and is based on offer documentation submitted to the approval of the Commission de Surveillance du Secteur Financier (CSSF) of the Grand Duchy of Luxembourg. With the approval of the Program, Iccrea Banca can issue Covered Bonds in the amount of up to €10 billion over a period of 10 years.

The structuring of the Group's covered bond program involved the implementation of the following activities:

- an initial assignment by a number of mutual banks, including the Bank (the initial assignor banks) to a specially formed SPV called Iccrea Covered Bond Srl of a portfolio of loans held by the assignor banks, which will represent the segregated assets pursuant to and for the purposes of the provisions of Law 130 on securitizations. The program permits additional assignments of loans, which will form part of the segregated assets, both by the initial assignor banks and by any additional affiliated banks who intend participate in the program subsequently (the initial assignor banks and any additional affiliated banks together are the "assignor banks");
- the grant to the SPV by the assignor banks of a subordinated loan to provide the SPV with the resources to purchase the loans being assigned (the "subordinated loan");
- the issue by the SPV of an autonomous, irrevocable and unconditional first demand guarantee (the covered bond guarantee) to the exclusive benefit of the investors holding the covered bonds and senior creditors of the program (the guarantee provides for limited recourse against the assets in the cover pool held by the SPV, which performs the role of Guarantor);
- the issue by Iccrea of the covered bonds and the proportional transfer of the liquidity raised to the assignor banks.

On June 28, 2021 the first portfolio was sold to Iccrea Covered Bond Srl, for a total nominal amount of €674 million by eight initial assignor banks, as detailed in the following table:

Breakdown of first assignment and issue (in euros)

ABI	Bank name	Residual debt at the assignment date	Intercompany liquidity post issue
7072	Emil Banca - Credito Cooperativo - Societa' Cooperativa	83,774,033	62,000,000
7075	Banca Centro-Credito Cooperativo Toscana-Umbria Societa' Cooperativa	50,037,104	37,000,000
7085	Credito Cooperativo Friuli - Societa' Cooperativa	138,710,235	103,000,000
8453	Banca Di Credito Cooperativo Di Milano - Societa' Cooperativa	40,546,241	30,000,000
8542	Credito Cooperativo Ravennate, Forlivese E Imolese - Societa' Cooperativa	135,066,093	100,000,000
8728	Banca Patavina Credito Cooperativo Di Sant'elena E Piove Di Sacco - Societa' Cooperativa	63,039,658	47,000,000
8749	Centromarca Banca - Credito Cooperativo Di Treviso E Venezia	60,551,198	45,000,000
8877	Banca Di Credito Cooperativo Di Staranzano E Villesse - Societa' Cooperativa	102,645,365	76,000,000
Total		**674,369,928**	**500,000,000**

Following the first sale, on 23 September 2021, Iccrea Banca initiated the first issue of covered bonds in the nominal amount of €500 million, which were placed with professional investors. They have the following characteristics:

- maturity: 7 years;
- nominal amount: €500 million;
- rating: Aa3 by Moody's
- interest payment rights vest: September 23, 2021;
- maturity: September 23, 2028;
- interest payments: annual; annual gross fixed rate of 0.01%;
- re-offer yield: -0.003%

Accounting and reporting treatment

As regards the accounting treatment of the operation:

- the assigned loans continue to be recognized by the assignor banks under item 40 b) "Financial assets measured at amortized cost: loans to customers", under the sub-item "medium/long-term loans" , as the assignors retain the risks and rewards associated with the ownership of the assigned loans. The granted by the transferors to the SPV is not recognized as a separate item, as it is offset by the debt to the vehicle connected with the initial transfer price. This loan is therefore not subject to assessment for credit risk purposes, as the risk is entirely reflected in the valuation of the assigned loans, which continue to be recognized in the financial statements of the assignors;
- the value of the loans changes on the basis of events affecting them (account movements and valuations). Loan payments collected by assignors (who also act as servicers) are paid daily to the vehicle on the "collection account" and accounted for by the assignors as follows:
  - the collection of the principal amount from the borrower is recognized against a decrease in the receivable from the same borrower;
  - the payment of the principal amount to the vehicle is recognized against the recognition of a receivable from the vehicle;
  - the receivable is closed at the time of repayment of the subordinated loan;
- the interest collected from the borrower is recognized under item 10 of the income statement "Interest income: loans to customers" (interest on loans continues to be recognized on an accruals basis through the allocation of amounts accruing);
- the payment of interest to the vehicle is recognized against the recognition of a receivable from the vehicle;
- that receivable is closed at the time of collection of interest on the subordinated loan;
- Iccrea Covered Bond Srl, owned by Iccrea Banca, is recognized under item 70 "Equity investments";
- the covered bonds issued are recognized in liabilities under item 10c) "Financial liabilities measured at amortized cost: securities issued" and the related interest expense is recognized on an accruals basis.

Risks and control mechanisms

In order to enable the assignee company to fulfill the obligations of the guarantee granted, Iccrea Banca uses appropriate asset and liability management techniques to ensure the overall balance between the cash flows generated by the assigned assets and the payments due in respect of the covered bonds issued and other transaction costs.

The program has been structured in accordance with applicable laws and regulations, which permit the issue of covered bonds on the condition of compliance with certain capital requirements for the assignor and issuing banks.

The structure of the Iccrea Banca program is subject to stringent regulatory constraints and provides for continuous oversight by the CFO and CRO areas, as well as monitoring by the Internal Audit function and an external auditor (Deloitte & Touche) in the role of Asset Monitor. In particular, the measures concern:

- assessments of the supervisory capital requirements for bond issues;
- audits of the quality and integrity of the assigned assets, in particular the estimated value of the properties to which the mortgages are attached. Action may consist of instructions to the assignor banks to carry out repurchases, make additions or conduct new sales of supplementary assets;
- audits of the maintenance of the correct relationship between the covered bonds issued and the assets transferred as collateral (cover pool);
- audits of compliance with the transfer limits and portfolio supplementation procedures.

Information on the nature of the risks associated with maintaining the Covered Bond Program is provided below:

- portfolio supplementation risks: the contractual documentation provides for an obligation to supplement the portfolio in order to comply with the tests required by applicable legislation. Failure to comply with these tests would represent an issuer event of default, with the consequent activation of the guarantee issued by the SPV. This risk is mitigated by the control mechanisms described above;
- risks relating to cross-collateralization: the participation of the mutual banks - as assignor banks within the program - means that they compete, pari passu with each other as subordinated creditors of the vehicle and, above all, assume the obligation for compliance with regulatory tests and maintaining the quality and integrity of the assets pledged as collateral for the covered bonds. This implies that the limitation of the liability of each assignor bank to the portion of the portfolio transferred to the SPV and the connection of the portfolio supplementation obligations of each assignor bank if the quality of its portfolio should deteriorate only has contractual force between the assignor banks, but is not in any way enforceable against the vehicle and the investors. In order to minimize these consequences, the contractual documentation envisages a coordinating role in the management of the portfolio aimed at limiting the possible impact of a sudden deterioration in the quality of the cover pool.
- liability under the Framework Servicing Agreement: under the provisions of this agreement, Iccrea Banca has undertaken to act as Master Servicer on behalf of the SPV, undertaking in particular to perform the specific activities covered by the Master Servicer engagement indicated therein and assuming the role of entity responsible for verifying the compliance of operations with the law and the prospectus pursuant to Law 130. The Program also provides that each assignor bank shall undertake to handle, on behalf of the SPV, the administration, collection and enforcement of the loans in its portion of the portfolio. Under these contractual arrangements, the SPV grants (i) the role of Master Servicer to Iccrea Banca and (ii) the role of Servicer to the banks, which thus act as the entities responsible for collections on the loans each has assigned to the SPV. The liability risk of Iccrea Banca as Master Servicer are therefore limited to the fulfillment of the obligations undertaken by the latter pursuant to the Framework Servicing Agreement and does not extend to the actions of the servicers, who are in turn directly liable to the SPV on an individual basis.

F. MODELS FOR MEASURING CREDIT RISK

The section has not been completed because the Bank does not use internal portfolio models for measuring its exposure to credit risk.

SECTION 2 - MARKET RISKS

2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS

The term trading book refers to the portfolio consisting of positions intentionally held for subsequent short-term disposal and/or taken on to benefit from short-term differences between purchase and sales prices, or other changes in prices or interest rates. In general, the supervisory trading book is represented by the positions held under an “other” business model, namely “held for sale”, i.e. the portfolio including debt and equity securities, units in collective investment undertakings and derivatives held for trading purposes.

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

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of market risk management within the entire Iccrea Mutual Banking Group in compliance with the principles of sound and prudent management.

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).

The measurement activities performed by the Risk Management unit involve:

- verification and validation of the market and price parameters used as inputs in the front office and market risk management applications;
- verification of the quality of the identifying information of the financial instruments;
- validation of the fair value of the financial instruments held by the Group;
- oversight and validation of the production of all risk metrics.

For the purpose of calculating capital requirements for market risks, the ICBG uses the standardized approach, in compliance with the relevant supervisory measures.

At the operational level, internal models are used for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- probabilistic metrics:
  - Value at Risk (VaR) approach, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- deterministic metrics:
  - level metrics (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
  - analysis of sensitivity and Greeks, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
  - stress testing and scenario analysis, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
  - loss, which represents the negative financial performance in a specified period of time of both closed and open positions.

Probabilistic metrics

Value at Risk (VaR)

- An approach based on historical simulations is used to calculate VaR, (with a sample period of 3 years, confidence level of 99% and holding period of 1 day). The model currently covers the following risk factors:
- interest rates;
- inflation rates;
- exchange rates;
- stocks and stock indices;
- interest rate volatility;
- stock price volatility.

