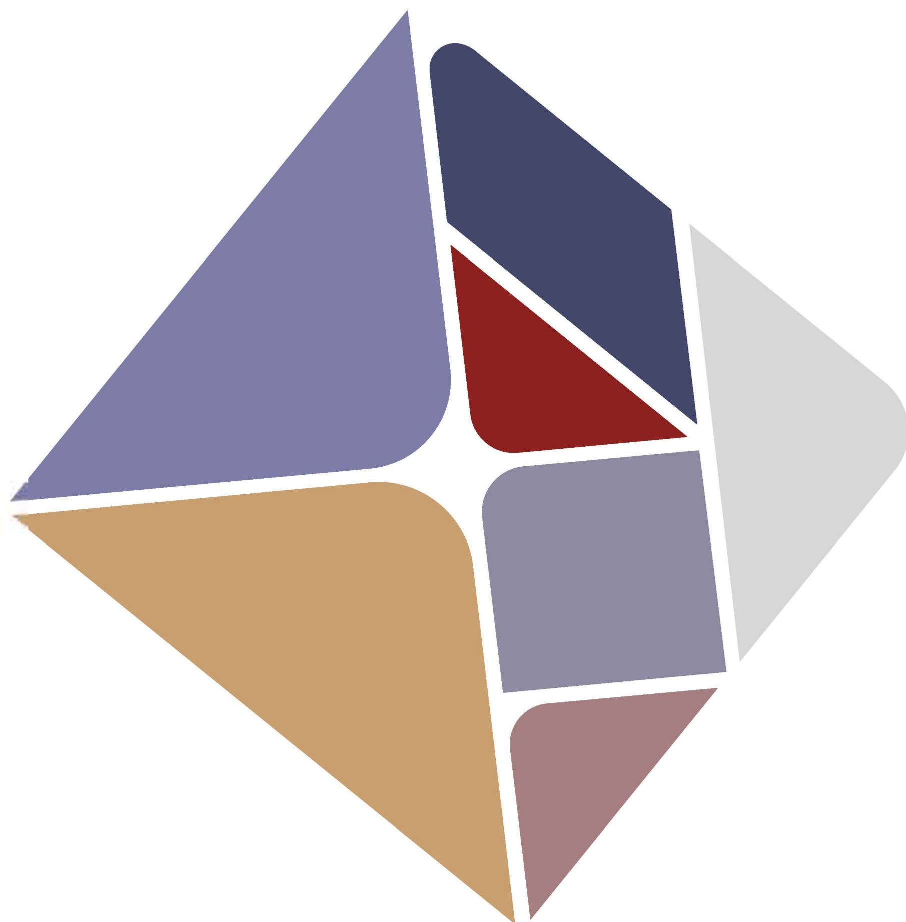
Separate and Consolidated Report and Financial Statements



2018

Gruppo Bancario Cooperativo Iccrea

Iccrea Banca

Report and Separate Financial Statements at December 31, 2018 of the Parent Company Iccrea Banca S.p.A.

Report and Consolidated Financial Statements at December 31, 2018 of the Iccrea Banking Group

Iccrea Banca S.p.A.
Central Institution of the Mutual Banking Industry
Parent Company of the Iccrea Banking Group
Registered Office and Headquarters: Via Lucrezia Romana 41/47 - 00178 Rome, Italy
Share capital: €1,151,045,403.55 fully paid up
Company reg. and Tax ID no. 04774801007 - R.E.A. of Rome no. 801787
Entered in the Register of Banking Groups
Entered in the Register of Banks at no. 5251
ABI bank ID no. (08000)

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REPORT ON OPERATIONS

January 1 – December 31, 2018

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CORPORATE BOARDS

Elected by the Ordinary Shareholders' Meeting of July 12, 2016 for the 2016-2018 term

Officers designated by the Board of Directors at the meetings of October 4, 2016, October 27, 2016 and March 7, 2019 (appointment of new Chairman of the Board)

BOARD OF DIRECTORS

MAINO Giuseppe	*Chairman*
LIBERATI Francesco	*Vice Chairman*
ALFIERI Lucio	
AZZI Alessandro	
CARRI Francesco	
COLOMBO Annibale	
FERRARINI Franco	
FERUGLIO Carlo Antonio	
MORETTI Mara	
PORRO Angelo	
RICCI Secondo	
STRA Pierpaolo	
SAPORITO Salvatore	
TOSON Leonardo	

EXECUTIVE COMMITTEE

CARRI Francesco	*Chairman*
COLOMBO Annibale	
FERUGLIO Carlo Antonio	
PORRO Angelo	
RICCI Secondo	

BOARD OF AUDITORS

GASPARI Luigi	*Chairman*
ANDRIOLO Riccardo	*Standing Auditor*
SBARBATI Fernando	*Standing Auditor*
FELLEGARA Annamaria	*Alternate Auditor*

SENIOR MANAGEMENT

RUBATTU Leonardo	*General Manager*
BOCCUZZI Giovanni	*Vice General Manager*

INTRODUCTION

Dear Shareholders:

Last year confirmed the growing challenges being faced by our industry.

This applies to the macroeconomic landscape, which is certainly more complex, to the constantly evolving regulatory environment, and to increasing competitive pressures arising mainly out of technological innovation. All these factors call for transformation in the manner in which we do banking.

In a context of so many challenges, 2018 proved to be particularly difficult in relation to projects aimed at the construction of our Mutual Banking Group.

On March 4, 2019, the Iccrea Mutual Banking Group became a reality, with our mutual banks, Iccrea Banca and its direct and indirect subsidiaries giving rise to Italy's leading banking group owned entirely by residents of local communities within Italy.

We are a group that maintains close ties to our communities, seeking to take full advantage of the distinctive traits of our member banks and to ensure their stability and their ability to innovate in a manner that is typically the purview of the largest banking groups.

That which we present to you here is to be the final separate and consolidated financial report of Iccrea Banca in its role as central bank and parent company of the Iccrea Banking Group. From this year now in progress, the outlook for Iccrea Banca, as well as its range of action and its prerogatives, take on a new connotation. Alongside our traditional vocation of supporting mutual banks through products, services, and financial solutions aimed at maintaining competitive operations within their target markets, there will now also be the roles of managerial oversight and coordination as the parent company of the Mutual Banking Group.

The sense of responsibility inherent in this new role must, for those called upon to lead the Group in the years to come, always be held in the highest regard. The Group's mutual banks were not obligated but chose Iccrea Banca to be the parent in recognition of the company's traditional value in complementing the execution of their banking activities. The new competitive landscape and ongoing pressures of regulatory compliance that are not always distributed proportionately have called for our system to be configured differently. It is up to us to properly interpret all that Reform Law 49/2016 entails. The oversight and coordination of the Parent Company must be directed towards development of the mutual banks, as well as towards reinforcing their vocation as mutual banks and taking full advantage of the synergies and efficiencies that can be achieved in the pursuit of common goals.

This report describes the overall trends in the performance of Iccrea Banca and of the Iccrea Banking Group, analyzes the various events that characterized 2018 in terms of both financial performance and standing, and seeks to provide a thorough overview of the work done to support the mutual banks.

In the section dedicated to events occurring after the end of the financial year, we also provide preliminary figures for 2018 concerning the pro-forma financial performance and standing of the new Mutual Banking Group in order to provide a complete picture of the transformation process that is currently under way.

1. ECONOMIC DEVELOPMENTS

The macroeconomic environment internationally and within Italy

In 2018, the global economy returned to a slowing trend (3.1% average annual growth in industrial production) after the marked growth seen in 2017 (+3.5% after growth of just 1.9% in 2016), as inflation declined in 2018 (to a 3.5% annual average, down from 3.7%). On the whole, although with some differences internally, Asia proved to be the most dynamic area, while the United States also posted robust growth. The euro area, conversely, posted a sharp slowdown in growth due, above all, to a weakening of foreign demand and a drop in demand for motor vehicles.
In greater detail, while GDP in China continued growing at a rapid pace (+6.6% annually on average, although slowing from the 6.9% average growth for 2017), elsewhere in Asia, Japan saw a marked slowdown (to +1.0% in 2018 as opposed to +4.3% for 2017).

In the United States, annual growth in real GDP posted average overall growth of 3.1%, up from the +2.5% of 2017 (and +2.0% in 2016), although this reflects a slowdown in the third and fourth quarters (at +3.4% and +2.6%, respectively, down from +4.2% for the second quarter). In 2018, the consumer price index fell below the target set by the Federal Reserve (+1.9% at December, +2.5% annual average, vs. 2.1% for 2017), while the producer price index rose by an average of 2.8% annually (vs. +2.3% for 2017).

Within the euro area, GDP growth slowed significantly in 2018 (to +1.8% in 2018, vs. +3.1% in 2017) and particularly sharply in the third and fourth quarters of the year. Consumption slowed in 2018 (to average annual growth of 1.5%, down from +2.3% in 2017), with consumer confidence falling into negative territory beginning in June 2018 (after seven months of growth). Inflation settled at around 2.0% in the second half of 2018 to remain below the targets set by the European Central Bank.

In 2018, the ECB Governing Council left its official rates on deposits and on main and marginal refinancing operations unchanged at -0.40% and at 0% and 0.25%, respectively. In June, the ECB announced that it would be cutting in half the amounts of securities purchased each month for the purpose of quantitative easing beginning in January 2019. This reduction from €30 billion to €15 billion became operational from October through December, and purchases were then eliminated in 2019.

Having terminated net purchases of securities at the end of 2018, the ECB also announced, in early March 2019, that its official rates would remain unchanged until the end of the current year, thereby keeping short-term rates stably in negative territory. Growth forecasts for the euro area were also lowered (to +1.1% for 2019 GDP, down from the +1.7% estimated in December) due in part to ongoing geopolitical uncertainty, to the threat of protectionism, and to the vulnerability of emerging markets. Finally, the ECB announced a new series of low-rate targeted longer-term refinancing operations (TLTROs) from September 2019 to March 2021 in order to provide liquidity to the banking system and to promote lending to both businesses and consumers.

In Italy, GDP returned to a slowing trend in 2018, decreasing by 0.14% in the third quarter and by 0.12% in the fourth. Annual overall growth settled at 0.8%, down from +1.6% in 2017. Inflation, measured as the annual change in Italy’s consumer price index, fell in the second half of the year (+1.1% annually at December 2018). This economic slowdown essentially reflects the zeroing of manufacturing’s contribution to growth due to a marked deceleration in exports, a weakening of household consumption, and a slowdown in gross fixed capital formation (GFCF), particularly in the second half of the year.

As reported by the Bank of Italy in its Stability Report for the second half of 2018, the greatest risks to financial stability in Italy concern the low rate of growth and the high level of public debt. In relation to this, due to uncertainty as to the direction economic and budgetary policy, particularly with regard to the nation’s desire to continue reducing public debt, significant financial tensions surrounded public debt in May and June 2018, resulting in a rapid increase in the spread against the cost of Germany’s public debt. Similar volatility was also seen in October and November with the finalization of the budget law for 2019, the content of which did manage to avoid having the European Commission initiate infringement proceedings. As a result, after reaching peaks above 300 basis points for the two periods mentioned, the spread fell towards 250 basis points towards the end of the year.

The performance of Europe's banking industry

Structural performance of Europe's banking industry

In 2018, the rationalization of Europe's banking industry continued, in line with the trend seen in recent years, with a progressive reduction in both banks and bank branches.

The number of banks at December 2018 fell to 4,598, a 3% decrease from the previous year (when there were 4,769 banks), a reduction that affected all euro-area countries. This downward trend is even more evident when looking at the number of bank branches.

Over the period from 2013 to 2017 (the most recent year for which data is available), the number of branches for banks in the euro area fell from just over 164,000 to about 143,000, dropping by over 13%, with the most rapid decrease occurring from 2015 to 2017, when more than 14,000 branches were closed. This decline mainly affected Spain and Germany.

At the same time, the workforce in the banking industry—numbering about 1.9 million employees at the end of 2017—also continued decreasing (down 2% from 2016 to 2017).

The main structural indicators for the Italian banking industry were generally in line with those of other countries with a similar industry structure.

Performance of the banking business

The banking business continued its expansion in 2018 in line with the trend seen during the previous year. It is a trend that appears to have benefited, first and foremost, from the essential economic stability of the euro area. Generally speaking, we have seen continued growth in lending to the private sector as a result of overall improvement in both supply and demand, as well as of the progress banks have made in consolidating their accounts.

The growth in lending posted in 2016 and 2017 has continued into 2018, with the 12-month growth in lending to the private sector (adjusted for factoring, securitization, and notional cash pooling) as at September 2018 reaching 3.4%.

Lending to non-financial companies increased 3.1% annually in the third quarter of 2018 (vs. 1.9% growth in both 2016 and 2017). This increase concerned both the short-term component and medium to long-term lending. Consumer lending confirmed the growth trend over the previous two years (at 3.1% annually for the third quarter), fueled by the substantial increase in consumer credit and in mortgage lending for home purchases.

After increasing substantially in 2017, deposits with European banks continued increasing in 2018, but at gradually declining rates of growth. Deposits by non-financial companies increased 4.5% annually in the third quarter, as compared with an 8.6% increase the previous year. A significant contribution came from demand deposits (+6.8% compared with the third quarter of 2017), whereas term deposits with durations of less than two years continued to decline (-7.4% annually in the third quarter of 2018). Repurchase agreements saw significant growth (+27.6%). Consumer deposits also increased by 4%, which is in line with the previous year.

Interest rates remained low throughout the year, as they were in 2017. In August 2018 (most recent data available), the composite indicator of cost of financing to non-financial companies was 1.6% (vs. 1.7% in December 2017), while the cost of financing to consumers for home purchases came to 1.8%.

The main indicators of risk

The latest statistics published by the EBA point to strong capital among European banks at an average CET1 ratio of 14.7% in the third quarter of 2018, with small to mid-sized banks posting higher ratios (at over 16%) than larger banks (14%).

Loan portfolio quality is also gradually improving, with the ratio of non-performing loans to total lending settling at 3.4%, the lowest level recorded since the introduction of the harmonized definition of non-performing exposures. This trend can be seen across banks of all sizes, although with significant differences from one country to another. The average coverage ratio is at around 46%.

Average ROE has remained at around 7%, but is higher for smaller banks (at over 11%) than for mid-sized to large banks. The average cost-to-income ratio is at 63.2%, with German and French banks posting the highest levels (at 80% and over 70%, respectively), while Italian banks are in line with the European average.

The Italian banking system

According to the latest data published by the Bank of Italy, updated through November 2018, net lending to the private sector has increased at a modest pace (1.8% annually). Lending to non-financial companies specifically increased by 1.1% annually, growth that concerned lending both to manufacturers (2.1%) and to service companies (2.3%), while the decrease in lending to construction companies (-2.4%) continued. Lending to smaller enterprises continued to decline (-3.2%) across all industry segments. The growth in consumer lending continued in 2018, up 2.8% annually overall and in line with the fourth quarter of 2017 on the strength of both home loans and consumer credit. With interest rates remaining at all-time lows, preference is being given to fixed-rate lending.

De-risking efforts within the Italian banking system continued in 2018, resulting in a gradual improvement in credit quality. The ratio of non-performing loans to total lending by the most “significant” banking groups was 9.4% (4.5% net) at September 2018, falling significantly from December 2017 (14.5%, or 7.3% net) due, above all, to the implementation of major factoring efforts of bad debt. On the whole, the rate of new non-performing positions remained limited (at 1.7% of performing loans in the third quarter of 2018). Despite the sale of bad debt, which is historically subject to greater coverage, the coverage ratio for non-performing exposures at September 2018 did not decrease compared with the end of the previous year (at 54.5% vs. about 54% at the end of 2017).

Funding by Italian banks has remained virtually unchanged thanks to an increase in deposits and in net wholesale funding on the repo market, which offset the reduction in bond funding as a result of progressive redemptions of securities issued.
On the whole, profitability within the Italian banking system remains satisfactory, although it remains well below levels seen prior to the Great Recession. More specifically, net interest income has posted growth (+6.2%)—due in part to a significant reduction in interest expense from customers and a weaker decline in interest income—while net fee and commission income remained stable. Administrative expenses have decreased (-2.6%) due, above all, to the containment of personnel expenses. The cost of credit has remained essentially unchanged, remaining at very low levels historically. However, the persistence of certain critical issues, such as non-performing exposures remaining at levels that are above the European average and uncertainty in the Italian economy, could again penalize profits in the near future.

At June 2018, the capitalization of Italian banks was amply adequate in relation to regulatory requirements, with the common equity tier 1 (CET1) ratio reaching 13.2% of risk-weighted assets and the total capital ratio (TCR) reaching 16.1%. For the most “significant” banks, these indicators came to 12.8% and 16.1%, respectively, which is in line with September 2018, whereas for the less significant banks, which have lower levels of common equity, the ratios came to 16.2% and 17.1%, respectively.

2. MUTUAL BANKING REFORM

The need to reinforce the stability of the Italy's mutual banking system has led to legislation establishing a new form of mutual banking group (MBG), a model which also seeks to safeguard the various, complex needs of protecting and promoting the identity and role of mutual banks as aids to local communities while ensuring the growth and development of such banks. This model differs from and is complementary to the traditional group model based on shareholder control in that the legislation has sought to unite the centralized oversight and coordination of the traditional model with the unique traits of mutual banking. This path of change has enabled Italy's mutual banks to become part of a unique new organizational model that is able to unite local culture and European scope, while also continuing to be autonomous local banks within a more cohesive, more efficient system.

The complex legislative process aimed at meeting all the specific needs of the mutual banking system, which came to a close at the end of December 2018, began with Decree Law 18 of February 14, 2016, which was amended and ratified with Law 49 of April 8, 2016. This legislation amended the Consolidated Banking Act to define the concept of MBG under Articles 37-*bis* and 37-*ter*, and individual banks are required to be a part of this MBG if they hope to operate as mutual banks.

In accordance with Article 37-*bis* of the Consolidated Banking Act, the mutual banking group comprises the following:

- a parent company, which is responsible for the strategic and operational oversight of the group and for interacting with the supervisory authorities;
- the mutual banks, which are contractually subject to the powers of oversight and coordination of the parent company as defined in special agreements (the cohension contract) governing the relationship between the parent company and the member banks. These powers are also aimed at ensuring unity in strategic direction and in the system of controls;
- other banks and financial and special-purpose companies controlled directly or indirectly by the parent company.

In accordance with the legislative framework, the cohesion contract governs the parent company's oversight and coordination of the group. In line with the group's commitment to the community, the powers granted to the parent company include:

- the definition and implementation of the group's strategic guidelines and operational objectives and all other powers instrumental to oversight and coordination in proportion to the risks of the member banks;
- the justified cases in which the parent company may appoint, reject, or remove one or more members of the board of directors and the board of auditors of the member companies, up to achievement of a majority, and establishing the procedures for exercising such powers;
- remuneration criteria and fair distribution of the benefits deriving from the core business;
- the criteria and conditions for membership, for denying membership, for contract withdrawal, and for exclusion from the group on a non-discriminatory basis in line with the principle of solidarity among banks.

Finally, in line with the legislative framework, the cohesion contract must also guarantee the obligations taken on by the parent company and by the other member banks in observance of the prudent management of banking groups and of the individual banks.

Another particular characteristic of the new MBG legislation is the introduction of the possibility for mutual banks that find themselves unable to comply with capital adequacy requirements, or are subject to insolvency procedures (subject to amendment of their articles of association), to issue financial instruments pursuant to Article 2526 of the Italian Civil Code (Article 150-*ter* of the Consolidated Banking Act). These shares—subscription of which nullifies the principle of "one-man-one-vote" for the mutual banks as established under Article 34(3) of the Consolidated Banking Act—may only be purchased by the guarantee systems established by the mutual banks and mutually established funds for the promotion and development of mutual banking. They may be redeemed upon request by the investors so long as the technical standing of the mutual bank is adequate and when authorized by the Bank of Italy.

Paragraph 7-*bis* of Article 37-*bis* of the Consolidated Banking Act also establishes that the Bank of Italy, in order to ensure the sound and prudent management, the competitiveness, and the efficiency of the mutual banking group, and in compliance with applicable prudential regulations and the community-centric vocation of the mutual bank industry, shall define implementing measures, with particular reference to: a) the minimum organizational and operational requirements of the parent company; b) the minimum content of the cohesion contract; and c) other specific requirements, including the minimum equity requirement of the parent company, relating to mutual banking groups. The implementing measures of the Bank of Italy were issued with their 19th update of Circular 285 of November 2, 2016, the date from which the 18 months provided for by the applicable primary regulations to present the application for establishment of the Mutual Banking Group began.

On July 25, 2018, Decree Law 91 of July 25, 2018 (ratified with Law 108 of September 21, 2018), which, in line with the general configuration of the reform, seeks to further underscore the community-centric vocation of the mutual banks and reinforce the proportionality related to the risk taken on by the individual banks affiliated with the MBG, was published in the *Gazzetta Ufficiale* (the Italian Official Journal). More specifically, the main changes introduced in Article 37-*bis* of the Consolidated Banking Act by the decree:

- specify that at least 60% (and not “a majority” as previously stated) of the share capital of the parent company of the MBG must be held by the mutual banks belonging to the Group;
- establish that the number of members of the Board of Directors of the Parent Company shall be equal to half plus two of the total number of directors (while regulatory provisions only state that the bylaws of the parent company shall establish the maximum number);
- require the Parent Company to adopt a consultation process for the mutual banks with regard to strategies, commercial policies, investment funding, lending, and the pursuit of community-centric goals, through regional assemblies of mutual banks that issue non-binding opinions;
- provide for the recognition, for banks that are in the best risk classes, of greater areas of autonomy in matters of strategic planning and commercial policies (within the guidelines given by the Parent Company and on the basis of the methods defined by the Parent Company) as well as a broader role in the process of appointing company executives;
- refer to a decree of the Prime Minister, acting on a proposal of the Minister for the Economy and Finance and after consulting with the Bank of Italy, the possibility (now envisaged under a decree of the Minister for the Economy and Finance, after consulting with the Bank of Italy) to establish a different threshold for the participation of the mutual banks in the capital of the Parent Company, while taking account of the stability requirements of the Group.

Following the issue of the decree, the ECB, with its opinion of September 11, 2018, underscored that the reform is important “to address the vulnerabilities of the Italian cooperative banking sector, in particular its capacity to absorb negative shocks and to provide opportunities for enhanced efficiency and diversification of investments. For this reason, it should be ensured that the fundamental objectives of the reform of the cooperative banking sector, namely modernizing and improving the business model utilized in the cooperative sector and enabling parent companies to gain access to capital markets, are not affected.” Within this context, the ECB also noted that the power conferred upon the parent company to manage the affiliated entities and to coordinate the group is crucial to the success of the reform; therefore, “it should be ensured that the obligation for parent companies to consult individual cooperative banks on the definition of the group strategic and operational plan does not have an impact on the exercise by the parent companies of the powers of direction and coordination.” In any event, the ECB was of the opinion that, overall, the changes made by the new Decree Law should be consistent with the objectives of the mutual banking reform introduced by the 2016 law.

The legislative framework was then completed with Decree Law 119 of October 23, 2018, ratified with amendments by Law 136 of December 17, 2018, which extended the regulation of the “VAT group” to the MBG starting from July 1, 2019; and Law 145 of December 30, 2018 (“State Budget for the 2019 fiscal year and three-year budget for 2019-2021”) which, under Article 1, paragraph 1072, amended Article 38 of Legislative Decree 136 of August 18, 2015 (“Implementation of Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings”), establishing, under Article 2-*bis*, that, in the case of mutual banking groups, pursuant to Article 37-*bis* of Legislative Decree 385 of September 1, 1993, the parent company and the mutual banks affiliated with it by virtue of the cohesion contract constitute a single consolidating entity.

In the remainder of the report, the process of establishing the Iccrea Mutual Banking Group (IMBG) will be described, while also providing the main financial information related to it, in consideration of the new role of parent company assumed by Iccrea Banca and the company’s exercise of direction and coordination over the affiliated mutual banks.

3. THE ICCREA GROUP'S STRATEGIC LINES OF BUSINESS

The overall offering of products and services to support development of the operations of the mutual banks continued in 2018 at the same intensity and with the same approach to intragroup relations.

Within this particularly challenging context characterized by the creation of the new MBG, the attention of the Parent Company in supporting the operations of the mutual continued, providing the mutual banks with products, services and consultancy in order to maximize their performance in the marketplace. In its corporate and organizational structure, Iccrea Banca has maintained a business model capable of ensuring highly significant operational coverage to enable the affiliated mutual banks to rely on a central structure capable of ensuring all banking services and products in line with the best market standards.

Although the Iccrea Group has been affected by substantial legislative and operational reform, in terms of interconnections with the operations of the mutual banks, provided below is a presentation of the traditional company structure that will continue, within this new context, to provide the mutual banks with a complete offering of products and services of which, in the remainder of this report, the main results achieved in 2018 are provided along with the main activities conducted.

BUSINESS AREAS

The Group is traditionally organized into three business areas designed to provide better focus on and specialization in its market.

Institutional business area

This area includes the companies that provide products and services directly to the mutual 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 services. The Group companies engaged in this segment are Iccrea Banca, BCC Gestione Credit, BCC Beni Immobili, BCC Solutions, and BCC Sistemi Informatici.

In 2018, with regard to Iccrea Banca's role as financial hub, the mutual banks continued taking advantage of collateralized funding, through operations both with the ECB and with market counterparties. Iccrea Banca has maintained the auctions of the T-LTRO II program for a total of €13.9 billion, thereby consolidating the expected benefit on long-term funding at -0.40%. About €500 million has been repaid for the mutual banks that no longer met the requirements for remaining in the TLTRO II group. The financing connected with operations with the ECB (TLTRO II) and disbursed to the mutual banks totaled €8.9 billion at the end of 2018.

Operations in Italian government bonds, structured as market making on the Hi-MTF and ETLX platforms, saw the listing of 100 securities with a total of €644 million traded. Trading on the Italian bond market (MOT) posted volumes of €1.8 billion, €1.1 billion of which in the Italian treasury notes alone.

Total volumes traded in Italian government notes traded on the secondary markets (MTS and BondVision) exceeded €61 billion.

Within the context of market making for eurobonds, Iccrea Banca list 267 eurobonds on the Hi-MTF market, 439 eurobonds on the EuroTLX market, and 194 eurobonds on Extramot and Euromot.

Total volumes traded on these markets came to about €2.6 billion, which is in line with the previous year.

In terms of lending, many mutual banks have taken advantage of market opportunities linked to low interest rates, offering their customers fixed-rate mortgage loans and hedging the related interest rate risk through macro-hedging transactions structured on the basis of the characteristics of the loans disbursed. Within this context, Iccrea offered mutual banks the opportunity to stabilize their net interest income by using derivative financial instruments with a high degree of customization.

Within the scope of medium to long-term funding initiatives:

- 3 bond issues were made for a total of €1.2 billion and with an average duration of 3.4 years. Of these placements, 65% were concentrated with mutual bank customers and the remaining 35% with institutional customers;
- long-term deposits with mutual banks were made for a total of €1.1 billion and with an average duration of 2.2 years.

Total medium to long-term bond funding outstanding as at December 31, 2018, amounted to €5.3 billion, with an average residual duration of 2.5 years.

With regard to direct deposits, despite the high degree of volatility that characterized the bond markets and the difficulties concerning the bank bond sector, Iccrea Banca received a very positive response from mutual bank customers on placements made in September and December, which allowed for total subscriptions of €750 million to be received.

With regard to operations carried out on the financial markets by Iccrea Banca on behalf of the mutual banks, 2018 was characterized by a sharp contraction in the volumes traded in line with what happened on the domestic and international markets. After a brilliant start, the main Italian stock indices fell back compared with the previous year, ending up in negative territory (FTSE Mib -16.10%, FTSE Italia Star -16.6%). In contrast, the ETF Plus market posted positive performance thanks to the growing success of this type of instrument.

Italian political uncertainty, the announcement of the end of QE, the events linked to Brexit, and the increased spread between Italian and German government bonds, which, among other things, also penalized the issue of bank bonds, have contributed to distancing investors from the Italian fixed-income market.

This situation, together with the structural downsizing of the mutual banks' portfolios, led to a contraction in volumes traded from €33 billion in 2017 to €18.2 billion in 2018.

With regard to primary market activities, Iccrea Banca took part in the placement of the thirteenth Issue of Italian government bonds, acting as co-dealer. Subscriptions received by Iccrea Banca on behalf of around 100 mutual banks represented a significant percentage at 12.4% of the total amount. With regard to subscriptions coming from the institutional segment, the percentage subscribed by the mutual banks represented approximately 22% of the amount reserved for this category of investors.

As part of the activities undertaken within the context of the establishment of the Mutual Banking Group, which were aimed at strengthening the financial performance and standing of the mutual banks in order to stimulate the growth and development of the economies and communities in which these banks operate, two securitization transactions involving non-performing loans backed by the government guarantee mechanism (GACS) were both launched and completed.

With the first transaction (GACS 1), completed in June, 21 mutual banks and two companies belonging to the Iccrea Banking Group assigned a portfolio of bad loans totaling over €1 billion in gross value to a securitization vehicle established pursuant to Law 130/99. In July, the vehicle issued three classes of ABSs: senior securities, rated Baa3 and BBB- by, respectively, the agencies Moody's and Scope, in the amount of €282 million and eligible for the purposes of participation in the GACS guarantee mechanism; mezzanine securities, with ratings of Caa2 and B+ by Moody's and Scope, respectively, in the amount of €31.4 million; and junior securities, unrated, in the amount of about €10.5 million for a total value equal to 31% of the nominal value of the loans assigned.

A total of 71 mutual banks and two companies of the Iccrea Banking Group participated in the second transaction (GACS 2), completed in December 2018. This transaction involved a non-performing loan portfolio of approximately €2 billion of gross value assigned to a securitization vehicle named BCC NPLs 2018-2 S.r.l., established pursuant to Law 130/99. The vehicle issued three tranches of ABSs: senior securities, rated BBB(low) and BBB by, respectively, the agencies DBRS Rating and Scope, in the amount of about €478 million and eligible for the purposes of participation in the GACS guarantee mechanism; mezzanine securities, with ratings of CCC and B+ by DBRS Rating and Scope, respectively, in the amount of about €60.1 million; and junior securities, unrated, in the amount of about €20 million for a total value equal to 28% of the nominal value of the loans assigned.

Four non-recourse assignments of unsecured non-performing loans originated by a number of mutual banks and IMBG companies, for a total gross amount of approximately €94 million, were also completed.

In December 2018, a securitization transaction was also completed for performing loans originated by BCC CreditoConsumo, named "Crediper Consumo", for a value of €650 million. As part of the securitization, two securities were issued: a Class A senior security with rating and a Class B junior security with no rating. The Class A issue, a tranche of about 80% and with a value of €520 million, was subscribed by BCC CreditoConsumo in order to be used as the underlying asset of refinancing operations with the European Central Bank. The Class B issue, worth €140.5 million, was also subscribed by BCC CreditoConsumo. The high quality of the company's loan portfolio allowed for a rating of the senior securities of AA by DBRS and of AA- by Fitch.

With regard to payment systems, the market is dealing with the emergence of new, non-bank operators. Alongside development for the banks served and for the benefit of their customers of new high-value services, which ensure both good profitability of the sector and the loyalty of the mutual bank customers, payment services have also been implemented for the new payment service providers (PSPs) that have chosen the bank as a channel of operations and accounting for the services provided.

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

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

Iccrea's commitment in the payment systems sector has continued, providing the service to the banks served in the dissemination of SEPA instruments and allowing them to use new competitive services (such as electronic invoicing and compliant digital storage) and payment products (e.g. MyBank and CBill) by implementing the necessary interconnections with payment systems for payments to government bodies.

These new products will go hand in hand with the traditional ones already in place, while ensuring fee and commission levels that will counterbalance the decline, which has been going on for several years now, in certain products in response to the changing habits of banking customers (particularly in relation to check writing).

In the payment systems segment, an indicator of the value created for mutual banks can be calculated by applying a cost of €0.50 per transaction to the products relating to commercial collections, SDDs and bank transfers (€200 million in transactions annually). Doing so, fees and commissions charged to the mutual banks would total approximately €100 million.

Also in the payment systems segment, in 2018 Iccrea Banca:

- implemented the new interbank procedure (check image truncation) for the transfer of digital images of checks, including compliant storage, as well as the substitutive declaration of protest for the Bank of Italy and for notaries, which led to a reduction in the costs of service processing, couriers, etc., linked to paper-based processing of around €1.5 million to the benefit of the banks served;
- started electronic invoicing for the group;
- managed regulatory changes in the relevant areas (SEPA adjustments, cash, checks, etc.).

As part of the **Institutional Services** segment, Iccrea Banca acts as a partner in delivering the entire value chain of securities administrative and settlement services. In addition, it provides a high degree of flexibility in service delivery so that it can also handle non-standard approaches, customizing products and services based on customer needs.

In 2018, all the services necessary for fulfillment of the obligations introduced by the new MIFID 2 regulation, which came into force on January 3, 2018, have been implemented and made available to the mutual banks. In particular, a single centralized database of trading orders executed by Iccrea Banca, the Iccrea Banking Group companies and participating mutual banks has been developed, from which the information necessary to ensure compliance with the transparency obligations envisaged under MIFID 2, which mainly include transaction reporting and post-trade transparency, is extracted. The service for preparing KIDs and the Product Testing service for the mutual banks were launched for the management of issues of own bonds.

The range of services for mutual banks related to MIFID 2 was completed with certification of the execution venues and of execution quality. Registry services have been expanded, with the identification of the target markets associated with each financial instrument. In addition, in order to improve the pre-contractual transparency of the mutual banks with regard to their customers, each negotiable financial instrument is accompanied by a product sheet that sets out the financial characteristics and risks of the instrument.

Other developments regarding the Register of Financial Instruments included the implementation of measures to manage the new accounting standard IFRS 9, which took effect as from January 2018.

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

- the financial instruments database service (A.T.C.I.) for the accurate recordation of new issues and continuous updating of variable data; the database includes about 75,000 instruments;
- administrative support for activities connected with the management of the “pool collateral” mechanism facilitating access to collateralized financing operations, in particular with the European Central Bank through the treasury desk;
- the listing service for mutual bank issues in the “order driven” segment of the HI-MTF market aimed at complying with Consob liquidity regulations and, more recently, placement and trading procedures for those issues. Participating mutual banks numbered 59, with a total of about 9,000 issues listed;
- the issuers service, which offers administrative support for the issuance activity of 71 mutual banks;
- the management of activities connected with the distribution of investment funds of BCC Risparmio & Previdenza. The results achieved in 2018 confirmed the positive trend seen in recent years, with a significant increase in volumes in the retail segment, while remaining stable in the institutional segment and achieving assets under administration of about €7.3 billion for retail customers, with 200 mutual banks participating in the placement platform provided by Iccrea.
- the services concerning compliance with transparency rules and the monitoring of possible market abuse, for which, in the first half of 2018, all mutual banks of the Group had subscribed to the transaction reporting service, the certification of execution venues, and post-trade transparency. As of December 31, 2018, 100 mutual banks adhere to the market abuse (MAD/MAR) monitoring service;
- support for the mutual banks in the production and management of KIDs;
- support for the mutual banks and customers in meeting the obligations related to the introduction of the EMIR, with 73 participating mutual banks;

- the event management service – for payment of coupons and redemptions, dividends and corporate operations – was provided for about 28,000 transactions with a total volume of about €19 billion, mainly from coupon payments on government securities.

As of December 2018, securities in custody and administration amounted to about €80 billion. During the year, approximately 40,000 transfers of financial instruments, 2,500 SICAVs, 42 mutual bank migrations, and 9 mergers were carried out in both directions, incoming and outgoing.

Also during the year, the functional infrastructure was completed to provide the substitute tax service that Iccrea Banca performs as a qualified intermediary (QI) of the mutual banks in relations with the US Internal Revenue Service (IRS), seeing to all the documentation and organizational and operational aspects connected with the new legislation, including the activation of a training program for the employees of the mutual banks. As at December 31, 2018, 133 NQI mutual banks adhered to Iccrea Banca's QI service, while 9 mutual banks chose to act as QIs themselves.

In 2018, the **ICT** unit of the IBG was highly committed to the projects necessary in order to implement the solutions defined by the various IMBG project units. The complexity of the IMBG program and its tight deadlines have created a challenging context in which all the projects to be carried out by the Parent Company have been identified. A subset of priority areas has, therefore, been identified (Consolidated Financial Statements, Harmonized and Non-Harmonized Supervisory Reports, Asset Quality Reviews) that are indispensable to the launch of the IMBG in 2019. The projects in this context are continuing in accordance to schedule. Finally, the first phase of implementation of the Enterprise Data Hub was completed, the role of which is to manage interactions with the various upstream and downstream systems.

Furthermore, in 2018, Iccrea Banca's information systems ensured the execution of important projects to support business development, ensure regulatory compliance, and consolidate compliance and security solutions, mainly in the following areas: a) e-money applications, in which, on the issuing side, new products were launched (Samsung and Google Pay, the "Tasca Conto Business" card, contact and contactless cards, revolving mechanisms on credit and debit cards, etc.) and, on the acquiring side, work was done to improve ATM configuration management; b) payment systems applications, with the redefinition of the local SWIFT infrastructure in terms of both technology and security, as well as development of the new dematerialization service; c) finance applications, including upgrading Treasury's position keeping platform and implementation of the management of upfront costs for the provision of the service to mutual banks when receiving orders (MiFID 2); d) Digital Factory, including completion of the PSD2 projects to ensure full regulatory compliance; and e) Solution Acceptance, with definition of the data masking process for the IMBG.

In terms of infrastructure, a study was launched for the reorganization of the data centers with a view to creating three hubs (i.e. one primary, one for operational continuity, and one for disaster recovery). A project was also launched to strengthen disaster recovery in order to further increase the levels of efficacy and security, while adapting them to market best practices.

In terms of ICT security, following an assessment carried out at the beginning of 2018, a series of concrete actions were defined in order to raise the overall level of security, and remediation efforts began in 2018 and will be completed during 2019. Furthermore, in order to ensure compliance with international standards, PCI DSS and ISO 27001 certifications have been renewed.

In 2018, **BCC Sistemi Informatici** provided services and support on numerous projects to 101 banks, the most significant of which concerned the migration of the Rome mutual bank data center to the Lucrezia Romana site and the IDD bancassurance project. Major projects were also carried out to comply with new regulations related to IFRS 9, PSD 2, MiFID 2 and the GDPR, along with the data masking of the development environments.

Over the period 2019-2021, BCC Sistemi Informatici (BCC SI) is also expected to migrate the user banks Cabel, Gesbank and SIB2000 to the system managed by BCC SI. Selection of the "target" information system (Sicr@) is tied to the need to centralize the new member banks on a single system in compliance with what was discussed with the ECB. Given the complexity of the operation, a "migration machine" was started up in 2018, and processes, methodologies and tools are to be enhanced so as to migrate the various "batches" in an industrialized manner. This migration machine is to be continuously fine-tuned in order to manage any issues specific to the individual mutual banks.

As part of the institutional services, in 2018 **BCC Gestione Crediti** continued to manage operations in accordance with the evolutionary model implemented in 2017 (transition to use of IFAMS software for all managed portfolios, with the exception of IBI's portfolio of bad loans). In 2018, as discussed in greater detail in the following section on results, performance was in line with the commercial development plan targets.

As concerns both facility management and other efforts to support the companies of the Group, **BCC Solutions**, in addition to continuing its ordinary activities in 2018, was involved in restoration of the Milan office in Via Revere and in the completion of redevelopment of the Lucrezia Romana offices. In terms of security, the company oversaw confirmation of the Group's Occupational Health and Safety Management System (OHSMS) certification in accordance with UNI INAIL guidelines. The business services provided by the company aim to provide all MBG companies with the means and the tools to effectively conduct operations, including PDL management, mobility management, document management, and other services, such as mail, shipping and storage.

Corporate business area

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

At December 31, 2018, the loan portfolio of Iccrea BancaImpresa (worth about €7.6 billion) had contracted by 3.5% compared with the end of December 2017. Net impaired assets (about €853 million) decreased by 14% compared with the previous year.

The Bank's new production in 2018, including both loans and lines of credit, amounted to around €1.6 billion, a decrease compared with the previous year (-10.2% in terms of value and -21.5% in number of contracts), mainly due to the lower contribution of the mutual banks choosing not to participate in the creation of the new IMBG. Outright lending amounted to €1.5 billion, a decrease of 11.5% compared with 2017, while lines of credit totaled €92 million, increasing by 18.8% over the previous year.

More specifically, outright lending reflected the following developments:

- the lease segment, net of corporate finance transactions, posted new business of €672 million (-19%);
- ordinary lending, net of corporate finance and international transactions, amounted to €507 million, down 4.8%;
- corporate finance posted new lending of €184 million, a decrease of 25.9%;
- the international segment registered €132 million, up 4.4%.

As a proportion of total lending, lease operations, net of corporate finance transactions, accounted for 44.9% of the Bank's new lending. Equipment leasing was down by 15.3%, as were real estate (-25.9%) and industrial vehicles (-13.9%), posting a decrease that was in contrast with the leasing market as a whole as reported by Assilea (+5.3%). The data provided for the Assilea studies, including the production of BCC Lease and the servicing that Iccrea BancaImpresa performs for Cassa Centrale Raiffeisen, allowed Iccrea BancaImpresa to maintain eighth spot in the ranking of leasing companies with volumes of approximately €980 million on 19,704 contracts, albeit while seeing a decrease in market share from 3.7% in 2017 to 3.3% in 2018.

With regard to loans, lending in 2018, including international and corporate finance, decreased by 5.3% compared with last year and accounted for 53.8% of the year's production. The trend was the result of a reduction in the component related to mortgage lending, which was offset in part by an increase in the volume of unsecured loans.

Overall, 42% of new volumes for Iccrea BancaImpresa in 2018 were developed by mutual banks in northern Italy, 41.4% by mutual banks in central and southern Italy, 14.5% by the SF&BA area, and 2.1% by the Vendor area.

In particular, with reference to the Vendor Area, operations decreased by 34.4% compared with the previous year. In 2018, the corporate finance segment posted a decrease of 25.9%. This was the result of a decline in acquisition finance (-46.1%), in other corporate finance (-34.8%), in shipping finance (-83.7%), and in project finance (-40.05%), while there were increases in the real estate segment (+39%), public leasing (+413.5%), and minibonds (+85.2%). The international segment posted a slight increase compared with 2017, recording 4.4% growth in volumes and a 20.3% decrease in number of contracts. In 2018, the derivatives business generated 95 new transactions, up 20.3% compared with 2017, which reflects growth in the total notional value of €265.9 million (+52.5%) from the €174.4 million of 2017. The net margin also increased by 40.4%.

Iccrea BancaImpresa's intensive efforts to organize and complete pool financing transactions for mutual bank customers continued in 2018. These transactions represented 73% of the loans disbursed in 2018 in number and 80% in value. Despite the new structure of the Group, this type of transaction, compared with 2017, posted a

marginal decrease (-4%) in number of transactions and a decrease of 23% in total amount, while the portion subscribed by IBI remained largely unchanged (-2.1%). Beginning in the second half of 2017, Iccrea BancaImpresa participated in the fourth call for tenders of the value-chain and district contracts both as an authorized bank and as a financing bank, with which approximately 762 million investments will be made available for the companies in the food and agriculture segment, to be divided up equally between IBI and Cassa Depositi e Prestiti, inclusive of any grants and regional co-financing. Also of note in 2018 were the operations of Iccrea BancaImpresa in Defense Consortia (associative structures with legal personality operating in the sector of subsidized insurance in agriculture), which the Bank has supported with operations totaling over €30 million. With regard to the rural development plans and integrated supply chain projects, support and development work was provided for investments to support the agricultural companies that are clients of the mutual banks within the scope of the 2014-2020 funding made available by the EU through of the individual Italian regions.

In the area of Complementary Products and Services, with regard to service activities associated with giving the mutual banks access to the guarantee fund for SMEs, operations increased by about 26% in 2018 compared with the previous year. The number of applications totaled about 9,000 in 2018, with a total amount of more than €320 million in financing requested. Service activities also increased in the guarantee enforcement area, enabling the mutual banks to recover more than €48 million from the fund on defaulted positions to date at a 100% success rate, making it the number one such service in Italy. The service activity using the guarantee fund allowed the mutual banks, in just over 7 years, to disburse over €2.5 billion to some 17,000 SMEs, all with 80% risk coverage and zero weighting.

In the area of funding, in addition to the activities of the Parent Company in 2018, securitization activities were intense in correspondence, first and foremost, with the revolving period for the securitization of performing lease receivables carried out in August 2016, for which the bank is the servicer ("Agri#9"). In line with the terms of that transaction, three assignments of performing lease receivables were carried out during the year, in the total amount of about €237 million. This revolving period came to an end in September; therefore, the December payment date marked the start of amortization of Class A1, which was the class with the greatest seniority and which posted an amortization percentage of around 40.6%.

For BCC Lease, 2018 was a year of consolidation, of organic growth, and of development in order to continue the expansion of operations with regard to outfitted and heavy vehicle segment, so as to supplement and complement the operations of the parent company, Iccrea BancaImpresa.

At December 31, 2018, the company's assets showed a stock of loans of €419 million, an increase of €57 million compared with the previous year. At December 31, 2018, net impaired assets totaled €7.4 million, a decrease of €1.4 million compared with 2017.

In particular, starting in January 2018, BCC Lease began distributing heavy-vehicle leases through its agency network, and through the mutual banks beginning in July 2018. In the same period, operations also began in the segment of outfitted commercial vehicles.

On the commercial level, in 2018 the company was once again a key partner in the small-ticket leasing segment for the mutual banks and in the Italian market, and was one of the major domestic players in the operating and small-scale capital equipment finance leasing, segments in which it has long adopted a vendor approach.

In greater detail, in 2018 BCC Lease received some 30,000 applications with a value of about €410 million, an increase of 13% in number and 26% in value compared with the previous year. In 2018, volumes of new contracts totaled about €246 million on 21,471 contracts, an increase of 13.6% in number of transactions and 19% in value.

At December 31, 2018, lending by BCC Factoring totaled €504.6 million, an increase of €4.4 million compared with the previous year. Revenues generated in 2018 totaled over €1.8 billion, an increase of 3.3% compared with 2017. Of total production, 75% was non-recourse operations, while the remainder was with recourse.

Net impaired assets totaled €5.3 million at December 31, 2018, a significant reduction compared with 2017 (-€28 million) due to a major assignment of receivables carried out during the year.

Retail business area

The area groups those companies that offer products and services to the retail customers of the mutual banks. Its wide range of products and services includes asset management, personal loans, electronic money and insurance products. The Group companies in this business area are: in addition to the Parent Company (Iccrea Banca), BCC Risparmio & Previdenza, BCC Retail, BCC Credito Consumo, Ventis and Banca Sviluppo.

In 2018, Iccrea Banca's electronic money segment continued strengthening the offering of products and services in line with the strategic plan implemented in 2014. Thanks to major investments that have enabled us to take the authorization platform in-house and acquire the digital factory Ventis S.r.l., Iccrea Banca today features a highly competitive model in terms of cost and the uniqueness of our offering. Growth has been posted in all the main metrics in 2018, both in issuing, with 3.9 million cards issued and about €20 billion in transactions, and in acquiring (POS and ATM placements), with over 190,000 POS, 4,000 ATMs active, and about 22.5 €billion in transactions.

More specifically, in issuing, the entire product line (debit, prepaid and credit cards) posted a 4% increase in transactions driven mainly by credit cards and prepaid products (+2.4% for debit cards, +8.2% for credit cards, and +12.2% for prepaid cards).

The acquiring segment posted double-digit growth (+11.2%) in POS transactions, which reached €12.6 billion, driven mainly by transactions with international circuit (Visa and MasterCard) products, which grew by 20.1%. ATM transactions were stable at €9.9 billion.

As regards the offering of new products and services, the Carta Impresa and Tasca Business products were launched in 2018 to complete the CartaBCC offering in the SME segment as well.

In terms of the digital offering, the acceptance of MasterCard products for Samsung Pay and Google Pay wallets was completed. Iccrea Banca remains the first Italian issuer to have full acceptance of the wallets on the market, thanks to the rapid development made possible by our proprietary authorization platform.

In the acquiring segment, certification was completed in 2018 for the UPI and JCB circuits, which were already available for Sinergia POS and for release to ATMs. Certifications with the circuits and lab testing that, beginning in March 2019, has made acceptance of Visa and MasterCard also available at self-serve fuel stations have been completed.

Work to prepare for the issue of direct acquiring (on an in-house platform) have also been completed, having started testing for the management of disputes, acquired new anti-fraud algorithms, and implemented a migration plan for the participating businesses.

In acquiring, too, the traditional offering has been enriched with new Ventis-brand digital services (Ventis City and Ventis Mobility). Specifically, the launch of Ventis City enables merchants to increase sales by way of a digital showcase and the availability of coupons, cash back, and immediate discounts accessible via POS. Ventis Mobility, on the other hand, provides mutual bank customers with digital services in the areas of mobility and ticketing.

In order to provide a greater boost to business, the network of issuing and acquiring agents has been strengthened without any additional costs for the mutual banks but, in some cases, resulting in greater margins.

In particular, with regard to the push acquiring channel, a re-pricing was carried out in 2018 which, for all merchants affiliated with the network of agents, increases margins in favor of the mutual banks (from 30% to 70%). On the issuing side, too, Ventis Point was launched which, by having an agent in the branch, supports mutual banks in offering and placing the VentisCard range and registering with the Ventis.it portal.

In 2018, Iccrea Banca acquired 13MQ, an e-commerce portal specialized in the sale of high-end Italian products, so that the offering, together with Ventis S.r.l., now features higher margins and is more broadly applicable. The internationalization process of Ventis S.r.l. was launched through a partnership with WeChat, one of the leading e-commerce operators in the Chinese market, making it possible to reach a pool of over one billion potential new customers.

In order to maximize the important results that electronic money has achieved in recent years, Ventis SpA was established in December 2018. Once authorized by the Bank of Italy to provide electronic money services, this new company will become a new product company within the Iccrea Banking Group.

By way of an increasingly integrated offering of traditional and digital payment services, Ventis SpA will seek to increase penetration in the captive market (the mutual banks) as well as offer its services to non-captive customers.

In the asset management sector, total assets under management/placement by **BCC Risparmio & Previdenza** amounted to €14.6 billion, with net funding in 2018 of about €5 million.

This performance in net funding was the result of positive funding from supplementary pension funds; securities investment products, institutional asset management, and insurance asset management; third-party SICAVs, and fixed-income funds, all significantly offset by the negative funding from mutual funds as well as by market effects (-€720 million).

Assets under management include €1.5 billion in investment funds, €1.6 billion in fixed-income funds, €3 billion in retail and institutional portfolio management products, about €646 million in supplementary pension funds, and €7.5 billion in third-party SICAVs.

Within the scope of lending to retail customers, in 2018 **BCC Credito Consumo** continued to distribute consumer credit products (exclusively personal loans) through the mutual-bank branch network and the internet channel, where customers can use a form provided through the Crediper.it website to submit online loan applications.

At December 31, 2018, 242 mutual banks (net of mergers) had agreements with the company. The decline in the number of agreements compared with December 31, 2017 (265) was attributable to the reform of the mutual banking sector, which, as the reader will be aware, has involved the creation of two new groups.

Despite the narrowing of the scope of the mutual bank channel, the company, thanks to specially designed commercial actions and marketing campaigns, has managed to maintain very high production levels at around €365 million, albeit below the levels of the previous year (€392 million at December 31, 2017). However, by restricting the analysis to the current perimeter of banks affiliated with Iccrea, production compared with 2017 increased by 16% (vs. an average of 5% for the market as a whole). At December 31, 2018, total lending amounted to around €912 million.

In 2018, in addition to its ordinary operations, **Banca Sviluppo** continued with the sale of its branches to local mutual banks and took part in 3 important operations coordinated by the parent company that were aimed at the assignment of non-performing loans for a total GBV of €251 million (and NBV of just over €69 million).

In 2018, sales were completed for 22 branches with €410.5 million in funding and €243.8 million in net lending.

The company continued analyses for the sale and integration operations with local entities for the areas of Calabria, Romagna, Campania, and Sicily.

4. CREATING VALUE FOR THE MUTUAL BANKS AND OVERVIEW OF OPERATIONS

At December 31, 2018, the total amounts that the Group has paid to the mutual banks in the form of passed-through fees and commissions came to approximately €427 million, an increase of about €44 million compared with 2017. The greatest contributors to this result, as can be seen in the table below, were the electronic money and asset management businesses, the latter of which has been seeing significant, constant growth in recent years.

€/million	2013	2014	2015	2016	2017	2018
Asset management	29.1	40.6	61.0	74.5	95.8	102.0
Insurance investment products	13.5	16.6	28.8	26.3	25.6	27.7
Corporate loans	7.4	7.0	5.8	5.5	5.7	5.5
Electronic money	209	226.5	239.8	220.6	236.7	274.3
Consumer loans	18.8	18.6	20.2	22	19.8	17.6
Total fees and commissions passed through	**277.7**	**309.3**	**355.6**	**348.9**	**383.6**	**427.1**
System contributions (OGF and DGF)	4.6	5.0	5.0	4.1	3.6	3.0
Parent Company dividends (*)	10.4	-	13.9	14.2	11.2	-
Total	**291.9**	**314.3**	**374.5**	367.2	**398.5**	**430.1**

(*) Dividends by year of disbursement.

All the Group companies are constantly focused on nurturing and expanding their relationship with the mutual banks, reinforcing the strategy of establishing partnerships and close ties. The various institutional relationship activities and engagement with the mutual banks help create opportunities at the international level and develop instruments to dialogue and address key business issues. Alongside its domestic activities, the Group has increasingly focused on the international market within the context of relationships developed with domestic, foreign and supranational institutions and/or entities, in order to expand the international activities of the Group and the affiliated mutual banks (e.g. in the area of funding), as well as supporting SME customers in the process of international expansion.

Support for system liquidity and profitability: highlights

As part of its institutional functions, the Iccrea Group also provided support to the mutual banks through:

- €18.6 billion in collateralized loans;
- €183 million in bonds underwritten (carrying value);
- €5.5 billion average balance in active management of liquidity using short-term treasury instruments;
- €13.9 billion in financing through participation in the T-LTRO II program;
- the structuring of GACS-backed loan securitization transactions in the amount of €3.1 billion euro (gross value).

In addition support for the operations of the mutual banks also included:

- €10 billion in lending to the corporate and retail customers of the mutual banks;
- €14.6 billion in assets managed/placements with mutual bank customers;
- €14.6 billion in order collection;
- 200 million transactions intermediated in the collections and payment segment;
- €20 billion in volumes handled in the issuing segment;
- €22.5 billion in volumes handled in the acquiring segment.

5. DEVELOPMENTS IN GROUP OPERATIONS

To enable a more immediate understanding of the Group's balance sheet, the following tables contain more condensed schedules of assets and liabilities compared with those provided for in the 5th update of Circular no. 262/05 of the Bank of Italy.

The comparative balance-sheet figures for the previous year given in the following tables were determined by reclassifying the items envisaged in the 4th update of Circular no. 262/05.

THE BALANCE SHEET

Consolidated assets

€/thousands	31/12/2018	31/12/2017
Cash and cash equivalents	129,087	110,641
Financial assets measured at fair value through profit or loss	577,664	485,037
Financial assets measured at fair value through other comprehensive income	454,817	2,804,525
Financial assets measured at amortized cost	38,832,682	32,874,332
a) due from banks	18,951,297	17,875,758
b) loans to customers	12,645,290	14,998,574
c) securities	7,236,095	-
Hedging derivatives and value adjustments of macro-hedged financial assets	8,465	6,721
Equity investments	120,962	111,676
Property and equipment	709,930	734,014
Intangible assets	68,711	49,409
Tax assets and other assets	877,973	730,845
Non-current assets and disposal groups held for sale	39,026	220,286
Total assets	**41,819,318**	**38,127,486**

Total consolidated assets at December 31, 2018, amounted to €41.8 billion, up €3.7 billion (+10%) compared with December 31, 2017, due mainly to the following factors:

- the sale of all government securities held in the investment book (HTCS) as a result of implementation of a stop-loss strategy following the increase in the spread at the end of May;
- the purchase of government securities recognized at amortized cost to implement the HTC portfolio and aimed at improving the future coupon yield;
- the reduction in loans to customers following the decrease in repurchase transactions with the Clearing and Guarantee Fund of about €2 billion and, to a lesser extent, the net effect of the addition of Banca MedioCredito del Friuli Venezia Giulia to Group and the sale of the branches of Banca Sviluppo.

Financial assets measured at fair value through profit or loss mainly comprise financial assets held for sale (€328 million), largely trading derivatives, and other financial assets mandatorily measured at fair value (€250 million).

Holdings of financial assets measured at fair value through other comprehensive income (formerly classified as financial assets available for sale) amounted to €455 million following the sale of government securities mentioned above (-84% on the previous year) and mainly comprise government securities and minority equity interests.

Amounts due from banks came to around €19 billion, an increase of €1.1 billion compared with the end of the previous year. This change is mainly attributable to the increase in collateralized loans (+€2 billion) and to the decline in the liability for reserve requirement funds of the mutual banks (-€0.7 billion). A substantial portion of amounts due from banks is, in fact, represented by financing granted to the mutual banks under the pool collateral mechanism.

Loans to customers show a balance of €12.6 billion, attributable to the Group's corporate and retail customers as well as to exposures to the Clearing and Guarantee Fund for operations connected to margining and guarantees for collateralized funding activities (about €2 billion at the end of 2018). The reduction compared with the end of 2017 is attributable to the decreased exposure to this counterparty.

Gross impaired assets amounted to €2.1 billion, a decrease compared with the previous year (€2.5 billion). In addition to ordinary collection efforts, the reduction is mainly due to the assignments of bad loans (€360 million GACS-backed; €134 million through other non-recourse assignments), which was partially offset by the recognition of NPLs resulting from the acquisition of Banca MedioCredito del Friuli Venezia Giulia (€57 million, measured at fair value pursuant to the former IFRS 3).

The ratio of gross impaired assets to gross lending was 18.2% (20.5% at December 31, 2017). In calculating these indicators, loans to customers do not include amounts due from the Clearing and Guarantee Fund.

Net impaired loans to customers amounted to €1.1 billion (€1.3 billion at December 31, 2017), equal to 10.7% of total net lending (12.1% at the end of December 2017). The ratio of net bad debts to loans was 4.2% (5.2% at December 31, 2017), while the ratio of net positions unlikely to be repaid to loans was 6.3% (6.4% at December 31, 2017).

The coverage ratio for impaired assets was 47.4%, essentially in line with the end of December 2017 (47%). More specifically, the coverage ratio was 60% for bad debts – an increase of 1.7 percentage points on the end of the previous year (58.3%) – and 34.6% for unlikely-to-pay positions.

Debt securities classified as financial assets measured at amortized cost amounted to €7.2 billion, a substantial increase compared with the end of the previous year as a result of purchases during the year in execution of the new investment strategy mentioned above.

Equity investments, which are not classified as financial assets measured at fair value through other comprehensive income, comprise interests in associated companies and amounted to €120.9 million (€111.7 million at December 31, 2017).

Property and equipment primarily includes properties owned and used by the Company and the buildings transferred to the real estate funds, which, in accordance with international accounting standards, are consolidated in the financial statements (Securfondo and the Securis Real Estate real estate funds). The reduction of €24 million compared with 2017 is mainly attributable to the lower value of properties managed by the Securis Real Estate funds (-€20 million) and, to a lesser extent, the redemptions received for units during the year.

Intangible assets include €16.7 million in goodwill paid in previous years for the purchase of a number of controlling interests (mainly BCC Risparmio & Previdenza and BCC Sistemi Informatici), a reduction of €4.9 million compared with December 31, 2017, due to the impairment of goodwill related to Banca Sviluppo. Other intangible assets amounted to €51.o million and mainly regard software, which increased by €24.3 million compared with 2017 for a number of reasons, including the costs incurred in connection with the formation of the Mutual Banking Group.

Tax assets amounted to €423.1 million, an increase of €104.8 million compared with 2017. This increase is mainly attributable to the recognition of prepaid taxes against higher provisions for expected losses deriving from the transition to the new impairment model as required by IFRS 9 and recognized for FTA. This aggregate includes current taxes of €110.9 million and deferred tax assets of €312.2 million, the latter of which includes €172.9 million related to Law 214/2011.

Other assets amounted to €454.8 million, an increase of €42.2 million from the previous year, mainly reflecting a number of temporary items settled in the first few days of the month following the close of the year.

Non-current assets held for sale, in the amount of €39 million, concern the assets of the Banca Sviluppo branches for which the sale is considered highly probable.

Consolidated liabilities

€/thousands	31/12/2018	31/12/2017
Financial liabilities measured at amortized cost	39,118,221	34,992,832
a) due to banks	19,236,824	19,235,105
b) due to customers	14,781,287	10,068,860
c) securities issued	5,100,110	5,688,867
Financial liabilities held for trading	245,456	356,450
Financial liabilities designated as at fair value and hedging derivatives	69,502	56,908
Liabilities associated with assets held for sale	20,369	282,047
Other liabilities and tax liabilities	620,308	663,514
Provisions for risks and charges and termination benefits	113,667	99,453
Shareholders' equity	1,631,794	1,672,282
Total liabilities and equity	**41,819,318**	**38,127,486**

Consolidated liabilities and equity amounted to €41.8 billion, as compared with €38.1 billion in 2017.

Amounts due to banks (excluding bonds) amounted to €19.2 billion, €13.9 billion of which attributable to loans obtained from the ECB (TLTRO II) and €4.4 billion to funding by the mutual banks on the daily settlement and deposit accounts.

Amounts due to customers amounted to €14.8 billion, an increase of 47% due to an increase in funding through repurchase transactions with the Clearing and Guarantee Fund. Funding from ordinary customers, attributable to Banca Sviluppo and MedioCredito del Friuli Venezia Giulia, amounted to around €1.6 billion.

Securities issued amounted to €5.1 billion, down €0.6 billion on December 31, 2017 (€5.7 billion) due to the maturing of previous issues, net of new bond issues on the market.

Liabilities associated with assets held for sale totaled €20.4 million and regard the branches of Banca Sviluppo slated for disposal, the sale of which was considered highly likely at year end and was completed in early 2019.

Consolidated shareholders' equity

The composition of consolidated shareholders' equity is as follows.

€/thousands	31/12/2018	31/12/2017
Share capital	1,151,045	1,151,045
Share premium reserve	6,081	4,747
Valuation reserves	43,322	73,569
Reserves	332,801	352,141
Profit/(loss) for the period	5,667	29,357
Equity pertaining to shareholders of the Parent Company	**1,538,916**	**1,610,859**
Equity pertaining to non-controlling interests (+/-)	**92,878**	**65,423**
Total shareholders' equity	**1,631,794**	**1,676,281**

Shareholders' equity pertaining to shareholders of the Parent Company came to €1.6 billion, down €44 million on December 31, 2017, mainly reflecting the combined effect of:

- the recognition of the negative FTA IFRS 9 reserve of €82.6 million;
- the allocation to reserves of profit from the previous year of about €35.5 million;
- earnings for the year in the amount of €7.5 million (of which €1.8 million of which minority interest);
- the reduction in the OCI reserve of about €30 million, mainly owing to the sales of securities during the year;
- €26 million from the decrease in treasury shares.

Consolidated income statement

€/thousands	31/12/2018	31/12/2017
Net interest income	**335,879**	**319,824**
Net fee and commission income	**255,424**	**217,735**
Dividends, net gain/(loss) on trading activities, net gain/(loss) on hedging and net gain/(loss) on assets and liabilities at FVTPL	12,668	17,125
Net gain/(loss) on disposals	(35,517)	104,353
Gross income	**568,454**	**659,037**
Net writedowns/writebacks for credit risk	(97,448)	(177,660)
Net income/(loss) from financial operations	**471,006**	**481,377**
Administrative expenses	(552,391)	(488,057)
a) personnel expenses	(204,066)	(189,310)
b) other administrative expenses	(348,325)	(298,747)
Depreciation, amortization and provisions	(35,385)	(27,263)
Other operating expenses/income	97,296	94,405
Operating expenses	**(490,480)**	**(420,915)**
Profit/(loss) from equity investments	8,382	4,252
Net gain/(loss) from fair value measurement of property and equipment and intangible assets	(20,052)	(22,171)
Writedowns of goodwill	**(4,965)**	**(907)**
Profit/(loss) from disposal of investments	**6,988**	**4,995**
Profit/(loss) before tax on continuing operations	**(29,121)**	**46,629**
Income taxes on income from continuing operations	**36,623**	**(11,125)**
Net profit/(loss) for the period	**7,502**	**35,504**
Net profit/(loss) pertaining to non-controlling interests	**1,835**	**6,147**
Net profit/(loss) pertaining to the Iccrea Group	**5,667**	**29,357**

The Group ended the year with net profit of €7.5 million, down compared with 2017 due mainly to extraordinary events that had a negative impact on earnings, including:

- the full disinvestment of the investment book (held under the HTCS business model) following a stop-loss strategy adopted as a result of the increase in the spread on government securities showing a capital loss of €76 million. This strategy involved a repositioning towards the HTC portfolio to improve the Group's net interest income in the coming years. The disinvestment made it possible to neutralize the volatility of own funds in the presence of significant instability on the financial markets;
- the contribution to the Resolution Fund (BRRD) totaling €34.8 million. This contribution also included an extraordinary component of €9.6 million called up by the Resolution Fund in respect of 2016;
- the additional administrative expenses for the establishment of the IMBG in the amount of about €24 million.

Gross income reflected the following developments:

- net interest income amounted to €335.9 million, up €16 million on the previous year due mainly to higher volumes and higher yields relating to government securities included in the strategic portfolio against a contraction in interest with customers;
- net fee and commission income amounted to €255.4 million, up €37.7 million (+17%) compared with 2017 (€217.7 million) due to growth in the electronic money and asset management segments, which was partially offset by the reduction in operations linked to the sale of the Banca Sviluppo branches;
- the result of disposals shows a net loss of €35.5 million, a significant deterioration from the net gain posted in 2017 (€104.3 million), mainly reflecting:
    - a net loss on the disposal of financial assets measured at fair value through other comprehensive income (-€64.2 million), including the impact of the loss of €76 million on the divestment of the entire investment portfolio cited above;
    - profits from the sale of financial assets valued at amortized cost in the amount of €27.7 million, in relation to sales of securities allocated to the HTC portfolio in compliance with internal policies;
    - profit on the repurchase of securities issued amounting to €0.9 million.

As regards **operating expenses**, the following developments occurred in the period:

- personnel expenses amounted to €204 million, an increase of €14.7 million compared with the previous year, reflecting the expansion of human resources at the Parent Company and the addition of Banca MedioCredito to the Group;
- other administrative expenses amounted to €348.3 million, up €49.6 million compared with the previous year. The increase was mainly due to the higher Resolution Fund contributions (+€11.7 million compared with 2017, mainly due to the additional contributions relating to 2016), costs for the establishment of the Mutual Banking Group (equal to €24 million in 2018, compared with €20 million in 2017), and costs of technology designing, product development, etc. for the entire IBG.

Net writedowns for credit risk amounted to €97.4 million (€177.6 million in 2017, including the impairment of the Atlante fund of €22.1 million).

The **net gain/(loss) from fair value measurement of property and equipment** showed net loss of €20 million (-€22.2 million in 2017), reflecting the reduction in the value of properties included in the real estate investment funds held by the Group.

Income taxes, positive in the amount of €36.6 million (-€11.1 million in 2017) mainly reflect the impact of the fiscal treatment of writedowns of loans related to the first-time adoption (FTA) of IFRS 9.

Consolidated own funds and capital ratios at December 31, 2018

The following table offers a breakdown of **own funds** at December 31, 2018, which amounted to €1.7 billion.

Capital and capital ratios - €/thousands	31/12/2018	31/12/2017	change
Share capital	1,151,045	1,151,045	-
Share premium reserve	6,081	4,747	1,334
Treasury shares	(4,608)	(30,847)	26,239
Earnings reserves	386,882	432,627	(45,745)
Net profit/(loss) for the period	-	-	-
Other comprehensive income	(8,854)	21,498	(30,352)
Transitional provisions	73,011	(86)	73,097
Goodwill	(11,446)	(16,415)	4,969
Deductions – deferred tax assets	(29,381)	(19,368)	(10,013)
Intangible assets	(32,089)	(12,594)	(19,495)
Prudential filters	(1,199)	(2,475)	1,276
Non-controlling interests	41,151	26,930	14,221
Common Equity Tier 1 (CET1 ratio)	**1,570,593**	**1,555,062**	**15,531**
Additional Tier 1 (AT1)	9,328	5,661	3,667
Tier 1 (T1)	**1,579,921**	**1,560,723**	**19,198**
Eligible subordinated loans	148,656	137,610	11,046
Tier 2 (T2)	**148,656**	**137,610**	**11,046**
Total own funds (TC)	**1,728,577**	**1,698,333**	**30,244**

Common Equity Tier 1 (CET1) at December 31, 2018, stood at €1,571 million, an increase of €15.5 million compared with December 31, 2017, due mainly to the following factors:

- positive effects of about €76 million related to the following: a) €35.5 million for allocation of 2017 profit to reserves; b) €40.2 million for the acquisition of Banca MedioCredito FVG SpA, which led to a reduction in Iccrea Banca's treasury shares of €26.2 million due to the exchange arrangements envisaged in negotiated agreements and greater minority interests in the capital structure of the new subsidiary of around €14 million;
- negative effects of about €61 million attributable to the following: a) recognition of a negative FTA reserve of approximately €4 million (€76 million net overall, filtered for the first year at 95% pursuant to the transitional provisions relating to the introduction of IFRS 9 as envisaged by European regulations); b) a change of €30.3 million attributable to the reclassification at the beginning of 2018 in relation to the introduction of IFRS 9 (approximately €14 million) and the rest to changes in the OCI reserve with respect to the opening balances of 2018; c) higher deductions for the recognition of new intangible assets totaling €19.4 million; d) greater anticipated assets for tax losses of €10 million (of which €4 million referable to the elimination of the transitional provisions pursuant to Article 469, paragraph 1, and Article 478, paragraph 1, of the CRR).

Tier 1 (T1) capital as at December 31, 2018, includes a portion of the share capital of Banca Sviluppo and the new subsidiary Banca MedioCredito del FVG S.p.A. (which is attributable to the increase in 2018) related to the equity pertaining to non-controlling interests calculated according to the regulatory requirements defined under Article 86 of the CRR.

Total own funds (TC) amounted to €1,728 million (€1,698 million at December 31, 2017), an increase of €30 million due to the changes in CET1 as described above and to the greater calculation of non-controlling interests in Additional Tier 1 Capital (AT1) and in Tier 2 Capital (T2) relating to the new subsidiary Banca MedioCredito del FVG S.p.A.

Risk-weighted assets (RWAs) at December 31, 2018, which break down as shown in the table below, amounted to €13.2 billion, an increase of €408 million compared with December 31, 2017, due to acquisition of the assets of Banca MedioCredito del Friuli Venezia Giulia, which was partially offset by lower risks deriving from the assignment of non-performing loans.

Risk-weighted assets (RWAs) - €/thousands	31/12/2018	31/12/2017	change
Credit risk, securitizations and CVA	11,826,940	11,433,811	393,129
Market risk	239,173	243,391	(4,218)
Operational risks	1,176,588	1,157,212	19,376
Total RWAs	**13,242,702**	**12,834,414**	**408,287**

At December 31, 2018, the Total Capital Ratio (TCR) stood at 13.05% and so greater than:

- the total SREP capital requirement (TSCR) of 9.75%, which includes the minimum regulatory requirement of 8% pursuant to Article 92 of the CRR and 1.75% pursuant to Article 16, paragraph 2, letter a), of Regulation (EU) no. 1024/2013, consisting entirely of tier 1 capital;
- the overall capital requirement (OCR) of 11.625%, which, in addition to the requirements mentioned above, includes the combined capital reserve requirement of 1.875% pursuant to Article 128, point 6, of Directive 2013/36/EU, consisting solely of the capital conservation buffer (CCB);
- the final overall capital requirement of 12.875% due to the Pillar 2 guidelines (OCR and P2G), which includes, in addition to the requirements described above, the Pillar 2 capital guideline (P2G) of 1.25%, consisting entirely of tier 1 capital.

Capital ratios	31/12/2018	31/12/2017	change
CET 1 ratio	11.86%	12.12%	-0.26%
Total Capital Ratio	13.05%	13.23%	-0.18%

For the purpose of calculating own funds, profit for the year, net of the assumed dividend distribution and calculated on the prudential consolidation area, was not considered as no authorization was required from the ECB pursuant to Regulation (EU) no. 656/2015. This component, estimated at €10.8 million, would have a positive effect of 7 bps on both the CET1 ratio and on the TCR.

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

The income statement and balance sheet shown below are presented in a reclassified form based on management criteria for the purpose of facilitating the comparability of information with respect to the previous year, including in relation to changes in 2018 in certain items following the introduction of IFRS 9 and the consequent update to the Bank of Italy Circular no. 262/2005.

Furthermore, following the Board of Directors' resolution of November 29, 2018, regarding a project to rationalize the electronic money business—which calls for the spin-off of the activities relating to this sector into a new company (Ventis S.p.A.), which was established on December 20, 2018—and in application of IFRS 5, on the financial statements of Iccrea Banca the items attributable to the aforementioned branch have been reclassified to the balance sheet and income statement items related to assets held for sale. Given the above, in order to enable the comparison of the results of the Parent Company with those for the previous year, in the following reclassified statements the information relating to this business has been included in the relevant items of the separate financial statements.

THE BALANCE SHEET

Assets

€/thousands	31/12/2018	31/12/2017	change
Financial assets measured at amortized cost - Due from banks	25,654,753	24,560,756	1,093,997
Financial assets measured at amortized cost - Loans to customers	3,832,731	5,985,237	(2,152,507)
Financial assets measured at amortized cost - Securities	6,874,611	-	6,874,611
Financial assets measured at fair value through profit or loss	896,619	332,416	564,203
Financial assets measured at fair value through other comprehensive income (formerly AFS)	282,946	3,498,966	(3,216,020)
Other assets	244,301	249,520	(5,218)
Total interest-bearing assets	**37,785,960**	**34,626,895**	**3,159,065**
Other non-interest-bearing assets	1,523,550	1,391,219	132,331
Total assets	**39,309,510**	**36,018,114**	**3,291,396**

Total assets at December 31, 2018, amounted to €39.3 billion, an increase on the €36 billion posted at the end of December 2017, due mainly to the following factors:

- the sale of all government securities held in the investment book (HTCS) as a result of implementation of a stop-loss strategy following the increase in the spread at the end of May;
- the purchase of government securities recognized at amortized cost to implement the HTC portfolio and aimed at improving the future coupon yield;
- the reduction in loans to customers as a result of a decline in repurchase transactions with the Clearing and Guarantee Fund in the amount of about €2 billion.

Due from banks (€/thousands)	31/12/2018	31/12/2017	change
Mutual banks	18,104,299	16,069,582	2,034,717
Other credit institutions	7,550,454	8,491,175	(940,721)
Total	**25,654,753**	**24,560,757**	**1,093,996**

Loans to mutual banks increased by about €2 billion compared with 2017, reaching €18.1 billion. These loans, disbursed with pool collateral, include approximately €10 billion in operations with the ECB (TLTRO II), with the rest being other forms of collateralized financing. Amounts due from other credit institutions (which include debt securities) are largely attributable to intra-group receivables. Loans granted to Iccrea BancaImpresa, amounting to €6.4 billion, include about €1 billion refinanced by the Parent Company in the central bank through the use of the "ABACO" procedure, with the use of collateral in the amount of €2.3 billion.

Loans to customers (€/thousands)	31/12/2018	31/12/2017	change
Current accounts	319,673	121,404	198,269
Medium/long-term loans	82,856	95,887	(13,031)
Repurchase agreements	1,199,151	3,116,755	(1,917,604)
Other transactions	2,216,073	2,633,028	(416,955)
Impaired assets	14,978	18,163	(3,185)
Total	**3,832,731**	**5,985,237**	**(2,152,506)**

Loans to ordinary customers include €2.6 billion related to intercompany loans and €1.2 billion to repurchase agreements with the Clearing and Guarantee Fund. The €2.1 billion decrease compared with 2017 derives mainly from the reduction in repo transactions with the Clearing and Guarantee Fund.

The investment portfolio referring to HTC securities is mainly made up of government securities and shows a balance at the end of 2018 of €6.7 billion. The increase derives from the transfer, at the beginning of 2018, of part of the AFS portfolio in relation to application of the new IFRS 9 and the purchase, starting from the end of May 2018, of government securities following a change of strategy tied to increased market volatility.

Financial assets measured at fair value through profit or loss (€897 million) increased by €565 million compared with December 31, 2017 (€332 million), due, above all, to the allocation of financial instruments previously classified among loans and AFS instruments which, following the introduction of IFRS 9, did not pass the SPPI test.

Financial assets measured at fair value through other comprehensive income (formerly AFS), referring to the HCTS business model, are mainly made up of government securities and show a balance of €283 million at December 31, 2018.

Equity investments amounted to €1.3 billion, an increase of €69 million compared with December 31, 2017, mainly due to the capital increases of Iccrea BancaImpresa (€60 million) and Ventis Srl (€5 million) as well as to the acquisition of the investment in Banca MedioCredito del FVG (€21 million). The investment in Banca Sviluppo was written down by €14 million following the impairment test conducted on the investments held by the bank.

Liabilities and equity

€/thousands	31/12/2018	31/12/2017	change
Financial liabilities measured at amortized cost - Due to banks	19,424,621	19,401,520	23,101
Financial liabilities measured at amortized cost - Due to customers	12,615,042	8,243,380	4,371,662
Financial liabilities measured at amortized cost - Securities issued	5,027,706	5,874,245	(846,539)
Financial liabilities held for trading	251,128	365,384	(114,256)
Other liabilities	335,127	466,596	(131,469)
Total interest-bearing liabilities	**37,653,624**	**34,351,124**	**3,302,499**
Other non-interest-bearing liabilities	85,134	69,266	15,868
Shareholders' equity	1,606,384	1,592,973	13,411
Net profit for the period	(35,632)	4,751	(40,383)
Total liabilities and shareholders' equity	**39,309,510**	**36,018,114**	**3,291,396**

Interest-bearing funding totaled €37.7 billion, up €3.3 billion on the previous year, mainly due to the increase in payables to the Clearing and Guarantee Fund.

Due to banks (€/thousands)	31/12/2018	31/12/2017	change
Mutual banks	4,371,951	4,589,629	(217,678)
Other credit institutions	15,052,669	14,811,891	240,778
Total	**19,424,621**	**19,401,520**	**23,101**

Interbank deposits, which include €714 million in deposits for the fulfillment of reserve requirement obligations for the mutual banks, amounted to €19.4 billion, essentially in line with 2017. Amounts due to mutual banks refer to the liquidity held in the daily settlement account in the amount of about €1.8 billion, with the remainder in time deposits.

Amounts due to other credit institutions are largely attributable to loans obtained from the ECB under the TLTRO II (€13.8 billion), while the remainder refers to intercompany transactions.

Due to customers (€/thousands)	31/12/2018	31/12/2017	change
Current accounts and demand deposits	369,280	400,771	(31,491)
Loans	11,791,402	7,334,827	4,456,575
Other payables	454,359	507,782	(53,423)
Total	**12,615,041**	**8,243,380**	**4,371,661**

Funding from customers increased by €4.3 billion on 2017, rising from €8.2 billion to €12.5 billion. The increase mainly reflects a rise in repurchase transactions with the Clearing and Guarantee Fund.

The value of securities issued at December 31, 2018, was €5 billion, a decrease of about €800 million from the end of 2017. The change reflects the net impact of maturing securities in the amount of about €1.7 billion and new issues of about €900 million.

Shareholders' equity

At December 31, 2018, the share capital of Iccrea Banca, represented by 22,285,487 ordinary shares with a par value of €51.65 each, was equal to €1.2 billion. Shareholders' equity, excluding earnings for the year, amounted to €1.6 billion, an increase of €12 million compared with December 31, 2017. The main changes are attributable to the positive effects deriving from the allocation to reserves of approximately €4 million in 2017, the €10 million increase in reserves as a result of first-time application of the new IFRS 9, and the decrease in the treasury shares in the amount of €26 million. These effects were offset by the reduction in valuation reserves of about €28 million, attributable to the reversal, at the beginning of 2018, of reserves relating to the former AFS portfolio and the disposal of the HTCS portfolio.

Income Statement

€/thousands	31/12/2018	31/12/2017	change
Net interest income	**79,104**	**37,581**	**41,523**
Other gains/losses on financial transactions	(38,884)	101,012	(139,896)
Dividends	48,963	25,241	23,722
Net fee and commission income	**184,265**	**134,937**	**49,328**
Other operating expenses/income	31,851	28,364	3,487
Gross income	**305,299**	**327,135**	**(21,836)**
Personnel expenses	(90,592)	(79,621)	(10,971)
Other administrative expenses	(243,203)	(192,827)	(50,376)
Net adjustments of property and equipment and intangible assets	(9,626)	(8,960)	(666)
Total operating expenses	**(343,421)**	**(281,408)**	**(62,013)**
Gross operating profit	**(38,122)**	**45,727**	**(83,849)**
Net provisions for risks and charges	(96)	3,036	(3,132)
Net losses/recoveries on impairment of loans and other financial transactions	(4,682)	(49,550)	44,868
Total provisions and adjustments	**(4,778)**	**(46,514)**	**41,736**
Profit/(loss) from equity investments	(15,791)	(3,082)	(12,709)
Profit/(loss) before tax	**(58,691)**	**(3,870)**	**(54,821)**
Income tax expense	23,059	8,621	14,438
Net profit/(loss) for the period	**(35,632)**	**4,751**	**(40,383)**

The developments in performance reflect a number of non-recurring factors that had an adverse impact on the results of Iccrea Banca, which reported a net loss of €35.6 million. These factors include:

- the contribution to the Resolution Fund (BRRD) totaling €28.6 million. This contributions also included an extraordinary component (€7.9 million) called up by the Fund for 2016;
- the nearly full disinvestment of the investment book (held under the HTCS business model) following a stop-loss strategy adopted as a result of the increase in the spread on government securities showing a capital loss of €76 million. That strategy involved a repositioning towards the HTC portfolio to improve the Group's net interest income in the coming years;
- administrative costs incurred for the establishment of the IMBG in the amount of about €24 million.

Gross income at December 31, 2018, including other operating income (€31.8 million), amounted to €305.3 million, a decrease of €21.8 million from December 31, 2017.

Other gains (losses) on financial transactions (a loss of €140 million) declined sharply in relation to the loss on disposals deriving mainly from the sale of government securities held in the HTCS investment portfolio (a loss of €76 million), which was partially offset by profits recorded on sales of government securities (HTC) in the amount of €34.8 million. The profit from disposals recognized in 2017 was, in any event, affected by extraordinary components connected to the sale of the investments in Visa and Cattolica (€9.5 million) and to the disposal of the entire former HTM portfolio in relation to the transition to IFRS 9 (€56 million).

This negative effect was partially offset by: a) the increase in the net interest income deriving from higher volumes and the higher coupon yield of the HTC portfolio; b) the increase in net fees and commissions, especially in the electronic money and securities placement sectors; and c) higher dividends received from shareholdings.

Total costs increased by €62 million compared with 2017, to €343 million, largely due to the increase in other administrative expenses deriving from higher costs incurred for the IBG projects (for IT, electronic money, marketing and logistics), for activities related to establishment of the Mutual Banking Group, and for extraordinary contributions to the Resolution Fund (BRRD). Personnel costs also increased in relation to the strengthening of the Parent Company's governance structure in view of the establishment of the Group.

ASSETS HELD FOR SALE - ELECTRONIC MONEY BUSINESS

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

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

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

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

Balance Sheet

€/thousands	31/12/2018
Cash and cash equivalents	77,484
Financial assets measured at amortized cost	522
Equity investments	5,027
Property and equipment	5
Intangible assets	2,321
Other assets	61,436
Total assets	**146,793**

€/thousands	31/12/2018
Financial liabilities measured at amortized cost	98,133
b) Due to customers	98,133
Other liabilities	26,968
Post-employment benefits	1,472
Provisions for risks and charges	1,025
Income/(loss) for the period (+/-)	19,195
Total liabilities and shareholders' equity	**146,793**

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

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

Income Statement

€/thousands		31/12/2018
40.	Fee and commission income	371,410
50.	Fee and commission expense	(274,339)
60.	**Net fee and commission income**	**97,071**
120.	**Gross income**	**97,071**
150.	**Net income/(loss) from financial operations**	**97,071**
160.	Administrative expenses:	(82,054)
	a) personnel expenses	(9,302)
	b) other administrative expenses	(72,752)
170.	Net provisions for risks and charges	(356)
	b) other net provisions	(356)
180.	Net writedowns/writebacks of property and equipment	(2)
190.	Net writedowns/writebacks of intangible assets	(535)
200.	Other operating expenses/income	12,905
210.	**Operating expenses**	**(82,947)**
260.	Profit/(loss) before tax on continuing operations	**27,029**
270.	Income tax expense	**(7,834)**
300.	**Net profit/(loss) for the period**	**19,195**

7. DEVELOPMENTS IN THE OPERATIONS OF GROUP COMPANIES

7.1 SUBSIDIARIES

Iccrea BancaImpresa S.p.A.

As at December 31, 2018, assets totaled €8.1 billion, compared with the €8.4 billion of December 31, 2017. The decrease is essentially attributable to loans to customers (€7.6 billion, down compared with the €7.9 billion of 2017), which, given the Group's corporate banking function, constitutes the predominant component of assets. The remaining components are represented by tax assets, other assets, and equity investments.

The decrease is mainly attributable to the major de-risking efforts carried out by the company, with a view, in part, to optimizing capital absorption and rationalizing legal costs, in line with the Group's overall strategies through significant operations for the assignment of non-performing loans, accompanied, however, by ordinary activities to collect on problem loans.

In particular, in 2018, the Bank carried out three transactions for the assignment of non-performing loans for a gross amount of €197 million and related derecognition. Specifically, the Bank was involved in two multi-originator securitization transactions of bad-debt portfolios pursuant to Law 130 of April 30, 1999, which were completed in June and December of 2018 for a total of €65 million and €61 million, respectively. In both cases, the assignments took place in favor of special-purpose vehicles that financed the purchase by issuing asset-backed securities pursuant to the combined provisions of Articles 1 and 5 of Law 130 and divided into senior, mezzanine, and junior classes. Both transactions were structured in such a way as to benefit from the state guarantee (GACS) of the liabilities issued pursuant to Decree Law 18 of February 14, 2016, ratified with Law 49 of April 8, 2016, as amended. Also in December, a non-recourse assignment of unsecured loans was carried out for a gross total of €72 million.

As a result of these actions, gross impaired loans posted an 8.8% decrease compared with 2017, settling at a total of €1.7 billion, of which €807 million in bad loans (-9.8% annually) and €887 million in unlikely-to-pay positions (-7.5%). At the same time, there was an increase in the level of coverage of impaired loans (49.8%, from 46.6%) due both to greater provisions for non-performing loans (65.4%, from 60.9% at the end of 2017), which benefited most from the effects of FTA of IFRS 9, and to defaults (35.6%, 33.5% in 2017).

As a result of these actions, net NPEs fell to 11.3% of total loans from 12.6% at the end of 2017.

Among liabilities, amounts due to banks (which amounted to €2.2 billion, -21% compared with 2017) decreased, essentially attributable to intercompany financing granted by Iccrea Banca, which was partially offset by the increase in new bond issues also subscribed by the parent company (up about €300 million, for a total of €4.3 billion at the end of 2018).

In 2018, following the authorization of the supervisory authorities, the Bank completed a capital increase of €120 million (of which €60 million already paid in by the parent company during 2017 for future increases). At December 31, 2018, the Bank's shareholders' equity amounted to €760.4 million.

With regard to the income statement, net interest income amounted to €155 million, compared with €179 million for the previous year (-13.4%). This decrease is tied both to the lower contribution on the income side following the complete divestment of the securities portfolio in October 2017, and to lower margins on the loan portfolio in 2018 generally given the continuation of low interest rates.

Net fee and commission income, which refers to other commissions not attributable to specific lending and funding contracts, showed net income of €8.1 million (-17.1% compared with 2017).

The results of the sale or repurchase of financial assets measured at amortized cost were a net negative at €1.9 million in relation to the sale of non-performing loans in 2018. In 2017, these operations benefited from the sale of the securities allocated to the HTM portfolio (revenues of €10.6 million). The net result from trading activities amounted to €1.6 million and includes the negative differences realized on exchange rates and the result of transactions in derivatives with customers.

In light of these effects, gross income stood at €168.8 million, compared with €206.9 million in 2017 (-22.6%).

Net impairment of loans decreased (€72.8 million, from €105.5 million in 2017). Additional allocations of about €60 million were, in any event, made for impaired positions considered under the assumption of their sale and which, in relation to the provisions of the new IFRS 9, are directly represented among FTA equity reserves.

Personnel expenses, in the amount of €32.1 million, showed a slight increase (+1.3%) in relation to the lower recovery of expenses for seconded personnel, which was partially offset by a reduction in overhead costs. Other administrative expenses, amounting to €32.6 million, posted a 3% increase compared with 2017, mainly due to the higher contributions required for the purposes of the BRRD (equal to €5.2 million, compared with €3.8 million for the previous year). Other operating expenses amounted to €6.8 million (€6.4 million for the previous year).

As a result of these factors, the Bank's cost-to-income ratio came to 42% (37.6% for the previous year).

Gross profit amounted to €22.6 million (€19.9 million for the previous year). Net of taxes, income came to €39.3 million, compared with €15.4 million for the previous year, due to a positive tax effect of €16.7 million deriving from the treatment of impairment to loans in conjunction with first-time application of IFRS 9, which gave the option to distribute the effects over ten years.

In implementation of the framework agreement signed on December 28, 2017, by Iccrea Banca SpA, Iccrea BancaImpresa SpA, the Region of Friuli Venezia Giulia, and the Cassa di Risparmio di Trieste Foundation, starting from July 2018 Iccrea BancaImpresa, through the subscription of a reserved capital increase, and Iccrea Banca, through the exchange of treasury shares with the equity investment held by the Cassa di Risparmio di Trieste Foundation, now hold the majority share of MedioCredito del Friuli Venezia Giulia.

The Bank also holds a 100% controlling interests in BCC Lease and BCC Factoring. With reference to the latter, the value of the investment, i.e. €18.4 million, was in line with the value of the company's shareholders' equity with the recognition of a writedown of €2.5 million.

Banca Sviluppo S.p.A.

In 2018, Banca Sviluppo S.p.A. continued the process of selling branches to the mutual banks in line with the strategic guidelines set by the Parent Company. Overall, executed sales involved 22 branches with €410.5 million in funding and €243.8 million in net lending. In the meantime, the company continued analysis for the sale and integration operations with local entities for the areas of Calabria, Romagna and Campania aimed at disposing of additional branches still located in these areas.

In particular, lending, which represents a significant portion of assets, decreased by €567 million overall compared with the previous year due to both the reduction in branches and to de-risking, the latter of which led to the assignment of over €200 million in non-performing loans, mainly through the two aforementioned multi-originator, GACS-backed securitization transactions and, to a lesser extent (approximately €15 million gross), to a non-recourse assignment of unsecured non-performing loans. Unlikely-to-pay exposures also decreased by a total of approximately €28 million, of which €18 million due to the sale of business units and €10 million to a positive balance in paid-up positions net of new exposures.

At December 31, 2018, gross impaired loans amounted to €135 million (approximately €76 million net), from €358 million at the end of 2017, of which €53 million in bad debt and €73 million in unlikely-to-pay positions. Overall coverage of impaired exposures was 44.2%, down compared with 2017 (coverage of 51.3%) due to the reduced component of bad loans compared with the previous year.

The bank's shareholders' equity amounted to €122 million, with 68% of share capital held by Iccrea and 32% by 224 mutual banks, some of which are not members of the Mutual Banking Group.

The income statement shows a slight decline in net interest income, from €34.3 to €33 million, as a result of the decrease in the Bank's average volumes due to the sale of branches. Interest income from customers posted a lower contraction compared with interest expense with customers as a consequence of the sale of business units characterized by a higher cost of funding. A more significant drop, again in relation to the volume effect, was seen in net fee and commission income (€14.3 million as compared with €18.9 million in 2017). Losses on sales or repurchases amounted to €5.3 million as a result of further adjustments to impaired loans made in the context of due diligence relating to the loans allocated to the branches sold. In 2017, by contrast, profits came to €7.8 million, due in part to the sale of the HTM portfolio.

As a result of these trends, gross income amounted to €42 million (€60 million in 2017).

Writedowns/writebacks of loans is positive at €464 thousand due to the release of provisions for assigned performing loans and the collection of significant exposures classified as unlikely to pay. The aggregate was a negative €9.1 million in 2017.

Operating expenses fell in 2018 to €51.2 million, down from €55.5 million for the previous year due to the decrease in both personnel expenses (-9% compared with 2017) and other administrative expenses (17%).

Profits from the sale of investments amounted to €7 million deriving from the gains realized on the sale of the branches.

As a result of the aforementioned factors, the year ended with a pre-tax loss of €1.7 million, whereas tax effects resulted in net profit of €5.1 million thanks to the legislative measures concerning the option of spreading over ten years the tax effects deriving from FTA of IFRS 9.