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

Deterministic metrics

Sensitivity and Greeks of options

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

- PV01: the change in market value in response to a change of 1 basis point in the zero-coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- IL01 (sensitivity to inflation): the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- Vega sensitivity to inflation: a change of 1 percentage point in implied volatilities on forward inflation rates;
- 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 2021 the indicator never breached the limits at either the full book or individual portfolio level.

The average VaR of the trading book was equal to €0.55 million, with a minimum of €0.29 million and a maximum of €1.07 million (on December 14, 2021).

At December 31, 2021 the VaR was equal to €0.92 million.

	Sensitivity Value (in €)	Notes
Interest Rates	(57,042)	Sensitivity calculated in relation to 1 bp change
Inflation Rates	8,231	
Credit spread	(13,214)	
Equity	19,114	Sensitivity calculated in relation to 1 bp change

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 Mutual Banking Group in compliance with the principles of sound and prudent management.

This role is performed through the issue of specific policies and directives and the definition and application of specific governance mechanisms that govern the various stages (definition, approval, monitoring and reporting) that characterize the management of interest rate risk on the banking book.

As provided for under the Cohesion Contract, the Parent Company defines interest rate risk management policies, in accordance with the strategic planning and definition of the RAF.

RISK MANAGEMENT PROCESSES

Identification of risks

The interest rate risk on the banking book is the risk originated by differences in the maturities and in the timing of the repricing of interest rates on the assets and liabilities in the banking book. In the presence of these differences, fluctuations in interest rates giver rise to both a short-term change in expected profit, through the impact on net interest income, and a long-term impact on the economic value of shareholders' equity, through the change in the market value of assets and liabilities.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, the Group identifies sources of interest rate risk to which it is exposed, classifying them in the following risk sub-categories: repricing risk, yield curve risk, basis risk, option risk and credit spread risk on banking book (CSRBB).

Risk measurement

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- 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 particular; in order to monitor this risk category, parallel and non-parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged for regulatory purposes, in the standard outlier test, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
- basis risk: the analysis provides for the segmentation of the banking book based on the market parameters to which the items involved are indexed and the analysis of the time series of basis spreads with respect to the pivot rate (3-month Euribor) for the purpose of determining the size of the shocks to be applied to each;
- option risk: the analysis includes a preliminary identification of the automatic/behavioral option components in the assets and liabilities of the 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 shocks defined internally by the Group.

In accordance with regulatory provisions, the Group develops scenarios characterized by larger movements in yield curves than the shocks applied for the continuous monitoring of the IRRBB in order to test the vulnerabilities of the banking book in the presence of stress conditions.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses:

- sensitivity analysis: analysis of the exposure to the IRRBB and the CSRBB with respect to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result;
- scenario analysis: analysis consisting in the assessment of the Group's ability to cope with a potential increase in its exposure to IRRBB and CSRBB based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

The identification of risk categories is a starting point and a linkage among the main strategic processes to manage risk management (Risk Appetite Framework, Internal Capital Equity Assessment Process, Contingency & Recovery Plan) and is aimed at limiting the set of risk factors/parameters for which stress scenarios are developed.

For each of the risk categories identified it is possible to define the associated risk factor(s), understood as an exogenous variable whose shock can have a negative impact on the economic value of the banking book and/or on the associated net interest income, in terms of smaller-than-expected loss or profit. In this perspective, the identification of risk factors is a preliminary phase in the definition of the shocks associated with stress scenarios.

All the stress scenarios adopted are generally calibrated using the historical simulation approach, based on prudential percentiles of the empirical distributions associated with the various risk parameters, using expert-based adjustments where appropriate in order to integrate forward-looking elements that are not present in the available historical data. To these scenarios, we add "purely" historical scenarios (i.e. without calculating a percentile of the historical empirical distribution), scenarios defined on a judgmental basis and scenarios provided by external sources (e.g. EBA Stress Test scenario).

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of 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 December 31, 2021 is reported below.

€/million	Scenario	
	-100 bp	+100 bp
Impact on economic value	- 4	- 18
Impact on net interest income	+ 22	- 5

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.

QUANTITATIVE DISCLOSURES

1. DISTRIBUTION BY CURRENCY OF ASSETS, LIABILITIES AND DERIVATIVES

	Currencies					
	USD	GBP	JPY	CAD	CHF	OTHER
A. Financial assets	**81,762**	**4,436**	**2,822**	**-**	**19,102**	**809**
A.1 Debt securities	20,524	193				809
A.2 Equity securities	19,124	3,615			-	
A.3 Loans to banks	25,509	629	2,822		19,102	
A.4 Loans to customers	16,605	-				
A.5 Other financial assets						
B. Other assets	**17,109**	**7,682**	**2,172**	**4,525**	**6,806**	**9,883**
C. Financial liabilities	**169,384**	**16,632**	**7,248**	**4,252**	**27,983**	**8,756**
C.1 Due to banks	166,830	16,632	7,244	4,252	27,983	8,756
C.2 Due to customers	2,554		4			
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities	**200**					
E. Financial derivatives						
- Options						
+ Long position						
+ Short positions						
- Other derivatives						
+ Long positions	597,544	4,778	1	43	480	1,470
+ Short positions	562,878	624	39	202	462	3,934
Total assets	**696,415**	**16,897**	**4,995**	**4,568**	**26,388**	**12,162**
Total liabilities	**732,462**	**17,256**	**7,287**	**4,454**	**28,445**	**12,690**
Difference (+/-)	**(36,047)**	**(359)**	**(2,292)**	**114**	**(2,058)**	**(528)**

2. INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODS

There is no information to report.

SECTION 3 - DERIVATIVES AND HEDGING POLICIES

3.1 FINANCIAL DERIVATIVES HELD FOR TRADING

A. FINANCIAL DERIVATIVES

A.1 FINANCIAL DERIVATIVES HELD FOR TRADING: END-PERIOD NOTIONAL VALUES

	Total 31/12/2021				Total 31/12/2020			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		Covered by netting arrangements	Not covered by netting arrangements			Covered by netting arrangements	Not covered by netting arrangements	
1. Debt securities and interest rates	-	19,285,110	1,394,028	-	-	12,199,750	1,546,874	-
a) Options	-	989,647	268,769	-	-	1,877,080	324,107	-
b) Swaps	-	18,295,463	1,085,221	-	-	10,277,870	1,057,742	-
c) Forwards	-	-	37	-	-	-	165,024	-
d) Futures	-	-	40,000	-	-	44,800	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	-	-	1,714	-	-	4,922	4,211	-
a) Options	-	-	1,132	-	-	4,369	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	570	-	-	-	4,211	-
d) Futures	-	-	12	-	-	553	-	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign currencies and gold	-	903,927	240,332	-	-	13,062,486	723,098	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	3,564	3,564	-
c) Forwards	-	903,927	240,332	-	-	13,058,922	719,534	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other underlyings	-	-	-	-	-	-	-	-
Total	**-**	**20,189,038**	**1,636,074**	**-**	**-**	**25,267,158**	**2,274,183**	**-**

A.2 FINANCIAL DERIVATIVES HELD FOR TRADING: GROSS POSITIVE AND NEGATIVE FAIR VALUE – BREAKDOWN BY PRODUCT

	31/12/2021				31/12/2020			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		Covered by netting arrangements	Not covered by netting arrangements			Covered by netting arrangements	Not covered by netting arrangements	
1. Positive fair value								
a) Options	-	5,238	89	-	-	21,428	53	-
b) Interest rate swaps	-	429,867	18,125	-	-	368,465	50,707	-
c) Cross currency swaps	-	-	-	-	-	73	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	8,419	5,797	-	-	131,811	79	-
f) Futures	-	-	304	-	-	56	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**443,524**	**24,316**	**-**	**-**	**521,834**	**50,840**	**-**
2. Negative fair value								
a) Options	-	4,426	1,917	-	-	21,678	436	-
b) Interest rate swaps	-	437,670	634	-	-	413,924	46	-
c) Cross currency swaps	-	-	-	-	-	-	73	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	13,742	-	-	-	109,781	22,079	-
f) Futures	-	-	284	-	-	62	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**455,839**	**2,836**	**-**	**-**	**545,446**	**22,635**	**-**

A.3 OVER-THE-COUNTER FINANCIAL DERIVATIVES HELD FOR TRADING: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY

	Central counterparties	Banks	Other financial companies
Contracts not covered by netting arrangements			
1) Debt securities and interest rates			
- notional value	X	1,356,042	-
- positive fair value	X	18,432	-
- negative fair value	X	2,739	-
2) Equity securities and equity indices			
- notional value	X	1,144	570
- positive fair value	X	87	-
- negative fair value	X	-	-
3) Foreign currencies and gold			
- notional value	X	-	240,332
- positive fair value	X	-	5,797
- negative fair value	X	-	-
4) Commodities			
- notional value	X	-	-
- positive fair value	X	-	-
- negative fair value	X	-	-
5) Other assets			
- notional value	X	-	-
- positive fair value	X	-	-
- negative fair value	X	-	-
Contracts covered by netting arrangements			
1) Debt securities and interest rates			
- notional value	-	18,760,876	524,234
- positive fair value	-	433,051	2,054
- negative fair value	-	389,329	52,768
2) Equity securities and equity indices			
- notional value	-	-	-
- positive fair value	-	-	-
- negative fair value	-	-	-
3) Foreign currencies and gold			
- notional value	-	634,636	269,292
- positive fair value	-	1,923	6,496
- negative fair value	-	13,742	-
4) Commodities			
- notional value	-	-	-
- positive fair value	-	-	-
- negative fair value	-	-	-
5) Other assets			
- notional value	-	-	-
- positive fair value	-	-	-
- negative fair value	-	-	-

A.4 RESIDUAL LIFE OF OVER-THE-COUNTER FINANCIAL DERIVATIVES HELD FOR TRADING: NOTIONAL VALUES

	Up to 1 year	More than 1 year and up to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	5,831,857	4,602,409	10,244,872	20,679,138
A.2 Financial derivatives on equity securities and equity indices	1,144	-	570	1,714
A.3 Financial derivatives on exchange rates and gold	1,143,730	530	-	1,144,259
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2021	**6,976,731**	**4,602,939**	**10,245,442**	**21,825,111**
Total 31/12/2020	**18,674,280**	**3,497,043**	**5,370,019**	**27,541,342**

B. CREDIT DERIVATIVES

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

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 2021, 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 ITEM

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 December 31, 2021 are denominated in euros and are only 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.

QUANTITATIVE DISCLOSURES

A. FINANCIAL HEDGING DERIVATIVES

A.1 FINANCIAL HEDGING DERIVATIVES: END-PERIOD NOTIONAL VALUES

	Total 31/12/2021				Total 31/12/2020			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		Covered by netting arrangements	Not covered by netting arrangements			Covered by netting arrangements	Not covered by netting arrangements	
1. Debt securities and interest rates	**-**	**6,560,946**	**-**	**-**	**-**	**4,939,302**	**-**	**-**
a) Options	-	-	-	-	-	397,600	-	-
b) Swaps	-	6,560,946	-	-	-	4,541,702	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign currencies and gold	**-**	**-**	**-**	**-**	**-**	**52,651**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	52,651	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	-	6,560,946	-	-	-	4,991,953	-	-

A.2 FINANCIAL HEDGING DERIVATIVES: GROSS POSITIVE AND NEGATIVE FAIR VALUE - BREAKDOWN BY PRODUCT

	Positive and negative fair value								Change in value used to calculate hedge effectiveness	
	Total 31/12/2021				Total 31/12/2020					
	Over the counter			Organized markets	Over the counter			Organized markets	Total 31/12/2021	Total 31/12/2020
	Central counter parties	Without central counterparties			Central counterp arties	Without central counterparties				
		Covered by netting arrangements	Not covered by netting arrangements			Covered by netting arrangements	Not covered by netting arrangements			
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	37,112	-	-	-	7,256	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	1,455	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	-	37,112	-	-	-	8,710	-	-	-	-
Negative fair value										
a) Options	-	-	-	-	-	12,813	-	-	-	-
b) Interest rate swaps	-	247,018	-	-	-	157,635	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	3,374	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	-	247,018	-	-	-	173,821	-	-	-	-

A.3 OVER-THE-COUNTER FINANCIAL HEDGING DERIVATIVES: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY

	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity securities and equity indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Foreign currencies and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Other assets				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	-	6,015,675	545,270	-
- positive fair value	-	37,112	-	-
- negative fair value	-	208,356	38,662	-
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Other assets				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 RESIDUAL LIFE OF OVER-THE-COUNTER FINANCIAL DERIVATIVES: NOTIONAL VALUES

	Up to 1 year	More than 1 year and up to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	3,210,146	1,323,302	2,027,498	6,560,946
A.2 Financial derivatives on equity securities and equity indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	-	-	-	-
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2021	**3,210,146**	**1,323,302**	**2,027,498**	**6,560,946**
Total 31/12/2020	**2,650,449**	**1,114,354**	**1,227,150**	**4,991,953**

B. HEDGING CREDIT DERIVATIVES

The section has not been completed because there are no such positions.

C. DERIVATIVE HEDGING INSTRUMENTS

The section has not been completed because the Bank 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.

D. HEDGED ITEMS

D.1 FAIR VALUE HEDGES

	Micro hedges: carrying amount	Micro hedges		Macro hedges: carrying amount
		Cumulative value of fair value changes of the hedged instrument	Change in value used to calculate hedge effectiveness	
A. ASSETS				
1. Financial assets measured a fair value through other comprehensive income – hedges of:	**227,968**	**(1,161)**	**-**	**16,300**
1.1 Debt securities and interest rates	227,968	(1,161)	-	x
1.2 Equity securities and equity indices	-	-	-	x
1.3 Foreign currencies and gold	-	-	-	x
1.4 Loans	-	-	-	x
1.5 Other assets	-	-	-	x
2. Financial assets measured at amortized cost – hedges of:	**7,174,200**	**(74,865)**	**-**	**-**
1.1 Debt securities and interest rates	7,174,200	(74,865)	-	x
1.2 Equity securities and equity indices	-	-	-	x
1.3 Foreign currencies and gold	-	-	-	x
1.4 Loans	-	-	-	x
1.5 Other assets	-	-	-	x
Total 31/12/2021	**7,402,168**	**(73,704)**	**-**	**16,300**
Total 31/12/2020	**4,253,214**	**118,343**	**-**	**41,700**
B. LIABILITIES				
1. Financial liabilities measured at amortized cost – hedges of:	**85,867**	**(1,514)**	**-**	**-**
1.1 Debt securities and interest rates	85,867	(1,514)	-	x
1.2 Foreign currencies and gold	-	-	-	x
1.3 Other assets	-	-	-	x
Total 31/12/2021	**85,867**	**(1,514)**	**-**	**-**
Total 31/12/2020	**88,551**	**(2,679)**	**-**	**-**

D.2 CASH FLOW HEDGES AND HEDGES OF INVESTMENTS IN FOREIGN OPERATIONS

	Change in value used to calculate hedge effectiveness	Hedge reserves	Discontinuance of hedge: cumulative value of hedge reserves
A. CASH FLOW HEDGES			
1. Assets	(7)	(5,087)	-
1.1 Debt securities and interest rates	(7)	(5,087)	-
1.2 Equity securities and equity indices	-	-	-
1.3 Foreign currencies and gold	-	-	-
1.4 Loans	-	-	-
1.5 Other	-	-	-
2. Liabilities	-	-	-
1.1 Debt securities and interest rates	-	-	-
1.2 Foreign currencies and gold	-	-	-
1.3 Other	-	-	-
Total A 31/12/2021	**(7)**	**(5,087)**	**-**
Total A 31/12/2020	**(2,756)**	**(9,692)**	**-**
B. HEDGES OF INVESTMENTS IN FOREIGN OPERATIONS	**X**	**-**	**-**
Total A+B 31/12/2021	**(7)**	**(5,087)**	**-**
Total A+B 31/12/2020	**(2,756)**	**(9,692)**	**-**

E. EFFECTS OF HEDGING TRANSACTIONS IN EQUITY

E.1 - RECONCILIATION OF EQUITY COMPONENTS

	Reserve from cash flow hedges					Reserve from hedge of investments in foreign operations				
	Debt securities and interest rates	Equity securities and equity indices	Foreign currencies and gold	Loans	Other	Debt securities and interest rates	Equity securities and equity indices	Foreign currencies and gold	Loans	Other
Opening balance	**(9,692)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Fair value changes (effective portion)	6,090	-	-	-	-	-	-	-	-	-
Reversal to profit or loss	(1,485)	-	-	-	-	-	-	-	-	-
of which: forecast transactions no longer expected	-	-	-	-	-	X	X	X	X	X
Other changes	-	-	-	-	-	-	-	-	-	-
of which: transfers to initial carrying amount of hedged instruments	-	-	-	-	-	X	X	X	X	X
Closing balance	**(5,087)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

3.3 OTHER INFORMATION ON TRADING AND HEDGING DERIVATIVES

A. FINANCIAL AND CREDIT DERIVATIVES

A.1 OVER-THE-COUNTER FINANCIAL AND CREDIT DERIVATIVES: NET FAIR VALUE BY COUNTERPARTY

	Central counterparties	Banks	Other financial companies	Other
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	-	9,562,961	-	-
- positive fair value	-	32,812	-	-
- negative fair value	-	13,592	-	-
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
B. Credit derivatives				
1) Purchases of protection				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Sales of protection				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

SECTION 4 - LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

Iccrea Banca, in its capacity as the Parent Company of the ICBG, is responsible for the management, coordination and control of liquidity risk management within the entire Iccrea Mutual Banking Group in compliance with the principles of sound and prudent management.

As provided for under the Cohesion Contract, the Parent Company defines liquidity risk management policies, in accordance with the strategic planning and definition of the RAF.

In exercising this role, the Parent Company determines the governance model and mechanisms that govern the various stages involved in the management of liquidity and oversight of the associated risks, as well as interactions between business and control units in order to ensure an appropriate level of liquidity at the consolidated and individual levels at the intraday, short and medium/long-term time horizons.

RISK MANAGEMENT PROCESSES

Liquidity risk is identified and monitored using the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Bank and market conditions.

Identification of risks

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- operational liquidity – divided into two complementary levels:
  - intraday and very short-term liquidity*:* monitored on a daily basis in order to identify sources of risk that impact the Bank's ability to promptly balance very short-term cash inflows and outflows and maintain a volume of liquidity sufficient to ensure compliance with the liquidity coverage ratio (LCR) requirement;
  - short-term liquidity: identification of sources of risk that impact the Bank's ability to meet its expected and unexpected payment obligations over a short-term horizon (up to 12 months);
- structural liquidity - identification of structural mismatches between assets and liabilities maturing at more than 1 year and integration with short-term liquidity management as well as planning of actions and preventing the future creation of short-term liquidity shortfalls.

The Bank's liquidity profile, and therefore its exposure to liquidity risk, is closely related to the business model adopted, the composition of the balance sheet - in terms of assets, liabilities and off-balance sheet items - as well as the related maturity profile.

The process of identifying and classifying the risk factors connected with the operational and structural liquidity profiles seeks to define the elements that, in terms of risk exposure, could trigger a deterioration in the liquidity position when endogenous and/or exogenous stress events occur.

Liquidity risk can be generated by various factors both internal and external to the Bank. The sources of liquidity risk can therefore be divided into the following macro-categories:

- endogenous: represented by adverse events specific to the Bank (e.g. a deterioration in the Bank's credit standing and loss of confidence by creditors);
- exogenous: when the origin of the risk is attributable to adverse events that cannot be directly controlled by the Bank (political crises, financial crises, catastrophic events, etc.) that give rise to liquidity tensions in the markets;
- combinations of the previous factors.