Banca MedioCredito del Friuli Venezia Giulia S.p.A.

At December 31, 2018, total assets amounted to €1.1 billion, largely represented by assets measured at amortized cost. Loans to customers amounted to €565 million (-13.1% compared with 2017) – in addition to €684 million disbursed by way of third-party funds, with partial risk borne by the bank at an average rate of 20% – about a third of which in the form of financial leasing.

Gross impaired loans amounted to €185 million (bad loans of €108 million), with total coverage of 58% (bad loans at around 74%).

Financial liabilities measured at amortized cost represent the bulk of liabilities (€936 million) and are represented by: a) amounts due to banks in the amount of €239 million (-10% compared with 2017), which include €115 million in funding with the ECB; b) amounts due to customers in the amount of €671 million (-11% compared with 2017); c) securities issued in the amount of €25.4 million (-34% compared with 2017) related to a subordinated bond issued in 2014.

The bank's shareholders' equity amounted to €100.4 million.

At December 31, 2018, the income statement showed a loss of €2.4 million (the loss in 2017 was €52.4 million).

Net interest income amounted to €10.3 million, a decrease compared with the previous year (-6%). Gross income amounted to €14.7 million, a significant increase compared with 2017 due to the fact that this figure included losses deriving from a sale of impaired loans (€25.5 million).

In consideration of the fact that the Bank entered the Group in July 2018, the contribution to consolidated income refers only to the second half of the year. The Bank's contribution to the Group's performance for this half-year was negative at around €5 million.

BCC CreditoConsumo S.p.A.

At December 31, 2018, total lending amounted to approximately €912 million (equal to 95% of assets), €902 million of which consisted of loans to customers for consumer credit, with the remainder being in loans to banks. Financial liabilities amounted to €871 million and consisted of intragroup payables to banks of about €810 million and payables to Agos Ducato of approximately €61 million. Shareholders' equity at December 31, 2018, stood at €73 million.

In 2018, despite the aforementioned reduced business with the mutual banks that are not members of the Iccrea Mutual Banking Group (IMBG), net interest income amounted to €42 million (about €46 million in 2017); gross income amounted to €45 million euros, compared with €48 million for the previous year.

Administrative expenses decreased to €17.2 million, as compared with €18.8 million for 2017, and included €5 million for personnel expenses and €12 million for other administrative expenses. The decrease compared with the previous year is partly attributable to the conclusion of the Matrix project and partly to the rationalization of costs for outsourced services following completion of the process of insourcing credit collection.

The cost of risk fell to €11.7 million, compared with €16.6 million for the previous year, thanks to the solid performance of the portfolio, the efficiency improvements to the credit collection processes, and the continuing upward trend in the marketplace.

Gross operating profit came to €18.4 million, which produced to net profit of €12.5 million.

BCC Factoring S.p.A.

Revenues generated in 2018 totaled over €1.8 billion, an increase of 3.3% compared with 2017. Of total production, 75% was non-recourse operations and 25% with recourse. In the second half of the year, the downward trend recorded in the first six months, which was due to the termination of business with certain major sellers of

receivables in central and southern Italy and to the mutual banks affiliated with the Cassa Centrale Banca Banking Group not joining the Mutual Banking Group, was recovered in its entirety.

Net lending in December 2018 amounted to around €505 million, as compared with €509 million at the end of 2017, with outstanding invoices totaling €595 million. Exposures that exceed the individual limits established by supervisory regulations are covered by guarantees issued by the parent company Iccrea BancaImpresa (equal to €271 million at the end of 2018).

In general, there was an improvement in the quality of lending during the year. In accordance with the guidelines of the Parent Company, within the scope of the broader process of reducing the stock of NPLs, BCC Factoring has executed a significant assignment of a portfolio of impaired loans, classified as bad debts or unlikely to pay, for a total nominal value of over €30 million (€23.9 million in bad loans; €6.5 million unlikely to pay). A further assignment of defaults (for a nominal value of €13.6 million) was made to Iccrea BancaImpresa within the year.

Overall, at December 31, 2018, gross NPLs amounted to €10 million, of which bad debt in the amount of €1.3 million, unlikely-to-pay exposures of €6.1 million, and impaired past-due positions of €2.6 million. The coverage ratio of unlikely-to-pay positions and bad debts is equal to 31.5% (76.7% for bad debts and 21.9% for unlikely-to-pay exposures).

Shareholders' equity stood at €18.4 million.

Net interest income amounted to €4.2 million, a decrease compared with 2017 (€4.6 million). Net fee and commission income of €2.6 million confirms the decreasing trend seen in 2017 with a 11.9% decrease year on year (from the €2.9 million of 2017).

Gross income reflects the aforementioned trends in interest and commission income, settling at €6.8 million (-9.4% compared with the previous year).

Total costs amounted to €7.1 million euros, up 5% compared with 2017 due above all to the increase in personnel expenses related to the growth in the workforce in 2018 as forecast in the budget. Other administrative expenses are in line with 2017, a slight reduction compared with the budget forecast for the year.

Due to the factors described above, 2018 closed with a net loss of €185 thousand.

BCC Lease S.p.A.

In 2018, BCC Lease received some 30,000 applications with a value of about €410 million, an increase of 13% in number and 26% in value compared with the previous year. Over the same period, new lending amounted to €246 million from about 21,000 contracts, an increase of 13.6% in the number of transactions and 19% in value.

The product that posted the greatest increase was auto leasing by agents, which reached full operations after an initial period of testing. The excellent growth in targeted financing continues, thanks to operations related to a number of major agreements with producers.

The gross total of customer financing at the end of 2018 amounted to €440 million, compared with around €390 million in 2017, an increase of 13.5%. Gross impaired loans amounted to €23.3 million (5.2% of lending; 7.9% in 2017), down 18% compared with the previous year due to a sale of non-performing loans in the amount of €3.1 million euro and a slowing in the default rate. NPL coverage stands at over 68%; bad debt, which represents around 45% of the total, have been written down by around 90%.

Net interest income amounted to €19.3 million, up 8.3% compared with 2017 due to the increase in interest income deriving from higher volumes and a lower cost of funding, all within the group.

The cost of risk was €4.7 million and was lower than the previous year (€5.9 million). The trend is linked to the reduction in impaired exposures, which – despite an increase in coverage percentages – resulted in a lower-than-expected volume of writedowns.

The company's operating costs, in the amount of €7.7 million, rose slightly compared with 2017 (€6.8 million) and in line with budget forecasts, which took into account the higher costs deriving from the launch of the heavy vehicle project.

Net profit amounted to €9.7 million, an increase of 27% compared with the previous year (€7.6 million), outpacing budget forecasts.

BCC Risparmio & Previdenza SGRpA

The total assets placed and managed by BCC Risparmio & Previdenza as at December 31, 2018, amounted to €14.6 billion, a reduction of €714 million compared with 2017 mainly due to the performance of the financial markets. Positive funding from supplemental pension funds, third-party SICAVs and asset management was, in fact, significantly offset by the outflow of subscribers of coupon funds (mainly linked to approaching maturities and the related distribution of income) and the negative funding from investment funds.

Assets under management by the company at the end of 2018 break down as follows:

a) 12.7% in investment funds;
b) 11.3% in coupon funds;
c) 4.4% in supplemental pension funds;
d) 20.5% in portfolio management products;
e) 51.2% in third-party SICAVs.

Provided below are details on developments in the individual business lines:

a) Investment funds

Total assets under management in investment funds and funds of funds at the end of the year totaled €1.8 billion. The number of active investment accounts reached about 153,000, an increase compared with the end of 2017 of around 139,000 (+10%).

In March, the BCC Aureo Cedola II – 2017 coupon fund, which reached maturity, was merged into the short-term bond fund Investiper Obbligazionario Breve Termine. In addition, in September the BCC Cedola IV-2018 and BCC Cedola IV Opportunità-2018 funds were merged into the Investiper Obbligazionario Breve Termine and Investiper Obbligazionario Medio Termine funds, respectively.

Excluding the contributions deriving from these mergers (€145 million), net funding in 2018 was a negative €70.7 million. Within this context, the Investiper Italia PIR 25 fund and the fund of funds Investiper Italia PIR 50 registered positive net funding of €71 million and €35 million, respectively.

b) Coupon funds

Total assets in coupon funds at the end of 2018 amounted to €1.5 billion.

In July, a new coupon fund called Investiper Cedola Dicembre 2023 was established and raised €126 million in funding on 6,563 contracts and 108 active banks. In September, the funds BCC Cedola V Opportunità—2018, BCC Cedola Attiva Dicembre—2018, BCC Cedola Attiva Marzo—2019, BCC Cedola Attiva Settembre—2019, and BCC Cedola Attiva Dicembre—2019 were merged into the newly established BCC Cedola Dicembre 2023 fund.

Excluding the outflows related to this merger, net funding in coupon funds was negative at around €471 million.

c) Supplemental pension funds

In 2018, the company confirmed the positive trend in funding in supplemental pension funds, attracting net funding of €110 million for total assets under management of €646 million. The number of subscribers to supplemental pensions reached 108,000 (equivalent to about 138,000 mandates as a result of multi-segment subscriptions), an increase compared with the beginning of the year, when there were about 96,000 subscribers (+13.1%).

d) Securities investment products, institutional asset management, insurance asset management

Total assets under management amounted to €3 billion at the end of the year.

Net funding was positive at €235 million, divided into the following lines: (i) retail (€24.8 million); (ii) institutional (€20.1 million); and (iii) insurance asset management (€190 million).

In July, the placement of the new Retail Management lines relating to the "Investiper GP" asset management project began, generating 581 new contracts for total funding of €32 million and 41 active banks.

e) Third-party SICAVs

Total assets placed by the end of the year amounted to €7.5 billion and posted net funding of over €200 million. The overall effect of platform inflows and outflows since the beginning of the year, following mutual banks' decisions about which mutual banking group to join, had a negative impact on funding and assets in the amount of €539 million. As planned, the company launched three new funds in 2018 in collaboration with selected partners for total funding of about €632 million.

The 2018 financial year closed with gross profit of €12.5 million (€8.5 million after taxes), as compared with €25.9 million in 2017. This decrease was due, above all, to the significant decrease in performance fees (from €11.1 million in 2017 to €1 million in 2018) within a context of essential stability in the other fee and commission components, and to the increase in administrative expenses.

In this regard, the cost of labor went from €4.7 million in 2017 to €5.2 million in 2018 due to the increase in the cost of both employees and personnel seconded to the company from other members of the Group. Other administrative expenses, in the amount of about €16.3 million at the end of 2018, increased by 22.9% mainly due to: a) the increase in costs for administrative services for the outsourcing of back office activities and of transfer agents for mutual funds; b) higher IT costs for project activities and costs related to data transmission; c) higher expenses for professional and consulting fees, mainly linked to organization and planning and to the merger of mutual funds.

BCC Sistemi Informatici S.p.A.

The financial year ended December 31, 2018, closed with net profit of €320 thousand.

Value of production increased by €2.8 million to €86.1 million as a result of the increase in the volume of services provided to mutual bank customers and the ongoing centralization within the company of services provided to the Parent Company and to the other product companies.

More specifically, revenues from sales and services increased by €4.1 million due, above all, to the increase in standard services provided, which totaled €7.6 million in 2018, an increase of €3.4 million over the previous year (€2.1 million for the ongoing centralization of technology services within the company, as the sole IT provider for the special-purpose companies of the Iccrea Banking Group, and the remaining €1.3 million for the increase in on-demand services provided to the banks).

Production costs rose by €2.3 million to reach €85.7 million. This increase was mainly due to the increase in the incidence of costs for external collaborators and consultants following the increase in the temporary seconding of employees and the different use, compared with the previous year, of application management services, which focused, in 2018, on the stabilization of the existing information system and on the recurrent adaptations of applications in response to regulatory changes. The increase in personnel expenses, up from €18.2 million in 2017 to €18.7 million, was more than offset by lower fees for user licenses (down €1 million, for a total of €6 million in 2018) as a result of rationalization efforts.

BCC Solutions S.p.A.

The company's performance, overall and as seen in the figures shown in the table, is stably positioned towards financial stability while remaining structurally in the black and maintaining good, elastic capacity to maintain balance between the change in operating expenses and the trend in core revenues. The level of core revenues stood at about €37.2 million on operating costs of €27.9 million. Gross operating margin is therefore equal to €9.2 million, which, net of depreciation, amortization and financial expenses, gives a pre-tax result of €2.7 million euros net profit of €1.7 million. The 2018 financial year was characterized by an increase in depreciation, amortization and direct taxes relating to the project for the redevelopment of the Lucrezia Romana offices, the financial effects of which were, however, offset by higher revenues relating to the full development of certain branch offices (Milano Revere and Pioltello in particular), as well as the start-up, in the second half of 2018, of management of workstations at the various local offices.

Equity remained above €57 million, posting a slight decrease (-0.84%) compared with the 2017 financial statements after the distribution of dividends totaling €2 million.

BCC Gestione Crediti S.p.A.

The financial year ended December 31, 2018, closed with significantly improved performance compared with the previous year. Profit for the year amounted to €4.2 million (€2.7 million in 2017; +49%). This performance derives from an increase in value of production (€24.4 million; €18.9 million in 2017), as a result of the strengthening of the Asset Management business, that exceeded the increase in production costs (€17.8 million, from €14.7 million in 2017).

BCC Retail Scarl

Financial year 2018 closed with net profit of €112 thousand, deriving mainly from extraordinary income recorded in the year in relation to the collection of an indemnity from Old Mutual (€0.4 million).

Value of production totaled €4.7 million, a decrease of €0.2 million (-3.8%) compared with the previous year deriving from the reduction in fees and commissions relating to insurance brokerage.

Overall, production costs amounted to €4.5 million, a decrease of €0.5 million compared with the previous year. This change was mainly due to the allocation of provisions for risks and charges of approximately €0.4 million carried out last year and relating to the indemnity received from Old Mutual. This provision was not present in 2018.

7.2 ASSOCIATES

BCC Vita S.p.A.

The company recognized a profit of €10.4 million, an increase compared with the profit of €10 million at December 31, 2017. The technical result amounted to €10.4 million (€8.7 million at December 31, 2017).

This performance was mainly due to the following factors:

- direct premium funding of €432.5 million, up 33.1% compared with the previous year. Production is mainly based on line I funding, which represents 62.8% of total funding, up 30.7% compared with the end of the previous year. Line III unit-linked funding increased from €108.5 million to €154.3 million (42.3%);
- a release of supplemental technical reserves of €5.8 million, compared with €1.4 million in 2017;
- a positive contribution to the technical result of €56.4 million, a decrease compared with the €63 million of 2017 (-10.5%) due to the reduction in net profit from the sale of investments (€1.2 million, compared with €2 million at December 31, 2017) and the increase in net adjustments (-€11 million, compared with 1.6 million in 2017), which was partially offset by higher net income from investments and interest (which rose from €62.6 million to €66.2 million).

Technical reserves (both mathematical and class D) amounted to €3 billion (€441 million of which was class D), up 10.9% compared with the €2.7 billion of 2017 (of which €336.8 million was class D).

This increase is also reflected in investments, which totaled €3.1 billion, an increase of 10.6% compared with 2017.

BCC Assicurazioni S.p.A.

The company closed the year with a loss of €869 thousand, in line with the previous year.

This performance was the effect of the following factors:

- premium funding of €38.4 million, up 1.6% on the previous year. Premiums for the period amounted to €17.9 million, up 15.7%. The increase in production mainly concerned the accident, health, fire and motor-vehicle liability segments, placed by way of the multi-channel "Click2Go" procedure;
- a technical result that saw a loss of €569 thousand (a loss of €1.4 million in 2017) attributable in part to a provision of €771 thousand for the provision for the impairment of receivables from policyholders;
- a net loss on financial management of €365 thousand (a net gain of €515 thousand at December 31, 2017), mainly due to the increase in net adjustments of €752 thousand and the decrease in net profits from the sale of investments, which amounted to €25 thousand (-70.9%).

Investments, including cash and cash equivalents, amounted to €31.1 million (+0.6%), while technical reserves (premiums and claims) amounted to €56.4 million (+1.3%).

8. MAIN RISKS AND UNCERTAINTIES TO WHICH THE ICCREA 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 the primary responsibilities of supporting and serving the mutual banks and their customers. Consistent with these principles, the Group pursues its growth objectives in accordance with the needs of the affiliated mutual banks, ensuring, through balanced risk management, reliable and sustainable generation of value over time.

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 ensure that it is comprehensive, suitable and functional (by being effective and efficient) and that they are consistent with the risk appetite framework.

The Group has adopted risk management policies and has implemented, in accordance with supervisory regulations, the risk appetite framework (RAF), internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP).

The objective of the RAF is to establish a reference framework for determining appetite for risk, which sets ex ante the risk/return targets that the bank plans to meet and the consequent operational limits. Therefore, formalizing the risk objectives consistent with maximum risk sustainable, the business model and the strategic policies by defining the RAF is crucial to establishing a risk governance policy and a risk management process based on the principles of sound and prudent business management.

ICAAP and ILAAP seek to provide an internal assessment of the current and prospective adequacy of capital connected with the exposure to risks that characterize operations and the operational and structural liquidity profile.

Therefore, it is critically important that the Group work continuously to accurately identify the risks to be assessed. Once the significant risks are identified, the ICAAP involves assessing the risks to allocate internal capital and determine the total capital to cover them, currently and prospectively. This includes performing stress tests to assess the Group’s vulnerability to exceptional, but plausible, events.

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

- credit risk: the risk of loss arising from the counterparty’s failure to perform its contractual obligations due to inability to repay interest and/or principal (default risk). This category includes the risk arising from losses associated with the reduction in the market value of assets due to deterioration in the counterparty’s credit rating (migration risk). One type of this risk is counterparty risk, i.e. the risk that the counterparty to a transaction could default before final settlement of the transaction;
- market risk: risk of incurring losses arising from unexpected adverse movements in market prices of financial instruments, currencies and goods. The following sub-categories are the most significant:
  - risk on the trading book position, i.e. the risk arising from fluctuations in the price of securities;
  - credit spread risk, namely the risk arising from changes in the market value of debt instruments due to fluctuations in the relative credit spread.
- credit valuation adjustment (CVA) risk: a “credit valuation adjustment” is an adjustment of market’s interim assessment of transactions with a counterparty. That adjustment reflects the current market value of counterparty risk in respect of the entity. It does not reflect the current market value of the entity’s credit risk in respect of the counterparty.
- operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational risk includes legal risk, IT risk, compliance risk and reputational risk, i.e. types of risk that cannot be measured/quantified for which the level of the suitability/compliance of the relative management processes has been assessed;

- interest rate risk on the banking book: risk arising from changes in market interest rates that reduce the profitability and the economic value of non-trading book assets;
- concentration risk: risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or engaged in the same activity or dealing in the same goods, as well as from the application of credit risk mitigation techniques, including in particular risks associated with indirect credit exposures such as a single issuer of guarantees;
- strategic risk: the current or prospective risk of a decline in earnings or capital arising from changes in the operating environment, adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes;
- sovereign risk: risk of loss arising from a sovereign state counterparty defaulting on is contractual obligations or a decline in the sovereign counterparty's credit rating;
- real estate risk: risk of losses arising from a change in the prices of real estate held in the bank's portfolio (investments in real estate investment funds, other properties not used in operations;
- equity risk: risk of loss arising from a change in the value of equity instruments in the banking book;
- liquidity risk: risk that the bank could default on its payment obligations due to its inability to secure funding or only being able to secure it at above-market costs (funding liquidity risk) or to the existence of restrictions on the sale of assets (market liquidity risk) resulting in capital losses;
- residual risk: risk for which the recognized credit risk mitigation techniques used by the Bank prove less effective than expected.

UNCERTAINTIES

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

From a macroeconomic point of view, the context is characterized by considerable uncertainty. It should be noted that the political tensions linked to the formation of the new Government and the approval of the budget package have had an adverse impact on the markets, raising the spread on Italian government bonds to its highest level in the last five years. At the same time, there was a slowdown in the Italian economy (-0.8% vs. 2017) and a further deterioration is expected for 2019, including at the international level, where geopolitical tensions are intensifying. Bank operations will be influenced not only by economic and monetary uncertainties (linked to the uncertain evolution of official rates), which will continue to squeeze net interest income, but also by regulatory uncertainties associated with the extensive European regulation now being implemented and defined, including that linked to the tightening of capitalization and risk measurement rules.

These are accompanied by two major idiosyncratic factors that directly affect the Iccrea Banking Group: on the one hand, the need over the medium term to continue to bring the percentage of NPLs back down to "less significant" levels,[1] with the consequent actions and impact on the financial statements, consistent with developments in the Italian banking system, and on the other, the entry into force of the reform of the mutual banking system, which requires significant planning to lay the foundations of the Iccrea Banking Group, adding to the Group's already complex and multi-faceted operations.

With specific regard to NPLs, following the ECB's publication in 2016 of its "*Guidance to banks on non-performing loans*", in 2018 the regulatory framework was strengthened further with the issue by the EBA of its *Final Report* on managing NPLs and forborne exposures (see "*Guidelines on management of NPL and Forborne Exposures*" published on October 31, 2018).

In order to develop and implement a suitable strategy for managing NPLs, banks must upgrade their internal organizations and, in particular:

- regularly assess and review the operational environment, including internal capabilities, external conditions (macroeconomic, market, investor, servicing, regulatory, tax conditions, etc.);
- analyze and make projections about the capital implications;
- consider/analyze all the strategic options available, including in combination with one another, including a hold/forbearance strategy, active portfolio reductions, including through sales, enforcement of collateral and legal options including out-of-court solutions;

[1] In 2018 two securitizations of non-performing loans were carried out in the total amount of about €3 billion.

- establish portfolio targets (including foreclosed assets), determining levels of NPLs sustainable in the short and medium/long term;
- prepare an operational plan containing investments (e.g. IT and information flows), staffing requirements, organization, etc.;
- provide to the ECB an annual report on NPL management strategy and targets and the relative operational plan;
- periodically review the strategy and underlying assumptions;
- implement reporting flows on NPL targets and on operational effectiveness;
- align the management strategy with the associated incentive systems;
- integrate the strategy into the business plan, in projections and in the risk management system.

The main legislative/regulatory changes that will impact the Group include:

- the revision of the EU regulatory framework with the “Banking Package”, which seeks to amend the prudential capital requirements (CRD/CRR) and crisis resolution arrangements (BRRD/SRMR), with the following main objectives:
  - reducing excessive leverage in the banking system, attenuating long-term funding risks;
  - fostering greater convergence among the Member States in their legislation governing bankruptcy and restructuring procedures;
  - improving banks capacity to absorb losses.
- the introduction of the 2018 policy on the minimum requirement for own funds and eligible liabilities (MREL), which serves as the basis on which binding consolidated MREL targets for banks within the scope of the resolution planning cycle and the subsequent assignment of an MREL requirement for the minimum liabilities subject to the bail-in procedure, with consequent potential impacts on the structure of liabilities and the cost of funding;[2]
- the gradual reduction of the filters provided for in the transitional arrangement[3] that attenuate the impact of the application of IFRS 9 on own funds.

An assessment was made of the risks and uncertainties described above to underscore the effect of changes in parameters and market conditions on business performance. The Group has implemented tools for measuring the potential impact of risks and uncertainties on its operations (specifically sensitivity analysis and stress testing), which enable it to promptly and continually adjust its strategies – in terms of the model for distribution, organization and management/rationalization of costs – to changes in its environment. Risks and uncertainties are also under constant observation through the risk policies adopted by the Group: the policies are updated to reflect changes in strategy, the operating environment and market expectations. They are monitored periodically to check the status of their implementation and their suitability. The analyses conducted indicate that the Group is able to address the risks and uncertainties to which it is exposed, confirming the going-concern assumption.

[2] For 2019, the Single Resolution Board asked the Group to finalize the “bail-in playbook” and the establishment of operating streams to guide “core resolvability conditions”

[3] See Article 473-bis as introduced by Regulation (EU) no. 2017/2395.

9. INTERNAL CAPITAL AND LIQUIDITY ASSESSMENT PROCESS

The preparation of the 2018 ICAAP report and the 2018 ILAAP report was carried out in compliance with the EBA report "Guidelines on ICAAP and ILAAP information collected for SREP purposes" published in its final version in November 2016 and applicable starting from January 1, 2017, in order to guarantee the convergence of supervisory practices for the evaluation of the ICAAP process. For the purposes of producing the report, consideration was also given to the document "Technical implementation of the EBA Guidelines on ICAAP and ILAAP information collected for SREP purposes", sent to the Iccrea Banking Group by the supervisory authorities in February 2017, containing specific technical indications for the transmission of relevant information to the supervisory authorities and with which the IBG was requested asked to perform the ICAAP process in accordance with the letter on the "Supervisory expectations on ICAAP and ILAAP and harmonized information collection on ICAAP and ILAAP" sent to the Group on January 8, 2016.

The regulatory framework is being developed and strengthened in the light of the publication of the definitive version, in November 2018, of the guidelines, which provide banks with information on the ECB's expectations concerning the internal management of capital and liquidity. These guidelines will be used as from January 1, 2019 in the examination of internal capital and liquidity assessment processes (ICAAP and ILAAP), replacing the expectations issued in January 2016.

ICAAP

The Iccrea Banking Group, in accordance with the methodological framework described, conducted an assessment of its current and prospective capital adequacy, taking into account both normal operations and the occurrence of plausible adverse situations.

These assessments were made over a time horizon consistent with the Iccrea Banking Group's strategic plan (2018-2020) and the respective results led to the verification and control of the overall soundness and robustness of the assessments performed in the course of other strategic processes, such as the risk appetite framework and strategic-operational planning.

The assessments demonstrate, for the entire time horizon considered, a situation and a profile at the consolidated level of overall capital adequacy. That conclusion is supported by:

- qualitative and quantitative evidence demonstrating that for the entire period total capital exceeded total internal capital, derived from the exposure to individual risks determined under different scenarios (baseline and adverse);
- compliance with the minimum prudential requirements established by the supervisory authorities based on SREP for the entire time horizon and the internal requirements determined by management for ICAAP purposes by the Iccrea Banking Group.

In addition, the assessment performed on the ICAAP governance system and on the individual management processes found no thematic and analysis areas that present problems or significant deficiencies. Therefore it is possible to conclude that the ICAAP governance system and the underlying processes at the consolidated level are adequate as a whole.

More specifically, at December 31, 2018 the Group had a solid capital position, which is summarized in the following ratios:

- a CET1 Ratio of 11.86%, exceeding the target requirement of 9.375% for 2018;
- a TC Ratio of 13.05%, exceeding the Overall Capital Requirement (OCR) of 11.625% for 2018.

ILAAP

The Iccrea Group's governance and liquidity risk management model is a "centralized" model. The Parent Company is responsible for the overall governance and liquidity risk of the Group since:

- it is responsible for establishing the Group's liquidity risk management policies;
- it centrally monitors liquidity risk exposure (operational and structural);
- it manages liquidity risk at the consolidated level by defining the funding plan consistent with current and prospective operations;

- it establishes and governs the system of internal transfer prices.

The Liquidity Policy (updated in 2018 to include the operations of the subsidiary MedioCredito del Friuli Venezia Giulia (MCFVG)) and the Intragroup Funding Agreement are therefore crucial, on the basis of which a liquidity waiver (an exemption from compliance with the liquidity coverage and reporting requirements) was granted on an individual basis to Iccrea Banca, Iccrea BancaImpresa and Banca Sviluppo. In 2018, an application for a waiver was filed on the basis of that Intragroup Funding Agreement for MCFVG as well.

The ILAAP contains comprehensive analysis of the Group's liquidity position in terms of both short-term and structural liquidity risk under normal operating conditions and in adverse stress conditions.

Specifically, the assessment regards the adequacy of the financial resources available to cover liquidity and funding risks, as well as the suitability of the processes, safeguards and controls for such risks.

The results of the ILAAP show an "adequate" liquidity and funding profile for the entire time horizon considered. This assessment is supported by qualitative and quantitative evidence that indicate over the short- and the medium/long-term a risk profile for the LCR and NSFR indicators that exceeds the internally defined minimum threshold. In the short and the medium term, at December 31, 2018, the Group had a sound liquidity position, which can be summed up as follows:

- the liquidity coverage ratio remains above the risk tolerance (100% in 2018);
- the Group's survival period was constantly greater than 3 months and therefore complying with the limits established by the Group in 2018.

The intraday liquidity position is monitored daily using three additional metrics provided for in the Liquidity Policy in accordance with the instructions of the Basel Committee ("maximum intraday liquidity usage", "total payments" and "time-specific obligations").

From a long-term standpoint, at December 31, 2018 the Group had a sound funding position that can be summed up as follows:

- the NSFR indicator in 2018 always exceeded the risk tolerance level of 95%;
- the Group's funding channels are diversified (mainly wholesale) and envisage methods of funding on collateralized markets through the ECB and/or the Clearing and Guarantee Fund;
- the Group's funding is composed almost entirely of transactions in euros.

The assessments of the entire ILAAP governance system and the management processes found no thematic and analysis areas that present problems or significant deficiencies.

RECOVERY PLAN

The Recovery Plan is an internal document that details the measures that the Group plans to take to restore operations in the case of serious difficulty and outlines the strategies and actions to be taken in the event of crisis to ensure business continuity and to preserve critical business assets and the primary common services (within and without the Banking Group).

The preparation of the Group Recovery Plan for 2019 and the updating/revision of the associated reference framework took place in accordance with the modification/upgrading recommendations received from the supervisory authorities in the wake of the findings that emerged as a result of the evaluation of the Iccrea Banking Group Recovery Plan for 2018. In particular, in the ECB's assessment letter, taking account of the imminent establishment of the Iccrea Mutual Banking Group (IMBG), had requested that the new version of the Recovery Plan reflect the substantial change in the structure of the Iccrea Group and the significant increase in complexity associated with that development.

To this end, as part of the interim contacts to monitor the progress of work before the formal transmission of the recovery plan, an action plan was prepared in June 2018, indicating the planned interventions and the related deadlines for completion, in order to define the methodological framework in order to include the new IMBG structure within the Recovery framework and to ensure the full acceptance of the feedback provided by the supervisory authorities within the Group Recovery Plan.

In compliance with the requests received, in November 2018 a document was sent showing the general description of the reference methodological framework defined by Iccrea Banca to include the new IMBG structure within the Recovery framework. In particular, the following elements were included in this document:

- a description of the methodological approach for the performance of the strategic analysis pursuant to Articles 6 and 7 of Commission Delegated Regulation (EU) 2016/1075, namely the identification of core business lines, critical functions and the material legal entities;
- the reference framework of the governance system, main indicators, stress test options and scenarios for recovery purposes to be established both at the consolidated level and the individual level;
- a clear description of the role and involvement of the second and third line of defense within the process of managing the Recovery framework.

In defining this methodological framework, the regulatory specificities of setting up IMBG have been taken into consideration, seeking to avoid organizational/operational overlaps with respect to the other risk governance mechanisms and processes envisaged to preserve the financial stability of the new legal entity (IMBG). In particular, the elements taken into account in defining the aforementioned framework were the following:

- the legal and corporate structure of the IMBG, as a group with "contractual" rather than "vertical" participation in its relationships with the affiliated mutual banks, with the powers of intervention of the Parent Company being governed by the Cohesion Contract;
- the presence of internal recovery mechanisms (on an individual basis) embedded in the Early Warning System (EWS), with associated powers of intervention by the Parent Company with the affiliated banks defined in accordance with the level of risk (preventive/corrective interventions for the purposes of "internal recovery (or resolution)");
- the presence of a system of cross guarantees which ensures the availability of resources for internal recovery (or resolution) measures (intercompany support measures in the event of difficulty/distress on an individual basis).

The Group Recovery Plan was therefore drafted in accordance with this methodological framework. In particular, the main upgrades/new features introduced within the Recovery Plan were the following:

- coverage of material legal entities (LMEs) within the Group Recovery Plan in accordance with the requirements of the EBA Recommendations. In particular, the LMEs treated specifically within the Recovery Plan with regard to the indicators and the internal governance mechanisms of the IMBG;
- extension of the overall system of indicators included in the IMBG recovery plan through the inclusion of the following indicators:
  - net Texas ratio and Gross NPL covering asset quality;
  - survival period (applied to the relevant Iccrea Banking Group entity) given funding agreements and the operations of the Parent Company with regard to the ability to meet overall liquidity needs.
- strengthening of the disclosure provided on the operational technical information associated with each indicator included in the Recovery Plan;
- revision and extension of the scope of the recovery options to apply to the liquidity profile, including, in particular, transactions in eligible ABACO assets and covered bond issue programs;
- supplementation and expansion of the disclosure provided in the technical data sheets for the assessment of recovery options in order to increase the level of detail of the information provided, consistent with the requirements of the supervisory authorities;
- presentation of the impacts found in the stress testing carried out for all the risks considered for recovery purposes in each scenario (including the baseline scenario);
- strengthening of the overall disclosure regarding the recovery capacity (overall and recovery strategies) of the IMBG, in particular by evaluating the possible interactions between the implementation of the recovery options by Iccrea and the simultaneous use of recovery options by other entities with similar vulnerabilities.

10. INTERNAL CONTROL SYSTEM

The Group performs its activities based on criteria of prudence and the containment of exposure to risks, set out in risk governance policies in relation to the need for stability connected with the exercise of banking activities. 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, in general, the completeness, appropriateness, functionality (in terms of effectiveness and efficiency) and reliability of the policies in a context of strict consistency with the governance framework defined at Group level.

The structure of the internal control system was designed in accordance with the organizational structure of the Group and, in its operational implementation, takes account of the specific operations and associated risk profiles of each of the Group companies, focusing particular attention on the following elements:

- proportionality, namely adopting a regulatory framework based on the nature of the business conducted, the type of services performed, the complexity of operations and the size of the companies and the Group as a whole;
- integration, that is, finding mechanisms that coordinate and harmonize the actions of the various actors in the internal control system, using methodologies that provide top management with comprehensive, usable information generated by a coordinated assessment process enabling a unified vision for making information decisions;
- cost effectiveness, in the sense of the search for an appropriate balance between the overall cost of control and effective management of risks;
- evolution, namely the on-going search for mechanisms to improve the structure, effectiveness and efficiency of the internal control system and its compliance with market best practice.

The corporate control functions operate within the ICS. They are independent and dedicated to ensuring the correct and efficient operation of the system, developing and implementing their control model through the set of rules, functions, structures, resources, processes and procedures designed to pursue, in compliance with the principles of sound and prudent management, the following purposes:

- verification of the implementation of corporate strategies and policies;
- support for the development of risk management arrangements and processes;
- ongoing monitoring of the appropriateness of risk management arrangements and processes;
- ongoing monitoring of risks and their containment within the limits indicated in the risk appetite framework (“RAF”);
- preserving the value of assets and protecting against losses;
- the effectiveness and efficiency of business processes;
- the reliability and security of corporate information and IT procedures;
- prevention of the risk that the Group companies could be involved, even involuntarily, in illegal activities (with particular reference to those connected with money laundering, usury and terrorist financing);
- compliance of operations with the law and supervisory regulations, as well as with internal policies, rules and procedures.

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

In line with the model adopted, the Parent Company is responsible for providing the Group with a unified internal control system that enables effective internal control of the strategic decisions of the Group as a whole and of the operational equilibrium of its individual members.

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

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

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

The Internal Audit function is a third level control body, while the other functions perform second level controls. As part of its management, coordination and control activities, the Parent Company determines the structure of the corporate control functions and their organizational and operational arrangements, defining:

- the structure and organizational reporting arrangements, operating model and methodological framework, duties and responsibilities and information flows of the corporate control functions within the Group and its members, as well as the related procedures for coordination between the functions themselves;
- procedures that ensure a centralized and comprehensive unitary process for identifying, measuring, evaluating, managing and controlling the risks assumed by the Group, including risks related to IT security and business continuity, also supervising the correct functioning of this process and performing any activities necessary for the ongoing adaptation of its methodological, organizational or procedural structure;
- periodic reporting flows to enable the Parent Company to effectively exercise its control and monitoring responsibilities over all the members of the Group, including the use of mechanisms to integrate information systems and data management processes and to verify their quality and integrity;
- coordination and liaison procedures between the Parent Company and its subsidiaries for all the areas in which the Group operates.

To ensure smooth interaction among all the corporate control functions and between them and the corporate boards, a series of collaboration mechanisms (in addition to those called for under internal rules) has been established to maximize synergies and avoid overlap, redundancies or shortcomings in the system. Coordination and interaction between the corporate control functions occurs in the following four phases:

- planning: the planning phase is performed by each function on the basis of a thorough analysis that takes into account changes in operations, the market and regulations, as well as related organizational, process and product changes, revolving around an assessment of the risks identified and the results of the audits carried out. This analysis, together with mandatory control provisions set out in the applicable regulations (or requested by the competent bodies) guides the annual (or multi-annual, in the case of Internal Audit) planning process;

- execution of controls at different levels (second and third): these are specifically governed by the internal rules of each corporate control function and in the activity plans;
- reporting: the reporting phase represents the formal summation of activities conducted and their results and is performed on the basis of the information needs of the various audiences, in particular the corporate boards, taking account of the complexity and depth of the activity conducted and finding a balance between the need for timely information and providing comprehensive information for the decision-making process that utilizes it. Within their area of responsibility, the control bodies report on the completeness, appropriateness, functionality and reliability of the internal control system, notify promptly the corporate boards of any violations or shortcomings they may find, develop specific recommendations for resolving issues with the system and identify, in agreement with senior management and the competent functions, solutions for the fine-tuning and corrective or evolutionary maintenance of the framework for assuming and managing risks to be submitted to the appropriate corporate boards for approval;
- follow-up (monitoring and/or support) of adjustments and or mitigating actions: the corporate control functions complete their work by following up on adjustments or mitigation actions, monitoring their actual and effective achievement or providing support, as far as it falls within the corporate control functions' duties, in implementing these measures. In their follow-up activities, the corporate control functions identify the nature, timing and manner in which the activities are implemented in relation to the significance of the issues that prompted the corrective and mitigation actions, the complexity and effort – measured in terms of the time and cost necessary – involved in carrying them out and the potential impact of failure to address the issues.

The corporate control functions also share among themselves, considering each's prerogatives, all information that can be used to improve the level of efficiency and effectiveness of the activities each undertakes, taking account of the strong interconnections that exists between the different areas monitored. This information exchange takes place within the scope of the coordination mechanisms described herein, on the basis of the information flows established between them.

The new structure of internal controls of the IMBG

The internal control system underwent a thorough review by the Parent Company as part of the activities undertaken in view of the establishment of the IMBG. In 2018, the development activity performed led to the definition of the overall organizational framework, which will progressively become fully operational in the coming months.

By virtue of the model adopted, the mutual banks, after joining the IMBG, are completing the centralization at the Parent Company of responsibility for the corporate control functions, outsourcing to the Parent Company the activities relating to all second and third level control functions.

In terms of governance and responsibility for the overall system of the internal control system (ICS), the model adopted in the IMBG 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.

Within this context and consistent with the provisions of the cohesion contract, the Parent Company, in order to ensure the overall consistency of the Group's internal control system, has identified the structure and organizational and operational arrangements of the corporate control functions, defining:

- the structure and organizational reporting arrangements, operating model and methodological framework, duties and responsibilities and information flows of the corporate control functions within the Group and its members, as well as the related procedures for coordination between the functions themselves;
- procedures that ensure a centralized and comprehensive unitary process for identifying, measuring, evaluating, managing and controlling the risks assumed by the Group;
- periodic reporting flows to enable the Parent Company to effectively exercise its control and monitoring responsibilities over all the members of the Group;
- coordination and liaison procedures between the Parent Company and the affiliated mutual banks and the other companies in the IMBG.

One of the key characteristics of this model is represented by the fact that, once fully operational, the control activities within the mutual banks will be performed by the staff of the Parent Company's corporate control functions, on the basis of outsourcing contracts, with the designation from among the personnel of the Parent Company of an individual in charge of this service, who will assume the role of corporate control officer for the individual mutual banks. In this context, this officer will report directly to the corporate boards of the individual

mutual banks in the performance of the outsourced activities, as envisaged by the supervisory provisions governing internal control systems. The officer will serve in the pertinent corporate control function of the Parent Company, headed by the Group officer in charge of that function.

In particular, the Internal Audit function – which has already been centralized at the Parent Company with effect from July 1, 2018, - has entered into outsourcing contracts to foster the progressive convergence towards uniform standards, completing the implementation of organizational measures and methodological approaches to ensure it can fulfill its duties and responsibilities in a unified and coordinated manner for all affiliated banks and other Group companies. This includes updating its organizational structure at the territorial level. For 2019 the function has already prepared an audit plan for each Group entity on the basis of the "Annual and multi-year planning guidelines" setting out the planning guidelines to be followed for the current year, based on the following areas of analysis:

- consolidated audits, i.e. audits of cross-cutting issues concerning multiple entities of the IMBG;
- audits of the processes of banks and other Group companies based on dedicated risk assessments;
- audit of the branch networks of the Group banks;
- ICT audits of technological infrastructure, IT systems and application procedures of banks and other Group companies.

11. OTHER SIGNIFICANT INFORMATION

General preparation principles: introduction of the new IFRS 9

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, the consolidated financial statements of the Iccrea Banking Group have been prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB), endorsed by the European Commission as established by Regulation (EC) no. 1606 of July 19, 2002. The financial statements and the content of the notes to the financial statements (separate and consolidated) have been drawn up on the basis of Circular no. 262/2005 of the Bank of Italy containing instructions on the preparation of the financial statements and consolidated financial statements of banks and financial companies that are parent companies of banking groups, updated for 2018 in order to take account of the significant changes deriving from the application as from January 1, 2018 of IFRS 9.

The Iccrea Banking Group has implemented the main provisions and policies to ensure compliance with the new accounting rules concerning financial instruments introduced by IFRS 9. Paragraph 7.2.21 of IFRS 9, in force since January 1, 2018, allows entities to not apply the new rules on hedge accounting and to continue accounting for hedging transactions in accordance with the provisions of IAS 39 (the “opt-out”). The Iccrea Banking Group has opted to continue, for now, accounting for hedging transactions in accordance with IAS 39. With regard to the reporting of the effects of first-time adoption of IFRS 9, without prejudice to the retrospective application of the standard, the Iccrea Banking Group has elected to exercise the option available under paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1, to not restate on a uniform basis the comparative figures in the first financial statements prepared in accordance with IFRS 9. In this case, following the amendments introduced with IFRS 9, IFRS 7 requires an additional disclosure which must contain, among other elements, a statement reconciling the balances between the closing IAS 39 financial statements closing and the opening IFRS 9 financial statements. This disclosure, also referred to in the measure issuing in the 5th update of Circular no. 262 "Bank financial statements: schedules and rules for completion", is reported by the Iccrea Banking Group in Part A "Accounting Policies – Compliance with IFRS 9”, whose form and content may be decided independently by the competent corporate bodies. At the date of initial application of the standard, the Iccrea Banking Group did not restate figures for previous years. Differences between the previous carrying amount and the opening carrying amount were recognized in the reserve “Opening retained earnings/loss carried forward”.

SREP decision

Following the postponement of the establishment of the Mutual Banking Group to the first quarter of 2019, the decision establishing the prudential requirements for 2019 by the supervisory authorities, scheduled to be issued by the end of 2018, was postponed. Specifically, during the final weeks of 2018 preliminary discussions took place with the authorities, but the final decision will only be transmitted during 2019 in conjunction with the establishment of the Mutual Banking Group, which took place on March 4, 2019 with its registration in the Register of Banking Groups pursuant to Article 64 of the Consolidated Banking Act.

The decision on prudential requirements for 2018, still in force, which was received on November 28, 2017 from the European Central Bank is set out below (broken down into requirements for own funds and qualitative requirements).

The decision is based on the supervisory review and assessment conducted in accordance with Article 4, paragraph 1(f) of Regulation (EU) no. 1024/2013 as at December 31, 2016, taking due account of information received subsequently and the results of the supervisory stress tests conducted in 2016, supplemented by the analysis of sensitivity to interest rate risk in the banking book - stress tests conducted by the ECB in 2017.

In this decision, the ECB requires Iccrea Banca to maintain, on a consolidated basis, a total SREP capital ratio (TSCR) of 9.75% (a slight increase from 9.50% the previous year), including the requirement for own funds under the CRR (8%). In addition, it specified that Iccrea Banca is also subject to the overall capital requirement (OCR), which, in addition to the TSCR, includes the combined capital buffer requirement.

In light of the foregoing, the overall capital requirement (OCR) that the Group must meet is calculated as the sum of the TSCR and the combined buffer requirement as defined in Article 128(6) of Directive 2013/36/EU. This buffer is equal to 1.875%. The Group’s OCR is therefore 11.625%.

In line with its previous communication, the ECB provides additional factors to be assessed that better qualify the results of its decisions:

- in general the Group has in place efficient, effective and comprehensive strategies and processes for measuring, maintaining and allocating internal capital;
- the amount, type and allocation of internal capital is generally adequate to cover the kind and level of risk to which the Group is or could be exposed.

The SREP decision also requires Iccrea Banca to continue providing additional information on a quarterly basis concerning its non-performing exposures (NPEs) and to present a strategic plan to deal with NPEs and the related semi-annual monitoring.

Corporate transactions and investments

During 2018 the Parent Company continued to invest in the individual business segments.

More specifically, following the progressive introduction of the new capital conservation buffer requirements and in consideration of the development plan of Iccrea BancaImpresa, with the foreseeable evolution of lending, in March 2018 the Parent Company made a non-interest bearing and non-repeatable payment for a future capital increase of €60 million to the subsidiary. Subsequently, in consideration of the payments on account for a future capital increase made in 2017 and the first half of 2018, a capital increase of €120,000,046.15 (one hundred and twenty million and forty-six and fifteen cents) was carried out with the issue of 2,323,331 new ordinary shares with a par value of €51.65 each, authorized by the ECB on June 27, 2018, approved by the Shareholders' meeting on November 2018 and completed with the full subscription of the shares offered in the capital increase. Following the operation, share capital amounted to €794,765,304.70 represented by 15,387,518 shares with a par value of €51.65 each.

Moreover, in a changing market environment characterized by rapid competitive, technological and regulatory developments, and to support the mutual banks in their transformation, innovation and digitization, Iccrea Banca continued to invest in its Ventis subsidiary. The latter is a platform for leveraging the information resources of the Iccrea Banking Group/mutual banks in order to provide turnkey integrated digitization and commercial visibility/promotion services to the SMEs that borrow from the mutual banks. In line with the Group's strategic plan, in the first half of 2018, Iccrea Banca approved an investment of €5 million in Ventis in order to strengthen the subsidiary and ensure it has the resources it needs to pursue its strategic objectives.

Again in the first half of 2018, acting through the direct subsidiary Iccrea BancaImpresa and consistent with the growth forecasts in the three-year development plan of BCC Lease presented to the Bank of Italy following registration in the Single Register of Financial Intermediaries, the Bank subscribed a capital increase of €5 million in the subsidiary.

In addition, Iccrea Banca participated in the capital increase of Satispay, completed in August 2017, with an investment of €3 million, bringing its interest to 15.72% and modifying the related shareholder agreements. The price of the new shares subscribed was €18 million. The valuation of the company after the capital increase amounted to around €66 million. With this transaction, Iccrea Banca has specific rights, including the appointment of a director, continuing to support the company, which offers complementary services to the traditional products offered by Iccrea and the mutual banks. In order to continue support the growth of Satispay, in July 2018 the subscription of a capital increase in the amount of €2 million was approved.

In September 2018, the option for the subscription, by the subsidiary Iccrea BancaImpresa, of the capital increase of Car Server in the amount of €1.7 million was exercised. The stake held in that company was unchanged at 15.09%.

In order to rationalize the management of non-performing loans, also in consideration of the possible scenarios connected with the establishment of the Iccrea Mutual Banking Group, the investment in BCC Gestione Crediti sold previously to Italfondiario SpA, equal to 45% of the capital, was repurchased. Following this purchase, finalized on July 27, 2018, Iccrea Banca holds 100% of BCC Gestione Crediti and, indirectly, of the wholly-owned subsidiary, FDR Gestione Crediti S.p.A.

Other transactions involved M-Facility SpA which reduced and subsequently increased the capital subscribed by Iccrea Banca in the total amount of €150 thousand, which raised its stake to 41.5%, and the acquisition from Beni Stabili of 10% of Real Estate Roma Olgiata Srl.

Acquisition of Banca MedioCredito del FriuliVenezia Giulia SpA

On July 11, 2018 the acquisition of control of Banca MedioCredito del Friuli Venezia Giulia (MCFVG) closed, with:

- the subscription by Iccrea BancaImpresa of a reserved capital increase by MCFVG of about €19.7 million. The capital increase was represented by 277,464,780 newly issued shares reserved to Iccrea BancaImpresa, at a price of €0.071 per share, of which €0.03 per share as the share premium;
- the exchange of shares representing the interest of the Foundation in MCFVG (301,389,763 shares equal to 35.6 5% of share capital) with shares of Iccrea Banca (380,000 shares with a par value of €51.65 per share for a total of 1.7051% of share capital). Following the transaction, Iccrea Banca held a stake of 26.838% in Banca MedioCredito del Friuli-Venezia Giulia.

As a result of the direct and indirect interest so acquired, Iccrea Banca now holds a total of 51.546% of the share capital of Banca MedioCredito del Friuli-Venezia Giulia and exercises management and coordination powers over that bank.

Rating

With regard to the ratings issued by rating agencies, please note the following:

- on July 26, 2018, DBRS assigned its first official rating to Iccrea Banca, equal to "BBB (low)" with a "negative" outlook on medium/long-term debt;
- on October 30, 2018, Standard & Poor's confirmed its rating for Iccrea Banca and Iccrea BancaImpresa at "BB" with a "stable" outlook on medium/long-term debt;
- on December 20, 2018, Fitch Ratings reduced its rating of Iccrea Banca and Iccrea BancaImpresa from "BB +" to "BB" with a "stable" outlook on medium/long-term debt.

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 Bank. Data concerning the classification and measurement of non-performing loans are provided by highly specialized, appropriately separated structures that operate on the basis of detailed procedures approved by the Board of Directors.

The annual and interim financial statements undergo a limited audit by Ernst & Young SpA, which also conducted an accounting review pursuant to Art. 14 of Legislative Decree 39/2010.

Regarding the "Transparency Directive", the Bank has chosen Luxembourg as its home Member State, since most of its securities have been issued on that country's exchange. For this reason, given that the relevant legislation

does not require it, no Financial Reporting Officer (as provided for in the Consolidated Law on Financial Intermediation) has been appointed.

Transactions with related parties

Iccrea Banca has long conducted its operations in compliance with the principles of transparency and of substantive and procedural propriety in its transactions with related and associated parties, in line with legislative and regulatory provisions and IAS 24.

In order to rationalize the procedures put in place to guard against potential conflicts of interest, in 2016 the Board of Directors of Iccrea Banca had approved – in accordance with the Bank of Italy's instructions on risk activities and conflicts of interests with associated persons for banks and banking groups (Bank of Italy Circular no. 263 of December 27, 2006), Art. 136 of the Consolidated Law on Banking and Art. 2391 of the Italian Civil Code – the new "Policy for handling transactions with related parties and rules on conflicts of interest", available on the Iccrea Banca website.

Accordingly, in 2018, transactions with related parties were conducted in a manner and following standards in line with those applied in normal banking transactions with bank and corporate customers. Such transactions were undertaken on the basis of their specific financial benefit.

More specifically, the Bank did not engage in any atypical or unusual transactions during the period whose significance or scale might have raised concerns about the integrity of the company's financial position.

In the section "Transactions with related parties" of the notes to the financial statements, a summary table reports related party transactions. During the period the Group did not engage in or hold any atypical and/or unusual transactions or positions.

Part H – Transactions with related parties in the notes also reports the fees paid to directors, members of the Board of Auditors, the General Manager and key management personnel and any loans or guarantees granted to them, in accordance with Art. 136 of Legislative Decree 385 of September 1, 1993.

During 2018, the Bank engaged in intercompany transactions that were deemed mutually financially beneficial and arrived at the applicable terms and conditions in accordance with the principles of substantive fairness inherent in the common goal of creating value for the entire Group.

Research and development

The Group did not engage in any research and development in 2018.

Joint document of the Bank of Italy/Consob/ISVAP no. 2 of June 6, 2009 and no. 4 of March 3, 2010

These financial statements have been prepared in accordance with the general principles established by IAS 1 "Presentation of financial statements". They therefore provide information on the assumption that the company is a going concern, allocating costs and revenues on an accruals basis, avoiding the offsetting of assets and liabilities and costs and revenues.

IAS 1, paragraph 24 requires that all factors and circumstances be considered that may be important in assessing compliance with going concern requirements. Certain indicators may be particularly significant in the current economic environment.

To this end, we have considered the indicators in relation to the Bank and set out in section 8 of Document 570 "Going concern" issued by the Italian accounting profession, listed below:

Financial indicators:

- the entity is not insolvent or have negative net working capital;
- the entity does not have any fixed-term loans close to maturity with no likelihood of renewal or repayment;
- the entity is not excessively dependent on short-term loans to finance long-term activities;

- there are no indications of termination of financial support from lenders and other creditors;
- the entity has no historical or prospective financial statements showing negative cash flows;
- the main economic-financial indicators are not negative;
- there are no substantial operating losses or significant impairment of assets that generate cash flow;
- there has been no lack or interruption of dividends;
- the entity has the ability to repay debt at maturity;
- the entity has the ability to comply with the contractual clauses of loans;
- the entity has experienced a change in the form of payment demanded by suppliers from "on credit" to "payment on delivery";
- the entity has the ability to obtain financing to develop new products or make any further investments it requires.

Management indicators:

- the entity has not lost directors or key managers who cannot be replaced;
- the entity has not lost any fundamental markets, distribution contracts, concessions or key suppliers;
- the entity has not had any difficulties in maintaining staff levels or in obtaining a normal flow of supplies from important suppliers.

Other indicators

- the entity has not experienced a reduction in equity to below legal limits or non-compliance with other provisions of law;
- the entity has no legal and tax disputes under way which, if lost, could give rise to obligations to pay indemnities that the entity would be unable to discharge;
- there have not been any changes in legislation or government policy that could have an adverse impact on the entity.

The Bank therefore feels that it can reasonably expect to continue operating in the future. The directors have carefully assessed this aspect and therefore believe that they can confirm that the Bank is a going concern on the basis of the reasons given in the report on operations – the targets and policies for the assumption, management and hedging of risks.

Treasury shares bought and sold during the period

At December 31, 2017 treasury shares numbered 584,222 with a par value of €51.65, repurchased for €52.80, with a total value of €30,846,921.66, against which a specific reserve (purchase of treasury shares) has been established. During the year, 496,955 shares with a value of €26,239,224.00 were sold. At December 31, 2018, treasury shares numbered 87,267 with a par value of €51.65 each, repurchased for €52.80, with a total value of €4,607,697.60.

2018 Consolidated Non-Financial Statement

With regard to the Non-Financial Statement referred to in Legislative Decree 254/2016, Iccrea Banca has prepared a Consolidated Non-Financial Statement pursuant to Article 4 of that decree. The document is published together with the consolidated financial statements.

The Iccrea Banking Group has prepared a Non-Financial Statement consolidating the companies of the Group in accordance with the international Global Reporting Initiative-GRI, Standard 2016, Core version.

In particular, the thematic areas represented are: environment; social; personnel; respect for human rights; fight against active and passive corruption; and gender diversity.

The disclosures required for each topic concerns: the business model for managing and organizing the company's activities; the policies implemented by the company, including those for due diligence, the results achieved through them and the associated non-financial performance indicators; the main risks generated or incurred and the management of those risks connected with the topics that derive from the activities of the company, from its products, services or commercial relationships, including, where relevant, supply chains and subcontracting.

Furthermore, in October 2018, the Public Affairs & Sustainability unit was established, which through the Consolidated Non-Financial Statement (CNFS) function plays a coordinating role in the process, in the context of the drafting of the CNFS, to define the model, rules and guidelines for drafting the 2018 CNFS and, looking forward, the CNFS of the Iccrea Mutual Cooperative Banking Group (IMBG). Moreover, the model, rules and guidelines have been applied in a specific process policy submitted for approval to the Board of Directors on February 28, 2019.

The first phase of the reporting process is the materiality analysis. It involved performing internal and external stakeholder engagement activities to identify the most relevant issues to report for the Group. Representatives of Group management and employees of the functions directly involved in the process of preparing the statement were involved. To this end, they were asked to assess the relevance of the material aspects both as a spokesperson for the Bank, and interpreting, on the basis of their own professional experience, the point of view of the internal stakeholders. In addition, in the process of defining the materiality matrix, the Group also involved representatives of various mutual banks, who assessed - in the guise of external stakeholders - the relevance of material issues in their dual capacity as customers and shareholders of the Iccrea Banking Group. It should be emphasized that the Group has included human rights among its material topics (a total of 16), in consideration of both the requirements of Legislative Decree 254/2016 and the ever-increasing attention of stakeholders in this area. A materiality matrix was also introduced, which graphically represents the relevant topics and their prioritization, both for the company and for stakeholders.

The material topics were then linked to the thematic areas provided for in Legislative Decree 254 and the indicators of the Global Reporting Initiative. Finally, the CNFS underwent a compliance audit, as envisaged by Article 3, paragraph 10, of Legislative Decree 254/2016, by the audit firm EY.

12. SUBSEQUENT EVENTS AND OUTLOOK

Establishment of the Iccrea Mutual Banking Group

In view of the significant changes that, after the 2016 law reforming the Italian mutual banking system and especially in 2018 and in the first few months of 2019, affected the Iccrea Banking Group (hereinafter IBG), with particular reference to the establishment of the new IMBG on March 4, 2019, the following discusses the process of establishing that group and setting up the same as well as the initial estimates of the financial position and performance of the entire scope of consolidation of the IMBG, prepared by aggregating the data reported to the supervisory authorities by the entities belonging to the IBG and on an individual basis by the mutual banks affiliated with the IMBG, eliminating intercompany items.

The process of establishing the Iccrea Mutual Banking Group

On January 18, 2017, Iccrea Banca submitted its application to the supervisory authorities to take the role of Parent Company of the IMBG.

On April 27, 2018, it submitted a formal request for the establishment of the IMBG and the consequent assumption of the role of Parent Company.

From that date, Iccrea has undertook a series of planning initiatives to ensure we arrived prepared for the creation of the Iccrea Mutual Banking Group, affecting all corporate functions involved in the management and coordination of the new Group and in particular operational and market governance, risk management and other control functions. More than 50 projects were set up, involving more than a thousand people working at the Parent Company, local branch offices and the mutual banks. Consulting services were provided by the leading banking advisors operating on the national market, with significant investments by the Parent Company.

In this context, the entire framework of rules was drawn up in line with the requirements of primary and secondary legislation, the guidelines and policies to be extended to all the affiliates were defined, and the technical-operational arrangements governing risk management, market reporting and the regulations of the IMBG were put in place - the latter rendered especially complex by the variety of information systems at the various affiliates - which enabled Iccrea Banca to submit, on 27 April 2018, its application to the ECB for the establishment of the IMBG as envisaged by Article 37-ter of the Consolidated Banking Act. The application, in line with the provisions of the Consolidated Banking Act and secondary regulations, was accompanied by the draft cohesion contract, the draft articles of association of the Parent Company and the templates for the articles of association of the affiliated mutual banks, as well as the activity program, including the financial and performance forecasts for the first three years.

On the basis of the documentation submitted, the supervisory authorities ruled that the structure and composition of the IMBG satisfy the requirements established in supervisory instructions and, in addition, that the Group complies with current supervisory and prudential requirements in terms of capital and financial adequacy, bearing in mind the prudential conditions of the effects of the mutual guarantee agreement, which specifies obligations and mechanisms to ensure the availability of ex ante and ex post funds, calculated using a stress test.

On July 24, 2018 Iccrea Banca was formally authorized by the supervisory authorities to set up the IMBG and, consequently, following the approval of the related amendments of articles of association by the affiliated mutual banks and the Parent Company, as well as the formal signing of the cohesion contract referred to in Article 37-bis et seq. of the Consolidated Banking Act by all the participating entities, on January 10, 2019 the Parent Company submitted an application to enter the IMBG in the Register of Banking Groups maintained by the Bank of Italy pursuant to Article 64 of the Consolidated Banking Act.

During 2018, ongoing discussions were held with the supervisory authorities, including after the receipt of the authorization to establish the Iccrea Mutual Banking Group from both the ECB and by the Competition Authority. Specifically, a series of meetings/discussions were held to reach preliminarily agreement on the main contractual elements (articles of association, cohesion contract, cross-guarantee arrangements), the future organizational structure and the internal regulatory/methodological documentation as it is released (policies, general process rules, methodological documentation, etc.).

In signing the cohesion agreement, the affiliated mutual banks agree, in compliance with regulatory provisions, to be subject to the management and control of the Parent Company, to which certain powers are attributed to make such control effective, regarding:

- the corporate governance framework of the IMBG, including certain powers of the Parent Company to appoint and remove members of the decision-making bodies of the mutual banks;
- the internal control system centralized with the Parent Company, including the definition of a framework for the control of and intervention with the affiliated mutual banks;
- the powers granted to the Parent Company for the identification and implementation of strategic guidelines and objectives in order to ensure the effectiveness of the management and control systems at the consolidated level;
- compliance with prudential requirements, reporting obligations and other regulatory principles applicable to the Group and the affiliated mutual banks;
- the active role of the Parent Company in relation to the strategic decisions of the affiliated mutual banks, including the possibility for the Parent Company to issue binding instructions concerning the territorial expansion and the distribution network of the affiliated mutual banks.

On March 4, 2019, the supervisory authorities, following completion of the administrative procedures for the establishment and recognition of the IMBG, registered the group in the Register of Banking Groups, comprising with the scope of consolidation 162 companies including the Parent Company, the affiliated mutual banks, other banks controlled by Iccrea, financial intermediaries and directly or indirectly controlled instrumental companies.

Finally, the supervisory authorities announced the need to carry out a Comprehensive Assessment of the newly established mutual banking group in 2019, which will be based, as in 2014, on a review of asset quality and a new stress test. The Parent Company has therefore begun an intensive program of activities with the mutual banks to prepare the analysis of asset quality.

Initial estimates of the main financial and performance data of the Iccrea Mutual Banking Group

The structure of the IMBG's assets essentially reflects the mutual banks' nature as local banks, characterized by a high level of funding from customers associated with the ties of mutual banks 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.

BALANCE SHEET

€/millions	31/12/2018	31/12/2017	Delta
Financial assets	53,724	43,311	10,413
Loans to customers	83,279	83,811	(531)
Property and equipment and intangible assets	2,638	2,791	(153)
Other assets	10,581	17,249	(6,668)
Total assets	**150,222**	**147,162**	**3,061**
Direct funding	102,572	102,391	182
Deposits	89,264	85,443	3,821
Securities issued	13,308	16,948	(3,640)
Due to banks	32,912	29,911	3,002
Other liabilities	4,933	3,399	1,534
Shareholders' equity	9,804	11,461	(1,657)
Total liabilities and shareholders' equity	**150,222**	**147,162**	**3,061**

On the basis of initial estimates, at the end of 2018 the assets of the new IMBG amounted to over €150 billion, of which around 55% represented by loans to customers. About two-thirds of performing loans were attributable to households (with a large prevalence of residential mortgages) and to smaller firms. Financial assets, equal to 36% of assets and growing in 2018 with respect to the previous year, were largely represented by government securities, of which about three quarters allocated to HTC portfolios, in line with the business model of local banks. Direct funding amounted to more than €100 billion, of which 90% represented by customer deposits, while the bond component is small and down compared with past levels.

Shareholders' equity, amounting to €9.8 billion, was down compared with 2017 in reflection of the effects of the application of IFRS 9, which - as for the rest of the national banking system - in addition to performing loans also affected an appreciable share of non-performing positions, in particular bad debts.

The capital ratios show a phase-in CET1 ratio of 15.3% and a Total Capital Ratio of 15.7%. The quality of capital fully reflects the model governing mutual banks, which under special sector regulations must set aside a large part of their annual profit in reserves.

Ratios and €/millions	2018	2017	Delta
CET 1	10,947	10,899	48
Own funds	11,266	11,188	78
RWA	71,584	72,455	(871)
CET 1 ratio	15.3%	15.0%	0.3%
Total capital ratio	15.7%	15.4%	0.3%
Gross NPE ratio	14.4%	18.9%	-4.5%
Gross assignments	4,244	n.a.	n.a.
Net NPE ratio	7.9%	11.1%	-3.2%
NPE coverage ratio	49.5%	45.3%	4.2%
Texas ratio	60.3%	85.2%	-24.9%

The initiatives begun by the Parent Company in 2018 to improve the risk indicators of the affiliated mutual banks - which have been hit especially hard by the crisis of the last few years, which significantly affected small and medium-sized firms, a typical customers of local banks - and of the IMBG as a whole led to a significant decline in NPEs in just one year. The latter amounted to €13.1 billion at the end of 2018, with a decline in the NPE ratio from 18.9% at the end of 2017 to 14.4% (the net ratio fell from 11.1% to 7.9%), thanks to the assignment of over €4 billion in gross bad debts, three quarters of which through the organization of two multioriginator securitizations backed by the public guarantee mechanism (GACS), involving 23 and 73 Group banks respectively, which closed in July and December 2018. For the remainder, the mutual banks carried out non-recourse disposals of portfolios, partly with the support of the Parent Company.

Despite the disposal of bad debts, which have historically had greater coverage, the coverage ratio for NPEs rose from 45.3% in 2017 to 49.5%. In line with the typical type of borrower and the main technical forms of lending (mortgages secured by real estate), the secured component of impaired loans amounted to 65% of the total.

These actions produced a significant improvement in the Texas ratio (60.3% at the end of 2018, compared with 85.2% at the end of 2017).

INCOME STATEMENT

€/millions	31/12/2018	31/12/2017	Delta
Interest and similar income	3,357	3,255	102
Interest and similar expense	(711)	(860)	149
Net interest income	**2,646**	**2,395**	**251**
Fee and commission income	1,013	1,303	(291)
Fee and commission expense	(85)	(321)	236
Net fee and commission income (expense)	**928**	**982**	**(54)**
Other financial revenues	94	482	(388)
Gross income	**3,668**	**3,859**	**(191)**
Net losses/recoveries on impairment:	(769)	(1,065)	297
Net income (loss) from financial operations	**2,899**	**2,794**	**105**
Personnel expenses	(1,585)	(1,554)	(31)
Other administrative expenses	(1,358)	(1,277)	(81)
Other expenses/income	293	230	62
Operating expenses	**(2,650)**	**(2,601)**	**(50)**
Profit (loss) before tax	**249**	**193**	**56**
Profit (loss) from discontinued operations	19	(3)	22
Income tax expense	40	(45)	85
Net profit (loss) for the period	**308**	**145**	**163**
Profit (loss) attributable to non-controlling interests	**2**	**6**	**(4)**
Profit (loss) attributable to controlling interests	**306**	**139**	**167**

2018 closed with a consolidated profit of over €300 million. Gross income declined by 5% compared with 2017, mainly reflecting the effects of financial market turbulence, which strongly affected other financial revenues (a decrease of about €390 million). This was partially offset by the growth in net interest income, which was attributable to both an increase in loans to customers and the positive contribution of the financial portfolio, with yields growing due to the combined effect of greater volumes and more favorable rates.

The cost of risk (impairment losses) decreased, reflecting both the non-material level of new defaulted positions and the effects of the application of IFRS 9, which made it possible to measure part of the already non-performing portfolio as held for sale, with the recognition of the greater writedowns directly in other comprehensive income.

Operating expenses increased moderately (1.9% compared with 2017), reflecting the higher costs incurred for the planning and establishment of the organizational structures linked to the creation of the new IMBG.

Despite the sharp reduction in financial revenues and higher costs, the cost/income ratio was 72.3%.

Capital increase

On November 22, 2018, the Board of Directors voted to submit a capital increase to the Iccrea Extraordinary Shareholders' Meeting, for a total maximum amount of €250,000,048.80, against payment, reserved for current shareholders, divisible, to be paid in cash against the issue of 4,840,272 new ordinary shares with full dividend rights and with an issue price of €51.65 per share (equal to the par value), to be offered, pursuant to Article 2441 of the Civil Code, in pre-emption to ordinary shareholders.

In the intentions of the IBG, the additional capital will - in addition to ensuring compliance with minimum capital ratios - strengthen the rationalization of the structure and the revision of the current Iccrea business model while preserving the nature and the historic mission of the IBG, which acts as a partner of the mutual banks through the development of commercial support initiatives.

On November 30, 2018, Iccrea submitted a formal request to the European Central Bank to obtain authorization to classify those shares as CET1 capital and made the related amendments to the articles of association. On January 22, 2019 the supervisory authorities authorized the capital increase.

The deadline for participating in capital increase was March 29, 2019 and, based on the available information, it is believed that the increase will be fully subscribed by that date.

As a result of the capital increase, the estimated improvement in the CET1 ratio and the TCR will be around 500 basis points at the individual level and 180-190 basis points at the consolidated level as from the first quarter of 2019.

Corporate and commercial relations with Cattolica Assicurazioni

On January 24, 2019, Iccrea Banca and Cattolica Assicurazioni formalized the start of an exclusive negotiating period to revise the existing partnership with BCC Vita and BCC Assicurazioni, 51% controlled by the insurance company, agreeing the key terms for the renewal of existing agreements that expire on July 15, 2019. Negotiations began following Iccrea's withdrawal on January 14, 2019 from previous shareholders' agreements, thereby allowing Cattolica to exercise its option under those agreement to sell its interests.

The preliminary agreements reached commit the parties to reach new shareholders' agreements with a three-year term governing arrangements for those two companies. More specifically, these agreements provide for, in compliance with the required authorizations, Cattolica's acquisition of a further 19% of the share capital of BCC Vita and BCC Assicurazioni, increasing its stake to 70% in both insurance companies and consequent reduction to 30% of Iccrea's interest.

Under the new partnership arrangements, the parties undertake to intensify the structuring and promotion of the companies' insurance products with a view to increasing their profitability, decreasing the level of risk and expanding customer penetration. Iccrea Banca, also acting on behalf of the Iccrea Mutual Banking Group, will promote the products of the two companies through the Group banks, in compliance with the guidelines of the cohesion contract with the mutual banks.

In view of these preliminary agreements, which are to be finalized by May 31, 2019, the expiry of the shareholders' agreements has been postponed to October 31, 2019.

13. PROPOSED ALLOCATION OF PROFIT

Dear Shareholders,

We invite you to approve the separate financial statements of Iccrea Banca SpA for the year ended December 31, 2018, accompanied by the directors' report on operations and the report of the Board of Auditors, as audited by EY SpA.

We propose that the loss for the year, totaling €35,632,099.00, be carried forward.

14. CONCLUSIONS

The 2018 financial year was characterized by extraordinary factors and developments for the Bank, which have been fully discussed in this report. The loss for the year was the result of prudent management decisions in a volatile and uncertain market context, as well as intense planning for the construction of the new Mutual Banking Group, which involved significant investments and the recognition by the Parent Company of non-recurring charges.

However, for the purposes of a complete evaluation of profitability, the consolidated data offer a more representative picture of our operations and a more comprehensive view of the results achieved by the overall organizational and corporate structure of the Iccrea Group. In this perspective, it is useful to emphasize that on a consolidated basis the Group was in any case profitable.

In concluding this report the Board of Directors, whose term is concluding, would like to acknowledge all those who, in different ways, have support the actions of the Bank and the Group.

The Board would like to offer its special and heartfelt thanks to Giulio Magagni, Chairman of Iccrea Holding and then of Iccrea Banca from 2003 to the end of February 2019. Thanks to his commitment and experience, the Iccrea Banking Group has achieved important milestones and prepared in time to assume the new role of Parent Company for the our mutual banks.

Thanks go to the mutual banks, which in addition to maintaining constantly active and profitable business relations in the various areas of our joint operations, have accompanied us in this particularly challenging year in building the new organization and the new processes underpinning the establishment of the Iccrea Mutual Banking Group. With due respect to the roles that the cohesion contract has established, the involvement of the mutual banks in the decision-making processes of the Parent Company will constitute an essential reference guide for the actions that the new Board of Directors will be called upon to perform.

We would like express our gratitude to all those who, in their respective roles – directors, auditors, employees – have demonstrated their commitment to all the Group companies, contributing to the creation of a unified business model. A special thanks in this difficult year goes to our management and all Group employees and their colleagues for the ambitious goals they have achieved. They were asked to make an extraordinary effort in managing ordinary operations at the same time as they were engaged in creating the new group and exercising the new duties as Parent Company of the Iccrea Mutual Banking Group.

We also express our thanks to the supervisory authorities, the ECB and the Bank of Italy, for the always constructive dialogue that has produced a relationship that is both productive and the source of valuable advice.

The future is calling on us to make a further effort, to rethink our operating model, to reinvent the concept of proximity itself, without however betraying our fundamental values and in the awareness that, together, today, we represent one of the leading Italian banking groups: “The Number One Local Bank in the Country ”.

Rome, March 28, 2019

THE BOARD OF DIRECTORS

FINANCIAL STATEMENTS
2018

BALANCE SHEET

	Assets	31/12/2018	31/12/2017
10.	Cash and cash equivalents	40,806,690	98,307,123
[20.]	Financial assets held for trading		316,785,483
[30.]	Financial assets measured at fair value		15,360,450
[40.]	Financial assets available for sale		3,498,964,842
[60.]	Due from banks		24,560,756,495
[70.]	Loans to customers		5,985,237,479
20.	Financial assets measured at fair value through profit or loss	896,619,018	
	a) financial assets held for trading	341,018,250	
	c) other financial assets mandatorily measured at fair value	555,600,768	
30.	Financial assets measured at fair value through other comprehensive income	282,945,680	
40.	Financial assets measured at amortized cost	36,361,572,762	
	a) due from banks	25,654,753,257	
	b) loans to customers	10,706,819,505	
50.	Hedging derivatives	7,715,045	6,715,965
60.	Value adjustments of financial assets hedged generically (+/-)	750,259	4,622
70.	Equity investments	1,261,745,242	1,193,546,842
80.	Property and equipment	14,220,647	14,430,380
90.	Intangible assets	27,042,614	11,126,402
100.	Tax assets	86,433,307	67,088,858
	a) current	42,962,607	42,466,387
	b) deferred	43,470,700	24,622,471
110.	Non-current assets and disposal groups held for sale	146,793,101	-
120.	Other assets	182,865,580	249,519,497
	Total assets	**39,309,509,945**	**36,018,114,437**

The items in square brackets ([]) are those of the 2017 financial statements prepared in accordance with the previous version of Circular no. 262 – 4th update of December 15, 2015, issued by the Bank of Italy. For a comparison with the figures for the previous year, please see the section “Compliance with IFRS 9” in Part A “Accounting policies”.

	Liabilities and shareholders' equity	31/12/2018	31/12/2017
[10.]	Due to banks		19,401,519,522
[20.]	Due to customers		8,243,380,096
[30.]	Securities issued		5,874,244,702
[40.]	Financial liabilities held for trading		365,383,905
10.	Financial liabilities measured at amortized cost	36,969,235,491	
	a) due to banks	19,424,620,547	
	b) due to customers	12,516,909,028	
	c) securities issued	5,027,705,916	
20.	Financial liabilities held for trading	251,128,374	
40.	Hedging derivatives	63,304,502	48,028,289
60.	Tax liabilities	-	2,772,768
	b) deferred	-	2,772,768
70.	Liabilities associated with assets held for sale	127,597,666	-
80.	Other liabilities	308,159,073	466,596,078
90.	Employee termination benefits	10,176,436	11,312,466
100.	Provisions for risks and charges:	9,156,377	7,152,344
	a) commitments and guarantees granted	107,696	-
	c) other provisions for risks and charges	9,048,681	7,152,344
110.	Valuation reserves	38,356,458	66,833,949
140.	Reserves	415,508,556	401,193,923
150.	Share premium reserve	6,081,405	4,746,737
160.	Share capital	1,151,045,404	1,151,045,404
170.	Treasury shares (-)	(4,607,698)	(30,846,922)
180.	Net profit (loss) for the period (+/-)	(35,632,099)	4,751,176
Total liabilities and shareholders' equity		**39,309,509,945**	**36,018,114,437**

The items in square brackets ([]) are those of the 2017 financial statements prepared in accordance with the previous version of Circular no. 262 – 4th update of December 15, 2015, issued by the Bank of Italy. For a comparison with the figures for the previous year, please see the section "Compliance with IFRS 9" in Part A "Accounting policies".

INCOME STATEMENT

		31/12/2018	31/12/2017
10.	Interest and similar income	300,807,985	237,107,837
	of which: interest income calculated using effective interest rate method	147,048,788	-
20.	Interest and similar expense	(221,704,016)	(199,526,336)
30.	**Net interest income**	**79,103,969**	**37,581,501**
40.	Fee and commission income	100,988,103	386,637,516
50.	Fee and commission expense	(13,793,852)	(251,700,493)
60.	**Net fee and commission income (expense)**	**87,194,251**	**134,937,023**
70.	Dividends and similar income	48,962,654	25,240,699
80.	Net gain (loss) on trading activities	9,338,582	15,536,793
90.	Net gain (loss) on hedging activities	(4,883,829)	(1,395,013)
[100]	Net gain (loss) on the disposal or repurchase of:		85,798,175
	a) loans		9,612
	b) financial assets available for sale		31,543,577
	b) financial assets held to maturity		56,081,465
	d) financial liabilities		(1,836,479)
100.	Net gain (loss) on the disposal or repurchase of:	(28,510,759)	
	a) financial assets measured at amortized cost	34,837,618	
	b) financial assets measured at fair value through other comprehensive income	(64,208,504)	
	c) financial liabilities	860,127	
[110]	Net gain (loss) on financial assets and liabilities designated as at fair value		1,071,645
110.	Net gain (loss) on financial assets and liabilities measured at fair value through profit or loss	(14,827,445)	
	b) other financial assets mandatorily measured at fair value	(14,827,445)	
120.	**Gross income**	**176,377,424**	**298,770,823**
[130]	Net losses/recoveries on impairment:		(49,550,393)
	a) loans		(5,625,113)
	b) financial assets available for sale		(42,056,409)
	d) other financial transactions		(1,868,871)
130.	Net losses/recoveries for credit risk in respect of:	(4,681,989)	
	a) financial assets measured at amortized cost	(4,450,714)	
	b) financial assets measured at fair value through other comprehensive income	(231,275)	
150.	**Net income (loss) from financial operations**	**171,695,435**	**249,220,430**
160.	Administrative expenses:	(251,740,783)	(272,447,812)
	a) personnel expenses	(81,290,210)	(79,620,925)
	b) other administrative expenses	(170,450,573)	(192,826,887)
170.	Net provisions for risks and charges	259,599	3,036,113
	a) commitments and guarantees granted	17,081	-
	b) net provisions for other risk and charges	242,518	-
180.	Net adjustments of property and equipment	(4,226,883)	(3,829,214)
190.	Net adjustments of intangible assets	(4,862,018)	(5,131,198)
200.	Other operating expenses/income	18,945,615	28,363,797
210.	**Operating expenses**	**(241,624,469)**	**(250,008,314)**
220.	Profit (loss) from equity investments	(15,791,484)	(3,082,445)
260.	**Profit (loss) before tax on continuing operations**	**(85,720,519)**	**(3,870,329)**
270.	Income tax expense from continuing operations	30,892,985	8,621,505
280.	**Profit (loss) on continuing operations after tax**	**(54,827,534)**	**4,751,176**
290	Profit (loss) on discontinued operations after tax	19,195,435	-
300.	**Profit (loss) for the period**	**(35,632,099)**	**4,751,176**

The items in square brackets ([]) are those of the 2017 financial statements prepared in accordance with the previous version of Circular no. 262 – 4th update of December 15, 2015, issued by the Bank of Italy. For a comparison with the figures for the previous year, please see the section “Compliance with IFRS 9” in Part A “Accounting policies”.

STATEMENT OF COMPREHENSIVE INCOME

		31/12/2018	31/12/2017
10.	**Net profit (loss) for the period**	**(35,632,099)**	**4,751,176**
	Other comprehensive income net of taxes not recyclable to profit or loss	**(5,771,258)**	
20.	Equity securities designated as at fair value through other comprehensive income	(5,780,710)	
70.	Defined benefit plans	9,452	9,982
	Other comprehensive income net of taxes recyclable to profit or loss	**(9,162,239)**	
120.	Cash flow hedges	499,186	1,326,103
[100.]	Financial assets available for sale		(1,751,129)
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(9,661,425)	
170.	**Total other comprehensive income net of taxes**	**(14,933,498)**	**(415,043)**
180.	**Comprehensive income (items 10+170)**	**(50,565,597)**	**4,336,133**

The items in square brackets ([]) are those of the 2017 financial statements prepared in accordance with the previous version of Circular no. 262 – 4th update of December 15, 2015, issued by the Bank of Italy. For a comparison with the figures for the previous year, please see the section "Compliance with IFRS 9" in Part A "Accounting policies".

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2018

				Allocation of net profit of previous year		Change in the period				
							Equity transactions			
	As at 31/12/2017	Change in opening balance	As at 1/1/2018	Reserves	Dividends and other destinations	Change in reserves	Issue of new shares	Purchase of treasury shares Extraordinary dividends Change in equity instruments Derivatives on treasury shares Stock options	Comprehensive income 31/12/2018	Shareholders' equity as at 31/12/2018
Share capital:										
a) ordinary shares	1,151,045,404		1,151,045,404							1,151,045,404
b) other shares										
Share premium reserve	4,746,737		4,746,737			1,334,668				6,081,405
Reserves:										
a) earnings	399,191,559	9,921,784	409,113,343	4,475,117		(82,268)				413,506,192
b) other	2,002,364		2,002,364							2,002,364
Valuation reserves	66,833,949	(13,543,993)	53,289,956						**(14,933,498)**	38,356,458
Equity instruments										
Treasury shares	(30,846,922)		(30,846,922)				26,239,224			(4,607,698)
Net profit (loss) for the period	**4,751,176**		**4,751,176**	**(4,475,117)**	**(276,059)**				**(35,632,099)**	**(35,632,099)**
Total shareholders' equity	**1,597,724,267**	**(3,622,209)**	**1,594,102,058**		**(276,059)**	**1,252,400**	**26,239,224**		**(50,565,597)**	**1,570,752,026**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2017

				Allocation of net profit of previous year		Change in the period								
							Equity transactions							
	As at 31/12/2016	Change in opening balance	As at 1/1/2017	Reserves	Dividends and other destinations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income 2017	Shareholders' equity at 31/12/2017
Share capital:														
a) ordinary shares	1,151,045,404		1,151,045,404											1,151,045,404
b) other shares														
Share premium reserve	4,746,737		4,746,737											4,746,737
Reserves:														
a) earnings	389,783,141		389,783,141	9,408,418										399,191,559
b) other	2,002,364		2,002,364											2,002,364
Valuation reserves	67,248,992		67,248,992										(415,043)	66,833,949
Equity instruments														
Treasury shares	(30,067,699)		(30,067,699)					(779,223)						(30,846,922)
Net profit (loss) for the period	**21,084,184**		**21,084,184**	**(9,408,418)**	**(11,675,766)**								**4,751,176**	**4,751,176**
Total shareholders' equity	**1,605,843,123**		**1,605,843,123**		**(11,675,766)**			**(779,223)**					**4,336,133**	**1,597,724,267**

STATEMENT OF CASH FLOWS: INDIRECT METHOD 2018

	31/12/2018
A. OPERATING ACTIVITIES	
1. Operations	**(152,268,908)**
- net profit (loss) for the period (+/-)	(35,632,099)
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	(13,202,508)
- gains (losses) on hedging activities (-/+)	4,883,829
- net losses/recoveries on impairment (+/-)	4,700,824
- net adjustments of property and equipment and intangible assets (+/-)	9,088,901
- net provisions for risks and charges and other costs/revenues (+/-)	(19,135,496)
- taxes, duties and tax credits to be settled (+/-)	(30,718,896)
- net adjustments of disposal groups held for sale net of tax effects (+/-)	-
- other adjustments (+/-)	(72,253,464)
2. Net cash flows from/used in financial assets	**(3,194,708,050)**
- financial assets held for trading	4,258,809
- financial assets designated as at fair value	(15,113,268)
- financial assets mandatorily measured at fair value	4,426,354
- financial assets measured at fair through other comprehensive income	2,520,455,312
- financial assets measured at amortized cost	(5,644,957,646)
- other assets	(63,777,610)
3. Net cash flows from/used in financial liabilities	**3,299,119,631**
- financial liabilities measured at amortized cost	3,444,519,694
- financial liabilities held for trading	(114,310,553)
- financial liabilities designated as at fair value	-
- other liabilities	(31,089,510)
Net cash flows from/used in operating activities (A)	**(47,857,327)**
B. INVESTING ACTIVITIES	
1. Cash flows from	**40,343,946**
- sale of equity investments	-
- dividends on equity investments	40,343,946.29
- sale of property and equipment	-
- sale of intangible assets	-
- sale of business units	-
2. Cash flows used in	**(77,202,139)**
- purchases of equity investments	(52,406,759)
- purchases of property and equipment	(4,017,150)
- purchases of intangible assets	(20,778,230)
- purchases of business units	-
Net cash flows from/used in investing activities (B)	**(36,858,193)**
C. FINANCING ACTIVITIES	
- issues/purchases of own shares	26,239,302
- issues/purchases of equity instruments	5,726,961.00
- dividend distribution and other	(4,751,176)
Net cash flows from/used in financing activities C(+/-)	**27,215,087**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C	**(57,500,433)**

RECONCILIATION

	31/12/2018
Cash and cash equivalents at beginning of period (E)	98,307,123
Net increase/decrease in cash and cash equivalents (D)	(57,500,433)
Cash and cash equivalents: effect of exchange rate changes (F)	-
Cash and cash equivalents at end of period (G)=E+/-D+/-F	40,806,690

STATEMENT OF CASH FLOWS: INDIRECT METHOD 2017

	31/12/2017
A. OPERATING ACTIVITIES	
1. Operations	**47,165,299**
- net profit (loss) for the period (+/-)	4,751,176
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	9,495,237
- gains (losses) on hedging activities (-/+)	1,395,013
- net losses/recoveries on impairment (+/-)	50,628,392
- net adjustments of property and equipment and intangible assets (+/-)	8,960,412
- net provisions for risks and charges and other costs/revenues (+/-)	5,001,950
- taxes, duties and tax credits to be settled (+/-)	(9,153,833)
- net adjustments of disposal groups held for sale net of tax effects (+/-)	-
- other adjustments (+/-)	(23,913,048)
2. Net cash flows from/used in financial assets	**6,825,262,703**
- financial assets held for trading	92,970,611
- financial assets at fair value through profit or loss	-
- financial assets available for sale	2,156,191,675
- due from banks: repayable on demand	(846,344,879)
- due from banks: other	7,282,932,715
- loans to customers	(1,811,523,896)
- other assets	(48,963,523)
3. Net cash flows from/used in financial liabilities	**(8,368,858,935)**
- due to banks: repayable on demand	(63,699,980)
- due to banks: other	6,200,120,616
- due to customers	(16,199,083,435)
- securities issued	1,661,834,519
- financial liabilities held for trading	(56,656,251)
- financial liabilities at fair value through profit or loss	-
- other liabilities	88,625,596
Net cash flows from/used in operating activities (A)	**(1,496,430,934)**
B. INVESTING ACTIVITIES	
1. Cash flows from	**860,507,759**
- sale of equity investments	-
- dividends on equity investments	23,189,759
- sales of financial assets held to maturity	837,318,000
- sale of property and equipment	-
- sale of intangible assets	-
- sale of business units	-
2. Cash flows used in	**648,261,336**
- purchases of equity investments	(56,666,685)
- sales of financial assets held to maturity	721,195,880
- purchases of property and equipment	(5,692,137)
- purchases of intangible assets	(10,575,722)
- purchases of business units	-
Net cash flows from/used in investing activities (B)	**1,508,769,095**
C. FINANCING ACTIVITIES	
- issues/purchases of own shares	(779,223)
- issues/purchases of equity instruments	-
- dividend distribution and other	(11,675,766)
Net cash flows from/used in financing activities C(+/-)	**(12,454,989)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C	**(116,827)**

RECONCILIATION

	31/12/2017
Cash and cash equivalents at beginning of period (E)	98,423,950
Net increase/decrease in cash and cash equivalents (D)	(116,827)
Cash and cash equivalents: effect of exchange rate changes (F)	-
Cash and cash equivalents at end of period (G)=E+/-D+/-F	98,307,123

NOTES TO THE FINANCIAL STATEMENTS

PART A

Accounting policies

A.1 -GENERAL INFORMATION

Section 1 – Declaration of conformity with the International Accounting Standards (IAS/IFRS)

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, these financial statements of Iccrea Banca have been prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission as established by Regulation (EC) no. 1606 of July 19, 2002, as amended.

These financial statements have been prepared in accordance with Circular no. 262 of December 22, 2005 governing the format and rules for the preparation of bank financial statements – 5th update of December 22, 2017 – issued by the Bank of Italy in the exercise of the powers established by Article 43 of Legislative Decree 136/2015.

These instructions contain binding formats for the financial statements and the procedures for completing the schedules, as well as the content of the notes to the financial statements.

The IASs/IFRSs applied in preparing the financial statements were those in force at December 31, 2018, as endorsed by the European Commission (including the interpretations issued by the IFRIC).

With regard to the comparative data for the previous year, taking account of the fact that IFRS 9 provides for the possibility, at the time of first application, of not restating figures for the previous financial years, Iccrea Banca presents comparative data by reporting the items given in the schedules of the 4th update of Circular no. 262 of December 22, 2005. Please see to the financial statements for the year ended December 31, 2017 for details on the accounting standards adopted and in force until that date.

The notes contain comparative figures for the tables for items that were not impacted by the application of IFRS 9. For tables affected by that standard, for which comparative figures are not provided, please see the Transition Report chapter “Compliance with IFRS 9”.

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, 2018:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
1905/2016	**IFRS 15 Revenue from contracts with customers** The standard replaces IAS 18, IAS 11 and the associated interpretations concerning revenue recognition IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. The new standard specifies two approaches to revenue recognition: the first provides for recognition “at a point in time”, while the second provides for recognition “over time”. The standard introduces a method for analyzing transactions and define both the timing of recognition and the amount to be recognized. IFRS 15 also includes requirements for accounting for certain costs directly connected with a contract.	Annual reporting periods beginning on or after January 1, 2018.
2067/2016	**IFRS 9 Financial instruments** The standard establishes criteria for the presentation of financial assets and liabilities, replacing IAS 39, with a view to improving the materiality and utility of the disclosures. The new standard establishes, first and foremost, an approach for the classification and measurement of financial assets based on the characteristics of the cash flows and the business model under which the assets are held. It also introduces a single, forward-looking model of impairment that requires recognition of expected losses over the entire life of a financial instrument. Finally, hedge accounting was modified.	Annual reporting periods beginning on or after January 1, 2018.
1988/2017	**Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts** The amendments of IFRS 4 seek to remedy the temporary accounting effects of the mismatch between the effective date of IFRS 9 and the effective date of the new IFRS 17 on insurance contracts, which replaces IFRS 4.	Annual reporting periods beginning on or after January 1, 2018.

182/2018	**Annual improvements to IFRS Standards 2014-2016 cycle involving amendments to IAS 28 and IFRS 1** The amendments regarded the elimination of the short-term exemptions envisaged for First-Time Adoption of IFRS1, and the classification and measurement of equity investments measured at fair value through profit or loss in accordance with IAS 28 – Investments in associates and joint ventures and disclosures of interests in other entities in accordance with IFRS 12.	Annual reporting periods beginning on or after January 1, 2018.
289/2018	**Amendments to IFRS 2 Share-based payment** The amendments are intended to clarify the accounting treatment for certain types of share-based payment schemes with regard to the following aspects: - the effects of vesting conditions on the measurement of cash-settled share-based payments; - the classification of share-based payment transactions with a net settlement feature for tax purposes; The recognition of a modification of the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.	Annual reporting periods beginning on or after January 1, 2018.
400/2018	**Amendments to IAS 40 Investment property - Transfers of investment property** The amendments clarify when an entity may modify the classification of a property when it was not held as "investment property" and vice-versa.	Annual reporting periods beginning on or after January 1, 2018.
519/2018	**IFRIC 22 - Foreign currency transactions and advance consideration** The interpretation clarifies the accounting treatment for transactions that involve the receipt or payment of advance consideration in a foreign currency.	Annual reporting periods beginning on or after January 1, 2018.

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
1986/2017	**IFRS 16 Leases** The new standard, which will replace the current IAS 17, modifies the definition of a lease and requires a lessee to recognize the assets and liabilities arising from a lease. The objective of IFRS 16 is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents transactions. This information therefore gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. The new standard provides a new definition of lease and introduces a criterion based on control (right of use) of an asset to distinguish leases from service contracts, specifying as discriminants the identification of the asset, the right to substitute it, the right to obtain substantially all the economic benefits deriving from the use of the asset and the right to direct the use of the identified asset. Transactions excluded from the scope of application of the principle include, in particular: • licenses of intellectual property granted by a lessor within the scope of IFRS 15 "Revenue from Contracts with Customers"; • "rights held by a lessee under licensing agreements within the scope of IAS 38 "Intangible Assets". The standard also permits the application certain exceptions to the recognition requirement: • short-term leases, with a contractual term of 12 months or less; • leases in which the underlying asset is of low value. More specifically, under the definition in IFRS 16, a lease is a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. The two conditions necessary for the existence of a lease are: • the existence of an identified and physically distinct asset;	Annual reporting periods beginning on or after January 1, 2019.