Measurement of risks

Measuring liquidity risk involves the activities performed to observe and quantify on a comprehensive, accurate and timely basis the exposure to such risk over the selected observation horizon.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder in order to:

- monitor the risk profile in "business as usual" conditions, overseeing the overall system of indicators that characterize the Liquidity Risk Framework;
- execute stress testing, which involves the determination of the liquidity position in severe but plausible adverse scenarios, assessing the impact at the consolidated and individual levels.

The risk position is measured with the use of models, specific indicators and additional metrics developed either internally or established in regulations.

The analysis of the maturity profiles depends substantially on assumptions about the future cash flows associated with the various assets and liabilities, both on-balance-sheet and off-balance-sheet, which take account of the economic maturities of the balance sheet elements rather than contractual dates, without neglecting the application of reasonable prudence criteria.

The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, two maturity curves are developed: operational and structural.

The operational maturity ladder is used to monitor the short-term liquidity position and is determined both in a business-as-usual scenario and in a stress scenario by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines.

The intraday liquidity position is measured with metrics aimed at monitoring the maximum use of liquidity on an intraday basis, the reserves available at the beginning of each business day to meet liquidity requirements, gross payments sent and received and "time-specific" obligations.

The treasury position is measured on a daily basis by quantifying the liquidity reserves (i.e. counterbalancing capacity, or CBC) and using them to cover any possible negative liquidity balance over the reference time horizon.

This system for monitoring operational liquidity makes it possible to monitor:

- management of access to the payments system (operational liquidity management);
- management of the liquidity outflow profile;
- the size and degree of use of liquidity reserves (analysis and active management of the maturity ladder);
- the active management of collateral (cash-collateral management, i.e. refinanceable securities and bank loans);
- the integration of short-term liquidity management actions with structural liquidity requirements.

The structural maturity ladder is used to monitor the overall liquidity position, both at short and medium/long-term. It is determined by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines. The projection of cash inflows and outflows at the various time bands in the ladder is carried out using two distinct approaches in relation to the purpose of the analysis.

- The first approach identifies cash flows based on the contractual maturities of the items considered;
- The second approach is based on the adoption of behavioral assumptions, with specific regard to the modeling of demand items and margins on the credit lines granted in both a business-as-usual scenario and in a stress scenario.

This tool is essential for obtaining a view of funding requirements and an understanding of the liquidity risk associated with execution of the funding plan, thereby preventing the emergence of future liquidity strains. In addition, the structural maturity ladder makes it possible to control:

- the management of maturity transformation in accordance with the guidelines established by management;
- support for the funding decisions in the funding plan.

Risk prevention and attenuation

Liquidity risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the Liquidity Risk Framework. The definition of this system took account of the nature, objectives and complexity of operations.

The system of limits (RAS, risk limits and contingencies) is defined by the Parent Company consistent with its policy-setting and coordination role and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the liquidity risk management model adopted.

The system of limits is also accompanied by a comprehensive system of systems and controls that contribute to defining the overall control model set out and formalized in the associated policy.

The controls established to manage liquidity risk break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the liquidity profile and activate escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

Control activities are carried out by the Risk Management function and are intended to monitor the exposure to liquidity risk in order to prepare reports for transmission to the competent units and to initiate the escalation mechanisms should the specified limits be exceeded. Control activities is based on the assessment and measurement of the risk profile with respect to the risk indicators established by the Risk Governance framework and are an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk 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.

QUANTITATIVE DISCLOSURES

1. DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY

EURO

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Unspecified maturity
On-balance-sheet assets	**2,469,863**	**887,608**	**312,040**	**1,101,285**	**606,181**	**1,174,341**	**2,326,894**	**26,636,160**	**7,630,633**	**6,719,686**
A.1 Government securities	3	-	1,427	212	25,758	484,029	547,338	5,747,141	3,720,232	-
A.2 Other debt securities	2,493	41	109	1,136	7,749	8,843	29,790	323,058	1,363,660	9,400
A.3 Units in collective investment undertakings	429,683	-	-	-	-	-	-	-	-	-
A.4 Loans	2,037,684	887,567	310,504	1,099,936	572,674	681,469	1,749,766	20,565,961	2,546,741	6,710,286
- banks	1,061,273	743,300	266,130	703,133	438,439	518,400	1,011,577	17,843,118	1,755,929	6,710,286
- customers	976,411	144,267	44,374	396,803	134,234	163,069	738,189	2,722,843	790,811	-
On-balance-sheet liabilities	**12,491,796**	**4,331,983**	**99,334**	**382,623**	**1,068,512**	**1,211,752**	**3,327,848**	**25,147,637**	**2,874,459**	**-**
B.1 Deposits and current accounts	11,736,748	76,140	57,233	174,130	256,388	631,658	2,166,274	2,543,808	367,472	-
- banks	10,909,726	76,140	57,233	174,130	256,388	631,658	2,166,274	2,543,808	367,472	-
- customers	827,021	-	-	-	-	-	-	-	-	-
B.2 Debt securities	22	910	-	-	395,339	2,784	705,291	982,892	1,700,000	-
B.3 Other liabilities	755,027	4,254,932	42,101	208,493	416,785	577,309	456,283	21,620,937	806,987	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	31,421	256,497	7,651	541,646	11,617	8,157	37,235	263,735	-
- short positions	-	50,552	255,299	8,578	529,868	28,899	3,283	48,507	268,703	-
C.2 Financial derivatives without exchange of principal										
- long positions	1,095,167	-	90	-	4,808	5,308	9,044	-	-	-
- short positions	1,085,698	40	-	-	13,590	20,651	43,844	-	-	-
C.3 Deposits and loans to receive										
- long positions	-	3,871,962	50,859	515,764	204,194	2,562,415	3,511,411	571,198	-	-
- short positions	-	66,000	51,161	479,966	779,013	3,116,345	5,141,201	1,654,117	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	15,473	213,360	250	4,190	4,861	3,016	9,996	42,724	56,609	-
- short positions	148,123	91,191	-	-	122,169	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

OTHER CURRENCIES

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Unspecified maturity
On-balance-sheet assets	**7,754**	**2,169**	**12,504**	**13,959**	**23,897**	**9,850**	**1,491**	**10,909**	**1,774**	**1,766**
A.1 Government securities	-	4	1	5	9	44	63	5,998	850	-
A.2 Other debt securities	5	-	9,160	-	7	88	210	2,263	924	1,766
A.3 Units in collective investment undertakings	438	-	-	-	-	-	-	-	-	-
A.4 Loans	7,311	2,165	3,343	13,954	23,881	9,717	1,218	2,649	-	-
- banks	7,268	2,165	3,343	13,290	8,817	8,857	1,218	2,649	-	-
- customers	43	-	-	664	15,064	861	-	-	-	-
On-balance-sheet liabilities	**156,904**	**30,114**	**10,437**	**18,803**	**10,213**	**4,990**	**2,458**	**152**	**185**	**-**
B.1 Deposits and current accounts	151,304	30,114	10,437	18,803	10,213	4,990	2,457	-	-	-
- banks	148,908	30,114	10,437	18,803	10,213	4,990	2,457	-	-	-
- customers	2,396	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	5,600	-	-	-	-	-	1	152	185	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	34,215	590	8,861	531,279	26,965	3,136	51	405	-
- short positions	-	13,186	1,730	7,839	527,736	9,392	8,219	591	619	-
C.2 Financial derivatives without exchange of principal										
- long positions	1,670	-	-	-	-	-	-	-	-	-
- short positions	2,544	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to receive										
- long positions	-	22	-	-	-	-	-	-	-	-
- short positions	-	22	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	-	804	-	-	-	-	-	-	-	-
- short positions	-	804	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

SECTION 5 - OPERATIONAL RISKS

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISKS

Operational risk means the risk of losses caused by the inadequacy or malfunction of procedures, human resources and internal systems or the occurrence of external events. For example, such losses include those caused by fraud, human error, operational interruptions, system unavailability, breach of contract and natural disasters.

The various types of operational risk to which the Bank is structurally exposed therefore include IT risk and reputational risk. This is associated with the banking activities carried out with the public and financial and institutional counterparties, as well as the numerous national and international regulations to which the Bank is subject.

The organizational model adopted by the Bank within the Group to manage and monitor operational risks is structured into two levels:

- at the Parent Company, the Operational & IT Risk Management unit has been established, reporting to Group Risk Management within the CRO area, which is responsible for operational and IT risks and is charged with:
  - responsibility for policy-making and coordinating risk management activities for the Iccrea Mutual Banking Group concerning operational and IT risks. This unit operates as a specialist hub for this area;
  - responsibility for supporting the Risk Management functions of the direct scope subsidiaries and, through the Mutual Bank Risk Management Coordination unit, the risk management functions of the affiliated banks;
- at the affiliated banks and direct scope subsidiaries, the Risk Management units report to their boards of directors and are responsible, among other duties, for monitoring and managing developments in the exposure to operational 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 (IR-SA), the identification and assessment of prospective risks have been initiated and conducted for certain companies within the direct scope, including Iccrea Banca and other mutual banks. In 2021 the development of the related application system also continued.

With specific reference to IT risk, the application component supporting IR-SA activities has been rolled out and was used to assess the IT risk profile at December 31, 2021 of Iccrea Banca and BCC Sistemi Informatici, the latter of which is the prime supplier of ICT services to the Bank.

As in the previous year, 2021 also saw a specific training effort for the Operational Risk Management framework, with specific attention being paid to operating approaches and support applications.

The Parent Company's Operational Risk Management function also supported the collection of operational loss events at the Group level for management reporting use and for QIS and COREP regulatory reporting purposes.