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<td>• the right to control the use of the asset, which is the lessee’s right to obtain substantially all the economic benefits deriving from the use of the asset during the period of use and the right to direct the use of the asset, establishing how and for what purpose it is used, throughout the period of use. There lessor must therefore not have a substantive right to substitute the asset.

In addition to "leases" proper, lease contracts also include, for example, contracts for rent, hire, lease and free loans.
For a contract that contains a lease component and additional non-lease components (such as in the case of the lease of an asset and the provision of maintenance services), the standard establishes that each lease component shall be recognized separately from the non-lease components. The consideration shall therefore be allocated to the various components based on their relative stand-alone prices, adopting the rationale of IFRS 15 for service contracts. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for all lease components a as a single lease component.
The most significant changes introduced with the standard regard the lessee, who shall apply a single accounting model, eliminating the distinction between operating lease and finance lease, with an impact on both the income statement and the balance sheet.
For any lease, the lessee shall recognize, respectively, under liabilities and assets in the balance sheet:

• a lease liability, equal to the present value of future payments determined using the discount rate specified at the inception of the lease;
• a right-of-use asset, equal to the lease liability plus initial direct costs.

The lessee must measure the right-of-use asset by applying the cost model. The income statement will essentially reflect the depreciation charge for the right-of-use asset, recognized under operating expenses, and the interest accrued on the lease liability, recognized in net interest income.
The distinction between operating and finance leases remains for the lessor, for which the approach under IFRS 16 does not introduce substantial changes with respect to IAS 17.
The standard was endorsed by the European Commission on November 9, 2017 with Regulation no. 2017/1986 and takes affect starting from January 1, 2019. Early application is permitted for those entities that already apply IFRS 15.

For the initial application of the standard, full or modified retrospective application is permitted. The full retrospective option provides for the application of IFRS 16 for the year 2018, recognizing the impact in shareholders' equity at January 1, 2018 as if the IFRS 16 had always been applied, with the restatement of the comparative data. The modified retrospective option provides instead:

• for 2018 the application of IAS 17 without the need to restate the comparative data;
• for 2019 the application of IFRS 16 with the recognition in shareholders' equity at January 1, 2019 (under reserves) of the cumulative effect of the new standard as at the date of initial application only of existing contracts at that date and the disclosure of the impact of initial application of the standard in the notes to the financial statements.
The Company has elected to apply the modified retrospective option, which does not require the restatement of the comparative figures for 2018.</td>
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<td>498/2018</td>
<td>Amendments to IFRS 9 Financial instruments - Prepayment Features with Negative Compensation

The amendments clarify the classification of certain financial assets with prepayment features when IFRS 9 is applied. More specifically:

• for financial assets, they also permit measurement at amortized cost or, depending on the business model, at fair value through other comprehensive income, for loans that, in the event of early repayment, require a lender to make a payment (negative compensation payment);
• for financial liabilities measured at amortized cost, they clarify the accounting for a modification that does not result in the derecognition of the financial liability. In these cases, at the date of the modification the adjustment of the amortized cost of the liability, calculated as the</td>
<td>Annual reporting periods beginning on or after January 1, 2019.</td>
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	difference between the original contractual cash flows and the modified cash flows discounted at the effective interest rate, shall be recognized in profit or loss.	
To be determined	**IFRS 17 Insurance contracts** The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers.	Annual reporting periods beginning on or after January 1, 2021.
1595/2018	**IFRIC 23 - Accounting for uncertainties in income taxes** The interpretation clarifies the application of the recognition and measurement requirements of IAS 12 in the case of uncertainties in income taxes.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	**Amendments to IAS 28** The amendments clarify that the provisions of IFRS 9 should be used to represent long-term interests in associates or joint ventures for which the equity method is not applied.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	**Amendments to IAS 19** The amendments specifies how entities should determine employee benefits following amendments, curtailments or settlements of defined benefit plans.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	**Annual improvements to IFRS Standards 2015-2017 cycle** The improvements modify the IFRS in response to issues mainly concerning IFRS 3 – Business combinations, IFRS 11 – Joint arrangements, IAS 12 – Income taxes and IAS 23 – Borrowing costs.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	**Amendments to the Conceptual Framework for Financial Reporting** The main amendments regard a new chapter on measurement, improved definitions and guidance, clarification of concepts such as stewardship, prudence and uncertainty in measurement.	Annual reporting periods beginning on or after January 1, 2020
To be determined	**Amendments to IFRS 3: Definition of a business** The main changes are intended to resolve the issues that arise when an entity determines whether it has acquired a business or a group of assets. More specifically, the changes: • clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; • remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; • add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; • narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; • add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.	Annual reporting periods beginning on or after January 1, 2020
To be determined	**Amendments to IAS 1 and IAS 8: Definition of materiality** The amendments are intended to align the definition of “material” with that used in the Conceptual Framework and the standards themselves. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of financial statements make on the basis of those financial statements.	Annual reporting periods beginning on or after January 1, 2020

Compliance with IFRS 9

1. IFRS 9 – Regulatory framework

IFRS 9 – Financial Instruments, issued by the International Accounting Standards Board (IASB) in July 2014 and endorsed by the European Commission with Regulation no. 2067/2016, is the new accounting standard replacing IAS 39 as from January 1, 2018, with an impact on the classification and measurement of financial instruments and the rationale and procedures for calculating impairment losses.

2. The three pillars of IFRS 9

The entry into force of IFRS 9 brought changes, which can be summarized in the following three main areas:

- classification and measurement - the standard introduces new accounting classifications depending on the business models and the financial characteristics of cash flows (so-called SPPI - Solely Payments of Principal and Interests);
- impairment - the standard introduces a new expected credit loss approach (ECL) to replace the incurred loss approach envisaged under IAS 39, providing for the adoption of a single model encompassing all financial assets except those measured at the fair value through profit or loss (FVTPL);
- hedge accounting - the standard introduces changes in the area of micro hedging, bringing hedge accounting into a risk management perspective, while macro hedging does not currently fall within the scope of IFRS 9.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

With regard to "classification and measurement" aspects issues, IFRS 9 establishes three measurement criteria for financial assets:

- amortized cost;
- fair value through other comprehensive income (hereinafter also "FVTOCI");
- fair value through profit or loss (hereinafter also "FVTPL").

For financial assets represented by debt securities, the determination of the measurement criterion is depends both on the business model of the portfolio to which it belongs and to the characteristics of the contractual cash flows of the financial instrument.

Equity instruments are classified in the FVTPL category, with the exception of the irrevocable option to classify equity instruments not held for trading in the FVTOCI category. In this case only dividends are recognized in profit or loss, while changes from measurement and gains or losses on disposal are recognized in shareholders' equity.

IMPAIRMENT

With reference to impairment, the standard introduces a single model, based on the concept of expected loss extended to on- and off-balance-sheet assets that are not measured at FVTPL. IFRS 9 establishes that at each reporting date the loss allowance for a financial instrument shall be measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. Otherwise, the loss allowance for the financial instrument is measured at an amount equal to 12-month expected credit losses. The verification of the presence of a significant increase in credit risk is based on a stage allocation process which provides for the classification of financial assets into three stages, applying the calculation of the 12-month expected credit loss to stage 1; and the lifetime expected credit loss on the instrument to stages 2 and 3.

HEDGE ACCOUNTING

With reference to "hedge accounting", the standard revises the rules for the designation of a hedging relationship and for verifying its effectiveness in order to ensure greater alignment between the accounting representation of the hedges and the underlying management rationale, confirming the adoption of a more risk-management oriented approach. It is emphasized that the regulatory changes only concern "general hedge accounting", for which the standard provides for the possibility of applying the rules set by the new standard rather than continuing

to apply IAS 39 (the "Opt-in/Opt-out" option). The standard does not address macro-hedging, which continues to be governed by IAS 39.

3. Differences with IAS 39

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

The classifications of financial instruments under IAS 39 have been replaced by the following IFRS 9 categories: amortized cost, fair value through other comprehensive income and fair value through profit and loss. In order to determine the classification of debt instruments, two new concepts are introduced: the business model, to assess the purpose for which the financial instruments are held, and the SPPI test, to determine the contractual characteristics of the cash flows associated with the financial instruments.

For the purposes of these assessments, steps have been taken to identify the business model of the financial assets held by Iccrea Banca and to determine the procedures for conducting the SPPI test on the basis of the characteristics of the contractual cash flows.

IMPAIRMENT

The main changes introduced with IFRS 9 concerning impairment include:

- a change from the incurred loss model to an expected loss model;
- the recognition of a significant increase in credit risk, with the consequent measurement of the lifetime expected credit loss (stage 2) in place of a 12-month expected credit loss (stage 1), in the presence of a significant increase in credit risk since the origination of an asset;
- the introduction of probability-weighted outcomes in the transfer of impaired assets (stage 3);
- the inclusion of forward-looking information, comprising multiple economic scenarios, within the new impairment model.

4. Basis of preparation, exemptions and options applied at first-time adoption

HEDGE ACCOUNTING

Iccrea Banca decided not to opt for early application of IFRS 9. In addition, with regard to the new provisions concerning hedge accounting, as allowed by the standard (IFRS 9 7.2.21), Iccrea Banca exercised the option to continue to apply the provisions of IAS 39 governing accounting for hedging transactions.

COMPARATIVE STATEMENTS

In initial application, IFRS 9 does not require the restatement of comparative figures, on a uniform basis, for prior periods. In this regard, at the time of the issue of the 5th amendment of Bank of Italy Circular no. 262/2005 governing the format and rules for the preparation of bank financial statements, the supervisory authorities have specified that banks that do not produce comparative figures must include, in the first financial statements prepared on the basis of the aforementioned update, a reconciliation statement that indicates the method used and provides a reconciliation of the data reported in the most recent approved financial statements and the first financial statements drawn up on the basis of the new provisions. The form and content of this table may be decided by the competent corporate bodies.

Iccrea Banca has elected to exercise the option available under paragraph 7.2.15 of IFRS 9 to not restate the comparative figures in the first financial statements prepared in accordance with IFRS 9. With regard to the comparative data, the section "Reconciliation statements" reports the differences between the 4th update of Circular no. 262/2005 and the 5th update. In the same section, tables 4.3 and 4.5 report the reconciliations of the balances at January 1, 2018, following the application of the new measurement and impairment rules under IFRS 9.

IMPACT OF THE INTRODUCTION OF IFRS 9 ON OWN FUNDS

With Regulation (EU) 2017/2395 regarding transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds, issued on December 12, 2017, the European Parliament and the Council amended Regulation 575/2013 (the CRR), inserting the new Article 473a "Introduction of IFRS 9", which permits banks to

attenuate the impact of the introduction of IFRS 9 on their own funds associated with an increase in provisions for expected credit losses by including a portion of the provisions in CET1 capital over a transitional period of 5 years (from March 2018 to December 2022), sterilizing the impact on CET1 by a decreasing percentage over time.

Iccrea Banca has elected to adopt the so-called dynamic approach and static approach to the impact resulting from the comparison between the IAS 39 provisions at December 31, 2017 and those calculated under IFRS 9 at January 1, 2018, which provide for the application of decreasing factors to the provisions for exposures classified in stage 1 and stage 2 (dynamic approach) and to stage 3 (static approach).

Over the first five years of application of IFRS 9, the transitional arrangements gradually reduce the impact on CET1 by applying the following factors:

- 0.95 between January and December 2018;
- 0.85 between January and December 2019;
- 0.7 between January and December 2020;
- 0.5 between January and December 2021;
- 0.25 between January and December 2022.

As indicated in the guidelines issued by the EBA in January 2018, entities that opt for the transitional arrangements shall provide the market, among other things, with information on a “fully loaded basis” (see disclosure below).

5. The IFRS 9 implementation project

The Iccrea Banking Group began work for the adoption of the new IFRS 9 in September 2016, following a preliminary assessment carried out in 2014 aimed at obtaining an initial estimate of the potential impact of its introduction.

Given the importance of the project and the impact of the changes introduced by the new standard, the activities were governed by a Steering Committee composed of members of top management. The project was structured into three macro-areas mirroring the three areas into which the standard is organized, namely classification and measurement, impairment and hedge accounting. For each project area, an operational manager was appointed.

Since the standard has a considerable impact and impacts many aspects of corporate operations, a large number of the Group’s units have been actively involved in the project: the areas most affected by the implementation of the new standard were Administration, Risk Management, Lending, Finance, Organization and Projects, IT, ALM and Consulting and Planning and Management Control. Together with the operational units, internal control functions such as Internal Audit and the Board of Auditors were also part of the project.

The IFRS 9 project was programmed an extended period of time and was divided into broadly sequential macro-phases, namely:

- an initial stage of assessment and definition of preliminary choices;
- a subsequent design and construct stage with analysis of project implementation solutions, determination of preferred choices and the design of the operating models;
- a third phase of development, implementation and testing of the procedures and applications adopted, at ensuring the adjustment and consolidation of internal rules within the Group.

With regard to the "classification and measurement" project, in the assessment phase detailed analyses were conducted of the Group's loans and securities portfolios, the functional requirements for the SPPI test were analyzed in order to illustrate the underlying assumptions and provide support for the associated decisions and the main organizational impacts were determined.

In the design and construct phase, following through on the previous phase, the business models were defined for each Group company, the analysis of the operating scenarios was developed to identify the main organizational, process and technological impacts necessary to start the implementation construction phase. The project results were developed into specific policy documents and processes to govern the transition to the new standard.

During the implementation phase, all necessary measures were deployed and policies and internal process adjustments were refined and subsequently incorporated in the Group’s internal rules in order to ensure compliance with the standard.

With regard to the “impairment” project, during the assessment phase the analysis of the systems used to measure the risk parameters for the calculation of the provisions and the mapping of the regulatory requirements was carried out.

In the design and construct phase, activities focused methodological and organizational design for the transition. More specifically, on the methodological front the solutions for calculating impairment were developed on the basis of the specific characteristics of each Group company, with particular reference to stage allocation and estimation of risk parameters, while on the technological front, application solutions were developed to enable the implementation of the methodological and functional inputs developed within the project and to calculated the necessary provisions in compliance with the standard and in accordance with the operational arrangements for implementing the standard by the Group. The project results were developed into specific policy documents and processes to govern the transition to the new standard.

During the implementation phase, all necessary measures were deployed and policies and internal process adjustments were refined and subsequently incorporated in the Group's internal rules in order to ensure compliance with the standard.

With regard to the "hedge accounting" project, the Group conducted an impact analysis of the requirements of IFRS 9, analyzing the Group's existing hedging relationships and the effectiveness testing service provided to participating mutual banks, assessing the pros and cons of adopting the general hedge accounting model of IFRS 9. In the light of the findings of the assessment, the Iccrea Banking Group decided to postpone adoption of the new IFRS 9 hedge accounting model to after January 1, 2018. Accordingly, this component had no impacts.

With reference to information systems, activities were conducted to identify the main impact areas, performing gap analysis and identifying all the necessary changes to be made and identifying the applications and procedures to upgrade. More specifically, with regard to the implementation of IT systems, the new software applications for managing the new classification and measurement processes connected with the business model and the SPPI test were integrated, together with the tools and applications needed to calculate expected loss and the inclusion of forward-looking factors in the calculation of impairment. With specific regard to the SPPI test, the procedures for performing the test were identified as were the platforms for applying the SPPI method adopted by the Group for both debt securities and credit exposures proper. In the area of estimating ECL, the implementation activities for estimating expected loss through the adoption of solutions and applications managed by leading system operators were completed.

In 2017 the Group underwent the thematic analysis conducted by the Single Supervisory Mechanism (SSM) of credit institutions (the "thematic review"), in order to assess the state of preparation for the application of IFRS 9. As part of this effort, the Group provided documentation and analysis supporting the Group's assessment of the IFRS 9 project areas. All progress made on the project, together with initial impact analyses, were discussed with the European Central Bank during the project and continued in 2018. At the same time, during the first half of 2018, the Group was audited by the Internal Audit function, with which the various choices made in classification, measurement and impairment were discussed and analyzed. This activity was also carried out by the Group's audit firm, with a specific readiness opinion of the IFRS 9 methodological approach.

6. Overview of impacts

OVERVIEW

(i) **Shareholders' equity**: the adoption of IFRS 9 reduced shareholders' equity at January 1, 2018 by €3.622 million (gross of tax effects). This included:

- an increase of €0.298 million from the new classification and measurement requirements for financial assets;
- a decrease of €4.734 million from the application of the new ECL impairment method;
- an increase of 0.814 million from the increase in the FVTOCI reserve as a result of the application of the new ECL impairment method for that category of financial instrument, with a corresponding negative impact on earnings reserves (FTA reserve);

(ii) CET1: the adoption of the standard reduced the CET 1 ratio by 7 basis points to 37.83% at January 1, 2018 (fully loaded);

(iii) TCR: the adoption of the standard reduced the TCR ratio by 6 basis points to 41.03% at January 1, 2018 (fully loaded).

IMPACT ON CAPITAL RATIOS: COMMON EQUITY TIER 1 RATIO

The following table reports the impact of the application of the standard on own funds and capital ratios.

TABLE 1.1

Own funds (€/thousands)	31/12/2017	IFRS 9 Fully loaded		IFRS 9 Phased-in 95%	
		FTA impact at 1/1/2018	Situation at 1/1/2018	FTA impact at 1/1/2018	Situation at 1/1/2018
Book shareholders' equity	1,597,724	(3,622)	1,594,102		
CET 1	1,561,386	(3,622)	1,557,764	875	1,562,261
Total own funds	1,693,168	(3,622)	1,689,546	875	1,694,043
Capital ratios (%)					
CET 1 capital ratio	37.90%	-0.07%	37.83%		37.94%
Total capital ratio	41.10%	-0.06%	41.03%		41.14%

IMPACT ON EARNINGS RESERVES

The following table reports the opening balance at January 1, 2018 of the earnings reserves as well as the impact of the introduction of IFRS 9. The table provides separate reporting of:

- the amount at the closing date of the financial statements prepared in accordance with IAS 39;
- the impact of reclassifications made at FTA (other measurement criteria);
- the impact of the expected loss estimated in application of IFRS 9 at FTA;
- the tax effect.

TABLE 1.2

(€/thousands)	Impact at January 1, 2018
Closing date under IAS 39	399,192
Reclassifications under IFRS 9	14,656
IFRS 9 FTA adjustments	(4,734)
Tax impact	-
Earnings reserves under IFRS 9	**409,114**

With regard to earnings reserves (FTA reserve), reclassifications of €14,656 thousand were recognized, while, as a result of the application of impairment, ECL was recognized in the amount of €4,735 thousand, with a consequent positive/negative impact on earnings reserves of €9,922 thousand, gross of tax effects.

The details of the reclassifications are as follows:

- reclassification of debt securities classified as financial instruments available for sale in accordance with IAS 39 to financial assets mandatorily measured at fair value through profit or loss following the failure of the SPPI test pursuant to IFRS 9, with the reallocation of the former positive AFS reserve in the amount of €0.51 thousand to the earnings reserve;
- reclassification of investment fund units, recognized under financial instruments available for sale in accordance with IAS 39, to financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9, with the reallocation of the former positive AFS reserve in the amount of €68 thousand to the earing reserve;
- reclassification of equity securities classified as financial instruments available for sale in accordance with IAS 39 to financial assets mandatorily measured at fair value through profit or loss, with reallocation of the former positive AFS reserve in the amount of €13,422 to the earing reserve;
- negative impact on the earnings reserve (FTA reserve) due to the elimination of the embedded derivative in the amount of €55 thousand, which had previously been separated from an asset and classified as HFT;
- recognition of earnings reserves in the amount of €1.17 million following the elimination of writedowns recognized the previous year, with the consequent recognition of a negative OCI reserve in respect of equity securities classified as assets measured at fair value through other comprehensive income.

The following breaks down the recognition of ECL:

- on debt securities at amortized cost in the amount of €131 thousand;
- on debt securities at FVTOCI in the amount of €814 thousand;
- on loans and advances in the amount of €366 thousand;
- on guarantees and commitments in the amount of €125 thousand.

CHANGE IN IMPAIRMENT LOSS IN SHIFT FROM IAS 39/IAS 37 TO IFRS 9

In order to highlight the impact of the new impairment method on the impairment provision in accordance with IAS 39 and IAS 37, the following table and the accompanying chart show the increase in the impairment provision (loss allowance) reconciling the balance under IAS 39 (equal to €40,366 thousand) with the balance under IFRS 9 (€45,100 thousand), with the specification of changes in the loss allowance by credit risk stage.

Considering that performing positions at December 31, 2017 were entirely migrated to the new risk stages 1 and 2, the item "IFRS 9 FTA adjustments (Stages 1 and 2)" is reported as the difference between the "Collective impairment provision" for performing financial assets as at December 31. 2017 and the ECL on stage 1 and 2 positions as at January 1, 2018.

TABLE 1.3

(€/thousands)	Total
31/12/2017 - IAS 39/IAS 37 Impairment provision	40,366
Reduction of IAS 39/IAS 37 impairment provision	
IFRS 9 FTA adjustments (Stages 1 and 2)	4,734
IFRS 9 FTA adjustments (Stage 3)	
1/1/2018 - Total impairment adjustments	**45,100**

7. Key elements in determining impairment

With regard to impairment for instruments measured at amortized cost and at fair value through other comprehensive income (other than equity instruments), IFRS 9 introduces a model based on the concept of "expected loss" instead of the "incurred loss" concept provided for under IAS 39.

The standard introduces additional complexity and innovative features for determining provisions. Key factors that materially impact the quantification of impairment losses on loans and securities under IFRS 9 include:

- **a 3-stage** 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 acquired 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;
  - 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, which had previously been measured using "through-the-cycle" metrics;
- 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.

8. The new impairment models

STAGING AND TRANSFER OF FINANCIAL ASSETS BETWEEN STAGES

In accordance with the accounting rules, the Iccrea Group allocates each asset/tranche to one of the following stages (or buckets):

- stage 1, which includes all newly issued assets/tranches and all assets in respect of counterparties classified as performing that, as at the date of assessment, do not show a significant increase in credit risk with respect to the date of disbursement/purchase;
- stage 2, which includes all performing assets/tranches that, as at the date of assessment, show a significant increase in credit risk with respect to the date of disbursement;
- stage 3, which includes all assets/tranches that, as at the date of assessment, are classified as non-performing under the regulatory definition adopted by the Group.[4]

The stage allocation process is especially important as this drives the determination of provisions for credit risk in respect of each exposure.

Within the stage allocation framework, the Iccrea Banking Group defines the procedures for transferring an individual exposure from one state to another. More specifically:

- an asset/tranche may at any time be transferred from stage 1 to stage 2 or vice-versa if it exceeds (or does not exceed, as the case may be) at least one of the staging criteria established by the individual Group companies for the definition of a significant increase in credit risk;
- regardless of the stage to which it is allocated, an asset/tranche may be classified in stage 3 if the loan/security becomes non-performing.

The staging method for the performing loan portfolio of the Iccrea Banking Group was developed, separately for each Group company, on the basis of the following drivers:

a. conventionally allocating certain exposures to stage 1, such as:
   - exposures to mutual banks;
   - exposures to Group companies (direct subsidiaries);
   - exposures to Clearing and Guarantee Fund;
   - exposures to employees of the company;
   - pooling deposits;
   - overcollateralized repurchase transactions (including those under the GMRA);
   - exposures to guarantee funds;
   - exposures originated in the three months prior to the reporting date (the "grace period").

   These types of exposures were assigned a nil ECL, with the exception of exposures to employees of Group companies,[5] to mutual banks that are not members of the Iccrea Mutual Banking Group, exposures to guarantee funds and exposures subject to the grace period, for which the ECL was calculated using parameters for the time horizon of 12 months, in line with the procedure used for other exposures allocated to this stage.
b. the use, where a rating system is available, of quantitative criteria based on the analysis and comparison of the PD at origination with the PD at the reporting date. If there is no origination PD and only the reporting date PD is available, the methodology provides for the use of the practical expedient of the low credit risk exemption;
c. the automatic allocation to stage 2 of exposures which as at the measurement date had a conditional PD in excess of a specified threshold;
d. the use of qualitative criteria to identify the most risky positions in the performing portfolio. These criteria have been defined independently of the use (or not) of quantitative criteria and can be summarized in: positions with more than 30 days past due and forborne performing exposures;

[4] The Iccrea Group uses the regulatory definition of default. See Bank of Italy Circular no. 272 of July 30, 2008. The same definition of default was used under IAS 39.
[5] With the exception of Iccrea Banca, for which exposures to employees are attributed a nil ECL.

e. the use of the practical expedient of 12-month PD at origination and at the reporting date as proxies for lifetime PD, supported by analysis demonstrating that that approach represents a reasonable approximation;
f. the use of a minimum probation period of 3 months in stage 2 in order to reduce the volatility of the allocation of exposures to the various stages, accordingly:
    - an exposure is transferred to stage 1 if the conditions for allocation to stage 1 exist at the reporting date and at least 3 continuous months have elapsed from the disappearance of the circumstances that gave rise to the allocation to stage 2;
    - the restoration of performing status of an exposure previously allocated to stage 3 involves the allocation to stage 2 for at least 3 months following the restoration of performing status.

   Forborne performing exposures for which the regulatory probation period of 24 months is already active are excluded from the application of this criterion.

With regard to point B above, the main trigger, namely a significant increase in credit risk, is determined by comparing the change in the rating class registered between the date of initial recognition and that at the observation date (delta notch). A determination of a significant deterioration is therefore given by a change in the rating caused by downgrades of the position, measured in terms of notches, between the origination of the exposure and the reporting date. This change is an indicator of an increase or decrease in credit risk during the reference period. In order to determine whether, pursuant to the requirements of IFRS 9, an increase in credit risk can be considered “significant” (and therefore require a transfer between stages), specified thresholds have been established, as indicated in Figure 1 and 2 below. Changes below those thresholds are not considered significant and, consequently, do no trigger the transfer of an exposures from Stage 1 to Stage 2. Such a transfer is necessary, however, if the increase in terms of notches exceeds those thresholds.

The determination of the thresholds was calibrated with a view to ensuring a proper balance between performance indicators with respect to the ability of the thresholds to:

- identify stage 2 positions before they deteriorate into default;
- identify positions for which a return to stage 1 is synonymous with an effective improvement in credit quality.

With specific reference to corporate exposures, for companies that use the "AlvinRating" management model to assess creditworthiness, the Group has used the rating class migration criterion. This criterion involves the allocation to stage 2 of exposures that at the assessment date show an increase of four notches with respect to the origination rating, as shown in figure 1 below:

FIGURE 1

Rating origination \ Rating reporting date	RAT 1	RAT 2	RAT 3	RAT 4	RAT 5	RAT 6	RAT 7	RAT 8	RAT 9	RAT 10
RAT 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2
RAT 2	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2
RAT 3	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2
RAT 4	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2
RAT 5	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2
RAT 6	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2
RAT 7	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2
RAT 8	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2
RAT 9	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2
RAT 10	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2

With regard to Institution counterparties, a quantitative staging criterion has been defined that uses the external “RiskCalc” rating of Moody's Analytics. This criterion relies on the ratings assigned by the external RiskCalc model to allocate to stage 2 exposures whose ratings have worsened (in terms of notches) with respect to the origination rating. In order to consider a worsening in terms of notches as an indicator of a significant increase in credit risk, the deterioration in terms of notches must be such that the rating at the assessment date of an exposure originating

in class AAA is lower than the investment grade rating threshold (BBB-). Under this approach, therefore, an increase of at least 10 notches is necessary for an exposure to be allocated to stage 2, as indicated in the following matrix:

FIGURE 2

Rating reporting date (columns) / Rating origination (rows)

Rating origination	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC
AAA	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2
AA+	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2
AA	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2
AA-	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2
A+	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2
A	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2
A-	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BBB+	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BBB	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BBB-	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BB+	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BB	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BB-	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
B+	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
B	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
B-	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
CCC	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2

For credit exposures, forborne performing positions allocated to stage 2 remain in this class until, depending on the outcome of the forbearance measures, the conditions for the classification as forborne lapse, i.e. after 24 months, with consequent transfer to stage 1.

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 companies. 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. Securities issued by Group companies and the mutual banks are conventionally allocated to stage 1.

The approach adopted by the Group provides for the use of the principle of the low credit risk exemption, which regardless of the presence of an origination rating, allocates exposures with a rating that is better or equal to investment grade at the reporting date (BBB-) to stage 1. Using the conditional PD criterion, exposures will be classified to stage 2 if at the assessment date their conditional PD exceeds a certain threshold. That threshold is explicitly indicated in the AQR manual as a specific trigger identifying an increase in credit risk.

Group companies 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.

MAIN DRIVERS OF ECL AND SCENARIOS USED IN IFRS 9 MODELING

Probability of default (PD)

In order to ensure the probabilities of default are compliant with IFRS 9, Iccrea Banca has developed a method, differentiated by individual company and, where available using rating models adopted for management purposes in order to obtain point-in-time, forward-looking and lifetime PDs.

For the loan portfolio, the common drivers of all the approaches used to construct the PDs adopted both at FTA and subsequently regard:

- the transformation of model PD to (or calculation of) Point in Time (PiT) PD, at a one-year horizon;
- the inclusion of forward-looking scenario by applying multipliers defined by the satellite model of the PiT PD and definition of a series of possible scenarios incorporating current and future macroeconomic conditions;
- the transformation of 12-month PD to lifetime PD in order to estimate the term structure of PD over the entire class of residual maturities of loans.

For the purpose of estimating the IFRS 9-compliant PD for the loan portfolio, Iccrea Banca uses:

A. the "AlvinRating" model and the ratings it produces for exposures to Corporate and Retail counterparties. The transition matrix approach is applied to companies/portfolios that use that model to obtain lifetime PDs through:
    a. the construction of the PiT transition matrix (at 1 year);
    b. conditioning of the matrix on macroeconomic scenarios;
    c. estimated of the forward-looking 12-month PD;
    d. extrapolation of the lifetime forward-looking PD curves on the basis of the stable Markovian approach;

B. the rating determined by the "RiskCalc" of Moody's Analytics (external rating model) for exposures to "Credit institutions". The approach used to obtain lifetime PDs, indicated as "RiskCalc", uses the rating and associated PIT, 1-year and lifetime PDs provided by the external RiskCalc rating model by:
    a. using average cumulative PDs for each rating class;
    b. extracting the PIT PDs from the average cumulative PDs;
    c. reconstructing cumulative lifetime forward-looking PDs;

C. the observation of internal default rates over a time horizon of 12 months for Group companies that do not use a rating system. Starting with the observation of the specific 12-month internal default rate estimated for specific clusters, the 12-month and lifetime PDs were estimated, cumulating the observed default rates.

For the securities portfolio, drivers common to all the approaches used to produce the PD to be used at FTA and subsequently regard:

- the inclusion of forward-looking scenarios through the application of multipliers generated by the "Satellite Model" to the PD supplied and the definition of a series of possible scenarios that incorporate current and future macroeconomic conditions;
- the transformation of the 12-month PD into a lifetime PD where not supplied (government securities) in order to estimate the PD term structure over the entire residual life class of the securities.

For the purposes of estimated the IFRS 9-compliant PD for the securities portfolio, the Iccrea Banking Group uses the 12-month PDs drawn from the Standard & Poor's Sovereign matrices for government securities and corporate bonds:

- the S&P Sovereign matrices provide 12-month PDs only. For this reason they are conditioned by combining the transitions to default provided, including forward-looking information by applying the multipliers from the Satellite Model in the manner indicated in the approach based on observed default rates referred to in point C of this section;
- the S&P Corporate matrices provide 12-month and cumulative PDs. For this reason conditioning uses the approach referred to in point B of this section, thereby:
-
    a. extracting the PIT PDs from the average cumulative PDs;
    b. constructing the cumulative lifetime forward-looking PDs.

The following summarizes the approaches used in estimating the PD.

FIGURE 3 -IFRS 9 COMPLIANT APPROACHES FOR ESTIMATING PD

	Type of exposure	Type of counterparty	Estimation method	Estimation inputs
Iccrea Banca	Loans	Corporate	1-year transition matrix estimated for Iccrea BancaImpresa	AlvinRating model
		Retail	Observed default rates	Internal default rates
		Institution	RiskCalc	Moody's RiskCalc model
	Securities	Sovereign	S&P Transition Study	S&P's public PD matrices
		Corporate and Institution	S&P Transition Study	S&P's public PD matrices

Loss Given Default (LGD)

LGD is estimated differently for the various Group companies. For the Iccrea Banca loan books, LGD is estimated by grouping exposures with a variable degree of granularity (by product, type of counterparty or overall company portfolio) observing the ratio between specific provisions and the total non-performing exposure and applying the danger-rate matrix for each uniform cluster of exposures.[6]

The steps in the estimation are as follows:

- break down portfolio by uniform clusters if appropriate;
- calculation of coverage ratio for each product and cluster by loan status (impaired past due, unlikely to pay, non-performing), stating, on the basis of the non-performing portfolio at the reporting date, the amount of specific writedowns as a percentage of the total gross exposure;
- calculation, for the entire portfolio, of the probability of transition from "performing" to another status on the basis of data at t-1 and t;
- calculation of the LGD, to be applied to performing positions, as the weighted coverage ratio for the associated probability of transition:

$$LGD_{Performing}=\%\,coverage_{Impaired\ past\ due} * Prob(Perform \rightarrow SD) + \%coverage_{Unlikely\ to\ pay} * Prob(Perform \rightarrow UP) + \%coverage_{SoffeNon-perform} * Prob(Perform \rightarrow Non-perform)$$

For the securities portfolio, the same LGD was used for exposures in stage 1 and those in stage 2. Specifically, the LGD used was equal to 45%.

Exposure At Default (EAD)

The Group differentiate the approach used to estimated EAD by loan portfolio on the basis of product type and stage of the exposure, as follows.

For "Amortizing" loans:

- the EAD for stage 1 is equal to the residual debt at the reporting date;
- the EAD for stage 2 is calculated by taking the residual debt drawn from management data in repayment plans for each exposure, then applying a transformation coefficient differentiated by residual life. The estimation involves the following steps:

  a. clustering of exposures by residual life (years);
  b. application of the following formula to individual exposures:

  $$EAD_{Lifetime} = \sum_{t=0}^{T}\left(EADt\frac{PD\ Marginal_t}{PD\ Cumulative_T}\right) * \frac{1}{(1+EIR)^t}$$

  where EIR is equal to the TIR of the exposure;

  c. calculate, for each exposure, the following transformation coefficient: $\frac{EAD_{Lifetime}}{EAD_0}$;
  d. calculate the average transformation coefficient differentiated by years of residual life.

[6] With the exception of the Banca Sviluppo and BCC Factoring portfolios.

For “Revolving” loans and “Guarantee” exposures, the EAD for stage 1 and stage 2 is equal to the residual debt t the reporting date.

For “Margin” positions, the EAD for stage 1 and stage 2 is equal to the residual debt at the reporting date with application of the regulatory CCF.

For the securities portfolio, the EAD associated with each securities issue is determined, where available, the gross value of the exposure (tel quel value) at the reporting date. If this is not available, the carrying amount of the issue at the same date is used as proxy for the EAD.

For exposures in securities with amortization plans, the EAD for stage 1 is calculated as the residual debt at the reporting date, while the EAD for stage 2 is calculated on the basis of the residual debt drawn from the annual maturities over the residual life of the exposure, discounted and weighted appropriately to take account of the estimated increase in PDs over the residual life of the exposure (the approach for amortizing exposures in stage 2).

Exposures to the Clearing and Guarantee Fund, the exposure to the central bank, pooling deposits, overcollateralized repurchase transactions (including those under the GMRA), intercompany exposures and those to mutual banks participating in the MBG are automatically allocated to stage 1 and assigned a zero ECL in impairment testing. Exposures to employees of the Iccrea Banking Group and exposures to mutual banks that are not participating in the MBG are allocated directly to stage 1 and follow the staging method developed by the Bank.

Forward-looking conditioning of risk parameters

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

In order to obtain a PD that reflects future macroeconomic conditions, we estimate “satellite models” differentiated by counterparty type that “explain” the relationship linking default rates to a set of “explanatory” macroeconomic variables. The forecasts for the target variable – the default rate – are obtained by defining, on the basis of two separate scenarios, the future realizable values of each macroeconomic variable with the application of the coefficients of the estimated regression. Using these estimates, we construct multipliers as the ratio between the default rate forecasts obtained by calendar year and the last observed value of the target variable, differentiated by scenario.

In order to make the LGD forward looking, Iccrea Banca estimates a regression model that “explains” the relationship linking a variable approximating loss given systemic default (for example, gross non-performing exposures for the system as a whole) to a set of “explanatory” macroeconomic variables, using the same approach adopted for the conditioning of PD for the estimation of the multipliers.

In order to use those multipliers, Iccrea Banca associates the probabilities of occurrence in a judgmental manner to the two scenarios, which are used as weights in calculating the average multiplier for each calendar year. More specifically, we consider three calendar years following the estimation date of the satellite models (the reference date), while for subsequent years, the multiplier is equal to the arithmetic mean of the multipliers in the three years.

Finally, an additional element adopted in conditioning LGD was added to take account of sales strategies for impaired assets adopted by a number of Group companies (Iccrea BancaImpresa, Banca Sviluppo and BCC Factoring). Assessing elements of the disposal plans concerning the probability of sale for each individual position and the size of the exposures earmarked for disposal compared with the size of the overall impaired portfolio, the LGDs were adjusted by assuming a shift to a new level of collections as a result of the sale of impaired assets.

9. Determination of residual life of financial assets

The residual life of financial assets, given in years, is determined as the difference between the reporting date and the maturity date of the financial asset. The maximum residual life is capped at 30 years. If the residual life is less than one year or the maturity date is unknown, the residual life is assumed to be one year.

10. Credit Risk: Comparison of loss allowances under IFRS 9 and IAS 39

The following table reconciles the closing balance at December 31, 2017 of impairment provisions for financial assets under IAS 39 and provisions for payment obligations and guarantees under IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) with the balance of loss allowances at January 1, 2018, as determined in accordance with IFRS 9.

TABLE 1.4

Measurement category/(€/thousands)	31/12/2017 - Impairment provisions under IAS 39/IAS 37	Reclassification impact	IFRS 9 FTA adjustments	1/1/2018 - Total value adjustments
Loans and Receivables (IAS 39) / Financial assets measured at amortized cost (IFRS 9)	**40,366**	**-**	**3,795**	**44,161**
due from banks			3,126	3,126
loans to customers	40,366		538	40,904
debt securities			131	131
Financial assets available for sale (IAS 39) / Financial assets measured at fair value through other comprehensive income (IFRS 9)			814	814
Total on-balance-sheet exposures	**40,366**	**-**	**4,609**	**44,975**
Off-balance-sheet commitments and guarantees	-	-	125	125
commitments to disburse funds			26	26
financial guarantees granted			99	99
Total on- and off-balance-sheet exposures	**40,366**	**-**	**4,734**	**45,100**

11. Credit quality

The following table provides an analysis of loss allowances for financial assets before and after application of IFRS 9.

TABLE 1.5

(€/thousands)	IAS 39 / IAS 37			IFRS 9 exposure				IFRS 9 Total value adjustments			
	Gross value	Collective impairment provision	Specific impairment provision	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets at amortized cost	30,586,359	775	39,591	30,621,991	72,490	57,753	30,752,233	3,720	850	39,591	44,161
Due from banks	20,204,666			20,157,521	47,145		20,204,666	2,382	744		3,126
Loans to customers	6,016,637	775	39,591	5,881,935	16,005	57,753	5,955,692	1,207	106	39,591	40,904
Debt securities	4,365,056			4,582,535	9,340		4,591,875	131			131
Financial assets measured at fair value through other comprehensive income				2,756,291	38,320		2,794,611	396	418		814
Total on-balance-sheet exposures	**30,586,359**	**775**	**39,591**	**33,378,281**	**110,810**	**57,753**	**33,546,844**	**4,116**	**1,268**	**39,591**	**44,975**
Off-balance-sheet commitments and guarantees				7,205,770	105,491		7,311,261	103	21		125
Total on- and off-balance-sheet exposures	**30,586,359**	**775**	**39,591**	**40,584,051**	**216,301**	**57,753**	**40,858,105**	**4,220**	**1,290**	**39,591**	**45,100**

The following table compares writedowns post IFRS 9, broken down on the basis of credit quality by risk stage and position status.

TABLE 1.6

(€/thousands)	31/12/2017				IFRS9 reclassifications and adjustments			1/1/2018			
	Gross exposure	Total writedowns	Net exposure	Coverage ratio	Reclassification of gross exposure	Reclassification of writedowns	IFRS 9 FTA adjustments	Gross exposure	Total writedowns	Net exposure	Coverage ratio
Non-performing	56,063	39,445	16,618	70.4%				56,063	39,445	16,618	70%
Unlikely to pay	1,687	146	1,541	8.7%				1,687	146	1,541	9%
Past due / Over limit	3		3	0.0%				3	-	3	0%
Impaired positions	**57,753**	**39,591**	**18,162**	68.6%	-	-	-	**57,753**	**39,591**	**18,162**	**69%**
Performing positions	**26,163,550**	**775**	**26,162,775**	0.0%	**(61,053)**		**3,664**	**26,102,497**	**4,439**	**26,098,058**	**0%**
of which in Stage 2							*580*	*20,204,666*	*850*	*20,203,816*	*0%*
of which in Stage 1							*3,084*	*5,897,939*	*3,589*	*5,894,350*	*0%*
Performing securities positions	**4,365,056**		**4,365,056**	0.0%	**226,927**		**131**	**4,591,983**	**131**	**4,591,852**	**0%**
of which in Stage 2								*9,340*		*9,340*	*0%*
of which in Stage 1							*131*	*4,582,535*	*131*	*4,582,404*	*0%*
Total on-balance-sheet exposures	**30,586,359**	**40,366**	**30,545,993**	0.1%	**165,874**	-	**3,795**	**30,752,233**	**44,161**	**30,708,072**	**0%**
Off-balance-sheet commitments and guarantees	**7,311,261**		**7,311,261**	0.0%			**125**	**7,311,261**	**125**	**7,311,136**	**0%**
Total on- and off-balance-sheet exposures	**37,897,620**	**40,366**	**37,857,254**	**0**	**165,874**	-	**3,920**	**38,063,494**	**44,286**	**38,019,208**	**0%**

12. Reconciliation statements and explanatory notes

In addition to the reclassifications due to the application of IFRS 9 (i.e. for the business model and the SPPI test), other reclassifications include those attributable to the introduction of the new official formats introduced with the update of Circular no. 262/2005 of the Bank of Italy in December 2017, which incorporate the new presentation approached introduced with IFRS 9.

The following tables contain a reconciliation of the separate balance sheet as reported in the 2017 financial statements and the separate balance sheet modified in accordance with the classification criteria introduced with IFRS 9. The account balances determined in accordance with IAS 39 (balances at December 31, 2017) are mapped to the new IFRS 9 category, taking sole account of the new classification criteria without application of new measurement criteria, leaving unaltered total assets and liabilities under IFRS 9 from the total assets and liabilities measures in accordance with IAS 39.

TABLE 1.7

IFRS 9 schedule - ASSETS (€/000) / IAS 39 schedule - ASSETS (€/000)		20. Financial assets measured at fair value through profit or loss				40. Financial assets measured at amortized cost							100. Tax assets				
	10. Cash and cash equivalents	a) financial assets held for trading	b) financial assets designated as at fair value	c) other financial assets mandatorily measured at fair value	30. Financial assets measured at fair value through other comprehensive income	a) Due from banks	b) Loans to customers	50. Hedging derivatives	60. Value adjustments of financial assets hedged generically (+/-)	70. Equity investments	80. Property and equipment	90. Intangible assets	a) current	b) deferred	110. Non-current assets and disposal groups held for sale	120. Other assets	31/12/2017 IAS 39
10. Cash and cash equivalents	98,307																98,307
20. Financial assets held for trading		316,785															316,785
30. Financial assets at fair value through profit or loss				15,630													15,630
40. Financial assets available for sale				477,427	2,794,611		226,927										3,498,965
50. Financial assets held to maturity																	-
60. Due from banks						24,560,756											24,560,756
70. Loans to customers				61,053			5,924,184										5,985,237
80. Hedging derivatives								6,716									6,716
90. Value adjustments of financial assets hedged generically (+/-)									5								5
100. Equity investments										1,193,547							1,193,547
120. Property and equipment											14,430						14,430
130. Intangible assets												11,126					11,126
140. Tax assets													42,466	24,623			67,089
a) current													42,466				42,466
b) deferred														24,623			24,623
150. Non-current assets and disposal groups held for sale																	-
160. Other assets																249,519	249,519
31/12/2017 IAS 39 reclassified (€/000)	**98,307**	**316,785**	**-**	**554,110**	**2,794,611**	**24,560,756**	**6,151,111**	**6,716**	**5**	**1,193,547**	**14,430**	**11,126**	**42,466**	**24,623**		**249,519**	**36,018,113**

TABLE 1.8

IFRS 9 schedule - LIABILITIES(€/000) / IAS 39 schedule - LIABILITIES(€/000)	10. Financial liabilities measured at amortized cost							60. Tax liabilities					100. Provisions for risks and charges											
	a) due to banks	b) due to customers	c) securities issued	20. Financial liabilities held for trading	30. Financial liabilities designated as at fair value	40. Hedging derivatives	50. Value adjustments of financial liabilities hedged generically	a) current	b) deferred	70. Liabilities associated with assets held for sale	80. Other liabilities	90. Employee termination benefits	a) commitments and guarantees issued	b) post-employment benefits	c) other	110. Valuation reserves	120. Redeemable shares	130. Equity instruments	140. Reserve	150. Share premium account	160. Share capital	170. Treasury shares	180. Net profit (loss) for the period (+/-)	31/12/2017 IAS 39
10. Due to banks	19,401,520																							19,401,520
20. Due to customers		8,243,380																						8,243,380
30. Securities issued			5,874,245																					5,874,245
40. Financial liabilities held for trading				365,384																				365,384
50. Financial liabilities at fair value through profit or loss																								-
60. Hedging derivatives						48,028																		48,028
70. Value adjustments of financial liabilities hedged generically																								-
80. Tax liabilities									2,773															2,773
a) current																								-
b) deferred									2,773															2,773
90. Liabilities associated with assets held for sale																								-
100. Other liabilities											466,596													466,596
110. Employee termination benefits												11,312												11,312
120. Provisions for risks and charges:															7,152									7,152
a) post-employment benefits																								-
b) other															7,152									7,152
130. Valuation reserves																66,834								66,834
140. Redeemable shares																								-
150. Capital instruments																								-
160. Reserves																			401,194					401,194
170. Share premium account																				4,747				4,747
180. Share capital																					1,151,045			1,151,045
190. Treasury shares																						(30,847)		(30,847)
200. Net profit (loss) for the period (+/-)																							4,751	4,751
31/12/2017 IAS 39 reclassified	**19,401,520**	**8,243,380**	**5,874,245**	**365,384**	**-**	**48,028**		**-**	**2,773**	**-**	**466,596**	**11,312**	**-**	**-**	**7,152**	**66,834**	**-**	**-**	**401,194**	**4,747**	**1,151,045**	**(30,847)**	**4,751**	**36,018,114**

13. IFRS 9 impact on opening balance sheet and shareholders' equity

After having reconciled the balances at December 31, 2017 with the new IFRS 9 schedules (tables 1.8 and 1.9), the following tables report the impact of the introduction of the new standard, breaking down the effects into those generated by the new measurement rules, by the new model for calculating impairment and by tax regulations.

TABLE 1.9

	Circular 262/2005 5th update- ASSETS (€/thousands)	31/12/2017 IAS 39 reclassified	Classification and measurement	Impairment	FTA tax effects	1/1/2018 IFRS 9
10.	Cash and cash equivalents	98,307				98,307
20.	Financial assets measured at fair value through profit or loss	870,896	(436)	-	-	870,460
	a) financial assets held for trading	316,785	(55)			316,730
	b) financial assets designated at fair value	-				-
	c) other financial assets mandatorily measured at fair value	554,110	(381)			553,730
30.	Financial assets measured at fair value through comprehensive income	2,794,611				2,794,611
40.	Financial assets measured at amortized cost	30,711,867	(891)	(3,795)	-	30,707,181
	a) due from banks	24,560,756		(3,126)		24,557,630
	b) loans to customers	6,151,111	(891)	(669)		6,149,551
50.	Hedging derivatives	6,716				6,716
60.	Value adjustments of financial assets hedged generically (+/-)	5				5
70.	Equity investments	1,193,547				1,193,547
80.	Plant and equipment	14,430				14,430
90.	Intangible assets	11,126				11,126
100.	Tax assets	67,089	(533)	-	-	66,556
	a) current	42,466				42,466
	b) deferred	24,623	(533)			24,090
110.	Non-current assets and disposal groups held for sale	-				-
120.	Other assets	249,519				249,519
	Total assets	**36,018,113**	**(1,860)**	**(3,795)**	**-**	**36,012,458**

The different classification of financial assets in the new categories envisaged under IFRS 9 and the consequent change in measurement methodology had an overall negative impact of €1,860 thousand.

This value breaks down as follows:

- a negative impact on the earnings reserve (FTA reserve) due to the elimination of the embedded derivative in the amount of €55 thousand, which had previously separated been from an asset and classified as HFT;
- reclassification of financial assets measured at amortized cost to financial assets mandatorily measured at fair value following failure to pass the SPPI test, with a consequent reduction in the carrying amount equal to €381 thousand. This coincides with the value already recognized under other liabilities in the previous year, as detailed in table 1.11;
- reclassification of assets available for sale in accordance with IAS 39 to financial assets measured at amortized cost, with a consequent recalculation of the carrying amount through elimination of the AFS reserve of €89 thousand;
- effect of the reversal of deferred taxes (assets and liabilities) for a net total of €1,244, thousand accrued as at December 31,2017 on assets available for sale under IAS 39 reclassified in accordance with IFRS 9, as shown above.

The application of the new impairment rules (expected credit losses) to financial assets measured at amortized cost (on-balance-sheet exposures) reduced their value by €3,795 thousand, with an associated negative impact on shareholders' equity as well.

TABLE 1.10

	Circular 262/2005 5th update - LIABILITIES (€/thousands)	31/12/2017 IAS 39 reclassified	Classification and measurement	Impairment	FTA tax effects	1/1/2018 IFRS 9
10.	Financial liabilities measured at amortized cost	33,519,145	-	-	-	33,519,145
	a) due to banks	19,401,520				19,401,520
	b) due to customers	8,243,380				8,243,380
	c) securities issued	5,874,245				5,874,245
20.	Financial liabilities held for trading	365,384				365,384
30.	Financial liabilities designated as at fair value	-				-
40.	Hedging derivatives	48,028				48,028
50.	Value adjustments of financial liabilities hedged generically	-				-
60.	Tax liabilities	2,773	(1,778)	-	-	995
	a) current	-				-
	b) deferred	2,773	(1,778)			995
70.	Liabilities associated with assets held for sale	-				-
80.	Other liabilities	466,596	(381)			466,215
90.	Employee termination benefits	11,312				11,312
100.	Provisions for risks and charges	7,152	-	125	-	7,277
	a) commitments and guarantees granted	-		125		125
	b) post-employment benefits and similar	-				-
	c) other provisions for risks and charges	7,152				7,152
110.	Valuation reserves	66,834	(14,358)	814		53,290
120.	Redeemable shares	-				-
130.	Equity instruments	-				-
140.	Reserves	401,194	14,656	(4,734)		411,116
150.	Share premium account	4,747				4,747
160.	Share capital	1,151,045				1,151,045
170.	Treasury shares	(30,847)				(30,847)
180.	Net profit (loss) for the period (+/-)	4,751				4,751
	Total liabilities and shareholders' equity	**36,018,114**	**(1,861)**	**(3,795)**	**-**	**36,012,458**

With regard to liabilities, greater writedowns were recognized for impairment of guarantees granted and commitments (irrevocable and revocable) to disburse funds in the amount of €125 thousand under provisions for risks and charges. The change in valuation reserves of €814 thousand is due to the IFRS 9 impairment of securities classified as FVTOCI. For more on the effects of classification and measurement, please see to the discussion under table 1.11.

14. Shareholders' equity: reconciliation between figures at December 31, 2017 (IAS 39) and January 1, 2018

The following table reports the impact on shareholders' equity of the introduction of IFRS 9, which totaled €3,622 thousand gross of tax effects.

Shareholders' equity at January 1, 2018 (under IFRS 9) amounted to €1,594,102 thousand, a decrease on shareholders' equity of €1,597,724 thousand at December 31, 2017 (under IAS 39).

The following reports the impact for each balance-sheet item of classification, measurement and impairment under the new IFRS 9, gross of tax effects.

TABLE 1.11

(€/thousands)	IFRS 9 transition effect
Shareholdings' equity IAS 39 (31/12/2017)	**1,597,724**
Item 20. Financial assets measured at fair value through profit or loss	**13,486**
Measurement effect	
Classification and measurement effect (Earnings reserve)	13,486
Item 30. Financial assets measured at fair value through comprehensive income	(12,297)
Classification and measurement effect	
Classification and measurement effect (Valuation reserve)	(12,297)
Impairment effect (Earnings reserve)	(814)
Impairment effect (Valuation reserve)	814
Item 40. Financial assets measured at amortized cost	(4,686)
Classification and measurement effect	(891)
Impairment effect	(3,795)
- Stages 1 and 2	(3,795)
- Stage 3	
Off-balance-sheet commitments and guarantees	(125)
Impairment effect	(125)
Tax effects	
Total impact on shareholders' equity	(3,622)
Shareholders' equity IFRS 9 (1/1/2018)	**1,594,102**

Note that at the time of first-time adoption of IFRS 9, reclassifications were made between valuation reserves and earnings reserves (FTA reserve) due to both the application of the new classification and measurement criteria, and the effect of application of the new impairment methodologies, with no impact on equity.

The former, amounting to 12,297 thousand, derive from the reclassification of financial assets (debt and equity securities) available for sale in accordance with IAS 39 to financial assets mandatorily measured at fair value through profit or loss, as detailed following table 1.3.

With regard to reclassified debt securities under the assets measured at fair value through other comprehensive income, the application of the new impairment rules led to an increase in the valuation reserve of €814 thousand, with a consequent negative effect on earnings reserves.

In this regard, the positive impact on equity resulting from the new classification and measurement rules is €298 thousand. With regard to impairment, the negative impact associated with the higher writedowns was equal to €3,920 thousand.

15. Financial instruments: reclassification of assets subsequently measured at amortized cost or FVTOCI

As required under IFRS 7, paragraph 42 M, it is necessary to disclose the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortized cost and, in the case of financial assets, that have been reclassified out of fair value through profit or loss so that they are measured at fair value through other comprehensive income:

- the fair value of the financial assets or financial liabilities at the end of the reporting period;
- the fair value gain or loss that would have been recognized in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified.

The following table reports the reclassifications made. No reclassifications were made to FVTOCI and no liabilities were reclassified to measurement at amortized cost.

TABLE 1.12

Reclassification to measurement at amortized cost (assets)	(€/thousands)
From financial assets available for sale (under IAS 39)	
Fair value at December 31, 2017	126,532
fair value gain or loss that would have been recognized in in other comprehensive income	(5,959)
From financial assets measured at fair value (under IAS 39)	-
Fair value at December 31,2017	
fair value gain or loss that would have been recognized in in profit or loss	
From financial assets held for trading (under IAS 39)	-
Fair value at December 31,2017	
fair value gain or loss that would have been recognized in in profit or loss	

16. IFRS 9 AND DIFFERENCES WITH IAS 39

The following comparative table sets out the main regulatory differences between IAS 39 and IFRS 9.

IMPAIRMENT

Key terms	IAS 39	IFRS 9
Scope of application	Assets measured at amortized cost are written down when there is objective evidence of impairment. The losses are measured by comparing the gross carrying amount with the discounted future cash flows . Losses that could be incurred as a result of future events are not recognized. For AFS financial assets, impairment is recognized when there is an evident objective difficulty in recovering future cash flows. Impairment is measured as the decrease in fair value below cost at initial recognition.	The same measurement and recognition requirements apply to financial assets recognized at amortized cost and those measured at FVOCI. Impairment is not recognized for equity instruments measured at FVOCI. Impairment is recognized for all financial assets with 12-month ECL and lifetime ECL. ECL is measured considering all reasonable and supportable information, including information about past events, current conditions and forecasts of future economic conditions.
Impaired/Stage 3	The criterion used to determine whether there is objective evidence of impairment for loans assessed individually is the same under IAS 39 and IFRS 9. The determination of the realizable value of a security is based on the most recent updated market value when the impairment assessment is carried out, which is not adjustment for expected future changes in market prices. Statistical methods are used to determine impairment losses on a collective basis for uniform groups of performing loans that are not assessed individually, using historical loss rates for that category of loan. Non-performing loans are assessed individually and collectively for certain categories of non-performing and unlikely to pay positions. In any event, loans are classified as impaired when they are More than 90 days past due or have been renegotiated for credit risk reasons.	The stage 3 population is consistent with individually assessed impaired loans under IAS 39. For loans to be assessed on a collective basis, the calculation of discounted individual cash flows continues to be performed collectively as under IAS 39. However, the net realizable value reflects future expected changes in the market, and the losses relating to cash flows in different scenarios are subject to probabilistic adjustments to determine the ECL, rather than using the best estimate of cash flows. For the population of individually assessed positions, allocation to Stage 3 is determined by considering relevant objective evidence. Mainly, consideration is given to contractual payments of principal, or interest past due by more than 90 days, or forbearance measures granted to the borrower for economic reasons or reasons relating to the financial condition of the debtor, or the loan. The loss allowance is determined using the same calculation adopted for stage 2, but with the probability of default set to 1. The result may therefore not be the same as that determined under IAS 39, and the statistical methods and the population identified as stage 3 will not match necessarily to those described by IAS 39.
Stage 2	The concept is not developed under IAS 39.	Reasonable and supportable information shall be taken into consideration when determining whether there is a need to recognize lifetime expected credit losses . Credit risk analysis is multifactorial and holistic. Decisions about whether a certain element is relevant and its weight with respect to other factors depends on the type of product, on the characteristics of the financial instruments, on the borrower, and geographical area. The presence of payments past due by more than 30 days is not an absolute indicator of the need to recognize lifetime expected losses, but it is presumed that it is the time period within which lifetime expected credit losses should also be disclosed when using information indicative of expected developments (including macroeconomic factors at the portfolio level). Financial assets for which credit risk has not increased significantly are written down using a 12-month PD.
Stage 1	The concept is not developed under IAS 39. However, incurred but not yet identified impairment is assessed for loans for which no evidence of impairment has been identified in the collective assessment of loss determined after taking into consideration factors including the estimated period between when the impairment occurred and when the loss is identified. This is assessed empirically on a periodic basis and may change over time. Similarly, for uniform groups of loans measured in accordance with IAS 39 on a collective basis, the intrinsic loss is determined by using risk factors including the period of time between the identification of the loss and derecognition, which is regularly compared with actual outcomes.	For financial instruments in which the default structure is not concentrated at a specific point in the expected life of the financial instrument, changes in the risk of default over the next 12 months may be a reasonable approximation of changes in the risk of default over the life of the instrument. In these cases, changes in default risk over the next 12 months are used to determine if credit risk has increased significantly after initial recognition, unless circumstances indicate that a lifetime assessment is required. Financial assets for which credit risk has not increased significantly are written down using a 12-month PD.
Probability of Default (PD)	Point in Time (PIT): the PD of debtors is sensitive to short-term macroeconomic developments. Accordingly, it increases during a recession and declines during an expansion. Though the Cycle (TTC): the PD of debtors is given by an average default rate for a specific borrower, ignoring short-term macroeconomic developments.	Point in Time (PIT): the PD of debtors is sensitive to short-term macroeconomic developments. Accordingly, it increases during a recession and declines during an expansion.
Forward-looking and multiple scenarios	The concept is not developed under IAS 39.	IFRS 9 requires consideration of forward-looking information in determining if credit risk has increased significantly and in determining expected credit loss, considering the possible probability-weighted scenarios .
Loss Given Default (LGD)	LGD is determined as a parameter for assessing collective impairment and for the assessment of expected loss on specific positions. The estimation of LGD is determined on the basis of statistical information.	LGD is an assessment of the amount that will be recovered in the event of default, taking into account future conditions. In determining LGD, only direct costs are included.
Exposure at Default (EAD)	Carrying amount	"Expected" developments in the EAD over the residual life of the instrument. For the purposes of quantifying the EAD associated with each issue of financial instruments, the gross value of the exposure at the reporting date is generally used.

CLASSIFICATION & MEASUREMENT

Key terms	IAS 39	IFRS 9
Classification	Financial assets are measured at amortized cost (L & R and HTM), FVOCI (AFS) or fair value through profit or loss (derivatives and assets held for trading) depending on the nature of the instruments and the purpose for which they are held. Embedded derivatives are separated unless the entire contract is measured at fair value through profit or loss . The fair value option is applied to embedded derivatives that are not closely related that have not been separated, for financial instruments measured at fair value or when measurement at fair value through profit or loss reduces or eliminates an accounting mismatch. AFS is a residual category.	Debt instruments are measured at amortized cost or FVOCI based on their contractual terms and the business models under which they are held (Hold to Collect, Hold to Collect and Sell, other). The concept of separated derivatives does not apply to financial assets. Therefore, the fair value option applies where it would reduce or eliminate an accounting mismatch. Measurement at fair value through profit or loss is a residual category. Equity instruments are measured at fair value through profit or loss until the option is exercised for measurement at FVOCI. With reference to the contractual terms, the standard introduces the SPPI test to assess whether the instrument's contractual cash flows are solely payments of principal and interest on the principal amount outstanding.
Presentation	The AFS reserve for debt instruments and equity instruments accumulated in other comprehensive income is recycled through profit or loss.	The AFS reserve for debt instruments accumulated in other comprehensive income is reclassified through profit or loss. Gains and losses on equity instruments measured through FVOCI accumulated in other comprehensive income are not recycled through profit or loss.

Transition to IFRS 15: Revenue from contracts with customers

IFRS 15 replaces IAS 18 “Revenue” and IAS 11 “Construction contracts”, as well as IFRIC 13 “Customer loyalty programmes”, IFRIC 15 “Agreements for the construction of real estate”, IFRIC 18 “Transfers of assets from customers” and SIC 31 “Revenue – Barter transactions involving advertising services”. It applies to all contracts with customers with the exception of lease contracts, insurance contracts and financial instruments that fall within the scope of other specific international accounting standards.

IFRS 15 provides for the recognition of revenue on the basis of the following five steps:

- identification of the contract with the customer;
- identification of the performance obligations;
- determination of the transaction price;
- allocation of the transaction price to performance obligations;
- recognition of revenue on the basis of satisfaction of the performance obligation (“at a point in time” or “over time”).

The standard also introduces new rules for recognizing costs incurred in obtaining and performing a contract, allowing them to be recognized as an asset if the entity expects to recover them with the execution of the contract.

As regards the application of IFRS 15 as from January 1, 2018, Iccrea initiated a project to analyze the main categories of revenue from contracts with customers so as to estimate the impact of the introduction of the new accounting standard.

The analysis focused on contracts whose revenue from customers was recognized under “Fee and commission income” and, for services connected with current account transactions, under “Other operating income”.

The analysis found that in general the accounting treatment of the main forms of revenue from contracts with customers is already in line with the provisions of the new standard and, accordingly, the transition to the IFRS 15 did not have a material impact on the accounts. Nevertheless, as required under the standard and in the absence of a quantitative impact, disclosure is provided on the nature, amount, timing and degree of uncertainty of revenue, as well as the cash flows from contracts with customers.

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, along with the report on operations and the performance and financial position. In compliance with Article 5 of Legislative Decree 38/2005, the financial statements use the euro as the reporting currency.

The financial statements are expressed in euros, while unless otherwise specified the figures in the explanatory notes and the report on operations are expressed in thousands of euros.

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

The financial statements and the accompanying notes have been prepared in accordance with Bank of Italy Circular no. 262/2005, as updated to incorporate changes that have been made to the IASs/IFRSs and to improve a number of the tables in the notes in order to better reflect the harmonized European supervisory disclosure model forms.

RISKS AND UNCERTAINTIES ASSOCIATED WITH THE USE OF ESTIMATES

In conformity with the IFRS, management is required to formulate assessments, estimates and assumptions that impact the application of accounting standards and the values of the assets, liabilities, costs and revenues recognized in the financial statements. The estimates and the associated assumptions are based on prior experience and other factors considered reasonable in the circumstances. They have been adopted in order to estimate the carrying amount of assets and liabilities whose value cannot easily be determined on the basis of other information.

Estimation processes were used to support the value of some of the largest items recognized in the financial statements at December 31, 2018, as provided for by the accounting standards and applicable legislation referred to earlier.

These processes are largely based on the estimation of the future recoverability of the carrying amounts in accordance with the rules established by applicable regulations. They were performed on the basis of consideration of the Bank as a going concern, i.e. excluding the possibility of the forced liquidation of the items being measured.

The estimation process supported the carrying amounts recognized at December 31, 2018. The valuation exercise proved to be especially complex in view of the persistent adverse macroeconomic and market conditions, characterized by volatility in key financial parameters used in the valuation and by the deterioration of credit quality.

The parameters and the other information used in verifying the carrying amounts were therefore substantially impacted by those factors, which could undergo rapid changes that cannot currently been foreseen, making it impossible to rule out consequent effects of the future values of those items.

The estimates and assumptions are reviewed regularly. Any changes made as a result of such reviews are recognized in the period in which the review was conducted where such review involved only that period. Where the review affects both current and future periods, any changes are recognized in the period in which the review was conducted and in the related future periods.

Content of the financial statements

BALANCE SHEET AND INCOME STATEMENT

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

STATEMENT OF COMPREHENSIVE INCOME

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

STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity shows the composition and movements of equity accounts during the reference period and the previous period, broken down by share capital (ordinary and savings shares), capital reserves, earning reserves, valuation reserves for assets or liabilities and the net profit (loss) for the period. The value of any treasury shares is deducted from shareholders' equity. No equity instruments other than ordinary shares have been issued.

STATEMENT OF CASH FLOWS

The statements of cash flows for the present 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.

NOTES TO THE FINANCIAL STATEMENTS

The explanatory notes to the financial statements include the information required by international accounting standards and the Bank of Italy Circular no. 262/2005 – 5th update of December 22, 2017.

To provide as accurate a picture as possible, the titles of sections pertaining to items for which no figures have been reported for either the present period or the previous period are also included.

Section 3 - Events subsequent to the reporting date

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

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

Section 4 - Other information

CONSOLIDATED TAX MECHANISM OPTION

Iccrea Banca SpA and all the Group companies adopt 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.

APPLICATION OF IFRS 16 AS FROM JANUARY 1, 2019

With Regulation 2017/1986 the European Union endorsed IFRS 16 – Leases, which significantly modified the accounting treatment of leases, replacing the previous rules contained in IAS 17 – Leasing, IFRIC 4 - Determining whether an arrangement contains a lease, and SIC 15 – Operating leases – Incentives, SIC 27 – Evaluating the substance of transactions in the legal form of a lease. The application of the new standard will be mandatory as from annual reporting periods beginning on or after January 1, 2019.

As noted earlier, the new standard introduces a definition of a lease that does not depend on its contractual form (finance lease, operating lease, rental, hire contract, etc.), based on two main features: (i) the existence of an identified asset; (ii) the contractual right to (exclusive) control of the asset by the lessee. The standard then establishes – treating finance and operating leases in the same manner – the principles for the recognition, measurement and reporting of leases, as well as the additional disclosures to be provided in the financial statements of the lessor and the lessee.

From the lessee's perspective, the changes in the accounting treatment and presentation of leases, rental contracts and similar arrangements are significant.

The new standard requires lessees to:

- recognize in their balance sheets (i) a right of use asset that is subsequently depreciated; and (ii) a lease liability equal to the present value of the contractual cash flows;
- to break down in their income statements the overall cost represented by lease payments for assets held under operating leases into cost items representing the depreciation charge for the assets and interest expense on the lease liability, thereby modifying gross income and operating expenses and the allocating the overall cost of the transaction over the contractual term of the lease (owing to the recognition of the finance cost component of the contract).

From the lessor's perspective, the rules for accounting for lease set out in IAS 17 are substantially unchanged.

The standard permits application of one of the following two methods for the transition to the new rules:

- the full retrospective approach, i.e. full retrospective application to the previous year in compliance with IAS 8;
- the modified retrospective approach, i.e. retrospective application with recognition of the cumulative effect i reserves as from the date of initial application of the standard.

Where the second option is elected, IFRS 16 is applied retrospectively only to contracts that are still in force at the date of initial application (January 1, 2019).

In view of the foregoing, Iccrea Banca:

- elected the modified retrospective approach for the purposes of the transition, which does not require restatement of the comparative figures for 2018;
- analyzed the main types of contract that could be affected by the change;
- produced an initial estimate of the potential impact of the entry into force of the new standard, analyzing the information and data drawn from the affected contracts.

The assessment found that the main categories of asset affected by the provisions of the new standard are represented by leased buildings (notably the premises occupied by branches and ATMs), the rental of printers and other office equipment, personal computers, servers, smartphones/tablets, company cars and other vehicles and advanced ATMs.

In producing the initial impact assessment for the new standard, Iccrea Banca:

- retrospectively applied the standard, recognizing the cumulative effect of initial application at the date of initial application in compliance with paragraph C5 b) of IFRS 16 (the cumulative catch-up approach);
- recognized a right-of-use asset equal to the liability calculated as the present value of contractual cash flows;
- applied the following simplifications and practical expedients governed by the standard:
  - the exemption allowed for short-term contracts;
  - the exemption allowed for low-value contracts, setting a threshold of €5,000 per asset (value of the asset when new);
  - the exemption from IFRS 16 of leases of intangible assets other than those already excluded from the scope of application under paragraph 3 of the standard;
- treated the VAT component as an expense for the period;
- having verified the absence of implicit interest rates in the leases analyzed, for the purpose of the impact assessment quantified the IBR on the basis of the yield curve for covered bonds issued by Italian banks available from Bloomberg's BVAL service.

The assessment conducted by Iccrea Banca regarded lease contracts outstanding at December 2018 concerning:

- non-residential premises (e.g. branches, other offices, parking spaces)
- accommodations (e.g. apartments and other lodgings)
- vehicles
- IT equipment.

On the basis of the assumptions noted above and the exemptions that Iccrea Banca intends to apply, the estimated value of the impact is about €4.7 million.

Under prudential regulations, as long as Iccrea Banca continues to hold a right-of-use asset, that asset *(i)* shall not be deducted from regulatory capital; *(ii)* shall be included in the value of exposures and in the denominator of the leverage ratio, with a weight of 100%.

Essentially, all other conditions being equal, the impact on the CET1 ratio of Iccrea Banca is an increase in the denominator of the risk-based capital ratio, with a consequent reduction in the prudential capital ratios.

The estimated impact of the application of the coefficient of 8% to the value of "right-of-use" assets weighted at 100% is therefore €375 thousand.

DISCLOSURE REQUIREMENTS UNDER THE RULES GOVERNING GOVERNMENT GRANTS

Law 124/2017 "Annual Competition Act" introduced (Art. 1, paragraphs 125-129) new provisions to ensure the transparency of the system of government grants. This measure also introduces disclosure obligations for those who receive public funds, providing that firms that have received grants, contributions, paid positions or economic benefits of any kind from government entities and similar organizations must – as from the 2018 financial year – report the sums received in the notes to the separate financial statements and the consolidated financial statements.
Pending the necessary interpretative clarifications of the law, Assonime Circular no. 5 of February 22, 2019 excludes from the disclosure requirements amounts received in the context of a firm's business activities that are typical of the operations of the recipient, as well as those benefitting all firms in general, such as tax and social security relief measures.
In order to simplify compliance with the disclosure requirements for firms, Article 3-quater, paragraph 2, of Decree Law 135/2018 allows firms to make reference to the National Register of State Aid.
On the basis of the above, at the reporting date, grants received by Group companies in 2018 for training activities are publicly available in the National Register of State Aid in the total amount of €274 thousand.

OTHER ISSUES

The financial statements have been audited by E&Y S.p.A. which was engaged to perform statutory audit functions for the 2010-2018 period in implementation of the resolution of the Shareholders' Meeting of April 22, 2010.

A.2 - THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

This section sets out the accounting policies adopted in preparing the financial statements. The presentation of these accounting policies is broken down into stages – classification, recognition, measurement and derecognition - for the various asset and liability items. A description of the impact on profit or loss, where material, is provided for each stage.

Classification of financial assets

Financial assets are classified in the categories envisaged by IFRS 9 on the basis of both of the following elements:

- the business model used to manage the financial assets;
- the characteristics of the contractual financial flows of the financial asset (the "SPPI test").

If the business model is identified as hold to collect and the asset passes the SPPI test, the asset is recognized at amortized cost (AC).

If the business model is identified as hold to collect and sell and the asset passes the SPPI test, the asset is recognized at fair value through other comprehensive income (FVTOCI).

Finally, if the business model differs from those specified above or the asset does not pass the SPPI test in both of the two previous cases, the asset is recognized at fair value through profit or loss (FVTPL).

The business model

IFRS 9 identifies three different business models, which in turn reflect the ways in which financial assets are managed:

- "Hold to collect": this includes financial assets held with the objective of collecting contractual cash flows, retaining the financial instrument to maturity;
- "Hold to collect and sell": this includes financial assets held with the aim of both collecting contractual cash flows over the life of the assets and the proceeds from the sale of those assets;
- "Other": this is a residual business model that includes financial instruments that cannot be classified in the previous categories, mainly represented by financial assets held for the purpose of generating cash flows through sale.

The business model does not depend on management's intentions for each individual instrument, but is determined at a higher level of aggregation. It is therefore possible for an entity to adopt more than one business model in managing financial instruments, including in respect of the same financial asset. For example, a tranche of a security could be purchased as part of a hold to collect business model, while a second tranche of the same instrument could be acquired both to collect the contractual cash flows and to sell it (HTCS). The assessment of which business model has been adopted is based on reasonably possible scenarios and not on scenarios that unlikely to occur (such as "worst case" or "stress case" scenarios), taking account, among other things, of the way in which:

- the performance of the business model and the assets at initial recognition are evaluated by key management personnel;
- risks that impact the performance of the business model and the assets involved in initial recognition are managed;
- the managers of the business are remunerated.

From an operational point of view, the Iccrea Group identifies the business models used to manage financial assets in accordance with its own judgment, as governed by internal rules. The assessment is not determined by a single factor or activity, but rather by considering all the relevant information available at the assessment date, ensuring ongoing consistency with strategic and operational planning. In this sense, the business models of the Iccrea Group are identified on the basis of the granularity of the portfolio and the level of definition of the business, identifying key managers in accordance with the provisions of IAS 24, the nature of the products and type of underlying asset, the methods for evaluating performance and how these are reported to key management, the risks that impact

the business accounting model and how these risks are managed, manager remuneration arrangements and the volume of sales.

With specific reference to the "hold to collect" model, according to IFRS 9, the sale of a debt instrument or a loan does not itself determine the business model. In fact, an HTC business model does not necessarily imply that an instrument will be held to maturity and the standard itself offers examples of sales deemed admissible within this model. Accordingly, the 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:
  - 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 Iccrea 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 Iccrea Group has established guidelines for conducting the SPPI test, which represent the methodology adopted by the Group and reflected in its internal rules, so as to be able to represent the benchmark instrument for the performance of the testing by all the functions involved. In this context, with specific reference to the loan portfolio, these guidelines have been implemented in a tool within the Group's application systems that enables the benchmark test to be performed. With specific reference to the securities portfolio, on the other hand, the outcome of the test is provided by a leading sector info-provider, based on the guidelines and methods defined by the Group.

1 - Financial assets measured at fair value through profit or loss

CLASSIFICATION

This category includes financial assets, regardless of their technical form, which are not recognized under financial assets measured at fair value through other comprehensive income or financial assets measured at amortized cost. More specifically, the category comprises:

- financial assets held for trading, mainly represented by debt securities, equity instruments and the positive value of derivatives held for trading;
- financial assets designated as at fair value, i.e. financial assets so designated at the time of initial recognition and where the appropriate conditions are met. In particular, financial assets are designated as irrevocably measured at fair value through profit or loss if, and only if, doing so eliminates or significantly reduces an accounting mismatch;
- financial assets mandatorily measured at fair value, represented by financial assets that do not meet the requirements for measurement at amortized cost or at fair value through other comprehensive income. These comprise financial assets whose contractual terms do not provide for solely payments of principal and interest on the principal amount outstanding (i.e. that do not pass the SPPI test) or which are not held within the framework of a business model whose objective is the hold assets in order to collecting their contractual cash flows (the hold to collect business model) or to both collect the contractual cash flows and sell the financial assets (the hold to collect and sell business model).

The category therefore includes:

- debt securities and loans that are held as part of an "other" business model or that do not pass the SPPI test;
- equity instruments - that do not represent an interest in subsidiaries, associates or joint arrangements - held for trading or for which the option at the time of initial recognition to designate them as held at fair value through other comprehensive income was not exercised;
- units in collective investment undertakings and derivative instruments.

With regard to derivatives, this item also includes derivatives embedded in a financial liability or in a non-financial contract (the “host contract”). The combination of a host contract and the embedded derivative is a hybrid instrument. In this case the embedded derivative is separated from the host contract and recognized as a derivative if:

- the economic characteristics and risks of the embedded derivative are not closely related to the characteristics of the host;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

Reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity’s senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the entity’s operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line.

The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk.

RECOGNITION

Debt and equity securities are initially recognized at the settlement date, while derivative contracts are recognized at the trade date. Financial assets are initially recognized at fair value, which is usually the amount paid or received. Where the price is different from the fair value, the financial asset is recognized at its fair value and the difference between the two amounts is recognized through profit or loss.

MEASUREMENT

Financial assets measured at fair value through profit or loss are measured at fair value following initial recognition. The effects of the application of this treatment are recognized through profit or loss.

For financial instruments listed on active markets, the fair value of financial assets or liabilities is determined on the basis of the official prices at the reporting date. For financial instruments that are not listed on active markets, including equity instruments, fair value is determined using valuation techniques and observable market data, such as: the price of listed instruments with similar features, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions.

With specific regard to equity instruments not listed on an active market, cost is used as an estimate for fair value only in rare cases in a limited number of circumstances, i.e. where cost represents the best estimate of fair value among a wide range of fair values, making cost the most significant value, or in cases in which the valuation techniques referred to above are not applicable.

DERECOGNITION

Financial assets measured at fair value through profit or loss are derecognized when the contractual rights to the cash flows expire, or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Finally, financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to third parties.

RECOGNITION OF INCOME COMPONENTS

The results of the measurement of financial assets held for trading are recognized through profit or loss. Dividends from equity instruments held for trading are recognized through profit or loss when the right to receive payment is established.

2 - Financial assets measured at fair value through other comprehensive income

CLASSIFICATION

This category includes financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

The category also includes capital instruments not held for trading for which the option was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income.

Specifically, the item includes:

- loans and debt securities held with a “hold to collect and sell” business model that pass the SPPI test;
- equity interests - that do not represent an interest in subsidiaries, associates or joint arrangements – not held for trading for which the option was exercised at the time of initial recognition to designate them as

held at fair value through other comprehensive income. This includes equity investments intended to strengthen the Group's commercial presence and extend its reach into business areas in which it is not present. Similarly, this option is exercised for equity instruments that have been acquired for strategic and institutional purposes and are therefore held with no intention of selling them in the short term, representing instead a medium/long-term investment.

Reclassifications are only allowed following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity's senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line. The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at fair value through other comprehensive income to the category of financial assets measured at amortized cost, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. In the event of reclassification to financial assets measured at fair value through profit or loss, the cumulative gain or loss previously recognized in other comprehensive income is recognized though profit or loss.

RECOGNITION

Financial assets measured at fair value through other comprehensive income are initially recognized at the settlement date for debt or equity securities and at the disbursement date for loans.

Financial assets are initially recognized at fair value, which is generally the amount paid or received. Where the price is different from the fair value, the financial asset is recognized at its fair value and the difference between the two amounts is recognized through profit or loss. The initial recognition value includes direct transaction costs or revenue determinable at the recognition date, even if settled at a later time.

MEASUREMENT

Following initial recognition, financial assets measured at fair value through other comprehensive income, other than equity instruments, are measured at fair value, with the value corresponding to the amortized cost recognized in the income statement. Gains and losses from changes in the fair value are recognized in a special equity reserve until the asset is derecognized or they incur an impairment loss. Upon disposal or the recognition of an impairment loss, the cumulative gain or loss recognized in the equity reserve is reversed to profit or loss.

Equity instruments classified in this category are measured at fair value through other comprehensive income. Unlike other instruments classified here, however, those amounts are not subsequently transferred to profit or loss, even if the instruments are sold (no recycling). Accordingly, the only element associated with the equity instruments recognized through profit or loss is any associated dividends.

Fair value is determined using the criteria adopted for financial assets measured at fair value through profit or loss.

Financial assets measured at fair value through other comprehensive income represented by debt securities are assessed for any significant increase in credit risk (impairment) like assets measured at amortized cost, with the consequent recognition through profit or loss of a provision to cover expected loss. More specifically, if at the measurement date no significant increase in credit risk is found compared with the date of initial recognition (stage 1), the 12-month expected loss is recognized. Conversely, the lifetime expected loss is recognized for performing instruments whose credit risk has increased significantly since initial recognition (stage 2) and for impaired exposures (stage 3). Equity instruments do not undergo impairment testing.

DERECOGNITION

Financial assets measured at fair value through other comprehensive income are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

RECOGNITION OF INCOME COMPONENTS

Gains and losses from changes in fair value are recognized in a specific equity reserve until the asset is derecognized. The amortized cost of assets measured at fair value through other comprehensive income is recognized through profit or loss. The equity reserve representing the cumulative changes in the fair value of equity instruments for which the option to irrevocably designate the instrument as at fair value through other comprehensive income was exercised is not reversed through profit or loss even when the asset is derecognized, while dividends in respect of such instruments are recognized through profit or loss.

In addition to recognizing impairment losses, the cumulative gains and losses recognized in other comprehensive income are recognized through the income statement under item 100 ("Gain (loss) on disposal of financial assets measured at fair value through other comprehensive income") at the time the asset is disposed of. Dividends on an equity instrument are recognized through profit or loss when the right to receive payment is established.

3 - Financial assets measured at amortized cost

CLASSIFICATION

This category comprises financial assets such as loans and debt securities held within a business model whose objective is achieved by collecting contractual cash flows on a financial asset ("hold to collect" business model) 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).

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 entity's operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line. The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at amortized cost to the category of financial assets measured at fair value through other comprehensive income, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income. In the event of reclassification to financial assets measured at fair value through profit or loss, the gain or loss is recognized though profit or loss.

RECOGNITION

Financial assets are initially recognized at the settlement date for debt securities and at the disbursement date for loans. The initial amount recognized is equal to the amount disbursed or subscription price, including costs and revenue directly attributable to the transaction and determinable from the inception of the transaction, even if settled at a later time. The initially recognized amount does not include costs to be reimbursed by the debtor or that can be characterized as normal administrative overhead costs.

The initial recognition amount of loans disbursed at non-market conditions is equal to the fair value of the loans, determined using valuation techniques. The difference between the fair value and the amount disbursed or the subscription price is recognized through profit or loss.

Securities repurchase transactions are recognized as funding or lending transactions. Transactions involving a spot sale and a forward repurchase are recognized as payables in the amount received spot, while those involving a spot purchase and a forward sale are recognized as receivables in the amount paid spot.

Transactions with banks through correspondent accounts are recognized at the time of settlement and, therefore, these accounts are adjusted for all non-liquid items regarding bills and documents received or sent registered as 'subject to collection' or after actual collection.

Where, in the event of unusual circumstances, the assets are recognized in this category following reclassification form financial assets available for sale or from financial assets held for trading, the fair value of the assets at the date of reclassification shall be deemed to be the new amortized cost of the assets.

MEASUREMENT

Subsequent to initial recognition, financial assets are measured at amortized cost, using the effective interest rate method. The amortized cost equals the amount at which a financial asset is measured at initial recognition decreased by principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, minus any reduction (directly or through the use of a provision) due to impairment or non-recoverability.

In certain cases, a financial asset may be considered impaired at initial recognition because its credit risk is very high and, in the case of a purchase, is acquired at a large discount to its value at initial issue.

Amortized cost is not used for very-short-term loans, loans without a specified maturity or revocable loans, for which the impact of this method can be considered not material. These positions are measured at cost.

The measurement effects strictly consider the three different credit risk stages provided for in IFRS 9. The stages can be summarized as follows:

- stage 1 and 2 including performing financial assets;
- stage 3 including impaired financial assets.

With regard to the presentation of measurement effects in the accounts, value adjustments of this type of asset are recognized through profit or loss:

- at the time of initial recognition in an amount equal to 12-month expected credit losses;
- at the time of subsequent measurement of the asset where credit risk has not increased significantly since initial recognition in an amount equal to the change in the loss allowance for 12-month expected credit losses;
- at the time of subsequent measurement of the asset where credit risk has increased significantly since initial recognition in an amount equal to the loss allowance for lifetime expected credit losses;
- at the time of subsequent measurement of the asset where credit risk has increased significantly since initial recognition but the increase is no longer "significant" in an amount equal to the adjustment of the cumulative loss allowances to take account of the transition from lifetime expected credit losses to 12-month expected credit losses.

Financial assets recognized in this category are tested for impairment periodically and in any event at the close of each reporting period in order to determine any value adjustments to be recognized at the level of individual loans (or tranches of a security) as a function of the risk parameters represented by Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD), appropriately modeled to take account of the provisions of IFRS 9. The amount of the value adjustment recognized through profit or loss therefore takes into consideration so-called forward-looking information and possible alternative recovery scenarios. If, in addition to a significant increase in credit risk, financial assets show objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the assets (classified as "impaired") and the present value of estimated future cash flows, discounted at the original effective interest rate of the financial assets. The assessment of the impairment loss and the consequent amount to be recognized in profit or loss is conducted on an individual basis or determined by creating groups of positions with a uniform risk profile.

Non-performing loans, unlikely-to-pay positions, restructured exposures and past-due or over-limit exposures are considered impaired in accordance with the applicable rules of the Bank of Italy, consistent with the IAS/IFRS and European supervisory regulations.

Measurement of the financial assets takes account of the best estimate of expected future cash flows in respect of principal and interest payments. Also taken into consideration is the realizable value of any guarantees excluding recovery costs, recovery times estimated based on contractual maturities, if any, and on reasonable estimates in the absence of contractual provisions, and the discount rate, which is the original effective interest rate. For impaired positions at the transition date, where determining this figure would be excessively

burdensome, the Bank has adopted reasonable estimates, such as the average rate of loans for the year in which the loan was first classified as a bad debt, or the restructuring rate.

If the reasons for the impairment should cease to obtain following an event that occurred subsequent to the recognition of the impairment loss, a writeback is taken to profit or loss. The value of the financial asset after the writeback shall not exceed the amortized cost that the instrument would have had in the absence of the prior writedown. See the section on procedures for determining impairment for more information.

Where these financial assets are classified as measured at amortized cost or at fair value through other comprehensive income, they are classified as "purchased or originated credit impaired" ("POCI") and receive special treatment in terms of impairment, with the recognition of lifetime expected credit losses. In addition, the credit-adjusted effective interest rate is calculated for financial assets identified as POCIs at initial recognition. This rate reflects initial expected losses in estimating cash flows. In using amortized cost method, and the consequent calculation of interest, therefore, this credit-adjusted effective interest rate is therefore used.

DERECOGNITION

Financial assets measured at fair value through other comprehensive income are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to determine whether substantially all the risks and rewards have been transferred, the financial assets are derecognized if no form of control over it is retained. Conversely, where even a portion of control is retained, the asset continues to be recognized to the extent of the continuing involvement in the asset, measured by the exposure to changes in value of the transferred assets and changes in their cash flows.

Transferred financial assets are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

In certain cases, during the course of the life of financial assets, in particular loans, the terms of the contract may be modified from those in force at the time of initial recognition. In these circumstances, the modified terms must be analyzed to determine whether the original assets can continue to be recognized or must instead be derecognized, with the consequent recognition of new modified financial assets. In general, modifications of contractual terms lead to the derecognition of the financial asset and the recognition of a new asset when they are considered to be "substantial". In conducting this assessment, qualitative judgments are called for. To this end, the assessment shall consider:

- the reasons for the modifications, distinguishing, for example, between renegotiations carried out for commercial reasons or in response to the counterparty's financial difficulties:
  - transactions carried out with performing counterparties for reasons other than debtor's financial difficulties, and therefore not related to a change in the creditworthiness of the borrower, are considered commercial renegotiations, which have the main objective of adjusting the cost of credit to market conditions. These cases include all renegotiations aimed at maintaining the commercial relationship with the client, and are therefore carried out with the aim of retaining the counterparty, who might otherwise turn to another bank. In this case, these modifications are considered substantial because if they did not occur, the customer could turn to another financial institution, thus causing the bank to lose future revenue;
  - transactions whose objective is to maximize the recoverable value of the loan are considered renegotiations due to financial difficulties of the counterparty, with the creditor therefore willing to accept a restructuring of the debt on terms potentially favorable to the debtor. In these circumstances, it is generally assumed that there has essentially been no extinguishment of the original cash flows that would therefore require derecognition of the original loan. Consequently, these types of renegotiation represent the majority of cases presented in the financial statements through "modification accounting", in which the difference between the carrying amount and the recalculated value of the financial asset is recognized in profit or loss by discounting the renegotiated or modified cash flows at the original effective interest rate;

- the presence of specific objective elements that substantially modify the characteristics and/or cash flows of the financial instrument, such that they would entail the derecognition of the instrument and the consequent recognition of a new financial asset. This includes, for example, the introduction of new

contractual terms that would cause the asset to fail the SPPI test or a change in the denomination of the currency of the instrument, as the entity would be exposed to a new risk.

RECOGNITION OF INCOME COMPONENTS

Gains or losses in respect of financial assets measured at amortized cost are recognized through profit or loss at the time the assets are derecognized or they incur an impairment loss, as well as through the process of amortization of the difference between the carrying amount and the amount repayable at maturity.

4 - Hedging

The Iccrea Banking Group has elected to exercise the option to continue to apply the rules provided for in IAS 39 governing hedge accounting (the “opt-out” option).

CLASSIFICATION

Risk hedging transactions are intended to neutralize the potential losses recognized on a given element or group of elements attributable to a given risk in the event that risk should actually be realized.

The types of hedges used are as follows:

- fair value hedges, which are intended to hedge the exposure to changes in the fair value (due to the various types of risk) of assets and liabilities or portions of assets and liabilities, groups of assets and liabilities, irrevocable commitments and portfolios of financial assets and liabilities as permitted under IAS 39 as endorsed by the European Commission;
- cash flow hedges are intended to hedge the exposure to changes in the future cash flows attributable to specific risks associated with items. This type of hedge is essentially used to stabilize interest flows on variable-rate funding to the degree that the latter finances fixed-rate lending. In some circumstances, analogous transactions are carried out for certain types of variable-rate lending;

Only instruments that involve a non-Group counterparty can be designated as hedging instruments.

The items “hedging derivatives” among assets and liabilities include the positive and negative values of derivatives that are part of effective hedging relationships.

RECOGNITION

Hedging derivatives and the hedged financial assets and liabilities are reported in accordance with hedge accounting rules. Where there is formal documentation of the relationship between the hedged item and the hedging instrument, a hedge is considered effective if, at inception and throughout its life, the changes in the fair value of the hedged item or the related expected cash flows are almost entirely offset by those of the hedging instrument.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Hedging derivatives are measured at fair value.

More specifically:

- in the case of fair value hedges, the change in the fair value of the hedged item is offset with the change in the fair value of the hedging instrument: this offsetting is effected by recognizing the changes in value through profit or loss, both for the hedged item (as regards changes produced by the underlying risk factor) and for the hedging instrument; any difference between the two changes, which represents the partial ineffectiveness of the hedge, represents the net impact in profit or loss;
- in the case of cash flow hedges, changes in the fair value of the derivative are recognized through equity in the amount of the effective portion of the hedge. They are recognized through profit or loss only when the change in cash flows in respect of the hedge item actually occurs or if the hedge is ineffective.

The derivative is designated as a hedging instrument where there is formal documentation of the relationship between the hedged item and the hedging instrument and if it the hedge is effective at the moment of inception and throughout its life.

The effectiveness of a hedge depends on the extent to which changes in the fair value of the hedged item or the associated cash flows are offset by those of the hedging instrument. Accordingly, effectiveness is determined taking account of those changes, taking account of the intentions of the entity at the time the hedge is established.

A hedge is deemed effective when the changes in fair value (or in cash flows) of the hedging instrument nearly entirely offset (i.e. within a range of 80-125%) changes in the hedged instrument for the risk factor being hedged.

Effectiveness is measured at every reporting date through:

- prospective tests, which justify the use of hedging accounting, as they demonstrate the hedge's expected effectiveness;
- retrospective tests, which indicate the level of effectiveness of the hedge achieved in the period under review, measuring the difference between actual results and theoretical results (perfect hedges).

If the tests do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the above criteria, the hedging derivative is reclassified as a trading instrument and the hedged financial instrument is measured using the criteria normally adopted for instruments of its category. If the tests carried out do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the criteria set out in this section, the accounting policies envisaged for the category to which the derivative belongs are applied, and the derivative is reclassified as a trading instrument. Subsequent changes in fair value are recognized in the income statement. For cash flow hedges, if the hedged transaction is no longer expected to be carried out, the cumulative gain or loss recognized in the equity reserve is reversed through profit or loss.

5 - Equity investments

CLASSIFICATION

The item includes equity investments in subsidiaries, associates and joint ventures.

IFRS 10 establishes that, in order to have control, the investor must have the ability to direct the relevant activities of the entity, by virtue of a legal right or a mere state of fact, and must also be exposed to the variability of the returns deriving from that power.

Under the standard, the requirement of control is met when an investor simultaneously has:

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

Joint control is the contractually agreed sharing of control of an arrangement. Associates comprise companies in which an entity holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Group exercises a significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control. Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IAS 39, as provided for financial instruments.

In determining the nature of the equity interest, only elements present at the level of the separate financial statements are considered (percentage holding, actual and potential voting rights, situations of de facto significant influence). Equity interests in subsidiaries, joint ventures and associates held for sale are reported separately in the financial statements as a disposal group and are measured at the lower of the carrying amount and the fair value excluding disposal costs.

RECOGNITION

Equity investments are initially recognized at cost at the settlement date including costs and revenue that are directly attributable to the transaction.

MEASUREMENT

Investments in subsidiaries, associates and joint ventures are measured at cost. Where there is evidence that the value of an equity investment may be impaired, its recoverable value is determined, taking account of both its market value and the present value of future cash flows. If this value is lower than the carrying amount, the difference is recognized through profit or loss as an impairment loss.

IMPAIRMENT TESTING OF EQUITY INVESTMENTS

As required by the IFRS, if there is evidence (triggers) of possible impairment, equity investments undergo impairment testing to determine whether there is objective evidence that the carrying amount of such assets is not fully recoverable and to determine the amount of any writedown.

Impairment indicators are essentially divided into two categories:

- qualitative indicators, such as the posting of losses or in any case a significant divergence with respect to budget targets or the objectives set out in the long-term plans announced to investors, the announcement/start of composition with creditors or restructuring plans, and the downgrading by more than two grades of the rating issued by a specialist agency;
- quantitative indicators consisting of a reduction in fair value below the carrying amount of over 30%, or for a period of more than 24 months, or a carrying amount for the equity investment in the separate financial statements greater than the carrying amount in the consolidated financial statements of the company's net assets and goodwill, or the distribution by the latter of a dividend greater than its comprehensive income. In the presence of evidence of impairment, the size of any writedown is determined on the basis of the difference between the carrying amount and the recoverable value, which is equal to the greater of fair value less costs to sell and the value in use.

DERECOGNITION

Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IAS 39, as provided for financial instruments.

Equity investments are derecognized when the contractual rights to the cash flows from the assets expire or when substantially all the risks and rewards connected with ownership of the equity investment are transferred.

RECOGNITION OF INCOME COMPONENTS

Dividends received from equity investments measured at cost are recognized in profit or loss when the right to receive the payment is established. Impairment losses on subsidiaries, associates and joint arrangements measured at cost are recognized in profit or loss. If the reasons for the impairment should cease to obtain following an event that occurred subsequent to the recognition of the impairment loss, a writeback is taken to profit or loss.

6 - Property and equipment

CLASSIFICATION

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

RECOGNITION

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

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

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

This item also includes assets held under finance leases for which substantially all the risks and rewards of ownership have been assumed. These assets are initially recognized at a value equal to the lesser of the fair value and the present value of the minimum payments provided for under finance lease. This amount is subsequently subject to depreciation.

MEASUREMENT

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

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

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

DERECOGNITION

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

RECOGNITION OF INCOME COMPONENTS

Depreciation is recognized through profit or loss. If there is evidence of possible impairment of the asset, the asset's carrying amount is compared against its recoverable value, which is equal to the greater of the value in use of the asset, meaning the present value of future cash flows originated by the asset and its fair value, net of any disposal costs. Any negative difference between the carrying amount and the recoverable value is recognized in the income statement. If the reasons for the impairment should cease to obtain, a writeback is recognized in the income statement. The carrying amount following the writeback shall not exceed the value that the asset would have had, net of depreciation, in the absence of the prior writedowns.

7 - Intangible assets

CLASSIFICATION

Intangible assets are recognized as such if they are identifiable and are based on legal or contractual rights. They include application software.

RECOGNITION

Intangible assets are recognized at cost, adjusted for any incidental expenses, only if it is probable that the future economic benefits attributable to the asset will be realized and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognized in the income statement in the period in which it is incurred.

Intangible assets may be recognized in respect of goodwill arising from business combinations (purchases of business units). The goodwill recognized in business combinations that have occurred subsequent to January 1, 2004, is recognized in an amount equal to the positive difference between the fair value of the assets and liabilities acquired and the purchase price of the business combination, including ancillary costs, if that positive difference represents future economic benefits. The difference between the purchase price of the business combination and the fair value of the assets and liabilities acquired is recognized through profit or loss if it is negative or if it does not represent future economic benefits. Goodwill in respect of business combinations carried out prior to the date of transition to the IFRS are measured on a cost basis and represent the same value as that given using Italian GAAP.

MEASUREMENT

Intangible assets recognized at cost are amortized on a straight-line basis over the estimated remaining useful life of the asset, which for applications software does not exceed 5 years. Goodwill is not amortized and is tested for impairment at the reporting date.

DERECOGNITION

Intangible assets are derecognized upon disposal or when no future economic benefits are expected to be generated by the use or disposal of the asset.

RECOGNITION OF INCOME COMPONENTS

Amortization is recognized through profit or loss. Where there is evidence of possible impairment of the asset, the asset is tested for impairment. Any difference between its carrying amount and recoverable value is recognized in profit or loss. If the reasons for the impairment of intangible assets other than goodwill should cease to obtain, a writeback is recognized in the income statement. The value of the asset after the writeback shall not exceed the value that the asset would have had, net of amortization, in the absence of the prior writedowns for impairment.

8 - Non-current assets and liabilities and disposal groups held for sale

CLASSIFICATION

Non-current assets and disposal groups 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 the their sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The Group must be committed to the sale, which must be expected to be completed within one year of classification as held for sale.

RECOGNITION

Non-current assets and disposal groups held for sale are valued at the lower of their carrying amount and their fair value less costs to sell.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Following initial recognition in this category, the assets are measured at the lower of their carrying amount and their fair value less costs to sell, with the exception of assets that IFRS 5 requires be measured using the provisions of the relevant accounting standard (for example, financial assets within the scope of IFRS 9). If the assets held for sale can be depreciated, any such depreciation ceases upon classification to non-current assets held for sale. Non-current assets and disposal groups held for sale, as well as “discontinued operations”, and the associated liabilities are reported under specific items of assets (“Non-current assets and disposal groups held for sale”) and liabilities (“Liabilities associated with disposal groups held for sale”).

The results of the measurement, income, expenses and gains/losses upon disposal (net of any tax effect), of “discontinued operations” are reported in the income statement under “Profit (loss) after tax of disposal groups held for sale”.

DERECOGNITION

Non-current assets and disposal groups held for sale are derecognized upon disposal.

9 - Current and deferred taxation

CLASSIFICATION

Income taxes, which are calculated on the basis of national tax law, are accounted for as a cost on an accruals basis, in line with the recognition of the costs and revenue that gave rise to the tax liability. They therefore represent the balance of current taxes and deferred taxes in respect of income for the year. Current tax assets and liabilities report the net tax positions of the 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.

Taking account of the adoption of the national consolidated taxation mechanism by the Group, the tax positions of Iccrea Banca SpA and those of other Group companies are managed separately for administrative purposes.

Deferred taxation is determined using the balance sheet liability method, taking account of the tax effect of temporary differences between the carrying amount of assets and liabilities and their value for tax purposes, which will give rise to taxable or deductible amounts in future periods. To that end, “taxable temporary differences” are those that in future periods will give rise to taxable amounts and “deductible temporary differences” are those that in future periods will give rise to deductible amounts.

Deferred tax is calculated by applying the tax rates established in applicable tax law to taxable temporary differences for which it is likely that a tax charge will be incurred and to deductible temporary differences for which it is reasonable certain there were be future taxable income at the time they become deductible (the probability test). Deferred tax assets and liabilities in respect of the same tax and reversing in the same period are offset.

RECOGNITION AND MEASUREMENT

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

In cases where the deferred tax assets and liabilities regard transactions that directly impact equity with no effect on profit or loss (such as adjustments on first-time adoption of the IAS/IFRS, measurement of financial instruments available for sale or cash flow hedge derivatives), they are recognized in equity, under specific reserves where required (i.e. the valuation reserves).

The potential taxation in respect of items on which taxation has been suspended that will be “taxed in the event of any use” is recognized as a reduction in equity. Deferred taxes in respect of revaluations prompted by conversion of amounts to the euro that were directly allocated to a specific reserve under Article 21 of Legislative Decree 213/98 on a tax-suspended basis are recognized as a reduction of that reserve. The potential taxation in respect of items that will be taxed “only in the event of distribution” is not recognized as the amount of available reserves that have already been taxes is sufficient to conclude that no transactions will be carried out that would involve their taxation.

Deferred taxation in respect of companies participating in the consolidated taxation mechanism is recognized in their financial statements on an accruals basis in view of the fact that the consolidated taxation mechanism is limited to settlement of current tax positions.

The potential taxation of components of the equity of the consolidated companies is not recognized where the circumstances that would give rise to their taxation are not considered likely to arise, taking due consideration of the lasting nature of the investment.

The value of deferred tax assets and liabilities is reviewed periodically to take account of any changes in legislation or in tax rates.

RECOGNITION OF INCOME COMPONENTS

Income taxes are recognized through profit or loss, with the exception of those debited or credited directly to equity. Current income taxes are calculated based on taxable income for the period. Current tax payables and receivables are recognized at the value that payment to or recovery from the tax authorities is expected by applying current tax rates and regulations. Deferred income tax assets and liabilities are calculated, using expected tax rates, on the basis of temporary differences between the value attributed to the assets and liabilities in the financial statements and the corresponding values recognized for tax purposes.

10 - Provisions for risks and charges

Provisions for commitments and guarantees issued

This sub-item reports provisions estimated in respect of the credit risk on commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules for calculating expected losses in accordance with IFRS 9. In principle, these cases use the same methods for allocation to the three risk stages and the calculation of expected losses that are adopted for financial assets measured at amortized cost or at fair value through other comprehensive income.

This sub-item also includes are provisions for other types of commitments and guarantees issued that, on the basis of their characteristics, do not fall within the scope of application of impairment in accordance with IFRS 9.

Other provisions for risks and charges

RECOGNITION AND CLASSIFICATION

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

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

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

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

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

DERECOGNITION

Provisions are only used when the charges for which they were originally established are incurred. When the use of resources to fulfil the obligation is no longer deemed to be probable, the provision is reversed through profit or loss.

11 – Financial liabilities measured at amortized cost

CLASSIFICATION

Financial liabilities measured at amortized cost include amounts due to banks and customers and securities issued not held for trading in the short term, comprising all technical forms of interbank and customer funding and funding through certificates of deposit and outstanding bond issues, excluding any amounts repurchased.

RECOGNITION

The liabilities are initially recognized at fair value, which is normally equal to the amounts received or the issue price, plus or minus any additional costs or revenue directly attributable to the transaction that are not reimbursed by the creditor. Internal administrative costs are excluded.

Financial liabilities issued on non-market terms are recognized at estimated fair value and the difference with respect to the amount paid or the issue price is taken to the income statement.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Following initial recognition, these liabilities are measured at amortized cost using the effective interest rate method, excluding short-term liabilities, which are recognized in the amount received in keeping with the general principles of materiality and significance. See to the section on assets measured at amortized cost for information on the criteria for determining amortized cost.

In addition to cases of extinguishment and expiration, financial liabilities are derecognized when previously issued securities are repurchased. In this case, the difference between the carrying amount of the liability and the amount paid to repurchase it is recognized in the income statement. If the repurchased security is subsequently placed again on the market, this is treated as a new issue and is recognized at the new placement price, with no impact on the income statement.

DERECOGNITION

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

12 – Financial liabilities held for trading

CLASSIFICATION

The item reports the negative value of trading derivatives that are not part of hedging relationships as well as the negative value of embedded derivatives to be separated from hybrid instruments. Liabilities deriving from short positions in by securities trading activities are recognized under “Financial liabilities held for trading”.

RECOGNITION

Debt and equity securities representing financial liabilities are initially recognized at the settlement date, while derivative contracts are recognized at the date they are signed. The financial liabilities are initially recognized at fair value, which generally equals the amount received.

In cases in which the amount paid differs from the fair value, the financial liability is recognized at fair value, and the difference between the amount paid and the fair value is recognized through profit or loss.

Derivative contracts embedded in other financial instruments or contracts and which have financial and risk characteristics that are not correlated with the host instrument or which meet the requirements to be classified themselves as derivative contracts, are recognized separately among financial liabilities held for trading if their

value is negative. This is not done in cases in which the compound instrument containing the derivative is measured at fair value through profit or loss.

MEASUREMENT

Subsequent to initial recognition, the financial liabilities are recognized at fair value. Refer to the section on measuring financial assets held for trading for information on determining the fair value.

DERECOGNITION

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

RECOGNITION OF INCOME COMPONENTS

Gains and losses from the measurement of financial liabilities held for trading are recognized through the income statement.

13 - Financial liabilities designated as at fair value

CLASSIFICATION

This item reports financial liabilities designated as at fair value through profit or loss under the option permitted to entities in IFRS 9 (the "fair value option"). More specifically, financial liabilities are irrevocably designated as at fair value through profit or loss if, and only if, doing so eliminates or significantly reduces an accounting mismatch or if they contain an embedded derivative.

RECOGNITION

Financial liabilities at fair value through profit or loss are initially recognized at the issue date at their fair value, which normally corresponds to the price paid. If the price is different from the fair value, the financial liability is recognized at its fair value and the difference between the price and the fair value is recognized in the income statement.

MEASUREMENT

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

- if the change in fair value is attributable to a change in the credit risk of the liability, it shall be recognized in other comprehensive income (equity);
- all other changes in fair value shall be recognized through profit or loss.

The amounts recognized in equity are not subsequently reversed to profit or loss. Pursuant to IFRS 9, this accounting method shall not be applied if would create or enlarge an accounting mismatch in the income statement. In this case, the gains or losses related to the liability falling under this item shall be recognized through profit or loss. With regard to the criteria for determining fair value, please see the section on the measurement of financial liabilities held for trading.

DERECOGNITION

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

RECOGNITION OF INCOME COMPONENTS

The result of measurement is recognized through profit or loss.

14 – Foreign currency transactions

RECOGNITION

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

MEASUREMENT

At the reporting date, foreign currency items are measured as follows:

- monetary items are translated at the exchange rate prevailing at the reporting date;
- non-monetary items measured at historic cost are translated at the exchange rate prevailing at the transaction date;
- non-monetary items measured at fair value are translated using the exchange rate prevailing at the reporting date.

RECOGNITION OF INCOME COMPONENTS

Exchange rate differences in respect of monetary and non-monetary items measured at fair value are recognized through profit or loss under item 80 “Net gain (loss) on trading activities”. If the asset is classified as available for sale, exchange rate differences are allocated to valuation reserves.

Exchange rate differences resulting from the settlement of monetary items or from the translation of monetary items at exchange rates other than the initial translation rate, or the translation of previous financial statements, are recognized through profit or loss in the period in which they emerge.

When gains or losses relating to a non-monetary item are recognized in equity, the exchange rate difference for the item is also recognized in equity. Likewise, when a gain or less is recognized through profit or loss, the corresponding exchange rate difference is also recognized through profit or loss.

15 – Other information

Employee termination benefits

Following the reform of supplementary pension schemes introduced by Legislative Decree 252 of December 5, 2005, changes were made to the way in which employee termination benefits are recognized. The portion of termination benefits accrued through December 31, 2006 is treated as a defined-benefit plan, since the company is required under law to pay the employee an amount determined pursuant to Article 2120 of the Italian Civil Code. The change with respect to the situation prior to December 31, 2006 relates to the actuarial assumptions of the model, which must incorporate the rate of salary increases provided for by Article 2120 of the Civil Code (application of a rate equal to 1.5% plus 75% of the change in the ISTAT inflation index) and not that estimated by the company. As a result, the termination benefit provision at December 31, 2006 was measured using the new model, which no longer takes account of a number of variables such as the average annual rate of salary increases, pay grades based on seniority, and the percentage increase in salary due to promotion.

The portion of termination benefits accrued from January 1, 2007 allocated to a supplementary pension scheme or to the treasury fund managed by INPS (Italy’s National Social Security Institute) are treated as a defined-contribution plan since the company’s obligation towards the employee ceases upon transfer of the portions accrued to the fund.

Therefore, starting January 1, 2007, the Bank:

- continues to recognize the obligation accrued at December 31, 2006 in accordance with the rules for defined-benefit plans. It shall measure the obligation for benefits accrued by employees using actuarial techniques and shall calculate the total amount of actuarial gains and losses and the portion of these to be recognized in accordance with IAS 19 Revised.
- recognizes the obligation for portions accrued starting January 1, 2007, payable to a supplementary pension scheme or to the treasury fund managed by INPS, on the basis of the contributions owed in each period, as a defined contribution plan. More specifically, in the case of termination benefits payable to a supplementary pension scheme that treatment begins at the time of the choice or, if the employee does not exercise any option, as from July 1, 2007.

Recognition of revenue

Revenue is recognized when realized or, in the case of the sale of goods or services, in relation to the extent to which the performance obligation has been satisfied, as specified below.

Specifically:

- interest is recognized on an accruals basis using the contractual interest rate or the effective interest rate where the amortized cost method is applied;
- default interest, if any, is recognized through profit or loss only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;
- commissions for revenue from services are recognized in relation to the effective provision of the services to a customer, as discussed in greater detail below;
- revenue from the placement of funding instruments, calculated on the basis of the difference between transaction price and the fair value of the financial instrument, are recognized in the income statement when the transaction is recognized if the fair value can be determined with reference to parameters or transactions recently observed in the same market in which the instrument is traded. If these amounts cannot be easily determined or the instrument is not highly liquid, the financial instrument is recognized in an amount equal to the transaction price, excluding the commercial margin. The difference between this amount and the fair value is taken to profit or loss over the duration of the transaction through the gradual reduction in the valuation model of the corrective factor reflecting the reduced liquidity of the instrument;
- revenue from the sale of non-financial assets are recognized at the time the performance obligation is satisfied with the transfer of the asset, i.e. when the customer obtains control of the asset.

The recognition of certain types of revenue has become a significant issue since the adoption, with effect from January 2018, of IFRS 15 - Revenue from contracts with customers, which was endorsed with the publication of Regulation no. 1905/2016. Subsequently, in 2017, Regulation 1987/2017 was approved, introducing changes designed to clarify certain aspects and providing a number of operational simplifications of use during the transition phase.

The entry into force of the standard entailed the repeal of IAS 18 - Revenue and IAS 11 – Construction contracts, as well as the related interpretations.

The main new features are:

- the creation of a single framework for the recognition of revenue covering both the sale of goods and the provision of services;
- the adoption of a step approach;
- the introduction of a mechanism that enables the allocation of the total price of the transaction to the individual performance obligations (sale of goods and/or provision of services) included in the sale contract.

The standard introduces the following steps in the recognition of revenue:

- identification and analysis of the contract signed with the customer to identify the type of revenue. In some specific cases, multiple contracts may have to be combined and accounted for as a single contract;
- identification of the specific performance obligations in the contract. If the goods/services to be transferred are distinct, they qualify as performance obligations and are accounted for separately;

- determination of the transaction price, considering all the performance obligations in the contract. This price may be a fixed amount, but may sometimes include variable or non-monetary consideration;
- allocation of the transaction price to the performance obligations. The transaction price is allocated to the various performance obligations on the basis of the selling prices of each distinct good or service provided contractually. If it is impossible to determine the standalone selling price, it is necessary to estimate it. IFRS 15 specifies that the assessment must be carried out as from the start date of the contract (the inception date);
- recognition of revenue when the performance obligation is satisfied. Revenue is recognized following the satisfaction of the performance obligation to the customer, i.e. when the latter obtains control of the good or service. Some revenue is recognized at a point in time, while other is accrued over time. It is therefore necessary to identify the moment in which the performance obligation is satisfied. In the case of performance obligations satisfied over time, revenue is recognized over the reference period, selecting an appropriate method to measure the progress made towards complete satisfaction of the performance obligation.

Accruals and deferrals

Accruals and deferrals reporting costs and revenue accruing in the period on assets and liabilities are recognized as adjustments to the assets and liabilities to which they refer.

Expenditure for leasehold improvements

Expenses for refurbishments of buildings belonging to third parties that do not have an independent function or use are conventionally classified under “Other assets”; they are amortized over a period no greater than the term of the lease and the amortization charges are reported under other operating expenses.

IAS 39

The following discusses the accounting treatment for the previous year adopted under IAS 29 for the main items of the financial statements for 2017.

1 - Financial assets held for trading

CLASSIFICATION

This category includes financial assets, regardless of their technical form, held for short-term trading purposes. It includes derivatives with a positive value, including those resulting from the separation of embedded derivatives, that are not deemed to be effective for hedging purposes.

Reclassification to other categories of financial asset is not permitted except in the event of unusual circumstances that are unlikely to recur in the short term.

In these cases, debt and equity securities no longer held for trading may be reclassified to other categories envisaged by IAS 39 where the requirements for such recognition have been met (financial assets held to maturity, financial assets available for sale, loans and receivables). The transfer value is given by the fair value at the time of the reclassification. The presence of any embedded derivatives to be separated is assessed at the time of the reclassification.

RECOGNITION

Debt and equity securities are initially recognized at the settlement date, while derivative contracts are recognized at the date they are signed.

Financial assets held for trading 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.

Derivative contracts embedded in other financial instruments or contracts that have financial and risk characteristics that are not correlated with the host instrument or which meet the requirements to be classified independently as derivative contracts are recognized separately among financial assets held for trading, except in cases where the compound host instrument is measured at fair value through profit or loss.

After separating the embedded derivative, the host contract is then treated in accordance with the accounting rules for its category.

MEASUREMENT

Financial assets held for trading 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 observed at the balance sheet date. For financial instruments, including equity securities, that are not listed on active markets, fair value is determined using valuation techniques and market information, 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.

For equity securities, units in collective investment undertakings and derivative instruments with equities as underlyings not listed on an active market, if the fair value obtained using such valuation techniques cannot be reliably determined, the financial instruments are measured at cost.

DERECOGNITION

Financial assets held for trading are derecognized when the contractual rights to the cash flows expire, or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been

transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Finally, financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to third parties.

RECOGNITION OF INCOME COMPONENTS

The results of the measurement of financial assets held for trading are recognized through profit or loss. Dividends from equity instruments held for trading are recognized in the income statement when the right to receive payment accrues.

2 - Financial assets available for sale

CLASSIFICATION

This category includes financial assets, other than derivatives, that are not classified in the balance sheet as “financial assets held for trading”, “financial assets at fair value through profit or loss”, “financial assets held to maturity”, “due from banks” or “loans to customers”.

Specifically, the item includes: shareholdings not held for trading and not qualifying as a subsidiary, associate or joint venture, units in investment funds that are unlisted or listed but traded infrequently, specific bonds, identified on a case-by-case basis with respect to the purpose for which they are purchased/held.

In cases permitted by the applicable accounting standards, financial assets available for sale may only be reclassified to “financial assets held to maturity” except in the event of unusual circumstances that are unlikely to recur in the short term. Debt securities may be reclassified to other categories envisaged by IAS 39 (financial assets held to maturity, loans and receivables) where the requirements for such recognition have been met.

The transfer value is given by the fair value at the time of the reclassification.

RECOGNITION

Available-for-sale financial assets 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 revenues determinable at the recognition date, even if settled at a later time.

Where, in the cases permitted by the applicable accounting standards, the assets are recognized following reclassification from financial assets held to maturity or, in the event of unusual circumstances, from financial assets held for trading, the value at which they are recognized shall be their fair value at the time of the transfer.

MEASUREMENT

Following initial recognition, financial assets available for sale 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 the income statement.

Fair value is determined using the criteria adopted for financial assets held for trading.

Equity securities included in this category, the units of collective investment undertakings and derivatives on equity securities whose fair value cannot be determined reliably (they are not quoted on an active market) are carried at cost.

Available-for-sale financial assets are subject to impairment testing to determine whether there is objective

evidence of impairment. Where impairment is found, the amount of this loss is measured as the difference between the carrying value and the fair value.

Where the reasons for the impairment should cease to obtain subsequent to the recognition of the impairment loss, writebacks are recognized in the income statement for loans or debt securities and in an equity reserve in the case of equity instruments. The value of the asset after the writeback shall not in any event exceed the amortized cost that the instrument would have had in the absence of the prior writedown.

DERECOGNITION

Available-for-sale financial assets are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

3 - Financial assets held to maturity

CLASSIFICATION

This category comprises listed debt instruments with fixed or determinable payments and a fixed maturity for which the Bank has the positive intention and ability to hold until maturity.

In the circumstances permitted by the applicable accounting standards, such assets may only be reclassified as financial assets available for sale. If more than an insignificant amount of such instruments should be sold or reclassified during the year before their maturity, the remaining financial assets held to maturity would be reclassified as financial assets available for sale and it would not be permitted to classify instruments in this category for the subsequent two years, unless the sales or reclassifications:

- are so close to maturity or the financial asset’s call date that changes in the market rate of interest would not have a significant effect on the financial asset’s fair value;
- occur after the entity has collected substantially all of the financial asset’s original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity’s control, is non-recurring and could not have been reasonably anticipated by the entity..

RECOGNITION

Financial assets held to maturity are recognized at the settlement date.

Such financial assets are initially recognized at fair value, including any directly attributable costs and income.

If the financial assets are recognized in this category as a result of reclassification from financial assets available for sale or, in the case of unusual events, from financial assets held for trading, the fair value of the assets at the reclassification date is deemed to be the new amortized cost of the assets.

MEASUREMENT

Subsequent to initial recognition, financial assets held to maturity are measured at amortized cost, using the effective interest rate method.

Gains or losses in respect of financial assets held to maturity are recognized through profit or loss at the time the assets are derecognized or impaired and through the amortization of the difference between the carrying amount

and the amount repayable at maturity.

Assets held to maturity are evaluated for objective evidence of impairment.

If such evidence is found, the amount of the loss is measured as the difference between the carrying amount of the assets and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the loss is recognized in profit or loss.

If the reasons for the impairment loss should no longer obtain following an event occurring after the impairment was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount that exceeds what the amortized cost would have been in the absence of the previously recognized impairment losses.

DERECOGNITION

The financial assets are derecognized only when a disposal transfers substantially 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 assets continue 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 other third parties.

4 - Loans and receivables

CLASSIFICATION

Amounts "due from banks" and "loans to customers" include loans, whether disbursed directly or acquired from third parties, with fixed or determinable payments, that are not listed on an active market and that are not classified as: "Financial assets held for trading"; "Financial assets at fair value through profit or loss"; or "Financial assets available for sale". This category includes any securities with characteristics similar to loans and receivables.

It also includes operating loans, repurchase transactions and receivables recognized by the lessor in respect of finance lease transactions.

Loans and receivables include assets acquired through non-recourse factoring contracts, for which the risks and rewards relating to the asset have been transferred.
Reclassification to the other categories of financial assets envisaged by IAS 39 is not permitted.

In accordance with the 7th update of Bank of Italy Circular 272/2008, the new definitions of impaired credit exposures have been incorporated in the accounting policies (three categories: bad debts, positions unlikely to be repaid and past-due exposures), as well as exposures granted forbearance measures, which apply to all assets (impaired and performing).

Forborne exposures comprise debt contracts for which concessions have been granted to debtors who are unable to discharge their financial obligations ("financial difficulties").

In order to determine whether a position qualifies as a forborne exposure, the Group determines whether any contractual modifications in favor of the customer (usually extensions of due dates, suspension of payments or refinancing) were granted in response to a situation of financial difficulty represented by the actual or potential (in the absence of concessions) accumulation of more than 30 days of arrears.

RECOGNITION

Loans and receivables are initially recognized in the balance sheet at the disbursement date or, in the case of debt securities, at the settlement date. The initial amount recognized is equal to the amount disbursed or subscription price, including costs and revenues 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

Following initial recognition, loans are measured at amortized cost.

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.

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. An analogous measurement approach is used for loans without a specified maturity or revocable loans.

The loan portfolio undergoes testing for impairment periodically and in any event at the close of each reporting period. Impaired positions include bad debts, substandard loans, restructured positions and loans past due or overlimit, in accordance with the Bank of Italy’s current rules, in line with the provisions of the IAS/IFRS.

Impairment loss is recognized only when, subsequent to initial recognition, events have occurred that give rise to objective evidence of impairment such as to cause a change in the reliably estimated cash flows.

Loans for which there is objective evidence of impairment are measured individually. The amount of the loss is the difference between the asset’s carrying amount and the present value of expected future cash flows, calculated by applying the original effective interest rate. Measurement takes account of the “maximum recoverable” amount, which corresponds to the greatest 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.

In measuring loans individually, cash flows from loans for which short-term recovery is expected are not discounted. The original effective interest rate of each loan remains unchanged unless the position undergoes a restructuring that involves a change in the contractual interest rate, including when it becomes an interest-free loan.

Loans for which no objective evidence of impairment has been found undergo collective impairment testing, with the creation of groups of positions with uniform credit risk profiles. The writedown is determined based on historic loss rates for each group. In determining the time series, individually measured positions are removed from the group of loans being measured. Writedowns determined collectively are taken to the income statement. Guarantees also undergo impairment testing in a manner analogous to individual impairment testing.

Any writedowns are recognized through profit or loss.

DERECOGNITION

Loans are derecognized when they fall due or are transferred.

Loans transferred are derecognized only when substantially all the risks and rewards of ownership of the loans are transferred. If a significant portion of the risks and rewards of ownership of a transferred loan has been retained, the loan continues to be recognized even though legal title to the loan has been transferred.

Where it is not possible to determine whether substantially all the risks and rewards have been transferred, the loan is derecognized if no form of control over it is retained. Conversely, where even a portion of control is retained, the loan 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 loans and changes in their cash flows.

Transferred loans 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.

IFRS 1 established a specific exemption to the application of derecognition rules for transfers of financial assets, including securitization operations, occurring prior to January 1, 2004. By virtue of this exemption, for securitizations carried out before that date, the company may elect to continue to apply the previous accounting rules or to adopt the provisions of IAS 39 retrospectively, starting from a date selected by the entity, provided that the information required to apply IAS 39 to assets previously derecognized was available at the time of initial recognition of the these operations. Therefore, the Bank, in compliance with the accounting policies of the Group, has decided to apply the current accounting rules for securitization operations carried out before January 1, 2004.

RECOGNITION OF INCOME COMPONENTS

Following initial recognition, loans are measured at amortized cost, which equals the amount at which the assets are 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 (usually attributable to costs and revenues directly attributable to the individual position) and plus or minus any writedowns/writebacks. The effective interest rate is the rate that exactly discounts the estimated future cash flows generated by the loan in respect of principal and interest to the amount disbursed including costs and revenues attributable to the loan. This accounting treatment makes it possible to distribute the economic impact of costs and revenues over the expected remaining life of the loan.

The amortized cost method is not used for short-term loans where the impact of discounting can be considered negligible. Short-term loans are valued at cost. The same approach is adopted for loans without a specified maturity or those subject to revocation.

Impairment losses, as defined in the preceding sub-section on measuring loans, are recognized in the income statement. If the reasons for the impairment should cease to obtain subsequent to the recognition of the impairment loss, a writeback is taken to the income statement. The value of the asset after the writeback shall not in any event exceed the amortized cost that the instrument would have had in the absence of the prior writedown.

Writebacks connected with the passage of time, corresponding to interest accrued during the period based on the original effective interest rate previously used to calculate impairment losses, are recognized among writebacks for impairment.

5 - Financial assets measured at fair value

CLASSIFICATION

The item “Financial assets measured at fair value” includes financial assets that have been designated as at fair value through profit or loss as from their initial recognition, in accordance with the requirements for the classification of that item, regardless of their technical form. No reclassifications to other categories of financial assets are permitted.

RECOGNITION

Financial assets measured at fair value are initially recognized at the settlement date for debt and equity instruments. Initial recognition of financial assets is at fair value, which normally corresponds to the price paid. If the price is different from the fair value, the financial asset 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 assets reported under this item are measured at fair value through profit or loss. In order to determine fair value, the criteria previously noted in the section on financial assets held for trading are applied. For equity securities and associated derivatives, if valuation techniques cannot be used to reliably determine the fair value of the financial instruments, they shall be measured at cost and adjusted for any impairment.

DERECOGNITION

Financial assets at fair value are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

RECOGNITION OF INCOME COMPONENTS

The result of the measurement is recognized in the income statement.

DETERMINATION OF IMPAIRMENT

FINANCIAL ASSETS

At each reporting date, the Bank determines whether there is objective evidence that a financial asset or group of financial assets has incurred a significant increase in the related credit risk since initial recognition and requires the definition of a methodology for calculating the expected loss (ECL) and the related risk parameters necessary to calculate it, namely: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The staging methodology provides for the allocation each exposure/tranche to the three distinct stages on the basis of the following:

- stage 1: this includes instruments/tranches associated with performing loans/securities that, as at the date of analysis, do not show a significant increase in credit risk with respect to the date of disbursement/purchase. In this case, the 12-month expected loss is measured;
- stage 2: this includes instruments/tranches associated with performing loans/securities that, as at the date of analysis, show a significant increase in credit risk with respect to the date of disbursement/purchase. Regardless of the increase in credit risk with respect to the date of disbursement/purchase, satisfaction of two other conditions would also lead to classification in stage 2:
  - positions that at the reporting date have a probability of default in excess of a specified threshold;[7]

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

  - probation period: positions that at the reporting date are eligible for classification in stage 1 but have been classified in stage 2 at least once in the previous three months;[8] In this case, the lifetime expected loss is measured;
- stage 3: this includes all instruments/tranches associated with loans/securities in default, for which the loss is calculated as the difference between the contractual cash flows and expected cash flows, discounted at the effective interest rate of the instrument (lifetime expected loss), which is essentially unchanged compared with the previous accounting standard.

With regard to Expected Credit Loss, the risk parameters necessary for calculating that value have been distinguished by differentiating between the securities portfolio and the loan portfolio.

With regard to the securities portfolio:

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

With regard to the loan portfolio:

- Probability of Default (PD): the approach defined by the Iccrea Group envisages:
  - where a rating model is available, building, if not already provided by the model, a transition matrix based on rating classes from the model, conditioned to incorporate forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
  - where a rating system is absent, calculating default rates on an annual basis, conditioned to include forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
- Loss Given Default (LGD): the estimate of the LGD for the majority of Group companies is obtained as the ratio of total specific writedowns to total non-performing exposures, in some cases appropriately adjusted for the danger rate matrix
- Exposure At Default (EAD): the estimation approach for EAD differs by type of portfolio, product and stage to which the exposure has been assigned.

In order to condition the risk parameters for future macroeconomic scenarios, the Group annually estimates the models for obtaining projections of changes in the riskiness of the portfolio (PD) and losses generated by default of the debtor counterparties (LGD), based on a defined time horizon and certain reference variables (default rates, amount of bad loans, etc.).

In order to obtain a probability of default that reflects future macroeconomic conditions, “satellite models” are estimated, differentiated by type of counterparty, which make it possible to explain the relationship linking default rates to a set of explanatory macroeconomic variables. The forecasts of the target variable, the default rate, are obtained through the definition - on the basis of two separate scenarios - of the future values of each of the macroeconomic variables and the application of the estimated regression coefficients. The results of the satellite model in each of the two distinct scenarios enable the calculation of multiplicative macroeconomic conditioning factors.[9]

[8] The probation period is not applied to positions assigned to state 2 in the previous three months solely due to the presence of forbearance measures that have lapsed as at the reporting date. This reflects the fact that forbearance is governed by a longer and more stringent probation period (24 months).
[9] The multipliers are constructed as the ratio between the forecast default rate obtained by calendar year and the last observed value of the target variable, differentiated by scenario.

For the purpose of applying these multipliers, the Iccrea Group associates the probability of occurrence on a judgmental basis to the two scenarios, used as weights in the calculation of the average multiplier associated with each calendar year.

More specifically, three calendar years are considered subsequent to the estimation date of the satellite models (reference date), while for subsequent years, it is assumed that the economic cycle can be contained within a time horizon of three years, therefore the multiplier used is equal to the arithmetic mean of the multipliers of the three years.

In order to render the LGD forward looking, the Group estimates a regression model that explains the relationship that links a variable able to approximate losses in the event of system default (for example, gross non-performing loans for the entire system) with a set of explanatory macroeconomic variables, using the same approach adopted to condition the PD to estimate the multipliers.

With regard to exposures classified in stage 3 (credit-impaired assets), even if the definition of "impaired loans" in IAS 39 and IFRS 9 is substantially the same, the inclusion of forward-looking information, such as the consideration of alternative recovery scenarios, incorporated a number of methodological peculiarities. In particular, scenarios for the sale of credit exposures were considered in connection with possible sales of impaired positions connection with the company's objectives for reducing non-performing assets, to which a probability of realization was attributed for consideration in the context of the overall assessments. It follows that, for transferrable non-performing loans, in order to determine the overall expected loss of exposures, the "ordinary" scenario assuming a recovery strategy based on the recovery of receivables through legal action, the enforcement of guarantees, etc. , has been accompanied by scenarios that envisage the sale of the loan as a recovery strategy.

DEBT SECURITIES

With regard to the debt securities, the methodology envisages using the low credit risk exemption, which, regardless of the presence or not of a rating at origination, allocates to stage 1 exposures that have a rating equal to or better than investment grade at the reporting date.

EQUITY SECURITIES

Equity securities do not undergo impairment testing.

OTHER NON-FINANCIAL ASSETS

Property and equipment and intangible assets with a finite useful life undergo impairment testing if there is evidence that the carrying amount of the asset cannot be recovered. The recoverable value is determined on the basis of the fair value of the item of property and equipment or the intangible asset net of costs of disposal or the value in use, if that can be determined and it is greater than the fair value.

As regards real estate, fair value is mainly determined on the basis of an appraisal prepared by an independent expert.

For other property and equipment and intangible assets (other than those recognized following a business combination) it is assumed that the carrying amount normally corresponds to the value in use, as determined by a normal process of depreciation or amortization estimated on the basis of the actual contribution of the asset to the production process and having determined that the determination of fair value would be highly uncertain. The two values differ, giving rise to an impairment loss, in the case of damage, exit from the production process or other similar non-recurring circumstances.

Intangible assets recognized following acquisitions and in application of IFRS 3 at each reporting date undergo impairment testing to determine whether there is objective evidence that the asset may have incurred an impairment loss.

If there is evidence of impairment, intangible assets with a finite life undergo a new valuation to determine the recoverability of the carrying amount. Recoverable value is determined on the basis of value in use, i.e. present value, as estimated using a rate representing the time value of money, the specific risks of the asset and the margin generated by relationships in place at the valuation date over a time horizon equal to the residual term of those relationships.

Since intangible assets with an indefinite life, represented by goodwill, do not generate autonomous cash flows, they undergo annual testing of their carrying amount for the cash generating unit (CGU) to which the values were allocated in the related business combinations. The amount of any impairment is determined on the basis of the

difference between the carrying amount of the CGU and the recoverable value of the unit, represented by the greater of its fair value, net of costs of disposal, and its value in use.

The carrying amount of the CGU must be determined in a manner consistent with the criteria used to determine its recoverable value. From the standpoint of a banking enterprise, it is not possible to determine the cash flows of a CGU without considering the flows generated by financial assets and liabilities, given that the latter represent the core business of the company. In other words, the recoverable value of the CGUs is impacted by those cash flows and, accordingly, the carrying amount of the CGUs must be determined using the same scope of estimation used for the recoverable value and, therefore, must include the financial assets/liabilities. To that end, these assets and liabilities must be allocated to the CGUs.

Following this approach, the carrying amount of the CGUs of Iccrea can be determined in terms of their contribution to consolidated shareholders' equity, including non-controlling interests.

The value in use of a CGU is calculated by estimating the present value of the future cash flows that are expected to be generated by the CGU. Those cash flows are determined using the most recent public business plan or, in the absence of such a plan, an internal forecasting plan developed by management.

Normally, the specific forecasting period covers a maximum time horizon of three years. The flow in the final year of the forecasting period is projected forward in perpetuity, using an appropriate growth rate "g" for the purposes of the terminal value.

In calculating value in use, the cash flows must be discounted using a rate that reflects the current time value of money and the specific risks to which the asset is exposed. More specifically, the discount rates adopted incorporate current market values for the risk-free rate and equity premiums observed over a sufficiently long period of time to reflect different market conditions and business cycles. In addition, in view of the different risks in each CGU's area of operations, different betas are also adopted.

DETERMINATION OF FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability between willing and knowledgeable market participants in an orderly transaction. In the definition of fair value, a key assumption is that an entity is fully operational (the assumption that an entity is a going concern) and does not have the intention or the need to liquidate, significantly reduce its operations or undertake transactions on unfavorable terms. In other words, fair value is not the amount an entity would receive or would pay in a forced transaction, an involuntary liquidation or a distress sale. Nevertheless, the fair value reflects the credit quality of the instrument as it incorporates counterparty risk.

FINANCIAL INSTRUMENTS

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 Bank grants financial guarantees in the form of letters of credit, acceptances and other guarantees. Commission income earned on guarantees, net of the portion representing the recovery of costs incurred in issuing the guarantee, are recognized on an accruals basis under "Fee and commission income", taking account of the term and residual value of the guarantees.

Following initial recognition, the liability in respect of each guarantee is measured as the greater of the initial recognition amount less cumulative amortization recognized in profit or loss and the best estimate of the expense required to settle the financial obligation that arose following the granting of the guarantee.

Any losses and value adjustments on such guarantees are reported under "value adjustments". Writedowns for impairment of guarantees are reported under "Provisions for risk and charges".

Guarantees are off-balance-sheet transactions and are reported under "Other information" in Part B of the notes to the financial statements.

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

Following the adoption of IFRS 9, the Bank has not make any changes to the business model used to manage its financial assets and, consequently, no transfers took place between portfolios of financial assets.

In accordance with the general rules established by IFRS 9 regarding the reclassification of financial assets (with the exception of equity securities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes the business model for the management of these financial assets. It is expected that such changes will be highly infrequent and must be decided by management following significant external or internal changes that can be demonstrated to external parties.

A.4 -FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURES

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

Mark to market

Classification in Level 1 of the fair value hierarchy represents the mark-to-market approach. For an instrument to be classified in Level 1 of the fair value hierarchy, its value must be based solely on quoted prices in an active market to which the Bank has access at the time of valuation (Level 1 inputs).
A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value.
The concept of active market is a key concept in allocating a financial instrument to Level 1. An active market is a market (or dealer, broker, industrial group, pricing service or regulatory agency) in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Thus, the definition implies that the concept of active market is associated with the individual financial instrument and not the market itself, and it is therefore necessary to conduct materiality tests. The Group Fair Value Policy specified the criteria to be used in identifying an active market and the consequent use of the mark-to-market approach.

Comparable approach

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

- quoted prices on active markets for similar assets or liabilities;

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

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

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

Mark to Model approach

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

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

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

In the absence of quoted prices on active markets, financial instruments are measured as follows:

- bonds are valued using a discounted cash flow model adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer;
- structured bonds are valued using a discounted cash flow model that incorporates valuations from option pricing models, adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer, and volatility and correlation surfaces for the underlying;
- plain vanilla interest-rate derivatives are mainly valued using a discounted cash flow model. Interest-rate options and financial instruments with convexity adjustments are valued using a Normal Forward Model (Bachelier Model) with the exception of Bermuda swaptions and ratchet options, for which the One Factor Trinomial Hull-White approach is used. The inputs used are yield curves and credit spreads, and volatility and correlation surfaces;
- plain vanilla inflation derivatives are valued using the CPI Swap valuation model, while structured options use the Inflation Market Model. The inputs used are inflation swap curves and premiums on plain-vanilla options;
- equity and CIU derivatives are valued using the Black&Scholes models (or models based on it, such as the Rubinstein model for forward starts and the Nengju Ju model for Asian options), which includes an estimate of volatility through interpolation by maturity and strike prices on a volatility matric, as well as the inclusion of discrete dividends through the escrowed dividend model. The inputs used are the price of the underlying equity, the volatility surface and the dividend curve;
- derivatives on exchange rates are valued using a discounted cash flow approach for plain-vanilla contracts or a Garman and Kohlhagen model for European options on exchange rates. The inputs are spot exchange rates and the forward points curve and volatility surfaces for plain-vanilla options;
- equity securities are valued on the basis of direct transactions in the same security or similar securities observed over an appropriate span of time with respect to the valuation date, the market multiples approach for comparable companies and, subordinately, financial and income valuation techniques;
- investments in CIUs other than open-end harmonized funds are generally valued on the basis of the NAVs (adjusted if not fully representative of the fair value) made available by the asset management

companies. These investments include private equity funds, real estate investment funds and hedge funds.

The Fair Value Policy also provides for the possibility of applying valuation adjustments to the prices of financial instruments when the valuation technique used does not capture factors that market participants would use in estimating fair value.

Valuation adjustments are intended to:

- ensure that the fair value reflects the value of a transaction that could actually be carried out in a market;
- incorporate the future expected costs directly connected with the transaction;
- reduce the risk of distorting fair values, with consequent errors in profit or loss.

The factors impacting the need for an adjustment are:

- the complexity of the financial instrument;
- the credit standing of the counterparty;
- any collateral agreements;
- market liquidity.

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

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

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

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

A.4.2 Valuation processes and sensitivity

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

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

A.4.3 Fair Value hierarchy

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

- Level 1: unadjusted quoted prices on an active market. Fair value is drawn directly from quoted prices observed on active markets;

- Level 2: inputs other than the quoted prices noted above that are observable on the market either directly (prices) or indirectly (derivatives on prices). Fair value is determined using valuation techniques that provide for: a) the use of market inputs indirectly connected with the instrument being valued and derived from instruments with similar risk characteristics (the comparable approach); or b) that use observable inputs;
- Level 3: inputs that are not observable on the market. Fair value is determined using valuation techniques that use significant unobservable inputs.

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

As required under paragraph 97 of IFRS 13 and, previously, under IFRS 7, certain fair value disclosures are required for financial instruments measured at fair value for disclosure purposes only (instruments which are measured at amortized cost in the balance sheet). The Group has specified the following approaches for measuring fair value in these cases:

- cash and cash equivalents: book value approximates fair value;
- loans with a contractually specified maturity (classified under L3): the discounted cash flow model with adjustments reflecting the cost of credit risk, the cost of funding, the cost of capital and any operating costs;
- intercompany receivables (classified under L2): discounted cash flow model;
- bad debts and substandard positions valued on an individual basis: book value approximates fair value;
- securities issued:
  - classified L1: price in relevant market;
  - classified L2: mark-to-model valuation discounting cash flows using a set of yield curves distinguished by level of seniority, type of customer and currency of issue;
- financial liabilities: discounted cash flow model with adjustment based on the issuer risk of the Iccrea Group.

A.4.4 Other information

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

QUANTITATIVE DISCLOSURES

A.4.5 FAIR VALUE HIERARCHY

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

	31/12/2018		
	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss of which	125,588	682,136	88,894
a) financial assets held for trading	76,964	263,665	390
b) financial assets measured at fair value	-	-	-
c) other financial assets mandatorily measured at fair value	48,624	418,472	88,505
2. Financial assets measured at fair value through comprehensive income	197,680	48,595	36,670
3. Hedging derivatives	-	7,715	-
4. Property and equipment	-	-	-
5. Intangible assets	-	-	-
Total	**323,268**	**738,447**	**125,565**
1. Financial liabilities held for trading	3,515	247,614	-
2. Financial liabilities designated as at fair value	-	-	-
3. Hedging derivatives	-	63,305	-
Total	**3,515**	**310,918**	**-**

As required under IFRS 13 paragraphs 72-90, the Bank provides appropriate disclosure in the table, grouping financial assets into the three levels of the fair value hierarchy on the basis of the characteristics and significance of the inputs used in the measurement process. The levels are:

- Level 1: unadjusted quoted prices for the financial assets and liabilities on an active market;
- Level 2: inputs other than the quoted prices considered for Level 1 that are observable on the market either directly or indirectly;
- Level 3: inputs that are not observable on the market.

Paragraph 93 letter c) of IFRS 13 requires that, in addition to reporting the fair value hierarchy, entities shall disclose information on significant transfers between Level 1 and Level 2 and the reasons for the transfer. Please note that there were no such transfers during the period.
In addition, with regard to the quantitative impact on the determination of the fair value of financial derivative instruments, the Credit Value Adjustment involved a decrease of about €21 thousand, while the Debt Value Adjustment did not give rise to any changes.

A 4.5.2 CHANGE FOR THE PERIOD IN FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property 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	**91,923**	**277**	**-**	**91,646**	**44,236**	**-**	**-**	**-**
2. Increases	**8,633**	**120**	**-**	**8,513**	**-**	**-**	**-**	**-**
2.1 Purchases	3,174	109	-	3,065	-	-	-	-
2.2 Profits recognized in:	5,459	11	-	5,448	-	-	-	-
2.2.1 Income statement	5,459	11	-	5,448	-	-	-	-
- of which: capital gains	4,984	-	-	4,984	-	-	-	-
2.2.2 Shareholders' equity	-	X	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	-	-	-	-
3. Decreases	**(11,662)**	**(8)**	**-**	**(11,654)**	**(7,565)**	**-**	**-**	**-**
3.1 Sales	(8)	(8)	-	-	(148)	-	-	-
3.2 Redemptions	(11,167)	-	-	(11,167)	-	-	-	-
3.3 Losses recognized in:	(487)	-	-	(487)	(7,311)	-	-	-
3.3.1 Income statement	(487)	-	-	(487)	(82)	-	-	-
- of which: capital losses	(487)	-	-	(487)	-	-	-	-
3.3.2 Shareholders' equity	-	X	X	X	(7,229)	-	-	-
3.4 Transfers to other levels	-	-	-	-	(107)	-	-	-
3.5 Other decreases	-	-	-	-	-	-	-	-
4. Closing balance	**88,894**	**390**	**-**	**88,505**	**36,670**	**-**	**-**	**-**

The value for the opening balance regards the reclassification performed on the occasion of the first-time application of IFRS 9.

With regard to paragraph 93 e) of IFRS 13, the table reports, with regard to Level 3 fair value valuations only for each category of financial instrument, a reconciliation of from the opening balance to the closing balances, with separate disclosure of changes in the period attributable to Purchases, sales and gains/losses, distinguishing in the latter case between those recognized profit or loss and those in other comprehensive income.

In addition, during the year there were no changes in one or more inputs reflecting reasonably possible alternative assumptions that would change fair value significantly.

A.4.5.3 CHANGE FOR THE PERIOD IN FINANCIAL LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

The table has not been completed because there were no such positions as of the balance sheet 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

	31/12/2018			
	CA	L1	L2	L3
1. Financial assets measured at amortized cost	36,361,573	6,076,850	8,411,958	21,621,323
2. Investment property	-	-	-	-
3. Non-current assets and disposal groups held for sale	146,793	-	-	5,027
Total	**36,508,366**	**6,076,850**	**8,411,958**	**21,626,350**
1. Financial liabilities measured at amortized cost	36,969,235	2,604,168	3,110,198	31,123,078
2. Liabilities associated with assets held for sale	127,598	-	-	-
Total	**37,096,833**	**2,604,168**	**3,110,198**	**31,123,078**

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 IFRS9 (paragraphs B.5.1.2 A letter b).

PART B

Information on the balance sheet

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - ITEM 10

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
a) Cash	40,807	98,307
b) Demand deposits with central banks	-	-
Total	**40,807**	**98,307**

The decrease is ascribable to the reclassification of electronic money operations to item A110 "Non-current assets and disposal groups held for sale".

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS O – ITEM 20

2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

	Total 31/12/2018			Total 31/12/2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**76,496**	**507**	**170**	**10,909**	**620**	**100**
1.1 structured securities	273	153	151	201	-	-
1.2 other debt securities	76,222	354	19	10,708	620	100
2. Equity securities	**-**	**21**	**219**	**187**	**68**	**177**
3. Units in collective investment undertakings	**454**	**-**	**-**	**539**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	**76,950**	**528**	**390**	**11,635**	**688**	**277**
B. Derivatives						
1. Financial derivatives	**14**	**263,137**	**-**	**91**	**304,094**	
1.1 trading	14	263,137	-	91	304,094	-
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)	**14**	**263,137**	**-**	**91**	**304,094**	**-**
Total (A+B)	**76,964**	**263,665**	**390**	**11,726**	**304,782**	**277**

2.2 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY DEBTOR/ISSUER/COUNTERPARTY

	Total 31/12/2018	Total 31/12/2017
A. ON-BALANCE-SHEET ASSETS		
1. Debt securities	**77,173**	**11,629**
a) Central banks	-	5,546
b) Government	72,451	2
c) Banks	2,209	4,008
d) Other financial companies	1,995	2,073
of which: insurance undertakings	**636**	**-**
e) Non-financial companies	518	-
2. Equity securities	**241**	**432**
a) Banks	-	-
b) Other financial companies	72	71
of which: insurance undertakings	-	-
c) Non-financial companies	169	361
d) Other issuers	**-**	**-**
3. Units in collective investment undertakings	**454**	**539**
4. Loans	**-**	**-**
a) Central banks	-	-
b) Governments	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance undertakings	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**77,868**	**12,600**
B. DERIVATIVES		
a) Central counterparties	-	-
b) Other	263,151	304,185
Total (B)	**263,151**	**304,185**
Total (A+B)	**341,018**	**316,785**

The distribution of financial assets by economic sector of the debtors or the issuers (for securities) 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

The table has not been completed because there were no such positions as of the balance sheet date.

2,4 3.2 FINANCIAL ASSETS MEASURED AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

The table has not been completed because there were no such positions as of the balance sheet date.

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

	Total 31/12/2018		
	Level 1	Level 2	Level 3
1. Debt securities	**23,712**	**34,492**	**-**
1.1 structured securities	-	18,531	-
1.2 other debt securities	23,712	15,961	-
2. Equity securities	**1,983**	**8,816**	**15,634**
3. Units in collective investment undertakings	**22,930**	**375,164**	**12,208**
4. Loans	**-**	**-**	**60,663**
4.1 repurchase agreements	-	-	-
4.2 other	-	-	60,663
Total	**48,624**	**418,472**	**88,505**

"Units in collective investment undertakings" includes, among others, the units of the closed-end investment funds "Securis Real Estate" managed by Investire SGR, in the amounts of:

- Fondo Securis Real Estate III €74,784 thousand;
- Fondo Securis Real Estate II €138,765 thousand;
- Fondo Securis Real Estate I €161,615 thousand.

2.6 OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

	Total 31/12/2018
1.Equity securities	**26,432**
of which: banks	10,807
of which: other financial companies	13,559
of which: non-financial companies	2,065
2. Debt securities	**58,203**
a) Central banks	-
b) Governments	1,383
c) Banks	32,015
d) Other financial companies	7,280
of which: insurance companies	-
e) Non-financial companies	17,525
3. Units in collective investment undertakings	**410,303**
4. Loans	**60,663**
a) Central banks	-
b) Governments	-
c) Banks	-
d) Other financial companies	60,663
of which: insurance companies	60,583
e) Non-financial companies	-
f) Households	-
Total	**555,601**

The distribution of financial assets by economic sector of the debtors or the issuers (for securities) 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 31/12/2018		
	Level 1	Level 2	Level 3
1. Debt securities	**191,615**	**48,595**	**-**
1.1 structured securities	3,981	-	-
1.2 other debt securities	187,634	48,595	-
2. Equity securities	**6,065**	**-**	**36,670**
3. Loans	**-**	**-**	**-**
Total	**197,680**	**48,595**	**36,670**

3.2 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY DEBTOR/ISSUER

	Total 31/12/2018
1. Debt securities	**240,211**
a) Central banks	-
b) Governments	137,922
c) Banks	44,667
d) Other financial companies	26,652
of which: insurance companies	-
e) Non-financial companies	30,970
2. Equity securities	**42,735**
a) Banks	24,192
b) Other issuers:	18,543
- other financial companies	16,709
of which: insurance companies	9,553
- non-financial companies	1,834
- other	-
4. Loans	**-**
a) Central banks	-
b) Governments	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
Total	**282,946**

The distribution of financial assets by economic sector of the debtors or the issuers (for securities) was carried out on the basis of the classification criteria provided for by the Bank of Italy.

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	Stage 1	Stage 2	Stage 3	Total partial writeoffs*
Debt securities	203,159	-	37,461	-	62	347	-	-
Loans	-	-	-	-	-	-	-	-
Total	**203,159**	**-**	**37,461**	**-**	**62**	**347**	**-**	**X**
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

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

4.1 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN OF LOANS AND RECEIVABLES WITH BANKS

	Total 31/12/2018						Total 31/12/2017					
	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	**227,243**	**-**	**-**	**-**	**-**	**227,243**	**976,297**	**-**	**-**	**-**	**-**	**976,297**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	227,243	-	-	X	X	X	976,297	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**25,427,510**	**-**	**-**	**-**	**6,547,049**	**18,718,685**	**23,584,459**	**-**	**-**	**-**	**6,725,641**	**16,727,638**
1. Financing	20,796,596	-	-	-	2,201,937	18,594,671	19,228,369	-	-	-	2,706,988	16,420,351
1.1. Current accounts and demand deposits	658,003	-	-	X	X	X	665,273	-	-	X	X	X
1.2. Fixed-term deposits	114,702	-	-	X	X	X	93,347	-	-	X	X	X
1.3. Other financing:	20,023,891	-	-	X	X	X	18,469,749	-	-	X	X	X
- Repurchase agreements	5,062	-	-	X	X	X	97,468	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	20,018,829	-	-	X	X	X	18,372,281	-	-	X	X	X
2. Debt securities	4,630,914	-	-	-	4,345,112	124,014	4,356,090	-	-	-	4,018,652	307,288
2.1 Structured securities	37,196	-	-	-	-	-	33,024	-	-	-	-	-
2.2 Other debt securities	4,593,718	-	-	-	4,345,112	124,014	4,323,065	-	-	-	4,018,652	307,288
Total	**25,654,753**	**-**	**-**	**-**	**6,547,049**	**18,945,928**	**24,560,756**	**-**	**-**	**-**	**6,725,641**	**17,703,935**

Amounts due from banks are reported net of writedowns for impairment.

The sub-item "reserve requirement" includes the requirements managed on behalf of the mutual banks, with a contra-item under item 10 of liabilities (Due to banks).

Loans connected with pool collateral operations amount to €18,662 million of which €9,855 million granted within the framework of the TLTRO II and included under letter "B", item "Other financing – Other". Securities pledged as collateral amount to €19,998 million, net of the haircut applied to the various types of security.
In addition, during the period financing with the assignment of loans through the "ABACO" procedure continued. At June 30, loans received from Iccrea BancaImpresa securing the collateral pool amounted to €2,266 million, which net of the haircut decreased to about €1,048 million.

4.2 Financial assets measured at amortized cost: breakdown by product of loans and receivables with customers

	Total 31/12/2018						Total 31/12/2017					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1
1. Loans	**3,817,231**	**14,978**	**-**	**-**	**1,734,919**	**2,248,712**	**5,958,109**	**18,162**	**-**	**-**	**1,645,645**	**2,462,029**
1.1. Current accounts	318,630	196	-	X	X	X	121,404	241	-	X	X	X
1.2. Repurchase agreements	1,199,151	-	-	X	X	X	3,116,755	-	-	X	X	X
1.3. Medium/long term loans	82,856	14,648	-	X	X	X	95,887	17,784	-	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from wage	-	1	-	X	X	X	-	-	-	X	X	X
1.5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other loans	2,216,595	131	-	X	X	X	2,624,063	138	-	X	X	X
2. Debt securities	**6,760,638**	**113,972**	**-**	**6,076,850**	**129,990**	**426,684**	**8,966**	**-**	**-**	**-**	**-**	**9,340**
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	6,760,638	113,972	-	6,076,850	129,990	426,684	8,966	-	-	-	-	9,340
Total	**10,577,870**	**128,950**	**-**	**6,076,850**	**1,864,909**	**2,675,396**	**5,967,075**	**18,162**	**-**	**-**	**1,645,645**	**2,471,369**

Amounts due from customers are reported net of writedowns for impairment.

4.3 Finance leases

The table has not been completed because there were no such positions as of the balance sheet date.

4.4 Financial assets measured at amortized cost: composition by debtor/issuer of loans to customers

	Total 31/12/2018			Total 31/12/2017		
	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	**6,760,638**	**113,972**	**-**	**8,966**	**-**	**-**
a) Governments	6,755,327	-	-	-	-	-
b) Other financial companies	5,311	113,972	-	8,966	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Loans to:	**3,817,231**	**14,978**	**-**	**5,958,109**	**18,162**	**-**
a) Governments	-	-	-	-	-	-
b) Other financial companies	3,691,858	-	-	5,802,057	-	-
of which: insurance companies	-	-	-	60,565	-	-
c) Non-financial companies	64,868	2,248	-	87,632	12,046	-
d) Households	60,506	12,729	-	68,420	6,116	-
Total	**10,577,870**	**128,950**	**-**	**5,967,075**	**18,162**	**-**

4.5 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	Stage 1	Stage 2	Stage 3	
Debt securities	11,387,176	-	8,372	113,972	(934)	(3,061)	-	-
Loans	24,756,687	1,695,251	87,863	54,588	(2,011)	(1,468)	(39,610)	-
Total 31/12/2018	**36,143,862**	**1,695,251**	**96,235**	**168,560**	**(2,945)**	**(4,529)**	**(39,610)**	**X**
Total 31/12/2017	**33,378,281**	**-**	**110,810**	**57,753**	**(3,720)**	**(850)**	**(39,591)**	**X**
of which: financial assets purchased or originated credit-impaired	X	X	-	-	X	-	-	-

SECTION 5 – HEDGING DERIVATIVES – ITEM 50

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

	FV 31/12/2018			NV	FV 31/12/2017			NV
	L1	L2	L3	31/12/2018	L1	L2	L3	31/12/2017
A. Financial derivatives	**-**	**7,715**	**-**	**239,028**	**-**	**6,716**	**-**	**646,703**
1. Fair value	-	4,516	-	204,093	-	5,363	-	613,350
2. Cash flows	-	3,199	-	34,934	-	1,353	-	33,353
3. Investments in foreign	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**7,715**	**-**	**239,028**	**-**	**6,716**	**-**	**646,703**

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

The criteria for preparing the table have not changed from the previous year as the Bank exercised the option provided for in paragraph 7.2.21 of IFRS 9 of continuing to apply the rules governing the accounting treatment of hedging transactions provided for in IAS 39.

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	326	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**326**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	4,190	-	-	-	-	-	X	3,199	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**4,190**	**-**	**-**	**-**	**-**	**-**	**-**	**3,199**	**-**	**X**
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 criteria for preparing the table have not changed from the previous year as the Bank exercised the option provided for in paragraph 7.2.21 of IFRS 9 of continuing to apply the rules governing the accounting treatment of hedging transactions provided for in IAS 39.

SECTION 6 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY - ITEM 60

6.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	Total 31/12/2018	Total 31/12/2017
1. Positive adjustments	**764**	**5**
1.1 of specific portfolios:	-	5
a) financial assets measured at amortized cost	-	5
b) financial assets measured at fair value through comprehensive income	-	-
1.2 comprehensive	764	-
2. Negative adjustments	**13**	**-**
2.1 of specific portfolios:	-	-
a) financial assets measured at amortized cost	-	-
b) financial assets measured at fair value through comprehensive income	-	-
2.2 comprehensive	13	-
Total	750	5

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	% holding	% of votes
A. Subsidiaries				
Iccrea BancaImpresa S.p.A.	Rome	Rome	99.42	99.42
BCC Beni Immobili S.r.l.	Milan	Rome	100	100
BCC Retail S.c.a.r.l.	Milan	Milan	39.3	39.3
Ventis S.r.l.	Milan	Milan	95	95
Bcc Sistemi Informatici S.p.A.	Milan	Milan	98.53	98.53
BCC Risparmio e Previdenza SGrpA	Milan	Milan	75	75
BCC Gestione Crediti S.p.A.	Rome	Rome	100	100
BCC Solutions S.p.A.	Rome	Rome	100	100
BCC CreditoConsumo S.p.A.	Rome	Udine	96	96
Banca Sviluppo S.p.A.	Rome	Rome	68.07	68.07
Banca MedioCredito FVG S.p.A.	Udine	Udine	26.84	26.84
Securfondo	Rome	Milan	54.4	54.4
B. Joint ventures				
C. Companies subject to significant influence				
M-Facility S.r.l.	Rome	Rome	41.48	41.48
Hi-Mtf S.p.A.	Milan	Milan	25	25
BCC Vita S.p.A.	Milan	Milan	49	49
BCC Assicurazioni S.p.A.	Milan	Milan	49	49
Bcc Accademia S.p.A.	Rome	Rome	26.05	26.05
Satispay S.p.A.	Milan	Milan	15.09	15.09

Equity investments are represented by unlisted securities with the exception of the unit in the “Securfondo” closed-end real-estate investment fund.

7.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

	Carrying amount	Fair value	Dividends received
A. Subsidiaries			
Iccrea BancaImpresa S.p.A.	800,421	-	13,777
BCC Beni Immobili S.r.l.	18,314	-	-
BCC Retail S.c.a.r.l.	393	-	-
Ventis S.r.l.	-	-	-
Bcc Sistemi Informatici S.p.A.	45,025	-	-
BCC Risparmio e Previdenza SGrpA	22,474	-	13,515
BCC Gestione Crediti S.p.A.	4,021	-	1,450
BCC Solutions S.p.A.	75,700	-	2,003
BCC CreditoConsumo S.p.A.	55,041	-	9,600
Banca Sviluppo S.p.A.	87,052	-	-
Banca Mediocredito FVG S.p.A.	21,399	-	-
Securfondo	12,591	-	-
B. Joint ventures			
C. Companies subject to significant influence			
M-Facility S.P.A.	234	-	-
Hi-Mtf S.p.A.	1,250	-	-
BCC Vita S.p.A.	101,430	-	-
BCC Assicurazioni	8,080	-	-
Bcc Accademia S.p.A.	208	-	-
Satispay S.p.A.	8,112	-	-
TOTAL	**1,261,745**	**-**	**40,344**

The investment held in Ventis was reclassified to “Non-current assets and disposal groups held for sale” in connection with the disposal of the electronic money business.

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 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	Other income after tax	Comprehensive income
A. Subsidiaries														
Iccrea BancaImpresa S.p.A.	24	7,761,932	348,797	7,190,380	(160,307)	241,157	155,001	(304)	22,615	39,336		39,336	-	39,336
BCC Beni Immobili S.r.l.	1	-	25,011	-	(448)	1,245	-	(845)	59	108		108	-	108
BCC Retail S.c.a.r.l.			3,435		2,502	4,669		(80)	221	103		103	-	103
Ventis S.r.l.		1,306	10,118	2,832	4,911	2,370			(1,859)	(1,420)		(1,420)	-	(1,420)
Bcc Sistemi Informatici S.p.A.	16,794	17	49,645		26,279	86,122		(7,316)	487	292		292	-	292
BCC Risparmio e Previdenza SGrpA	2	6,382	9,380	25,656	11,262	137,874		(434)	12,514	8,529		8,529	-	8,529
BCC Gestione Crediti S.p.A.	5,176	210	10,852	226	7,497	24,379		(38)	6,100	4,124		4,124	-	4,124
BCC Solutions S.p.A.	3,595		111,843	(44,471)	(14,298)	37,425		(5,561)	2,636	1,729		1,729	-	1,729
BCC Credito Consumo S.p.A.	70	911,498	55,322	(870,739)	(23,437)	66,706		(54)	18,421	12,520		12,520	-	12,520
Banca Sviluppo S.p.A.	10,687	1,206,895	197,591	1,186,023	107,504	57,399	33,044	(1,860)	(1,705)	5,147		5,147	-	5,147
Banca Mediocredito FVG S.p.A.	3	1,065,144	65,308	936,103	93,482	25,714	10,297	(2,766)	(2,450)	(1,958)		(1,958)	-	(1,958)
Securfondo	825	3,733	18,751		162	834			(3,968)	(3,968)		(3,968)	-	(3,968)
B. Joint ventures														
C. Companies subject to significant influence														
Satispay S.P.A.		19,959	1,837		1,519	16,776			(9,530)	(9,530)		(9,530)	-	(9,530)
M-Facility S.P.A.		605	410		703	11			(201)	(201)		(201)	-	(201)
Hi-Mtf S.p.A.		6,305	556	576	6,286	2,455	61	(46)	79	33		33	-	33
BCC Vita S.p.A.	6,670	3,153,181	54,954	3,009,293	25,536	602,091			14,955	10,449		10,449	-	10,449
BCC Assicurazioni S.p.A.	88	97,304	19,729	57,679	13,929	21,643			(1,113)	(869)		(869)	-	(869)
Bcc Accademia S.p.A.	783	2,487	17	1,737	300	2,904		(4)	(26)	398		398	-	398

7.4 NON-SIGNIFICANT EQUITY INVESTMENTS: ACCOUNTING DATA

The table has not been completed because there were no such positions as of the balance sheet date.

7.5 EQUITY INVESTMENTS: CHANGE FOR THE PERIOD

	Total 31/12/2018	Total 31/12/2017
A. Opening balance	**1,193,547**	**1,139,963**
B. Increases	**91,080**	**77,983**
B.1 Purchases	91,080	69,700
B.2 Writebacks	-	-
B.3 Revaluations	-	-
B.4 Other increases		8,283
C. Decreases	**22,882**	**24,399**
C.1 Sales	2,170	-
C.2 Impairment losses	15,791	2,859
C.3 Writedowns	-	-
C.4 Other decreases	4,920	21,540
D. Closing balance	**1,261,745**	**1,193,547**
E. Total revaluations	**-**	**-**
F. Total impairment losses	**-**	**4,818**

Sub-item “B.1 Purchases” reflects the subscription of capital increases by Iccrea BancaImpresa of €60 million and the purchase of the investment in Banca MedioCredito del Friuli Venezia-Giulia of €21 million.

The item “C.2 Impairment losses” reflects the impairment recognized on the interests held in Banca Sviluppo in the amount of €14 million and Securfondo in the amount of €1.6 million.

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.

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.

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 balance sheet 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 balance sheet date.

7.8 SIGNIFICANT RESTRICTIONS

The table has not been completed because there were no such positions as of the balance sheet date.

7.9 OTHER INFORMATION

The table has not been completed because there were no such positions as of the balance sheet date.

SECTION 8 - PROPERTY AND EQUIPMENT - ITEM 80

8.1 OPERATING PROPERTY AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

	Total 31/12/2018	Total 31/12/2017
1. Owned assets	**14,221**	**14,430**
a) land	-	-
b) building	-	-
c) movables	270	199
d) electrical plants	3,283	13,683
e) other	10,668	548
2. Assets acquired under finance leases	**-**	**-**
a) land	-	-
b) building	-	-
c) movables	-	-
d) electrical plants	-	-
e) other	-	-
Total	**14,221**	**14,430**
of which: obtained through enforcement of guarantees received	-	-

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 balance sheet date.

8.3 OPERATING PROPERTY AND EQUIPMENT: COMPOSITION OF REVALUED ASSETS CARRIED AT COST

The table has not been completed because there were no such positions as of the balance sheet date.

8.4 INVESTMENT PROPERTY: COMPOSITION OF ASSETS AT FAIR VALUE

The table has not been completed because there were no such positions as of the balance sheet date.

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

The table has not been completed because there were no such positions as of the balance sheet date.

8.6 OPERATING PROPERTY AND EQUIPMENT: CHANGE FOR THE PERIOD

	Land	Buildings	Movables	Electronic plant	Other	Total
A. Opening gross balance	**-**	**-**	**199**	**13,683**	**548**	**14,430**
A.1 Total net writedown	-	-	-	-	-	-
A.2 Opening net balance	**-**	**-**	**199**	**13,683**	**548**	**14,430**
B. Increases:	**-**	**-**	**110**	**1,325**	**13,621**	**15,056**
B.1 Purchases	-	-	-	1,325	2,693	4,018
- of which business combinations	-	-	-	-	-	-
B.2 Capitalized improvement costs	-	-	-	-	-	-
B.3 Writebacks	-	-	1	-	-	1
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	-	-	109	-	10,928	11,037
C. Decreases:	**-**	**-**	**40**	**11,725**	**3,501**	**15,265**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	-	39	687	3,501	4,227
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:	-	-	-	5	-	5
a) investment property	-	-	X	X	X	-
b) discontinuing operations	-	-	-	5	-	5
C.7 Other changes	-	-	-	11,033	-	11,033
D. Closing net balance	**-**	**-**	**270**	**3,283**	**10,668**	**14,221**
D.1 Total net writedowns	-	-	-	-	-	-
D.2 Closing gross balance	**-**	**-**	**270**	**3,283**	**10,668**	**14,221**
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 balance sheet date.

8.8 INVENTORIES OF PROPERTY 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 balance sheet date.

8.9 COMMITMENTS TO ACQUIRE PROPERTY AND EQUIPMENT

The table has not been completed because there were no such positions as of the balance sheet date.

SECTION 9 – INTANGIBLE ASSETS – ITEM 90

9.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 31/12/2018		Total 31/12/2017	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**-**	**X**	**-**
A.2 Other intangible assets	**27,043**	**-**	**11,126**	**-**
A.2.1 Assets carried at cost	27,043	-	11,126	-
a) internally generated intangible assets	-	-	-	-
b) other assets	27,043	-	11,126	-
A.2.2 Assets designated at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**27,043**	**-**	**11,126**	**-**

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	**-**	**-**	**-**	**11,126**	**-**	**11,126**
A.1 Total net writedown	-	-	-	-	-	-
A.2 Opening net balance	**-**	**-**	**-**	**11,126**	**-**	**11,126**
B. Increases	**-**	**-**	**-**	**23,099**	**-**	**23,099**
B.1 Purchases	-	-	-	23,099	-	23,099
- business combinations	X	-	-	-	-	-
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Writebacks	-	-	-	-	-	-
B.4 Fair value gains recognized in	X	-	-	-	-	-
- equity	X	-	-	-	-	-
- income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Other changes	**-**	**-**	**-**	**7,183**	**-**	**7,183**
C. Decreases	-	-	-	-	-	-
C.1 Sales	-	-	-	4,862	-	4,862
C.2 Writedowns	X	-	-	4,862	-	4,862
- Amortization	-	-	-	-	-	-
- Impairment	X	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Fair value losses recognized in	X	-	-	-	-	-
- equity	X	-	-	-	-	-
- income statement	-	-	-	2,321	-	2,321
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Other changes	**-**	**-**	**-**	**27,043**	**-**	**27,043**
D. Closing net balance	-	-	-	-	-	-
D.1 Total net writedown	**-**	**-**	**-**	**27,043**	**-**	**27,043**
E. Closing gross balance	-	-	-	-	-	-

The increase in the item is also due to the acquisition of about €20 million in software associated with the project to establish the Mutual Banking Group.

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

	IRES	IRAP	TOTAL	IRES	IRAP	TOTAL
		31/12/2018			31/12/2017	
- Recognized in income statement	**37,189**	**271**	**37,461**	**25,733**	**32**	**25,766**
a) DTA pursuant to Law 214/2011	**2,686**	**32**	**2,719**	**2,686**	**32**	**2,719**
Total	2,686	32	2,719	**2,686**	**32**	**2,719**
Goodwill and other intangible assets at December 31, 2014	-	-	-	-	-	-
Tax losses/negative value of production pursuant to Law 214/2011	-	-	-	-	-	-
b) Other	**35,503**	**239**	**34,742**	**23,047**	**-**	**23,047**
Writedowns of amounts due from banks	485	-	485	597	-	597
Writedowns of loans to customers	133	27	160	-	-	-
Goodwill and other intangible assets	-	-	-	-	-	-
Tax losses	27,168	-	27,168	16,175	-	16,175
Writedowns of financial assets held for trading and financial assets at fair value	-	-	-	-	-	-
Writedowns of securities issued	-	-	-	-	-	-
Writedowns of financial liabilities held for trading and financial liabilities at fair value	-	-	-	-	-	-
Writedowns from impairment of guarantees issued recognized under liabilities	-	-	-	-	-	-
Provisions for risks and charges	3,254	-	3,254	2,823	-	2,823
Costs of predominantly administrative nature	76	-	76	32	-	32
Difference between value for tax purposes and carrying amount of property and equipment and intangible assets	-	-	-	-	-	-
Other	3,386	211	3,598	3,420	-	3,420
- Recognized in shareholders' equity	**5,006**	**1,014**	**6,020**	**1,605**	**256**	**1,861**
a) Valuation reserves:	**4,768**	**966**	**5,734**	**778**	**166**	**944**
Capital losses on financial assets measured through OCI	4,768	966	5,734	**778**	**166**	**944**
b) Other:	**238**	**48**	**287**	**827**	**90**	**917**
Actuarial gains/losses on provisions for employees	-	-	-	384	-	384
Other	238	48	287	443	90	533
A. Total deferred tax assets	**42,196**	**1,285**	**43,481**	**27,338**	**288**	**27,627**
B. Offsetting with deferred tax liabilities	**9**	**2**	**10**	**2,811**	**194**	**3,005**
C. Net deferred tax assets - Total of item 110 b)	**42,196**	**1,285**	**43,471**	**24,527**	**94**	**24,622**

10.2 DEFERRED TAX LIABILITIES: COMPOSITION

	IRES	IRAP	TOTAL	IRES	IRAP	TOTAL
	31/12/2018			31/12/2017		
1) Deferred tax liabilities recognized in income statement	**-**	**-**	**-**	**1,144**	**-**	**1,144**
Writedowns of loans to customers deducted in separate section of tax return (not recognized in income statement)	-	-	-	-	-	-
Difference between value for tax purposes and carrying amount of property and equipment and intangible assets	-	-	-	1,144	-	1,144
Other	-	-	-	3,281	1,353	4,634
2) Deferred tax liabilities recognized in shareholders' equity:	**9**	**2**	**10**	3,281	1,353	4,634
Valuation reserves:	-	-	-	3,153	928	4,078
Capital losses on financial assets measured through OCI	9	2	10	-	-	-
Revaluation of property	-	-	-	-	-	-
Other	-	-	-	128	428	556
A. Total deferred tax liabilities	**9**	**2**	**10**	**4,425**	**1,353**	**5,778**
B. Offsetting with deferred tax assets	**(9)**	**(2)**	**(10)**	**2,811**	**194**	**3,005**
C. Net deferred tax assets- Total of item 60 b)	**-**	**-**	**-**	**1,614**	**1,159**	**2,773**

Deferred tax not recognized

The amount and changes in taxable timing differences (and related components) that do not meet requirements for recognition as deferred tax liabilities as it is unlikely that they will have to be paid include deferred tax liabilities not recognized in respect of the revaluation reserve established pursuant to Law 342/2000 (net of the special capital gains tax already paid €11,227 thousand), Law 413/1991 and Law 196/1983. As the reserve is not expected to be distributed to shareholders, no provision had been made for deferred taxes in the amount of about €9.7 million.

10.3 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN INCOME STATEMENT)

	Total 31/12/2018	Total 31/12/2017
1. Opening balance	**25,767**	**32,719**
2. Increases	**12,684**	**2,822**
2.1 Deferred tax assets recognized during the period	12,651	2,822
a) in respect of previous period	213	-
b) due to change in accounting policies	-	-
c) writebacks	-	-
d) other	12,410	2,822
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	160	-
3. Decreases	**1,090**	**9,774**
3.1 Deferred tax assets derecognized during the period	1,090	5,623
a) reversals	684	-
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	406	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	4,151
transformation in tax credits pursuant to Law 214/2011	-	154
other	-	3,997
4. Closing balance	**37,461**	**25,767**

10.3 BIS CHANGES IN DEFERRED TAX ASSETS PURSUANT TO LAW 214/2011

	Total 31/12/2018	Total 31/12/2017
Opening balance	**2,719**	**2,969**
2. Increases	**-**	**-**
3. Decreases	**-**	**250**
3.1 Reversals	-	250
3.2 Conversion into tax credits	-	-
a) arising from losses for the year	-	-
b) arising from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**2,719**	**2,719**

10.4 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN INCOME STATEMENT)

	Total 31/12/2018	Total 31/12/2017
1. Opening balance	**1,144**	**2,289**
2. Increases	**-**	**-**
2.1 Deferred tax liabilities recognized during the period	-	-
a) in respect of previous period	-	-
b) due to change in accounting policies	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**1,144**	**1,144**
3.1 Deferred tax liabilities derecognized during the period	1,144	1,144
a) reversals	1,144	1,144
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases:	-	-
4. Closing balance	**-**	**1,144**

10.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

	Total 31/12/2018	Total 31/12/2017
1. Opening balance	**1,861**	**3,624**
2. Increases	**5,795**	**61**
2.1 Deferred tax assets recognized during the period	5,795	61
a) in respect of previous periods	61	-
b) due to change in accounting policies	-	-
c) other	5,734	61
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**1,636**	**1,824**
3.1 Deferred tax assets derecognized during the period	1,574	1,824
a) reversals	631	1,824
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	943	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	61	-
4. Closing balance	**6,020**	**1,861**

10.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	Total 31/12/2018	Total 31/12/2017
1. Opening balance	**4,634**	**5,990**
2. Increases	**10**	**-**
2.1 Deferred tax liabilities recognized during the period	10	-
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	-
c) other	10	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**4,634**	**956**
3.1 Deferred tax liabilities derecognized during the period	4,634	956
a) reversals	22	956
b) due to change in accounting policies	4,612	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**10**	**4,634**

10.7 OTHER INFORMATION

As regards its tax position, the Bank reports:

- for the financial years 2014, 2015, 2016 and 2017 (for which the tax assessment time limit has not expired), no formal notice of assessment has yet been received;
- on November 4, 2014, the Bank received a notice of liquidation from the Revenue Agency, Provincial Directorate of Brescia for the year 2013 concerning the registration fees of €104,770 for an order assigning amounts for seizure by third parties. Following adverse rulings in the first two levels of adjudication, the Bank has appealed to the Court of Cassation.

SECTION 11 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES - ITEM 110 OF ASSETS AND ITEM 70 OF LIABILITIES

11.1 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY TYPE

		31/12/2018
A. Assets held for sale		
A.1 Financial assets		78,005
A.2 Equity investments		5,027
A.3 Property and equipment		5
of which: obtained through enforcement of guarantees received		-
A.4 Intangible assets		2,321
A.5 Other non-current assets		61,436
	Total A	**146,793**
	of which carried at cost	141,766
	of which measured at fair value level 1	-
	of which measured at fair value level 2	-
	of which measured at fair value level 3	5,027
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss		-
- Financial assets held for trading		-
- Financial assets designated at fair value		-
- Other financial assets mandatorily measured at fair value		-
B.2 Financial assets measured at fair value through other comprehensive income		-
B.3 Financial assets measured at amortized cost		-
B.4 Equity investments		-
B.5 Property and equipment		-
of which: obtained through enforcement of guarantees received		-
B.6 Intangible assets		-
B.7 Other assets		-
	Total B	**-**
	of which carried at cost	-
	of which measured at fair value level 1	-
	of which measured at fair value level 2	-
	of which measured at fair value level 3	-
C. Liabilities associated with assets held for sale		
C.1 Debt		98,133
C.2 Securities		-
C.3 Other liabilities		29,465
	Total C	**127,598**
	of which carried at cost	127,598
	of which measured at fair value level 1	-
	of which measured at fair value level 2	-
	of which measured at fair value level 3	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortized cost		-
D.2 Financial liabilities held for trading		-
D.3 Financial liabilities designated at fair value		-
D.4 Provisions		-
D.5 Other liabilities		-
	Total D	**-**
	of which carried at cost	-
	of which measured at fair value level 1	-
	of which measured at fair value level 2	-
	of which measured at fair value level 3	-

During the year, the Bank classified the assets and liabilities of the electronic money operations of Iccrea Banca under non-current assets and disposal groups held for sale and associated liabilities.

11.2 OTHER INFORMATION

For more information, please see the management report

SECTION 12 – OTHER ASSETS – ITEM 120

12.1 OTHER ASSETS: COMPOSITION

	31/12/2018	31/12/2017
- Receivables for future premiums on derivatives	15,142	16,870
- Fees and commissions and interest to be received	773	33,302
- Tax receivables due from central govt. tax authorities and other tax agencies (including VAT credits)	43,437	36,928
- Items in transit between branches and items being processed	20,983	45,554
- Accrued income not attributable to separate line item	19,409	17,193
- Tax consolidation mechanism	11,629	12,330
- Other (security deposits, assets not attributable to other items)	71,493	87,342
Total	**182,866**	**249,519**

The decrease is attributable to the reclassification of the electronic money business to item 110 “Non-current assets and disposal groups held for sale”.

LIABILITIES

SECTION 1 - LIABILITIES MEASURED AT AMORTIZED COST - ITEM 10

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

	Total 31/12/2018				Total 31/12/2017			
	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	**13,765,693**	**X**	**X**	**X**	**13,836,426**	**X**	**X**	**X**
2. Due to banks	**5,658,927**	**X**	**X**	**X**	**5,565,094**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	2,033,675	X	X	X	2,573,680	X	X	X
2.2 Fixed term deposits	3,377,354	X	X	X	2,620,224	X	X	X
2.3 Loans	246,476	X	X	X	370,153	X	X	X
2.3.1 Repurchase agreements	172,561	X	X	X	361,200	X	X	X
2.3.2 Other	73,915	X	X	X	8,953	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Other payables	1,422	X	X	X	1,037	X	X	X
Total	19,424,621	-	610,024	18,814,597	19,401,520	-	269,519	18,917,415

The item “due to central banks” represents financing from the ECB.

The sub-item “Fixed-term deposits” also includes deposits received from the mutual banks amounting to around €715 million for indirect compliance with the reserve requirement.

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

	Total 31/12/2018				Total 31/12/2017			
	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	**369,280**	**X**	**X**	**X**	**400,771**	**X**	**X**	**X**
2. Fixed-term deposits	**-**	**X**	**X**	**X**	**-**	**X**	**X**	**X**
3. Loans	**11,791,402**	**X**	**X**	**X**	**7,334,827**	**X**	**X**	**X**
3.1 Repurchase agreements	11,791,402	X	X	X	7,334,827	X	X	X
3.2 Other	-	X	X	X	-	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	**-**	**X**	**X**	**X**	**-**	**X**	**X**	**X**
5. Other payables	**356,227**	**X**	**X**	**X**	**507,782**	**X**	**X**	**X**
Total	**12,516,909**	**-**	**183,338**	**12,308,481**	**8,243,380**	**-**	**46,326**	**8,175,689**

The sub-item “Repurchase agreements” is composed entirely of transactions with the Clearing and Guarantee Fund.
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

	31/12/2018 Total				31/12/2017 Total			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	5,027,706	2,604,168	2,316,836	-	5,874,245	5,317,114	600,938	-
1.1 structured	33,377	31,660	1,609	-	33,537	32,633	1,614	-
1.2 other	4,994,329	2,572,508	2,315,227	-	5,840,708	5,284,481	599,324	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	**5,027,706**	**2,604,168**	**2,316,836**	**-**	**5,874,245**	**5,317,114**	**600,938**	**-**

The item comprises bonds issued by the Group 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.

Subordinated securities amounting to €241 million are reported under “1.2 Bonds - Other”.

1.4 BREAKDOWN OF SUBORDINATED DEBT/SECURITIES

At December 31, 2018 the following subordinated securities were in issue:

- Issue date March 6, 2014, Maturity date March 6, 2021, initial nominal value of €200 million, residual nominal value at December 31: 108.3 million; annual interest rate 4.75% fixed gross, interest paid annually in arrears, repayment through periodic amortization as from the third year in 5 equal annual instalments.
- Issue date June 18, 2015, Maturity date June 18, 2025, residual nominal value at December 31: €104.9 million, interest rate 6-month Euribor + 3.50% gross, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.
- Issue date June 29, 2015, Maturity date June 29, 2025, residual nominal value at December 31: €11.7 million, interest rate 3.50% fixed gross, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.
- Issue date July 30, 2015, Maturity date July 30, 2025, residual nominal value at December 31: €16 million, interest rate 6-month Euribor + 350 basis points, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.

1.5 BREAKDOWN OF STRUCTURED DEBT

As at the reporting date the Bank held structured securities amounting to €33.4 million.

1.6 LIABILITIES IN RESPECT OF FINANCE LEASES

The table has not been completed because there were no such positions as of the balance sheet date.

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 31/12/2018					Total 31/12/2017				
	NV	Fair value			FV*	NV	Fair value			FV*
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	511	540	-	-	540	124	133	-	-	133
2. Due to customers	1,398	1,407	-	-	1,407	50,279	50,497	84	-	50,581
3. Debt securities	-	-	-	-		-	-	-	-	-
3.1 Bonds	-	-	-	-		-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3. Other	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**1,909**	**1,947**	**-**	**-**	**1,947**	**50,403**	**50,630**	**84**	**-**	**50,714**
B. Derivatives										
1. Financial derivatives		1,568	247,614	-			28	314,642	-	
1.1 Trading	X	1,568	247,554	-	X	X	28	314,642	-	X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	59	-	X	X	-	-	-	X
2. Credit derivatives		-	-	-			-	-	-	
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**	**1,568**	**247,614**	**-**	**X**	**X**	**28**	**314,642**	**-**	**X**
Total (A+B)	**X**	**3,515**	**247,614**	**-**	**X**	**X**	**50,658**	**314,726**	**-**	**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 balance sheet 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 balance sheet date.

SECTION 3 - FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE

The section has not been completed because there were no such positions as of the balance sheet date.

SECTION 4 - HEDGING DERIVATIVES - ITEM 40

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

	NV	FV 31/12/2018			NV	FV 31/12/2017		
	31/12/2018	L1	L2	L3	31/12/2017	L1	L2	L3
A) Financial derivatives	**3,305,268**	**-**	**63,305**	**-**	**1,322,906**	**-**	**48,028**	**-**
1) Fair value	3,261,599	-	62,021	-	1,281,215	-	44,069	-
2) Cash flows	43,668	-	1,284	-	41,691	-	3,959	-
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**3,305,268**	**-**	**63,305**	**-**	**1,322,906**	**-**	**48,028**	**-**

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						Generic	Specific	Generic	
	Debt securities and	Equity securities	Foreign currencies	Credito	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	60,056	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	920	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**60,056**	**-**	**-**	**-**	**-**	**-**	**920**	**-**	**-**	**-**
1. Financial liabilities	1,045	X	-	-	-	-	X	1,284	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**1,045**	**-**	**-**	**-**	**-**	**-**	**-**	**1,284**	**-**	**-**
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 criteria for preparing the table have not changed from the previous year as the Bank exercised the option provided for in paragraph 7.2.21 of IFRS 9 of continuing to apply the rules governing the accounting treatment of hedging transactions provided for in IAS 39.

SECTION 5 VALUE ADJUSTMENTS OF GENERICALLY HEDGED LIABILITIES - ITEM 50

There were no such positions as of the balance sheet 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

	31/12/2018	31/12/2017
Amounts due to social security institutions and State	12,751	14,353
Amounts available to customers	6,273	5,778
Liabilities for future premiums on derivatives	6,051	7,652
Tax payables due to tax authorities	18,155	17,784
Payables due to employees	5,316	6,042
Deferred income not attributable to separate line item	5,365	1,570
Items in transit and items being processed	40,187	88,871
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)	179,833	291,132
Subsidiaries – Group VAT	7,218	5,973
Consolidated taxation mechanism	27,010	27,441
Total	308,159	466,596

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	Total 31/12/2018	Total 31/12/2017
A. Opening balance	**11,312**	**12,263**
B. Increases	**1,352**	**382**
B.1 Provisions for the period	69	-
B.2 Other increases	1,283	382
C. Decreases	**2,488**	**1,333**
C.1 Benefit payments	1,003	1,319
C.2 Other decreases	1,485	14
D. Closing balance	**10,176**	**11,312**
Total	10,176	11,312

9.2 OTHER INFORMATION

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 €11,101 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 2.75%;
- financial parameters: the calculations assumed an interest rate of 1.50%;
- economic parameters: the rate of inflation was assumed to be 1.50%, while the rate of increase in salaries was 2.38% for all categories of employee and used only for seniority purposes.

The independent actuary determined the discount rate using as a reference basket the Iboxx Obbligazioni Corporate AA index for the euro area, with an average duration comparable to the group being assessed.