With regard to the monitoring activities of the Incident Management Process, significant incidents were monitored continuously, from the time of their occurrence until closure of the incident, with the performance of assessment activities in the event of incidents with specific characteristics or for which particular risk factors were identified. Specific periodic reporting is prepared for these activities.

QUANTITATIVE DISCLOSURES

As provided for in Circular no. 285/2013 of the Bank of Italy as updated, for reporting purposes the Bank calculates operational risks using the Basic Indicator Approach. Under the Basic Indicator Approach, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the volume of business, which in the case of the Bank is "gross income". In particular, the Bank's capital requirement, equal to 15% of the average of the last three observations of gross income at the end of the previous year (December 31, 2021), amounted to €65,978 thousand.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2021	T	608,648
- at December 31, 2020	T-1	328,873
- at December 31, 2019	T-2	382,036
Relevant indicator average		**439,852**
Regulatory coefficient		**15%**
Capital requirement		**65,978**

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

	31/12/2021	31/12/2020
1. Share capital	1,401,045	1,401,045
2. Share premium reserve	6,081	6,081
3. Reserves	183,456	252,486
- earnings	183,456	252,486
a) legal	50,785	50,785
b) established in bylaws	205	205
c) treasury shares	-	-
d) other	132,466	201,496
- other	-	-
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves:	45,353	38,050
- Equity securities designated as at fair value through other comprehensive income	2,452	(3,136)
- Hedges of equity securities designated as at fair value through other comprehensive income	-	-
- Financial assets measured at fair value through other comprehensive income	(947)	1,524
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedging of investments in foreign operations	-	-
- Cash flow hedges	(5,087)	(9,692)
- Hedging instruments [undesignated elements]	-	-
- Foreign exchange differences	-	-
- Non-current assets held for sale	-	-
- Financial liabilities designated as at fair value through profit or loss (change in own credit rating)	-	-
- Actuarial gains (losses) on defined benefit plans	(3,127)	(2,708)
- Share of valuation reserves of equity investments accounted for using equity method	-	-
- Special revaluation laws	52,062	52,062
7. Net profit (loss) for the period	53,178	(66,795)
Total	1,689,114	1,630,867

B.2 - VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Total 31/12/2021		Total 31/12/2020	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	343	1,290	1,705	181
2. Equity securities	3,381	929	1,504	4,640
3. Loans	-	-	-	-
Total	3,725	2,219	3,210	4,821

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	**1,524**	**(3,136)**	**-**
2. Increases	**1,179**	**5,874**	**-**
2.1 Fair value gains	840	5,874	-
2.2 Writedowns for credit risk	-	X	-
2.3 Reversal to income statement of negative reserves: from realization	339	X	-
2.4 Transfers to other components of shareholders' equity (equity securities)	-	-	-
2.5 Other changes	-	-	-
3. Decreases	**3,651**	**285**	**-**
3.1 Fair value losses	2,284	285	-
3.2 Writebacks for credit risk	450	-	-
3.3 Reversal to income statement of positive reserves: from realization	917	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	-	-	-
3.5 Other changes	-	-	-
4. Closing balance	**(947)**	**2,452**	**-**

B.4 - VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

	31/12/2021		31/12/2020	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
Gain (loss) from change in financial assumptions	-	-	-	-
Gain (loss) from time value effect	-	(420)	-	(222)
Total	-	(420)	-	(222)

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 2021 to key management personnel as required by IAS 24. Key management personnel are managers who have the power and responsibility, directly or indirectly, for the planning, management and control of the Bank's activities, including the directors and members of the supervisory bodies.

	Total 31/12/2021				
	Short term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
Key management personnel	7,831	281	-	-	-

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 31/12/2021			
	Subsidiaries	Associated companies	Key management personnel	Other related parties
Financial assets	27,468,051	97,547	-	-
Total other assets	92,414	-	-	-
Financial liabilities	18,307,196	18,472	-	-
Total other liabilities	90,324	-	-	-
Commitments and financial guarantees issued	7,935,692	-	-	-
Commitments and financial guarantees received	90,965	-	-	-
Provisions for doubtful loans	-	-	-	-

	At 31/12/2021			
	Subsidiaries	Associated companies	Key management personnel	Other related parties
Interest income	66,244	90	-	-
Interest expense	(197,347)	-	-	-
Dividends	23,371	-	-	-
Fee and commission income	73,740	221	-	-
Fee and commission expense	(7,802)	(12)	-	-
Other operating expenses/income	(61,122)	1	-	-
Net gain (loss) on trading activities	(9,028)	-	-	-
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

Exercising of the option granted by IFRS 8, segment information is presented solely with regard 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 December 31, 2021, the Bank held 373 leases, of which 35 relating to property leasing, and 338 relating to cars for total right-of-use assets of €4,025 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 notes to the financial statements reports right-of-use assets acquired with leases in the amount of €4,025 thousand (Table 8.1 – Operating property, plant and equipment: composition of assets carried at cost); with leases liabilities of €4,204 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 €60 thousand (Table 1.3 Interest and similar expense, Financial liabilities measured at amortized cost: amounts due to customers).

The following table breaks down depreciation charges (reported in Table 12.1 on the income statement) for right-of-use assets into the various categories.

The right of use relating to leased assets (rental of properties and cars) has been recognized under the sub-item "Assets acquired under finance leases" as required by IFRS 16.

	Property	Automobiles	Total 2021	Total 2020
Initial value	997	2,226	3,223	2,492
Purchases	131	2,862	2,995	2,380
Sales	0	(1)	(1)	(41)
Depreciation	(594)	(1,549)	(2,144)	(1,608)
- of which sale	(15)	(24)	(39)	-
Value of assets held for sale	(8)	(39)	(48)	-
Assets acquired under finance leases	**526**	**3,499**	**4,025**	**3,223**

SECTION 2 – LESSOR

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

ATTACHMENTS - ACCOUNTS OF THE GUARANTEE SCHEME

DOCUMENT OBJECTIVE

Under the provisions of the Guarantee Scheme, which is governed by legislation and the Cohesion Contract, each bank participating in the Iccrea Mutual Banking Group (ICBG) has paid in a guarantee contribution - commensurate with its risk-weighted exposures and limited to capital in excess of the mandatory requirements at the individual level - in order to give the Parent Company readily available funds (RAFs) to undertake financial support interventions to ensure the solvency and liquidity of the individual affiliated banks.

The RAFs are represented by:

- an Ex Ante Quota established at the Parent Company through loans for a specific transaction pursuant to Article 2447-bis, letter b) and Article 2447-decies of the Italian Civil Code; and
- an Ex Post Quota that can be called up by the Parent Company in case of need, established with an irrevocable commitment of the affiliated banks to the Parent Company.

The objective of this document is to present the separate accounts of the loan for a specific transaction and to report on the overall management of the funds underlying the operation of the Guarantee Scheme (Ex Ante Quota and Ex Post Quota) for 2021, consistent with the provisions of Article 6.3[66] of the Cohesion Contract and Article 4.3[67] of the Loan Agreement.[68]

The loan, pursuant to Article 3 of the Loan Agreement ("Purpose of the loan"), is intended exclusively for the realization of the transaction,[69] whose objective is the establishment and management of the Ex Ante Quota of the RFA for the purpose of implementing the guarantee interventions aimed at safeguarding solvency and the liquidity of the affiliated banks.

Contribution to the Guarantee Scheme

In order to guarantee that the Parent Company has ready access to the financial resources necessary to implement guarantee interventions, in April 2019 the participating banks established the readily available funds (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 Cohesion Contract provides for the ICBG to conduct annual stress tests of the participating banks to quantify their potential capital requirements in an adverse scenario and verify the necessary volume of Group funds.

In light of the COVID-prompted suspension of the 2020 stress testing for the calculation of the RAFs and the calibration of the 2021 EWS capital thresholds, the Board of Directors of Iccrea Banca voted to confirm, for the whole of 2021:

- the amount of Readily Available Funds and the consequent guarantee obligations in force for 2020;
- the reference threshold levels for the capital ratios of the EWS capital profile in force for 2020, which are linked to the determination of the RAFs.

In view of the foregoing, the RAFs for the 2021 financial year, as for the 2020 financial year, are equal to:

- Aggregate Ex Ante Quota: €385.4 million;
- Aggregate Ex Post Quota: €797.2 million.

In order to ensure the availability of the capital requirement estimated during the quantification phase, the Parent Company defined a quota adjustment mechanism that considers the effective availability of funds at the date of updating on the basis of the following information:

1. an estimated of the Ex Ante Quota of the Bank for 2021;
2. the fair value at December 31, 2021 of the loan disbursed by the Bank;
3. the fair value of amounts of the share attributed to the Bank for support interventions conducted up to December 31. 2020.

The greater or lesser amount to be adjusted was calculated, for each participating bank, by subtracting from the amount of the Ex Ante Quota due (1) the fair value of the loan at the end of 2020 (2) and adding any intervention amounts attributed to that bank (3).

Consequently, the Parent Company reimbursed a total of €5,111,163 to the participating banks, equal to the difference between the Ex Ante Quota for 2021 (€385,363,918) and the fair value of the loan (€412,634,331), net of the fair value of the support interventions carried out (€22,159,250).

[66] "Within the context of the operation of the Guarantee Agreement the Parent Company shall prepare at least annually a periodic report on the participation of the affiliated banks in the Guarantee Agreement and in the formation of the Ex Ante Funds and the Ex Post Funds".

[67] "…monitoring of the execution of the Transaction shall be performed by the Lending Parties on the basis of the disclosures and reporting periodically made available by the Beneficiary, also pursuant to the provisions of the Cohesion Contract".

[68] The Cohesion Contract was signed by the Parent Company and the affiliated banks in accordance with the provisions of Article 37-bis, paragraph 3, of the Consolidated Banking Act, while the Loan Agreement was signed by the affiliated banks, as the Lending Parties, and by the Parent Company, as the Beneficiary, in order to create the loan for a specific transaction referred to in Articles 2447-bis, letter b) and 2447-decies of the Civil Code.