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
1. Provisions for credit risk in respect of commitments and financial guarantees issued	108	-
2. Provisions for other commitments and guarantees issued	-	-
3. Company pension plans	-	-
4. Other provisions for risks and charges	9,049	7,152
4.1 legal disputes	5,254	4,102
4.2 personnel expense	1,047	885
4.3 other	2,747	2,165
Total	9,156	7,152

The sub-item “legal disputes” includes €1,844 thousand for revocatory actions and €2,974 thousand for litigation and disputes. The sub-item “personnel expenses” includes seniority bonuses for employees.

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	**-**	**-**	**7,152**	**7,152**
B. Increases	**-**	**-**	**4,508**	**4,508**
B.1 Provisions for the year	-	-	1,664	1,664
B.2 Changes due to passage of time	-	-	-	-
B.3 Changes due to changes in the discount	-	-	-	-
B.4 Other increases	-	-	2,844	2,844
C. Decreases	**-**	**-**	**2,612**	**2,612**
C.1 Use during the period	-	-	1,430	1,430
C.2 Changes due changes in the discount rate	-	-	-	-
C.3 Other decreases	-	-	1,182	1,182
D. Closing balance	**-**	**-**	**9,049**	**9,049**

10.3 PROVISIONS FOR CREDIT RISK IN RESPECT OF COMMITMENTS AND FINANCIAL GUARANTEES ISSUED

	Stage 1	Stage 2	Stage 3	Total
1. Commitments to disburse funds	9	11	-	20
2. Financial guarantees issued	28	60	-	88
Total	**36**	**72**	**-**	**108**

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 balance sheet date.

10.5 – DEFINED-BENEFIT COMPANY PENSION PLANS

The table has not been completed because there were no such positions as of the balance sheet date.

10.6 PROVISIONS - OTHER

The sub-item "other" mainly includes the provision for the Deposit Guarantee Fund in the amount of €2,747 thousand and for employee disputes in the amount of €436 thousand.

SECTION 11 REDEEMABLE SHARES – ITEM 120

There were no such shares as of the reporting date.

SECTION 12 - SHAREHOLDERS' EQUITY - ITEMS 110, 130, 140, 150, 160, 170 E 180

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

As at the reporting date, share capital was represented by 22,285,487 ordinary shares with a par value of €51.65 each, for a total of €1,151,045,403.55 held primarily by mutual banks and other entities in the mutual bank industry.

At December 31, 2018 Iccrea Bank held a residual of 87,267 shares with a par value of €51.65 each, which were repurchased at a price of €52.80 for a total of €4,607,698.

12.2 SHARE CAPITAL: CHANGE FOR THE PERIOD

	Ordinary	Other
A. Shares at the start of the year	**22,285,487**	**-**
- fully paid	22,285,487	-
- partially paid	-	-
A.1 Treasury shares (-)	(584,222)	-
A.2 Shares in circulation: opening balance	**21,701,265**	**-**
B. Increases	**496,955**	**-**
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	496,955	-
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	**22,198,220**	**-**
D.1 Treasury shares(+)	87,267	-
D.2 Shares at the end of the year	22,285,487	-
- fully paid	22,285,487	-
- 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 €415,509 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 IFRS 9 FTA reserve (€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) related to the transfer of properties to BCC Beni Immobili, a positive reserve (€234 thousand) related to the transfer of the "Branch Services" business unit to

Banca Sviluppo, and a negative reserve of gains in equity securities sold (€82 thousand). 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
Share capital	1,151,045				
Share premium account	6,081				
Treasury shares	(4,608)				
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	306,299		
d) other reserves	1,920	A - B - C	1,920		
e) FTA reserve	25,300	A - B - C	25,300		
Valuation reserves:					
a) Financial assets at fair value through other comprehensive income (FVOCI)	(11,175)		-		
b) cash flow hedges	(580)		-		
c) actuarial gains (losses) on defined-benefit plans	(1,951)				
Valuation reserves (Law 342 of 22/11/2000)	52,062	A - B - C(**)	52,062		
Net profit for the period	(35,632)				
Total	**1,570,752**				

(*)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 balance sheet date.

12.6 OTHER INFORMATION

There were no such positions as of the balance sheet 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 31/12/2018
	Stage 1	Stage 2	Stage 3	
Commitments to disburse funds	**6,728,246**	**92,476**	**-**	**6,820,722**
a) Central banks	-	-	-	-
b) Government	-	-	-	-
c) Banks	6,448,169	36,967	-	6,485,136
d) Other financial companies	199,134	55,509	-	254,643
e) Non-financial companies	80,943	-	-	80,943
f) Households	-	-	-	-
Financial guarantees issued	**81,052**	**5,110**	**-**	**86,161**
a) Central banks	-	-	-	-
b) Government	-	-	-	-
c) Banks	72,673	4,990	-	77,663
d) Other financial companies	6,108	120	-	6,228
e) Non-financial companies	2,270	-	-	2,270
f) Households	-	-	-	-

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 balance sheet date.

3. ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

Portfolio	Amount 31/12/2018
1. Financial assets measured at fair value through profit or loss	82,949
2. Financial assets measured at fair value through other comprehensive income	75,552
3. Financial assets measured at amortized cost	5,951,023
4. Property and equipment	-
of which: property and equipment representing inventories	-

4. INFORMATION ON OPERATING LEASES

The table has not been completed because there were no such positions as of the balance sheet date.

5. MANAGEMENT AND INTERMEDIATION SERVICES

	Total at 31/12/2018
1. Order execution on behalf of customers	**73,944,305**
a) Purchases	37,080,659
1. Settled	35,271,061
2. Not yet settled	1,809,598
b) Sales	36,863,646
1. Settled	35,208,124
2. Not yet settled	1,655,522
2. Asset management	**-**
a) Individual	-
b) Collective	-
3. Securities custody and administration	**253,372,750**
a) Third-party securities held as part of custodian bank services (excluding asset management)	80,001
1. Securities issued by reporting entity	-
2. Other securities	80,001
b) Other third-party securities on deposit (excluding asset management): other	83,472,026
1. Securities issued by reporting entity	4,149,360
2. Other securities	79,322,666
c) Third-party securities deposited with third parties	82,348,084
d) Securities owned by bank deposited with third parties	87,472,638
4. Other transactions	**-**

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)
					Financial instruments (d)	Cash collateral received (e)	31/12/2018
1. Derivatives		513,800	13,591	500,209	257,406	48,225	194,578
2. Repurchase agreements		-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-
4. Other		-	-	-	-	-	-
Total	**31/12/2018**	**513,800**	**13,591**	**500,209**	**257,406**	**48,225**	**194,578**

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)
					Financial instruments (d)	Cash collateral received (e)	31/12/2018
1. Derivatives		598,286	13,591	584,695	162,279	84,184	338,232
2. Repurchase agreements		-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-
4. Other		-	-	-	-	-	-
Total	**31/12/2018**	**598,286**	**13,591**	**584,695**	**162,279**	**84,184**	**338,232**

8. SECURITIES LENDING TRANSACTIONS

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

9. DISCLOSURE ON JOINT OPERATIONS

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

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PART C

Information on the income statement

SECTION 1 - INTEREST – ITEMS 10 AND 20

This item reports interest income and expense, similar income and expense in respect, respectively, of cash and cash equivalents, financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, financial assets measured at amortized cost, (items 10, 20, 30, 40 and 50 of assets) and debt, securities issued, financial liabilities held for trading, financial liabilities measured at fair value (items 10, 20, 30 and 40 of liabilities) as well as any other interest accrued during the period.

Interest income and expense also include positive or negative differences and margins accrued as at the reporting date and expiring or closed as at the reporting date in respect of derivative contracts: these components are calculated on an accruals basis, taking account of any up-front fees paid or received.

1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

	Debt securities	Loans	Other transactions	Total 31/12/2018
1. Financial assets measured at fair value through profit or loss	**2,182**	**-**	**-**	**2,182**
1.1 Financial assets held for trading	392	-	-	392
1.2 Financial assets designated at fair value	-	-	-	-
1.3 Other financial assets mandatorily at fair value	1,791	-	-	1,791
2. Financial assets measured at fair value through other comprehensive income	**7,342**	**-**	**X**	**7,342**
3. Financial assets measured at amortized cost	**145,873**	**29,496**	**X**	**175,369**
3.1 Due from banks	64,632	4,434	X	69,066
3.2 Loans to customers	81,241	25,062	X	106,303
4. Hedging derivatives	**X**	**X**	**-**	**-**
5. Other assets	**X**	**X**	**-**	**-**
6. Financial liabilities	**X**	**X**	**X**	**115,915**
Total	**155,397**	**29,496**	**-**	**300,808**
of which: interest income on impaired financial assets	470	16	-	-

1.2 INTEREST AND SIMILAR INCOME: OTHER INFORMATION

1.2.1 INTEREST INCOME ON FOREIGN-CURRENCY FINANCIAL ASSETS

	31/12/2018
Due from banks	814
Loans to customers	1024
Other	310
TOTAL	**2,148**

1.2.2 INTEREST INCOME FROM FINANCE LEASES

During the year under review and the previous year, the Bank did not grant credit in the form of finance leases.

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 31/12/2018
1. Financial liabilities measured at amortized cost	**(24,254)**	**(87,230)**	**X**	**(111,485)**
1.1 Due to central banks	-	X	X	-
1.2 Due to banks	(24,126)	X	X	(24,126)
1.3 Due to customers	(128)	X	X	(128)
1.4 Securities issued	X	(87,230)	X	(87,230)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	**X**	**X**	**-**	**-**
5. Hedging derivatives	**X**	**X**	**(27,730)**	**(27,730)**
6. Financial assets	**X**	**X**	**X**	**(82,490)**
Total	**(24,254)**	**(87,230)**	**(27,730)**	**(221,704)**

1.4 INTEREST AND SIMILAR EXPENSE: OTHER INFORMATION

1.4.1 INTEREST EXPENSE ON FOREIGN-CURRENCY LIABILITIES

	31/12/2018
Due to banks	(5,293)
Due to customers	-
Other	-
TOTAL	**(5,293)**

1.4.2 INTEREST EXPENSE ON LIABILITIES IN RESPECT OF FINANCE LEASES

During the year under review and the previous year, the Bank did not obtain credit in the form of finance leases.

1.5 DIFFERENCES ON HEDGING TRANSACTIONS

	Total 31/12/2018	Total 31/12/2017
A. Positive differences on hedging transactions:	17,068	13,892
B. Negative differences on hedging transactions:	(44,797)	(18,529)
C. Balance (A-B)	**(27,730)**	**(4,637)**

SECTION 2 - FEES AND COMMISSIONS - ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
a) guarantees issued	82	102
b) credit derivatives	-	-
c) management, intermediation and advisory services:	16,361	18,794
1. trading in financial instruments	4,111	6,502
2. foreign exchange	237	239
3. asset management	-	-
4. securities custody and administration	6,157	7,272
5. depository services	-	-
6. securities placement	2,091	2,236
7. order collection and transmission	866	1,227
8. advisory services	2,897	1,318
8.1 concerning investments	-	-
8.2 concerning financial structure	2,897	1,318
9. distribution of third-party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other	-	-
d) collection and payment services	38,642	46,600
e) servicing activities for securitizations	-	-
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) holding and management of current accounts	221	252
j) other services	45,682	320,889
Total	**100,988**	**386,638**

The decrease in “Other services” (item 290) mainly reflects the disposal of the electronic money business (€371 million); the sub-item also includes €26.4 million attributable to the two GACS1 and GACS2 transactions completed during the year.

2.2 FEE AND COMMISSION INCOME: DISTRIBUTION CHANNELS FOR PRODUCTS AND SERVICES

	Total 31/12/2018	Total 31/12/2017
a) own branches:	**2,091**	**2,236**
1. asset management	-	-
2. securities placement	2,091	2,236
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 31/12/2018	Total 31/12/2017
a) guarantees received	(1)	(2)
b) credit derivatives	-	-
c) management and intermediation services:	(6,492)	(7,276)
1. trading in financial instruments	(1,165)	(1,342)
2. foreign exchange	(40)	(44)
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. securities custody and administration	(3,669)	(4,007)
5. placement of financial instruments	(1,618)	(1,883)
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	(3,804)	(5,805)
e) other services	(3,498)	(238,617)
Total	**(13,794)**	**(251,700)**

The decrease in "Other services" (item 290) from €239 million in 2017 to €14 million in 2018 mainly reflects the disposal of the electronic money business line (€274 million).

SECTION 3 DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 31/12/2018		Total 31/12/2017	
	Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading	527	-	139	-
B. Other financial assets mandatorily measured at fair value	7,595	-	-	-
C. Financial assets measured at fair value through other comprehensive income	498	-	1,912	-
D. Equity investments	40,344	-	23,190	-
Total	**48,963**	**-**	**25,241**	**-**

Dividends received mainly regard:

- BCC CreditoConsumo €9.6 million;
- BCC Risparmio&Previdenza €13.5 million;
- BCC Solutions €2 million;
- Iccrea BancaImpresa €13.8 million;
- BCC Gestione Crediti €1.4 million;
- Nexi €7 million.

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

The item reports the overall difference in respect of:

- the balance of gains and losses on transactions classified under "financial assets held for trading" and "financial liabilities held for trading", including the outcome of the measurement of such transactions. It also includes gains and losses on derivatives connected operationally to financial assets and/or liabilities designated at fair value and other financial assets mandatorily measured at fair value (other than those reported under interest, items 10 and 20).
- the balance of gains and losses on financial transactions other than those designated as at fair value and hedge transactions, denominated in foreign currency, including the outcome of the measurement of such transactions.

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses	Net gain (loss) (A+B) - (C+D)
1. Financial assets held for trading	**968**	**9,653**	**(304)**	**(5,443)**	**4,874**
1.1 Debt securities	968	9,130	(168)	(4,882)	5,048
1.2 Equity securities	-	342	(1)	(378)	(37)
1.3 Units in collective investment undertakings	-	137	(134)	(183)	(180)
1.4 Loans	-	-	-	-	-
1.5 Other	-	43	-	-	43
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**	**(76,387)**
4. Derivatives	**20,483**	**108,341**	**(13,253)**	**(115,778)**	**80,852**
4.1 Financial derivatives:	20,483	108,341	(13,253)	(115,778)	80,852
- on debt securities and interest rates	17,048	107,920	(13,075)	(111,898)	(4)
- on equity securities and equity indices	3,435	421	(178)	(3,880)	(202)
- on foreign currencies and gold	X	X	X	X	81,058
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	**21,451**	**117,994**	**(13,556)**	**(121,221)**	**9,339**

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

For the purpose of recognizing the results of hedging activities, the Bank exercised the option provided for in paragraph 7.2.21 IFRS 9 of continuing to apply the rules governing the accounting treatment of hedging transactions provided for in IAS 39.

The item reports the overall difference in respect of:

- the outcome of the measurement of fair value and cash flow hedges;
- the outcome of the measurement of the financial assets and liabilities covered by fair value hedges;
- the positive or negative differences and margins on hedge derivatives other than those reported under interest;
- the results of measuring on-balance-sheet assets and liabilities connected with a hedge of exchange rate risk.

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
A. Gain on:		
A.1 Fair value hedges	9,798	9,852
A.2 Hedged financial assets (fair value)	28,908	9,648
A.3 Hedged financial liabilities (fair value)	477	-
A.4 Cash flow hedges	3,540	566
A.5 Assets and liabilities in foreign currencies	-	9,609
Total income on hedging activities (A)	**42,725**	**29,675**
B. Loss on:		
B.1 Fair value hedges	(29,830)	(9,609)
B.2 Hedged financial assets (fair value)	(11,318)	(4,983)
B.3 Hedged financial liabilities (fair value)	(2,994)	(5,342)
B.4 Cash flow hedges	-	(11,137)
B.5 Assets and liabilities in foreign currencies	(3,466)	-
Total expense on hedging activities (B)	**(47,608)**	**(31,070)**
C. Net gain (loss) on hedging activities (A - B)	**(4,884)**	**(1,395)**
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 31/12/2018		
	Gains	Losses	Net gain (loss)
Financial assets			
1. Financial assets measured at amortized cost	35,157	(319)	34,838
1.1 Due from banks	30	(1)	28
1.2 Loans to customers	35,127	(318)	34,809
2. Financial assets measured at fair value through other comprehensive income	14,549	(78,757)	(64,209)
2.1 Debt securities	14,549	(78,757)	(64,209)
2.2 Loans	-	-	-
Total assets	**49,706**	**(79,077)**	**(29,371)**
Financial liabilities measured at amortized cost			
1. Due to banks	-	-	-
2. Due to customers	-	-	-
3. Securities issued	3,551	(2,691)	860
Total liabilities	**3,551**	**(2,691)**	**860**

SECTION 7 - NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 110

This section reports the positive or negative balance between gains and losses on financial assets/liabilities measured at fair value for which the fair value option was exercised or because they are mandatorily measured at fair value under IFRS 9, including the outcome of the fair value measurement of such instruments.

7.1 NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF FINANCIAL ASSETS AND LIABILITIES DESIGNATED AS AT FAIR VALUE

The table has not been completed because there were no such positions as of the balance sheet date.

7.2 NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) - (C+D)]
1. Financial assets	**5,225**	**355**	**(20,339)**	**(69)**	**(14,827)**
1.1 Debt securities	22	56	(4,357)	(69)	(4,349)
1.2 Equity securities	1,573	-	-	-	1,573
1.3 Units in collective investment undertakings	3,631	299	(15,962)	-	(12,032)
1.4 Loans	-	-	(19)	-	(19)
2. Financial assets: foreign exchange rate differences	X	X	X	X	-
Total	**5,225**	**355**	**(20,339)**	**(69)**	**(14,827)**

SECTION 8 - NET LOSSES/RECOVERIES FOR CREDIT RISK – ITEM 130

This item reports the negative or positive balance of writedowns and writebacks in respect of the impairment of financial assets measured at amortized cost and those measured at fair value through other comprehensive income.

8.1 NET LOSSES/RECOVERIES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST: COMPOSITION

	Losses (1)			Recoveries (2)		Total
		Stage 3				
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3	31/12/2018
A. Due from banks	**(620)**	**-**	**-**	**1,209**	**-**	**589**
- Loans	(620)	-	-	1,173	-	553
- Debt securities	-	-	-	36	-	36
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-
B. Loans to customers	**(3,546)**	**(60)**	**(2,808)**	**404**	**970**	**(5,040)**
- Loans	-	(60)	(2,808)	404	970	(1,494)
- Debt securities	(3,546)	-	-	-	-	(3,546)
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-
Total	**(4,166)**	**(60)**	**(2,808)**	**1,613**	**970**	**(4,451)**

Losses under “Stage 1 and 2” refer to collective writedowns of performing loans.

Losses under “Stage 3 - Other” refer to specific writedowns of impaired past due positions and those classified as unlikely to pay and bad debts, which those posted under “Stage 3 – Writeoffs” regard the extinguishment of positions.

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
		Stage 3				
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3	31/12/2018
A. Debt securities	**(289)**	**-**	**-**	**58**	**-**	**(231)**
B Loans	**-**	**-**	**-**	**-**	**-**	**-**
- to customers	-	-	-	-	-	-
- to banks	-	-	-	-	-	-
Of which: loans purchased or originated credit-impaired	-	-	-	-	-	-
Total	**(289)**	**-**	**-**	**58**	**-**	**(231)**

Losses under "Stage 1 and 2" refer to collective writedowns of performing loans.

Losses under "Stage 3 - Other" refer to specific writedowns of impaired past due positions and those classified as unlikely to pay and bad debts, which those posted under "Stage 3 – Writeoffs" regard the extinguishment of positions.

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

The section was not completed as there were no such positions as of the balance sheet date.

SECTION 10 - ADMINISTRATIVE EXPENSES – ITEM 160

This section reports “Personnel expenses” and “Other administrative expenses” in the period.

10.1 PERSONNEL EXPENSES: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
1) Employees	**(83,538)**	**(78,439)**
a) wages and salaries	(55,219)	(55,276)
b) social security contributions	(16,820)	(14,855)
c) termination benefits	(943)	(922)
d) pensions	-	-
e) allocation to employee termination benefit provision	(69)	(194)
f) allocation to provision for retirement and similar liabilities	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	(4,683)	(4,240)
- defined contribution	(4,683)	(4,240)
- defined benefit	-	-
h) costs in respect of agreements to make payments in own equity instruments	-	-
i) other employee benefits	(5,803)	(2,952)
2) Other personnel	**(284)**	**(165)**
3) Board of Directors and members of Board of Auditors	**(1,915)**	**(1,966)**
4) Retired personnel	**-**	**-**
5) Recovery of expenses for employees seconded to other companies	**6,940**	**6,289**
6) Reimbursement of expenses for third-party employees seconded to the Company	**(2,494)**	**(5,340)**
Total	**(81,290)**	**(79,621)**

Personnel expenses of €9 million attributable to the electronic money business were reclassified to item 290.

10.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

	31/12/2018	31/12/2017
Employees:	**1,216**	**887**
a) senior management	56	35
b) middle management	596	447
c) other employees	564	405
Other personnel	**-**	**5**

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: TOTAL COSTS

The table has not been completed because there were no such positions as of the balance sheet date..

10.4 OTHER EMPLOYEE BENEFITS

The item "other employee benefits" mainly includes benefits such as lunch vouchers, insurance policies, training courses and costs for early termination measures.

10.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
Information technology	**(57,667)**	**(77,893)**
Property and movables	**(23,831)**	**(21,404)**
Rental and fees	(23,831)	(21,404)
Goods and services	**(2,802)**	**(10,468)**
Telephone and data transmission	(1,415)	(5,034)
Postal	(1)	(3,956)
Valuables transport and counting	(55)	(69)
Electricity, heating and water	(403)	(367)
Transportation	(811)	(804)
Office supplies and printed materials	(117)	(237)
Professional services	**(40,210)**	**(16,986)**
Professional fees (other than audit fees)	(26,775)	(9,758)
Audit fees	(247)	(551)
Legal and notary costs	(8,926)	(1,896)
Court costs, information and title searches	(5)	-
Insurance	(387)	(511)
Administrative services	(3,870)	(4,269)
Advertising and entertainment	**(6,838)**	**(5,727)**
Association dues	**(4,116)**	**(4,427)**
Charity	**-**	**-**
Other	**(3,681)**	**(22,212)**
Indirect taxes and duties	**(31,306)**	**(33,710)**
Stamp duty	(2,364)	(14,332)
Duties on stock exchange contracts	-	(19)
Other indirect taxes and duties	(28,942)	(19,359)
Total	**(170,451)**	**(192,827)**

Other administrative expenses include both the ordinary contribution for all of 2018 to the Resolution Fund, amounting to €21 million, and a special contribution to that Fund, which called up an additional amount for 2016 in the amount of €7.9 million. Administrative expenses include the costs associated with the establishment of the IMBG (€24 million).

Administrative expenses of €72.7 million attributable to the electronic money business were reclassified to item 290.

SECTION 11 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 170

This section provides a breakdown of the composition of the balance between accruals and any reversals to the income statement of excess provisions in respect of:

- provisions for credit risk in respect of commitments to disburse funds and financial guarantees issued within the scope of IFRS 9;
- provisions for other commitments to disburse funds and guarantees issued not within the scope of IFRS 9;
- other provisions.

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

	Provisions	Reallocations of excesses	Total
Commitments to disburse funds Stage 1	(7)	-	(7)
Commitments to disburse funds Stage 2	(11)	-	(11)
Commitments to disburse funds Stage 3	-	-	-
Financial guarantees issued Stage 1	-	75	75
Financial guarantees issued Stage 2	(40)	-	(40)
Financial guarantees issued Stage 3	-	-	-
Total	**(58)**	**75**	**17**

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 balance sheet date

11.3 NET PROVISIONS FOR OTHER RISKS AND CHARGES: COMPOSITION

	Provisions	Reallocation of excesses	Total
Legal disputes	(1,551)	475	(1,076)
Other		1,318	1,318
	(1,551)	**1,793**	**242**

Provisions and reallocations include the effects connected with the passage of time (discounting effect).

SECTION 12 – NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT – ITEM 180

This section reports the balance of writedowns and writebacks of operating property and equipment and investment property, including assets acquired under finance leases and assets under operating leases and property and equipment included in inventories within the scope of IAS 2.

12.1 NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT: COMPOSITION

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b + c)
A. Property and equipment				
A.1 Owned	(4,227)	-	-	(4,227)
- operating assets	(4,227)	-	-	(4,227)
- investment property	-	-	-	-
- inventories	X	-	-	-
A.2 Acquired under finance leases	-	-	-	-
- operating assets	-	-	-	-
- investment property	-	-	-	-
Total	**(4,227)**	**-**	**-**	**(4,227)**

"Depreciation" reports depreciation charges accruing for the year.

SECTION 13 – NET ADJUSTMENTS OF INTANGIBLE ASSETS – ITEM 190

13.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b + c)
A. Intangible assets				
A.1 Owned	(4,862)	-	-	(4,862)
- generated internally by the Bank	-	-	-	-
- other	(4,862)	-	-	(4,862)
A.2 Acquired under finance leases	-	-	-	-
Total	**(4,862)**	**-**	**-**	**(4,862)**

"Amortization" reports amortization charges accruing for the year and regards intangibles with a finite useful life acquired externally.

As at the reporting date, the Bank did not hold intangibles with an indefinite useful life.

SECTION 14 - OTHER OPERATING EXPENSES/INCOME - ITEM 200

This item reports expenses and income not allocable to other accounts that are including the calculation of item 280 “Profit (loss) on continuing operations after tax”.

14.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
Charges connected with lease services (consultants, insurance, taxes and duties, capital losses)	-	-
Reductions in assets not attributable to separate line item	-	-
Prior-year expenses not attributable to separate line item	-	-
Costs of outsourced services	-	-
Sundry expenses	(1,449)	(208)
Settlement of disputes and claims	-	-
Amortization of expenditure for leasehold improvements	-	-
Other charges – extraordinary transactions	-	-
Robbery and theft	-	-
Other charges	-	-
Total	**(1,449)**	**(208)**

14.2 OTHER OPERATING INCOME: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
A) Recoveries	**11,047**	**22,209**
Recovery of taxes	87	11,590
Recovery for services to Group companies	10,960	10,619
Recovery of sundry charges	-	-
Insurance premiums	-	-
Property rental income	-	-
Recovery of costs from customers	-	-
Recovery of costs on bad debts	-	-
B) Other income	**9,347**	**6,362**
Insourcing revenues	-	-
Property rental income	-	-
Other income	-	-
Non-recurring income not attributable to separate line item	-	-
Other income from finance leases	-	-
Other income - extraordinary transactions	-	-
Other income	9,347	6,362
Fees and commissions on accelerated application processing	-	-
Total	**20,394**	**28,572**

Recoveries of taxes of €12.9 million attributable to the electronic money business were reclassified to item 290.

SECTION 15 – PROFIT (LOSS) FROM EQUITY INVESTMENTS – ITEM 220

15.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
A. Income	**-**	**-**
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Expenses	**(15,791)**	**(3,082)**
1. Writedowns	-	-
2. Impairment losses	(15,791)	(3,082)
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	**(15,791)**	**(3,082)**

The amount mainly regards Banca Sviluppo (€14 million) and Securfondo (€1.7 million)

SECTION 16 – NET ADJUSTMENT TO FAIR VALUE OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS – ITEM 230

The section was not completed as there were no such positions as of the balance sheet date.

SECTION 17 – VALUE ADJUSTMENTS OF GOODWILL – ITEM 240

The section was not completed as there were no such positions as of the balance sheet date.

SECTION 18 – GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 250

The section was not completed as there were no such positions as of the balance sheet date.

SECTION 19 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS –ITEM 270

The item reports the tax liability – equal to the balance of current taxes and deferred taxes – in respect of income for the period, excluding the portion attributable to disposal groups and associated liabilities held for sale.

19.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
1. Current taxes(-)	10,003	9,746
2. Change in current taxes from previous period (+/-)	(174)	532
3. Reduction of current taxes for the period (+)	7,834	-
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	12,086	(2,801)
5. Change in deferred tax liabilities (+/-)	1,144	1,144
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**30,893**	**8,621**

19.2 RECONCILIATION OF THEORETICAL TAX LIABILITY AND ACTUAL TAX LIABILITY RECOGNIZED

IRES	31/12/2018	
	Taxable income	Tax
Profit (loss) before tax on continuing operations (item 260 IS)	(85,721)	
Profit before tax on continuing operations (item 260 IS)		
Loss before tax on continuing operations (item 260 IS)	85,721	
Current tax rate		24.00%
Theoretical tax liability (24.00%)		20,573
Greater tax liability due to increases (taxable income)/Greater tax liability for increases (tax)	101,912	(24,459)
Temporary		
- Changes during the year	6,674	
Definitive		
- Reversal of temporary differences of previous periods		
- Changes during the year	95,239	
Lower tax liability for decreases	57,873	13,889
Temporary		
- Changes during the year	2,468	
Definitive		
- Reversal of temporary differences of previous periods		
- Changes during the year	55,405	
- Deductions up to limit of taxable income		
Taxable income (loss)	(41,681)	
Current gross tax		10,003
IRES surtax		
Tax credits		
Current net tax in income statement		10,003
Changes in current tax/deferred tax assets/deferred tax liabilities (+/-)		20,863
Tax liability for the year		30,866
IRAP	**Taxable income**	**Tax**
Profit (loss) before tax on continuing operations (item 260 IS)	(85,721)	
Profit before tax on continuing operations (item 260 IS)		
Loss before tax on continuing operations (item 260 IS)	85,721	
Current tax rate		5.57%
Theoretical tax liability (ordinary rate of 5.57%)		4,775
Items not included in determination of taxable income	262,098	(14,599)
- Revenue and income (-)	(19,205)	
- Costs and charges (+)	281,303	
Greater tax liability due to increases (taxable income)/Greater tax liability for increases (tax)	12,488	(696)
Temporary		
- Changes during the year		
Definitive		
- Reversal of temporary differences of previous periods		
- Changes during the year	12,488	
Lower tax liability for decreases	333,648	18,584
Temporary		
- Changes during the year		
Definitive		
- Reversal of temporary differences of previous periods		
- Changes during the year	333,648	
Value of production		
Current tax		
Effect of regional rate increases/relief (+/-)		
Current tax in income statement		
Changes in current tax/deferred tax assets/deferred tax liabilities (+/-)		27
Tax liability for the year		27
Total income tax expense from continuing operations (item 270 IS)		30,893

SECTION 20 – PROFIT (LOSS) AFTER TAXES FROM DISPOSAL GROUPS – ITEM 290

This item reports the balance of income and charges in respect of groups of assets and liabilities (disposal groups)held for sale, net of current and deferred taxation.

20.1 PROFIT (LOSS) AFTER TAXES FROM DISPOSAL GROUPS: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
1. Income	384,314	-
2. Expense	(357,285)	-
3. Result of measurement of disposal groups and associated liabilities	-	-
4. Profit (loss) from realization	-	-
5. Taxes and duties	(7,834)	-
Profit (loss)	**19,195**	**-**

The figures reflect the balance of the income and expense generated by the electronic money business.

20.2 BREAKDOWN OF INCOME TAXES FOR DISPOSAL GROUPS HELD FOR SALE

	Total 31/12/2018	Total 31/12/2017
1. Current taxes (-)	(7,834)	-
2. Change in deferred tax assets (+/-)	-	-
3. Change in deferred tax liabilities (-/+)	-	-
4. Income taxes for the period (-1+/-2+/-3)	**(7,834)**	**-**

SECTION 21 OTHER INFORMATION

It was not felt necessary to add further information other than that already provided in the previous tables.

SECTION 22 – EARNINGS PER SHARE

22.1 AVERAGE NUMBER OF ORDINARY SHARES IN DILUTED SHARE CAPITAL

The section has not been completed for these notes to the financial statements. Please see the corresponding section of the notes to the consolidated financial statements.

22.2 OTHER INFORMATION

It was not felt necessary to add further information other than that already provided in the previous tables.

PART D

Comprehensive income

DETAILED BREAKDOWN OF COMPREHENSIVE INCOME

		31/12/2018	31/12/2017
10.	**Net profit (loss) for the period**	**(35,632)**	**4,751**
	Other comprehensive income not recyclable to profit or loss	**(5,771)**	**10**
20.	Equity securities designated as at fair value through other comprehensive income:	(9,248)	-
	a) fair value changes	(9,248)	-
	b) transfers to other elements of shareholders' equity	-	-
30.	Financial liabilities measured at fair value through profit or loss (change in credit risk):	-	-
	a) fair value changes	-	-
	b) transfers to other elements of shareholders' equity	-	-
40.	Hedges of equity securities designated as at fair value through other comprehensive income:	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	-	-
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	3,464	-
	Other comprehensive income recyclable to profit or loss	**(9,162)**	**-**
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:	746	-
	a) fair value changes	4,286	3,668
	b) reversal to income statement	(3,540)	4,994
	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:	(14,346)	(1,751)
	a) fair value changes	(6,380)	8,283
	b) reversal to income statement	(7,966)	(10,034)
	- adjustments for credit risk	(405)	-
	- gain/loss on realization	(7,560)	(10,034)
	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	4,437	-
190.	**Total other comprehensive income**	**(14,933)**	**(415)**
200.	**Comprehensive income (item 10+190)**	**(50,565)**	**4,336**

PART E

Risk and risk management policies

INTRODUCTION

The Iccrea Group attaches great importance to controlling risks and to control systems, which are essential to ensuring the reliable and sustainable generation of value, preserving a sound financial position over time, and enabling effective management of assets and liabilities, including in respect of its core business of supporting and providing services to the mutual banks and their customers.

ORGANIZATION OF RISK MANAGEMENT

- ROLES AND RESPONSIBILITIES IN RISK MANAGEMENT

The risk management function is structured into units that operate within both the Parent Company and at the level of each subsidiary. The organizational implementation of the governance for risk management model takes account of the company structure of the Group, the specialization of business segments within the company structure, the executive effectiveness of the centralized governance approach, the complexity and impact on corporate operations of the functional areas included in the risk management function, compliance with applicable prudential regulations, the effectiveness of second-level controls in relation to management requirements and the applicable regulatory context.

Structure of Risk Management

In 2018, the reorganization of the Group Risk Management function was approved by the competent bodies, in continuity with the corporate governance project from 2017 and in consideration of the needs that have arisen in connection with the reform of the mutual banking system, as well as constant dialogue with the supervisory authorities.

This reorganization was especially necessary to better address the management and coordination activities and the expansion of the scope of the functions that the Parent Company will obligatorily centralize or perform in the form of services for Group companies.

Consistent with the centralized governance model, the upcoming organizational structure envisages a risk management model with functional governance and responsibility centralized at the Parent Company Iccrea Banca of all the affiliated banks involved in the creation of the new Mutual Banking Group (MBG). This model is generally implemented with the outsourcing of risk management functions to the Parent Company, with the adoption of specific service contracts outsourcing the function.

With the adoption of this model, it was necessary to implement organizational arrangements adapted to the new corporate structure. Thus, the main lines of development underpinning that reorganization concerned the need to:

- act as a “control center” for the risk profile of the individual affiliated banks with the appropriate territorial organization of risk management arrangements and the early warning system and the guarantee mechanism;
- coordinate local risk management officers, facilitating dialogue with the other specialist units of the Risk Management department;
- adopt an organizational unit dedicated to validating the models developed internally to quantify the risks to which the MBG will be exposed;
- implement an organizational structure capable of ensure the continuity of the existing Group while the new Mutual Banking Group is being created in order to ensure constant, efficient and effective operation.

Bearing in mind the foregoing, the reorganization of the Risk Management function involved, from the point of view of governance, the retention of centralized responsibility with the Risk Management function of the Parent Company, with the Group Risk Manager position being assigned to the CRO, while:

- at the subsidiaries, the heads of the Risk Management units of the subsidiaries report functionally to the head of Group Risk Management and hierarchically to the board of the subsidiary to which they belong;
- at the affiliated mutual banks, the heads of their Risk Management units report to the head of the local Risk Management unit of the hub to which they belong.

Other organizational changes involved the structuring of the Risk Management function into three main units reporting directly to the CRO:

- *Risk Governance and Validation*, which is involved in the definition and operational maintenance of the main risk governance processes (RAF/RAS, ICAAP, Recovery Plan, stress testing, OMR) and in the validation of the models developed internally to quantify the risks to which the MBG is exposed;
- *Group Risk Management*, which constantly monitors and mitigates the overall exposure of the Group and each individual unit to credit, financial, operational and other significant risks, applying appropriate methods for measuring all current and potential risks in compliance with the limits established in internal rules and supervisory regulations;
- *Mutual Bank Risk Management*, which gives the Parent Company's Risk Management function a "specialized hub" involved in developing methods and tools for the ongoing monitoring of the affiliated banks, as well as in monitoring the risk profile and the periodic updating of the risk categories assigned to each affiliated bank.

Under the governance arrangements, the units at the subsidiaries, which form part of the staff structure supporting their respective boards of directors, report functionally to the risk management function on the basis of the special characteristics of the operations of each subsidiary, creating segments by main line of business. More specifically, the Risk Management units of the subsidiaries report functionally to:

- the Risk Management unit of the Parent Company for BCC Risparmio e Previdenza, Iccrea BancaImpresa, BCC Credito Consumo, BCC Factoring, BCC Lease and Banca Mediocredito del Friuli Venezia Giulia;
- the Mutual Bank Risk Management unit for Banca Sviluppo.

MAIN DUTIES OF THE RISK MANAGEMENT FUNCTION

The responsibilities of the Risk Management function include participating in the definition, development and any corrective maintenance of the framework for risk assumption and management, developing proposals for the Risk Appetite Framework and its operational manifestation (Risk Appetite Statement), monitoring developments in the exposure to the different types of risk and monitoring capital requirements and prudential ratios on a current and prospective basis in relation to the targets defined by the Risk Appetite Statement and the supervisory authorities. More specifically, the function participates in the definition and development of the framework for the assumption and management of the risks for which it is responsible, ensuring that it is:

- compliant with applicable regulations;
- in line with market best practice;
- consistent with internal requirements;
- consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the ICAAP and the ILAAP.

The risk assumption and management framework consists of:

- organizational structures and corporate processes (operating, administrative and business), including first and second line controls;
- supporting applications;
- risk governance policies (policies, limits, responsibilities);
- methodologies and risk measurement and assessment criteria.

In this area, the risk assumption and management framework:

- develops the Risk Appetite Framework and its operational implementation, the Risk Appetite Statement, in accordance with applicable internal and external regulations;
- monitors developments in the exposure to the different forms of risk in relation to developments in markets and the operation of the internal management system;
- develops risk measurement and assessment methods and models;
- 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;
- 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;

- identifies any needs for fine tuning/corrective or evolutionary maintenance of the assumption and management framework for the risks for which it is responsible, providing support – within the scope of its duties – in implementing the associated actions;
- assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (capital absorption, ICAAP) and the appropriateness of the Group's liquidity profile (ILAAP);
- reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining strategic policy and risk policy and the associated implementation of those policies;
- assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to resolve the issues;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The Iccrea Group devotes special attention to managing, assessing and understanding risk. All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Parent Company. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies;
- the specification of risk limits;
- the periodic monitoring of exposures (aggregate and others) with verification of compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the Group companies in the long term, systematic and independent Internal Auditing units, etc.).

RISK GOVERNANCE POLICIES

The risk governance policies represent the reference model in organizational and process development and in the systematic execution of all the operational and business activities performed by Group companies and are an integral part of the risk management process (RMP) adopted by the Group, ensuring sound and prudent management and supporting sustainable implementation of the overall risk strategy.

The internal control system (ICS) governs the RMP, ensuring the completeness, appropriateness, functionality (in terms of effectiveness and efficiency) and reliability of the policies in a context of strict consistency with the Risk Appetite Framework defined at Group level. The structure of the internal control system was designed in accordance with the organizational structure of the Group and, in its operational implementation, takes account of the specific operations and associated risk profiles of each of the Group companies.

The so-called first level of the ICS comprises all operational and business units, with controls integrated within the business processes of those units (e.g. hierarchical, systematic and sample controls) or through dedicated control units reporting to the heads of the operational areas or performed at the back-office level or incorporated in IT procedures.

The corporate control functions operate within the ICS. They are independent and dedicated to ensuring the correct and efficient operation of the system: Internal Audit – third-level controls; Compliance, Anti-Money Laundering (AML), Risk Management – second-level controls.

In this context, the Group develops and implements its business model through a corporate, organizational and operational model that ensures the coordinated use of human resources, technologies and methodologies on the basis of an internal regulatory framework that defines the governance structures of the management and control arrangements, management policies (rules, delegated powers and limits) and processes through which activities are performed. Risk management processes are a component of the Bank's organizational structure, forming part of all operational sectors in which risk is assumed and managed. For each sector, they provide for the identification, assessment (or measurement), monitoring, prevention and mitigation of those risks, also defining the systems (criteria, methods and means) with which those activities are performed.

The Risk Management Process is structured into five phases, the sequentiality of which is itself an integral part of the macro-process. They represent the general organizational manifestation of the Group's risk assumption and management framework:

- *risk identification (knowledge)*: this requires that each process and/or operational and business activity that involves the assumption or management of risks on an ongoing basis provide for the identification of the underlying types of risk and the factors that drive them. This phase is especially significant at the start of new initiatives, in implementing new strategies (business, organizational and infrastructural development, etc.) but is also important in existing activities in the present of changes in the surrounding context (market, operational, regulatory, etc.).
- *assessment/measurement of the identified risks (awareness)*: this requires that the level of risk connected with the activities performed be assessed/measured for each of the various types of identified risk. This phase is especially important in understanding the dynamics of the risks involved and in forecasting (or estimating) their developments in relation to developments in the underlying risk drivers and the possibility of adverse events that could jeopardize achievement of expected results or generate losses. All of this is based on a methodological framework for the assessment/measurement of each type of risk assumed and/or managed, which must be defined and implemented consistently with the provisions of internal rules and in compliance with the applicable regulatory framework. In this framework, operate all company control functions, each in their respective area of responsibility.
- *risk prevention and attenuation (strategy)*: this consists in the ex-ante identification, both at the organization stage and the execution of operational and business activities, of the possible approaches to preventing and attenuating the risks assumed and/or managed. After a cost/benefit analysis of the risk/return trade-off, this phase involves establishing the actions (or techniques) necessary to prevent the occurrence of adverse internal or external events or to attenuate the impact of an adverse event or development. Such actions are intended to guide the evolution of the possible risk scenarios underlying operations within the risk appetite levels established for the individual operating or business segment.
- *monitoring and reporting (tracking and control)*: this consists of the set of tracking and ongoing assessment (measurement) activities tracking the risks underlying operating and business activities in each segment, using methods and frequency consistent with the established methodological framework and internal rules. The monitoring and reporting system is also intended to provide preliminary support to ensure the timeliness and effectiveness of the decision-making and risk mitigation processes in the subsequent phase. All company control functions operate in this area as well, each in their respective area of responsibility.
- *risk management and mitigation (reaction and proactivity)*: this phase comprises the activities and actions that must be established for each operational and business segment to manage the development of the risks assumed and mitigate their adverse impacts. A critical success factor for the effectiveness of risk management and mitigation activities is the presence of a decision-making process to identify the activities themselves and their evolutionary/corrective maintenance that is soundly based on the results of the monitoring and reporting activities in the previous phase. The system therefore provides for the constant monitoring of the results of these activities and the development of dedicated processes for the key operating and business units and explicitly established organizational arrangements for the performance of activities.

For each operational and business segment, the practical implementation of the general model represented by the Risk Management Process is set out in the framework of rules defined and developed by the Parent Company (policies, rules, directives, etc.) and within each Group company (rules, policies, procedures, manuals, etc.) and the consequent implementation of infrastructure (organizational, IT, methodological) to support the performance of activities by the organizational units established for that purpose.

The risk limits represent the more detailed configuration of the Risk Appetite Framework, addressing specific aspects connected with the operations of the Group's various operational and business segments. These limits are governed within the corporate risk management policies and processes and are calibrated to ensure consistency with the respective levels of the risk indicators included in the RAS and which affect the same risk profile / operating segment. At a general level the risk limits are calibrated so as to signal situations in which the operations in progress are not consistent with the guidelines defined by the strategic and operational plans at group level or on an individual basis; as well as reporting situations in which the evolution of the risk profile could compromise the achievement of the target risk levels defined in the SAR or the compliance with the maximum tolerated / permitted exposure levels.

The risk limits are assigned to the individual organizational functions responsible for assuming risk, called risk taking units, in compliance with the activities for which they are responsible and taking into account the risks to which they are exposed in carrying out their activities and processes. The assignment of clear and unequivocal

operating limits determines the responsibility of the individual "risk taking unit" to operate in compliance with the aforementioned limit. The operational functions of the Bank and of the Companies of the Group are called upon to comply with the first line controls in the performance of the activities of competence and to comply with the internal policies defined on the various risk profiles.

SECTION 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 coordinates and directs the credit risk assumption policies of the individual subsidiaries. More specifically:

- the lines of development for Group lending 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 risks for the Group companies.

While incorporated in a single system of rules for the credit segment at the Group level, the procedures for taking on credit risk, which are governed in the systems of powers and delegated authority currently in place at the subsidiaries, are developed within the Parent Company and the subsidiaries on the basis of the specific characteristics of the activities they perform. The cardinal criterion adopted in structuring delegated powers is the establishment of a lending ceiling by risk class (regarding the various categories of counterparty, technical form of the credit, guarantees) assigned to each decision-making body.

2. CREDIT RISK MANAGEMENT POLICIES

The organizational unit of Iccrea Banca responsible for managing credit risk is the Area Chief Lending Officer, which is responsible for developing – in conformity with the strategic objectives of the Bank – the operational plans for lending activities. In addition, it also manages – within the scope of its operational responsibilities - lending activities for the purpose of granting loans and operating credit in support of the operations of the various business lines as well as relations with correspondents abroad. It also plays a role, in coordination with the Risk Management unit, in managing the risks associated with granting loans and operating credit.

Within the Loans department, the Institutional Credit unit carries out the activities associated with lending to this category of customers within the Iccrea Banking Group and monitors credit positions. It also performs activities regarding the processing of bankers' drafts issued by Iccrea Banca S.p.A. and the granting of operating credit and loans to bank counterparties. In addition, it manages exposures classified as impaired past due/overlimit or unlikely to be repaid, as well as registering/controlling loan positions in the information system.

In general, the Loans department ensures the regular performance of the various phases of the credit process, approving applications within the scope of its powers and ensuring the adequacy of the line controls in the operations for which it is responsible.

The Risk Management function manages the credit risk associated with the different counterparty segments, operating and maintaining the monitoring/reporting systems, developing and evolving the creditworthiness assessment models for counterparties and supporting the development/maintenance of the policies for the entire credit process. It also ensures the governance of the overall framework of second level controls for the credit process.

More specifically, the units are responsible for promoting the adoption of procedures for assuming, managing and controlling credit risk designed to guarantee its effective management in line with the principles set out in supervisory regulations and management requirements.

In order to manage credit risk, credit exposure is segmented into portfolios on the basis of the type of loan/credit facility and type of counterparty (mutual banks, other banks, ordinary customers).
Further segmentation is carried out within each customer segment on the basis of the technical form (current account overdrafts, loans, etc.) and maturity (short, medium and long term).

The credit process is organized into the following phases:

- start of application processing: collection of data need to start the lending/loan revision process with a specific counterparty;
- processing: assessment of the creditworthiness of the counterparty and the feasibility of the transaction;
- decision proposal: preparation and formalization of the decision proposal to be submitted to the decision-making body;
- authorization: approval of the decision by the decision-making body and start of authorized operations;
- monitoring: tracking of specific performance indicators (performance controls) and structural assessment of the overall risk profile of the borrower (performance monitoring).

2.1 MANAGEMENT, MEASUREMENT AND CONTROL SYSTEM

IDENTIFICATION OF RISKS

Lending activities expose the Iccrea Banking Group to default risk, i.e. the risk of incurring a loss owing to the failure of a counterparty to perform its contractual obligations or as a result of a reduction in the credit quality attributed to the counterparty. This type of risk is a function of both the intrinsic solvency of the borrower and, through certain impact transmission mechanisms, the economic conditions of the market within which the borrower operates. Given our lending operations, the emergence of adverse macroeconomic or market conditions expose the Group to a general deterioration in asset quality and a general deterioration in the solvency of borrowers.

This latter dynamic translates into an increase in positions classified as non-performing loans (NPLs), the direct impact of which is manifested in profit or loss as an increase in writedowns/impairment losses recognized for accounting purposes.

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). A special process in the lending sector is the management of credit risk mitigation techniques. For regulatory purposes, use of the latter is only permitted subject to specific conditions, which must be complied with for the duration of the guarantees and which determine their eligibility for use in reducing mandatory capital requirements.

Accordingly, any inefficiency or ineffectiveness in the collateral management process may expose the Group to what prudential regulations call residual risk. The operations of Iccrea Banca are also characterized by exposures to financial instruments, such as financial and credit derivatives transacted on unregulated markets, repurchase transactions and transactions settled forward that generate counterparty risk and, consequently, a need to determine any additional capital requirement for such transactions (credit value adjustment – CVA).

MEASUREMENT AND VALUATION OF RISKS

For the purpose of calculating prudential requirements for credit risk, the Iccrea 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 measurement and valuation of credit risk is the responsibility of the Risk management department area and involves:

- measuring credit risk at the single entity/business unit level and at the Group level, considering both conditions of normal operations and stress scenarios;
- formalizing credit risk exposure limits for those with delegated powers, verifying the methodological consistency of the overall structure of those limits;
- monitoring the capacity of the risk limits in terms of the associated credit risk metrics at the individual business unit level and for the Group as a whole;
- defining and updating the methods and measurement models for Group credit risk.

The assessment framework is based on the best practices used by the rating agencies and is conducted on the basis of an analysis of the financial soundness of the potential borrower, taking into account quantitative data in the form of financial and operational indicators and qualitative information on management's standing, together with forecasts for medium/long-term transactions. More specifically, the assessment framework is made up of two "modules", called Structural and Performance. The assessment of counterparty creditworthiness begins with an

analysis of the information drawn from the financial statements and explanatory notes, developed with forward-looking valuation techniques (the Structural Module). The partial assessment thus obtained is supplemented with quantitative and qualitative information from internal sources (the Performance Module).

The tools used during the loan processing stage differ according to the type of counterparty and the product/service requested, taking into consideration, in the case of existing customers, developments in past and/or present transactions.

The credit risk management policy is defined through a system of risk appetite limits specified at the individual counterparty level.

A single name *Maximum Exposure Limit (MEL)* is specified for each counterparty. It represents the overall size of the exposure to that counterparty, and includes all transactions with the Bank, governed by a structure of delegated powers for both loans and operating credit, which represent the specific applications. The *MEL* takes account of the credit risk mitigation effects of guarantees and cannot exceed the risk appetite within the Risk Appetite Framework (RAF).

The *MEL* is monitored on a daily basis through the risk profile, which is the algebraic sum of the lines of credit granted, with the total being the risk ceiling. Two warning thresholds are also specified for Risk Tolerance and Risk Capacity which if exceeded trigger the transmission of a report from Risk Management to the Executive Committee and the Board of the Parent Company to determine the actions to be taken to reduce risk to an acceptable level.

RISK PREVENTION AND ATTENUATION

For each business line (Corporate, Financial Institutions, Retail), the Group has adopted a comprehensive system of arrangements and controls set out in the respective corporate policies that are consistent with the overall Risk Appetite Framework established by the Parent Company.
The operational units involved in lending processes are responsible for performing first-level controls, which are designed to assess credit risk in the loan application acceptance stage and to enable monitoring of borrower solvency over time and signal any irregularities.
More specifically, with regard to the Financial Institutions business line, the systematic oversight process performed by the business units involves assessing problem positions, tracking developments to ensure proper classification of exposures, and implementing consequent actions. It uses a specific application: BankAlert. The application generates daily key risk indicators for each segment of operations. These reports are generated with the same frequency (daily) to all business units that operate with banking counterparties.

MONITORING AND REPORTING

The Risk Management unit performs second-level controls in verifying the adequacy, effectiveness and consistency over time of policies (and limits), processes and delegated powers with regard to the assumption and management of credit risk, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management department for RAF purposes and specific analysis of the Group's overall exposure to credit risk. The natural locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives, tolerances and limits (appetite, tolerance and capacity), with compliance ensured by the monitoring and control activities of the Risk Management department.

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.

Monitoring and reporting involves both business units and control units, in accordance with their respective duties. These activities include aggregate portfolio analysis and analysis of developments in individual positions.

The operational monitoring framework for the Financial Institutions business line consists of a comprehensive system of warning signals represented by Key Risk Indicators, which are drawn from monitoring indicators (financial indicators and internal company indicators) and thresholds specified using statistical analysis that defines alert status.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. ON the basis of a specific calendar, Risk Management

conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively. The Risk Management department is also responsible for preparing periodic reports for management and the operating business units.

2.2 METHODS FOR MEASURING EXPECTED LOSSES

For financial instruments measured at amortized cost and at fair value through other comprehensive income (other than equity instruments), IFRS 9 introduced a model based on the concept of "expected loss" in replacement of the "incurred loss" concept employed by IAS 39.

Under the provisions of the new standard, Iccrea Banca adopted a method for measuring expected losses on loans and securities subject to impairment 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 accounting rules, the Iccrea Banking Group allocates each asset/tranche to one of the following stages (or buckets):

- stage 1, which includes all newly issued assets/tranches and all assets in respect of counterparties classified as performing that, as at the date of assessment, do not show a significant increase in credit risk with respect to the date of disbursement/purchase;
- stage 2, which includes all performing assets/tranches that, as at the date of assessment, show a significant increase in credit risk with respect to the date of disbursement;
- stage 3, which includes all assets/tranches that, as at the date of assessment, are classified as non-performing under the regulatory definition adopted by the Group.

The staging method of Iccrea Banca was developed on the basis of the following drivers.

The method developed for the loan portfolio envisages:

- conventionally allocating certain exposures to stage 1, such as: exposures to mutual banks or Group companies, exposures to employees of the Company, overcollateralized exposures and any specific exposures of the individual company;
- the use of quantitative criteria based on internal rating/scoring systems, involving the analysis and comparison of the PD/rating at origination with the PD/rating at the reporting date. This identifies, on the basis of significant thresholds defined in terms of the number of notches that a rating has changed, any

significant increase in credit risk on the position. If there is no origination PD/rating and only the reporting date PD/rating is available, the method provides for the use of the practical expedient of the low credit risk exemption;

- the use of qualitative criteria to identify the most risky positions in the performing portfolio. These criteria have been defined independently of the use (or not) of quantitative criteria and can be summarized in: positions under observation (where a watchlist system is available), positions more than 30 days past due and forborne performing exposures.

In addition, in order to reduce the volatility of the allocation of exposures to the various stages, the Group has develop mechanisms for the transfer of positions between stages that use a minimum probation period of 3 months, under which:

- an exposure in stage 2 can be transferred to stage 1 if the conditions for allocation to stage 1 exist at the reporting date and at least 3 continuous months have elapsed from the disappearance of the circumstances that gave rise to the allocation to stage 2;
- the restoration of performing status of an exposure previously allocated to stage 3 involves the direct allocation to stage 2 for at least 3 months following the restoration of performing status, unless the conditions for reallocation to stage 3 should arise.

Forborne performing exposures for which the regulatory probation period of 24 months is already active are excluded from the application of this criterion.

A quantitative staging criterion has been defined for Financial Institution counterparties, which, based on the use of an external rating model (RiskCalc by Moody's Analytics), determines the allocation to stage 2 of positions that show an increase of a given number of notches at the reporting date compared with the rating at the origination date.

The criterion is defined in such a way as to allocate to stage 1 all exposures that, regardless of the origination rating and reporting date, have a rating equal to or lower than the minimum investment grade rating (BBB-).

The staging methodology developed for the securities portfolio is applicable to the entire portfolio of debt securities outstanding at the reporting date. 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. Securities issued are conventionally allocated to stage 1.

The approach adopted for FTA provides for the use of the principle of the low credit risk exemption, which regardless of the presence of an origination rating, allocates exposures with a rating that is better or equal to investment grade at the reporting date (BBB-) to stage 1.

Securities exposures to Group entities are also automatically allocated to stage 1.

Main drivers of ECL and scenarios used in IFRS 9 modeling

Probability of default (PD)

In order to ensure the probabilities of default are compliant with IFRS 9, Iccrea Banca has adopted a method, in order to obtain point-in-time, forward-looking and lifetime PDs.

For the loan portfolio, the drivers used to produce the PD regard:

- the transformation of the “through-the-cycle” PD into (or calculation of) the “point-in-time” (PIT) PD on the basis of a 1-year time horizon;
- the inclusion of forward-looking scenarios through the application of multipliers generated by the “satellite model” to the PIT PD and the definition of a series of possible scenarios that incorporate current and future macroeconomic conditions;
- the transformation of the 12-month PD into a lifetime PD in order to estimate the PD term structure over the entire residual life of the loans.

For the securities portfolio, the drivers used to produce the PD regard:

- the inclusion of forward-looking scenarios through the application of multipliers generated by the "satellite model" to the PD supplied and the definition of a series of possible scenarios that incorporate current and future macroeconomic conditions;
- the transformation of the 12-month PD into a lifetime PD where not supplied (government securities) in order to estimate the PD term structure over the entire residual life class of the securities.

Loss Given Default (LGD)

Iccrea Banca estimates LGD by grouping exposures at a variable level of granularity (by product, counterparty type or overall company portfolio), observing, for each uniform cluster of exposures, the ratio of provisions associated with specific writedowns deform to the total gross non-performing exposure and applying a danger rate matrix *(to quantify the probability of transition of non-performing positions from one status to another)*.

For the securities portfolio, the same LGD is used for exposures in stage 1 and stage 2. More specifically, the LGD is equal to 45%.

Exposure At Default (EAD)

Iccrea Banca differentiates the approach used to estimate EAD by loan portfolio on the basis of product type and stage of the exposure, as follows:

- the EAD for stage 1 is equal to the residual debt (or gross exposure) at the reporting date;
- the EAD for stage 2, for amortizing on-balance-sheet exposures only, is calculated on the basis of the observed residual debt for the position over the entire residual life, discounted and weighted appropriately to take account of the estimated increase in PDs over the residual life of the exposure. For other types of exposure it is equal to the residual debt at the reporting date.

For "Margin" credit exposures, the regulatory CCF was used to estimate EAD for stage 1 and stage 2.

Exposures to the Clearing and Guarantee Fund, the exposure to the central bank, pooling deposits, overcollateralized repurchase transactions (including those under the GMRA), intercompany exposures and those to mutual banks participating in the IMBG are automatically allocated to stage 1 and assigned a zero ECL in impairment testing. Exposures to employees of the Group and exposures to mutual banks that are not participating in the IMBG are allocated directly to stage 1 and follow the staging method developed by the Bank.

Forward-looking conditioning of risk parameters

Iccrea Banca conditions risk parameters for future macroeconomic scenarios by estimating/updating, on an annual basis, models that produce forecasts of developments in risk (PD) and losses engendered by counterparty default (LGD) over a specified time horizon and defined on the basis of certain reference variables (default rates, amount of non-performing positions, etc.).

In order to obtain a PD that reflects future macroeconomic conditions, we estimate "satellite models" differentiated by counterparty type that "explain" the relationship linking default rates to a set of "explanatory" macroeconomic variables. The forecasts for the target variable – the default rate – are obtained by defining, on the basis of two separate scenarios, the future realizable values of each macroeconomic variable with the application of the coefficients of the estimated regression. Using these estimates, we construct multipliers as the ratio between the default rate forecasts obtained by calendar year and the last observed value of the target variable, differentiated by scenario.

In order to make the LGD forward looking, Iccrea Banca estimates a regression model that "explains" the relationship linking a variable approximating loss given systemic default (for example, gross non-performing exposures for the system as a whole) to a set of "explanatory" macroeconomic variables, using the same approach adopted for the conditioning of PD for the estimation of the multipliers.

In order to use those multipliers, Iccrea Banca associates the probabilities of occurrence in a judgmental manner to the two scenarios, which are used as weights in calculating the average multiplier for each calendar year. More specifically, we consider three calendar years following the estimation date of the satellite models (the reference

date), while for subsequent years, the multiplier is equal to the arithmetic mean of the multipliers in the three years.

2.3 RISK MITIGATION TECHNIQUES

A series of measures have been developed to upgrade the Bank's organizational and IT resources in order to create effective structural and process arrangements that ensure full compliance with the organizational, financial and legal requirements under the new regulations and govern the entire process of acquiring, assessing, controlling and realizing instruments used to mitigate credit risk. Guarantees eligible for mitigation of credit risk are specified in an "analytic guarantee chart", which provides a specific description of all the information necessary for correct use of the security. The types of eligible guarantee must be approved by the Board of Directors. Iccrea Banca also acquired financial guarantees in respect of "collateral pool" operations backing credit facilities for mutual banks. Pursuant to the provisions of Legislative Decree 170/2004, these guarantees are included, under the rules set out in supervisory instructions, among eligible credit risk mitigation techniques (see Bank of Italy Circular no. 285/2013, Part 2, Chapter 5).

Re-examination has begun of mortgage guarantees already acquired by the Bank covering existing real estate loans, and an electronic database containing their details is being prepared in order to enable for systematic monitoring of their value. A similar effort is being made for all lien security already acquired by the Bank.

Within the context of over-the counter derivative transactions, Iccrea Banca uses a "close-out netting" mechanism with mutual banks providing for the right to terminate pending relationships immediately with the offsetting of reciprocal positions and payment of the net balance in the event of the counterparty's default or bankruptcy. This netting technique is also used for the purposes of calculating capital requirements, in accordance with prudential supervision regulations (see EU Regulation no. 575/2013, Title II, Part 3, Chapter 6, Section 7, Article 296).

In compliance with the provisions of law governing the cancellation of mortgages on extinguished mortgage loans, the Loans Technical Secretariat uses electronic systems for operating with the government office responsible for cancelling encumbrances in respect of repaid loans.

In order to mitigate the credit risk associated with trading in financial derivative instruments with bank counterparties (counterparty risk), Iccrea Banca uses bilateral netting arrangements that in the event of counterparty default enable offsetting of creditor and debtor positions in financial derivatives transactions, as well as for securities financing transactions (SFTs).

On the operational front, risk mitigation is implemented with the use of ISDA agreements for derivatives transactions and Global Master Repurchase Agreements (GMRAs) for direct repurchase transactions with market counterparties. Both of these protocols are used to manage and mitigate credit risk and, in compliance with the conditions established under supervisory regulations, enable the reduction of capital requirements.

As regards OTC derivatives business, as at June 30, 2018, for the purpose of mitigating counterparty risk we used both the clearing services of LCH and bilateral netting arrangements (such as ISDA and/or Framework Agreements) for financial instruments and types of market counterparty currently not covered by LCH. The Bank also continues to enter into Credit Support Annex (CSA) arrangements. At June 30, 2018 there were 224 margin agreements (CSAs) outstanding, of which 82 with market counterparties and 142 with mutual bank industry counterparties.

As for repos, 11 GMRAs were entered into, of which 3 are active and operational with two counterparties.

3. IMPAIRED CREDIT EXPOSURES

3.1 MANAGEMENT STRATEGIES AND POLICIES

Iccrea Banca's strategies for managing impaired credit exposures are an integral part of the Iccrea Banca's overall long-term Strategic Plan. The objectives for managing NPEs are incorporated in an Operational Plan, consisting of all the activities that the Group undertakes to effectively implement the Strategic Plan in a manner consistent with applicable regulations and regulatory policy.

The operational planning of the objectives to be achieved for the NPE portfolio also enables the Bank to monitor the ongoing effectiveness of its strategies and to identify appropriate corrective measures in the event of deviations from targets.

The Iccrea Banca has implemented appropriate governance and operational structures to enable the efficient and sustainable management of impaired loans.

More specifically:

- the analysis, recovery and restructuring of non-performing exposures is structured around units that are separate from the units responsible for origination and those that monitor performing positions. In cases where the establishment of an organizational unit is not possible, internal controls have been established to ensure adequate mitigation of potential conflicts of interest. As a corollary to the foregoing, the decision-making bodies of the units involved in managing non-performing exposures do not have decision-making authority for performing positions, while those of the units responsible for managing performing positions do not have authority to make decisions concerning non-performing positions;
- criteria for allocating exposures have been specified. They are used to trigger a change in responsibility for/ownership of exposures at the level of the units specialized in managing impaired exposures, in compliance with the principle of assigning a position to a single manager;
- the system also provides for activities, including self-assessment, to assess the suitability, in both quantitative and qualitative terms, of the structures and resources deployed to manage impaired financial assets.

The reduction in the impaired exposures envisaged in the 2018-2020 plan will be accomplished with the implementation of a series of strategies, namely:

- maintaining positions on the balance sheet in the short term, to be applied to positions in reversible financial difficulty that are expected to return to performing status with short-term measures;
- maintaining positions on the balance sheet in the long term, to be applied to positions in a more advanced, albeit reversible, state of financial difficulty that are expected to return to performing status with long-term measures, including the debt restructuring measures provided for by law;
- legal action, to be applied to severely impaired positions for which legal action is taken to recover the claim, as the state of crisis appears deeply rooted and irreversible;
- active portfolio reduction, to be applied to impaired positions that are not considered recoverable. They are slated for disposal as the state of crisis appears to be deeply rooted and irreversible and the sale of the positions can also contribute to reducing the operating costs of managing NPEs.

In summary, the main actions are as follows:

- attempts at amicable recovery of loans and assets in the case of lease transactions;
- restructuring of exposures, using the options available under bankruptcy law where appropriate. This activity is based on an analysis of the credibility and repayment capacity of the counterparty, as well as the overall sustainability of the plans. The Group's policies are aimed at taking early action to restructure loans as the positive effects of curing on exposures are all the more effective the earlier they are implemented. In this regard, the instruments for monitoring counterparties have been strengthened in order to detect the initial signs of deterioration and promptly guide subsequent action;
- settlements, predominantly on an out-of-court basis;
- legal and out-of-court recovery of loans and assets, with a focus on remarketing leased assets;
- disposal of non-strategic NPE portfolios, making significant use of GACS state guarantee scheme. In addition to the sale of portfolios, the strategies also provide for one-to-one transfers where the terms offered are attractive, taking account of prices prevailing in market transactions.

The actions to be pursued are selected following an assessment of the cost-effectiveness of the measures and is reflected in a clustering of customers/transactions structured so as to guide operations effectively and facilitate the monitoring of the activities performed.

3.2 WRITEOFFS

Extinguishing loans – apart from ordinary recovery actions – essentially involves writing off positions and the non-recourse assignment of exposures.

Writeoffs may involve part or all of a position and do represent waiver of the legal right to recover the loan.

Initiation of writeoff procedure presupposes that the NPE has residual balance for which no further recovery is envisaged for the following reasons:

- a final judgment has been issued that establishes the impossibility of recovery;
- all possible forced recovery procedures have failed;
- there is no expectation of recovery (also linked to the position's vintage) and the impossibility of taking further actions given that any guarantees are essentially worthless or the overall financial position and profitability of the obligors are such as to recommend terminating recovery actions;
- the start or continuation of legal action would be uneconomic.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTATIONS AND EXPOSURES SUBJECT TO FORBEARANCE MEASURES

The definition regards exposures subject to renegotiation and/or refinancing - forbearance measures – in respect of performing borrowers or classified as non-performing loans. In a broad sense, the category includes all new forbearance measures and modifications of the original contractual terms aimed at avoiding default by a customer in financial distress. It therefore includes both credit exposures subject to management restructuring (not only statutory restructuring measures) and normal renegotiation of counterparty payments.

A customer is in “objective” financial distress when one or more of the following states exists:

- the customer is classified as “non-performing”;
- a payment instalment on at least one of any exposures to the customer is past due by more than 30 days in the three months prior to the opening of the forbearance procedure;
- Iccrea BancaImpresa has been notified by the customer of its financial distress.

Other circumstances that would represent a state of financial distress that the position manager must assess in order to classify any action as “forbearance” can include:

- an increase in the probability of default (PD) of the rating class over a time horizon defined by the opening of the forbearance procedure;
- the assignment of the counterparty to one of the worst rating classes;
- the assignment of the exposure to the watchlist category during the three months prior to the opening of the forbearance procedure.

In the absence of the above requirements, the position manager or the decision-making body may still classify the action as forbearance they find evidence that the borrower is in situation of financial distress.

As indicated in the ECB publication “Guidance to banks on non-performing loans”, the following list outlines general supervisory guidance for the categorization of viable forbearance:

- a solution comprising short-term forbearance measures. it should be considered economically sustainable where:
    - the institution can demonstrate (based on reasonable documented financial information) that the borrower can afford the forbearance solution;
    - short-term measures are truly applied temporarily and the 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 these regard separate contracts if the loan was refinanced in a previous forbearance solution).

- a forbearance solution including long-term forbearance measures should only be considered viable where:
  - the institution can demonstrate (based on reasonable documented financial information) that the borrower can realistically afford the forbearance solution;
  - the resolution of outstanding arrears is fully addressed and a significant reduction in the borrower's balance in the medium to long term is expected;
  - in cases where there have been previous forbearance solutions granted in respect of an exposure, including any previous long-term forbearance measures, the bank should ensure that additional internal controls are implemented to ensure this subsequent forbearance treatment meets the viability criteria. These controls should include, at a minimum, that such cases should receive explicit approval of the relevant senior decision-making body.

Any assessment of viability should be based on the financial characteristics of the debtor and the forbearance measure to be granted at that time.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

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

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

		Bad debts	Unlikely to be repaid	Impaired past due exposures	Unimpaired past due positions	Other unimpaired positions	Total
1. Financial assets measured at amortized cost		127,512	1,415	22	218	36,232,405	36,361,573
2. Financial assets measured at fair value through other comprehensive income		-	-	-	-	240,211	240,211
3. Financial assets at fair value		-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value		-	-	-	-	118,866	118,866
5. Financial assets held for sale		-	-	-	-	522	522
Total	**31/12/2018**	**127,512**	**1,415**	**22**	**218**	**36,592,003**	**36,721,171**
Total	**31/12/2017**	**16,618**	**1,541**	**3**	**1,232**	**33,561,364**	**33,580,758**

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

	Impaired				Unimpaired assets			
	Gross exposure	Specific adjustments	Net exposure	Total partial writeoffs *	Gross exposure	Specific adjustments	Net exposure	Total (net exposure)
1. Financial assets measured at amortized cost	168,560	39,610	128,950	-	36,240,097	7,474	36,232,623	36,361,573
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	240,620	409	240,211	240,211
3. Financial assets at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	118,866	118,866
5. Financial assets held for sale	-	-	-	-	525	3	522	522
Total 31/12/2018	**168,560**	**39,610**	**128,950**	**-**	**36,481,241**	**7,886**	**36,592,221**	**36,721,171**
Total 31/12/2017	**57,753**	**39,591**	**18,162**	**-**	**33,547,741**	**775**	**33,562,596**	**33,580,758**

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	340,324
2. Hedging derivatives	-	-	7,715
Total 31/12/2018	**-**	**-**	**348,039**
Total 31/12/2017	**-**	**-**	**322,530**

A.1.3 DISTRIBUTION OF FINANCIAL ASSETS BY TIME PAST DUE (CARRYING AMOUNTS)

	Stage 1			Stage 2			Stage 3		
	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	130	68	-	-	20	-	-	31	128,323
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total 31/12/2018	**130**	**68**	**-**	**-**	**20**	**-**	**-**	**31**	**128,323**

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			
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	of which: individual writedowns	of which: collective writedowns
Opening balance	**3,744**	**396**	**-**	**4,140**	**826**	**418**	**-**	**1,245**
Increases in financial assets purchased or originated	-	-	-	-	-	-	-	-
Derecognition other than write-offs	-	-	-	-	-	-	-	-
Net writedowns/writebacks for credit risk (+/-)	(799)	(334)	-	(1,133)	3,702	(71)	-	3,631
Contractual modifications without derecognition	-	-	-	-	-	-	-	-
Change in estimation method	-	-	-	-	-	-	-	-
Writeoffs	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-
Closing balance	**2,945**	**62**	**-**	**3,007**	**4,529**	**347**	**-**	**4,876**
Recoveries from collection on written-off financial assets	-	-	-	-	-	-	-	-
Write-off recognized through profit or loss	-	-	-	-	-	-	-	-

	Total writedowns					Total provisions for commitments to disburse funds and financial guarantees issued			Total
	Stage 3								
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	of which: individual writedowns	of which: collective writedowns	of which: purchased and originated credit-impaired financial assets	Stage 1	Stage 2	Stage 3	
Opening balance	**39,591**	**-**	**39,591**	**-**	**-**	**103**	**21**	**-**	**45,100**
Increases in financial assets purchased or originated	-	-	-	-	-	-	-	-	**-**
Derecognition other than write-offs	-	-	-	-	-	-	-	-	**-**
Net writedowns/writebacks for credit risk (+/-)	1,605	-	1,605	-	-	(67)	50	-	**4,087**
Contractual odifications without erecognition	-	-	-	-	-	-	-	-	**-**
Change in estimation method	-	-	-	-	-	-	-	-	**-**
Writeoffs	(1,566)	-	(1,566)	-	-	-	-	-	**(1,566)**
Other changes	(20)	-	(20)	-	-	-	-	-	**(20)**
Closing balance	**39,610**	**-**	**39,610**	**-**	**-**	**36**	**72**	**-**	**47,601**
Recoveries from collection on written-off financial assets	-	-	-	-	-	-	-	-	**-**
Write-off recognized 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	-	73,676	265	-	341	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Commitments to disburse funds and financial guarantees issued	-	108	-	-	-	-
Total 31/12/2018	**-**	**73,784**	**265**	**-**	**341**	**-**

A.1.6 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired assets	Unimpaired assets			
A. ON-BALANCE-SHEET EXPOSURES					
a) Bad debts	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to be repaid	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Impaired past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Unimpaired past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other unimpaired assets	X	25,736,453	2,809	25,733,645	-
- of which: forborne exposures	X	-	-	-	-
TOTAL A	**-**	**25,736,453**	**2,809**	**25,733,645**	**-**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Impaired	-	X	-	-	-
b) Unimpaired	X	6,887,928	107	6,887,821	-
TOTAL B	**-**	**6,887,928**	**107**	**6,887,821**	**-**
TOTAL A+B	**-**	**32,624,382**	**2,916**	**32,621,466**	**-**

A.1.7 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired assets	Unimpaired assets			
A. ON-BALANCE-SHEET EXPOSURES					
a) Bad debts	166,935		39,423	127,512	-
- of which: forborne exposures	-		-	-	-
b) Unlikely to be repaid	1,601		186	1,415	-
- of which: forborne exposures	909		125	784	-
c) Impaired past due exposures	24		1	22	-
- of which: forborne exposures	-		-	-	-
d) Unimpaired past due exposures		219	1	218	-
- of which: forborne exposures		-	-	-	-
e) Other unimpaired assets		10,940,608	5,076	10,935,532	-
- of which: forborne exposures		452	14	438	-
TOTAL A	**168,560**	**10,940,827**	**44,688**	**11,064,700**	**-**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Impaired	-		-	-	-
b) Unimpaired			-	535,927	-
TOTAL B	**-**	**535,927**	**-**	**535,927**	**-**
TOTAL A+B	**168,560**	**11,476,754**	**44,688**	**11,600,626**	**-**

A 1.8 ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS IMPAIRED POSITIONS

The table has not been completed because there were no such positions as of the balance sheet 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 as of the balance sheet date.

A.1.9 ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS IMPAIRED POSITIONS

	Bad debts	Unlikely to be repaid	Impaired past due exposures
A. Opening gross exposure	**56,063**	**1,687**	**4**
- of which: exposures assigned but not derecognized	-	-	-
B. Increases	**114,152**	**585**	**21**
B.1 from performing credit exposures	114,052	585	21
B.2 from purchased or originated credit-impaired financial assets	-	-	-
B.3 from other impaired exposures	55	-	-
B.4 contractual modifications without derecognition	-	-	-
B.5 other increases	45	-	-
C. Decreases	**3,280**	**671**	**1**
C.1 to performing credit exposures	-	519	-
C.2 writeoffs	1,566	-	-
C.3 collections	1,713	97	1
C.4 realization from disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 to other impaired exposures	-	55	-
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross exposures	**166,935**	**1,601**	**24**
- of which: exposures assigned but not derecognized	-	-	-

A.1.9 BIS 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	**810**	**1,195**
- of which: exposures assigned but not derecognized	-	-
B. Increases	**406**	**-**
B.1 from performing credit exposures without forbearance	-	-
B.2 from performing credit exposures with forbearance	406	X
B.3 from impaired exposures with forbearance	X	-
B.4 other increases	-	-
C. Decreases	**307**	**743**
C.1 to performing credit exposures without forbearance	-	326
C.2 to performing credit exposures with forbearance	X	-
C.3 to impaired exposures with forbearance	-	X
C.4 writeoffs	X	-
C,5 collections	27	11
C.6 realization from disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	279	-
D. Closing gross exposure	**909**	**452**
- of which: exposures assigned but not derecognized	-	-

A 1.10 ON-BALANCE-SHEET IMPAIRED CREDIT EXPOSURES TO BANKS: CHANGE IN TOTAL ADJUSTMENTS OF LOANS

The table has not been completed because there were no such positions as of the balance sheet date.

A.1.11 ON-BALANCE-SHEET IMPAIRED CREDIT EXPOSURES TO CUSTOMERS: CHANGE IN TOTAL ADJUSTMENTS OF LOANS

	Bad debts		Unlikely to be repaid		Impaired past due exposures	
	Total	of which: forborne exposures	Total	Total	of which: forborne exposures	Total
A. Total opening adjustments	**39,445**	**29**	**146**	**103**	**-**	**-**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-
B. Increases	**2,488**	**-**	**70**	**29**	**1**	**-**
B.1 writedowns of purchased or originated credit-impaired assets	-	X	-	X	-	X
B.2 other writedowns	2,482	-	70	29	1	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 from other categories of impaired positions	3	-	-	-	-	-
B.5 contractual modifications without derecognition	-	X	-	X	-	X
B.6 other increases	3	-	-	-	-	-
C. Decreases	**2,509**	**29**	**31**	**7**	**-**	**-**
C.1 writebacks from valuations	705	-	5	5	-	-
C.2 writebacks from collections	238	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 writeoffs	1,566	-	-	-	-	-
C.5 to other categories of impaired positions	-	-	3	-	-	-
C.6 contractual modifications without derecognition	-	X	-	X	-	X
C.7 other decreases	-	29	23	3	-	-
D. Total closing adjustments	**39,423**	**-**	**186**	**125**	**1**	**-**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-

A.2 CLASSIFICATION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED ON THE BASIS OF EXTERNAL AND INTERNAL RATINGS

A.2.1 DISTRIBUTION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BY EXTERNAL RATING GRADES (GROSS VALUES)

	External rating grades						Not rated	Total
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	BELOW B-		
A. Financial assets measured at amortized cost	**66,750**	**11,350**	**20,571,288**	**7**	**-**	**-**	**15,759,785**	**36,409,181**
- Stage 1	65,730	1,700	20,568,275	-	-	-	15,508,681	36,144,387
- Stage 2	1,020	9,650	3,012	7	-	-	82,546	96,235
- Stage 3	-	-	2	-	-	-	168,558	168,560
B. Financial assets measured at fair value through other comprehensive income	**79,725**	**5,100**	**136,310**	**6,344**	**-**	**-**	**13,141**	**240,620**
- Stage 1	79,725	5,100	105,193	-	-	-	13,141	203,159
- Stage 2	-	-	31,117	6,344	-	-	-	37,461
- Stage 3	-	-	-	-	-	-	-	-
Total (A+B)	**146,476**	**16,450**	**20,707,598**	**6,351**	**-**	**-**	**15,772,926**	**36,649,801**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
C. Commitments to disburse funds and financial guarantees issued								
- Stage 1	12,217	16,813	57,661	610	-	-	6,721,996	6,809,298
- Stage 2	-	-	57,204	142	171	-	40,068	97,585
- Stage 3	-	-	-	-	-	-	-	-
Total (C)	**12,217**	**16,813**	**114,866**	**752**	**171**	**-**	**6,762,064**	**6,906,883**
Total (A+B+C)	**134,258**	**(364)**	**20,592,733**	**5,599**	**(171)**	**-**	**9,010,863**	**29,742,918**

The distribution of the exposures in the table shows the breakdown by rating grade of the borrowers referred to in the prudential regulations of the Bank of Italy. The information has been provided by the Fitch rating agency as the External Credit Assessment Institution (ECAI).

A 2.2 DISTRIBUTION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BY INTERNAL RATING GRADES

The table has not been completed because at the reporting date use was made of external ratings.

A.3 DISTRIBUTION OF SECURED EXPOSURES BY TYPE OF GUARANTEE

A.3.1 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET SECURED CREDIT EXPOSURES TO BANKS

			Collateral (1)				Unsecured guarantees (2)	
							Credit derivatives	
								Other derivatives
	Value of gross exposures	Value of net exposures	Properties - Mortgages	Properties - Finance leases	Securities	Securities	CLN	Central counterparties
1. Secured on-balance-sheet credit exposures:	**18,672,423**	**18,672,316**	**1,230**	**-**	**17,646,273**	**1,022,288**	**-**	
1.1 fully secured	18,672,423	18,672,316	1,230	-	17,646,273	1,022,288	-	-
- of which: impaired	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-
2. Secured off-balance-sheet credit exposures::	**21,162**	**21,102**	**-**	**-**	**12,912**	**-**	**-**	**-**
2.1 fully secured	21,162	21,102	-	-	12,912	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-

	Unsecured guarantees (2)							Total (1)+2)
	Credit derivatives			Guarantees				
	Other derivatives							
	Banks	Other financial companies	Other	Governments	Banks	Other financial companies	Other	
1. Secured on-balance-sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**2,525**	**-**	**18,672,316**
1.1 fully secured	-	-	-	-	-	2,525	-	18,672,316
- of which: impaired	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-
2. Secured off-balance-sheet credit exposures:	**-**	**-**	**-**	**-**	**7,210**	**980**	**-**	**21,102**
2.1 fully secured	-	-	-	-	7,210	980	-	21,102
- of which: impaired	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-

A.3.2 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET SECURED CREDIT EXPOSURES TO CUSTOMERS

			Collateral (1)				Unsecured guarantees (2)									Total
							Credit derivatives					Guarantees				
								Other derivatives								
	Value of gross exposures	Value of net exposures	Properties - Mortgages	Properties - Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other	Governments	Banks	Other financial companies	Other	(1)+(2)
1. Secured on-balance-sheet credit exposures:	**1,304,480**	**1,277,765**	**73,144**	**-**	**1,192,144**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**142**	**1,265,431**
1.1 fully secured	1,302,253	1,275,555	72,403	-	1,192,094	-	-	-	-	-	-	-	-	-	142	1,264,639
- of which: impaired	40,218	13,816	13,686	-	-	-	-	-	-	-	-	-	-	-	130	13,816
1.2 partially secured	2,227	2,210	741	-	50	-	-	-	-	-	-	-	-	-	-	791
- of which: impaired	135	127	57	-	-	-	-	-	-	-	-	-	-	-	-	57
2. Secured off-balance-sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 fully secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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 as of the balance sheet date.

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY SECTOR

	Governments		Financial companies		Financial companies (of which: insurance undertakings)	
	Net exposure	Specific writedowns	Net exposure	Specific writedowns	Net exposure	Specific writedowns
A. On-balance sheet						
A.1 Bad debts	-	-	113,972	1,696	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.2 Unlikely to be repaid	-	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-	-
A,4 Unimpaired exposures	6,967,083	1,019	3,793,758	3,670	-	-
- of which: forborne exposures	-	-	-	-	-	-
Total (A)	**6,967,083**	**1,019**	**3,907,731**	**5,366**	**-**	**-**
B. Off-balance sheet						
B.1 Impaired exposures	-	-	-	-	-	-
B.2 Unimpaired exposures	-	-	257,461	0	-	-
Total (B)	**-**	**-**	**257,461**	**0**	**-**	**-**
Total (A+B) 31/12/2018	**6,967,083**	**1,019**	**4,165,191**	**5,367**	**-**	**-**

	Non-financial companies		Households	
	Net exposures	Portfolio writedowns	Net exposures	Portfolio writedowns
A. On-balance sheet				
A.1 Bad debts	1,841	14,486	11,698	23,241
- of which: forborne exposures	-	-	-	-
A.2 Unlikely to be repaid	404	105	1,011	81
- of which: forborne exposures	404	105	379	21
A.3 Impaired past due exposures	3	0	20	1
- of which: forborne exposures	-	-	-	-
A.4 Unimpaired exposures	113,881	89	61,027	299
- of which: forborne exposures	-	-	438	14
Total (A)	**116,129**	**14,680**	**73,757**	**23,622**
B. Off-balance sheet				
B.1 Impaired exposures	-	-	-	-
B.2 Unimpaired exposures	83,213	-	9,562	-
Total (B)	**83,213**	**-**	**9,562**	**-**
Total (A+B) 31/12/2018	**199,342**	**14,680**	**83,319**	**23,622**

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 debts	127,512	37,727	-	-	-	1,696
A.2 Unlikely to be repaid	1,415	186	-	-	-	
A.3 Impaired past due exposures	22	1	-	-	-	
A.4 Unimpaired exposures	10,773,609	4,872	55,366	79	51,266	96
TOTAL A	**10,902,558**	**42,786**	**55,366**	**79**	**51,266**	**1,792**
B. Off-balance-sheet						
B.1 Impaired exposures	-	-	-	-	-	
B.2 Unimpaired exposures	18,060	-	-	-	-	
TOTAL B	**18,060**	**-**	**-**	**-**	**-**	
TOTAL (A+B) 31/12/2018	**10,920,619**	**42,787**	**55,366**	**79**	**51,266**	**1,792**

	ASIA		REST OF THE WORLD	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet				
A.1 Bad debts	-	-	-	-
A.2 Unlikely to be repaid	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-
A.4 Unimpaired exposures	52,840	23	2,669	7
TOTAL A	**52,840**	**23**	**2,669**	**7**
B. Off-balance-sheet				
B.1 Impaired exposures	-	-	-	-
B.2 Unimpaired exposures	-	-	-	-
TOTAL B	**-**	**-**	**-**	**-**
TOTAL (A+B) 31/12/2018	**52,840**	**23**	**2,669**	**7**

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 debts		-	-	-	-	-	-
A.2 Unlikely to be repaid		-	-	-	-	-	-
A.3 Impaired past due exposures		-	-	-	-	-	-
A.4 Unimpaired exposures		25,525,695	2,470	194,484	238	10,620	99
	Total A	**25,525,695**	**2,470**	**194,484**	**238**	**10,620**	
B. Off-balance-sheet							
B.1 Impaired exposures		-	-	-	-	-	-
B.2 Unimpaired exposures		135,663	44	15,247	18	236	2
	Total (B)	**135,663**	**44**	**15,247**	**18**	**236**	
Total (A+B)	**31/12/2018**	**25,661,358**	**2,514**	**209,731**	**256**	**10,856**	**101**

		Asia		Rest of the world	
		Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet					
A.1 Bad debts		-	-	-	-
A.2 Unlikely to be repaid		-	-	-	-
A.3 Impaired past due exposures		-	-	-	-
A.4 Unimpaired exposures		432	-	2,413	1
	Total A	**432**	**-**	**2,413**	**1**
B. Off-balance-sheet					
B.1 Impaired exposures		-	-	-	-
B.2 Unimpaired exposures		6,051	39	242	5
	Total (B)	**6,051**	**39**	**242**	**5**
Total (A+B)	**31/12/2018**	**6,483**	**39**	**2,656**	**6**

B.4 LARGE EXPOSURES

a) Carrying amount	47,532,637
b) Risk-weighted amount	882,392
c) Number of positions	48

C. SECURITIZATIONS

QUANTITATIVE DISCLOSURES

C.1 EXPOSURES IN RESPECT OF MAIN OWN SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

The table has not been completed because there were no such positions as of the balance sheet date.

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.1 Lucrezia Securitization																		
Bad debts	119,283	3,061																

Bad debts regards debt securities issued by the vehicle Lucrezia Securitization Srl and includes €113,972 thousand in respect of the purchase of non-performing exposures as part of the rescues of distressed mutual banks (BCC Romagnolo, BCC Annia, BCC Patavina, BCC Agrobresciano) for which Iccrea Banca undertook to subscribe all of the corresponding notes. The remainder regards securities acquired as part of the crisis resolution measures for:

- Banca Padovana and BCC Irpina;
- Crediveneto;
- BCC Teramo.

C.3 INVOLVEMENT IN SPECIAL PURPOSE VEHICLES

The table has not been completed because there were no such positions as of the balance sheet date.

C.4 NON-CONSOLIDATED SPECIAL PURPOSE VEHICLES

The table has not been completed because there were no such positions as of the balance sheet date.

C.5 SERVICER ACTIVITIES – OWN SECURITIZATIONS - COLLECTIONS ON SECURITIZED ASSETS AND REDEMPTION OF SECURITIES ISSUED BY VEHICLE

The table has not been completed because there were no such positions as of the balance sheet date.

D. DISCLOSURE ON NON-CONSOLIDATED STRUCTURED ENTITIES (OTHER THAN SPECIAL PURPOSE ENTITIES FOR SECURITIZATIONS)

The section has not been completed because there were no such positions as of the balance sheet date.

E. DISPOSALS

A. FINANCIAL ASSETS ASSIGNED BUT NOT DERECOGNIZED

QUANTITATIVE DISCLOSURES

E.1 ASSIGNED FINANCIAL ASSETS FULLY RECOGNIZED AND ASSOCIATED FINANCIAL LIABILITIES: CARRYING AMOUNTS

	Assigned financial assets 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	**-**	**-**	**-**	**X**	**-**	**-**	**-**
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**49,972**	**-**	**49,972**	**-**	**97,629**	**-**	**97,629**
1. Debt securities	49,972	-	49,972	-	97,629	-	97,629
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortized cost	**1,168,734**	**-**	**1,168,734**	**-**	**2,658,157**	**-**	**2,658,157**
1. Debt securities	1,168,734	-	1,168,734	-	2,658,157	-	2,658,157
2. Loans	-	-	-	-	-	-	-
Total 31/12/2018	**1,218,706**	**-**	**1,218,706**	**-**	**2,755,786**	**-**	**2,755,786**

E.2 ASSIGNED FINANCIAL ASSETS PARTIALLY RECOGNIZED AND ASSOCIATED FINANCIAL LIABILITIES: CARRYING AMOUNTS

The table has not been completed because there were no such positions as of the balance sheet date.

E.3 DISPOSALS INVOLVING LIABILITIES WITH RECOURSE ONLY ON ASSETS DIVESTED AND NOT FULLY DERECOGNIZED: FAIR VALUE

The table has not been completed because there were no such positions as of the balance sheet date.

E.4 COVERED BONDS

The table has not been completed because there were no such positions as of the balance sheet date.

F. MODELS FOR MEASURING CREDIT RISK

The At the date of the financial statements, no internal models were used for measuring credit risk.

SECTION 2 – MARKET RISKS

2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. General aspects

Market risk is defined as the risk of incurring losses generated by operations in markets for financial instruments, foreign exchange and commodities (see Bank of Italy Circular 263/2006, Title II, Chapter 4, Part One). At the Iccrea Banking Group level, operational management of finance activities is centralized with Iccrea Banca, which is responsible for funding and the assumption and management at the individual and consolidated levels of interest rate, exchange rate and liquidity risk in order to ensure the essential sterilization and optimization of overall funding and hedging costs for Group companies.

Intermediation for the mutual banks is the main strategic objective of Iccrea Banca. This is pursued by seeking to ensure that the breadth and content of the financial portfolios are consistent with the needs of the mutual banks and in line with the evolution of the markets. Position activities are carried out using standard financial instruments as well as derivative contracts. In all cases, the management of maturity transformation both at medium/long-term and within the context of treasury operations is carried out in compliance with a financial risk containment policy.

The main activities performed are:

- funding and lending on the interbank market;
- trading as a primary dealer on the MTS exchange;
- acting as a market maker and direct participant (for transmission of orders from mutual banks) on the Hi-MTF and EuroTLX multilateral trading systems;
- participating in the primary market for share and bond placements and in tenders and subscriptions of government securities;
- negotiating repurchase agreements on both OTC and regulated markets, and derivatives on regulated markets;
- structuring, executing and managing financial derivatives traded on unregulated markets, mainly to satisfy the specific needs of the Bank's customers;
- providing the mutual banks with investment services, trading on own account, order execution for customers, order reception and transmission, trading on behalf of third parties and the placement of financial instruments issued by the Bank and by third parties;
- providing the mutual banks with access to standing facilities with the ECB;
- management of liquidity and the short-term interest rate profile in respect of transactions on the interbank, foreign exchange and precious metals markets;
- structuring of medium/long-term funding operations on domestic and international markets.

Within the context of operating powers, specific operational limits on trading positions that generate exposures to market risks have been established. These risks are mainly assumed in respect of domestic government securities and futures contracts, traded on official markets with netting and guarantee mechanisms, as well as mainly plain vanilla interest rate derivatives to support the mutual banks' hedging requirements.

Transactions in interest rate derivatives also include interest rate swaps with institutional counterparties to support the special purpose vehicle in transforming interest flows generated by securitizations of receivables of the mutual banks and the companies of the Iccrea Banking Group. Overall exposure to interest rate risk is concentrated in transactions in euros. As a result, the impact of correlation between developments in the yield curves for other currencies is minimal.