[69] See Article 4.1 of the Loan Agreement ("Description of the transaction").

The settlement of the Ex Ante Quotas was implemented by crediting the settlement accounts (CRG) of each Affiliate in the first quarter of 2021 with value date 01/01/2021.

No adjustment activities were necessary for the Ex Post Quota as the 2020 quotas were confirmed.

Interventions of the Guarantee Scheme

In compliance with the provisions of the applicable legislation, the Cohesion Contract establishes that the Intercompany Support Interventions (hereafter interventions) necessary to ensure the solvency and liquidity of the individual participating banks shall be carried out solely by the Parent Company.

The Parent Company carries out the interventions, drawing on the overall RAFs of the Guarantee Scheme, taking account of the indications of the EWS and ensuring compliance with the prudential requirements and the requests of the supervisory authorities, within the limit of the free capital of the participating banks. The interventions may consist of:

- capital support interventions to be carried out through capitalization measures (including the subscription of financing actions pursuant to Article 150-ter of the Consolidated Banking Act through the Ex Ante Quota of the RAFs);
- liquidity support interventions to be carried out through financing measures in support of liquidity (for example, financing transactions with appropriately defined maturity or securities lending);
- interventions in any other technical form deemed appropriate by the Parent Company.

Capital support interventions drawing on the Ex Ante resources of the RAFs, are attributed on a pro-rated basis to each mutual bank,[70] in accordance with the "Accounting and prudential model for the Cross-Guarantee Scheme".[71] The share of each affiliated bank in the intervention is:

- recognized in the accounts as indirect financing in a subordinated debt or equity instrument on the basis of the capital instrument issued by the beneficiary bank;
- 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.

To date, the Guarantee Scheme has conducted capital support interventions totaling €107.5 million.

[70] In accordance with the "Guarantee Scheme Policy" the beneficiaries of an intervention and banks with a free capital buffer of less than 30 bp (the technical capacity margin provided for in the allotment of guarantee obligations) are excluded from the allotment of the support, with the consequent reallocation of the amount due to the other participating banks that had capital capacity available.

[71] See Guidance and Coordination Directive ICR-OUT-0291-2019-DIR of 9/4/2019 ("Documentation governing the operation of the Cross-Guarantee Scheme".

ISIN/Internal code	Instrument [72]	Beneficiary mutual bank	Subscription date	Nominal amount	Details
IT0005397010	T2 sub. loan	Vival Banca	30/12/2019	8,000,000	Term 10 years rate 4.25%
IT0005395634	T2 sub. loan	Banca Centropadana	16/12/2019	5,000,000	Term 7 years fixed rate 3%
IT0005395626	T2 sub. loan	Banca Centropadana	16/12/2019	10,000,000	Term 10 years fixed rate 3%
BVALDICH8489	Art. 150-ter shares	Banca Valdichiana	26/05/2021	35,000,000	PV share 25.00 no. shares 1,400,000
BCENTROP8324	Art. 150-ter shares	Banca Centropadana	23/06/2021	13,200,010	PV share 25.82 no. shares 511,232
BPISAFOR8562	Art. 150-ter shares	Banca di Pisa e Fornacette	29/09/2021	19,000,032	PV share 69.65 no. shares 272,793
VIVALBAN8003	Art. 150-ter shares	Vival Banca	29/09/2021	15,999,999	PV share 25.80 no. shares 620,155
MASSAFRA7094	Art. 150-ter shares	BCC di Massafra	02/11/2021	1,300,000	PV share 50.00 no. shares 26,000
Total				**107,500,041**	

All of the interventions were funded solely with available resources from the Ex Ante Quota of the RAFs, pursuant to Article 6.1 of the Cohesion Contract.

[72] On the basis of the "mark to model" valuations, in accordance with the method envisaged in the Parent Company's fair value policy, the end-2021 prices of the subordinated securities "T2 subordinated loans", are reported below:

ISIN	Issue	Mark to model prices
IT0005397010	Vival Banca	100.819
IT0005395634	Banca Centropadana	97.403
IT0005395626	Banca Centropadana	97.403

At December 2021, 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. Accordingly, the participating banks were not required to adjust the fair value at that date.

Investment of the Ex Ante Quota of the RAFs

Pursuant to Article 5 of the Loan Agreement, the Parent Company invests the Ex Ante funds in liquid and enforceable assets, in accordance with the prescriptions, limits and requirements set out in the Investment Policy for the Ex Ante Quota of the RAFs.[73]

The following table shows the details of the investments at December 31, 2021:

Country	31/12/2021	31/12/2020
Austria	1,124,569	1,154,053
Belgium	10,039,376	11,010,576
Finland	1,360,153	1,393,460
France	42,715,533	45,596,771
Germany	32,406,417	36,408,171
Ireland	7,978,260	8,062,174
Italy	79,817,264	91,442,622
Netherlands	2,293,150	2,337,324
Supranational	33,303,107	45,795,893
Spain	42,783,573	80,197,105
Covered bonds	18,733,363	17,678,245
Subordinated bonds subscribed as part of interventions:	22,695,403	22,178,728
- *Centropadana*	14,628,949	14,236,474
- *VivalBanca*	8,066,454	7,942,254
Article 150-ter shares subscribed in interventions:	84,500,042	-
- *Valdichiana*	35,000,000	-
- *Centropadana*	13,200,010	-
- *Pisa e Fornacette*	19,000,032	-
- *VivalBanca*	15,999,999	-
- *Massafra*	1,300,000	-
Liquidity[74]	26,145,605	49,379,207
Total	**405,722,503**	**412,634,330**

Value of the transaction

On a quarterly basis, the Parent Company determines the fair value of the transaction as a result of the overall performance of the resources invested and deployed and periodically notifies the individual mutual banks of the value of their contribution to the specific transaction, equal to the pro-rated share of the total.

Pursuant to Article 4.1 of the Loan Agreement, the revenues of the transaction consist of the investment yields[75] and the returns deriving from the implementation of the interventions. Costs are made up of management costs and possible losses deriving from the transaction and investments.

Pursuant to Article 12 of the Loan Agreement, the Parent Company pays the affiliated banks remuneration related to developments in the transaction and investment activities on the basis of the adjustments to the fair value of the loan and the accounting effects of the interventions undertaken by the Parent Company.

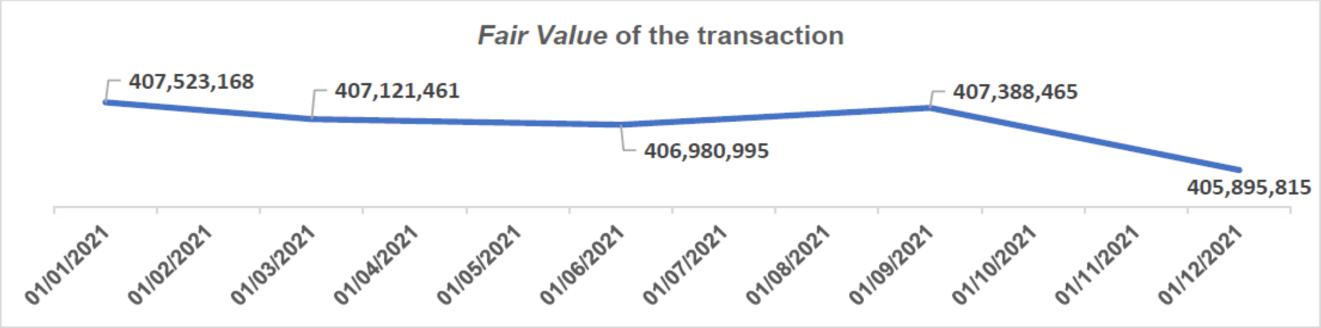
The following table provides a breakdown of the fair value notified periodically in 2021 and the associated changes with respect to the fair value of the transaction at January 1, 2021:

[73] The Investment Policy for the Ex Ante Quota of the RAFs is part of the documentation of the Guarantee Scheme, approved by the Board of Directors of the Parent Company on February 28, 2019. The Investment Policy was subsequently amended by the Board of Directors of on June 24, 2021 in order to i) include "cash and overnight deposits" within investible funds, ii) adjust the risk limits to the size and average residual maturity of the portfolio, and iii) revise the heirarchical escalation mechanism for the Cumulative Maximum Loss limit.

[74] Liquidity does not include interst accrued on the subordinated loan issued by Vival Banca, which was paid to the Parent Company with a value date of December 31, 2021 (in the total amount of €173,311) and recognized under "Other assets" (item 120). As the interest was paid after December 31, 2021, it will be recognized under "Cash and cash equivalents" (item 110) following the close of the year.

[75] See Article 5 of the Loan Agreement.

Reference date	Fair value	Change in *fair* value since January 1, 2021[76]
01/01/2021	407,523,168	
31/03/2021	407,121,461	(401,707)
30/06/2021	406,980,995	(542,173)
30/09/2021	407,388,465	(134,703)
31/12/2021	405,895,815	(1,627,353)



Developments in the value of the transaction are indicated below:

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.[77]

The following table shows all the components that determined the change in the overall fair value of the investments at December 31, 2021.

	31/12/2021
Interest and similar income	3,097,846
Interest and similar expense	(221,505)
Net interest income	**2,876,341**
Fee and commission income	-
Fee and commission expense	(32,673)
Net fee and commission income (expense)	**(32,673)**
Net gain (loss) on financial assets and liabilities measured at fair value	(4,471,021)
Gross income	**(1,627,353)**
Other operating expenses/income	-
Overall performance of GS	**(1,627,353)**

See the following section for a breakdown of the individual items.