B. Management and measurement of interest rate risk and price risk

GOVERNANCE AND ORGANIZATIONAL MODEL

The market risk management and governance framework of the Iccrea Banking Group adopts a "centralized" approach. Iccrea Banca, as Parent Company, is responsible for the overall governance of financial operations and the associated market risks at the Group level because:

- it is responsible for setting the Group's market risk policies;
- it monitors the exposure to market risks at the centralized level;
- it manages market risks at the Parent Company level.

Within these organizational arrangements, the assumption/identification of market risks is the responsibility of the business units, which with the support of Risk Management monitor and analyze new risk components for risk positions already held, new types of business, developments in the financial market and the various combinations of financial instruments and markets in which the Group may be operating.

Risks positions are taken on by the trading and investment desks and are actively managed by them during the working day using appropriate position-keeping applications.

Front office staff operate with the various units and risk positions are assumed in compliance with the portfolio tree and the associated risk limits.

Coordination of the trading and investment desks is performed through the unit heads, each at his or her level in the hierarchy, who are responsible for ensuring compliance with the assigned limits.

The operational model for managing market risks at both the consolidated and individual levels is the responsibility of the Finance department, within which exposures are assumed and managed by the following units:

- Capital Markets, which is tasked with managing activities connected with the trading book and identifying funding needs at the individual and consolidated level, monitoring the interest-rate, exchange-rate and liquidity risks of the banking book. The unit also manages interest-rate and liquidity risks at medium and long term. It acts as a market maker on multilateral trading systems, and as a specialist and primary dealer, as well as handling the structuring and own-account trading of OTC financial derivatives. It operates in accordance with the policies defined and the guidelines set for the management of the portfolios within the established risk limits and seeking to achieve profit targets;
- Treasury, which uses derivatives on interest rates and exchange rates in order to manage the short-term interest rate and exchange rate risk profile in respect of trading on the interbank money market and intercompany transactions.

IDENTIFICATION OF RISKS

Operations in financial market, especially positions in the trading book, expose the Bank to market risks and other subcategories of risk. The identification of risks is mainly carried out in the process of specifying and updating risk models and metrics for market risks, and involves the following activities:

- the specification and updating of risk metrics, i.e. the evolution by the Risk Management department of measurement and monitoring methods on the basis of developments in markets, regulations and best practice;
- the approval process, conducted before the start of operations in a new financial instrument and the associated definition of the procedures for measuring fair value and risks.

Market risks are managed using advanced measurement and monitoring methods. The Risk Management unit is responsible for the development, use and maintenance of these measurement procedures.

RISK MEASUREMENT AND ASSESSMENT

Risk Management, acting through the Financial Risk Methodologies & Solutions unit, is the main actor in the processes for development and using measurement models and metrics for market risk.

Updates of the models and metrics are identified by Risk Management in the performance of its duties, including analysis of regulatory requirements, market best practices and input from the business units involved (Finance in particular).

Iccrea Banca uses the standardized approach for the purpose of calculating capital requirements for market risks, in accordance with the applicable supervisory regulations.

Measurement is centralized with the Risk Management unit and involves:

- 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.

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)

To calculate VaR, the Iccrea Banking Group uses an approach based on historical simulations (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.

At Iccrea Banca, 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 exposure.

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:

- strengthening 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;
- capture and monitor any risk factors that are not fully captured by the calculation models adopted.

In addition to the backtesting noted earlier, the effectiveness management of market risk 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.

At the operational process level, the Group has a complete system of arrangements and controls that help define the overall control model, which is set out and formalized in the risk management policy.

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, which are intended to verify compliance with rules and procedures as well as internal and external regulations.

MONITORING AND REPORTING

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators defined for managing financial risk. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of market risk indicators has been provided for.

Monitoring risk indicators is 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/tolerance 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 Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the Bank's General Manager. In this context, a thorough discussion of risk developments increases awareness of the risks assumed (in line with defined profit targets) and therefore facilitates the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

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

RISK MANAGEMENT AND MITIGATION

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

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

QUANTITATIVE DISCLOSURES

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

This table has not been completed since an analysis of interest rate 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 risk sensitivity has been provided.

3. SUPERVISORY TRADING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

With regard to market risks on the trading book, which are managed at the Group level by Iccrea Banca, a risk tolerance of €2.5 million in 1-day VaR with confidence level of 99%. From the start of the year, the risk profile of all trading operations has never breached the RAS limit. The Market Risk Policy sets consistent VaR limits in terms of total operations and in terms of sub-limits for the various books, measured using the same VaR method.

In the last 250 trading days, the average VaR has been €0.5 million, with a minimum of €0.12 million and a maximum of €1.65 million (registered on August 3, 2018), which is below the risk limit for that specific category of operations, which was €2 million for the head of Finance.

At December 31, 2018 the VaR was €0.82 million.

Daily VaR on Trading Book	Notional	VaR	
	31/12/2018	Limit	Risk Profile
Iccrea Banca	14,407	2.00	0.82

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 framework for managing and governing interest rate risk on the Iccrea Banking Group's banking book is based on a centralized model. Iccrea Banca is responsible for overall governance of financial operations and risk at the Group level since:

- it is responsible for setting the Group's policies for managing interest rate risk on the banking book, including guidelines, principles for prudent management, the roles and responsibilities of corporate bodies and operating units and control processes for interest rate risk on the banking book;
- it measures and monitors the exposure to such risk at the centralized level;
- it manages such risk at the Group level;
- it defines and governs the internal transfer pricing system.

Iccrea Banca represents the interface between the individual mutual banks and Group companies and the domestic and international monetary and financial markets. Specifically, the Bank:

- performs treasury activities, managing the liquidity of the mutual banks;
- operates on Italian and foreign securities markets, including as a primary dealer on the MTS, the electronic market for government securities;
- ensures that the financial needs of the Group companies are met through funding activities within the mutual bank system and on the financial markets;
- with the support of Risk Management, monitors and manages interest rate risk at the individual and consolidated level and verifies compliance with the limits set at the strategic planning stage.

The management of mismatching of interest rate risk generated by operations conducted by subsidiaries with customers is transferred to Iccrea Banca using intercompany funding/lending transactions with comparable maturities whose characteristics hedge the exposure to interest rate risk, in compliance with the risk limits set by the Parent Company.

IDENTIFICATION OF RISKS

The ability to identify sources of interest rate risk and manage the short and medium/long-term exposure to such risk, while at the same time limiting potential declines in interest income, is crucial to ensuring profitability in line with the targets established in strategic planning.
Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, sources of interest rate risk are identified and classified in the following risk sub-categories: repricing risk, yield curve risk, basis risk, option risk and credit spread risk of banking book.

RISK MEASUREMENT

The measurement of interest rate risk on the banking book is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- current earnings approach: this seeks to assess the potential effects of adverse interest rate variations on an income variable, i.e. net interest income. In this perspective, the analysis is conducted using a dynamic "going-concern" approach, with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged, or a "dynamic balance sheet" view, developing projections for new business that are consistent with the hypotheses defined in strategic planning;

- economic value approach: this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book (EVE – *Economic Value of Equity*), construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis. Under this perspective, the analysis is conducted using a static "gone concern" approach, in which we assume the run-off of positions at maturity, without any replacement or renewal, or using a dynamic approach, developing projections for new operations that are consistent with the assumptions defined during strategic planning.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.

The measurements are based on regulatory scenarios and scenarios defined internally by the Group in order to quantify the exposure to interest rate risk attributable to each identified source of such risk in the banking book (IRRBB, interest rate risk in the banking book and CSRBB, credit spread risk in the banking book).

The metrics used in the current earnings approach are:

- *Repricing gap:* this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The weighting of the exposure for each time bucket for the time between the repricing date and the selected time horizon and the subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income;
- *NII sensitivity*: the potential impact on net interest margin of hypothetical changes in risk-free rates is calculated using a "full revaluation" method that compares, over a selected time horizon, expected prospective net interest income In the event of changes in interest rates with expected net interest income in a "base" scenario of no variations. This approach is also used to quantify the impact on net interest income of possible variations in credit spreads (CSRBBs).

The metrics adopted in the economic value approach are:

- *Duration gap*: the change in the expected value of the banking book due an interest rates shock. It is calculated by weighting the net exposure of each time bucket, determined by placing positions in the banking book in different time buckets on the basis of their repricing date, by the associated modified duration;
- *EVE sensitivity*: the change in the expected value of the banking book is calculated using a "full revaluation" approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time ("bucket sensitivity").

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.
The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The scenarios used in measuring the exposure to the different sources of risk and in analyzing stress tests are based on both regulatory shocks and shocks defined internally.

In accordance with regulatory provisions, the Iccrea Banking 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).

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. The definition of this system, which distinguishes the Risk Management Framework, took account of the nature, objectives and complexity of operations.

The system of limits is defined by Iccrea Banca, taking due account of RAS and Risk Limit indicators consistent with the policy-setting and coordination role attributed to the Bank as the Parent Company and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the interest rate risk management model adopted.

The current policy provides for setting risk limits for exposures in terms of the sensitivity of economic value and net interest income at both the consolidated and individual levels. Risk limits and additional metrics are also used to monitor the exposure to the individual business lines responsible for managing interest rate risk on the banking book.

The system of limits is also accompanied by a comprehensive system of arrangements and controls that contribute to defining the overall control model set out and formalized in the risk management 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, 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 on a daily basis, in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of indicators has been provided for.

Monitoring risk indicators is 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 a control function for the continuous monitoring of all indicators with respect to assigned risk levels, signaling when risk profiles approach or breach the threshold/limit/tolerance 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 interest rate risk control and monitoring activities are performed through a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.[10] At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the General Manager.

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 I accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

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

RISK MANAGEMENT AND MITIGATION

The management and mitigation of risk seek to reconcile profitability with management of the risk to which the Group companies, and thus the Group, are exposed. The system is based on the following principles:

- Managing the overall profitability of the Group: the centralized management and control of developments in net interest income represent a key requirement of the Iccrea Banking Group's overall control system. That role is played by Iccrea Banca in exercising its functions of setting the strategic policy of the Group and coordinating the individual Group companies;
- Managing interest rate risk: funding and lending with supervised intermediaries, financial and intercompany activities involve normal parameter mismatches at the various maturities. The ability to manage short and long-term mismatches, while at the same time limiting potential decreases in net interest income, is of fundamental importance in ensuring that profitability is in line with the targets set in the strategic planning stage. Within the Group, the function of pooling parameters and managing rate mismatches is the responsibility of Iccrea Banca, which handles the centralized management of the exposure to interest rate risk. The management of interest rate risk mismatches generated by operations carried out by the subsidiaries with customers is transferred to Iccrea Banca through intragroup funding/lending transactions with matched average maturities and characteristics such as to cover the exposure to interest rate risk, compatibly with the risk limits established by Iccrea Banca.

[10] *See. ""Interest Rate Risk in the Banking Book Policy (IRRBB Policy)""*;

QUANTITATIVE DISCLOSURES

1. BANKING BOOK: DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY (REPRICING DATE)

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. BANKING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

The interest rate risk on the banking book used for management purposes with regard to sensitivity indicators for economic value and net interest income is reported below. The analysis of the exposure to the risk is monitored on a monthly basis by the Group Finance Committee.

(€/million)	Scenario	
	-100bp	+100bp
Impact on economic value	-5.1	8.4
Impact on net interest income at 12 months	-5.5	5.2

2.3 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

A. General aspects, management and measurement of exchange rate risk

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Exchange rate risk is managed in a centralized manner by the Treasury and Foreign Exchange Unit. The Bank constantly scales the positions it assumes in the various currencies in relation to the support it provides to the foreign exchange requirements of the mutual banks and other Group companies.

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.

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

	Currency					
	US dollar	Pound sterling	Japanese Yen	Canadian dollar	Swiss francs	Other
A. Financial assets	154,655	4,798	9,579	764	30,037	6,166
A.1 Debt securities	96,322	123			151	533
A.2 Equity securities	11,304	1,983				
A.3 Loans to banks	36,561	2,692	9,579	764	29,886	5,633
A.4 Loans to customers	10,468	-				
A.5 Other financial assets						
B. Other assets	6,091	3,489	515	570	3,496	1,329
C. Financial liabilities	222,642	8,283	7,119	4,565	14,798	10,346
C.1 Due to banks	143,454	8,283	7,119	4,565	14,798	10,255
C.2 Due to customers	3,452					91
C.3 Debt securities	75,736					
C.4 Other financial liabilities						
D. Other liabilities	202					
E. Financial derivatives	6,604,615	408,819	676,562	5,425	873,187	333,041
- Options						1,316
+ Long position						1,316
+ Short positions						
- Other derivatives	6,604,615	408,819	676,562	5,425	873,187	331,725
+ Long positions	3,328,972	204,266	336,764	5,113	426,919	165,315
+ Short positions	3,275,643	204,553	339,798	312	446,268	166,410
Total assets	**3,489,718**	**212,553**	**346,858**	**6,447**	**460,452**	**174,126**
Total liabilities	**3,498,487**	**212,836**	**346,917**	**4,877**	**461,066**	**176,756**
Difference (+/-)	**(8,769)**	**(283)**	**(59)**	**1,570**	**(614)**	**(2,630)**

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 AMOUNTS

	Total 31/12/2018			
	Over the counter			Organized markets
	Central counterparties	Without central counterparties		
		Covered by netting arrangements	Not covered by netting arrangements	
1. Debt securities and interest rates	-	10,714,301	1,416,928	-
a) Options	-	752,390	461,407	-
b) Swaps	-	9,961,911	808,144	-
c) Forwards	-	-	5,977	-
d) Futures	-	-	141,400	-
e) Other	-	-	-	-
2. Equity securities and equity indices	-	2,244	4,659	-
a) Options	-	2,244	-	-
b) Swap	-	-	-	-
c) Forwards	-	-	3,866	-
d) Futures	-	-	792	-
e) Other	-	-	-	-
3. Foreign currencies and gold	-	7,072,017	191,410	-
a) Options	-	9,800	-	-
b) Swaps	-	7,291	7,291	-
c) Forwards	-	7,054,926	184,120	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlyings	-	-	-	-
Total	**-**	**17,788,561**	**1,612,997**	**-**

A.2 FINANCIAL DERIVATIVES HELD FOR TRADING: GROSS POSITIVE AND NEGATIVE FAIR VALUE – BREAKDOWN BY PRODUCT

	Total 31/12/2018			
	Over the counter			Organized markets
	Central counterparties	Without central counterparties		
		Covered by netting arrangements	Not covered by netting arrangements	
1. Positive fair value				
a) Options	-	3,496	80	-
b) Interest rate swaps	-	155,699	44,293	-
c) Cross currency swaps	-	464	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	66,146	3	-
f) Futures	-	-	2	-
g) Other	-	-	-	-
Total	**-**	**225,805**	**44,379**	**-**
2. Negative fair value				
a) Options	-	924	3,144	-
b) Interest rate swaps	-	200,082	220	-
c) Cross currency swaps	-	-	458	-
d) Equity swaps	-	-	-	-
e) Forwards	-	48,083	1,738	-
f) Futures	-	-	1,566	-
g) Other	-	-	-	-
Total	**-**	**249,089**	**7,126**	**-**

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	1,283,517	10,387	123,024
- positive fair value	X	44,378	-	-
- negative fair value	X	4,695	75	157
2) Equity securities and equity indices				
- notional value	X	792	3,866	-
- positive fair value	X	-	-	-
- negative fair value	X	5	-	-
3) Foreign currencies and gold				
- notional value	X	8,252	183,159	-
- positive fair value	X	1	1	-
- negative fair value	X	466	1,729	-
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 not covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	-	10,156,646	557,655	-
- positive fair value	-	155,335	3,739	-
- negative fair value	-	190,199	10,806	-
2) Equity securities and equity indices				
- notional value	-	1,500	-	744
- positive fair value	-	85	-	10
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	6,211,802	860,215	-
- positive fair value	-	66,060	576	-
- negative fair value	-	40,391	7,692	-
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	3,560,755	4,703,526	12,131,229	12,131,229
A.2 Financial derivatives on equity securities and equity indices	2,866	1,744	6,902	11,901
A.3 Financial derivatives on exchange rates and gold	14,820	-	7,263,427	7,263,427
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total at 31/12/2018	**11,117,847**	**3,578,442**	**4,705,270**	**19,401,558**

B. CREDIT DERIVATIVES

The section has not been completed because there were no such positions as of the balance sheet date.

3.2 HEDGE ACCOUNTING

QUALITATIVE DISCLOSURES

A. Fair value hedges

Specific and portfolio hedges have been established to hedge interest rate risk by transforming flows from fixed rate to variable rate. More specifically, the positions exposed to interest rate risk are attributable to the following categories:

- specific hedges of bonds issued, at both fixed rate and mixed rate;
- specific hedges of fixed-rate assets, including both BTPs and corporates;
- specific hedges of BTP Strips;
- specific hedges of government securities linked to European and Italian inflation;
- specific hedge of a fixed-rate loan (granted to BCC Solutions, a company belonging to the Iccrea Banking Group);
- specific hedges of fixed-rate deposits;
- generic hedges of fixed-rate securities (assets) denominated in euros;
- generic hedges of fixed-rate securities (assets) denominated in dollars;
- generic hedges of fixed-rate loans (assets).

In order to hedge changes in fair value generated by interest rate risk, the Bank used unlisted derivatives, summarized as follows:

- interest rate swaps (IRSs) for specific hedges of bonds issued;
- asset swaps (ASWs) for specific hedging of assets (fixed-rate and inflation-linked BTPs, corporate securities);
- interest rate swaps with an increasing notional to hedge BTP Strips;
- interest rate swaps with an amortizing notional for a specific hedge of the loan and generic hedges of the securities portfolios;
- overnight indexed swaps (OISs) for specific and generic hedges of loans (assets).

B. Cash flow hedges

The Bank has established specific cash flows hedges for bond issues denominated in dollars: the purposes of the these transactions are to stabilize cash flows and, more generally, stabilize funding conditions both with respect to the interest rate risk and exchange rate risk. The financial instruments designated as hedging instruments are unlisted cross currency swaps, which also provide for the exchange of notional amounts expressed in the two currencies both at the inception and the expiry of the transaction, at the exchange rate set at the trade date.

The periods in which the Bank expects the cash flows related to these contracts to materialize and impact profit or loss coincide with the contractual payment dates for the coupons and principal of the bonds.

C. Hedges on foreign operations

The Bank did not use this form of hedge.

D. Hedging instruments

Effectiveness tests are conducted using the dollar offset method for retrospective tests and the cumulative scenario approach for prospective tests. There were no sources of ineffectiveness at the preparation date of these financial statements, with the exception of limited mismatches between the outstanding quantities of hedged bonds and the notional amount of the corresponding hedging derivatives, mainly attributable to liabilities denominated in dollars and designated as cash flow hedges. Item 90 of the income statement "Net gain (loss) on hedging activities" shows a total negative balance of €2.8 million.

E. Hedged items

The hedges are structured as follows:

- specific hedges of bonds issued, both at fixed rate and mixed rate: hedges of exposure to interest rate risk;
- specific hedges of fixed-rate securities (assets), including both BTPs and corporates: hedges of exposure to interest rate risk;
- specific hedges of BTP Strips: hedges of exposure to interest rate risk;
- specific hedges of government securities linked to European and Italian inflation: hedges of exposure to interest rate risk and inflation;
- specific hedge of a fixed-rate loan (granted to BCC Solutions, a company belonging to the Iccrea Banking Group): hedge of exposure to interest rate risk;
- specific hedges of fixed-rate loans (assets): hedges of exposure to interest rate risk;
- generic hedges of fixed-rate securities (assets) denominated in euros: hedges of exposure to interest rate risk;
- generic hedges of fixed-rate securities (assets) denominated in dollars: hedges of exposure to interest rate risk;
- generic hedges of fixed-rate loans (assets): hedges of exposure to interest rate risk;
- specific cash flow hedges of bond issues denominated in dollars: hedges of exposure to interest rate risk and exchange rate risk.

QUANTITATIVE DISCLOSURES

A. FINANCIAL HEDGING DERIVATIVES

A.1 FINANCIAL HEDGING DERIVATIVES: END-PERIOD NOTIONAL AMOUNTS

	Total 31/12/2018			
	Over the counter			Organized markets
	Central counterparties	Without central counterparties		
		Covered by netting arrangements	Covered by netting arrangements	
1. Debt securities and interest rates	**-**	**3,465,693**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	3,465,693	-	-
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	**-**	**78,603**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	78,603	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
Total	-	3,544,295	-	-

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 31/12/2018				Total 31/12/2018
	Over the counter			Organized markets	
	Central counterparties	Without central counterparties			
		Covered by netting arrangements	Covered by netting arrangements		
Positive fair value					
a) Options	-	-	-	-	-
b) Interest rate swaps	-	11,074	-	-	-
c) Cross currency swaps	-	3,199	-	-	-
d) Equity swaps	-	-	-	-	-
e) Forwards	-	-	-	-	-
f) Futures	-	-	-	-	-
g) Other	-	-	-	-	-
Total	-	14,273	-	-	-
Negative fair value					
a) Options	-	-	-	-	-
b) Interest rate swaps	-	68,578	-	-	-
c) Cross currency swaps	-	1,284	-	-	-
d) Equity swaps	-	-	-	-	-
e) Forwards	-	-	-	-	-
f) Futures	-	-	-	-	-
g) Other	-	-	-	-	-
Total	-	69,862	-	-	-

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	-	3,054,736	410,957	-
- positive fair value	-	11,061	13	-
- negative fair value	-	63,393	5,185	-
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	52,402	26,201	-
- positive fair value	-	597	2,602	-
- negative fair value	-	1,284	-	-
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	3,866,948	3,560,755	4,703,526	12,131,229
A.2 Financial derivatives on equity securities and equity indices	2,292	2,866	1,744	6,902
A.3 Financial derivatives on exchange rates and gold	7,248,607	14,820	-	7,263,427
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2018	**11,117,847**	**3,578,442**	**4,705,270**	**19,401,558**

B. CREDIT HEDGING DERIVATIVES

The section has not been completed because there were no such positions as of the balance sheet date.

C. NON-DERIVATIVE HEDGING INSTRUMENTS

The section has not been completed because the Bank exercised the option provided for in paragraph 7.2.21 of IFRS 9 of continuing to apply the rules governing the accounting treatment of hedging transactions provided for in IAS 39.

D. HEDGED ITEMS

The section has not been completed because the Bank exercised the option provided for in paragraph 7.2.21 of IFRS 9 of continuing to apply the rules governing the accounting treatment of hedging transactions provided for in IAS 39.

Accordingly, the following table reports key information on hedged instruments.

	Specific hedges	Generic hedges
	Carrying amount	Hedged nominal value
A) Fair value hedges		
ASSETS		
Financial assets measured at fair value through other comprehensive income	**1,334**	**45,700**
Interest rate	1,334	X
Equity		X
Foreign exchange and gold		X
Credit		X
Commodities		X
Other		X
Financial assets measured at amortized cost	**3,072,969**	**150,000**
Interest rate	3,072,969	X
Equity		X
Foreign exchange and gold		X
Credit		X
Commodities		X
Other		X
LIABILITIES		
Financial liabilities measured at amortized cost	**696,975**	
Interest rate	696,975	X
Equity		X
Foreign exchange and gold		X
Credit		X
Commodities		X
Other		X
B) Cash flow hedges		
LIABILITIES		
Financial liabilities measured at amortized cost	75,736	X
Interest rate		X
Equity		X
Foreign exchange and gold	75,736	X
Credit		X
Commodities		X
Other		X

E. EFFECTS OF HEDGING TRANSACTIONS IN EQUITY

The section has not been completed because the Bank exercised the option provided for in paragraph 7.2.21 of IFRS 9 of continuing to apply the rules governing the accounting treatment of hedging transactions provided for in IAS 39.

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	-	21,653,356	3,186,640	-
- positive fair value	-	111,342	1,013	-
- negative fair value	-	178,183	18,658	-
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

Liquidity risk is the risk of not being able to discharge one's payment obligations and can take different forms depending on the source of that risk, which can be caused by:

- the inability to raise funds or efficiently discharge one's payment obligations at market prices (expected and unexpected outlays), i.e. incurring high funding costs, without jeopardizing the daily operations of the bank or its financial position (funding liquidity risk);
- the existence of limitations on the liquidation of assets or incurring capital losses (owing to insufficient liquidity in the market or disruption of the market) following their liquidation (market liquidity risk).

The framework for managing liquidity and governing liquidity risk within the Iccrea Banking Group is based on the centralization of those activities with Iccrea Banca.

That framework is designed to ensure the sound and prudent management of liquidity and the associated risk, and has the following objectives:

- to enable the Bank to remain solvent in both "the normal course of business" and in a liquidity crisis;
- to ensure that the Bank constantly holds an appropriate amount of liquid assets in relation to the limits it has set and with respect to internal and external constraints;
- to ensure the compliance, in accordance with the principal of proportionality, of the system for the governance and management of liquidity risk with applicable supervisory regulations.

Iccrea Banca is responsible for overall governance of liquidity and liquidity risk at the Group level, as it:

- is responsible for defining Group liquidity risk management policies;
- monitors the exposure to liquidity risk (operational and structural) on a centralized basis;
- manages liquidity risk at the consolidated level with the preparation of a funding plan that is consistent with current and prospective operations;
- defines and governs the internal transfer pricing system.

More specifically, the liquidity risk management model establishes that operating liquidity is managed on a centralized basis by Iccrea Banca, which performs the following functions:

- managing liquid assets and funding in euros and foreign currencies over a time horizon of 12 months for all the Group companies included within the scope of liquidity risk management activities;
- managing operations in repurchase transactions and pooling with the central bank, market counterparties and the mutual banks;
- funding the securities portfolio at the Group level;
- managing the reserve requirements (on its own behalf and for Group companies subject to reserve requirements as well as centralized management of the requirement for mutual banks who request that service);
- managing open market operations with the ECB.

The management of structural liquidity is centralized with Iccrea Banca, which takes corrective action to ensure that medium/long-term assets and liabilities are balanced appropriately at both the individual and consolidated level, while at the same time seeking to optimize the cost of funding and:

- performing transactions with subsidizing entities or national/supranational entities (CDP, EIB, etc..);
- structuring and issuing debt instruments on the market.

Liquidity risk is identified and monitored by defining and monitoring the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Group and market conditions.

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- operational liquidity – which is 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 measurement of liquidity risk consists in identifying and quantifying the exposure to that risk completely, accurately and promptly in relation to the observation horizon.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder. The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, two maturity curves are developed: operational and structural.

The operating maturity ladder is used to monitor the liquidity position for the scope of Treasury/Finance operations, excluding items regarding commercial operations, over a time horizon of 12 months.

The structural maturity ladder is used to monitor the overall liquidity position at the consolidated and individual levels, both at short and medium/long-term, considering items associated with Treasury/Finance operations and those connected with commercial operations. 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. This approach is used to produce the regulatory reporting required in the context of the Short-Term Exercise report - Maturity Ladder template C-66, in line with the instructions for completing the template issued by the EBA;
- the second approach is based on the adoption of behavioral assumptions concerning demand items and margins on the credit lines granted.

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" bonds.

The money market position is measured on a daily basis by quantifying the liquidity reserves and covering any deficit in the prospective liquidity balance at 1 and 30 days with those reserves.

The overall system of limits and liquidity risk monitoring indicators was recently revised as part of the updating of the Group's RAS and the adjustment of the Liquidity Policy to the RAS.

The process of monitoring the liquidity indicators defined by the Group is structured and supplemented with the liquidity risk governance and management model. Liquidity risk is monitored by the Risk Management unit of Iccrea Banca. This activity is based on assessing and measuring the risk profile against the RAS, Risk Policies and Contingency indicators established for managing liquidity risk, consistent with the RAF and the system of limits, as well as on measuring additional metrics.

The Risk Management unit of Iccrea Bank, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with the individual

subsidiaries (where these have been specifically allocated liquidity risk indicators). As part of the liquidity risk management and monitoring activities carried out by Risk Management, a reporting process has been defined for reporting to corporate boards, top management and operational units, in accordance with the rules on corporate control reporting. The data and information used in the reporting support the effectiveness and efficiency of communication, using terminology and references that are understandable to the recipients to whom it is addressed.

STRESS TEST FRAMEWORK

The liquidity position is monitored in the normal course of business and under stress conditions. For the latter, a stress test framework has been defined on the basis of the indicators that characterize the Liquidity Risk Framework. In accordance with the rules established by the supervisory authorities, that framework has been defined at the methodological level with the intention of extending it to other processes on the basis of a differentiated calendar and with severity levels connected to the main related processes (RAF, ILAAP, Recovery Plan).

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 calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits determines the maintenance of sufficient liquidity reserves to discharge planned obligations over the time horizon envisaged in the stress scenario.

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;
- stress scenarios caused by specific events (idiosyncratic), i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves highly adverse consequences for the 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.

Each scenario incorporates shocks generated by the Amin risk variables, which have been identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

The stress scenarios do not take account of the effects of exchanges rates on currencies, as exchange rate risk is assumed to be negligible and/or essentially offset.

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.

The stress tests are performed using a static or dynamic approach depending on the type of indicator being stressed. On the basis of the approach selected, assumptions that modify the maturity structure of assets and/or liabilities or the composition of funding are introduced (dynamic approach) or are not introduced (static approach) within the time horizon considered.

QUANTITATIVE DISCLOSURE

1. DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY – EURO

	On demand	More than 1 day to 7 days	More than 7 day to 15 days	More than 15 days to 1 month	More than 1 month to 3 months
On-balance-sheet assets	**2,375,553**	**1,858,494**	**389,261**	**950,259**	**2,372,403**
A.1 Government securities	0	-	460	0	11,562
A.2 Other debt securities	53,725	242,307	56	728	821
A.3 Units in collective investment undertakings	410,757	-	-	-	-
A.4 Loans	1,911,071	1,616,187	388,744	949,531	2,360,021
- banks	915,051	1,458,737	380,500	933,211	1,470,732
- customers	996,020	157,451	8,244	16,320	889,288
On-balance-sheet liabilities	**3,494,113**	**5,580,786**	**827,813**	**762,533**	**2,838,078**
B.1 Deposits	3,037,772	132,501	110,005	26,003	190,546
- banks	2,671,097	132,501	110,005	26,003	190,630
- customers	366,675	-	-	-	(84)
B.2 Debt securities	1,120	52	88	57,453	33,850
B.3 Other liabilities	455,221	5,448,234	717,721	679,078	2,613,681
Off-balance-sheet transactions					
C.1 Financial derivatives with exchange of principal					
- long positions	-	1,706,026	188,498	318,874	1,101,468
- short positions	-	1,519,657	123,030	365,903	1,033,098
C.2 Financial derivatives without exchange of principal					
- long positions	373,871	-	-	-	7,215
- short positions	374,445	61	-	-	3,884
C.3 Deposits and loans to receive					
-- long positions	-	56,536	-	-	1,010,790
- short positions	-	9	-	-	56,527
C.4 Irrevocable commitments to disburse funds					
- long positions	-	12,400	-	-	-
- short positions	-	12,400	-	-	-
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	-	-	-	-	-

	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	**2,417,910**	**3,296,225**	**18,506,632**	**4,470,974**	**227,593**
A.1 Government securities	75,035	490,679	3,183,313	2,922,054	-
A.2 Other debt securities	245,279	481,146	2,394,046	1,413,291	350
A.3 Units in collective investment undertakings	-	-	-	-	-
A.4 Loans	2,097,596	2,324,400	12,929,273	135,629	227,243
- banks	1,679,287	1,807,160	12,150,681	524	227,243
- customers	418,309	517,241	778,592	135,105	-
On-balance-sheet liabilities	**1,010,040**	**3,087,983**	**19,153,286**	**247,255**	**-**
B.1 Deposits	66,521	729,486	1,300,300	-	-
- banks	66,521	729,486	1,300,300	-	-
- customers	-	-	-	-	-
B.2 Debt securities	49,536	714,583	3,943,895	218,043	-
B.3 Other liabilities	893,983	1,643,915	13,909,091	29,212	-
Off-balance-sheet transactions					
C.1 Financial derivatives with exchange of principal					
- long positions	9,107	6,898	19,293	7,370	-
- short positions	7,465	110,520	142,065	70,967	-
C.2 Financial derivatives without exchange of principal					
- long positions	4,981	4,145	-	-	-
- short positions	9,074	19,160	-	-	-
C.3 Deposits and loans to receive					
-- long positions	290,435	-	-	-	-
- short positions	-	306,101	995,124	-	-
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	-	-	-	-	-

1. DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY – OTHER CURRENCIES

	On demand	More than 1 day to 7 days	More than 7 day to 15 days	More than 15 days to 1 month	More than 1 month to 3 months
On-balance-sheet assets	**14,800**	**9,954**	**6,984**	**34,488**	**16,261**
A.1 Government securities	-	-	61	4,504	283
A.2 Other debt securities	-	-	106	-	643
A.3 Units in collective investment undertakings	-	-	-	-	-
A.4 Loans	14,800	9,954	6,817	29,984	15,335
- banks	14,800	8,609	6,817	25,413	13,348
- customers	0	1,345	-	4,571	1,988
On-balance-sheet liabilities	**80,586**	**54,698**	**20,060**	**22,248**	**17,608**
B.1 Deposits	80,586	54,698	20,060	16,385	5,909
- banks	77,897	54,698	20,060	16,385	5,909
- customers	2,689	-	-	-	-
B.2 Debt securities	-	-	-	-	10,403
B.3 Other liabilities	-	-	-	5,863	1,295
Off-balance-sheet transactions					
C.1 Financial derivatives with exchange of principal					
- long positions	-	2,243,567	630,101	397,023	1,034,356
- short positions	-	2,428,463	698,808	331,121	958,402
C.2 Financial derivatives without exchange of principal					
- long positions	1,487	-	-	-	-
- short positions	1,694	-	-	-	-
C.3 Deposits and loans to receive					
-- long positions	-	4,936	-	-	-
- short positions	-	4,936	-	-	-
C.4 Irrevocable commitments to disburse funds					
- long positions	-	8,085	-	-	-
- short positions	-	8,085	-	-	-
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	-	-	-	-	-

	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	**19,681**	**5,756**	**70,342**	**20,273**	**200**
A.1 Government securities	3,353	5,048	54,346	4,554	-
A.2 Other debt securities	81	514	13,376	15,719	200
A.3 Units in collective investment undertakings	-	-	-	-	-
A.4 Loans	16,248	194	2,620	-	-
- banks	13,629	194	2,620	-	-
- customers	2,619	-	-	-	-
On-balance-sheet liabilities	**2,748**	**27,252**	**44,773**	**154**	**-**
B.1 Deposits	1,767	4,566	-	-	-
- banks	1,767	4,566	-	-	-
- customers	-	-	-	-	-
B.2 Debt securities	981	22,686	43,888	-	-
B.3 Other liabilities	-	-	885	154	-
Off-balance-sheet transactions					
C.1 Financial derivatives with exchange of principal					
- long positions	5,439	120,302	52,296	1,349	-
- short positions	6,419	5,929	8,058	1,416	-
C.2 Financial derivatives without exchange of principal					
- long positions	-	-	-	-	-
- short positions	-	-	-	-	-
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	-	-	-	-	-

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 countless national and international regulations to which the Bank is subject.

The organizational model adopted by the Bank within the Group to supervise and manage operational risk is structured on two levels:

- an Operational & IT Risk Management unit was established at the **Parent Company**, reporting to the Risk Management department which handles operational and IT risks at the Group level, acting as a specialized hub responsible for providing guidance, coordination and technical support to the various Risk Management units of the companies in the Group;
- the Risk Management units of the banking/financial **subsidiaries** report to their boards of directors and are responsible, among other duties, for monitoring and managing developments in the exposure to operational and IT risks.

The management framework for operational risks is described in the “Operational Risk Management Policy” adopted in July 2017. That framework is structured into five macro-phases:

- Identification of risks: this phase managed comprises Loss Data Collection, aimed at identifying recognized operational losses ex post, and the operational risk self-assessment, which assesses the potential operational risk exposure for each risk factor/process;
- Evaluation/measurement of identified risks provides for the definition of methods to determine the level of exposure to operational risks (e.g. Operational Risk Value at Risk), to flank the measurement carried out for regulatory purposes;
- Risk prevention and mitigation, the phase in which actions and/or techniques are put in place to:
  - prevent the occurrence of unfavorable events inside and outside the organization;
  - mitigate the impact of the manifestation of the event or the occurrence of unfavorable developments
- Monitoring and reporting, the phase in which activities and analysis on the developments in operational risks are presented to top management, the managers of the risk factors and the business and specialist units;
- Risk management and mitigation: the phase dedicated to implementing the strategies to contain operational risk at levels consistent with the risk appetite established by the Board of Directors through the execution of activities by risk factor managers and business units.

During the first half of 2018, the activities connected with the evolution of the Group's operational risk management framework were completed. Specifically, the Board of Directors of the Parent Company approved the adoption at the Group level of the general process rules for Loss Data Collection and Operational Risk Self-Assessment. These rules were transmitted with a specific directive to the direct subsidiaries, which implemented them through their own BoDs.

In 2018 the software selection process was also completed. It was intended to identify an application to support operational and IT risk management activities and, with specific reference to the Loss Data Collection process, the parameterization phase of the system with a view to extending it to the Group companies and the affiliated mutual banks.

Support was also provided for the collection of operational loss events at the Group level for QIS and COREP regulatory reporting.

With regard to the IT risk monitoring activities performed by the unit, in 2018 a Group policy was issued for the IT Risk Management Framework, which incorporates relating to cyber risk. Furthermore, IT Risk Assessment activities were completed with a view to updating the overall IT risk profile of Iccrea Banca and preparing the summary report on ICT risk. The intervention included specific studies for the Internet payment services provided by Iccrea Banca, conducted on the basis of the EBA guidelines that have already been incorporated in supervisory regulations.

As part of the monitoring of the Incident Management Process, significant incidents were tracked on a continuous basis from the time of their occurrence until they were closed, with the performance of assessment activities for incidents with specific characteristics or for which particular risk factors were identified. Following these activities, the periodic "Incident Management Monitoring Report" was prepared for year 2018.

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 of 15% of the average of the last three observations of an indicator of the volume of business (the “relevant indicator) at the end of the period (December 31).

In particular, the Bank’s capital requirement amounted to €40,643 thousand.

PART F

Information on capital

SECTION 1 – COMPANY CAPITAL

A. QUALITATIVE DISCLOSURES

Shareholders' equity (share capital, share premium reserve, reserves, equity instruments, own shares, valuation reserves, redeemable shares, profit/loss for the period) represents the Bank's capital, i.e. the sum of financial resources used for achieving the corporate purpose and dealing with the risks of business. Therefore, equity represents the main safeguard against the risks of the banking business and, as such, the amount of capital must be sufficient to ensure an appropriate degree of independence in development and growth and guarantee the soundness and stability of the company on an ongoing basis.

B. QUANTITATIVE DISCLOSURES

B.1 COMPANY CAPITAL: COMPOSITION

	Total 31/12/2018
1. Share capital	1,151,045
2. Share premium reserve	6,081
3. Reserves	415,510
- earnings	413,508
a) legal	50,785
b) established in bylaws	205
c) treasury shares	4,608
d) other	357,910
- other	2,002
4. Equity instruments	-
5. (Treasury shares)	(4,608)
6. Valuation reserves:	38,356
- Equity securities designated as at fair value through other comprehensive income	(7,018)
- Hedges of equity securities designated as at fair value through other comprehensive income	-
- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(4,157)
- Property and equipment	-
- Intangible assets	-
- Hedging of investments in foreign operations	-
- Cash flow hedges	(580)
- Hedging instruments [undesignated elements]	-
- Foreign exchange differences	-
- Non-current assets held for sale	-
- Financial liabilities designated as at fair value through profit or loss (change in own credit rating)	-
- Actuarial gains (losses) on defined benefit plans	(1,951)
- Share of valuation reserves of equity investments accounted for using equity method	-
- Special revaluation laws	52,062
7. Net profit (loss) for the period	(35,632)
Total	1,570,752

B.2 VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Total 31/12/2018	
	Positive reserve	Negative reserve
1. Debt securities	-	(4,157)
2. Equity securities	-	(7,018)
3. Loans	-	-
Total	**-**	**(11,175)**

B.3 VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: CHANGE FOR THE YEAR

	Debt securities	Equity securities	Loans
1. Opening balance	**5,505**	**(1,237)**	**-**
2. Increases	**561**	**-**	**-**
2.1 Fair value gains	5	-	-
2.2 Writedowns for credit risk	295	X	-
2.3 Reversal to income statement of negative reserves: from realization	261	X	-
2.4 Transfers from other components of shareholders' equity (equity securities)	-	-	-
2.5 Other changes	-	-	-
3. Decreases	**(10,223)**	**(5,781)**	**-**
3.1 Fair value losses	(4,201)	(5,781)	-
3.2 Writebacks for credit risk	(700)	-	-
3.3 Reversal to income statement of positive reserves: from realization	(5,322)	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	-	-	-
3.5 Other changes	-	-	-
4. Closing balance	**(4,157)**	**(7,018)**	**-**

B.4 VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

	Total 31/12/2018	
	Positive reserve	Negative reserve
1. Gain (loss) from changes in financial assumptions		
2. Gain (loss) from passage of time		(9)
Total		**(9)**

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

2.1 OWN FUNDS

QUALITATIVE DISCLOSURES

Own funds, risk-weighted assets and solvency ratios have been calculated on the basis of the harmonized rules for banks and investment firms set out in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of June 26, 2013, transposing the standards established by the Basel Committee on Banking Supervision ("Basel 3") within the European Union, and on the basis of Bank of Italy Circulars nos. 285 and 286 (issued in 2013) and the update to Circular no. 154.

IFRS 9 has been in force as from January 1, 2018. It establishes a new framework for calculating the provisions based on expected loss rather than on incurred loss. The Bank has elected to the option of applying the transitional adjustment for IFRS 9 referred to in Article 473a of the CRR. Accordingly, the calculation of own funds, capital requirements and ratios reflect the impact of the application of the new standard only partially (only 5%).

At December 31, 2018, own funds amounted to €1,647 million, as against a total capital requirement of €359 million, mainly attributable to credit and counterparty risks, and to a lesser extent to operational and market risks.

COMMON EQUITY TIER 1 - CET1

Common Equity Tier 1 (CET1) capital is composed of positive elements (which increase its amount) and negative elements (which reduce it). Overall CET1, before the application of the prudential filters, amounts to €1,610,992 thousand. Applying prudential filters, represented by the positive change in the cash flow hedge reserve for financial instruments and the filter for supplementary adjustments to regulatory capital in the amount of €835 thousand, CET1 gross of elements to be deducted and the effects of the transitional system comes to €1,610,157 thousand. The elements to be deducted consist of intangible assets and deferred tax assets based on future profitability, net of deferred tax liabilities, and amount to €100,318 thousand, while the positive impact of the transitional system on CET 1 comes to €6,474 thousand and is represented by the negative actuarial reserves (IAS 19) and the transitional adjustment for first time application of IFRS 9. Therefore, CET1 amounts to €1,516,313 million.

ADDITIONAL TIER 1 - AT1

There are no instruments that are included under Additional Tier 1 (AT1) capital in these financial statements.

TIER 2 - T2

Tier2 – T2 amounts to €130,562 thousand and is composed of three subordinated bonds issued by the Bank, net of the redeemable portion.

The following are the characteristics of the subordinated lower Tier II bonds:

- issue date June 18, 2015, maturity date June 18, 2025, nominal value €106,600 million, annual interest rate 6M Euribor + 3.50% gross, interest paid six-monthly in arrears. Repayment of 100% at maturity except in the event of early redemption;
- issue date June 29, 2015, maturity date June 29, 2025, nominal value €11,737 million, annual interest rate 3.50% fixed gross, interest paid six-monthly in arrears. Repayment of 100% at maturity except in the event of early redemption;
- issue date July 30, 2015, maturity date July 30, 2025, nominal value €16 million, annual interest rate 6M Euribor + 350BP, interest paid six-monthly in arrears. Repayment of 100% at maturity except in the event of early redemption.

QUANTITATIVE DISCLOSURES

	TOTAL 31/12/2018
A. Common Equity Tier1 (CET1) capital before the application of prudential filters	**1,610,992**
of which CET1 instruments subject to the transitional provisions	-
B. CET1 prudential filters (+/-)	**(835)**
C. CET1 gross of elements to be deducted and the effects of the transitional system (A +/- B)	**1,610,157**
D. Elements to be deducted from CET1	**(100,318)**
E. Transitional system - Impact on CET1 (+/-)	**6,474**
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	**1,516,313**
G. Additional Tier 1 (AT1) capital gross of elements to be deducted and the effects of the transitional system	
of which AT1 instruments subject to the transitional provisions	
H. Elements to be deducted from AT1	
I. Transitional system - Impact on AT1 (+/-)	
L. Total Additional Tier 1 (AT1) capital (G - H +/- I)	
M. Tier 2 (T2) capital gross of elements to be deducted and the effects of the transitional system	**134,600**
of which Tier 2 instruments subject to the transitional provisions	-
N. Elements to be deducted from T2	**(4,038)**
O. Transitional system - Impact on T2 (+/-)	-
P. Total Tier 2 (T2) capital (M - N +/- O)	**130,562**
Q. Total own funds (F + L + P)	**1,646,875**

2.2 CAPITAL ADEQUACY

QUALITATIVE DISCLOSURES

The capital ratios at December 31, 2018, were determined in accordance with the provisions of the Basel 3 Capital Accord, adopting the Standardized Approach for the calculation of capital requirements for credit and counterparty risk and the Basic Indicator Approach for operational risk. With regard to the reporting at December 31, 2014, the capital requirement for operational risk, for banks that apply the Basic Indicator Approach (BIA), is equal to 15% of the average of the last three observations of the relevant indicator defined in Article 316 of EU Regulation no. 575/2013.

QUANTITATIVE DISCLOSURES

	UNWEIGHTED AMOUNTS	WEIGHTED AMOUNTS/REQUIREMENTS
	TOTAL AL 31/12/2018	TOTAL AL 31/12/2018
A. EXPOSURES		
A.1 CREDIT AND COUNTERPARTY RISK	**58,143,876**	**3,567,988**
1. Standardized approach	58,138,162	3,562,274
2. IRB approach		
2.1 Foundation		
2.2 Advanced		
3. Securitizations	5,714	5,714
B. CAPITAL REQUIREMENTS		
B.1 CREDIT AND COUNTERPARTY RISK		**285,439**
B.2 RISK OF ADJUSTMENT OF CREDIT RATING		**14,558**
B.3 SETTLEMENT RISK		
B.4 MARKET RISKS		**18,506**
1. Standardized method		18,506
2. Internal models		
3. Concentration risk		
B.5 OPERATIONAL RISK		**40,643**
1. Basic indicator approach		40,643
2. Standardized approach		
3. Advanced measurement approach		
B.6 OTHER COMPONENTS		
B.7 TOTAL PRUDENTIAL REQUIREMENTS		**359,146**
C. EXPOSURES AND CAPITAL ADEQUACY RATIOS		
C.1 RISK-WEIGHTED ASSETS		**4,489,326**
C.2 CET1 CAPITAL RATIO		**33.78%**
C.3 TIER1 CAPITAL RATIO		**33.78%**
C.4 TOTAL CAPITAL RATIO		**36.68%**

PART G

Business combinations

The section was not completed as there were no such positions as of the balance sheet date.

PART H

Transactions with related parties

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following tables report the information required under IAS 24 concerning the remuneration of directors and top managers, as well as the members of the Board of Auditors.

	Total 31/12/2018
Compensation and other remuneration	(7,513)
Post-employment benefits	(44)

	Total 31/12/2018
Compensation of members of Board of Auditors	(301)

Loans and guarantees issued:

	Total 31/12/2018
- Members of Board of Directors	(294)
- Members of Board of Auditors	-

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

The following tables report the balance sheet and income statement items involved in intercompany transactions.

Assets	Financial assets measured at fair value	Financial assets measured at amortized cost	Other assets
Banca Mediocredito del F.V.G. S.p.A.	-	-	1
Banca Sviluppo S.p.A.	16	109,882	1,195
BCC Beni Immobili S.r.l.	-	7,874	5
BCC CreditoConsumo S.p.A.	-	808,985	5,293
BCC Factoring S.p.A.	-	485,079	394
BCC Gestione Crediti S.p.A.	-	228	1,780
BCC Lease S.p.A.	-	386,199	66
BCC Retail S.C.A.R.L	-	-	27
BCC Risparmio&Previdenza SGrpa	-	-	3,992
BCC Sistemi Informatici S.p.A.	-	-	566
BCC Solutions S.p.A.	-	44,471	1,335
Iccrea BancaImpresa S.p.A.	43,103	6,443,970	15,105
Ventis S.r.l.	-	2,000	56
Total	43,119	8,288,688	29,816

Liabilities	Financial liabilities measured at amortized cost	Financial liabilities held for trading	Other liabilities
Banca Mediocredito del F.V.G. S.p.A.	139,557		
Banca Sviluppo S.p.A.	549,896	151	720
BCC Beni Immobili S.r.l.			
BCC CreditoConsumo S.p.A.	8,666		2
BCC Factoring S.p.A.	2,689		550
BCC Gestione Crediti S.p.A.	5,113		162
BCC Lease S.p.A.			3,248
BCC Retail S.C.A.R.L	9		
BCC Risparmio&Previdenza SGrpa	8,301		286
BCC Sistemi Informatici S.p.A.	590		5,454
BCC Solutions S.p.A.	42		1,308
Iccrea BancaImpresa S.p.A.	20,667	2,943	25,300
Ventis S.r.l.			2,558
Total	**735,529**	**3,094**	**39,589**

Income statement	Interest and similar income	Interest and similar expense	Fee and commission income	Fee and commission expense	Net gain (loss) on trading activities	Administrative expenses	Other operating expenses/income
Banca Mediocredito del F.V.G. S.p.A.	36	(129)	11				146
Banca Sviluppo S.p.A.	445	(5,657)	1,864	(3,975)	(6)	402	(1,079)
BCC Beni Immobili S.r.l.	104						16
BCC CreditoConsumo S.p.A.	14,025		557			275	788
BCC Factoring S.p.A.	324	(76)	59			140	209
BCC Gestione Crediti S.p.A.	6		6			(537)	213
BCC Lease S.p.A.	3,319		191			68	161
BCC Retail S.C.A.R.L						(54)	102
BCC Risparmio&Previdenza SGrpa			1			624	1,149
BCC Sistemi Informatici S.p.A.						(15,775)	795
BCC Solutions S.p.A.	1,025		2			(25,140)	554
Iccrea BancaImpresa S.p.A.	57,931	(4,919)	192	(1)	12,269	426	5,988
Ventis S.r.l.	70		1			(1,335)	48
Total	**77,214**	**(10,781)**	**2,884**	**(3,976)**	**12,263**	**(39,571)**	**9,043**

The item “Administrative expenses” has a positive value with certain intercompany counterparties for which reimbursements of personnel expenses exceed other administrative expenses.

The following table reports the additional information required under IAS 24.

	Total at 31/12/2018				
	Parent company and entities exercising joint control or significant influence	Group companies	Associates and joint ventures	Key management personnel of the entity or its parent company	Other related parties
Selected financial assets	**-**	**(2,484)**	**(31,196)**	**(294)**	**(329)**
Equity instruments	-	-	-	-	-
Debt securities	-	-	-	-	-
Loans and advances	-	(2,484)	(31,196)	(294)	(329)
of which: impaired	-	-	(272)	-	-
Selected financial liabilities	**-**	**16,002**	**36,763**	**15**	**195**
Deposits	-	16,002	36,763	15	195
Debt securities issued	-	-	-	-	-
Nominal value of commitments to disburse funds, financial guarantees and other commitments given	**-**	**941**	**31,298**	**49**	**0**
of which: impaired	-	-	-	-	-
Commitments to disburse funds, financial guarantees and other commitments received	-	-	-	-	-
Notional amount of derivatives	-	-	-	-	-
Cumulative impairment loss and cumulative decreases in fair value due to credit risk on impaired exposures	-	-	-	-	-
Provisions for impaired off-balance-sheet exposures	-	-	-	-	-

	Total at 31/12/2018				
	Parent company and entities exercising joint control or significant influence	Group companies	Associates and joint ventures	Key management personnel of the entity or its parent company	Other related parties
Interest income		70	1,815		75
Interest expense		(43)			(1)
Dividends			2,485		
Fee and commission income		2,061	6,662		1
Fee and commission expense		(3,706)	(1,643)	(6,973)	()
Gain or (-) loss from the derecognition of financial assets and liabilities not measured at fair value through profit or loss					
Gain or (-) loss from the derecognition of assets other than financial assets					
Impairment loss or (-) reversal of impairment loss on impaired exposures					
Provisions or (-) reversal of provisions on impaired exposures					

PART I
SHARE-BASED PAYMENTS

As at the reporting date, the bank had no payment agreements based on its own equity instruments in place.

PART L

OPERATING SEGMENTS

PRIMARY REPORTING BASIS

In line with the provisions of IFRS 8, operating segment disclosures have been based on elements that management uses in taking its own operational and strategic decisions.

Iccrea Banca systematically prepares management reports on the results achieved by the individual business segments into which its operations and organization are structured:

These segments are finance and lending, payment systems, in addition to central governance and support functions, as well as the institutional services and ICT functions grouped under the "Corporate Centre".

The business segments are formed from the aggregation of similar business units and lines in terms of the types of products and service they provide. This representation reflects the operational responsibilities set out in the Bank's organizational arrangements, with periodic reporting to top management.

More specifically, the finance and lending business segment includes the units Proprietary Finance and Trading, Treasury and Foreign Exchange, Institutional Sales, Securitizations and Institutional Lending, while the payment systems segment comprises Collections and Payments, E-Bank. For a discussion of the individual segments, please see the section on the Bank's activities in the report on operations.

INCOME STATEMENT

The following reports the main aggregates of the income statement by business segment. The figures are presented using the reclassified income statement format given in the report on operations.

	Finance and lending		Payment services		Corporate center		Total	
(thousands of euros)	dic-18	dic-17	dic-18	dic-17	dic-18	dic-17	dic-18	dic-17
Net interest income	85,442	30,937	(1,076)	(733.)	(5,262)	7,378	79,104	37,582
Net service income	1,048	37,866	35,689	118,301	60,537	105,022	97,273	261,189
Total revenues	**86,490**	**68,803**	**34,613**	**117,568**	**55,274**	**112,400**	**176,377**	**298,771**
Administrative expenses	75,457	61,022	25,051	100,559	149,426	110,867	251,741	272,448
Net adjustments of property and equipment and intangible assets	1,327	2,427	1,066	3,576	6,696	2,958	9,089	8,960
Other operating expenses/income	903	264	-	12,313	18,042	15,787	18,946	28,364
Total operating expenses	**77,687**	**63,713**	**26,117**	**116,448**	**138,080**	**129,611**	**241,884**	**302,772**
Gross operating income	**8,803**	**5,618**	**8,496**	**25,746**	**(82,806)**	**14,362**	**(65,507)**	**45,726**

The figures for payment services do not include data for the electronic banking operations.

As regards the procedures for the determination of performance:

- net interest income is calculated by segment as the difference between actual interest and imputed interest on the treasury pool;
- net service income is calculated by way of direct allocation of income and expense components;
- operating expenses are allocated using a "full costing" approach that allocates all operating costs.

Net interest income as at December 31, 2018 came to €79.1 million, up by 52.5% compared with December 31, 2017 (€37.6 million). The increase in 2018 significantly reflects the yield on BTPi, which at December 31 accounted for just under half of the portfolio (€751 million out of €1,740 million in the Liquidity portfolio, €2,356 million out of €5,001 million in the Strategic portfolio). Their amortized cost includes the revaluation of principal calculated on the basis of Eurostat's consumer price index. At the start of June, the limits on the management of securities in the HTC portfolio were increased (from €6 billion to €11.5 billion), with the concomitant establishment of the

tactical portfolio, comprising government securities with a duration of 6 months and yield of 49 bps (including funding consisting of repurchase transactions with the same duration.

The comparison with 2017 shows:

- an increase in the yields on the securities investment portfolios (+26bps), on financing of loans (+28bps) and intercompany financing through loans and subscription of Iccrea BancaImpresa bonds (+15bps), generating increases in interest income of €29 million, €2.3 million and €2.4 million respectively. Compared with the previous year the composition of the Securities portfolio has changed, with a decrease in volumes in the Investment portfolio (HTCS in 2018, -€1.4 billion in reflection of sales at the end of May), offset by an increase in the Strategic and Tactical portfolios (HTC in 2018, +€2.9 billion)
- for the funding of intercompany securities/loans, the decline in the cost of structural funding (up by about €0.7 billion on 2017 but with a yield of 144bps compared with 175bps), together with the replacement of EONIA with other forms of funding (TLTRO at 0bps and short-term repurchase transactions in the Tactical portfolio at -45bps), increased the gain on FPT by €13.8 million. Structural funding was also used to increase lending (+€1.5 million) and the Directional portfolios (-€0.2 million, mutual bank AT1 bonds and Atlante fund)
- a decrease of €3 billion in treasury funding, mainly reflecting the impact on the secured segment of the replacement of €3.1 billion in repurchase transactions with €1.6 billion in TLTRO funds, and on the unsecured funding with a reduction in CRG funding of €2 billion. On the lending front, the contraction in funding translated into a decline in collateralized lending to the mutual banks (-€3.7 billion), with an overall negative impact of €10.3 million, including the TLTRO effect in 2017 associated with headquarters. By contrast, the reduction in EONIA funding to finance the securities portfolio generated a gain of €1.1 million.

In terms of the cost of funding, at December 2018 the following factors were involved:

- fixed-term deposits of €2.4 billion with an average rate of 77 bps (€1.9 billion at 59 bps in 2017)
- structural FPT funding of €6.9 billion with an average rate of 144 bps (€6.2 billion at 175 bps in 2017)
- daily settlement account of €3.4 billion, remunerated at -24 bps (€5.4 billion at -7 bps in 2017)
- secured treasury funding of €24.8 billion with an average rate of -43 bps (€26.2 billion at -20 bps in 2017).

Net service income, which came to €97.3 million at December 31, 2018, includes €87.3 million from net fees and €10 million from trading operations and dividends. The decrease in net fees and commissions from €133.4 million in December 2018 to €87.3 million in December 2018, is mainly attributable to the disposal of the e-money segment in 2018, which would have contributed about €97 million. Excluding the e-money segment from 2017 as well, net fees and commissions in 2017 would have amounted to €63.1 million, compared with €87.3 million in 2018, with the growth essentially attributable to the Finance area in reflection of fees received from GACS1 securitizations (€8.4 million of revenue and costs of €2.2 million) and GACS2 securitizations (€19.4 million of revenue and costs of about €4 million). Conversely, the collections segment posted a decline due to the virtually complete elimination of transaction handling by the mutual banks participating in the CCB Group, which at December 31 posted fees and commissions of €1.8 million compared with €7.2 million over the same period in 2017. Fees and commission from the mutual banks joining the MBG rose by €2.2 million to €28.8 million thanks to an improvement in performance on SEPA SCT/SDD products and electronic invoicing as well as the new CIT check processing operations.

The decrease in net gains and losses from financial transactions, from €126.3 million in December 2017 to €10 million in December 2018 is mainly attributable to:

- the market uncertainty connected with the tumultuous formation of the new Italian Government, which at the height of the political crisis generated a loss on the government securities in the Investment portfolio (circa €1.5 billion) such as to prompt the decision to consolidate the loss in OCI in the amount of €76 million in order to limit the future exposure of equity to the volatility of sovereigns. In addition, 2017 had benefited from gains on the disposal of the Tactical portfolio totaling €56 million;
- the increase in dividends (+€23.4 million).

Administrative expenses, which totaled €251.7 million at December 31, 2018, included personnel expenses of €81.3 million, compared with €81 million at December 2017, and other administrative expense of €170.5 million, compared with €192.8 million at December 2017.

Total net adjustments amounted to about €9.1 million at December 31, 2018 in line with December 2017.

Other operating income, included in total operating expenses, came to €18.9 million at December 31, 2018, compared with €30.3 million in December 2017, which includes the recovery of stamp duty on electronic money business in the amount of about €12 million.

As a result of these developments, gross operating income at December 31, 2018 amounted to about -€65.5 million, a deterioration of about €110.5 million compared with December 2017.

BALANCE SHEET

The following table reports the main balance sheet aggregates for lending to and funding from customers and banks. The amounts are end-period figures. Liabilities include share capital, reserves and net profit for the period. The main balance sheet aggregates for lending to and funding from customers and banks are primarily attributable to the finance and lending segment (94%), as the payment system segment is mainly involved in providing fee-based services.

	FINANCE AND LENDING		PAYMENT SERVICES		CORPORATE CENTER		TOTAL	
(millions of euros)	DIC-18	DIC-17	DIC-18	DIC-17	DIC-18	DIC-17	DIC-18	DIC-17
Cash and loans to customers	10,706	5,985	-	-	41	98	10,747	6,083
Due from banks	25,656	24,561	-	-	-	-	25,656	24,561
Other assets	1,160	3,375	-	33	1,600	1,966	2,760	5,374
TOTAL LENDING	**37,522**	**33,921**	**-**	**33**	**1,641**	**2,064**	**39,163**	**36,018**
Due to customers	12,153	7,717	356	507	8	20	12,517	8,244
Due to banks	19,425	19,401	-	-	-	-	19,425	19,401
Other liabilities	5,541	6,588	-	-	1,700	1,785	7,241	8,373
TOTAL FUNDING	**37,119**	**33,706**	**356**	**507**	**1,708**	**1,805**	**39,183**	**36,018**

The mismatch in the totals for lending and funding is attributable to the reclassification of the electronic money business.

SECONDARY REPORTING BASIS

As regards the secondary reporting basis, please note that the Bank operates almost exclusively in Italy.

ATTACHMENTS

FINANCIAL HIGHLIGHTS OF THE SUBSIDIARIES

This section reports financial highlights for the subsidiaries.

ICCREA BANCAIMPRESA SPA - FINANCIAL STATEMENTS

	Assets	31/12/2018	31/12/2017
10.	Cash and cash equivalents	24,286	31,780
[20.]	Financial assets held for trading		27,490,349
[30.]	Financial assets at fair value		
[40.]	Financial assets held for sale		91,713,342
[50.]	Financial assets held to maturity		
[60.]	Due from banks		89,799,119
[70.]	Loans to customers		7,869,366,156
20.	Financial assets measured at fair value through profit or loss	145,395,464	
	a) financial assets held for trading	29,739,879	
	b) financial assets at fair value	-	
	c) Other financial assets mandatorily measured at fair value	115,655,585	
30.	Financial assets measured at fair value through other comprehensive income	364,512	
40.	Financial assets measured at amortized cost	7,616,172,144	
	a) due from banks	44,156,469	
	b) loans to customers	7,572,015,675	
50.	Hedging derivatives	-	-
60.	Value adjustments of macro-hedged financial assets (+/-)	-	-
70.	Equity investments	57,855,268	48,345,339
80.	Property and equipment	6,170,394	6,034,909
90.	Intangible assets	211,218	376,596
	of which:		
	- goodwill	-	-
100.	Tax assets	187,251,924	165,856,276
	a) current	10,114,674	10,418,813
	b) deferred	177,137,250	155,437,463
110.	Non-current assets and disposal groups held for sale	18,384,395	-
120.	Other assets	78,744,345	74,208,339
	Total assets	**8,110,573,950**	**8,373,222,205**

	Liabilities and shareholders' equity	31/12/2018	31/12/2017
[10.]	Due to banks		2,717,159,976
[20.]	Due to customers		681,374,832
[30.]	Securities issued		4,035,906,761
[40.]	Financial liabilities held for trading		30,604,167
10.	Financial liabilities measured at amortized cost	7,144,354,279	
	a) due to banks	2,159,381,311	
	b) due to customers	648,999,115	
	c) securities issued	4,335,973,853	
20.	Financial liabilities held for trading	31,498,347	
30.	Financial liabilities measured at fair value	-	
40.	Hedging derivatives	14,527,701	17,506,667
50.	Value adjustments of macro-hedged financial liabilities (+/-)	-	-
60.	Tax liabilities	-	-
	a) current	-	-
	b) deferred	-	-
70.	Liabilities associated with assets held for sale	-	-
80.	Other liabilities	109,261,956	112,493,011
90.	Employee termination benefits	4,443,340	4,904,679
100.	Provisions for risks and charges:	46,061,282	27,090,367
	a) commitments and guarantees issued	17,759,873	-
	b) post-employment benefits	-	-
	c) other provisions	28,301,409	27,090,367
110.	Valuation reserves	(762,864)	(844,069)
120.	Redeemable shares	-	-
130.	Equity instruments	-	-
140.	Reserves	(72,911,398)	45,947,961
150.	Share premium reserve	-	10,902,500
160.	Share capital	794,765,305	674,765,259
170.	Net profit (loss) for the period	-	-
180.	Valuation reserves	39,336,002	15,410,094
	Total liabilities and shareholders' equity	**8,110,573,950**	**8,373,222,205**

	Income statement	31/12/2018	31/12/2017
10.	Interest and similar income	219,840,754	241,084,684
	of which: interest income calculated using the effective interest rate method	199,209,622	-
20.	Interest and similar expense	(64,839,753)	(62,195,927)
30.	**Net interest income**	**155,001,001**	**178,888,757**
40.	Fee and commission income	11,927,715	12,736,560
50.	Fee and commission expense	(3,846,513)	(2,990,660)
60.	**Net fee and commission income (expense)**	**8,081,202**	**9,745,900**
70.	Dividends and similar income	9,388,535	6,856,887
80.	Net gain (loss) on trading activities	1,643,512	559,921
90.	Net gain (loss) on hedging activities	313,216	507,262
[100]	Net gain (loss) on the disposal or repurchase of:		10,366,723
	a) loans		(251,625)
	b) financial assets available for sale		13,021
	c) financial assets held to maturity		10,605,328
	d) financial liabilities		
100.	Net gain (loss) on financial assets and liabilities designated as at fair value	(1,904,482)	
	a) financial assets measured at amortized cost	(1,904,482)	
	b) financial assets measured at fair value through other comprehensive income	-	
	c) financial liabilities	-	
[110]	Net gain (loss) on financial assets and liabilities designated as at fair value		
110.	Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss	(3,719,288)	
	a) financial assets and liabilities designated at fair value	-	
	b) other financial assets and liabilities mandatorily measured at fair value	(3,719,288)	
120.	**Gross income**	**168,803,696**	**206,925,450**
[130]	Net losses/recoveries on impairment:		(113,891,457)
	a) loans		(105,467,471)
	b) financial assets available for sale		(3,079,540)
	d) other financial transactions		(5,344,445)
130.	Net losses/recoveries for credit risk in respect of:	(72,818,263)	
	a) financial assets measured at amortized cost	(72,818,263)	
	b) financial assets measured at fair value through other comprehensive income	-	
140.	Gains/losses from contractual modifications without derecognition	-	-
150.	**Net income (loss) from financial operations**	**95,985,433**	**93,033,993**
160.	Administrative expenses:	(64,701,046)	(63,350,450)
	a) personnel expenses	(32,071,667)	(31,663,510)
	b) other administrative expenses	(32,629,379)	(31,686,940)
170.	Net provisions for risks and charges	998,867	(1,279,389)
	a) commitments and guarantees granted	3,151,123	
	b) net provisions for other risk and charges	(2,152,256)	(1,279,389)
180.	Net adjustments of property and equipment	(138,915)	(126,432)
190.	Net adjustments of intangible assets	(165,381)	(204,622)
200.	Other operating expenses/income	(6,818,499)	(6,428,287)
210.	**Operating expenses**	**(70,824,974)**	**(71,389,180)**
220.	Profit (loss) from equity investments	(2,545,604)	(1,771,882)
230.	Net gain (loss) from valuation at fair value of property and equipment and intangible assets	-	-
240	Goodwill impairment	-	-
250.	Profit (loss) from disposal of investments	-	-
260.	**Profit (loss) before tax on continuing operations**	**22,614,855**	**19,872,931**
270.	Income tax expense from continuing operations	16,721,147	(4,462,837)
280.	**Profit (loss) after tax on continuing operations**	**39,336,002**	**15,410,094**
290	Profit (loss) after tax of disposal groups held for sale	-	-
300.	**Net profit (loss) for the period**	**39,336,002**	**15,410,094**

BCC BENI IMMOBILI SRL – FINANCIAL STATEMENTS

Assets	31/12/2018	31/12/2017
- land	295,326	295,326
- buildings	22,826,469	22,753,825
2) plant and machinery		
- specific plant	1,261,428	1,625,705
4) other assets	-	62
5) furnishings	18,973	24,268
6) non-current assets under construction	437,619	-
total property and equipment	24,839,815	24,699,186
2) security deposits	310	310
total non-current financial assets	310	310
total non-current assets	24,840,125	24,699,496
1) due from customers	2,775	-
- tax payments on account and withholdings	16,631	-
- VAT credit	10,579	12,270
4-ter) deferred tax assets	62,125	60,961
- other receivables and assets	72,633	72,633
total receivables	164,743	145,864
iii - current financial assets		
2) cash and valuables on hand	1,406	340
total cash and cash equivalents	1,406	340
total current assets	166,149	146,204
d) accruals and prepayments	6,147	9,985
Total assets	**25,012,421**	**24,855,685**

Liabilities	31/12/2018	31/12/2017
a) shareholders' equity		
i - share capital	12,649,000	12,649,000
ii - share premium reserve	5,581,000	5,581,000
iii - valuation reserve	-	-
iv - legal reserve	18,149.71	10,525
viii - retained earnings (loss carryforward)	(1,225,901)	(1,370,774)
ix - net profit (loss) for the period	(107,784)	152,498
tot. shareholders' equity	16,914,465.22	17,022,249
d) payables		
1) banks	7,870,061.07	7,652,148
3) suppliers	43,214.78	3,309
4) invoices to receive	62,694.78	32,073
5) tax payables	-	-
- irap	-	665
- due to consolidating company	37,901.07	135,906
7) other	76,970.45	-
total payables	8,013,871.70	7,824,101
e) accruals and deferrals	7,113.42	9,335
Total liabilities and shareholders' equity	**25,012,421**	**24,855,685**

Income statement	31/12/2018	31/12/2017
a) value of production		
1) revenues from sales and services	1,236,919	1,936,688
5) other revenues and income	7,829	14,513
tot. value of production	1,244,749	1,951,201
b) production costs		
7) services	56,707	77,829
- depreciation	845,490	1,146,465
14) other operating expenses	297,523	307,974
tot. costs of production	1,199,720	1,532,268
difference between value and cost of production	45,028	418,933
- other	103,690	118,204
total financial income and expense	103,690	118,204
Profit (loss) before taxes	(58,663)	300,729
22a) income tax expense for the period	50,285	164,912
22c) deferred taxes	(1,164)	(16,681)
23) profit for the period	(107,784)	152,498
26) Net profit (loss) for the period	**(107,784)**	**152,498**

BCC RETAIL SCARL – FINANCIAL STATEMENTS

Assets	31/12/2018	31/12/2017
b) non-current assets		
i - total intangibles	22,644	101,872
ii - total property and equipment	3,290	9,487
total (b)	25,934	111,360
c) current assets		
ii – receivables		
falling due within subsequent year	596,566	794,339
falling due beyond subsequent year	9,130	115,316
total receivables	605,696	909,655
iv – cash and cash equivalents	2,725,051	2,303,020
total (c)	3,330,747	3,212,675
d) accruals and deferrals		
Accruals and deferrals	33,776	37,966
total (d)	33,776	37,966
Total assets	**3,390,457**	**3,362,001**

liabilities	31/12/2018	31/12/2017
a) shareholders' equity		
i – share capital	1,000,000	1,000,000
iv – legal reserve	-	-
vii – other reserves, reported separately	-	-
available reserves	-	-
ix - retained earnings (loss carryforward)	(141,556)	-
x – net profit (loss) for the period	112,294	(141,556)
total (a)	970,738	858,444
b) provisions for risks and charges	238,701	740,472
c) employee termination benefits	272,889	265,297
d) payables		
falling due within subsequent year	1,908,129	1,497,788
falling due beyond subsequent year	-	-
total (d)	1,908,129	1,497,788
total accruals and deferrals	-	-
Total liabilities	**3,390,457**	**3,362,001**

	31/12/2018	31/12/2017
Revenues from sales and services	4,117,821	4,327,197
Other revenues and income	560,052	534,506
Total value of production	4,677,873	4,861,703
Raw and ancillary materials	38,137	42,561
Services	2,707,927	2,770,434
Leaseholds	180,608	206,202
Personnel	1,472,612	1,432,541
a) Wages and salaries	944,994	961,225
b) Social security contributions	254,791	300,556
c) Employee termination benefits	57,310	45,646
d) Post-employment benefits	46,510	46,463
e) Other costs	131,103	78,651
Amortization	79,228	124,850
Depreciation	6,197	11,455
Other provisions	-	440,441
Other operating expenses	5,832	5,857
Total production costs	4,452,637	5,034,341
Difference between value and cost of production (A_B)	**225,235**	**(172,638)**
Financial income and expense	5,641	3,480
Other financial income	5,641	4,246
Financial expense	-	766
Profit (loss) before taxes	230,876	(169,158)
current	12,396	78,584
deferred	106,186	106,186
Net profit (loss) for the period	**112,294**	**(141,556)**

VENTIS SRL – FINANCIAL STATEMENTS

Assets	31/12/2018	31/12/2017
Cash and cash equivalents	-	157,391
Financial assets measured at amortized cost	510,930	195,217
a) Due from banks	510,930	195,217
Equity investments	795,000	-
Property and equipment	136,618	123,688
Intangibles	1,616,612	676,903
Tax assets	-	664,762
a) current	81,606	289,059
b) deferred	1,332,097	375,704
Other assets	6,951,202	1,876,632
Total assets	**11,424,066**	**3,694,593**

Liabilities and shareholders' equity	31/12/2018	31/12/2017
Financial liabilities measured at amortized cost	2,831,875	2,680,893
a) Due to banks	2,831,875	2,680,893
Other liabilities	4,859,428	1,600,470
Employee termination benefits	51,744	19,904
Provisions for risks and charges	-	5,065
b) post-employment benefits	669	-
c) other provisions	13,215	5,065
Reserves	(112,376)	1,578,790
Share premium reserve	4,950,000	-
Share capital	250,000	200,000
Net profit (loss) for the period (+/-)	(1,420,488)	(2,390,530)
Total liabilities and shareholders' equity	**11,424,066**	**3,694,593**

Income statement	31/12/2018	31/12/2017
Interest and similar expense	(57,911)	(81,919)
Net interest income	**(57,911)**	**(81,919)**
Fee and commission expense	(59,924)	(8,440)
Net fee and commission income	**(59,924)**	**(8,440)**
Gross income	**(117,835)**	**(90,359)**
Net income (loss) from financial operations	**(117,835)**	**(90,359)**
Net income (loss) from financial and insurance operations	**(117,835)**	**(90,359)**
Administrative expenses:	(4,111,093)	(2,926,685)
a) personnel expenses	(1,444,568)	(933,330)
b) other administrative expenses	(2,666,524)	(1,993,355)
Net adjustments of property and equipment	-	(21,788)
Net adjustments of intangible assets	-	(39,609)
Other operating expenses/income	2,369,633	687,911
Operating expenses	**(1,741,460)**	**(2,300,171)**
Profit (loss) before tax on continuing operations	**(1,859,294)**	**(2,390,530)**
Income tax expense from continuing operations	438,806	-
Profit (loss) after tax on continuing operations	**(1,420,488)**	**(2,390,530)**
Net profit (loss) for the period	**(1,420,488)**	**(2,390,530)**
Net profit (loss) for the period pertaining to the shareholders of the Parent company	**(1,420,488)**	**(2,390,530)**

BCC SISTEMI INFORMATICI – FINANCIAL STATEMENTS

Assets	31/12/2018	31/12/2017
B) Non-current assets		
I. Intangibles	18,260,326	14,349,643
3) Industrial patents and intellectual property rights	12,423,980	10,655,859
6) Assets under development and payments on account	4,375,793	1,856,756
7) Other	1,460,553	1,837,028
II. Property and equipment	8,446,222	9,350,640
1) Land and building	560,236	576,078
2) Plant and machinery	6,841,251	8,646,621
3) Industrial and commercial equipment	72,520	34,800
4) Other assets	20,681	47,667
5) Assets under construction and payments on account	951,534	45,474
III. Financial assets		
1) Equity investments in:		
d-bis) other entities	16,791	16,791
Derivative assets		
Total non-current assets	26,723,339	23,717,074
C) Current assets		
II. Receivables	6,089,815	4,008,496
1) from customers		
- within 12 months	6,089,815	4,008,496
4) from parent company	5,458,861	6,600,125
- within 12 months	5,458,861	6,600,125
4) from companies under control of parent companies	3,206,001	1,561,517
- within 12 months	3,206,001	1,561,517
5-bis) Tax receivables	906,328	1,559,764
5-ter) deferred taxes	1,516,594	1,662,520
- within 12 months	765,297	609,548
- beyond 12 months	751,297	1,052,972
5-quater) others	110,320	15,510,511
- within 12 months	91,462	85,792
- beyond 12 months	18,858	32,297
III. Current financial assets		
IV. Cash and cash equivalents	16,793,580	22,191,120
1) Banks and postal deposits	16,791,007	22,187,543
3) Cash and valuables on hand	2,573	3,577
Total current assets	34,081,499	37,701,631
D) Accruals and deferrals	5,651,097	3,396,905
Total assets	**66,455,935**	**64,815,610**

Liabilities	31/12/2018	31/12/2017
A) Shareholders' equity		
I. Share capital	33,993,500	33,993,500
IV. Legal reserve	886,413	886,413
V. Reserves specified in bylaws	3,430,867	3,430,867
VI. other reserves		
Differences from rounding to nearest euro	(1)	1
VIII. Retained earnings (loss carryforward)	2,072,666	2,087,933
Profit (loss) for the period	292,423	(15,267)
X. Negative reserve for treasury shares	(498,500)	(498,500)
Total shareholders' equity	401,773,68	39,884,947
B) Provisions for risks and charges		
1) Post-employment benefits and similar liabilities	197,758	226,953
3) Other	3,695,755	4,253,668
Total provisions for risks and charges	3,893,513	4,480,621
Employee termination benefits	2,360,319	2,335,428
D) Payables		
7) due to suppliers		
- within 12 months	15,054,395	13,886,370
11) due to parent companies		
- within 12 months	407,421	441,944
11-bis) due to companies under control of parent companies		
- within 12 months	1,111,467	210,482
12) due to tax authorities		
- within 12 months	611,895	566,334
13) due to social security		
institutions		
- within 12 months	934,848	935,583
14) Other payables		
- within 12 months	1,100,853	1,229,579
Total payables	19,220,879	17,270,292
E) Accruals and deferrals	803,856	844,322
	66,455,935	**64,815,610**

Income statement	31/12/2018	31/12/2017
A) Value of production		
1) Revenues from sales and services	81,957,381	78,677,759
4) Increase in non-current assets for internal projects	1,424,078	2,774,768
5) Other revenues and income:		
- sundry	2,740,805	1,909,271
Total value of production	**86,122,264**	**83,361,798**
B) Production costs		
6) Raw materials, ancillary products, consumables and goods	55,724	76,227
7) Services	52,757,894	48,636,432
8) Leaseholds	6,059,505	7,009,976
9) Personnel	18,739,477	18,231,449
a) Wages and salaries	13,333,121	13,070,369
b) Social security contributions	3,392,424	3,484,356
c) Employee termination benefits	758,530	759,360
d) Post-employment benefits	7,569	-
e) Other costs	1,247,833	917,364
10) Depreciation, amortization and impairment losses	7,315,855	7,288,489
a) Amortization	4,512,879	4,823,857
b) Depreciation	2,467,837	2,051,305
c) Other writedowns of non-current assets	331,235	123,095
d) Writedowns of receivables in current assets	3,904	290,232
12) Provisions for risks and charges	444,065	544,297
14) Other operating expenses	304,130	1,634,663
Total production costs	**85,676,650**	**83,421,533**
Difference between value and cost of production (A-B)	**445,614**	**(59,735)**
C) Financial income and expenses		
15) Income from equity investments:		
- other	3	3
16) Other financial income:	39,373	72979
d) other:	39,373	72979
- from parent companies		
- from companies under control of parent companies	37,207	67,023
- other	2,166	5,956
17) Interest and other financial charges:	3	980
- other	3	980
17-bis) Exchange gains and losses	2,349	2,550
Total financial income and expenses	**41,722**	**74,552**
Profit (loss) before taxes (A-B±C±D)	**487,336**	**14,817**
20) Income tax expense for the period, current, deferred and prepaid	194,913	30,084
a) current taxes	48,987	33,068
c) deferred taxes	145,926	(2,984)
21) Net profit (loss) for the period	**292,423**	**(15,267)**

BCC RISPARMIO&PREVIDENZA – FINANCIAL STATEMENTS

	Assets	31/12/2018	31/12/2017
10	Cash and cash equivalents	2,433	1,789
[40]	Financial assets held for sale		6,580,220
[60]	Receivables		
	a) for asset management		13,574,963
	b) other		59,079,773
20	Financial assets measured at fair value through profit or loss		
	a) financial assets held for trading		
	b) financial assets designated at fair value		
	c) other financial assets mandatorily measured at fair value	6,251,291	
30	Financial assets measured at fair value through other comprehensive income	130,755	
40	Financial assets measured at amortized cost	55,489,165	
80	Property and equipment	4,714,909	4,919,793
90	Intangible assets	758,763	161,365
100	Tax assets		
	a) current	698,497	
	b) deferred	577,833	388,489
120	Other assets	2,630,403	1,434,541
	Total assets	**71,254,049**	**86,140,933**

	Liabilities and shareholders' equity	31/12/2018	31/12/2017
[10]	Payables		30,349,340
10	Financial liabilities measured at amortized cost		
	a) Payables	25,656,042	
60	Tax liabilities		
	a) current		771,076
	b) deferred	179,764	254,122
70	Liabilities associated with assets held for sale		
80	Other liabilities	9,390,490	10,222,556
90	Employee termination benefits	355,157	
100	Provisions for risks and charges		
	c) other provisions	1,336,346	431,379
110	Share capital	8,500,000	8,500,000
140	Share premium reserve	1,337,801	1,337,801
150	Reserves	16,106,568	16,045,903
160	Valuation reserves	(137,098)	(139,675)
170	Net profit (loss) for the period	8,528,979	18,080,664
	Total liabilities and shareholders' equity	**71,254,049**	**86,140,933**

Income statement		31/12/2018	31/12/2017
10	Fee and commission income	137,785,803	143,637,583
20	Fee and commission expense	(102,482,385)	(99,141,976)
30	Net fee and commission income (expense)	35,303,418	44,495,607
40	Dividends and similar income	88,062	
50	Interest and similar income	77	120
100	Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss:		
	B) other financial assets mandatorily measured at al fair value	(182,686)	
110	Gross income	35,208,871	44,495,727
130	Net income (loss) from financial operations	35,208,871	44,495,727
140	Administrative expenses:		
	a) personnel expenses	(5,217,092)	(4,667,314)
	b) other administrative expenses	(16,321,064)	(13,285,338)
150	Net provisions for risks and charges	(932,479)	(251,668)
160	Net adjustments of property and equipment	(204,884)	(211,021)
170	Net adjustments of intangible assets	(229,002)	(114,652)
180	Other operating expenses/income	210,005	(22,814)
190	Operating expenses	(22,694,516)	(18,552,807)
240	Profit (loss) before tax on continuing operations	12,514,355	25,942,920
250	Income tax expense from continuing operations	(3,985,376)	(7,862,256)
260	Profit (loss) after tax on continuing operations	8,528,979	18,080,664
280	**Profit (loss) for the period**	**8,528,979**	**18,080,664**

BCC GESTIONE CREDITI – FINANCIAL STATEMENTS

Assets	31/12/2018	31/12/2017
A) SHAREHOLDER RECEIVABLES FOR OUTSTANDING PAYMENTS	-	-
B) NON-CURRENT ASSETS		
I ***Intangibles***	46,891	73,073
4) concessions, licenses, trademarks and similar rights	46,891	73,073
II Property and equipment	14,254	26,324
4) other	14,254	26,324
III ***Financial***	210,320	560,320
1) equity investments in		
a) subsidiaries	210,320	560,320
Total non-current assets (B)	271,465	659,717
II Receivables	10,640,984	8,006,994
1) due from customers	8,366,084	5,145,309
- within 1 year	8,314,819	4,937,791
- beyond 1 year	51,265	207,518
2) due from subsidiaries	1,267	2,368
4) due from parent companies	161,930	202,289
5) due from companies under control of parent companies	1,118,506	1,638,281
5 bis) Tax receivables	100,363	40,751
5 ter) Deferred tax assets	501,788	462,041
5 quater) due from others	391,045	515,956
- within 1 year	391,045	301,552
- beyond 1 year	0	214,403
IV Cash and cash equivalents	5,175,659	4,365,466
1) bank and postal deposits	5,174,746	4,364,772
3) cash and valuable on hands	913	694
Total current assets(C)	15,816,643	12,372,460
D) ACCRUALS AND DEFERRALS	164,140	80,445
Total assets	**16,252,248**	**13,112,622**

Liabilities and shareholders' equity	31/12/2018	31/12/2017
A) SHAREHOLDERS' EQUITY		
I - Share capital	2,000,000	2,000,000
IV – Legal reserve	225,892	87,169
- Payments on capital account	564,750	564,750
- Reserve from acquisition of business unit	(413,752)	(413,752)
- Reserve from valuation of employee termination benefits	24,281	23,821
VIII – Retained earnings (loss carryforward)	1,361,071	1,361,071
IX - (Loss)/profit for the period	4,181,888	2,774,488
Total shareholders' equity (A)	7,944,129	6,397,548
taxes, including deferred taxation	8,727	9,984
4) other	200,000	25,000
Total provisions for risks and charges (B)	208,727	34,984
C) EMPLOYEE TERMINATION BENEFITS	158,128	172,026
4) due to banks	226,169	447,444
- within 1 year	87	221,188
- beyond 1 year	226,256	226,256
7) due to suppliers	2,267,715	1,695,606
11) due to parent companies	2,985,290	1,786,028
11 bis) due to companies under control of parent companies	208,273	64,991
12) Due to tax authorities	230,128	344,736
13) Due to social security institutions	434,857	444,996
14) Other payables	1,585,436	1,720,227
Total payables (D)	7,937,868	6,504,029
E) ACCRUALS AND DEFERRALS	3,398	4,036
Total liabilities and shareholders' equity	**16,252,248**	**13,112,622**

Income statement	31/12/2018	31/12/2017
A) Value of production		
1) revenues from sales and services	15,800,219	13,647,219
5) other revenues and income	8,578,959	5,247,789
Total value of production (A)	24,379,178	18,895,008
B) Production costs		
6) raw materials, ancillary products, consumables and goods	626	1,159
7) services	11,938,446	9,116,590
8) leasehold	949,995	676,677
9) personnel		
a) wages and salaries	2,893,081	3,259,893
b) social security contributions	624,620	827,337
c) employee termination benefits	27,007	60,084
d) post-employment benefits	214,666	246,444
e) other costs	221,721	64,622
10) depreciation, amortization and impairment losses		
a) amortization	26,182	26,819
b) depreciation	12,071	13,207
d) other writedowns of receivables in current assets and cash and equivalents	(91,563)	146,712
13) other provisions	200,000	-
14) other operating expenses	765,650	275,715
Total production costs (B)	17,782,500	14,715,259
Difference between value and cost of production (A-B)	6,596,678	4,179,749
17) financial income and expense		
- other (17)	14,989	13,450
Total financial income and expense (C)	(14,989)	(13,420)
19) writedowns	400,324	75,543
a) equity investments	350,000	130,000
b) non-current financial assets other than equity investments	50,324	(54,457)
Total value adjustments (D)	(400,324)	(75,543)
Profit (loss) before taxes (A - B + - C + - D)	6,181,364	4,090,786
22) income tax expense for the period, current, deferred and prepaid		
a) current taxes	2,049,694	1,343,042
b) deferred tax liabilities	(1,257)	(6,829)
c) deferred tax assets	(48,960)	(19,915)
Total profit (loss) for the period	1,999,477	1,316,298
Net profit (loss) for the period	**4,181,888**	**2,774,488**

BCC SOLUTIONS – FINANCIAL STATEMENTS

Assets	31/12/2018	31/12/2017
Intangibles	119,522	321,621
Property and equipment	103,350,979	97,892,828
Other non-current assets	116,096	120,447
Deferred taxes	3,241	2,761
Non-current assets	103,589,838	98,337,657
Trade assets	7,045,135	3,616,164
Cash and cash equivalents	3,594,526	2,391,711
Other assets	1,207,577	1,687,795
Total assets	**115,437,075**	**106,033,326**

Liabilities and shareholders' equity	31/12/2018	31/12/2017
Tot. share capital	23,020,000	23,020,000
Tot. share capital	523,857	407,085
Tot. other reserves	31,949,013	31,932,482
Tot. retained earnings	304,365	88,442
TOTAL SHAREHOLDERS'EQUITY	55,797,235	55,448,009
Current account liabilities – other banks	0	13,645,713
Loans due – other banks	44,470,645	18,478,161
Tot. Financial liabilities	44,470,645	32,123,874
Employee termination benefits	196,443	187,327
Provisions for risks and charges -Other-IAS-Long-term employee benefits	41,455	31,982
Total employee termination benefits and other employee provisions	237,898	219,309
Tax liabilities – provision for taxes and duties – difference between statutory reporting and IRES	1,854	1,854
Total deferred taxes	1,854	1,854
TOTAL NON-CURRENT LIABILITIES	44,710,397	32,345,037
Total trade payables	11,717,130	14,500,530
Total other liabilities	54,188	705
TOTAL TRADE LIABILITIES	11,771,318	14,501,235
Total Tax and contribution liabilities	323,646	305,557
Total IRAP liability	246,518	0
TOTAL INCOME TAX EXPENSE FOR THE PERIOD	570,164	305,557
Total due to parent company for IRES	663,016	830,458
Total due to others	10,349	30,522
Total due to employees	185,227	237,073
TOTAL OTHER LIABILITIES	858,591	1,098,052
TOTAL CURRENT LIABILITIES	13,200,073	15,904,845
NET PROFIT (LOSS) FOR THE PERIOD	1,729,370	2,335,435
Total liabilities and shareholders' equity	**115,437,075**	**106,033,326**

Income statement	31/12/2018	31/12/2017
Total Revenues	34,286,613	33,450,912
Total other income	3,138,050	3,028,467
Total operating revenue and income	37,424,663	36,479,379
Purchases of materials and external services	(94,220)	(61,645)
Personnel expenses	(3,798,844)	(3,589,470)
Other operating expenses	(24,306,867)	(24,683,528)
Total Costs	(28,199,931)	(28,334,643)
Operating income before depreciation and amortization	9,224,732	8,144,737
Total depreciation	(5,358,713)	(3,687,061)
Total amortization	(202,099)	(298,564)
Total provisions	(14,813)	(12,928)
Total depreciation, amortization and provisions	(5,575,625)	(3,998,553)
OPERATING INCOME	3,649,107	4,146,184
Total financial income	14,837	21,923
Total financial expense	(1,028,361)	(915,542)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	2,635,583	3,252,565
Income tax expense for the period	(906,213)	(917,130)
Net profit (loss) for the period	**1,729,370**	**2,335,435**

BCC CREDITOCONSUMO – FINANCIAL STATEMENTS

Assets	31/12/2018	31/12/2017
Cash and cash equivalents	70,234	30,167
Financial assets measured at fair value through other comprehensive income	30,000	30,000
Financial assets measured at amortized cost- due from banks	9,491,448	8,886,944
Financial assets measured at amortized cost- loans to customers	901,976,166	923,537,301
Property and equipment	23,667	41,264
Intangible assets	931,281	28,595
Tax assets- current	119,994	6,178
Tax assets - deferred	9,290,253	9,290,029
Other assets	44,957,061	3,335,080
Total assets	**966,890,106**	**945,185,558**

Liabilities and shareholders' equity	31/12/2018	31/12/2017
Share capital	23,020,000	23,020,000
Total share capital	523,857	407,085
Total other reserves	31,949,013	31,932,482
Total retained earnings	304,365	88,442
TOTAL SHAREHOLDERS' EQUITY	55,797,235	55,448,009
Current account liabilities – other banks	0	13,645,713
Loans due – other banks	44,470,645	18,478,161
Total financial liabilities	44,470,645	32,123,874
Employee termination benefits	196,443	187,327
Provisions for risks and charges -Other-IAS-Long-term employee benefits	41,455	31,982
Total employee termination benefits and other employee provisions	237,898	219,309
Tax liabilities – provision for taxes and duties – difference between statutory reporting and IRES	1,854	1,854
Total deferred taxes	1,854	1,854
TOTAL NON-CURRENT LIABILITIES	44,710,397	32,345,037
Total Trade payables	11,717,130	14,500,530
Total Other liabilities	54,188	705
TOTAL TRADE PAYABLES	11,771,318	14,501,235
Total Tax and contribution liabilities	323,646	305,557
Total IRAP liability	246,518	0
TOTAL INCOME TAX EXPENSE FOR THE PERIOD	570,164	305,557
Total due to parent company for IRES	663,016	830,458
Total due to other	10,349	30,522
Total due to employees	185,227	237,073
TOTAL OTHER LIABILITIES	858,591	1,098,052
TOTAL CURRENT LIABILITIES	13,200,073	15,904,845
NET PROFIT (LOSS) FOR THE PERIOD	1,729,370	2,335,435
Total liabilities and shareholders' equity	**115,437,075**	**106,033,326**

Income statement	31/12/2018	31/12/2017
Revenues	34,286,613	33,450,912
Other income	3,138,050	3,028,467
Operating revenue and income	37,424,663	36,479,379
Purchases of materials and external services	(94,220)	(61,645)
Personnel expenses	(3,723,832)	(3,589,470)
Other operating expenses	(24,311,859)	(24,683,528)
Operating income before depreciations and amortization	9,294,753	8,144,737
Depreciation	(5,358,713)	(3,687,061)
Amortization	(202,099)	(298,564)
Provisions	(18,372)	(12,928)
OPERATING INCOME	3,715,569	4,146,184
Financial income	14,837	21,923
Financial expense	(1,023,370)	(915,542)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	2,707,036	3,252,565
Income tax expense for the period	(867,946)	(917,130)
Other comprehensive income	16,531	(15,061)
Net profit (loss) for the year	**1,855,621**	**2,335,435**

BANCA SVILUPPO – FINANCIAL STATEMENTS

	Assets	31/12/2018	31/12/2017
10.	Cash and cash equivalents	10,687,208	12,102,404
20.	Financial assets measured at fair value through profit or loss	483,122	1,665,551
	a) Financial assets held for trading	42,408	1,316,081
	c) Other financial assets mandatorily measured at fair value	440,714	349,470
30.	Financial assets measured at fair value through other comprehensive income	2,834,340	2,917,743
40.	Financial assets measured at amortized cost	1,203,469,290	1,479,078,316
	a) Due from banks	575,270,918	280,024,399
	b) Loans to customers	628,198,372	772,360,643
50.	Hedging derivatives	108,476	247,944
80.	Property and equipment	48,248,470	56,077,490
90.	Intangible assets	1,225,091	1,259,317
100.	of which:		
	- goodwill	1,157,604	1,157,604
	Tax assets	59,780,854	54,788,876
110.	a) current	50,183,430	51,296,845
	b) deferred	9,597,424	3,492,031
	Non-current assets and disposal groups held for sale	39,038,014	220,326,906
120.	Other assets	49,298,501	55,032,527
130.	**Total assets**	**1,415,173,365**	**1,883,497,073**

	Liabilities and shareholders' equity	31/12/2018	31/12/2017
10.	Financial liabilities measured at amortized cost	1,185,537,586	1,365,617,524
	a) Due to banks	105,457,952	50,623,433
	b) Due to customers	917,536,045	1,065,927,652
	c) Securities issued	162,543,589	249,066,438
30.	Financial liabilities designated at fair value	469,358	492,130
40.	Hedging derivatives	16,461	40,095
60.	Financial liabilities	525,987	912,700
	b) deferred	525,987	912,700
70.	Liabilities associated with assets held for sale	20,369,134	282,047,467
80.	Other liabilities	60,441,358	64,434,001
90.	Employee termination benefits	3,879,852	5,551,513
100.	Provisions for risks and charges	22,287,730	27,334,866
	a) commitments and guarantees issued	1,032,000	867,427
	c) other provisions	21,255,730	26,467,439
110.	Valuation reserves	119,578	819,300
140.	Reserves	(16,310,363)	3,305,137
150.	Share premium reserve	178,403	178,403
160.	Share capital	132,511,683	132,511,683
180.	Profit (loss) for the period (+/-)	5,146,599	252,252
	Total liabilities and shareholders' equity	**1,415,173,365**	**1,883,497,072**

	Income statement	31/12/2018	31/12/2017
10.	Interest and similar income	40,676,079	50,391,856
	of which: interest income calculated using the effective interest rate method	15,650,834	-
20.	Interest and similar expense	(7,631,579)	(16,058,709)
30.	**Net interest income**	**33,044,500**	**34,333,148**
40.	Fee and commission income	16,723,160	21,418,577
50.	Fee and commission expense	(2,379,875)	(2,474,885)
60.	**Net fee and commission income (expense)**	**14,343,285**	**18,943,692**
70.	Dividends and similar income	-	9,055
80.	Net gain (loss) on trading activities	(34,005)	(1,111,066)
90.	Net gain(loss) on hedging activities	15,088	(48,551)
100.	Net gain (loss) on the disposal or repurchase of:	(5,329,847)	7,805,884
	a) financial assets measured at amortized cost	(5,394,604)	6,837,773
	b) financial assets measured at fair value through other comprehensive income	-	27,558
	c) financial liabilities	64,756	940,554
110.	Net gain (loss) on financial assets and liabilities measured at fair value through profit or loss	17,088	29,975
	a) financial assets and liabilities designated at fair value	32,839	29,975
	b) other financial assets mandatorily measured at fair value	(15,751)	-
120.	**Gross income**	**42,056,108**	**59,962,137**
130.	Net losses/recoveries for credit risk in respect of:	464,212	(9,105,769)
	a) financial assets measured at amortized cost	464,212	(9,105,769)
150.	**Net income (loss) from financial operations**	**42,520,320**	**50,856,368**
180.	**Net income (loss) from financial and insurance operations**	**42,520,320**	**50,856,368**
190.	Administrative expenses:	(53,758,710)	(61,600,424)
	a) personnel expenses	(28,508,973)	(31,304,135)
	b) other administrative expenses	(25,249,737)	(30,296,289)
200.	Net provisions for risks and charges	200,961	1,611,052
	a) commitments for guarantees issued	204,337	(17,946)
	b) other net provisions	(3,375)	1,628,998
210.	Net adjustments of property and equipment	(1,808,218)	(2,248,540)
220.	Net adjustments of intangible assets	(51,460)	(64,960)
230.	Other operating expenses/income	4,204,283	6,791,760
240.	**Operating expenses**	**(51,213,143)**	**(55,511,112)**
280.	Profit (loss) from disposal of investments	6,987,395	4,983,761
290.	**Profit (loss) before tax on continuing operations**	**(1,705,428)**	**329,016**
300.	Income tax expense from continuing operations	6,852,027	(76,764)
310.	**Profit (loss) after tax on continuing operations**	**5,146,599**	**252,252**
330.	**Net profit (loss) for the period**	**5,146,599**	**252,252**
350.	**Net profit (loss) for the period pertaining to the shareholders of the Parent company**	**5,146,599**	**252,252**

BANCA MEDIOCREDITO DEL FVG – FINANCIAL STATEMENTS

Assets		31/12/2018	31/12/2017
10.	Cash and cash equivalents	2,768	5,094
[20.]	Financial assets held for trading		2,946,683
[40.]	Financial assets held for sale		233,741,412
[50.]	Financial assets held to maturity		33,628,132
[60.]	Due from banks		201,813,120
[70.]	Loans to customers		730,260,303
20.	Financial assets measured at fair value through profit or loss	33,686,043	
	a) Financial assets held for trading	2,810,137	
	b) Financial assets designate al fair value	-	
	c) Other financial assets mandatorily measured at fair value	30,875,906	
30.	Financial assets at fair value through other comprehensive income	168,617,447	
40.	Financial assets measured at amortized cost	862,674,266	
	a) Due to banks	248,666,465	
	b) Due to customers	614,007,801	
50.	Hedging derivatives	-	163,035
80.	Property and equipment	11,279,964	11,534,144
90.	Intangible assets	164,365	96,741
100.	Tax assets	46,692,561	49,056,455
	a) current	5,456,256	10,963,238
	b) deferred	41,236,305	38,093,217
120.	Other assets	7,171,249	7,870,431
	Total assets	**1,130,288,663**	**1,271,115,550**

	Liabilities and shareholders' equity	31/12/2018	31/12/2017
[10.]	Due to banks		264,923,276
[20.]	Due to customers		753,372,881
[30.]	Securities issued		38,562,780
[40.]	Financial liabilities held for trading		275,649
10.	Financial liabilities measured at amortized cost	935,876,880	
	a) due to banks	239,063,314	
	b) due to customers	671,385,886	
	c) securities issued	25,427,680	
20.	Financial liabilities held for trading	225,943	
60.	Tax liabilities	1,772,231	1,815,163
	b) deferred	1,772,231	1,815,163
80.	Other liabilities	84,429,289	107,970,427
90.	Employee termination benefits	493,089	566,197
100.	Provisions for risks and charges	7,106,521	4,752,703
	a) commitments and guarantees issued	2,339,938	-
	c) other provisions for risks and charges	4,766,583	4,752,703
110.	Valuation reserves	(2,820,768)	(4,899,615)
140.	Reserves	(17,828,609)	-
150.	Share premium reserve	8,323,943	42,491,752
160.	Share capital	115,152,144	113,723,677
180.	Net profit (loss) for the period (+/-)	(2,442,000)	(52,439,340)
	Total liabilities and shareholders' equity	**1,130,288,663**	**1,271,115,550**

	Income statement	31/12/2018	31/12/2017
10.	Interest and similar income	18,333,784	22,934,189
	of which: interest income calculated using the effective interest rate method	18,333,784	-
20.	Interest and similar expense	(8,036,822)	(11,552,003)
30.	**Net interest income**	**10,296,962**	**11,382,186**
40.	Fee and commission income	7,379,853	7,103,571
50.	Fee and commission expense	(416,974)	(530,352)
60.	**Net fee and commission income (expense)**	**6,962,879**	**6,573,219**
70.	Dividends and similar income	-	-
80.	Net gain (loss) on trading activities	10,123	(212,443)
90.	Net gain(loss) on hedging activities	5,643	10,376
[100]	Net gain(loss) on the disposal or repurchase of:		(43,211,177)
	a) loans		(43,445,678)
	b) financial assets held for sale		223,452
	c) financial assets held to maturity		8,400
	d) financial assets		2,649
100.	Net gain(loss) on the disposal or repurchase of:	312,030	
	a) financial assets measured at amortized cost	24,639	
	b) financial assets measured at fair value through other comprehensive income	293,681	
	c) financial liabilities	(6,290)	
[110]	Net gain (loss) on financial assets and liabilities designated as at fair value		
110.	Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss	(2,895,447)	
	a) financial assets and liabilities designated at fair value	-	
	b) other financial assets mandatorily measured at fair value	(2,895,447)	
120.	**Gross income**	**14,692,190**	**(25,457,839)**
[130]	Net losses/recoveries on impairment:		(6,085,638)
	a) loans		(6,230,705)
	b) financial assets held for sale		
	d) other financial transactions		45,067
130.	Net losses/recoveries for credit risk in respect of:	(2,505,312)	
	a) financial assets measured at amortized cost	(1,852,114)	
	b) financial assets measured at fair value through other comprehensive income	(653,198)	
140.	Gains/losses from contractual modifications without derecognition	207,502	-
150.	**Net income (loss) from financial operations**	**12,394,380**	**(31,543,477)**
160.	Administrative expenses:	(13,537,403)	(18,406,023)
	a) personnel expenses	(6,120,203)	(9,101,119)
	b) other administrative expenses	(7,417,200)	(9,304,904)
170.	Net provisions for risks and charges	(244,018)	50,000
	a) commitments for guarantees issued	(151,412)	-
	b) other net provisions	(92,606)	50,000
180.	Net adjustments of property and equipment	(2,693,828)	(6,652,721)
190.	Net adjustments of intangible assets	(72,292)	(214,714)
200.	Other operating expenses/income	1,218,316	249,387
210.	**Operating expenses**	**(15,329,224)**	**(24,974,071)**
220.	Profit (loss) from equity investments	-	-
230.	Net gain (loss) from valuation at fair value of property and equipment and intangible assets	-	-
240	Goodwill impairment	-	-
250.	Profit (loss) from disposal of investments	-	-
260.	**Profit (loss) before tax on continuing operations**	**(2,934,844)**	**(56,517,548)**
270.	Income tax expense from continuing operations	492,844	4,078,208
280.	**Profit (loss) after tax on continuing operations**	**(2,442,000)**	**(52,439,340)**
290	Profit (loss) after tax of disposal groups held for sale	-	-
300.	**Net profit (loss) for the period**	**(2,442,000)**	**(52,439,340)**

SECURFONDO – SCHEMI DI BILANCIO

Assets	31/12/2018	31/12/2017
STRUMENTI FINANZIARI		
Unlisted financial instruments		
A1. Controlling interests	2,020,000	2,118,313
B. PROPERTY AND PROPERTY RIGHTS		
B1. Property leased to others	6,100,000	7,500,000
B3. Other property	12,600,000	16,048,000
D BANK DEPOSITS		
D1. On demand	1,500,017	1,500,001
F. NET LIQUIDITY POSITION		
F1. Cash and cash equivalents	824,582	4,178,558
G. OTHER ASSETS		
G2. Accruals and deferrals	151	1,293
G4.1 Receivables due from customers	213,328	274,941
G4.3 Other assets	51,341	118,715
TOTAL ASSETS	**23,309,419**	**31,739,821**

Liabilities and shareholders' equity	31/12/2018	31/12/2017
M. OTHER LIABILITIES		
M1. Fees and charges accrued but not settled	4,013	9,239
M2. Tax liabilities		1,000
M3. Accruals and deferrals	20	646
M4. Due to others	157,647	482,961
M5. Liabilities for security deposits on leases		140,000
Number of units in circulation	60,000	60,000
Unit value of units	386	518
Reimbursements distributed per unit	66	660
TOTAL LIABILITIES	**23,309,419**	**31,739,821**

Income statement	31/12/2018	31/12/2017
A1.3 capital gains / losses	(223,313)	(362,887)
Profit (loss) on financial instruments	(223,313)	(362,887)
B. PROPERTY AND PROPERTY RIGHTS		
B1. LEASE PAYMENTS AND OTHER INCOME	631,467	645,342
B3. GAINS/LOSSES	(3,798,000)	(1,623,000)
B4. PROPERTY MANAGEMENT EXPENSES	(202,292)	(409,086)
B6. MUNICIPAL PROPERTY TAX AND SIMILAR	(273,462)	(276,730)
Profit (loss) on property management	(3,642,287)	(1,663,474)
D. BANK DEPOSITS		
D1. Interest and similar income	269	3,290
Profit (loss) on investments	(3,865,331)	(2,023,071)
Gross profit (loss) on core operations	(3,865,331)	(2,023,071)
Net profit (loss) on core operations	(3,865,331)	(2,023,071)
I. OPERATING EXPENSE	(284,752)	(371,757)
I1. Management fees - asset management company	(123,160)	(248,014)
I2. Cost of calculating unit value	(31)	(62)
I3. Custodian fees	(16,053)	(36,956)
I4. Costs for independent experts	(8,000)	(7,000)
I5. Advertising, information and disclosures	(38,040)	(43,837)
I6. Other operating costs	(99,468)	(35,888)
L. OTHER REVENUE AND CHARGES	181,847	189,535
L2. Other revenue	201,875	192,155
L3. Other charges	(20,028)	(2,620)
Profit (loss) for the period	**(3,968,236)**	**(2,205,293)**

M-FACILITY – FINANCIAL STATEMENTS

	Assets	31/12/2018	31/12/2017
b)	**Non-current assets**		
	Intangibles	403,303	6,380
	Property and equipment	6,380	649,389
total b)		**409,683**	**655,769**
c)	**Current assets**		
	Receivables		
	Tax receivables		
	Falling due within subsequent year	521,590	328,906
	Cash and cash equivalents	83,176	38,145
	Bank and postal deposits		
total c)		**604,766**	**367,051**
	Taxes	**110,942**	
	Total assets	**1,125,391**	**1,022,820**

	Liabilities and shareholders' equity	31/12/2018	31/12/2017
a)	**Shareholders' equity**		
i)	Social capital	564,900	745,280
	Non-interest-bearing loans		400,000
iv)	Other reserves	58,491	
viii)	Retained earnings (loss carryforward)		
ix)	Net profit (loss) for the period	(200,844)	(214,529)
total a)		**422,547**	**930,751**
c)	**Employee termination benefits**	**4,834**	**4,834**
d)	**Payables**		
	Loans	261,099	
	To suppliers		76,490
	Falling due within subsequent year	85,342	4,704
	Tax and contributions	4,725	4,472
total d)		351,166	**85,666**
	Accumulated depreciation	2,844	1,568
	Accruals and deferrals	344,000	
	Total liabilities	**1,125,391**	**1,022,820**

	Income statement	31/12/2018	31/12/2017
a)	**Value of production**	**10,830**	**73**
b)	**Production costs**	**(203,994)**	**(222,241)**
	Raw materials	(397)	(300)
	Services	(43,933)	(167,350)
	Personnel	(144,905)	(31,757)
	Depreciation, amortization and impairment losses		
	Other operating expenses	(14,759)	(22,834)
c)	**Financial income and expense**	**(7,680)**	**(7,785)**
	Financial expense	(7,680)	
	Interest and other financial charges		(7,785)
e)	**Extraordinary income and expense**		
	Profit (loss) before taxes (a-b+c+d+e)	(200,844)	**(214,529)**
	Income tax expense		
	Profit (loss) for the period	**(200,844)**	**(214,529)**

HI- MTF SPA – FINANCIAL STATEMENTS

ASSETS		31/12/2018	31/12/2017
10.	Cash and cash equivalents	42	230
40.	Financial assets measured at amortized cost	6,305,262	6,441,231
	a) due from banks	6,073,772	5,719,242
	b) due from financial companies	219,770	4,392
	c) loans to customers	11,719	717,597
80.	Property and equipment	25,638	15,533
90.	Intangible assets	224,914	118,658
100.	Tax assets	138,153	102,613
	a) current	126,849	86,505
	b) deferred	11,304	16,108
120.	Other assets	167,380	127,024
	TOTAL ASSETS	6,861,389	6,805,289

LIABILITIES AND SHAREHOLDERS' EQUITY		31/12/2018	31/12/2017
10.	Financial liabilities at amortized cost	43,118	3,409
	a) payables	43,118	3,141
	b) securities issued	-	268
30.	Financial liabilities at fair value	342,282	368,238
40.	Hedging derivatives	190,393	187,307
110.	Share capital	5,000,000	5,000,000
150.	Reserves	1,249,639	1,174,874
160.	Valuation reserves	3,210	(2,659)
170.	Net profit (loss) for the period	32,746	74,121
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	6,861,389	6,805,289

INCOME STATEMENT		31/12/2018	31/12/2017
50.	Fee and commission income	2,394,394	2,490,194
60.	Fee and commission expense	(1,379)	(2,610)
70.	Interest and similar income	60,695	55,260
80.	Interest and similar expense	(2)	(75)
110.	Gross income	2,453,708	2,542,769
130.	Net income (loss) from financial operations	2,453,708	2,542,769
140.	Administrative expenses:	(2,329,541)	(2,348,031)
	a) personnel expenses	(950,406)	(997,248)
	b) other administrative expenses	(1,379,135)	(1,350,783)
160.	Net adjustments of property and equipment	(5,920)	(4,956)
170.	Net adjustments of intangible assets	(40,154)	(78,469)
180.	Other operating expenses/income	521	32,257
190.	Operating expenses	(2,375,094)	(2,399,200)
240.	Profit (loss) before tax on continuing operations	78,614	143,569
250.	Income tax expense from continuing operations	(45,868)	(69,448)
260.	Profit (loss) after tax on continuing operations	32,746	74,121
	NET PROFIT (LOSS) FOR THE PERIOD	32,746	74,121

BCC VITA SPA – FINANCIAL STATEMENTS

ASSETS	31/12/2018	31/12/2017
5. other long-term costs	-	5,801
investments		
1. shares and other equity investments in companies:		
c) associates	1,000	1,000
e) other	1,562	
3. loans to companies:		
e) other	2,562	
c) units	25,290	25,290
2. units in investment funds	53,028,370	32,135,234
3. bonds and other fixed-income securities		
a) listed	2,599,775,564	2,406,049,026
b) unlisted	-	21,374,587
c) convertible bonds	2,599,775,564	2,427,423,614
7. other financial investments	2,652,829,225	2,459,644,780
ii – life insurance		
1. mathematical reserves	27,235,675	25,045,192
3. reserve for amounts to pay	5,227,031	2,845,231
4. reserve for profit participation and rebates	629,586	313,997
Receivables		
1. insured		
a) for premiums for the year	1,146,854	1,018,097
b) for premiums for previous years	215,613	162,353
2. insurance brokers	2,869,229	2,613,342
4. insured and third parties for amounts to be recovered	4,231,697	3,793,793
1. insurance and reinsurance companies	1,073,007	28,424
2. insurance brokers	1,073,007	28,424
- other receivables	42,989,065	42,159,983
other assets		
- property and equipment, and inventories:		
4. inventories and sundry assets	9,311	21,562
- cash and cash equivalents		
1. bank and postal deposits	6,669,913	6,743,854
2. checks and amounts on hand	6,669,913	410
- other assets		
1. reinsurance transit accounts		
2. sundry assets	11,948,544	10,629,180
accrual income and prepayments		
1. for interest	21,322,319	17,190,048
3. other accruals and deferrals	7,218.17	56,640
TOTAL ASSETS	**3,214,807,517**	**2,901,421,103**

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2018	31/12/2017
Shareholders' equity		
- share capital subscribed or equivalent fund	62,000,000	62,000,000
- legal reserve	4,833,908	4,334,772
- other reserves	83,969,064	83,969,064
- retained earnings (loss carryforward)	17,429,562	7,945,977
- profit (loss) for the period	10,449,420	9,982,720
- negative reserve for treasury shares	-	168,232,536
- life		
1. mathematical reserves	2,522,229,900	2,340,541,520
2. unearned premium reserve for supplementary insurance	1,378	1,413
3. reserve for amounts to pay	23,070,218	15,544,516
4. reserve for profit participation and rebates	1,363,942	1,226,931
5. other technical reserves	2,573,393,851	4,750,915,593
investment and market indices	440,632,357	336,761,857
- reserves from pension fund management	-	336,761,857
provisions for risks and charges		
Other provisions	896,580	2,201,622
deposits received from reinsurers	-	977,261
Payables		
- payables from direct insurance operations:		
1. insurance brokers	2,771,240	2,987,473
3. insured for security deposits and premiums	122,894	111,807
4. guarantee fund for insured	2,894,135	3,099,281
- payables from reinsurance operations:		
1. insurance and reinsurance companies	4,840,019	3,340,157
2. insurance brokers	4,840,019	3,340,157
- employee termination benefits	16,118	24,991
- other payables		
2. for sundry tax liabilities	12,825,227	11,390,512
3. welfare and pension institutions	159,924	150,555
- other liabilities		
2. fees for premiums being collected	1,708	3,090
3. sundry liabilities	1,965	24,941,992
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**3,214,807,517**	**2,901,421,103**

INCOME STATEMENT	31/12/2018	31/12/2017
premium income for the year, net of cessions to reinsurers:		
a) gross premiums		
b) (-) premiums ceded to reinsurers	426,921,479	320,556,356
(of which: from Group companies	91,093,266	84,487,800
income and unrealized gains on investments on behalf of insured		
that bear the risk and on investments associated with management of pension funds	4,310,386	19,388,235
other technical income, net of cessions to reinsurers	1,693,519	1,386,538
bb) (-) amounts borne by reinsurers	139,051,310	156,129,311
change in mathematical reserves and other technical reserves,		
bb) (-) amounts borne by reinsurers	284,636,956	205,322,313
rebates and profit participation, net of cessions to reinsurers	(178,578)	304,227
Operating expenses:		
f) (-) fees and profit participation received from reinsurers	14,699,204	14,850,545
financial expense:		
a) operating expenses of investments and interest expense		
b) writedowns of investments		
- financial expense and unrealized capital losses on investments	34,682,024	21,482,815
on behalf of insured who bear the risk and on investments		
associated with management of pension funds	27,079,683	5,573,441
other technical expenses, net of cessions to reinsurers	9,778,786	9,288,312
(-) share of profit on investments transferred to non-technical account (item iii. 4)	3,836,082	4,184,588
profit (loss) on technical account – life insurance branches (item iii. 2)	10,433,182	8,683,375
profit (loss) on technical account – life insurance branches (item ii. 13)	10,433,182	8,683,375
technical account – life insurance branches (item ii. 12)	3,836,082	4,184,588
other income	290,610	197,770
other expense	94,879	259,959
profit (loss) on ordinary operations	14,464,996	12,805,775
extraordinary income	552,144	2,558,491
extraordinary expense	62,597	623,155
profit (loss) on extraordinary operations	489,546	1,935,336
Profit (loss) before tax	14,954,542	14,741,111
Income tax expense	4,505,122	4,758,390
Net profit (loss) for the period	**10,449,420**	**9,982,721**

BCC ASSICURAZIONI – FINANCIAL STATEMENTS

ASSETS	31/12/2018	31/12/2017
- deposits with ceding entities	30,966,288	29,446,974
- management of pension funds	36,130,807	38,089,681
- other receivables	14,238,784	11,844,217
2. sundry assets	914,795	3,397,860
3. other accrued income and prepayments	164,774	179,578
TOTAL ASSETS	**82,415,448**	**82,958,310**

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2018	31/12/2017
Shareholders' equity		
- negative reserve for treasury shares	10,330,867	11,199,852
5. other technical reserves	57,678,908	56,697,439
other provisions	156,222	68,119
deposits received from reinsurers	1,022,283	2,691,047
3. sundry liabilities	13,227,168	12,301,853
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**82,415,448**	**82,958,310**

INCOME STATEMENT	31/12/2018	31/12/2017
i. technical account – non-life insurance		
d) change in unearned premium reserved charged to reinsurers	17,887,437	15,457,642
(+) share of profit on investments transferred to non-technical account (item iii. 6)	-	297,784
other technical income, net of cessions to reinsurers	3,755,930	5,147,191
bb) (-) amounts borne by reinsurers	4,859,744	5,079,434
change in other technical reserves, net of cessions to reinsurers	82,520	416,306
f) (-) fees and profit participation received from reinsurers	11,588,754	11,580,660
other technical expenses, net of cessions to reinsurers	5,681,128	5,260,454
change in equalization reserves		
profit (loss) on technical account – non-life insurance branches (item iii. 1)	(568,779)	(1,434,237)
profit (loss) on technical account – non-life insurance branches (item i. 10)	(568,779)	(1,434,237)
of which: from Group companies)	738,845	835,064
c) loss on realization of investments	1,104,445	319,767
(-) share of profit on investments transferred to technical account - non-life insurance branches (item i. 2)	0	297,784
other income	53,659	39,457
other expense	240,980	71,159
profit (loss) on ordinary operations	(1,121,700)	(1,248,426)
extraordinary income	58,849	113,439
extraordinary expense	50,587	28,031
profit (loss) on extraordinary operations	8,262	85,408
Profit (loss) for the period before taxes	(1,113,438)	(1,163,018)
Income tax expense	(244,454)	(295,478)
NET PROFIT (LOSS) FOR THE PERIOD	**(868,984)**	**(867,540)**

SATISPAY – FINANCIAL STATEMENTS

Assets	31/12/2018	31/12/2017
Intangibles	1,230,287	1,192,558
Property and equipment	118,975	136,407
Financial	8,000,000	4,500,000
Current assets		
Receivables	1,167,096	10,183,163
Due from customers		1,410,183
Cash and cash equivalents	10,791,933	8,772,980
Accruals and deferrals	487,750	349,502
Total assets	**21,796,041**	**16,361,630**

Liabilities and shareholders' equity	31/12/2018	31/12/2017
Shareholders' equity		
Social capital	590,668	501,736
Share premium reserve	29,197,373	20,421,126
Other reserves	19,015	18,502
Net profit (loss) for the period	(9,530,484)	6,141,733
Employee termination benefits	181,469	116,105
Falling due within subsequent year		865,889
Falling due beyond subsequent year	955,185	298,040
Accruals and deferrals	382,815	281,965
Total liabilities and shareholders' equity	**21,796,041**	**16,361,630**

	31/12/2018	31/12/2017
Value of production	16,775,626	4,000,321
production costs	(14,030,777)	(10,144,559)
Difference between value and cost of production	**2,744,849**	**(6,144,238)**
Financial income and expense	57,525	2,505
Profit (loss) before taxes (a-b+c+d+e)	(9,530,484)	(6,141,733)
Profit (loss) for the year	**(9,530,484)**	**(6,141,733)**

ACCADEMIA BCC – FINANCIAL STATEMENTS

	31/12/2018	31/12/2017
Non-current assets, with separate reporting of those transferred under finance leases:	**6,261**	**3,644**
Non-current assets:	**6,261**	**3,644**
Other assets	6,261	3,644
Current assets:	**3,281,236**	**2,440,563**
Receivables with separate reporting of, for each item, of amounts falling due beyond the subsequent year:	**2,498,475**	**1,366,327**
From customers	**2,487,071**	**1,346,238**
-within the period	2,487,071	1,346,238
5 - Bis) tax receivables	**11,404**	**12,726**
- within the period	11,404	12,726
5 - Ter) Deferred taxes		7,363
Cash and cash equivalents:	**782,761**	**1,074,236**
Bank and postal deposits	782,648	1,072,565
Cash and valuable on hand	113	1,671
Accruals and deferrals	6,143	6,203
TOTAL ASSETS	3,293,640	2,450,410

	956,925	558,993
SHAREHOLDERS' EQUITY	800,000	800,000
Legal reserve	10,876	8,355
Other reserves	857	857
Retained earnings (loss carryforward)	(252,740)	(300,640)
Net profit (loss) for the period	397,932	50,421
Provisions for risks and charges:		**70,570**
Other		70,570
Employee termination benefits	139,143	127,469
Payables, with separate reporting of, for each item, of amounts falling due beyond the subsequent year:	**2,038,064**	**1,681,738**
To suppliers	**1,661,288**	**1,353,087**
- within the period	1,661,288	1,353,087
To tax authorities	**229,493**	**227,574**
- within the period	229,493	227,574
To pension and social security institutions	**76,464**	**61,917**
- within the period	76,464	61,917
Other	**70,819**	**39,160**
- within the period	70,819	39,160
Accruals and deferrals:	159,508	11,640
Total liabilities and shareholders' equity	3,293,640	2,450,410

	31/12/2018	31/12/2017
Value of production:	**3,172,860**	**2,506,191**
Revenues from sales and services	2,904,199	2,318,261
Other revenue and income, with separate reporting of operating grants:	**268,661**	**187,930**
- other	268,661	187,930
Production costs:	**2,748,977**	**2,405,770**
Raw materials, ancillary products, consumables and goods	10,767	10,979
Services	1,727,642	1,474,767
Leaseholds:	33,784	39,125
Personnel:	**877,005**	**845,007**
Wages and salaries	566,075	579,390
Social security contributions	210,027	202,693
Employee termination benefits	43,052	42,453
Other costs	57,851	20,471
Depreciation, amortization and impairment losses:	**74,786**	**8,334**
Depreciation :	4,216	1,334
Writedowns of receivables recognized under current assets and cash and cash equivalents	70,570	7,000
Other operating expenses	24,993	27,558
Difference between value and cost of production (A-B)	**423,883**	**100,421**
Profit (loss) before tax	**423,883**	**100,421**
Income tax expense for the period, current, deferred and prepaid	**25,951**	**50,000**
- current	18,588	10,000
- deferred	(7,363)	(40,000)
21) Net profit (loss) for the period	**397,932**	**50,421**

REPORT OF THE BOARD OF AUDITORS

Iccrea Banca S.p.A.
Central Institution of the Mutual Banking Industry
Parent Company of the Iccrea Banking Group
Registered Office and Headquarters: Via Lucrezia Romana 41/47 - 00178 Rome, Italy Share capital:
€1,151,045,403.55 fully paid up
Company reg. and Tax ID no. 04774801007 - R.E.A. of Rome no. 801787

REPORT OF THE BOARD OF AUDITORS
TO THE SHAREHOLDERS' MEETING PURSUANT TO ART. 2429 OF THE ITALIAN CIVIL CODE

Dear Shareholders,

During the year ended December 31, 2018, the Board of Auditors of Iccrea Banca S.p.A. has performed the supervisory duties provided for in the Italian Civil Code, the provisions of the bylaws and by special sector laws, taking account of the regulations issued by the supervisory authorities and in accordance with the principles of conduct for Boards of Auditors recommended by the National Council of the Accounting Profession.

With regard to the composition of the Board of Auditors, with the registration of Iccrea Banca S.p.A. as a Parent Company in the Register of Banking Groups, which took place on March 4, 2019, the mutual banks affiliated to the Iccrea Mutual Banking Group (hereinafter also referred to as "IMBG") through the cohesion contract have become subsidiaries pursuant to Article 2359 of the Civil Code and Article 23 of the Consolidated Banking Act (Legislative Decree 385/93). Taking account of the fact that the standing auditor Romualdo Rondina holds the position of Chairman of the Board of Directors in the Banca di Credito Cooperativo di Fano, which is affiliated with the Iccrea Mutual Banking Group, the conditions for disqualification set out in Article 2399 letter b) of the Civil Code took effect. He has therefore been replaced by the alternate auditor, Riccardo Andriolo, as the most senior alternate auditor, Annamaria Fellegara, declared that she was unavailable to accept the position.

In 2018, the Board of Auditors held 41 meetings to perform specific activities. The Board also attended the meetings of the Shareholders' Meeting, the meetings of the Board of Directors, the Executive Committee and the Risk Committee. The Board of Auditors participated with one or more of its members at most of the meetings of the Appointments Committee and the Remuneration Committee and, in cases where none of its members were able to attend, examined the related minutes.

These meetings were conducted in compliance with the bylaws, legislation and regulations governing its operation and received information on the activities and transactions with the most significant economic and financial impact carried out by the Company from the Board of Directors, top management, corporate control bodies and the various units reporting on their activities and the transactions of greatest economic and financial importance carried out by the Company.
The Board of Auditors' participation in the meetings of the Risk Committee and the other Board committees and the examination of the associated results are conducted as part of the supervision of the work of the Board, partly with a view to assessing the effectiveness of corporate governance arrangements, bearing in mind the importance assigned to these committees by existing regulations.
In addition, by receiving the information flows directed to the corporate bodies and the Board committees and the feedback from the units involved, whether control functions or organizational units, the Board of Auditors assessed the operation of the overall system of internal controls, monitored the effective implementation of the corporate governance rules contained in the associated regulations established by the Board of Directors and monitored the adequacy and regulatory compliance of remuneration policies. All of these activities enable the Board to confirm that the resolutions adopted by the Directors and the consequent actions were in accordance with the law and the bylaws and were not manifestly imprudent, risky or contrary to the resolutions adopted by the Shareholders' Meeting.

During the course of 2018, the members of the Board of Auditors also participated in the training sessions addressed to the Board of Directors, the Board of Auditors and the managers of the main Company units on the basis of a training plan adopted to improve the levels of understanding and skills required to perform the duties of members of administrative and control bodies.

In 2018, the Board of Auditors reports that it has not received any complaints pursuant to Article 2408 of the Italian Civil Code and that during the course of its oversight activity and on the basis of the findings of its enquiries, no omissions, censurable facts or significant irregularities have emerged that would require mention in this report. The Board of Auditors also performed the function of Supervisory Body referred to in Legislative Decree 231/2001, in accordance with the decisions of the Shareholders' Meeting and in line with the instructions of the supervisory authorities. Our activities found no information that would require mention in this report.

With regard to the capital increase in the total amount of €250,000,048.80 with the issue of 4,840,272 new ordinary shares with a par value of €51.65 each, approved by the Shareholders' Meeting on January 10, 2019, the entire capital increase was subscribed by the deadline of March 29, 2019.

Considering that the demand for pre-emptive assignment of shares was greater than the number of shares not taken up, the shares not taken up were assigned proportionately to those who had exercised their option rights, as provided for in the offer.

The share capital of Iccrea Banca following the capital increase, for which the related publicity obligations are in the course of being discharged as at the date of this Report, will therefore amount to €1,401,045,452.35 divided into 27,125,759 ordinary shares with a par value of €51.65 each.

At December 31, 2018 the Bank held 87,267 treasury shares with a total carrying amount of € 4,607,697.60.

Appropriateness of the organizational structure

The Board of Auditors oversees the overall organizational and administrative adequacy of the Company and the Group, not only on the basis of the information provided by the directors, senior management and the second and third-level control units, but also through audits of the units engaged in the various business or administrative activities of the company. The Board of Auditor's activities are planned through programs that take account of the available information and participation in the meetings of the corporate bodies, as well as the reporting of the control functions.

The results of this activity confirmed that the organizational and administrative structure of the Iccrea Banking Group was substantially appropriate within its original scope of activity and its ongoing alignment with the quality standards required of a significant bank within Europe's Single Supervisory Mechanism.

Among other things, in 2018 the entire organization of the Bank was strongly affected by the progressive implementation of the projects to revise the Iccrea Banca structure in view of its assumption of the functions and mission of the Parent Company of the Mutual Banking Group.

The definition of the organizational arrangements, processes and systems to support management and coordination activities in respect of the 142 affiliated mutual banks was, and remains, a highly challenging effort requiring a considerable commitment of human and financial resources. This reflects in part the diversity of the banks involved in the project, not only in terms of size and geographical presence but also in terms of organizational structures, processes and the supporting information systems.

An additional complexity was represented by the novelty of the regulatory framework for the reform of the mutual banking system and the uncertainty that characterized its evolution almost to the very end of 2018.

The various issues were analyzed by staff and assessed by the directors, leading to the identification of organizational and regulatory decisions deemed appropriate for the launch of the Mutual Banking Group, maintaining an ongoing dialogue with the supervisory authorities in order to pursue effective solutions compatible with a complex transition, which must therefore be subjected, even in the short term, to rigorous checks.

The profound transformation taking place will require further effort and investments in the 2019 financial year.

The effectiveness of the evolution of the organizational architecture, which is still in progress, will also depend on the appropriate reinforcement of and liaison between, among others, the Organization, Human Resources and IT functions, giving them advanced analytical tools and methodologies to evaluate processes.

In this context, it will also be important to develop management dashboards to support strategic risk control processes, management planning and control as well as the implementation of arrangement to monitor the information flows necessary for the direction and coordination activities of Iccrea Banca.

To this end, initiatives are under way to guarantee the availability and quality of data relating on the technical situations of the mutual banks.

The implementation and management of the organizational structures serving the performance of the direction and coordination activity of the Parent Company represent one of the key variables within the strategic planning of the IMBG.

Appropriateness of the internal control and risk management system

In the course of the year, the Board of Auditors met on a regular basis with the heads of Internal Audit, Risk Management, Compliance and Anti-Money-Laundering, control units endowed autonomy and independence dedicated to ensuring the correct and operation of the internal control with efficient system. The reporting of these functions, their activity plans, the results of the monitoring of the implementation of the interventions requested of the audited units were examined by the Board of Auditors both in specific meetings or audits and through participation in the meetings of the Board of Directors, the Executive Committee and the Risk Committee.

The activities of the corporate control functions carried out for the Iccrea Banking Group were substantially completed with overall satisfactory results, although some areas for improvement were identified. However, a number of remediation plans ran into delays and difficulties in implementation, in some cases affected by interference with the broader projects concerning the Mutual Banking Group.

During the year, the Board of Auditors urged the directors to constantly verify the qualitative and quantitative appropriateness of the resources assigned to the corporate control functions. The formation of the Mutual Banking Group was one of the factors in the appointment of new heads of the Audit and Anti-Money Laundering functions.

The directors defined a new organizational model for the corporate control functions in response to the creation of the IMBG, which assigns the Parent Company responsibility for the definition of strategies, processes and control methods, tools, mechanisms and standards for programming and reporting on activities, as well as the performance of second- and third-level controls.

In this context, the mutual banks, following their entry into the IMBG, are completing the centralization at the Parent Company of the responsibilities for corporate control functions, outsourcing activities relating to all second- and third-level control functions to the Parent Company.

The staffing of the units and functional positions that make up the organizational model is also in progress, with recourse to personnel from both the affiliated banks and the mutual bank federation, and - where necessary - from the market.

In view of the progress of these activities, on the basis of plans defined or under completion for 2019, the corporate control functions are expected to be fully operational within the new IMBG in the second half of this year.

The supervisory authorities are paying close attention to compliance with the implementation schedule for the new organizational model of the corporate control functions and to staffing procedures and will involve ongoing verifications and assessments starting from 2019.

Transactions with related parties

The periodic review of the information flows by the Committee for Related Party Transactions – whose functions are performed by the Risk Committee - did not reveal transactions that do not comply with regulatory requirements and the internal rules of the Group.

Within the context of the new Mutual Banking Group, in compliance with the regulations governing transactions with related parties, Iccrea Banca has established internal rules governing such relations and the related IT support. The conflict of interest issues connected with the operation of the Mutual Banking Group are being monitored constantly by the supervisory authorities. The organizational, regulatory and governance solutions developed at the time the application was submitted to assume the role of Parent Company of the Mutual Banking Group, specified certain mechanisms to ensure that corporate assessments and decisions meet the need to safeguard the assets of the Group as a whole.

Inspections by the supervisory authorities, SREP, ICAAP and ILAAP

The past year was characterized by close dialogue with the supervisory authorities aimed at monitoring the implementation of the various remedial actions indicated following inspections conducted in previous years, as well as the implementation of new processes or operating models concerning significant aspects of Group operations. With regard to the findings of the various inspections or thematic reviews performed by the supervisory authorities, the Board of Auditors tracked the execution of the remediation plans and interventions, both through direct discussions with the functions concerned and by participating in the meetings of the Risk Committee. The activities springing from the indications of the supervisory authorities proved to be particularly demanding and burdensome, overlapping with other ongoing initiatives for the creation of the IMBG. At present, although most of the requested initiatives have been completed, significant work is still under way, which is scheduled to be completed this year.

The supervisory authorities are monitoring the aforementioned activities with particular attention, requiring tight and very detailed timing, to be accompanied in some cases by Internal Audit certifications. Within the discussions with the supervisory authorities, a number of very important issues concerning the evolution of the Group's IT sector and the management of non-performing loans deserve specific mention. On the IT front, a major design effort is under way to strengthen the architectural and functional profiles of the systems supporting the mutual banks and to migrate mutual banks currently operating with authorized technical organizations other than BCC Sistemi Informatici to the systems operated by the latter. The strong expectations of the supervisory authorities for the timely and complete implementation of this project are motivated by the crucial role of IT as a vehicle for the standardization of processes and the backbone for the guidance and control activities of the Parent Company. As for the management of NPLs, although the actions taken, especially in 2018, made it possible to achieve the expected objectives in quantitative terms, the discussions with the supervisory authorities on the choice of operating models to adopt was more problematic. The operating model developed by the Parent Company seeks to retain significant flexibility in the degree of centralization of the management of impaired assets, albeit with the application of selective criteria based on the effective management capabilities of the banks. The supervisory authorities have instead focused on a centralized management model. In this context, the efficiency of the solutions identified by the Parent Company must be monitored and demonstrated appropriately. Following the postponement of the establishment of the Iccrea Mutual Banking Group to the first quarter of 2019, the supervisory authorities' decision setting prudential requirements for 2019, originally scheduled for issue at the end of 2018, was also postponed.

The prudential requirements decision for 2018, which is still in force, was received on November 28, 2017 from the European Central Bank. The decision requires Iccrea Banca to maintain, on a consolidated basis, a total SREP capital ratio (TSCR) of 9.75%, including the requirement for own funds under the CRR (8%). Iccrea Banca is also subject to the overall capital requirement (OCR), which, in addition to the TSCR, includes the combined capital buffer requirement.

In light of the above, the Overall Capital Requirement for the Group is determined as the sum of the TSCR and the combined capital bugger requirement. This buffer is equal to 1.875%. The OCR for the Group is therefore 11.625%. At December 31, 2018, the SREP capital ratio of the Iccrea Banking Group was 13.05%. The results of the self-assessments of capital adequacy (ICAAP) and liquidity adequacy (ILAAP) for 2018 at the consolidated level, which cover a three-year period coinciding with that of the strategic plan and consistent with that plan, were positive, as discussed in the report on operations. The ICAAP found that capital was generally adequate and appropriate to deal with the various risks considered, with capital exceeding the minimum regulatory requirements established by the supervisory authorities following the SREP in both scenarios adopted for the assessment, as were the internal requirements determined for management purposes. As a result of the ILAAP, the Iccrea Banking Group has assessed its liquidity profile "adequate" at both the short and medium/long term under normal operating conditions and in the adverse scenario.

* * *

Oversight of the financial reporting process

For the purposes of overseeing the financial reporting process, the Board of Auditors, in addition to the investigations conducted with the audit firm - which did not report critical issues in the internal control system associated with the financial reporting process – held specific meetings with the Administration department. During these meetings, there were no significant shortcomings emerged with regard to the operational and control processes that could affect the adequacy and effective implementation of the administrative and accounting procedures for the purpose of providing a true and fair representation of the performance and financial position in accordance with international accounting standards.

However, the evolution of international accounting standards and the progressive anticipation of the timing of interim reporting, supervisory returns and annual reporting also require qualitative and quantitative strengthening in this sector, especially when considering operations following the establishment of the IMBG. The Board of Auditors acknowledges the impairment procedure approved by the Board of Directors in compliance with international accounting standards. The associated results, which were agreed with the audit firm, are correctly reported in the financial statements. During 2018, the Board followed the progress of the project to implement IFRS 9, whose application is highly complex, due in part to the expansion of the scope of the Mutual Banking Group. The explanatory notes provide ample information on the methodological choices adopted, the implementation measures taken and the impact of the new international accounting standard, as well as on the exercise of the option to adopt the transitional "phase-in" regime.

Oversight of statutory audit activities, the independence of the auditor and other engagements awarded to the audit firm

The Board of Auditors met with the Audit Firm, EY SpA, for the mutual exchange of information. The Audit Firm has been engaged to perform the statutory audit of the separate financial statements of Iccrea Banca SpA, the consolidated financial statements of the Banking Group and the subsidiaries' financial statements, and to verify the regular keeping of the company accounts and the accurate registration of operational events in the accounting records. At those meetings, the Board of Auditors was able to monitor audit activities, analyze the methodological approach adopted and the audit approach to the various areas of the financial statements, and obtain updates on the state of progress of the audit plan and on the main issues receiving attention. During those meetings, the Board of Auditors was not informed of any censurable acts or facts or irregularities worthy of mention in this report.

The Board of Auditors verified and monitored during the year the independence of the audit firm, especially as regards the adequacy of the provision of non-audit services to the audited entity. The Board of Auditors also took note of the annual certification of independence contained in the additional report pursuant to Article 6, paragraph 2(a) of Regulation (EU) no. 537/2014 of the audit firm, which affirms that that no circumstances arose that could compromise its independence. The 2018 transparency report is published on the website of EY SpA.

As reported by the Directors in the notes to the consolidated financial statements, the fees due to the audit firm EY SpA for the entire Group for 2018 break down as follows:

- for audit services: €802 thousand
- for other audit-related services: €117 thousand.

For services rendered by other companies belonging to the same network, the audit firm reported to the Board of Auditors on their analysis and verification of its continued compliance with the independence requirement.

Non-Financial Statement

The Board of Auditors monitored compliance with the provisions of Legislative Decree 254/2016 relating to non-financial communications. Such communications are contained in the Non-Financial Statement, approved by the Board of Directors at its meeting of March 28, 2019.

In its Report issued on April 12, 2019, the audit firm states that it had received no information that would suggest that the Non-Financial Statement for the financial year ended December 31, 2018 was not drafted, in all significant aspects, in accordance with the applicable legislation.

On the basis of the information acquired, the Board of Auditors certifies that it has found no evidence of non-compliance or violations of regulations relating to non-financial communications.

Financial statements and report on operations

The Board of Auditors reviewed the draft financial statements for the year ended December 31, 2018, together with the report on operations, as approved by the Board of Directors on March 28, 2019. The draft financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the notes to the financial statements and asassociated comparative information.

As the Board of Auditors is not charged with conducting a detailed analysis of the substance of the financial statements, the Board examined the general approach adopted in this document, ensuring its general compliance with the law in terms of its formation and structure.

The Board of Auditors reviewed the reports of the Audit Firm on the separate financial statements and the consolidated financial statements as at December 31, 2018, issued on April 12, 2019, which contained an unqualified audit opinion. In particular, the financial statements and consolidated financial statements at December 31, 2018 of Iccrea Banca SpA were judged by the audit firm as compliant with the International Financial Reporting Standards adopted by the European Union, as well as with the measures issued in implementation of Art. 9 of Legislative Decree 38 of February 28, 2005 and Art. 43 of Legislative Decree 136 of August 18, 2015, and as providing a true and fair representation of the financial position, performance and cash flows of Iccrea Banca SpA and the Iccrea Banking Group for the year ended December 31, 2018. The audit firm also found the report on operations to be consistent with the separate and consolidated financial statements and prepared in complpliance with applicable law.

In compliance with applicable regulations, the reports of the audit firm discuss the key matters of the audit that, in the professional judgment of the auditor, were most significant in the context of the audit performed for the individual and consolidated financial statements and the corresponding methodological and operational choices. We also note that the audit firm has submitted to the Board the additional report referred to in Article 11 of Regulation (EU) no. 537/2014 of April 16, 2014, in which:

a) it certified its annual confirmation of independence pursuant to Article 6, paragraph 2(a), of Regulation no. 537/2014;
b) it did not report any significant deficiencies in the internal control system for the financial reporting process and/or in the accounting system;
c) it did not identify any significant issues involving instances of actual or presumed non-compliance with laws, regulations or the bylaws;
d) it did not report any significant difficulties encountered during the audit or significant issues to be reported to the control body.

In view of all of the foregoing and considering the findings of the activities performed by the Audit Firm engaged to perform the statutory audit and control the accounts, the Board of Auditors recommends the proposal to approve the financial statements for 2018 and to carry forward the loss of €35,632,099. In conclusion, in thanking you for your confidence, the Board of Auditors notes that with the approval of the financial statements at December 31, 2018 the terms of the Board of Directors and the Board of Auditors have come to an end, as has the engagement for the statutory audit of the separate and consolidated financial statements. Rome, April 12, 2019

THE BOARD OF AUDITORS

Luigi Gaspari – Chairman

Riccardo Andriolo – Standing Auditor

Fernando Sbarbati – Standing Auditor

REPORT OF THE AUDIT FIRM

Iccrea Banca S.p.A.

Financial statements as at December 31, 2018

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

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, 2018, 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 December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n.136, dated August 18, 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. 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.

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Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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We identified the following key audit matters:

Key Audit Matter	Audit Response
Impacts related to the first time application of the International Financial Reporting Standard 9 – Financial Instruments	
On January 1, 2018 the International Financial Reporting Standard 9, endorsed by the European Commission on November 22, 2016 with the Regulation no. 2016/2067 (the "standard" or "IFRS 9") became effective, replacing the standard IAS 39 in relation to the classification and measurement of the financial instruments. As required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and in accordance with the first time application approach envisaged by IFRS 9, the Company accounted for in the opening balances the cumulative effects derived from the transition to the new standard, for an amount of Euro 9.9 million. In addition, the Company exercised the option provided for in the standard to not restate the comparative data. The IFRS 9 first time application constituted a relevant aspect for the audit, both because the financial impact have been significant for the financial statements as a whole and for the significant implementation related to processes, procedures, controls, methodologies and IT systems made by the Company. The disclosures on the effects of first time application is provided by the directors within the section "Compliance with IFRS 9" in the notes to the financial statements.	In addressing these issues, our audit procedures included, among others: · understanding and analysis of the main accounting and implementation choices made by the Company in relation to the classification, measurement and impairment of the financial instruments; · understanding and analysis, also with the support of our specialist in risk management, the measurement of financial instruments, disposal of non performing loans and IT systems, of the processes and controls implemented in relation to the IFRS 9 first time application and the execution of compliance procedures for key controls, including those relating IT systems; · understanding the approach adopted by the Company to determine the impact of first time application and performing substantive procedures aimed at verifying appropriateness and consistency with the requirements of the standard; · analysis of the adequacy of the disclosures provided in the notes to the financial statements.

Key audit matter	Audit response
Classification and measurement of loans to customers	In addressing these issues, our audit procedures included, among others:
Loans to customers measured at amortized cost, which are reported in item 40 b) of the balance sheet, amounted to Euro 10,706 million at December 31, 2018, representing 27% of total assets. The process of classifying loans to customers in the various risk and measurement categories is relevant for the audit in view of the significance of the value of loans as a proportion of assets and in consideration of the fact that the recoverable value of loans is determined by the directors through the use of estimates that have a high degree of subjectivity, with particular reference to: i) the identification of objective evidence of impairment of the loans; ii) the realizable value of the collateral acquired; iii) the determination of the expected cash flows and their timing of collection; iv) the definition of homogeneous credit-risk categories of loans; and v) the determination of Probability of Default ("PD") and the related estimated loss (Loss Given Default – "LGD"), based on historical data observation for each risk class and on forward looking information, including macroeconomic factors, and the determination of significant risk increase parameters for the classification among the various reference stage. Disclosures on the classification and measurement of loans to customers is provided by the directors in Part A and Part E of the notes to the financial statements.	§ understanding of the policies, processes and controls implemented by the Company in relation to the classification and measurement of loans to customers and performing compliance procedures on the key controls, including those concerning IT systems; § performing sample substantive procedures aimed at verifying the correct classification of the loan portfolio and the measurement of credit positions measured individually, as well as the appropriate use of the collective measurement model for the performing portfolio; § understanding and analysis, also with the support of our risk management specialists, the measurement of financial instruments, the assignment of portfolios of non-performing loans and the IT systems, processes and controls implemented for first time application of IFRS 9 and the performance of conformance procedures for key controls, including those concerning IT systems; § performing comparative analysis procedures for the loan portfolio and the related coverage levels for each risk category through comparison with the data for previous years and an analysis of the most significant divergences, taking due account of the effects of the first time application of IFRS 9; § analysis of the adequacy of the disclosures provided in the notes to the financial statements.

Key audit matter	Audit response
Measurement of equity investments	
Equity investments recognized under item 70 of the balance sheet amounted to Euro 1,262 million at December 31, 2018. On at least an annual basis the company's management assesses whether there is evidence of impairment of equity investments, consistent with the company's strategy for managing legal entities and, if such evidence is found, assesses the recoverable value of those assets (impairment testing) in accordance with IAS 36 "Impairment of Assets". In particular, during the year, impairment losses of Euro 15,791 thousand were recognized, mainly in respect of the subsidiaries Banca per lo Sviluppo della Cooperazione di Credito S.p.A. and the Securfondo real estate investment fund. The process and procedures for determining the recoverable value of equity investments are based on assumptions that by their very nature involve the use of management judgment, especially with regard to the identification of evidence of impairment and the determination of the long-term growth rates and the discount rates used in forecasting future cash flows. In view of the judgment required of management and the complexity of the assumptions used in estimating the recoverable value of the equity investments, we consider this is a key audit matter. Management provides disclosures on the impairment testing of equity investments in Part A – Section 5 Equity investments and Part B – Section 10.5 Equity investments – Change for the period of the notes to the financial statements.	In addressing these issues, our audit procedures included, among others: § analyzing the procedure and key controls established by the company concerning the identification of any impairment of equity investments; § analyzing the impairment test procedure approved by the Board of Directors on March 28, 2018; § analyzing the report of the external valuator who assisted the Company in determining the recoverable value of the individual equity investments as part of the impairment testing; § discussing the information that emerged from management's comparison of the results achieved in 2018 and the forecasts prepared by the subsidiaries; § verifying the assumptions underlying the determination of expected cash flows, long-term growth rates and discount rates; § verifying the mathematical accuracy of the calculations in the impairment testing performed by the company. We have also been supported by business valuation experts of the EY network to perform our assessments. The experts performed an independent recalculation and conducted a sensitivity analysis of the key assumptions in order to determine what changes in those assumptions would have a significant impact on the determination of recoverable value. Finally we examined the accuracy of the disclosures provided in the notes to the financial statements.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n.136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they 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, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain 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 conducted 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for 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 have obtained an understanding of internal control relevant to the audit in order to design 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 have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of 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 Company's ability to continue as a going concern. If we conclude that 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 consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- we have 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 a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Iccrea Banca S.p.A., in the general meeting held on April 22, 2010, engaged us to perform the audits of the financial statements for each of the years ending December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the Report on Operations and of the specific information included in the Report on Corporate Governance and Ownership Structure, as provided for by article 123-bis, paragraph 2, subparagraph b) of the Legislative Decree n.58, dated February 24,1998, of Iccrea Banca S.p.A. as at December 31, 2018, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Iccrea Banca S.p.A. as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Iccrea Banca S.p.A. as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Rome, April 12, 2019

EY S.p.A.
Signed by: Wassim Abou Said, Partner

This report has been translated into the English language solely for the convenience of international readers.

CONSOLIDATED REPORT ON OPERATIONS

January 1 – December 31, 2018

1. DEVELOPMENTS IN GROUP OPERATIONS

To enable a more immediate understanding of the Group's balance sheet, the following tables contain more condensed schedules of assets and liabilities compared with those provided for in the 5th update of Circular no. 262/05 of the Bank of Italy.

The comparative balance-sheet figures for the previous year given in the following tables were determined by reclassifying the items envisaged in the 4th update of Circular no. 262/05.

THE BALANCE SHEET

Consolidated assets

€/thousands	31/12/2018	31/12/2017
Cash and cash equivalents	129,087	110,641
Financial assets measured at fair value through profit or loss	577,664	485,037
Financial assets measured at fair value through other comprehensive income	454,817	2,804,525
Financial assets measured at amortized cost	38,832,682	32,874,332
a) due from banks	18,951,297	17,875,758
b) loans to customers	12,645,290	14,998,574
c) securities	7,236,095	-
Hedging derivatives and value adjustments of macro-hedged financial assets	8,465	6,721
Equity investments	120,962	111,676
Property and equipment	709,930	734,014
Intangible assets	68,711	49,409
Tax assets and other assets	877,973	730,845
Non-current assets and disposal groups held for sale	39,026	220,286
Total assets	**41,819,318**	**38,127,486**

Total consolidated assets at December 31, 2018, amounted to €41.8 billion, up €3.7 billion (+10%) compared with December 31, 2017, due mainly to the following factors:

- the sale of all government securities held in the investment book (HTCS) as a result of implementation of a stop-loss strategy following the increase in the spread at the end of May;
- the purchase of government securities recognized at amortized cost to implement the HTC portfolio and aimed at improving the future coupon yield;
- the reduction in loans to customers following the decrease in repurchase transactions with the Clearing and Guarantee Fund of about €2 billion and, to a lesser extent, the net effect of the addition of Banca MedioCredito del Friuli Venezia Giulia to Group and the sale of the branches of Banca Sviluppo.

Financial assets measured at fair value through profit or loss mainly comprise financial assets held for sale (€328 million), largely trading derivatives, and other financial assets mandatorily measured at fair value (€250 million).

Holdings of financial assets measured at fair value through other comprehensive income (formerly classified as financial assets available for sale) amounted to €455 million following the sale of government securities mentioned above (-84% on the previous year) and mainly comprise government securities and minority equity interests.

Amounts due from banks came to around €19 billion, an increase of €1.1 billion compared with the end of the previous year. This change is mainly attributable to the increase in collateralized loans (+€2 billion) and to the decline in the liability for reserve requirement funds of the mutual banks (-€0.7 billion). A substantial portion of amounts due from banks is, in fact, represented by financing granted to the mutual banks under the pool collateral mechanism.

Loans to customers show a balance of €12.6 billion, attributable to the Group's corporate and retail customers as well as to exposures to the Clearing and Guarantee Fund for operations connected to margining and guarantees

for collateralized funding activities (about €2 billion at the end of 2018). The reduction compared with the end of 2017 is attributable to the decreased exposure to this counterparty.

Gross impaired assets amounted to €2.1 billion, a decrease compared with the previous year (€2.5 billion). In addition to ordinary collection efforts, the reduction is mainly due to the assignments of bad loans (€360 million GACS-backed; €134 million through other non-recourse assignments), which was partially offset by the recognition of NPLs resulting from the acquisition of Banca MedioCredito del Friuli Venezia Giulia (€57 million, measured at fair value pursuant to the former IFRS 3).

The ratio of gross impaired assets to gross lending was 18.2% (20.5% at December 31, 2017). In calculating these indicators, loans to customers do not include amounts due from the Clearing and Guarantee Fund.

Net impaired loans to customers amounted to €1.1 billion (€1.3 billion at December 31, 2017), equal to 10.7% of total net lending (12.1% at the end of December 2017). The ratio of net bad debts to loans was 4.2% (5.2% at December 31, 2017), while the ratio of net positions unlikely to be repaid to loans was 6.3% (6.4% at December 31, 2017).

The coverage ratio for impaired assets was 47.4%, essentially in line with the end of December 2017 (47%). More specifically, the coverage ratio was 60% for bad debts – an increase of 1.7 percentage points on the end of the previous year (58.3%) – and 34.6% for unlikely-to-pay positions.

Debt securities classified as financial assets measured at amortized cost amounted to €7.2 billion, a substantial increase compared with the end of the previous year as a result of purchases during the year in execution of the new investment strategy mentioned above.

Equity investments, which are not classified as financial assets measured at fair value through other comprehensive income, comprise interests in associated companies and amounted to €120.9 million (€111.7 million at December 31, 2017).

Property and equipment primarily includes properties owned and used by the Company and the buildings transferred to the real estate funds, which, in accordance with international accounting standards, are consolidated in the financial statements (Securfondo and the Securis Real Estate real estate funds). The reduction of €24 million compared with 2017 is mainly attributable to the lower value of properties managed by the Securis Real Estate funds (-€20 million) and, to a lesser extent, the redemptions received for units during the year.

Intangible assets include €16.7 million in goodwill paid in previous years for the purchase of a number of controlling interests (mainly BCC Risparmio & Previdenza and BCC Sistemi Informatici), a reduction of €4.9 million compared with December 31, 2017, due to the impairment of goodwill related to Banca Sviluppo. Other intangible assets amounted to €51.9 million and mainly regard software, which increased by €24.3 million compared with 2017 for a number of reasons, including the costs incurred in connection with the formation of the Mutual Banking Group.

Tax assets amounted to €423.1 million, an increase of €104.8 million compared with 2017. This increase is mainly attributable to the recognition of prepaid taxes against higher provisions for expected losses deriving from the transition to the new impairment model as required by IFRS 9 and recognized for FTA. This aggregate includes current taxes of €110.9 million and deferred tax assets of €312.2 million, the latter of which includes €172.9 million related to Law 214/2011.

Other assets amounted to €454.8 million, an increase of €42.2 million from the previous year, mainly reflecting a number of temporary items settled in the first few days of the month following the close of the year.

Non-current assets held for sale, in the amount of €39 million, concern the assets of the Banca Sviluppo branches for which the sale is considered highly probable.

Consolidated liabilities

€/thousands	31/12/2018	31/12/2017
Financial liabilities measured at amortized cost	39,118,221	34,992,832
a) due to banks	19,236,824	19,235,105
b) due to customers	14,781,287	10,068,860
c) securities issued	5,100,110	5,688,867
Financial liabilities held for trading	245,456	356,450
Financial liabilities designated as at fair value and hedging derivatives	69,502	56,908
Liabilities associated with assets held for sale	20,369	282,047
Other liabilities and tax liabilities	620,308	663,514
Provisions for risks and charges and termination benefits	113,667	99,453
Shareholders' equity	1,631,794	1,672,282
Total liabilities and equity	**41,819,318**	**38,127,486**

Consolidated liabilities and equity amounted to €41.8 billion, as compared with €38.1 billion in 2017.

Amounts due to banks (excluding bonds) amounted to €19.2 billion, €13.9 billion of which attributable to loans obtained from the ECB (TLTRO II) and €4.4 billion to funding by the mutual banks on the daily settlement and deposit accounts.

Amounts due to customers amounted to €14.8 billion, an increase of 47% due to an increase in funding through repurchase transactions with the Clearing and Guarantee Fund. Funding from ordinary customers, attributable to Banca Sviluppo and MedioCredito del FVG, amounted to around €1.6 billion.

Securities issued amounted to €5.1 billion, down €0.6 billion on December 31, 2017 (€5.7 billion) due to the maturing of previous issues, net of new bond issues on the market.

Liabilities associated with assets held for sale totaled €20.4 million and regard the branches of Banca Sviluppo slated for disposal, the sale of which was considered highly likely at year end and was completed in early 2019.

Consolidated shareholders' equity

The composition of consolidated shareholders' equity is as follows.

€/thousands	31/12/2018	31/12/2017
Share capital	1,151,045	1,151,045
Share premium reserve	6,081	4,747
Valuation reserves	43,322	73,569
Reserves	332,801	352,141
Profit/(loss) for the period	5,667	29,357
Equity pertaining to shareholders of the Parent Company	**1,538,916**	**1,610,859**
Equity pertaining to non-controlling interests (+/-)	**92,878**	**65,423**
Total shareholders' equity	**1,631,794**	**1,676,281**

Shareholders' equity pertaining to shareholders of the Parent Company came to €1.6 billion, down €44 million on December 31, 2017, mainly reflecting the combined effect of:

- the recognition of the negative FTA IFRS 9 reserve of €82.6 million;
- the allocation to reserves of profit from the previous year of about €35.5 million;
- earnings for the year in the amount of €7.5 million (of which €1.8 million of which minority interest);
- the reduction in the OCI reserve of about €30 million, mainly owing to the sales of securities during the year;
- €26 million from the decrease in treasury shares.

Consolidated income statement

€/thousands	31/12/2018	31/12/2017
Net interest income	**335,879**	**319,824**
Net fee and commission income	**255,424**	**217,735**
Dividends, net gain/(loss) on trading activities, net gain/(loss) on hedging and net gain/(loss) on assets and liabilities at FVTPL	12,668	17,125
Net gain/(loss) on disposals	(35,517)	104,353
Gross income	**568,454**	**659,037**
Net writedowns/writebacks for credit risk	(97,448)	(177,660)
Net income/(loss) from financial operations	**471,006**	**481,377**
Administrative expenses	(552,391)	(488,057)
a) personnel expenses	(204,066)	(189,310)
b) other administrative expenses	(348,325)	(298,747)
Depreciation, amortization and provisions	(35,385)	(27,263)
Other operating expenses/income	97,296	94,405
Operating expenses	**(490,480)**	**(420,915)**
Profit/(loss) from equity investments	8,382	4,252
Net gain/(loss) from fair value measurement of property and equipment and intangible assets	(20,052)	(22,171)
Writedowns of goodwill	**(4,965)**	**(907)**
Profit/(loss) from disposal of investments	**6,988**	**4,995**
Profit/(loss) before tax on continuing operations	**(29,121)**	**46,629**
Income taxes on income from continuing operations	**36,623**	**(11,125)**
Net profit/(loss) for the period	**7,502**	**35,504**
Net profit/(loss) pertaining to non-controlling interests	**1,835**	**6,147**
Net profit/(loss) pertaining to the Iccrea Group	**5,667**	**29,357**

The Group ended the year with net profit of €7.5 million, down compared with 2017 due mainly to extraordinary events that had a negative impact on earnings, including:

- the full disinvestment of the investment book (held under the HTCS business model) following a stop-loss strategy adopted as a result of the increase in the spread on government securities showing a capital loss of €76 million. This strategy involved a repositioning towards the HTC portfolio to improve the Group's net interest income in the coming years. The disinvestment made it possible to neutralize the volatility of own funds in the presence of significant instability on the financial markets;
- the contribution to the Resolution Fund (BRRD) totaling €34.8 million. This contribution also included an extraordinary component of €9.6 million called up by the Resolution Fund in respect of 2016;
- the additional administrative expenses for the establishment of the IMBG in the amount of about €24 million.

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Gross income reflected the following developments:

- net interest income amounted to €335.9 million, up €16 million on the previous year due mainly to higher volumes and higher yields relating to government securities included in the strategic portfolio against a contraction in interest with customers;
- net fee and commission income amounted to €255.4 million, up €37.7 million (+17%) compared with 2017 (€217.7 million) due to growth in the electronic money and asset management segments, which was partially offset by the reduction in operations linked to the sale of the Banca Sviluppo branches;
- the result of disposals shows a net loss of €35.5 million, a significant deterioration from the net gain posted in 2017 (€104.3 million), mainly reflecting:
  - a net loss on the disposal of financial assets measured at fair value through other comprehensive income (-€64.2 million), including the impact of the loss of €76 million on the divestment of the entire investment portfolio cited above;

- profits from the sale of financial assets valued at amortized cost in the amount of €27.7 million, in relation to sales of securities allocated to the HTC portfolio in compliance with internal policies;
- profit on the repurchase of securities issued amounting to €0.9 million.

As regards **operating expenses**, the following developments occurred in the period:

- personnel expenses amounted to €204 million, an increase of €14.7 million compared with the previous year, reflecting the expansion of human resources at the Parent Company and the addition of Banca MedioCredito to the Group;
- other administrative expenses amounted to €348.3 million, up €49.6 million compared with the previous year. The increase was mainly due to the higher Resolution Fund contributions (+€11.7 million compared with 2017, mainly due to the additional contributions relating to 2016), costs for the establishment of the Mutual Banking Group (equal to €24 million in 2018, compared with €20 million in 2017), and costs of technology designing, product development, etc. for the entire IBG.

Net writedowns for credit risk amounted to €97.4 million (€177.6 million in 2017, including the impairment of the Atlante fund of €22.1 million).

The **net gain/(loss) from fair value measurement of property and equipment** showed net loss of €20 million (-€22.2 million in 2017), reflecting the reduction in the value of properties included in the real estate investment funds held by the Group.

Income taxes, positive in the amount of €36.6 million (-€11.1 million in 2017) mainly reflect the impact of the fiscal treatment of writedowns of loans related to the first-time adoption (FTA) of IFRS 9.

Consolidated own funds and capital ratios at December 31, 2018

The following table offers a breakdown of **own funds** at December 31, 2018, which amounted to €1.7 billion.

Capital and capital ratios - €/thousands	31/12/2018	31/12/2017	change
Share capital	1,151,045	1,151,045	-
Share premium reserve	6,081	4,747	1,334
Treasury shares	(4,608)	(30,847)	26,239
Earnings reserves	386,882	432,627	(45,745)
Net profit/(loss) for the period	-	-	-
Other comprehensive income	(8,854)	21,498	(30,352)
Transitional provisions	73,011	(86)	73,097
Goodwill	(11,446)	(16,415)	4,969
Deductions - deferred tax assets	(29,381)	(19,368)	(10,013)
Intangible assets	(32,089)	(12,594)	(19,495)
Prudential filters	(1,199)	(2,475)	1,276
Non-controlling interests	41,151	26,930	14,221
Common Equity Tier 1 (CET1 ratio)	**1,570,593**	**1,555,062**	**15,531**
Additional Tier 1 (AT1)	9,328	5,661	3,667
Tier 1 (T1)	**1,579,921**	**1,560,723**	**19,198**
Eligible subordinated loans	148,656	137,610	11,046
Tier 2 (T2)	**148,656**	**137,610**	**11,046**
Total own funds (TC)	**1,728,577**	**1,698,333**	**30,244**

Common Equity Tier 1 (CET1) at December 31, 2018, stood at €1,571 million, an increase of €15.5 million compared with December 31, 2017, due mainly to the following factors:

- positive effects of about €76 million related to the following: a) €35.5 million for allocation of 2017 profit to reserves; b) €40.2 million for the acquisition of Banca MedioCredito FVG SpA, which led to a reduction in Iccrea Banca's treasury shares of €26.2 million due to the exchange arrangements envisaged in negotiated agreements and greater minority interests in the capital structure of the new subsidiary of around €14 million;
- negative effects of about €61 million attributable to the following: a) recognition of a negative FTA reserve of approximately €4 million (€76 million net overall, filtered for the first year at 95% pursuant to the transitional provisions relating to the introduction of IFRS 9 as envisaged by European regulations); b) a change of €30.3 million attributable to the reclassification at the beginning of 2018 in relation to the introduction of IFRS 9 (approximately €14 million) and the rest to changes in the OCI reserve with respect to the opening balances of 2018; c) higher deductions for the recognition of new intangible assets totaling €19.4 million; d) greater anticipated assets for tax losses of €10 million (of which €4 million referable to the elimination of the transitional provisions pursuant to Article 469, paragraph 1, and Article 478, paragraph 1, of the CRR).

Tier 1 (T1) capital as at December 31, 2018, includes a portion of the share capital of Banca Sviluppo and the new subsidiary Banca MedioCredito del FVG S.p.A. (which is attributable to the increase in 2018) related to the equity pertaining to non-controlling interests calculated according to the regulatory requirements defined under Article 86 of the CRR.

Total own funds (TC) amounted to €1,728 million (€1,698 million at December 31, 2017), an increase of €30 million due to the changes in CET1 as described above and to the greater calculation of non-controlling interests in Additional Tier 1 Capital (AT1) and in Tier 2 Capital (T2) relating to the new subsidiary Banca MedioCredito del FVG S.p.A.

Risk-weighted assets (RWAs) at December 31, 2018, which break down as shown in the table below, amounted to €13.2 billion, an increase of €408 million compared with December 31, 2017, due to acquisition of the assets of Banca MedioCredito del Friuli Venezia Giulia, which was partially offset by lower risks deriving from the assignment of non-performing loans.

Risk-weighted assets (RWAs) - €/thousands	31/12/2018	31/12/2017	change
Credit risk, securitizations and CVA	11,826,940	11,433,811	393,129
Market risk	239,173	243,391	(4,218)
Operational risks	1,176,588	1,157,212	19,376
Total RWAs	**13,242,702**	**12,834,414**	**408,287**

At December 31, 2018, the Total Capital Ratio (TCR) stood at 13.05% and so greater than:

- the total SREP capital requirement (TSCR) of 9.75%, which includes the minimum regulatory requirement of 8% pursuant to Article 92 of the CRR and 1.75% pursuant to Article 16, paragraph 2, letter a), of Regulation (EU) no. 1024/2013, consisting entirely of tier 1 capital;
- the overall capital requirement (OCR) of 11.625%, which, in addition to the requirements mentioned above, includes the combined capital reserve requirement of 1.875% pursuant to Article 128, point 6, of Directive 2013/36/EU, consisting solely of the capital conservation buffer (CCB);
- the final overall capital requirement of 12.875% due to the Pillar 2 guidelines (OCR and P2G), which includes, in addition to the requirements described above, the Pillar 2 capital guideline (P2G) of 1.25%, consisting entirely of tier 1 capital.

Capital ratios	31/12/2018	31/12/2017	change
CET 1 ratio	11.86%	12.12%	-0.26%
Total Capital Ratio	13.05%	13.23%	-0.18%

For the purpose of calculating own funds, profit for the year, net of the assumed dividend distribution and calculated on the prudential consolidation area, was not considered as no authorization was required from the ECB pursuant to Regulation (EU) no. 656/2015. This component, estimated at €10.8 million, would have a positive effect of 7 bps on both the CET1 ratio and on the TCR.

2. OTHER INFORMATION

Referrals to other parts of the financial statements

This consolidated report on operations of the Iccrea Banking Group only includes comments on developments in Group operations. For all other information required under the provisions of law and regulations, reference should be made - in the context of the discussion of the specific issues – to the notes to the consolidated financial statements or to the separate financial statements and the related report on operations.

In particular, please see to the notes to these consolidated financial statements with regard to:

- information on the Group's transactions with related parties, which are reported in Part H;
- information on financial and operational risks, which are discussed in Part E;
- the list of subsidiaries at December 31, 2018, which is reported in Part A;
- information on capital, which is reported in Part F;
- information on business combinations during the year, which is reported in Part G.

Readers should instead consult the report on operations in the separate financial statements with regard to:

- information on the main risks and uncertainties;
- events subsequent to the balance sheet date and the outlook for operations;
- 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.

2018 Consolidated Non-Financial Statement

As for 2017, Iccrea has prepared the Consolidated Non-Financial Statement for 2018 pursuant to Legislative Decree 254/2016, which is attached to this document.

The Iccrea Banking Group has prepared a Non-Financial Statement consolidating the companies of the Group in accordance with the international Global Reporting Initiative-GRI, Standard 2016, Core option.

In particular, the thematic areas addressed are: environment; social; personnel; respect for human rights; fight against active and passive corruption; and gender diversity.

The disclosures required for each topic concerns: the business model for managing and organizing the company's activities; the policies implemented by the company, including those for due diligence, the results achieved through them and the associated non-financial performance indicators; the main risks generated or incurred and the management of those risks connected with the topics that derive from the activities of the company, from its products, services or commercial relationships, including, where relevant, supply chains and subcontracting.

Furthermore, in October 2018, the Public Affairs & Sustainability unit was established, which through the Consolidated Non-Financial Statement (CNFS) function plays a coordinating role in the process, in the context of the drafting of the CNFS, to define the model, rules and guidelines for drafting the 2018 CNFS and, looking forward, the CNFS of the Iccrea Mutual Cooperative Banking Group (IMBG). Moreover, the model, rules and guidelines have been applied in a specific process policy.

The first phase of the reporting process is the materiality analysis. It involved performing internal and external stakeholder engagement activities to identify the most relevant issues to report for the Group. Representatives of Group management and employees of the functions directly involved in the process of preparing the statement were involved. To this end, they were asked to assess the relevance of the material aspects both as a spokesperson for the Bank, and interpreting, on the basis of their own

professional experience, the point of view of the internal stakeholders. In addition, in the process of defining the materiality matrix (a graphical representation of the material topics based on their priority), the Group also involved a representative sample of mutual banks, which assessed - in the guise of external stakeholders - the importance of material issues in their dual capacity as customers and shareholders of the Iccrea Banking Group. It should be emphasized that the Iccrea Banking Group has included human rights among its material topics (a total of 16), in consideration of both the requirements of Legislative Decree 254/2016 and the ever-increasing attention of stakeholders in this area. A materiality matrix was also introduced from the point of view of the company (horizontal axis) and of stakeholders (vertical axis).

The material topics were then linked to the thematic areas provided for in Legislative Decree 254 and the indicators of the Global Reporting Initiative. Finally, the CNFS underwent a compliance audit, as envisaged by Article 3, paragraph 10, of Legislative Decree 254/2016, by the audit firm EY.

ATTACHMENT: RECONCILIATION OF NET PROFIT AND SHAREHOLDERS' EQUITY OF THE PARENT COMPANY AND GROUP PROFIT AND EQUITY

	SHARE CAPITAL	RESERVES	VALUATION RESERVES	PROFIT FOR THE PERIOD	SHAREHOLDERS' EQUITY 31/12/2018
Iccrea Banca S.p.A. financial statements	**1,151,045**	**416,982**	**38,356**	**(35,632)**	**1,570,752**
Results of consolidated companies		(160,950)	(1,224)	73,714	**(88,461)**
Elimination of dividends received from Group companies		49,678		(49,678)	**-**
Results of companies accounted for with equity method		(25,599)	5,448	8,376	**(11,775)**
Increase in property values		21,784			**21,784**
Amortization of increase in property values		(8,750)		(651)	**(9,401)**
Goodwill		21,675		(4,965)	**16,710**
Adjustment of intercompany writedowns/(writebacks)		23,147	-	18,059	**41,206**
Reversal of internal hedges		(4,780)		(1,438)	**(6,219)**
Other consolidation adjustments		6,436	-	(2,118)	**4,318**
Pertaining to non-controlling interests	107,182	(16,882)	743	1,835	**92,878**
Consolidated shareholders' equity	**1,258,227**	**322,740**	**43,323**	**7,502**	**1,631,794**
Non-controlling interests	**107,182**	**(16,882)**	**743**	**1,835**	**92,878**
Shareholders' equity of the Iccrea Group	**1,151,045**	**339,622**	**42,580**	**5,667**	**1,538,915**

GROUP FINANCIAL STATEMENTS

2018

CONSOLIDATED BALANCE SHEET

	Assets	31/12/2018	31/12/2017
10.	Cash and cash equivalents	129,087	110,639
[20.]	Financial assets held for trading		297,143
[30.]	Financial assets at fair value through profit or loss		15,630
[40.]	Financial assets available for sale		3,118,484
[50.]	Financial assets held to maturity		-
[60.]	Due from banks		17,875,759
[70.]	Loans to customers		14,856,879
20.	Financial assets measured at fair value through profit or loss	577,664	
	a) financial assets held for trading	327,506	
	b) financial assets measured at fair value	-	
	c) other financial assets mandatorily measured at fair value	250,158	
30.	Financial assets measured at fair value through other comprehensive income	454,817	
40.	Financial assets measured at amortized cost	38,832,682	
	a) due from banks	19,242,306	
	b) loans to customers	19,590,376	
50.	Hedging derivatives	7,715	6,716
60.	Value adjustments of financial assets hedged generically (+/-)	750	5
70.	Equity investments	120,962	111,678
90.	Property and equipment	709,930	734,013
100.	Intangible assets	68,711	49,410
	of which:		
	- goodwill	16,722	21,687
110.	Tax assets	423,077	318,285
	a) current	110,879	106,173
	b) deferred	312,198	212,112
120.	Non-current assets and disposal groups held for sale	39,026	220,286
130.	Other assets	454,897	412,560
Total assets		**41,819,318**	**38,127,486**

The items in square brackets ([]) are those of the 2017 financial statements prepared in accordance with the previous version of Circular no. 262 – 4th update of December 15, 2015, issued by the Bank of Italy. For a comparison with the figures for the previous year, please see the section "Compliance with IFRS 9" in Part A "Accounting policies".

	Liabilities and shareholders' equity	31/12/2018	31/12/2017
[10.]	Due to banks		19,235,105
[20.]	Due to customers		10,068,860
[30.]	Security issued		5,688,867
[40.]	Financial liabilities held for trading		356,450
[50.]	Financial liabilities at fair value through profit or loss		492
10.	Financial liabilities measured at amortized cost	39,118,221	
	a) due to banks	19,236,824	
	b) due to customers	14,781,287	
	c) securities issued	5,100,110	
20.	Financial liabilities held for trading	245,456	
30.	Financial liabilities measured at fair value	469	
40.	Hedging derivatives	69,033	56,416
50.	Value adjustments of financial liabilities hedged generically (+/-)	-	-
60.	Tax liabilities	4,439	5,332
	a) current	1,193	1,334
	b) deferred	3,246	3,998
70.	Liabilities associated with assets held for sale	20,369	282,047
80.	Other liabilities	615,869	668,291
90.	Employee termination benefits	24,696	25,880
100.	Provisions for risks and charges	88,971	63,464
	a) commitments and guarantees issued	21,492	-
	b) post-employment benefits	-	-
	c) other provisions for risk and charges	67,479	63,464
110.	Technical reserves	-	-
120.	Valuation reserves	43,322	73,567
130.	Redeemable shares	-	-
140.	Equity instruments	-	-
150.	Reserves	337,408	382,990
160.	Share premium reserves	6,081	4,747
170.	Share capital	1,151,045	1,151,045
180.	Treasury shares (-)	(4,608)	(30,847)
190.	Non-controlling interests (+/-)	92,879	65,423
200.	Net profit (loss) for the period (+/-)	5,667	29,353
Total liabilities and shareholders' equity		**41,819,318**	**38,127,486**

The items in square brackets ([]) are those of the 2017 financial statements prepared in accordance with the previous version of Circular no. 262 – 4th update of December 15, 2015, issued by the Bank of Italy. For a comparison with the figures for the previous year, please see the section "Compliance with IFRS 9" in Part A "Accounting policies".

CONSOLIDATED INCOME STATEMENT

		31/12/2018	31/12/2017
10.	Interest and similar income	566,484	529,827
	of which: interest income calculated using effective interest rate method	422,257	-
20.	Interest and similar expense	(230,605)	(210,004)
30.	**Net interest income**	**335,879**	**319,824**
40.	Fee and commission income	651,082	572,478
50.	Fee and commission expense	(395,658)	(354,743)
60.	**Net fee and commission income (expense)**	**255,424**	**217,735**
70.	Dividends and similar income	8,707	2,053
80.	Net gain (loss) on trading activities	10,245	15,093
90.	Net gain (loss) on hedging activities	(4,564)	(1,285)
[100]	Net gain (loss) on the disposal or repurchase of:		104,353
	a) loans		146
	b) financial assets available for sale		31,584
	c) financial assets held to maturity		73,519
	d) financial liabilities		(896)
100.	Net gain (loss) on the disposal or repurchase of:	(35,517)	
	a) financial assets measured at amortized cost	27,768	
	b) financial assets measured at fair value through other comprehensive	(64,210)	
	c) financial liabilities	925	
[110]	Net gain (loss) of financial assets and liabilities measured at fair value		1,264
110.	Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss	(1,720)	
	a) financial assets and liabilities measured at fair value	33	
	b) other financial assets mandatorily measured at fair value	(1,753)	
120.	**Gross income**	**568,454**	**659,037**
[130]	Net losses/recoveries on impairment:		(177,660)
	a) loans		(146,325)
	b) financial assets available for sale		(24,068)
	c) other financial transactions		(7,268)
130.	Net losses/recoveries for credit risk in respect of:	(97,656)	
	a) financial assets measured at amortized cost	(96,826)	
	b) financial assets measured at fair value through other comprehensive income	(830)	
140.	Gains/losses from contractual modifications without derecognition	208	-
150.	**Net income (loss) from financial operations**	**471,006**	**481,376**
160.	Net premiums	-	-
170.	Net other income/expense from insurance operations	-	-
180.	**Net income (loss) from financial and insurance operations**	**471,006**	**481,376**
190.	Administrative expenses:	(552,391)	(488,058)
	a) personnel expenses	(204,066)	(189,310)
	b) other administrative expenses	(348,325)	(298,747)
200.	Net provisions for risks and charges	(1,564)	2,773
	a) commitments and guarantees issued	2,999	
	b) other net provisions	(4,563)	
210.	Net adjustments of property and equipment	(22,625)	(19,043)
220.	Net adjustments of intangible assets	(11,196)	(10,993)
230.	Other operating expenses/income	97,296	94,405
240.	**Operating costs**	**(490,480)**	**(420,917)**
250.	Profit (loss) from equity investments	8,382	4,252
260.	Net gain (loss) from valuation at fair value of property and equipment and intangible assets	(20,052)	(22,171)
270.	Goodwill impairment	(4,965)	(907)
280.	Profit (loss) from disposal of investments	6,988	4,995
290.	**Profit (loss) before tax on continuing operations**	**(29,121)**	**46,629**
300.	Income tax expense from continuing operations	36,623	(11,125)
310.	Profit (loss) after tax on continuing operations	7,502	35,504
320.	Profit (loss) after tax on discontinued operations	-	-
330.	**Net profit (loss) for the period**	**7,502**	**35,504**
340.	Net profit (loss) for the period - non-controlling interests	1,835	6,147
350.	**Net profit (loss) for the period - shareholders' of the Parent Company**	**5,667**	**29,357**

The items in square brackets ([]) are those of the 2017 financial statements prepared in accordance with the previous version of Circular no. 262 – 4th update of December 15, 2015, issued by the Bank of Italy. For a comparison with the figures for the previous year, please see the section "Compliance with IFRS 9" in Part A "Accounting policies".

STATEMENT OF COMPREHENSIVE INCOME

		31/12/2018	31/12/2017
10.	**Net profit (loss) for the period**	**7,502**	**35,504**
	Other comprehensive income net of taxes not recyclable to profit or loss	**(5,460)**	**19**
20.	Equity securities designated as t fair through other comprehensive income	(5,795)	-
70.	Defined-benefit plans	335	19
	Other comprehensive income net of taxes recyclable to profit or loss	**(10,260)**	**(292)**
120.	Cash-flow hedges	500	1,326
[100.]	Financial assets available for sale		(1,530)
140.	Financial assets (other than equity investments) measured at fair value through other comprehensive income	(8,051)	
160.	Share of valuation reserves of equity investments accounted for with equity method	(2,709)	(88)
170.	**Total other comprehensive income net of taxes**	**(15,720)**	**(274)**
180.	**Comprehensive income (Item 10+170)**	**(8,217)**	**35,230**
190.	Comprehensive income pertaining to non-controlling interests	2,627	6,153
200.	**Comprehensive income pertaining to shareholders' of the Parent Company**	**(10,844)**	**29,077**

The items in square brackets ([]) are those of the 2017 financial statements prepared in accordance with the previous version of Circular no. 262 – 4th update of December 15, 2015, issued by the Bank of Italy. For a comparison with the figures for the previous year, please see the section "Compliance with IFRS 9" in Part A "Accounting policies".

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY 2018

				Allocation of net profit of previous period		Change in the period											
							Equity transactions										
	As at 31/12/2017	Change in opening balance	As at 01/01/2018	Reserves	Dividends and other destinations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Change in equity holdings	Comprehensive income 2018	Shareholders' equity as at 31/12/2018	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests
Share capital:																	
a) ordinary shares	1,202,140		1,202,140										55,102		1,257,242	1,151,045	106,197
b) other shares	985		985												985		985
Share premium reserve	5,211		5,211			1,335							4,207		10,753	6,081	4,672
Reserves:																	
a) earnings	389,712	(82,595)	307,117	35,504	(6,184)								(20,582)		315,855	337,409	(21,554)
b) other																	
Valuation reserves	73,576	(13,792)	59,784											(15,720)	44,064	43,321	743
Equity instruments																	
Treasury shares	(30,847)		(30,847)				26,239								(4,608)	(4,608)	
Net profit (loss) for the period	35,504		35,504	(35,504)	(6,184)									7,502	7,502	5,667	1,835
Total shareholders' equity	**1,676,281**	**(96,387)**	**1,579,894**		**(6,184)**	**1,335**	**26,239**						**38,727**	**(8,217)**	**1,631,794**	**1,538,916**	**92,878**
Shareholders' equity pertaining to shareholders' of Parent Company	**1,610,858**	**(89,703)**	**1,521,155**			**1,335**	**26,239**						**1,031**	**(10,844)**	**1,538,916**		
Shareholders' equity pertaining to non-controlling interests	**65,423**	**(6,685)**	**58,738**		**(6,184)**								**37,697**	**2,627**	**92,878**		

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY 2017

			Allocation of net profit of previous dividends		Change in the period											
						Equity transactions										
	As at 31/12/2016	Change in opening balance As at 1/1/2017	Reserves	Dividends and other allocations	Change in reserves	Issues 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 31/12/2017	Shareholders' equity as at 31/12/2017	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests
Share capital:																
a) ordinary shares	1,201,940	1,201,940			200									1,202,140	1,151,045	51,095
b) other shares	985	985												985		985
Share premium reserve	5,252	5,252			(41)									5,211	4,747	464
Reserves:																
a) earnings	426,272	426,272	(21,693)	(14,049)	(818)									389,712	382,988	6,724
b) other																
Valuation reserves	73,850	73,850											(274)	73,576	73,569	8
Equity instruments																
Treasury shares	(30,835)	(30,835)			(12)									(30,847)	(30,847)	
Net profit (loss) for the period	(21,693)	(21,693)	21,693										35,504	35,504	29,357	6,147
Total shareholders' equity	**1,655,771**	**1,655,771**		**(14,049)**	**(671)**								**35,230**	**1,676,281**	**1,610,858**	**65,423**
Shareholders' equity pertaining to shareholders' of Parent Company	**1,595,550**	**1,595,550**		**(11,676)**	**(2,093)**								**29,077**	**1,610,858**		
Shareholders' equity pertaining to non-controlling interests	**60,220**	**60,220**		**(2,373)**	**1,424**								**6,152**	**65,423**		

STATEMENT OF CASH FLOWS: INDIRECT METHOD - 2018

	31/12/2018
A. OPERATING ACTIVITIES	
1. Operations	**115,345**
- net profit (loss) for the period (+/-)	7,502
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+)	(24,439)
- gains (losses) on hedging activities (-/+)	4,617
- net losses/recoveries on impairment (+/-)	102,621
- net adjustments of property and equipment and intangible assets(+/-)	40,524
- net provisions for risks and charges and other costs/revenues (+/-)	(18)
- taxes, duties and tax credits to be settled (+/-)	(3,135)
- other adjustments (+/-)	(12,327)
2. Net cash flows from/used in financial assets	**(3,844,519)**
- financial assets held for trading	(7,774)
- other assets mandatorily measured at fair value	(61,403)
- financial assets measured at fair value through other comprehensive income	2,349,047
- financial assets measured at amortized cost	(5,965,058)
- other assets	(159,332)
3. Net cash flows from/used in financial liabilities	**3,787,659**
- financial liabilities measured at amortized cost	3,857,886
- financial liabilities held for trading	(110,994)
- financial liabilities measured at fair value	(23)
- other liabilities	40,790
Net cash flows from/used in operating activities	**58,484**
B. INVESTING ACTIVITIES	
1. Cash flow from	**36,197**
- sales of equity investments	-
- dividends on equity investments	8,707
- sales of property and equipment	26,802
- sales of intangible assets	688
2. Cash flow used in	**(75,709)**
- purchase of equity investments	(9,286)
- purchases of property and equipment	(30,784)
- purchases of intangible assets	(35,639)
Net cash flows from/used in investing activities	**(39,512)**
C. FINANCING ACTIVITIES	
- issues/purchases of own shares	26,239
- issues/purchases of capital instruments	(20,581)
- dividend distribution and other	(6,184)
- sales/purchases of control of non-group entities	
Net cash flows from/used in investing activities	**(526)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**18,446**

Key
(+) generated
(-) used in

RECONCILIATION

	31/12/2018
Cash and cash equivalents at beginning of period	110,641
Net increase/decrease in cash and cash equivalents	18,446
Cash and cash equivalents: effect of exchange rate changes	-
Cash and cash equivalents at end of period	129,087

STATEMENT OF CASH FLOWS: INDIRECT METHOD - 2017

	31/12/2017
A. OPERATING ACTIVITIES	
1. Operations	**269,758**
- net profit (loss) for the period (+/-)	35,504
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+)	(5,151)
- gains (losses) on hedging activities (-/+)	1,285
- net losses/recoveries on impairment (+/-)	179,509
- net adjustments of property and equipment and intangible assets(+/-)	30,036
- net provisions for risks and charges and other costs/revenues (+/-)	19,226
- taxes, duties and tax credits to be settled (+/-)	6,940
- net adjustments of disposal groups held for sale net of tax effects (+/-)	
- other adjustments (+/-)	2,410
2. Net cash flows from/used in financial assets	**4,179,695**
- financial assets held for trading	94,191
- financial assets measured at fair value	-
- financial assets available for sale	2,105,489
- due from banks: repayable on demand	(89,179)
- due from banks: other	3,280,420
- loans to customers	(1,328,948)
- other assets	117,723
3. Net cash flows from/used in financial liabilities	**(9,151,288)**
- due to banks: on demand	(1,824,059)
- due to banks: other	8,336,426
- due to customers	(16,758,311)
- securities issued	1,212,851
- financial liabilities held for trading	(53,167)
- financial liabilities measured at fair value	(20,883)
- other liabilities	(44,146)
Net cash flows from/used in operating activities	**(4,701,835)**
B. INVESTING ACTIVITIES	
1. Cash flow from	**4,767,122**
- sales of equity investments	-
- sales of property and equipment	5,324
- dividends on equity investments	23,189
-sales of financial assets held to maturity	4,738,609
2. Cash flow used in	**(53,895)**
- purchases of equity instruments	
- purchases of property and equipment	(33,230)
- purchases of intangible assets	(20,665)
- purchases of financial assets held to maturity	-
Net cash flows from/used in investing activities	**4,713,226**
C. FINANCING ACTIVITIES	
- issues/purchases of own shares	(12)
- dividend distribution and other	(14,049)
Net cash flows from/used in financing activities	**(14,061)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(2,669)**

Key
(+) generated
(-) used in

RECONCILIATION

	31/12/2017
Cash and cash equivalents at beginning of period	113,310
Net increase/decrease in cash and cash equivalents	(2,669)
Cash and cash equivalents at end of period	110,641

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PART A

Accounting policies

A.1 -GENERAL INFORMATION

Section 1 – Declaration of conformity with the International Accounting Standards (IAS/IFRS)

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, these consolidated financial statements of the Group have been prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission as established by Regulation (EC) no. 1606 of July 19, 2002, as amended.