[76] With a reference date of 31/03/2021 the notice was transmitted to the affiliated banks on April 13, 2021 with Guidance and Coordination Notice Prot. ICR-OUT- 000215-2021-DG “Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 31/03/2021”.
With a reference date of 30/06/2021 the notice was transmitted to the affiliated banks on July 13. 2021 with Guidance and Coordination Notice Prot. ICR-OUT- 000728-2021-DG “Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 30/06/2021”.
With a reference date of 30/09/2021 the notice was transmitted to the affiliated banks on October 11, 2021 with Guidance and Coordination Notice Prot. ICR-OUT- 000951-2021-DG “Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 30/09/2021”.
With a reference date of 31/12/2021 the notice was transmitted to the affiliated banks on January 14, 2022 with Guidance and Coordination Notice Prot. ICR-OUT-000139-2022-DG “Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 31/12/2021”.

[77] The model 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 with the management of the funds, to be offset in profit or loss by an item of the opposite sign in order to attribute to the providers of the financing with the net result of the overall management of the funds during the period in question.

ACCOUNTS OF THE LOAN FOR A SPECIFIC TRANSACTION

The rules governing the loan for a specific transaction require the adoption of dedicated/separate accounts that ensure the segregation and the separation of income and all other amounts generated by the investment of the liquidity of the loan from the resources of the Parent Company and the companies of the Group.

The model used by the Parent Company to manage the separate accounts of the loan provides for all financial components that affect the financial statements of Iccrea Banca in relation to the management of the funds relating to the transaction, whether generated by valuation or income and charges connected to the management of the funds to be offset in profit or loss by an item of the opposite sign in order to provide the providers of the financing with the net proceeds of the overall management of the funds during the period in question.

Balance sheet – Assets

The tables are presented in euros.

Assets	31/12/2021	31/12/2020
10. Cash and cash equivalents	25,972,294	49,209,207
20. Financial assets measured at fair value through profit or loss	295,250,168	363,255,123
b) *financial assets designated as at fair value*	*295,250,168*	*363,255,123*
70. Equity investments	84,500,042	-
120. Other	173,311	170,000
Total assets	**405,895,815**	**412,634,330**

Cash and cash equivalents

The amounts regard resources not invested in securities and held on the account of the Guarantee Scheme at the Bank of Italy and liquidity held on the account held with 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 (euros)	31/12/2021	31/12/2020
Austria	1,124,569	1,154,053
Belgium	10,039,376	11,010,576
Finland	1,360,153	1,393,460
France	42,715,533	45,596,771
Germany	32,406,417	36,408,171
Ireland	7,978,260	8,062,174
Italy	79,817,264	91,442,622
Netherlands	2,293,150	2,337,324
Supranational	33,303,107	45,795,893
Spain	42,783,573	80,197,105
Covered bonds	18,733,363	17,678,245
Subordinated bonds subscribed as part of interventions:	22,695,403	22,178,728
- Centropadana	14,628,949	14,236,474
- VivalBanca	8,066,454	7,942,254
Total	**295,250,168**	**385,110,727**

Equity investments

The amount regard Article 150-ter shares subscribed by the Parent Company for capital support interventions in 2021:

Equity investment	31/12/2021	31/12/2020
Article 150-ter shares subscribed in interventions:	84,500,042	-
- *Valdichiana*	35,000,000	-
- *Centropadana*	13,200,010	-
- *Pisa e Fornacette*	19,000,032	-
- *VivalBanca*	15,999,999	-
- *Massafra*	1,300,000	-
Total	**84,500,042**	**-**

Other

The item includes the interest accrued on the subordinated loan issued by Vival Banca, paid to the Parent Company with a value date of December 30, 2021. As it was paid after December 31, 2021, the interest will be recognized under “cash and cash equivalents” (item 10) after the close of the year.

Balance sheet – liabilities

The following tables are stated in euros.

Liabilities	31/12/2021	31/12/2020
30. Financial liabilities designated as at fair value	335,391,646	340,957,045
80. Other liabilities	70,504,169	71,677,285
Total liabilities	**405,895,815**	**412,634,330**

Financial liabilities designated as at fair value

The item includes the Ex Ante Quota of the affiliated banks (€247.12 million), adjusted to account for the performance of the dedicated loan at December 31, 2021, and the fair value of the indirect financing in subordinated debt securities issued by Banca Centropadana and VivalBanca and equity instruments issued by Banca Valdichiana, Banca Centropadana, BCC di Pisa e Fornacette, VivalBanca e BCC Massafra (totaling €88.27 million). The decrease (€1.34 million) mainly reflects the decrease in fair value of financial instruments held (€1.77 million), offset by the increase in fair value of the indirect financing in financial instruments (€428 thousand).

Other liabilities

Other liabilities mainly regard the Ex Ante Quota pertaining to the Parent Company (€51.6 million), adjusted to account for the performance of the dedicated loan at December 31, 2021 and the indirect financing in subordinated debt securities issued by Banca Centropadana and VivalBanca and equity instruments issued by Banca Valdichiana, Banca Centropadana, BCC di Pisa e Fornacette, VivalBanca and BCC Massafra (totaling €18.9 million) pertaining to the Parent Company. The decrease (-€284 thousand) mainly reflects the change in fair value of financial instruments held (€373 thousand) offset by the increase in fair value of the indirect financing in financial instruments (€88 thousand).

Income statement

	31/12/2021	31/12/2020
10. Interest and similar income	3,097,846	3,357,272
20. Interest and similar expense	(221,505)	(124,827)
30. Net interest income	**2,876,341**	**3,232,445**
50. Fee and commission expense	(32,673)	(51,632)
60. Net fee and commission income (expense)	**(32,673)**	**(51,632)**
110.a Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss	(4,471,021)	1,089,599
of which gain/loss on debt securities	*(137,036)*	*(139,367)*
of which minus/plus on debt securities	*(4,333,985)*	*1,228,966*
Performance of GS	**(1,627,353)**	**4,270,412**
110.a Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss of which portion allocated to affiliated banks	1,342,919 [78]	(3,525,723)
210. Other operating expenses/income – of which Ex Ante Quota pertaining to Parent Company	284,434 [79]	(744,689)
300. Net profit (loss) for the period	-	-

The model provides that 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, 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.

Interest and similar expense

Interest expense includes interest paid on the Euroclear account (amounting to €13,141) and the PM account held at the Bank of Italy (€208,364).

Fee and commission expense

The item includes custody fees and expenses paid to Euroclear Bank SA (€26,844) and account fees paid to the Bank of Italy (€5,828).

[78] 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 -€3,128,102). The item breaks down as follows:

110.a	Net gain (loss) on financial assets and liabilities measured at fair value through profit or loss	(3,128,102)
	– of which assets and liabilities designated as at fair value	(4,471,021)
	▪ of which gain/loss on debt securities	(137,036)
	▪ of which minus/plus on debt securities	(4,333,985)
	– of which: change in value of financial liabilities designated as at fair value (share attributed to mutual banks)	1,342,919

[79] In the income statement, the change in the Ex Ante Quota pertaining to the Parent Company is reported under item 210. Other operating expenses/income

Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss - a) financial assets and liabilities designated as at fair value

The item includes the increase in the fair value of the financial instruments subscribed in accordance with the Investment Policy for the Ex Ante Quotas of the readily available funds, less the quota for the period reattributed to the affiliated banks on a pro-rated basis in accordance with the accounting model established for the dedicated loan.

110.a	Financial assets and liabilities designated as at fair value	(3,128,102)
	of which: Net gain (loss) of financial assets and liabilities designated as at fair value	(4,471,021)
	of which: Change in the value of financial liabilities designated as at fair value	1,342,919

Other operating expenses

This item includes the changes in the value of the Ex Ante Quota pertaining to the Parent Company associated with the result of the management of the dedicated loan at December 31, 2021.

Application of the compensation mechanism for 2021

In accordance with the provisions of Article 7 letter h of the Cohesion Contract, the contributions paid by the participating banks to the Guarantee System are remunerated. More specifically, participating banks that generate a larger guarantee requirement than that attributed pay a premium to participating banks that generate a smaller guarantee requirement than that attributed to them.

The model for applying the compensation mechanism is defined in Annex A to the Guarantee Scheme Policy.

The premium paid/collected by the participating banks for their contribution to the generation/coverage of the requirement is determined by applying a rate of remuneration (differentiated by type of requirement attributed and generated: Ex Ante and Ex Post).

For 2021, the Parent Company has set the rate of remuneration applied to the compensated funds of the:

- Ex Ante Quota equal to the daily average yield for the previous year of the 5-year Italian government bond between 01/01/2020 – 31/12/2020, Bloomberg ticker GBTPGR05 (equal to 0.549%);
- Ex Post Quota equal to average 3-month Euribor recorded in the period between 01/01/2020 - 31/12/2020 (equal to -0.427%) plus a spread of 0.50%, equivalent to a final rate of 0.073%, taking account of 1-year money market returns (in consideration of the annual update of the underlying values).

The aggregate results are shown below.

With regard to the Ex Ante Quota:

- 113 banks received a premium for the contributions paid to the Guarantee Scheme. This premium, totaling about €81,258, was commensurate with the difference between the Ex Ante Quota assigned and the greater of between the requirement generated and the floor established for the Ex Ante Quota;
- this financial expense was charged to the 19 banks that generated a guarantee requirement greater than the contribution paid to the system.

With regard to the Ex Post Quota:

- 94 Banks received a premium for the credit line granted to the Parent Company. This premium, totaling about €250.673, was commensurate with the difference between the Ex Post Quota assigned and the Ex Post requirement generated;
- this financial expense was charged to the 38 banks that generated a guarantee requirement greater than the contribution paid to the system.

The amounts were settled through the Parent Company in arrears at December 31, 2021 with the debiting or crediting of the settlement accounts of each bank.

Annual adjustment of the RAFs for 2022

The stress test conducted for 2021-2023 found the following allotment of the RAFs for 2022 at the Group level:

- aggregate Ex Ante Quota: €338 million (compared with an estimated €385 million for 2021);
- aggregate Ex Post Quota: €313 million (compared with an estimated €797 million for 2021).

The resulting guarantee obligations for each participating bank were transmitted to the banks through the Guidance and Coordination Directive “Final results of the GD stress test conducted for the update of the RAFs valid for 2022, distribution of the guarantee obligations and 2022 EWS capital thresholds”. [80]

Based on the quantification of the guarantee obligations, each bank will be notified, with a specific directive, of the amount by which it must increase or decrease its Ex Ante and Ex Post quota for 2022.

With regard to the Ex Ante Quota, the participants will be required to pay in a total of €39,515,322, corresponding to the difference between the Ex Ante Quota for 2022 (€338,235,170) and the fair value of the loan (€405,895,815), net of the fair value of the support interventions carried out (€107,175,967).

The settlement of the Ex Ante Quotas will involve the debiting/crediting - through the Parent Company – of the daily settlement accounts of each affiliated bank with a value date of January 1, 2022. The adjustment of the Ex Ante Quota for 2022 will update the resources available for the implementation of the transaction referred to in Article 3 of the Loan Agreement.

With regard to the Ex Post Quota, the participants will be required, with a specific Directive, to reduce the agreed credit line with the Parent Company and the securities pledged to guarantee the liquidity lines granted in the same amount by the Parent Company to the participating banks, in line with the functioning of the Ex Post Quota mechanism, in the total amount of about €484 million.

[80] See Prot. ICR-OUT-000114-2022 of 10/01/2022

REPORT OF THE AUDIT FIRM

mazars

Iccrea Banca S.p.A.

Independent auditor’s report in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

(translation of the original report issued in Italian)*

Financial statements as of 31 December 2021

ORMB/NSDN/vbrb – R2022/00505

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Independent auditor's report in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

(translation of the original report issued in Italian)*

To the Shareholders of Iccrea Banca S.p.A.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Iccrea Banca S.p.A. (the "Company"), which comprise the balance sheet as at December 31, 2021, and the income statement, the statement of comprehensive income, the statement of changes in shareholder's equity and the statement of cash flows for the year then ended, and notes to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European with the regulations issued to implement article 43 of Legislative Decree No. 136/2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the section of this report titled *Auditor's responsibilities for the audit of the financial statements*. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and valuation of financial loans to customers measured at amortized cost

For further information, please refer to the Explanatory Notes:

“Part A – Accounting policies" – Section A.2 paragraph 3. “Financial assets measured at amortized cost ".
“Part B – Information on the balance sheet” - Section 4 “Financial assets measured at amortized cost".
"Part C – Information on the income statement”: Section 8 “Net losses/recoveries for credit risk”
"Part E – Risk and risk management policies”: “Section 1 Credit risk".

Description of the key audit matters	Audit procedures
Loans to customers measured at amortized cost, which are reported in line item 40 b) of the balance sheet assets, amount to Euro 5.893 million, representing 11% of total assets. The classification and valuation of loans to customers are relevant for the audit due to the significance amount of the loans and to the intrinsic complexity of the evaluation of expected credit loss due to the uncertainty of the revised estimates to reflect the impacts deriving from the persistence of the Covid-19 pandemic, as well as government support measures, including the moratoriums granted to private customers, micro-enterprises, and SMEs. Amongst the estimation factors, are of particularly significant the determination of the parameters for the estimation of expected credit losses (ECL), with the inclusion of forward-looking factors for the determination of Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) and the determination of future cash flows deriving from impaired loans. In 2021, changes were made to the ECL parameters, which can be qualified as refinements of the models, also with the aim to factorise the evolution of the market context and considering the results deriving from Asset Quality Review (AQR), in the scope of the Comprehensive Assessment conducted and concluded by the ECB on the Gruppo Bancario Cooperativo Iccrea. On non-performing exposures, “sales scenarios” were also adopted on a portion of the portfolio in line with the further derisking strategies that the Group intends to pursue.	In response to this key aspect, the audit approach adopted involved the following procedures: • analysis and understanding of the internal control system and internal procedures relating to quality of monitoring and managing the credit risk; • verification of the correct implementation and operational effectiveness of controls, relevant for the purposes of the credit classification and assessment process, including the controls concern the IT system; • verification of the accurate determination of the parameters of PD, LGD and EAD relevant for the purpose of determining the value adjustments, as well as the verification of the classification criteria used in order to link loans to customers to the homogeneous categories of risk envisaged by the accounting standard IFRS 9 (so-called "staging allocation"); • execution of comparative analysis procedures with reference to the most significant variations in the cost of risk compared to the data of the previous year, by obtaining and analysing the monitoring reports internally prepared and discussing the results with the Head of Risk Management; • performing compliance and testing procedures on a sample base of practices aimed at verifying the correct classification and valuation of credit exposures; • verification of the correct accounting treatment related to the transfer of non-performing loans and unlikely to pay carried during the year 2021 conforming to the implementation of the derisking plans;

Classification and valuation of financial loans to customers measured at amortized cost

Additional and significant aspects to the audit are the derisking activities coordinated by the Parent Company through the transferring of impaired credit exposures, as well as the evolution of the regulatory and methodological framework on credit risk, in particular deriving from the implementation of the "new definition of Default" and the prudential requirements set in terms of «Calendar provisioning». In consideration of the significance of the assessments made by the directors for the purposes of the classification and valuation of loans to customers measured at amortized cost, we have considered that these factors represent a key aspect of the audit of the Company's financial statements.	• verification of the adequacy and compliance of the information provided in the explanatory notes. The procedures described above were also carried out with the support of experts and specialists of the Mazars organization in the field of valuation models and financial tools and information systems.

Measurement of equity investments

For further information, please refer to the Explanatory Notes:

“Part A – Accounting policies" – Section A.2 paragraph 5. “Equity Investment”
“Part B – Information on the balance sheet” - Section 7.5 “Equity investments – Changes for the period of the notes to the financial statements”.
"Part C – Information on the income statement”: Section 15 “Profit (loss) from equity investments – Item 220”

Description of the key audit matters	Audit procedures
Equity investments, which are reported in line item 70 of the balance sheet, amounted to Euro 999 million net of the impairment of Euro 77 million at December 31, 2021. Conforming to IAS 36, in the presence of indicators of possible reductions in value (triggers), the investments are subjected to an impairment test in order to verify whether there is objective evidence that may compromise the entire recoverability of the book value of the assets themselves and the determination of any write-downs. The process and procedures for determining the recoverable value of equity investments are based on assumptions that considering the nature of the items involved, the use of management judgment, especially regarding the identification of impairment indicators and the determination of the long-term growth rates.	In response to this key aspect, the audit approach adopted involved the following procedures: • analysis and understanding of the internal control system and internal procedures relating to the evaluation process of equity investment; • analysing the impairment test procedure approved by the Board of Directors on April 8, 2022; • analysing the report of the external consultant on the determination of recoverable value of the single equity investments conducted as part of the impairment testing; • verifying the mathematical accuracy of the calculations in the impairment testing performed by the Company.

Measurement of equity investments

For further information, please refer to the Explanatory Notes:

"Part A – Accounting policies" – Section A.2 paragraph 5. "Equity Investment"
"Part B – Information on the balance sheet" - Section 7.5 "Equity investments – Changes for the period of the notes to the financial statements".
"Part C – Information on the income statement": Section 15 "Profit (loss) from equity investments – Item 220"

Description of the key audit matters	Audit procedures
In consideration of the judgment required of the directors and the complexity of the assumptions in estimating the recoverable value of the equity investments, still influenced by the persistence of the Covid-19 pandemic which affected the economic conditions and prospective macroeconomic scenarios, we considered this issue to be a key aspect of audit.	The procedures described above were also carried out with the support of Mazars specialists on business valuation models.

Other matter

The financial statements of Iccrea Banca S.p.A. for the year ended 31 December 2021 were audited by another auditor, who expressed an unmodified opinion on those statements on 5 May 2021.

Responsibilities of the directors and board of statutory auditors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union *as well as with the regulations issued to implement article 43 of Legislative Decree No. 136/2015* and, according to the terms prescribed by law, for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriateness of the use of the going concern assumption in the preparation of the financial statements, and for appropriate disclosure thereof. In preparing the financial statements, the directors use the going concern basis of accounting unless directors either intend to liquidate the Company or to cease operations or has no realistic alternative but to do so.

The board of statutory auditors ("collegio sindacale") is responsible for overseeing, according to the terms prescribed by law, the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit performed in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures in response to those risks; we obtained sufficient and appropriate audit evidence on which to base our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- we obtained an understanding of the internal control relevant to the audit in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we concluded on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Where a material uncertainty exists, we are required to draw attention, in our auditor's report, to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, subsequent events or conditions may cause the Company to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in such a manner as to give a true and fair view.

We communicated to those charged with governance, identified at an appropriate level as required by ISA Italia, among other matters, the scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated to them any circumstances that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to those charged with governance, we identified those that were of most significance in the audit of the financial statements of the current period and are therefore representing the key audit matters. We described these matters in our auditor's report.

Additional disclosures required by article 10 of Regulation (EU) No. 537/2014

On 28 May 2021, the shareholders of Iccrea Banca S.p.A. in general meeting engaged us to perform the statutory audit of the Company's financial statements for the years ending 31 December 2021 to 31 December 2029.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the board of statutory auditors ("collegio sindacale"), in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on compliance with other laws and regulations

Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree No. 39/10

The directors of Iccrea Banca S.p.A. are responsible for preparing a directors' report of Iccrea Banca S.p.A. as at 31 December 2021, including its consistency with the relevant financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the directors' report with the financial statements of Iccrea Banca S.p.A. as at 31 December 2021 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the directors' report is consistent with the financial statements of Iccrea Banca S.p.A. as at 31 December 2021 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Rome, 20 April 2022

Mazars Italia S.p.A.

Signed on the original

Olivier Rombaut
Partner – Registered auditor

(*)This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.