These consolidated financial statements have been prepared according to Circular no. 262 of December 22, 2005 on the format and rules for preparation of bank financial statements – 5th update of December 22, 2017 – issued by the Bank of Italy in the exercise of the powers established by Article 43 of Legislative Decree 136/2015.

These instructions contain binding formats for the financial statements and the procedures for completing the schedules, as well as the content of the notes to the financial statements.

The IASs/IFRSs applied in preparing the consolidated financial statements were those in force at December 31, 2018 as endorsed by the European Commission (including the interpretations issued by the IFRIC).

With regard to the comparative data for the previous year, taking account of the fact that IFRS 9 provides for the possibility, at the time of first application, of not restating figures for the previous financial years, Iccrea Banca presents comparative data by reporting the items given in the schedules of the 4th update of Circular no. 262 of December 22, 2005. Please see to the financial statements for the year ended December 31, 2017 for details on the accounting standards adopted and in force until that date.

The notes contain comparative figures for the tables for items that were not impacted by the application of IFRS 9. For tables affected by that standard, for which comparative figures are not provided, please see the chapter "Compliance with IFRS 9".

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, 2017:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
1905/2016	**IFRS 15 Revenue from contracts with customers** he standard replaces IAS 18, IAS 11 and the associated interpretations concerning revenue recognition IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. The new standard specifies two approaches to revenue recognition: the first provides for recognition "at a point in time", while the second provides for recognition "over time". The standard introduces a method for analyzing transactions and define both the timing of recognition and the amount to be recognized. IFRS 15 also includes requirements for accounting for certain costs directly connected with a contract.	Annual reporting periods beginning on or after January 1, 2018
2067/2016	**IFRS 9 Financial instruments** The standard establishes criteria for the presentation of financial assets and liabilities, replacing IAS 39, with a view to improving the materiality and utility of the disclosures. The new standard establishes, first and foremost, an approach for the classification and measurement of financial assets based on the characteristics of the cash flows and the business model under which the assets are held. It also introduces a single, forward-looking model of impairment that requires recognition of expected losses over the entire life of a financial instrument. Finally, hedge accounting was modified.	Annual reporting periods beginning on or after January 1, 2018

1988/2017	**Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts** The amendments of IFRS 4 seek to remedy the temporary accounting effects of the mismatch between the effective date of IFRS 9 and the effective date of the new IFRS 17 on insurance contracts, which replaces IFRS 4.	Annual reporting periods beginning on or after January 1, 2018
182/2018	**Annual improvements to IFRS Standards 2014-2016 cycle involving amendments to IAS 28 and IFRS 1** The amendments regarded the elimination of the short-term exemptions envisaged for First-Time Adoption of IFRS1, and the classification and measurement of equity investments measured at fair value through profit or loss in accordance with IAS 28 - Investments in associates and joint ventures and disclosures of interests in other entities in accordance with IFRS 12.	Annual reporting periods beginning on or after January 1, 2018
289/2018	**Amendments to IFRS 2 Share-based payment** The amendments are intended to clarify the accounting treatment for certain types of share-based payment schemes, with regard to the following aspects: - the effects of vesting conditions on the measurement of cash-settled share-based payments; - the classification of share-based payment transactions with a net settlement feature for tax purposes; The recognition of a modification of the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.	Annual reporting periods beginning on or after January 1, 2018
400/2018	**Amendments to IAS 40 Investment property - Transfers of investment property** The amendments clarify when an entity may modify the classification of a property when it was not held as "investment property" and vice-versa.	Annual reporting periods beginning on or after January 1, 2018
519/2018	**IFRIC 22 - Foreign currency transactions and advance consideration** The interpretation clarifies the accounting treatment for transactions that involve the receipt or payment of advance consideration in a foreign currency.	Annual reporting periods beginning on or after January 1, 2018

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
1986/2017	**IFRS 16 Leases** The new standard, which will replace IAS 17, modifies the definition of a lease and establishes that lessees shall recognize assets and liabilities for a lease. The objective of IFRS 16 is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents transactions. This information therefore gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. The new standard provides a new definition of lease and introduces a criterion based on control (right of use) of an asset to distinguish leases from service contracts, specifying as discriminants the identification of the asset, the right to substitute it, the right to obtain substantially all the economic benefits deriving from the use of the asset and the right to direct the use of the identified asset. Transactions excluded from the scope of application of the principle include, in particular: • licenses of intellectual property granted by a lessor within the scope of IFRS 15 "Revenue from Contracts with Customers";	Annual reporting periods beginning on or after January 1, 2019

- "rights held by a lessee under licensing agreements within the scope of IAS 38 "Intangible Assets".

The standard also permits the application certain exceptions to the recognition requirement:

- short-term leases, with a contractual term of 12 months or less;
- leases in which the underlying asset is of low value.

More specifically, under the definition in IFRS 16, a lease is a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

The two conditions necessary for the existence of a lease are:

- the existence of an identified and physically distinct asset;
- the right to control the use of the asset, which is the lessee's right to obtain substantially all the economic benefits deriving from the use of the asset during the period of use and the right to direct the use of the asset, establishing how and for what purpose it is used, throughout the period of use. There lessor must therefore not have a substantive right to substitute the asset.

In addition to "leases" proper, lease contracts also include, for example, contracts for rent, hire, lease and free loans.

For a contract that contains a lease component and additional non-lease components (such as in the case of the lease of an asset and the provision of maintenance services), the standard establishes that each lease component shall be recognized separately from the non-lease components. The consideration shall therefore be allocated to the various components based on their relative stand-alone prices, adopting the rationale of IFRS 15 for service contracts. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from components, and instead account for all lease components a as a single lease component.

The most significant changes introduced with the standard regard the lessee, who shall apply a single accounting model, eliminating the distinction between operating lease and finance lease, with an impact on both the income statement and the balance sheet.

For any lease, the lessee shall recognize, respectively, under liabilities and assets in the balance sheet:

- a lease liability, equal to the present value of future payments determined using the discount rate specified at the inception of the lease;
- a right-of-use asset, equal to the lease liability plus initial direct costs.

The lessee must measure the right-of-use asset by applying the cost model. The income statement will essentially reflect the depreciation charge for the right-of-use asset, recognized under operating expenses, and the interest accrued on the lease liability, recognized in net interest income.

The distinction between operating and finance leases remains for the lessor, for which the approach under IFRS 16 does not introduce substantial changes with respect to IAS 17.

The standard was endorsed by the European Commission on November 9, 2017 with Regulation no. 2017/1986 and takes affect starting from January 1, 2019. Early application is permitted for those entities that already apply IFRS 15.

For the initial application of the standard, full or modified retrospective application is permitted. The full retrospective option provides for the application of IFRS 16 for the year 2018, recognizing the impact in shareholders' equity at

	January 1, 2018 as if the IFRS 16 had always been applied, with the restatement of the comparative data. The modified retrospective option provides instead: • for 2018 the application of IAS 17 without the need to restate the comparative data; • for 2019 the application of IFRS 16 with the recognition in shareholders' equity at January 1, 2019 (under reserves) of the cumulative effect of the new standard as at the date of initial application only of existing contracts at that date and the disclosure of the impact of initial application of the standard in the notes to the financial statements. The Group has elected to apply the modified retrospective option, which does not require the restatement of the comparative figures for 2018.	
498/2018	**Amendments to IFRS 9 Financial instruments - Prepayment Features with Negative Compensation** The amendments clarify the classification of certain financial assets with prepayment features when IFRS 9 is applied. More specifically: • for financial assets, they also permit measurement at amortized cost or, depending on the business model, at fair value through other comprehensive income, for loans that, in the event of early repayment, require a lender to make a payment (negative compensation payment); • for financial liabilities measured at amortized cost, they clarify the accounting for a modification that does not result in the derecognition of the financial liability. In these cases, at the date of the modification the adjustment of the amortized cost of the liability, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the effective interest rate, shall be recognized in profit or loss.	Annual reporting periods beginning on or after January 1, 2019
To be determined	**IFRS 17 Insurance contracts** The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers.	Annual reporting periods beginning on or after January 1, 2019
1595/2018	**IFRIC 23 – Accounting for uncertainties in income taxes** The interpretation clarifies the application of the recognition and measurement requirements of IAS 12 in the case of uncertainties in income taxes.	Annual reporting periods beginning on or after January 1, 2019
237/2019	**Amendments to IAS28** The amendments clarify that the provisions of IFRS 9 should be used to represent long-term interests in associates or joint ventures for which the equity method is not applied.	Annual reporting periods beginning on or after January 1, 2019
402/2019	**Amendments to IAS 19** The amendments specifies how entities should determine employee benefits following amendments, curtailments or settlements of defined benefit plans.	Annual reporting periods beginning on or after January 1, 2019
412/2019	**Annual improvements to IFRS Standards 2015-2017 cycle** The improvements modify the IFRS in response to issues mainly concerning IFRS 3 – Business combinations, IFRS 11 – Joint arrangements, IAS 12 – Income taxes and IAS 23 – Borrowing costs.	Annual reporting periods beginning on or after January 1, 2019
To be determined	**Amendments to the Conceptual Framework for Financial Reporting** The main amendments regard a new chapter on measurement, improved definitions and guidance, clarification of concepts such as stewardship, prudence and uncertainty in measurement.	Annual reporting periods beginning on or after January 1, 2020
To be determined	**Amendments to IFRS 3: Definition of a business** The main changes are intended to resolve the issues that arise when an entity determines whether it has acquired a business or a group of assets. More specifically, the changes:	Annual reporting periods beginning on or after January 1, 2020

	• clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; • remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; • add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; • narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; • add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.	
To be determined	**Amendments to IAS 1 and IAS 8: Definition of materiality** The amendments are intended to align the definition of "material" with that used in the Conceptual Framework and the standards themselves. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of financial statements make on the basis of those financial statements.	Annual reporting periods beginning on or after January 1, 2020

Compliance with IFRS 9

INTRODUCTION

IFRS 9 - Regulatory framework

IFRS 9 – Financial Instruments, issued by the International Accounting Standards Board (IASB) in July 2014 and endorsed by the European Commission with Regulation no. 2067/2016, is the new accounting standard replacing IAS 39 as from January 1, 2018, with an impact on the classification and measurement of financial instruments and the rationale and procedures for calculating impairment losses.

The three pillars of IFRS 9

The entry into force of IFRS 9 will bring changes, which can be summarized in the following three main areas:

- classification and measurement - the standard introduces new accounting classifications depending on the business models and the financial characteristics of cash flows (so-called SPPI - Solely Payments of Principal and Interests);
- impairment - the standard introduces a new expected credit loss approach (ECL) to replace the incurred loss approach envisaged under IAS 39, providing for the adoption of a single model encompassing all financial assets except those measured at the fair value through profit or loss (FVTPL);
- hedge accounting - the standard introduces changes in the area of micro hedging, bringing hedge accounting into a risk management perspective, while macro hedging does not currently fall within the scope of IFRS 9.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

With regard to "classification and measurement" aspects issues, IFRS 9 establishes three measurement criteria for financial assets:

- amortized cost;
- fair value through other comprehensive income;
- fair value through profit or loss.

For financial assets represented by debt securities, the determination of the measurement criterion is depends both on the business model of the portfolio to which it belongs and to the characteristics of the contractual cash flows of the financial instrument.

Equity instruments are classified in the FVTPL category, with the exception of the irrevocable option to classify equity instruments not held for trading in the FVOCI category. In this case only dividends are recognized in profit or loss, while changes from measurement and gains or losses on disposal are recognized in other comprehensive income with no recycling of any gain or loss on disposal.

IMPAIRMENT

With reference to impairment, the standard introduces a single model, based on the concept of expected loss extended to performing on- and off-balance-sheet assets that are not measured at FVTPL. IFRS 9 establishes that at each reporting date the loss allowance for a financial instrument shall be measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. Otherwise, the loss allowance for the financial instrument is measured at an amount equal to 12-month expected credit losses. The verification of the presence of a significant increase in credit risk is based on a stage allocation process which provides for the classification of financial assets into three stages, applying the calculation of the 12-month expected credit loss to stage 1; and the lifetime expected credit loss on the instrument to stages 2 and 3.

HEDGE ACCOUNTING

With reference to "hedge accounting", the standard revises the rules for the designation of a hedging relationship and for verifying its effectiveness in order to ensure greater alignment between the accounting representation of the hedges and the underlying management rationale, confirming the adoption of a more risk-management oriented approach. It is emphasized that the regulatory changes only concern "general hedge accounting", for which the standard provides for the possibility of applying the rules set by the new standard rather than continuing to apply IAS 39 (the "Opt-in/Opt-out" option). The standard does not address macro-hedging, which continues to be governed by IAS 39.

Differences with IAS 39

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

The classifications of financial instruments under IAS 39 have been replaced by the following IFRS 9 categories: amortized cost, fair value through other comprehensive income and fair value through profit and loss. In order to determine the classification of debt instruments, two new concepts are introduced: the business model, to assess the purpose for which the financial instruments are held, and the SPPI test, to determine the contractual characteristics of the cash flows associated with the financial instruments.

For the purposes of these assessments, steps have been taken to identify the business model of the financial assets held by Iccrea Banca and to determine the procedures for conducting the SPPI test on the basis of the characteristics of the contractual cash flows.

IMPAIRMENT

The main changes introduced with IFRS 9 concerning impairment include:

- a change from the incurred loss model to an expected credit loss (ECL) model;
- the recognition of a significant increase in credit risk, with the consequent measurement of the lifetime expected credit loss (stage 2) in place of a 12-month expected credit loss (stage 1), in the presence of a significant increase in credit risk since the origination of an asset;
- the introduction of probability-weighted outcomes in the transfer of impaired assets (stage 3);

- the inclusion of forward-looking information, comprising multiple economic scenarios, within the new impairment model.
-

Basis of preparation, exemptions and options applied at first-time adoption

HEDGE ACCOUNTING

With regard to the new provisions concerning hedge accounting, as allowed by the standard (IFRS 9 7.2.21), the Iccrea Banking Group exercised the option to continue to apply the provisions of IAS 39 to all types of hedging transactions.

COMPARATIVE STATEMENTS

In initial application, IFRS 9 does not require the restatement of comparative figures, on a uniform basis, for prior periods. In this regard, at the time of the issue of the 5th amendment of Bank of Italy Circular no. 262/2005 governing the format and rules for the preparation of bank financial statements, the supervisory authorities have specified that banks that do not produce comparative figures must include, in the first financial statements prepared on the basis of the aforementioned update, a reconciliation statement that indicates the method used and provides a reconciliation of the data reported in the most recent approved financial statements and the first financial statements drawn up on the basis of the new provisions. The form and content of this table may be decided by the competent corporate bodies.

The Iccrea Group has elected to exercise the option available under paragraph 7.2.15 of IFRS 9 to not restate the comparative figures in the first financial statements prepared in accordance with IFRS 9. With regard to the comparative data, the section "Reconciliation statements" reports the differences between the 4th update of Circular no. 262/2005 and the 5th update. The same section sets out reconciliations of the balances at January 1, 2018, following the application of the new measurement and impairment rules under IFRS 9.

IMPACT OF THE INTRODUCTION OF IFRS 9 ON OWN FUNDS

With Regulation (EU) 2017/2395 regarding transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds, issued on December 12, 2017, the European Parliament and the Council amended Regulation 575/2013 (the CRR), inserting the new Article 473a "Introduction of IFRS 9", which permits banks to attenuate the impact of the introduction of IFRS 9 on their own funds associated with an increase in provisions for expected credit losses by including a portion of the provisions in CET1 capital over a transitional period of 5 years (from March 2018 to December 2022), sterilizing the impact on CET1 by a decreasing percentage over time.

The Group has elected to adopt the so-called dynamic approach and static approach to the impact resulting from the comparison between the IAS 39 provisions at December 31, 2017 and those calculated under IFRS 9 at January 1, 2018, which provide for the application of decreasing factors to the provisions for exposures classified in stage 1 and stage 2 (dynamic approach) and to stage 3 (static approach).

Over the first five years of application of IFRS 9, the transitional arrangements gradually reduce the impact on CET1 by applying the following factors:

- 0.95 between January and December 2018;
- 0.85 between January and December 2019;
- 0.7 between January and December 2020;
- 0.5 between January and December 2021;
- 0.25 between January and December 2022.

As indicated in the guidelines issued by the EBA in January 2018, entities that opt for the transitional arrangements shall provide the market, among other things, with information on a "fully loaded basis" for own funds, risk-weighted assets, CET1, Tier 1 and capital ratios.

The IFRS 9 implementation project

The Iccrea Group began work for the adoption of the new IFRS 9 in September 2016, following a preliminary assessment carried out in 2014 aimed at obtaining an initial estimate of the potential impact of its introduction.

Given the importance of the project and the impact of the changes introduced by the new standard, the activities were governed by a Steering Committee composed of members of top management. The project was structured into three macro-areas mirroring the three areas into which the standard is organized, namely classification and measurement, impairment and hedge accounting. For each project area, an operational manager was appointed.

Since the standard has a considerable impact and impacts many aspects of corporate operations, a large number of the Group's units have been actively involved in the project: the areas most affected by the implementation of the new standard were Administration, Risk Management, Lending, Finance, Organization and Projects, IT, ALM and Consulting and Planning and Management Control. Together with the operational units, internal control functions such as Internal Audit and the Board of Auditors were also part of the project.

The IFRS 9 project was programmed an extended period of time and was divided into macro-phases, which were generally conducted one after the other, such as:

- an initial stage of assessment and definition of preliminary choices;
- a second design and construct stage, with analysis of the implementation solutions for the macro-areas, determining the preferred choices, together with the design of the operating models;
- a third phase of development, implementation and testing of the procedures and applications adopted, together with activities aimed at ensuring the adjustment and consolidation of internal rules within the Group.

With regard to the "classification and measurement" project, in the assessment phase detailed analyses were conducted of the Group's loans and securities portfolios, the functional requirements for the SPPI test were analyzed, in order to illustrate the underlying assumptions and provide support for the relevant decisions in this area and the main organizational impacts were delineated.

In the design and construct phase, following through the previous phase, the business models were defined for each Group company, the analysis of the operating scenarios was developed to identify the main organizational, process and technological impacts necessary to start the implementation construction phase. The project results were developed into specific policy documents and processes to govern the transition to the new standard.

During the implementation phase, policies and internal process adjustments were refined and incorporated in the Group's internal rules, in compliance with the standard.

With regard to the "impairment" project, during the assessment phase the analysis of the systems used to measure the risk parameters for the calculation of the provisions and the mapping of the regulatory requirements was carried out.

In the design and construct phase, the calculation method for determining impairment was specified on the basis of the characteristics of each Group company, with particular reference to stage allocation and estimation of risk parameters. On the technological front, application solutions were developed to enable the implementation of the methodological and functional inputs developed within the project.

During the implementation phase, policies and internal process adjustments were refined and subsequently incorporated in the Group's internal rules, in compliance with the standard.

With regard to the "hedge accounting" project, the Group conducted an impact analysis of the requirements of IFRS 9, which found no impacts. As noted earlier, the Iccrea Group elected the option of continuing to apply all of the provisions of IAS 39 for all types of hedging, in compliance with the provisions of IFRS 9.

With reference to information systems, gap analysis was used to identify all the main impacts and measures to take with applications and procedures. In particular, with regard to IT systems, we introduced new software applications to manage the new classification and measurement processes, together with the tools and applications needed to calculate the expected loss and the inclusion of forward-looking factors with regard to impairment.

Overview of impacts

OVERVIEW

(i) **Shareholders' equity**: the adoption of IFRS 9 reduced shareholders' equity at January 1, 2018 by €96.4 million (net of tax effects). This included:

- a decrease of €0.2 million from the new **classification and measurement** requirements for financial assets;
- a decrease of €99.1 million from the new ECL **impairment** method;
- the recognition of deferred tax assets in the amount of €2.9 million.

(ii) **CET1**: the adoption of IFRS 9 reduced the CET 1 ratio by about 70 basis points to 11.42% at January 1, 2018 (fully loaded).

IMPACT ON EARNINGS RESERVES

The following table reports the opening balance at January 1, 2018 of the earnings reserves as well as the impact of the introduction of IFRS 9. The table provides separate reporting of:

- the amount at the closing date of the financial statements prepared in accordance with IAS 39;
- the impact of reclassifications made at FTA (other measurement criteria);
- the impact of the expected loss estimated in application of IFRS 9 at FTA;
- the tax effect.

TABLE 1.1

Earnings reserves (€/million)	Impact at January 1, 2018
Closing date under IAS 39	389.7
Reclassification under IFRS 9	14.4
IFRS 9 FTA adjustments	(99.9)
Tax impact	2.9
Earnings reserves under IFRS 9	**307.1**

With regard to earnings reserves (FTA reserve), reclassifications of €14.4 million were recognized at first-time application, while, as a result of the application of impairment, ECL was recognized in the amount of €99.9 million, with a negative impact on earnings reserves of €82.6 million (net of tax effects).

CHANGE IN IMPAIRMENT LOSS IN SHIFT FROM IAS 39/IAS 37 TO IFRS 9

The following table reconciles the balance of impairment provisions under IAS 39 and IAS 37 with the balance under IFRS9, with the specification of changes by credit risk stage, showing an increase of €99.9 million.

TABLE 1.2

(€/million)	Total
31/12/2017 - IAS 39/IAS 37 Impairment provision	**1,298.9**
Reduction of IAS 39/IAS 37 impairment provision	(0.3)
IFRS 9 FTA adjustments (Stage 1 and 2)	18.4
IFRS 9 FTA adjustments (Stage 3)	81.5
1/1/2018 - Total impairment adjustments	**1,398.5**

Key elements in determining impairment

With regard to impairment for instruments measured at amortized cost and at fair value through other comprehensive income (other than equity instruments), IFRS 9 introduces a model based on the concept of "expected loss" instead of the "incurred loss" concept provided for under IAS 39.

The standard introduces additional complexity and innovative features for determining provisions. Key factors that materially impact the quantification of impairment losses on loans and securities under IFRS 9 include:

- a 3-stage 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 acquired 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;
    - 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, which had previously been measured using "through-the-cycle" metrics;
- 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.

The new impairment models

STAGING AND TRANSFER OF FINANCIAL ASSETS BETWEEN STAGES

In accordance with the accounting rules, the Iccrea Group allocates each asset/tranche to one of the following stages (or buckets):

- stage 1, which includes all newly issued assets/tranches and all assets in respect of counterparties classified as performing that, as at the date of assessment, do not show a significant increase in credit risk with respect to the date of disbursement/purchase;
- stage 2, which includes all performing assets/tranches that, as at the date of assessment, show a significant increase in credit risk with respect to the date of disbursement;
- stage 3, which includes all assets/tranches that, as at the date of assessment, are classified as non-performing under the regulatory definition adopted by the Group.[1]

The stage allocation process is especially important as this drives the determination of provisions for credit risk in respect of each exposure.

[1] The Iccrea Group uses the regulatory definition of default. See Bank of Italy Circular no. 272 of July 30, 2008. The same definition of default was used under IAS 39.

Within the stage allocation framework, the Iccrea Banking Group defines the procedures for transferring an individual exposure from one state to another. More specifically:

- an asset/tranche may at any time be transferred from stage 1 to stage 2 or vice-versa if it exceeds (or does not exceed, as the case may be) at least one of the staging criteria established by the individual Group companies for the definition of a significant increase in credit risk;
- regardless of the stage to which it is allocated, an asset/tranche may be classified in stage 3 if the loan/security becomes non-performing.

The staging method for the performing loan portfolio of the Iccrea Group was developed, separately for each Group company, on the basis of the following drivers:

a) conventionally allocating certain exposures to stage 1, such as:
    - exposures to mutual banks;
    - exposures to Group companies (direct subsidiaries);
    - exposures to Clearing and Guarantee Fund;
    - exposures to employees of the company;
    - pooling deposits;
    - overcollateralized repurchase transactions (including those under the GMRA);
    - exposures to guarantee funds;
    - exposures originated in the three months prior to the reporting date (the "grace period").

    These types of exposures were assigned a nil ECL, with the exception of exposures to employees of Group companies,[2] to mutual banks that are not members of the Iccrea Mutual Banking Group, exposures to guarantee funds and exposures subject to the grace period, for which the ECL was calculated using parameters for the time horizon of 12 months, in line with the procedure used for other exposures allocated to this stage.
b) the use, where a rating system is available, of quantitative criteria based on the analysis and comparison of the PD at origination with the PD at the reporting date. If there is no origination PD and only the reporting date PD is available, the methodology provides for the use of the practical expedient of the low credit risk exemption;
c) the automatic allocation to stage 2 of exposures which as at the measurement date had a conditional PD in excess of a specified threshold;
d) the use of qualitative criteria to identify the most risky positions in the performing portfolio. These criteria have been defined independently of the use (or not) of quantitative criteria and can be summarized in: positions with more than 30 days past due and forborne performing exposures;
e) the use of the practical expedient of 12-month PD at origination and at the reporting date as proxies for lifetime PD, supported by analysis demonstrating that that approach represents a reasonable approximation;
f) the use of a minimum probation period of 3 months in stage 2 in order to reduce the volatility of the allocation of exposures to the various stages, accordingly:
    - an exposure is transferred to stage 1 if the conditions for allocation to stage 1 exist at the reporting date and at least 3 continuous months have elapsed from the disappearance of the circumstances that gave rise to the allocation to stage 2;
    - the restoration of performing status of an exposure previously allocated to stage 3 involves the allocation to stage 2 for at least 3 months following the restoration of performing status;
    - Forborne performing exposures for which the regulatory probation period of 24 months is already active are excluded from the application of this criterion.

With regard to point b) above, the main trigger, namely a significant increase in credit risk, is determined by comparing the change in the rating class registered between the date of initial recognition and that at the observation date (delta notch). A determination of a significant deterioration is therefore given by a change in

[2] With the exception of Iccrea Banca, for which exposures to employees are attributed a nil ECL.

the rating caused by downgrades of the position, measured in terms of notches, between the origination of the exposure and the reporting date. This change is an indicator of an increase or decrease in credit risk during the reference period. In order to determine whether, pursuant to the requirements of IFRS 9, an increase in credit risk can be considered “significant” (and therefore require a transfer between stages), specified thresholds have been established, as indicated in Figure 1 and 2 below. Changes below those thresholds are not considered significant and, consequently, do no trigger the transfer of an exposures from Stage 1 to Stage 2. Such a transfer is necessary, however, if the increase in terms of notches exceeds those thresholds.

The determination of the thresholds was calibrated with a view to ensuring a proper balance between performance indicators with respect to the ability of the thresholds to:

- identify stage 2 positions before they deteriorate into default;
- identify positions for which a return to stage 1 is synonymous with an effective improvement in credit quality.

With specific reference to corporate exposures, for companies that use the “AlvinRating” management model to assess creditworthiness, the Group has used the rating class migration criterion. This criterion involves the allocation to stage 2 of exposures that at the assessment date show an increase of four notches with respect to the origination rating, as shown in figure 1 below:

FIGURE 1

Rating origination	Rating reporting date									
	RAT 1	RAT 2	RAT 3	RAT 4	RAT 5	RAT 6	RAT 7	RAT 8	RAT 9	RAT 10
RAT 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2
RAT 2	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2
RAT 3	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2
RAT 4	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2
RAT 5	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2
RAT 6	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2
RAT 7	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2
RAT 8	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2
RAT 9	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2
RAT 10	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2

With regard to Institution counterparties, a quantitative staging criterion has been defined that uses the external “RiskCalc” rating of Moody’s Analytics. This criterion relies on the ratings assigned by the external RiskCalc model to allocate to stage 2 exposures whose ratings have worsened (in terms of notches) with respect to the origination rating. In order to consider a worsening in terms of notches as an indicator of a significant increase in credit risk, the deterioration in terms of notches must be such that the rating at the assessment date of an exposure originating in class AAA is lower than the investment grade rating threshold (BBB-). Under this approach, therefore, an increase of at least 10 notches is necessary for an exposure to be allocated to stage 2, as indicated in the following matrix:

FIGURE 2

Rating origination \ Rating reporting date	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC
AAA	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2
AA+	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2
AA	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2	Stage 2
AA-	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2
A+	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2	Stage 2
A	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 2
A-	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BBB+	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BBB	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BBB-	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BB+	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BB	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
BB-	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
B+	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
B	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
B-	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2
CCC	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2

For credit exposures, forborne performing positions allocated to stage 2 remain in this class until, depending on the outcome of the forbearance measures, the conditions for the classification as forborne lapse, i.e. after 24 months, with consequent transfer to stage 1.

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 companies. 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. Securities issued by Group companies and the mutual banks are conventionally allocated to stage 1.

The approach adopted by the Group provides for the use of the principle of the low credit risk exemption, which regardless of the presence of an origination rating, allocates exposures with a rating that is better or equal to investment grade at the reporting date (BBB-) to stage 1. Using the conditional PD criterion, exposures will be classified to stage 2 if at the assessment date their conditional PD exceeds a certain threshold. That threshold is explicitly indicated in the AQR manual as a specific trigger identifying an increase in credit risk.

Group companies 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.

MAIN DRIVERS OF ECL AND SCENARIOS USED IN IFRS 9 MODELING

Probability of default (PD)

In order to ensure the probabilities of default are compliant with IFRS 9, the Iccrea Banking Group has developed a method, differentiated by individual company and, where available using rating models adopted for management purposes in order to obtain point-in-time, forward-looking and lifetime PDs.

For the loan portfolio, the common drivers of all the approaches used to construct the PDs adopted both at FTA and subsequently regard:

- the transformation of model PD to (or calculation of) Point in Time (PiT) PD, at a one-year horizon;
- the inclusion of forward-looking scenario by applying multipliers defined by the satellite model of the PiT PD and definition of a series of possible scenarios incorporating current and future macroeconomic conditions;
- the transformation of 12-month PD to lifetime PD in order to estimate the term structure of PD over the entire class of residual maturities of loans.

For the purpose of estimating the IFRS 9-compliant PD for the loan portfolio, the Group uses:

A. the "AlvinRating" model and the ratings it produces for exposures to Corporate and Retail counterparties. The transition matrix approach is applied to companies/portfolios that use that model to obtain lifetime PDs through:
   a. the construction of the PiT transition matrix (at 1 year);
   b. conditioning of the matrix on macroeconomic scenarios;
   c. estimation of the forward-looking 12-month PD;
   d. extrapolation of the lifetime forward-looking PD curves on the basis of the stable Markovian approach;

B. the rating determined by the "RiskCalc" of Moody's Analytics (external rating model) for exposures to "Credit institutions". The approach used to obtain lifetime PDs, indicated as "RiskCalc", uses the rating and associated PIT, 1-year and lifetime PDs provided by the external RiskCalc rating model by:
   a. using average cumulative PDs for each rating class;
   b. extracting the PIT PDs from the average cumulative PDs;
   c. reconstructing cumulative lifetime forward-looking PDs;

C. the observation of internal default rates over a time horizon of 12 months for Group companies that do not use a rating system. Starting with the observation of the specific 12-month internal default rate estimated for specific clusters, the 12-month and lifetime PDs were estimated, cumulating the observed default rates.

For the securities portfolio, drivers common to all the approaches used to produce the PD to be used at FTA and subsequently regard:

- the inclusion of forward-looking scenarios through the application of multipliers generated by the "Satellite Model" to the PD supplied and the definition of a series of possible scenarios that incorporate current and future macroeconomic conditions;
- the transformation of the 12-month PD into a lifetime PD where not supplied (government securities) in order to estimate the PD term structure over the entire residual life class of the securities.

For the purposes of estimated the IFRS 9-compliant PD for the securities portfolio, the Iccrea Banking Group uses the 12-month PDs drawn from the Standard & Poor's Sovereign matrices for government securities and corporate bonds:

- the S&P Sovereign matrices provide 12-month PDs only. For this reason they are conditioned by combining the transitions to default provided, including forward-looking information by applying the multipliers from the Satellite Model in the manner indicated in the approach based on observed default rates referred to in point C of this section;
- the S&P Corporate matrices provide 12-month and cumulative PDs. For this reason conditioning uses the approach referred to in point B of this section, thereby:
  - extracting the PIT PDs from the average cumulative PDs;
  - constructing the cumulative lifetime forward-looking PDs.

The following summarizes the approaches used in estimating the PD for each Group company and portfolio.

FIGURE 3 -IFRS 9 COMPLIANT APPROACHES FOR ESTIMATING PD

	Type of exposure	Type of counterparty	Estimation method	Estimation inputs
Iccrea BancaImpresa	Loans	Corporate and Retail	Transition matrices	AlvinRating model
		Institution	RiskCalc	Moody's RiskCalc model
	Securities	Sovereign	S&P Transition Study	S&P's public PD matrices
		Corporate and Institution	S&P Transition Study	S&P's public PD matrices
Iccrea Banca	Loans	Corporate	1-year transition matrix estimated for Iccrea BancaImpresa	AlvinRating model
		Retail	Observed default rates	Internal default rates
		Institution	RiskCalc	Moody's RiskCalc model
	Securities	Sovereign	S&P Transition Study	S&P's public PD matrices
		Corporate and Institution	S&P Transition Study	S&P's public PD matrices
Banca Sviluppo	Loans	Corporate and Retail	Observed default rates	Internal default rates
		Institution	RiskCalc	Moody's RiskCalc model
	Securities	Sovereign	S&P Transition Study	S&P's public PD matrices
		Corporate and Institution	S&P Transition Study	S&P's public PD matrices
BCC Lease	Loans	All	Observed default rates	Internal default rates
		Institution	RiskCalc	Moody's RiskCalc model
BCC Factoring	Loans	Corporate and Retail	Transition matrices	AlvinRating model
		Institution	RiskCalc	Moody's RiskCalc model
BCC CreCo	Loans	Retail	Observed default rates	Internal default rates

Loss Given Default (LGD)

LGD is estimated differently for the various Group companies. For the Iccrea Banca, Banca Sviluppo, BCC Lease,[3] BCC Factoring and BCC Credito al Consumo loan books, LGD is estimated by grouping exposures with a variable degree of granularity (by product, type of counterparty or overall company portfolio) observing the ratio between specific provisions and the total non-performing exposure and applying the danger-rate matrix for each uniform cluster of exposures.[4]

The steps in the estimation are as follows:

- break down portfolio by uniform clusters if appropriate;
- calculation of coverage ratio for each product and cluster by loan status (impaired past due, unlikely to pay, non-performing), stating, on the basis of the non-performing portfolio at the reporting date, the amount of specific writedowns as a percentage of the total gross exposure;
- calculation, for the entire portfolio, of the probability of transition from "performing" to another status on the basis of data at t-1 and t;
- calculation of the LGD, to be applied to performing positions, as the weighted coverage ratio for the associated probability of transition:

$$LGD_{Bonis=}\%\,copertura_{\,Scaduto\ deteriorato} * Prob(Bonis \rightarrow SD) + \%copertura_{Unlikely\ to\ pay} * Prob(Bonis \rightarrow UP) + \%copertura_{Sofferenza} * Prob(Bonis \rightarrow Soff)$$

[3] With the exception of BCC Lease for finance leases, operating leases and mutual bank equipment leases, for which LGD is calculated on the basis of available loss register reports.
[4] With the exception of the Banca Sviluppo and BCC Factoring portfolios.

Iccrea BancaImpresa estimated LGD using a workout approach, which calculates loss rates actually observed on bad debts (LGD bad debts) by computing flows generated following the activation of recovery activities, discounted appropriately to take account of the duration and uncertainty of the debt recovery process.

For the securities portfolio, the same LGD was used for exposures in stage 1 and those in stage 2. Specifically, the LGD used was equal to 45%.

Exposure At Default (EAD)

The Group differentiates the approach used to estimated EAD by loan portfolio on the basis of product type and stage of the exposure, as follows.

For "*Amortizing*" exposures:

the EAD for stage 1 is equal to the residual debt at the reporting date;
the EAD for stage 2 is calculated by taking the residual debt drawn from management data in repayment plans for each exposure, then applying a transformation coefficient differentiated by residual life. The estimation involves the following steps:

- clustering of exposures by residual life (years);
- application of the following formula to the individual exposure:

$$EAD_{Lifetime} = \sum_{t=0}^{T} \left(EADt \frac{PD\ Marginale_t}{PD\ Cumulata_T} \right) * \frac{1}{(1+EIR)^t}$$

  where EIR is equal to the TIR of the exposure;
- calculate, for each exposure, the following transformation coefficient: $\frac{\mathrm{EAD_{Lifetime}}}{\mathrm{EAD_0}}$;
- calculate the average transformation coefficient differentiated by years of residual life.

For "Revolving" loans and "Guarantee" exposures, the EAD for stage 1 and stage 2 is equal to the residual debt at the reporting date.

For "Margin" positions, the EAD for stage 1 and stage 2 is equal to the residual debt at the reporting date with application of the regulatory CCF.

For the securities portfolio, the EAD associated with each securities issue is determined, where available, the gross value of the exposure (tel quel value) at the reporting date. If this is not available, the carrying amount of the issue at the same date is used as proxy for the EAD.

For exposures in securities with amortization plans, the EAD for stage 1 is calculated as the residual debt at the reporting date, while the EAD for stage 2 is calculated on the basis of the residual debt drawn from the annual maturities over the residual life of the exposure, discounted and weighted appropriately to take account of the estimated increase in PDs over the residual life of the exposure (the approach for amortizing exposures in stage 2).

Exposures to the Clearing and Guarantee Fund, the exposure to the central bank, pooling deposits, overcollateralized repurchase transactions (including those under the GMRA), intercompany exposures and those to mutual banks participating in the MBG are automatically allocated to stage 1 and assigned a zero ECL in impairment testing. Exposures to employees of companies of the Group and exposures to mutual banks that are not participating in the MBG are allocated directly to stage 1 and follow the staging method developed by the Group.

Forward looking conditioning of risk parameters

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

In order to obtain a PD that reflects future macroeconomic conditions, we estimate "satellite models" differentiated by counterparty type that "explain" the relationship linking default rates to a set of "explanatory" macroeconomic variables. The forecasts for the target variable - the default rate - are obtained by defining, on the basis of two separate scenarios, the future realizable values of each macroeconomic variable with the

application of the coefficients of the estimated regression. Using these estimates, we construct multipliers as the ratio between the default rate forecasts obtained by calendar year and the last observed value of the target variable, differentiated by scenario.

In order to make the LGD forward looking, the Iccrea Banking Group estimates a regression model that "explains" the relationship linking a variable approximating loss given systemic default (for example, gross non-performing exposures for the system as a whole) to a set of "explanatory" macroeconomic variables, using the same approach adopted for the conditioning of PD for the estimation of the multipliers.

In order to use those multipliers, the Iccrea Banking Group associates the probabilities of occurrence in a judgmental manner to the two scenarios, which are used as weights in calculating the average multiplier for each calendar year. More specifically, we consider three calendar years following the estimation date of the satellite models (the reference date), while for subsequent years, the multiplier is equal to the arithmetic mean of the multipliers in the three years.

Determination of residual life of financial assets

The residual life of financial assets, given in years, is determined as the difference between the reporting date and the maturity date of the financial asset. The maximum residual life is capped at 30 years. If the residual life is less than one year or the maturity date is unknown, the residual life is assumed to be one year.

Credit Risk: Comparison of loss allowances under IFRS 9 and IAS 39

The following table reconciles the closing balance at December 31, 2017 of impairment provisions for financial assets under IAS 39 and provisions for payment obligations and guarantees under IAS 37 with the balance of loss allowances at January 1, 2018, as determined in accordance with IFRS 9.

TABLE 1.3

Measurement categories (€/million)	31/12/2017 - Impairment provision under IAS 39/IAS 37	Reclassification impact	IFRS 9 FTA adjustments	1/1/2018 - Total value adjustment
Loans and Receivables (IAS 39) / Financial assets measured at amortized cost (IFRS 9)	**1,288.8**	**(0.3)**	**86.9**	**1,375.3**
due from banks	-	-	3.4	3.4
loans to customers	1,287.0	(0.3)	81.4	1,368.2
debt securities	1.7	-	2.0	3.8
Financial assets available for sale (IAS 39) / Financial assets measured at fair value through other comprehensive income (IFRS 9)	-	-	0.8	0.8
Total on-balance-sheet exposures	**1,288.8**	**(0.3)**	**87.7**	**1,376.1**
Off-balance-sheet commitments and guarantees	**10.1**	**-**	**12.2**	**22.4**
commitments to disburse funds	-	-	0.2	0.2
financial guarantees granted	10.1	-	12.1	22.1
Total on- and off-balance-sheet exposures	**1,298.9**	**(0.3)**	**99.9**	**1,398.5**

Credit quality

The table compares IAS 39/IAS 37 impairment provisions at December 31, 2017 and the provision post-IFRS 9, broken down by risk stage.

TABLE 1.4

(€/million)	IAS 39 / IAS 37		IFRS 9 Total value adjustments			
	Collective impairment provision	Specific impairment provision	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortized cost	94.0	1,194.7	49.6	49.6	1,276.1	1,375.3
due from banks	-	-	2.4	1.0	-	3.4
loans to customers	94.0	1,194.7	47.1	46.7	1,274.3	1,368.2
debt securities	-	-	0.1	1.9	1.7	3.8
Financial assets measured at fair value through other comprehensive income	-	-	0.4	0.4	-	0.8
Total on-balance-sheet exposures	**94.0**	**1,194.7**	**50.0**	**50.0**	**1,276.1**	**1,376.1**
Off-balance-sheet commitments and guarantees	9.5	0.6	7.6	14.2	0.6	22.4
Total on- and off-balance-sheet exposures	**103.6**	**1,195.3**	**57.6**	**64.2**	**1,276.7**	**1,398.5**

Reconciliation statements and explanatory notes

The following tables contain a reconciliation of the separate balance sheet as reported in the 2017 financial statements and the separate balance sheet modified in accordance with the classification criteria introduced with IFRS 9. The account balances determined in accordance with IAS 39 (balances at December 31, 2017) are mapped to the new IFRS 9 category, taking sole account of the new classification criteria without application of new measurement criteria, leaving unaltered total assets and liabilities under IFRS 9 from the total assets and liabilities measures in accordance with IAS 39.

TABLE 1.5

IFRS9 schedule - ASSETS (€/millions) / IAS39 schedule - ASSETS (€/millions)	10. Cash and cash equivalents	20. Financial assets measured at fair value through profit or loss			30. Financial assets measured at fair value through other comprehensive income	40. Financial assets measured at amortized cost		50. Hedging derivatives	60. Value adjustments of financial assets hedged generically (+/-)	70. Equity investments	90. Property and equipment	100. Intangible assets	110. Tax assets		120. Non-current assets and disposal groups held for sale	130. Other assets	31/12/2017 IAS 39
		a) financial assets held for trading	b) financial assets designated as at fair value	c) other financial assets mandatorily measured at fair value		a) due from banks	b) loans to customers						a) current	b) deferred			
10. Cash and cash equivalents	110.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	110.6
20. Financial assets held for trading	-	297.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	297.1
30. Financial assets at fair value through profit or loss	-	-	-	15.6	-	-	-	-	-	-	-	-	-	-	-	-	15.6
40. Financial assets available for sale	-	-	-	84.8	2,804.5	-	229.2	-	-	-	-	-	-	-	-	-	3,118.5
50. Financial assets held to maturity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
60. Due from banks	-	-	-	-	-	17,875.8	-	-	-	-	-	-	-	-	-	-	17,875.8
70. Loans to customers	-	-	-	87.5	-	-	14,769.4	-	-	-	-	-	-	-	-	-	14,856.9
80. Hedging derivatives	-	-	-	-	-	-	-	6.7	-	-	-	-	-	-	-	-	6.7
90. Value adjustments of financial assets hedged generically (+/-)	-	-	-	-	-	-	-	-	0.0	-	-	-	-	-	-	-	0.0
100. Equity investments	-	-	-	-	-	-	-	-	-	111.7	-	-	-	-	-	-	111.7
120. Property and equipment	-	-	-	-	-	-	-	-	-	-	734.0	-	-	-	-	-	734.0
130. Intangible assets	-	-	-	-	-	-	-	-	-	-	-	49.4	-	-	-	-	49.4
140. Tax assets	-	-	-	-	-	-	-	-	-	-	-	-	106.2	212.1	-	-	-
a) current	-	-	-	-	-	-	-	-	-	-	-	-	106.2	-	-	-	106.2
b) deferred	-	-	-	-	-	-	-	-	-	-	-	-	-	212.1	-	-	212.1
150. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	220.3	-	220.3
160. Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	412.6	412.6
31/12/2017 IAS 39 reclassified	**110.6**	**297.1**	**-**	**187.9**	**2,804.5**	**17,875.8**	**14,998.6**	**6.7**	**0.0**	**111.7**	**734.0**	**49.4**	**106.2**	**212.1**	**220.3**	**412.6**	**38,127.5**

TABLE 1.6

IFRS9 schedule - LIABILITIES / IAS 39 schedule - LIABILITIES (€/millions)	10. Financial liabilities measured at amortized cost			20. Financial liabilities held for trading	30. Financial liabilities designated as at fair va	40. Hedging derivatives	50. Value adjustments of financial liabilities hedged generically	60. Tax liabilities		70. Liabilities associated with assets held for s	80. Other liabilities	90. Employee termination benefits	100. Provisions for risks and charges			120. Valuation reserves	130. Redeemable shares	140. Capital instruments	150. Reserves	160. Share premium account	170. Share capital	180. Treasury shares	190. Non-controlling interests (+/-)	200. Net profit (loss) for the period (+/-)	31/12/2017 IAS 39
	a) due to banks	b) due to customers	c) securities issued					a) current	b) deferred				a) commitments and guarantees issued	b) post-employment benefits	c) other										
10. Due to banks	19,235.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19,235.1
20. Due to customers	-	10,068.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,068.9
30. Securities issued	-	-	5,688.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,688.9
40. Financial liabilities held for trading	-	-	-	356.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	356.5
50. Financial liabilities at fair value through profit or loss	-	-	-	-	0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.5
60. Hedging derivatives	-	-	-	-	-	56.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	56.4
70. Value adjustments of financial liabilities hedged generically	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
80. Tax liabilities	-	-	-	-	-	-	-	1.3	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.3
a) current	-	-	-	-	-	-	-	1.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.3
b) deferred	-	-	-	-	-	-	-	-	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4.0
90. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-	-	282.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	282.0
100. Other liabilities	-	-	-	-	-	-	-	-	-	-	658.2	-	10.1	-	-	-	-	-	-	-	-	-	-	-	668.3
110. Employee termination benefits	-	-	-	-	-	-	-	-	-	-	-	25.9	-	-	-	-	-	-	-	-	-	-	-	-	25.9
120. Provisions for risks and charges:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	63.5	-	-	-	-	-	-	-	-	-	63.5
a) post-employment benefits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	63.5	-	-	-	-	-	-	-	-	-	63.5
140. Valuation reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	73.6	-	-	-	-	-	-	-	-	73.6
150. Redeemable shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
160. Capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
170. Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	383.0	-	-	-	-	-	383.0
180. Share premium account	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4.7	-	-	-	-	4.7
190. Share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,151.0	-	-	-	1,151.0
200. Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(30.8)	-	-	(30.8)
210. Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	65.4	-	65.4
220. Net profit (loss) for the period (+/-)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29.4	29.4
31/12/2017 IAS 39 reclassified	**19,235.1**	**10,068.9**	**5,688.9**	**356.5**	**0.5**	**56.4**	**-**	**1.3**	**4.0**	**282.0**	**658.2**	**25.9**	**10.1**	**-**	**63.5**	**73.6**	**-**	**-**	**383.0**	**4.7**	**1,151.0**	**(30.8)**	**65.4**	**29.4**	**38,127.5**

IFRS 9 impact on opening balance sheet and shareholders' equity

The following tables report the impact of the introduction of the new standard on each of the items provided for in the 5th update of Circular 262/2005. More specifically, the table breaks down the effects of IFRS 9 into those generated by the new classification and measurement rules, by the new model for calculating impairment and by tax regulations.

TABLE 1.7

	Circular 262/2005 5th update- ASSETS (€/million)	31/12/2017 IAS 39 reclassified	Classification and measurement	Impairment	FTA tax effects	1/1/2018 IFRS 9
10.	Cash and cash equivalents	110.6	-	-	-	110.6
20.	Financial assets measured at fair value through profit or loss	485.0	(1.0)	-	-	484.0
	a) financial assets held for trading	297.1	(1.1)	-	-	296.0
	b) financial assets designated at fair value	-	-	-	-	-
	c) other financial assets mandatorily measured at fair value	187.9	0.1	-	-	188.0
30.	Financial assets measured at fair value through other comprehensive income	2,804.5	-	-	-	2,804.5
40.	Financial assets measured at amortized cost	32,874.3	(0.9)	(86.8)	(0.4)	32,786.2
	a) due to banks	17,875.8	-	(3.4)	-	17,872.4
	b) loans to customers	14,998.6	(0.9)	(83.5)	(0.4)	14,913.8
50.	Hedging derivatives	6.7	-	-	-	6.7
60.	Value adjustments of financial assets hedged generically (+/-)	-	-	-	-	-
70.	Equity investments	111.7	-	-	-	111.7
80.	Plant and equipment	734.0	-	-	-	734.0
90.	Intangible assets	49.4	-	-	-	49.4
100.	Tax assets	318.3	(0.5)	-	3.3	321.1
	a) current	106.2	-	-	-	106.2
	b) deferred	212.1	(0.5)	-	3.3	214.9
110.	Non-current assets and disposal groups held for sale	220.3	-	-	-	220.3
120.	Other assets	412.6	-	-	-	412.6
	Total assets	**38,127.5**	**(2.4)**	**(86.9)**	**2.9**	**38,041.2**

TABLE 1.8

	Circular 262/2005 5th update- LIABILITIES (€/million)	31/12/2017 IAS 39 reclassified	Classification and measurement	Impairment	FTA tax effects	1/1/2018 IFRS 9
10.	Financial liabilities measured at amortized cost	34,992.8	-	-	-	34,992.8
	a) due to banks	19,235.1	-	-	-	19,235.1
	b) due to customers	10,068.9	-	-	-	10,068.9
	c) securities issued	5,688.9	-	-	-	5,688.9
20.	Financial liabilities held for trading	356.5	-	-	-	356.5
30.	Financial liabilities designated as at fair value	0.5	-	-	-	0.5
40.	Hedging derivatives	56.4	-	-	-	56.4
50.	Value adjustments of financial liabilities hedged generically	-	-	-	-	-
60.	Tax liabilities	5.3	(1.8)	-	-	3.6
	a) current	1.3	-	-	-	1.3
	b) deferred	4.0	(1.8)	-	-	2.2
70.	Liabilities associated with assets held for sale	282.0	-	-	-	282.0
80.	Other liabilities	658.2	(0.4)	-	-	657.8
90.	Employee termination benefits	25.9	-	-	-	25.9
100.	Provisions for risks and charges	73.6	-	12.2	-	85.8
	a) commitments and guarantees granted	10.1	-	12.2	-	22.4
	b) post-employment benefits and similar	-	-	-	-	-
	c) other provisions for risks and charges	63.5	-	-	-	63.5
120.	Valuation reserves	73.6	(14.6)	0.8	-	59.8
130.	Redeemable shares	-	-	-	-	-
140.	Equity instruments	-	-	-	-	-
150.	Reserves	383.0	14.4	(99.9)	2.9	300.4
160.	Share premium account	4.7	-	-	-	4.7
170.	Share capital	1,151.0	-	-	-	1,151.0
180.	Treasury shares	(30.8)	-	-	-	(30.8)
190.	Non-controlling interest (+/-)	65.4	-	-	-	65.4
200.	Net profit (loss) for the period (+/-)	29.4	-	-	-	29.4
	Total liabilities and shareholders' equity	**38,127.5**	**(2.4)**	**(86.9)**	**2.9**	**38,041.2**

Shareholders' equity: reconciliation between figures at December 31, 2017 (IAS 39) and January 1, 2018

The following table reports the impact on shareholders' equity of the introduction of IFRS 9, which totaled a negative €96.4 million.

Shareholders' equity at January 1, 2018 (under IFRS 9) amounted to €1,580 million, a decrease on shareholders' equity of €1,676 million at December 31, 2017 (under IAS 39).

The following reports the impact for each balance-sheet item of classification, measurement and impairment under the new IFRS 9, gross of tax effects.

TABLE 1.9

(€/million)	IFRS 9 transition effect
Shareholdings' equity IAS 39 (31/12/2017)	**1,676.3**
Item 20. Financial assets measured at fair value through profit or loss	**13.2**
Classification and measurement effect	(0.5)
Classification and measurement effect (Earnings reserve)	13.7
Item 30. Financial assets measured at fair value through comprehensive income	**(12.5)**
Classification and measurement effect	0.0
Classification and measurement effect (Valuation reserve)	(12.6)
Impairment effect (Earnings reserve)	(0.8)
Impairment effect (Valuation reserve)	0.8
Item 40. Financial assets measured at amortized cost	**(87.7)**
Classification and measurement effect	(0.9)
Impairment effect	(86.9)
- Stages 1 and 2	(5.4)
- Stage 3	(81.5)
Off-balance-sheet commitments and guarantees	**(12.2)**
Impairment effect	(12.2)
Tax effects	2.9
Total impact on shareholders' equity	**(96.4)**
Shareholders' equity IFRS 9 (1/1/2018)	**1,579.9**

Financial instruments: reclassification of assets subsequently measured at amortized cost or FVTOCI

As required under IFRS 7, paragraph 42 M, it is necessary to disclose the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortized cost and, in the case of financial assets, that have been reclassified out of fair value through profit or loss so that they are measured at fair value through other comprehensive income:

- the fair value of the financial assets or financial liabilities at the end of the reporting period;
- the fair value gain or loss that would have been recognized in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified.

The following table reports the reclassifications made. No reclassifications were made to FVTOCI and no liabilities were reclassified to measurement at amortized cost.

TABLE 1.10

Reclassification to measurement at amortized cost (assets)	(€/million
From financial assets available for sale (under IAS 39)	
Fair value at December 31, 2017	246.2
fair value gain or loss that would have been recognized in in other comprehensive income	(4.7)
From financial assets measured at fair value (under IAS 39)	-
Fair value at December 31,2017	-
fair value gain or loss that would have been recognized in in profit or loss	-
From financial assets held for trading (under IAS 39)	-
Fair value at December 31,2017	-
fair value gain or loss that would have been recognized in in profit or loss	-

IFRS 9 and differences with IAS 39

Please see the disclosures in the separate financial statements.

Transition to IFRS 15: Revenue from contracts with customers

IFRS 15 replaces IAS 18 "Revenue" and IAS 11 "Construction contracts", as well as IFRIC 13 "Customer loyalty programmes", IFRIC 15 "Agreements for the construction of real estate", IFRIC 18 "Transfers of assets from customers" and SIC 31 "Revenue – Barter transactions involving advertising services". It applies to all contracts with customers with the exception of lease contracts, insurance contracts and financial instruments that fall within the scope of other specific international accounting standards.

IFRS 15 provides for the recognition of revenue on the basis of the following five steps:

- identification of the contract with the customer;
- identification of the performance obligations;
- determination of the transaction price;
- allocation of the transaction price to performance obligations;
- recognition of revenue on the basis of satisfaction of the performance obligation ("at a point in time" or "over time").

The standard also introduces new rules for recognizing costs incurred in obtaining and performing a contract, allowing them to be recognized as an asset if the entity expects to recover them with the execution of the contract.

As regards the application of IFRS 15 as from January 1, 2018, the Group initiated a project to analyze the main categories of revenue from contracts with customers so as to estimate the impact of the introduction of the new accounting standard.

The analysis focused on contracts whose revenue from customers was recognized under "Fee and commission income" and, for services connected with current account transactions, under "Other operating income".

The analysis found that in general the accounting treatment of the main forms of revenue from contracts with customers is already in line with the provisions of the new standard and, accordingly, the transition to the IFRS 15 did not have a material impact on the accounts. Nevertheless, as required under the standard and in the absence of a quantitative impact, disclosure is provided on the nature, amount, timing and degree of uncertainty of revenue, as well as the cash flows from contracts with customers.

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, along with the report on operations and the performance and financial position of the Group. In compliance with Article 5 of Legislative Decree 38/2005, the financial statements use the euro as the reporting currency.

The financial statements are expressed in euros, while unless otherwise specified the figures in the explanatory notes and the report on operations are expressed in thousands of euros.

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

The financial statements and the accompanying notes have been prepared in accordance with Bank of Italy Circular no. 262/2005, as updated to incorporate changes that have been made to the IASs/IFRSs and to improve a number of the tables in the notes in order to better reflect the harmonized European supervisory disclosure model forms.

RISKS AND UNCERTAINTIES ASSOCIATED WITH THE USE OF ESTIMATES

In conformity with the IFRS, management is required to formulate assessments, estimates and assumptions that impact the application of accounting standards and the values of the assets, liabilities, costs and revenues recognized in the financial statements. The estimates and the associated assumptions are based on prior experience and other factors considered reasonable in the circumstances. They have been adopted in order to estimate the carrying amount of assets and liabilities whose value cannot easily be determined on the basis of other information.

Estimation processes were used to support the value of some of the largest items recognized in the financial statements at December 31, 2018, as provided for by the accounting standards and applicable legislation referred to earlier.

These processes are largely based on the estimation of the future recoverability of the carrying amounts in accordance with the rules established by applicable regulations. They were performed on the basis of consideration of the Bank as a going concern, i.e. excluding the possibility of the forced liquidation of the items being measured.

The estimation process supported the carrying amounts recognized at December 31, 2018. The valuation exercise proved to be especially complex in view of the persistent adverse macroeconomic and market conditions, characterized by volatility in key financial parameters used in the valuation and by the deterioration of credit quality.

The parameters and the other information used in verifying the carrying amounts were therefore substantially impacted by those factors, which could undergo rapid changes that cannot currently been foreseen, making it impossible to rule out consequent effects of the future values of those items.

The estimates and assumptions are reviewed regularly. Any changes made as a result of such reviews are recognized in the period in which the review was conducted where such review involved only that period. Where the review affects both current and future periods, any changes are recognized in the period in which the review was conducted and in the related future periods.

Content of the financial statements

BALANCE SHEET AND INCOME STATEMENT

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

STATEMENT OF COMPREHENSIVE INCOME

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

STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity shows the composition and movements of equity accounts during the reference period and the previous period, broken down by share capital (ordinary and savings shares), capital reserves, earning reserves, valuation reserves for assets or liabilities and the net profit (loss) for the period. The value of any treasury shares is deducted from shareholders' equity. No equity instruments other than ordinary shares have been issued.

STATEMENT OF CASH FLOWS

The statements of cash flows for the present 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.

NOTES TO THE FINANCIAL STATEMENTS

The explanatory notes to the financial statements include the information required by international accounting standards and the Bank of Italy Circular no. 262/2005 – 5th update of December 22, 2017.

To provide as accurate a picture as possible, the titles of sections pertaining to items for which no figures have been reported for either the present period or the previous period are also included.

Section 3 – Scope and methods of consolidation

The consolidated financial statements include the financial statements of Iccrea S.p.A. and the financial statements of its direct and indirect subsidiary companies. The scope of consolidation is defined on the basis of the provisions of IFRS 10, 11 and 12 and IAS 31.

Subsidiaries

The scope of consolidation is established in accordance with the provisions contained in IFRS 10 "Consolidated financial statements". Under the standard, the requirement of control is the basis for the consolidation for all types of entities and 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).

IFRS 10 establishes that, in order to have control, the investor must have the ability to direct the relevant activities of the entity, by virtue of a legal right or a mere state of fact, and must also be exposed to the variability of the returns deriving from that power.

The carrying amount of equity interests in companies either consolidated on a line-by-line basis, held by the Parent Company 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, in accordance with the consolidation method adopted.

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".

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". Changes in interests in a subsidiary that do not entail loss of control are recognized in equity.

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.

Controlling equity investments held for sale are consolidated on a line-by-line basis and reported separately in the financial statements as a disposal group valued as of the balance sheet date at the lower of carrying amount or fair value less costs to sell.

Associated companies

Associates are companies over which the Company exercises a significant influence and that is neither a subsidiary nor a joint venture. 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. Under the equity method, an investment in an associate is initially recognized at cost. 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.

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.

Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties exercise joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Under IFRS 11 joint arrangements are classified as either joint operations or joint ventures based upon the contractual rights and obligations held by the Group. A joint operation is a joint arrangement whereby the parties have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. At December 31, 2018 the Group had no interest in joint arrangements.

The table below reports the companies that fall within the scope of consolidation on a line-by-line basis.

1. Equity investments in subsidiaries

		Headquarters	Type of relationship (A)	Equity investment		% share of votes(B)
				Investor	% holding	
A.	Consolidated on a line-by-line basis					
1.	BCC Risparmio&Previdenza SGrpA	Milan	1	Iccrea Banca S.p.A.	75	75
2.	Iccrea BancaImpresa S.p.A.	Rome	1	Iccrea Banca S.p.A.	99.42	99.42
3.	BCC Factoring S.p.A.	Rome	1	Iccrea BancaImpresa S.p.A.	100	100
4.	BCC Gestione Crediti S.p.A.	Rome	1	Iccrea Banca S.p.A.	100	100
5.	BCC Solutions S.p.A.	Rome	1	Iccrea Banca S.p.A.	100	100
6.	BCC Beni Immobili S.r.l.	Rome	1	Iccrea Banca S.p.A.	100	100
7.	BCC Lease S.p.A.	Rome	1	Iccrea BancaImpresa S.p.A.	100	100
8.	BCC CreditoConsumo S.p.A.	Rome	1	Iccrea Banca S.p.A.	96	96
9.	Banca Sviluppo S.p.A.	Rome	1	Iccrea Banca S.p.A.	68.07	68.07
10.	Banca Mediocredito del F.V.G. SpA	Udine	1	Iccrea Banca S.p.A.	26.84	26.84
			1	Iccrea BancaImpresa S.p.A.	24.71	24.71
11.	BCC Retail Scarl	Milan	1	Iccrea Banca S.p.A.	39.3	39.3
				Iccrea BancaImpresa S.p.A.	5.21	5.21
				BCC Risparmio&Previdenza SGrpA	12.81	12.81
				BCC CreditoConsumo S.p.A.	3	3
				Banca Sviluppo S.p.A.	3.23	3.23
12.	BCC Sistemi Informatici S.p.A.	Milan	1	Iccrea Banca S.p.A.	98.53	98.53
				Iccrea BancaImpresa S.p.A.	0.003	0.003
				Banca Sviluppo S.p.A.	0.003	0.003
13.	FDR Gestione Crediti S.p.A.	Rome	1	BCC Gestione Crediti S.p.A.	100	100
14.	Fondo Securis Real Estate	Rome	4	Iccrea Banca S.p.A.	56.66	56.66
				Iccrea BancaImpresa S.p.A.	21.51	21.51
15.	Fondo Securis Real Estate II	Rome	4	Iccrea Banca S.p.A.	84.78	84.78
16.	Fondo Securis Real Estate III	Rome	4	Iccrea BancaImpresa S.p.A.	19.92	19.92
				Iccrea Banca S.p.A.	67.25	67.25
17.	Securfondo	Rome	4	Iccrea Banca S.p.A.	54.39	54.39
18.	Ventis Srl	Rome	1	Iccrea Banca S.p.A.	95	95
19.	Lucrezia Securitisation S.r.l.	Rome	4	Iccrea Banca S.p.A.	0	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..
For the vehicle Lucrezia Securitization S.r.l., the "Lucrezia Comparto 4" securitization has been consolidated owing to the substantive control of the cash flows associated with the operation.

2. Assessment and significant assumptions in determining the scope of consolidation

Subsidiaries are entities in which the Group holds direct or indirect control. Control over an entity is demonstrated by the Group's ability to exercise the power to influence the variable returns to which the Group is exposed by virtue of such relationship.

In order to verify whether control exists, the Group considers the following factors:

- the purpose and the structure of the investee, in order to identify the entity's objectives, the activities that give rise to its returns and such activities are governed;
- power, in order to determine whether the Group has contractual rights to direct the relevant activities;
- the exposure with respect to the investee, in order to determine whether the Group has an involvement with the investee whose returns vary depending on the performance of the investee.

Where the relevant activities are directed through voting rights, the following factors provide evidence of control:

- it holds, directly or indirectly through its subsidiaries, more than half of the voting rights in an entity, unless it can be clearly demonstrated that such ownership does not constitute control;
- it holds less than half, or a smaller share, of the voting rights exercisable in the shareholders' meeting and has the practical ability to direct the relevant activities unilaterally:
  - it controls more than half of the voting rights by virtue of an agreement with other investors;
  - it has the power to determine the financial and operating policies of the entity under a provision of the bylaws or a contract;
  - it has the power to appoint or remove the majority of the members of the board of directors or equivalent governing body, and that board or body manages the entity;
  - the power to cast the majority of the voting rights at meetings of the board of directors or equivalent governing body, and that board or body manages the entity.

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

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

The consolidated real estate investment funds are:

- Securfondo;
- Fondo Securis Real Estate;
- Fondo Securis Real Estate II;
- Fondo Securis Real Estate III.

In view of their business model (real estate) and the composition of their assets, essentially composed of properties measured at market value, the funds have been consolidated, recognizing their assets under property and equipment in the consolidated financial statements, recognizing any increases/decreases under "*Net gain/loss from valuation at fair value of property and equipment*" in the income statement.

Structured entities -securitizations

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

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

The fourth securitization managed by the vehicle Lucrezia Securitisation S.r.l. (the Lucrezia 4 operation) has been consolidated since 2017, for which Iccrea Banca has subscribed all of the notes issued by the vehicle in respect of a securitization originated by mutual banks (BCC Romagnolo, BCC Annia, BCC Patavina, BCC Agrobresciano).

The segregated assets of the Iccrea Sme Cart 2016 Srl operation originated by Iccrea BancaImpresa has been consolidated through consolidation of Iccrea BancaImpresa, which has not derecognized the underlying loans.

3. Investments in subsidiaries with significant non-controlling interests

Non-controlling interests, voting rights of non-controlling interests and dividends distributed to non-controlling interests

Subsidiaries	Non-controlling interests	Dividends distributed to non-controlling interests
Banca Mediocredito del F.V.G. SpA	48.45%	-
Banca Sviluppo SpA	31.93%	-
BCC Risparmio & Previdenza SGrpA	25%	4,505
BCC Retail Scarl	36.45%	-

Investments in subsidiaries with significant non-controlling interests: accounting information

	Total assets	Cash and cash equivalents	Financial assets	Property 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	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	1,130,289	3	1,064,978	11,444	936,102	100,385	10,297	14,692	(15,392)	2,935	2,442	-	2,442	-	2,442
2. Banca Sviluppo SpA	1,415,169	10,687	1,206,893	49,473	1,186,006	121,646	33,044	42,056	(51,213)	(1,705)	5,147	-	5,147	104	5,251
3. BCC Risparmio & Previdenza SGrpA	71,254	2	61,871	5,474	24,429	34,336	-	35,209	(22,695)	12,514	8,529	-	8,529	-	8,529
4. BCC Retail Scarl	3,357	1	2,739	32	-	933	6	6	215	221	103	-	103	-	103

4. Significant restrictions

There are no significant restrictions as envisaged under IFRS 12, paragraph 13, applicable to the banks and companies that form the area of consolidation of the Group.

5. Other information

The financial statements used for line-by-line consolidation are those at December 31, 2017, as approved by the competent bodies of the consolidated companies, adjusted where necessary to adapt them to the uniform Group accounting policies.

Subsidiaries whose annual financial statements have not been drawn up on the basis of the international accounting standards (IAS-IFRS) prepare a specific reporting package using such standards to permit the Parent Company to perform the consolidation. This reporting package is approved by the boards of directors of the companies.

Section 4 - Events subsequent to the reporting date

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

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

Section 5 - Other information

CONSOLIDATED TAX MECHANISM OPTION

Iccrea Banca SpA and all the Group companies adopt 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.

APPLICATION OF IFRS 16 AS FROM JANUARY 1, 2019

With Regulation 2017/1986 the European Union endorsed IFRS 16 – Leases, which significantly modified the accounting treatment of leases, replacing the previous rules contained in IAS 17 – Leasing, IFRIC 4 - Determining whether an arrangement contains a lease, and SIC 15 – Operating leases – Incentives, SIC 27 – Evaluating the substance of transactions in the legal form of a lease. The application of the new standard will be mandatory as from annual reporting periods beginning on or after January 1, 2019.

As noted earlier, the new standard introduces a definition of a lease that does not depend on its contractual form (finance lease, operating lease, rental, hire contract, etc.), based on two main features: (i) the existence of an identified asset; (ii) the contractual right to (exclusive) control of the asset by the lessee. The standard then establishes – treating finance and operating leases in the same manner – the principles for the recognition, measurement and reporting of leases, as well as the additional disclosures to be provided in the financial statements of the lessor and the lessee.

From the lessee's perspective, the changes in the accounting treatment and presentation of leases, rental contracts and similar arrangements are significant.

The new standard requires lessees to:

- recognize in their balance sheets (i) a right of use asset that is subsequently depreciated; and (ii) a lease liability equal to the present value of the contractual cash flows;

- to break down in their income statements the overall cost represented by lease payments for assets held under operating leases into cost items representing the depreciation charge for the assets and interest expense on the lease liability, thereby modifying gross income and operating expenses and the allocating the overall cost of the transaction over the contractual term of the lease (owing to the recognition of the finance cost component of the contract).

From the lessor's perspective, the rules for accounting for lease set out in IAS 17 are substantially unchanged.

The standard permits application of one of the following two methods for the transition to the new rules:

- the full retrospective approach, i.e. full retrospective application to the previous year in compliance with IAS 8;
- the modified retrospective approach, i.e. retrospective application with recognition of the cumulative effect i reserves as from the date of initial application of the standard.

Where the second option is elected, IFRS 16 is applied retrospectively only to contracts that are still in force at the date of initial application (January 1, 2019).

In view of the foregoing, the Iccrea Group, in close connection with the projects coordinated by the future parent company, has:

- elected the modified retrospective approach for the purposes of the transition, which does not require restatement of the comparative figures for 2018;
- analyzed the main types of contract that could be affected by the change;
- produced an initial estimate of the potential impact of the entry into force of the new standard, analyzing the information and data drawn from the affected contracts.

The assessment found that the main categories of asset affected by the provisions of the new standard are represented by leased buildings (notably the premises occupied by branches and ATMs), the rental of printers and other office equipment, personal computers, servers, smartphones/tablets, company cars and other vehicles and advanced ATMs.

In producing the initial impact assessment for the new standard, the Iccrea Group, in line with the guidance provided by the future parent company for the transition, has:

- retrospectively applied the standard, recognizing the cumulative effect of initial application at the date of initial application in compliance with paragraph C5 b) of IFRS 16 (the cumulative catch-up approach);
- recognized a right-of-use asset equal to the liability calculated as the present value of contractual cash flows;
- applied the following simplifications and practical expedients governed by the standard:
  - the exemption allowed for short-term contracts;
  - the exemption allowed for low-value contracts, setting a threshold of €5,000 per asset (value of the asset when new);
  - the exemption from IFRS 16 of leases of intangible assets other than those already excluded from the scope of application under paragraph 3 of the standard;
- treated the VAT component as an expense for the period;
- having verified the absence of implicit interest rates in the leases analyzed, for the purpose of the impact assessment quantified the IBR on the basis of the yield curve for covered bonds issued by Italian banks available from Bloomberg's BVAL service.

The assessment conducted by Iccrea Banca regarded lease contracts outstanding at December 2018 concerning:

- non-residential premises (e.g. branches, other offices, parking spaces)
- accommodations (e.g. apartments and other lodgings)
- vehicles

- IT equipment.

On the basis of the assumptions noted above and the exemptions that the Iccrea Group intends to apply, estimated right-of-use assets amount to about €6 million, with an impact on CET1 of about €0.5 million.

Under prudential regulations, as long as the Iccrea Group continues to hold a right-of-use asset, that asset *(i)* shall not be deducted from regulatory capital; *(ii)* shall be included in the value of exposures and in the denominator of the leverage ratio, with a weight of 100%.

Essentially, all other conditions being equal, the impact on the CET1 ratio of the Group is an increase in the denominator of the risk-based capital ratio, with a consequent reduction in the prudential capital ratios.

DISCLOSURE REQUIREMENTS UNDER THE RULES GOVERNING GOVERNMENT GRANTS

Law 124/2017 "Annual Competition Act" introduced (Art. 1, paragraphs 125-129) new provisions to ensure the transparency of the system of government grants. This measure also introduces disclosure obligations for those who receive public funds, providing that firms that have received grants, contributions, paid positions or economic benefits of any kind from government entities and similar organizations must – as from the 2018 financial year – report the sums received in the notes to the separate financial statements and the consolidated financial statements.

Pending the necessary interpretative clarifications of the law, Assonime Circular no. 5 of February 22, 2019 excludes from the disclosure requirements amounts received in the context of a firm's business activities that are typical of the operations of the recipient, as well as those benefitting all firms in general, such as tax and social security relief measures.

In order to simplify compliance with the disclosure requirements for firms, Article 3-quater, paragraph 2, of Decree Law 135/2018 allows firms to make reference to the National Register of State Aid.

On the basis of the above, at the reporting date, grants received by Group companies in 2018 for training activities are publicly available in the National Register of State Aid in the total amount of €413 thousand.

OTHER ISSUES

On March 28, 2019 the Board of Directors approved the consolidated financial statements of the Iccrea Group at December 31, 2018.

These consolidated financial statements have been audited by EY S.p.A.

A.2 – THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

This section sets out the accounting policies adopted in preparing the consolidated financial statements. The presentation of these accounting policies is broken down into stages – classification, recognition, measurement and derecognition - for the various asset and liability items. A description of the impact on profit or loss, where material, is provided for each stage.

Classification of financial assets

Financial assets are classified in the categories envisaged by IFRS 9 on the basis of both of the following elements:

- the business model used to manage the financial assets;
- the characteristics of the contractual financial flows of the financial asset (the "SPPI test" - *Solely Payments of Principal and Interest*).

If the business model is identified as hold to collect and the asset passes the SPPI test, the asset is recognized at amortized cost (AC).

If the business model is identified as hold to collect and sell and the asset passes the SPPI test, the asset is recognized at fair value through other comprehensive income (FVTOCI).

Finally, if the business model differs from those specified above or the asset does not pass the SPPI test in both of the two previous cases, the asset is recognized at fair value through profit or loss (FVTPL).

The business model

IFRS 9 identifies three different business models, which in turn reflect the ways in which financial assets are managed:

- "Hold to collect": this includes financial assets held with the objective of collecting contractual cash flows, retaining the financial instrument to maturity, with the exception of sales permitted under Group policies in line with IFRS 9;
- "Hold to collect and sell": this includes financial assets held with the aim of both collecting contractual cash flows over the life of the assets and the proceeds from the sale of those assets;
- "Other": this is a residual business model that includes financial instruments that cannot be classified in the previous categories, mainly represented by financial assets held for the purpose of generating cash flows through sale.

The business model does not depend on management's intentions for each individual instrument, but is determined at a higher level of aggregation. It is therefore possible for an entity to adopt more than one business model in managing financial instruments, including in respect of the same financial asset. For example, a tranche of a security could be purchased as part of a hold to collect business model, while a second tranche of the same instrument could be acquired both to collect the contractual cash flows and to sell it (HTCS). The assessment of which business model has been adopted is based on reasonably possible scenarios and not on scenarios that unlikely to occur (such as "worst case" or "stress case" scenarios), taking account, among other things, of the way in which:

- the performance of the business model and the assets at initial recognition are evaluated by key management personnel;
- risks that impact the performance of the business model and the assets involved in initial recognition are managed;
- the managers of the business are remunerated.

From an operational point of view, the Iccrea Group identifies the business models used to manage financial assets in accordance with its own judgment, as governed by internal rules. The assessment is not determined by a single factor or activity, but rather by considering all the relevant information available at the assessment date, ensuring

ongoing consistency with strategic and operational planning. In this sense, the business models of the Iccrea Group are identified on the basis of the granularity of the portfolio and the level of definition of the business, identifying key managers in accordance with the provisions of IAS 24, the nature of the products and type of underlying asset, the methods for evaluating performance and how these are reported to key management, the risks that impact the business accounting model and how these risks are managed, manager remuneration arrangements and the volume of sales.

With specific reference to the “hold to collect” model, according to IFRS 9, the sale of a debt instrument or a loan does not itself determine the business model. In fact, an HTC business model does not necessarily imply that an instrument will be held to maturity and the standard itself offers examples of sales deemed admissible within this model. Accordingly, the Group’s policies govern the types of sale considered consistent with this model, as in the case of sales made in response to an increase in the credit risk of the counterparty.

Specifically, sales that have occurred as a result of the following circumstances are considered consistent with this business model:

- in the case of an increase in credit risk and, more specifically:
    - on the basis of developments in CDS spreads with regard to the securities portfolio, taking due account of all reasonable and supportable information concerning forecasts, approved/authorized as appropriate;
    - on the basis of the staging indicator for the loan portfolio;
- in the case of sales that occur near the maturity date, i.e. when they approximate the cash flows that would be generated obtained by not selling the security;
- to manage structural liquidity in order to respond to extreme liquidity situations;
- when the sales are frequent but not material in value terms or are occasional even if material in value terms.

- Frequency and materiality thresholds have been specified to determine those aggregates:
- frequency is defined as the number of trading days considered in the period considered;
- materiality is defined as the percentage ratio between the nominal value of sales and the total nominal value of the instruments held in the portfolio during the period considered.

In cases where both frequency and materiality thresholds are exceeded, an assessment must be conducted to determine compliance with the requirements of the business model identified.

The SPPI test

In order to determine whether a financial asset can be measured at amortized cost or at fair value through other comprehensive income, it is important to determine whether the contractual cash flows of the asset are represented by solely payments of principal and interest on the principal amount outstanding. Such contractual flows are compatible with a basic lending arrangement, where the consideration for the time value of money and credit risk are typically the most significant elements of interest. However, interest may also include consideration for other risks, such as liquidity risk, and the costs associated with holding the financial asset. Furthermore, interest may also include a profit margin that is compatible with a basic lending arrangement. The principal amount is represented by the fair value of the financial asset at recognition. Contractual terms introducing exposure to risks or volatility in contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to inverse changes in interest rates, in equity prices or in commodity prices, do not give rise to contractual cash flows that are solely payments principal and interest on the principal amount outstanding. As determined by analysis conducted by the Iccrea 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 Iccrea Group has established guidelines for conducting the SPPI test, which represent the methodology adopted by the Group and reflected in its internal rules, so as to be able to represent the benchmark instrument for the performance of the testing by all the functions involved. In this context, with specific reference to the loan portfolio, these guidelines have been implemented in a tool within the Group's application systems that enables the benchmark test to be performed. With specific reference to the securities portfolio, on the other hand, the outcome of the test is provided by a leading sector info-provider, based on the guidelines and methods defined by the Group.

1 - Financial assets measured at fair value through profit or loss

CLASSIFICATION

This category includes financial assets, regardless of their technical form, which are not recognized under financial assets measured at fair value through other comprehensive income or financial assets measured at amortized cost. More specifically, the category comprises:

- financial assets held for trading, mainly represented by debt securities, equity instruments and the positive value of derivatives held for trading;
- financial assets designated as at fair value, i.e. financial assets so designated at the time of initial recognition and where the appropriate conditions are met. In particular, financial assets are designated as irrevocably measured at fair value through profit or loss if, and only if, doing so eliminates or significantly reduces an accounting mismatch;
- financial assets mandatorily measured at fair value, represented by financial assets that do not meet the requirements for measurement at amortized cost or at fair value through other comprehensive income. These comprise financial assets whose contractual terms do not provide for solely payments of principal and interest on the principal amount outstanding (i.e. that do not pass the SPPI test) or which are not held within the framework of a business model whose objective is the hold assets in order to collecting their contractual cash flows (the hold to collect business model) or to both collect the contractual cash flows and sell the financial assets (the hold to collect and sell business model).

The category therefore includes:

- debt securities and loans that are held as part of an “other” business model or that do not pass the SPPI test;
- equity instruments - that do not represent an interest in subsidiaries, associates or joint arrangements - held for trading or for which the option at the time of initial recognition to designate them as held at fair value through other comprehensive income was not exercised;
- units in collective investment undertakings and derivative instruments.

With regard to derivatives, this item also includes derivatives embedded in a financial liability or in a non-financial contract (the “host contract”). The combination of a host contract and the embedded derivative is a hybrid instrument. In this case the embedded derivative is separated from the host contract and recognized as a derivative if:

- the economic characteristics and risks of the embedded derivative are not closely related to the characteristics of the host;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.
-

Reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity’s senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the entity’s operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line.

The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk.

RECOGNITION

Debt and equity securities are initially recognized at the settlement date, while derivative contracts are recognized at the trade date. Financial assets are initially recognized at fair value, which is usually the amount paid or received. Where the price is different from the fair value, the financial asset is recognized at its fair value and the difference between the two amounts is recognized through profit or loss.

MEASUREMENT

Financial assets measured at fair value through profit or loss are measured at fair value following initial recognition. The effects of the application of this treatment are recognized through profit or loss.

For financial instruments listed on active markets, the fair value of financial assets or liabilities is determined on the basis of the official prices at the reporting date. For financial instruments that are not listed on active markets, including equity instruments, fair value is determined using valuation techniques and observable market data, such as: the price of listed instruments with similar features, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions.

With specific regard to equity instruments not listed on an active market, cost is used as an estimate for fair value only in rare cases in a limited number of circumstances, i.e. where cost represents the best estimate of fair value among a wide range of fair values, making cost the most significant value, or in cases in which the valuation techniques referred to above are not applicable.

DERECOGNITION

Financial assets measured at fair value through profit or loss are derecognized when the contractual rights to the cash flows expire, or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Finally, financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to third parties.

RECOGNITION OF INCOME COMPONENTS

The results of the measurement of financial assets held for trading are recognized through profit or loss. Dividends from equity instruments held for trading are recognized through profit or loss when the right to receive payment is established.

2 - Financial assets measured at fair value through other comprehensive income

CLASSIFICATION

This category includes financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

The category also includes capital instruments not held for trading for which the option was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income with no recycling to profit or loss of any gains or losses on disposal.

Specifically, the item includes:

- loans and debt securities held with a “hold to collect and sell” business model that pass the SPPI test;

- equity interests - that do not represent an interest in subsidiaries, associates or joint arrangements – not held for trading for which the option was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income. This includes equity investments intended to strengthen the Group's commercial presence and extend its reach into business areas in which it is not present. Similarly, this option is exercised for equity instruments that have been acquired for strategic and institutional purposes and are therefore held with no intention of selling them in the short term, representing instead a medium/long-term investment.

Reclassifications are only allowed following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity's senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line. The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at fair value through other comprehensive income to the category of financial assets measured at amortized cost, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. In the event of reclassification to financial assets measured at fair value through profit or loss, the cumulative gain or loss previously recognized in other comprehensive income is recognized though profit or loss.

RECOGNITION

Financial assets measured at fair value through other comprehensive income are initially recognized at the settlement date for debt or equity securities and at the disbursement date for loans.

Financial assets are initially recognized at fair value, which is generally the amount paid or received. Where the price is different from the fair value, the financial asset is recognized at its fair value and the difference between the two amounts is recognized through profit or loss. The initial recognition value includes direct transaction costs or revenue determinable at the recognition date, even if settled at a later time.

MEASUREMENT

Following initial recognition, financial assets measured at fair value through other comprehensive income, other than equity instruments, are measured at fair value, with the value corresponding to the amortized cost recognized in the income statement. Gains and losses from changes in the fair value are recognized in a special equity reserve until the asset is derecognized or they incur an impairment loss. Upon disposal or the recognition of an impairment loss, the cumulative gain or loss recognized in the equity reserve is reversed to profit or loss.

Equity instruments classified in this category are measured at fair value through other comprehensive income. Unlike other instruments classified here, however, those amounts are not subsequently transferred to profit or loss, even if the instruments are sold (no recycling). Accordingly, the only element associated with the equity instruments recognized through profit or loss is any associated dividends.

Fair value is determined using the criteria adopted for financial assets measured at fair value through profit or loss.

Financial assets measured at fair value through other comprehensive income represented by debt securities are assessed for any significant increase in credit risk (impairment) like assets measured at amortized cost, with the consequent recognition through profit or loss of a provision to cover expected loss. More specifically, if at the measurement date no significant increase in credit risk is found compared with the date of initial recognition (stage 1), the 12-month expected loss is recognized. Conversely, the lifetime expected loss is recognized for instruments whose credit risk has increased significantly since initial recognition (stage 2) and for impaired exposures (stage 3). Equity instruments do not undergo impairment testing.

DERECOGNITION

Financial assets measured at fair value through other comprehensive income are derecognized when the contractual rights to the cash flows expire/are extinguished or a disposal transfers all the risks and rewards

connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

RECOGNITION OF INCOME COMPONENTS

Gains and losses from changes in fair value are recognized in a specific equity reserve until the asset is derecognized. The value of interest computed using the effective interest rate method in application of the amortized cost method to assets measured at fair value through other comprehensive income is recognized through profit or loss. The equity reserve representing the cumulative changes in the fair value of equity instruments for which the option to irrevocably designate the instrument as at fair value through other comprehensive income was exercised is not reversed through profit or loss even when the asset is derecognized, while dividends in respect of such instruments are recognized through profit or loss.

In addition to recognizing impairment losses, the cumulative gains and losses recognized in other comprehensive income are recognized through the income statement under item 100 ("Gain (loss) on disposal of financial assets measured at fair value through other comprehensive income") at the time the asset is disposed of. Dividends on an equity instrument are recognized through profit or loss when the right to receive payment is established.

3 - Financial assets measured at amortized cost

CLASSIFICATION

This category comprises financial assets such as loans and debt securities held within a business model whose objective is achieved by collecting contractual cash flows on a financial asset ("hold to collect" business model) that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

Reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity's senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line. The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at amortized cost to the category of financial assets measured at fair value through other comprehensive income, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income. In the event of reclassification to financial assets measured at fair value through profit or loss, the gain or loss is recognized though profit or loss.

RECOGNITION

Financial assets are initially recognized at the settlement date for debt securities and at the disbursement date for loans. The initial amount recognized is equal to the amount disbursed or subscription price, including costs and revenue directly attributable to the transaction and determinable from the inception of the transaction, even if settled at a later time. The initially recognized amount does not include costs to be reimbursed by the debtor or that can be characterized as normal administrative overhead costs.

The initial recognition amount of loans disbursed at non-market conditions is equal to the fair value of the loans, determined using valuation techniques. The difference between the fair value and the amount disbursed or the subscription price is recognized through profit or loss.

Securities repurchase transactions are recognized as funding or lending transactions. Transactions involving a spot sale and a forward repurchase are recognized as payables in the amount received spot, while those involving a spot purchase and a forward sale are recognized as receivables in the amount paid spot.

Transactions with banks through correspondent accounts are recognized at the time of settlement and, therefore, these accounts are adjusted for all non-liquid items regarding bills and documents received or sent registered as 'subject to collection' or after actual collection.

Where, in the event of unusual circumstances, the assets are recognized in this category following reclassification form financial assets available for sale or from financial assets held for trading, the fair value of the assets at the date of reclassification shall be deemed to be the new amortized cost of the assets.

MEASUREMENT

Subsequent to initial recognition, financial assets are measured at amortized cost, using the effective interest rate method. The amortized cost equals the amount at which a financial asset is measured at initial recognition decreased by principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, minus any reduction (directly or through the use of a provision) due to impairment or non-recoverability.

In certain cases, a financial asset may be considered impaired at initial recognition because its credit risk is very high and, in the case of a purchase, is acquired at a large discount to its value at initial issue.

Amortized cost is not used for very-short-term loans, loans without a specified maturity or revocable loans, for which the impact of this method can be considered not material. These positions are measured at cost.

The measurement effects strictly consider the three different credit risk stages provided for in IFRS 9. The stages can be summarized as follows:

- stage 1 and 2 including performing financial assets;
- stage 3 including impaired financial assets.

With regard to the presentation of measurement effects in the accounts, value adjustments of this type of asset are recognized through profit or loss:

- at the time of initial recognition in an amount equal to 12-month expected credit losses;
- at the time of subsequent measurement of the asset where credit risk has not increased significantly since initial recognition in an amount equal to the change in the loss allowance for 12-month expected credit losses;
- at the time of subsequent measurement of the asset where credit risk has increased significantly since initial recognition in an amount equal to the loss allowance for lifetime expected credit losses;
- at the time of subsequent measurement of the asset where credit risk has increased significantly since initial recognition but the increase is no longer "significant" in an amount equal to the adjustment of the cumulative loss allowances to take account of the transition from lifetime expected credit losses to 12-month expected credit losses.

Financial assets recognized in this category are tested for impairment periodically and in any event at the close of each reporting period in order to determine any value adjustments to be recognized at the level of individual loans (or tranches of a security) as a function of the risk parameters represented by Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD), appropriately modeled to take account of the provisions of IFRS 9. The amount of the value adjustment recognized through profit or loss therefore takes into consideration so-called forward-looking information and possible alternative recovery scenarios. If, in addition to a significant increase in credit risk, financial assets show objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the assets (classified as "impaired") and the present value of estimated future cash flows, discounted at the original effective interest rate of the financial assets. The

assessment of the impairment loss and the consequent amount to be recognized in profit or loss is conducted on an individual basis or determined by creating groups of positions with a uniform risk profile.

Non-performing loans, unlikely-to-pay positions, restructured exposures and past-due or over-limit exposures are considered impaired in accordance with the applicable rules of the Bank of Italy, consistent with the IAS/IFRS and European supervisory regulations.

Measurement of the financial assets takes account of the best estimate of expected future cash flows in respect of principal and interest payments. Also taken into consideration is the realizable value of any guarantees excluding recovery costs, recovery times estimated based on contractual maturities, if any, and on reasonable estimates in the absence of contractual provisions, and the discount rate, which is the original effective interest rate. For impaired positions at the transition date, where determining this figure would be excessively burdensome, the Bank has adopted reasonable estimates, such as the average rate of loans for the year in which the loan was first classified as a bad debt, or the restructuring rate.

If the reasons for the impairment should cease to obtain following an event that occurred subsequent to the recognition of the impairment loss, a writeback is taken to profit or loss. The value of the financial asset after the writeback shall not exceed the amortized cost that the instrument would have had in the absence of the prior writedown. See the section on procedures for determining impairment for more information.

Where these financial assets are classified as measured at amortized cost or at fair value through other comprehensive income, they are initially classified as "purchased or originated credit impaired" ("POCI") and receive special treatment in terms of impairment, with the recognition of lifetime expected credit losses. In addition, the credit-adjusted effective interest rate is calculated for financial assets identified as POCIs at initial recognition. This rate reflects initial expected losses in estimating cash flows. In using amortized cost method, and the consequent calculation of interest, therefore, this credit-adjusted effective interest rate is therefore used.

DERECOGNITION

Financial assets measured at fair value through other comprehensive income are derecognized when the contractual rights to the cash flows expire/are extinguished or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to determine whether substantially all the risks and rewards have been transferred, the financial assets are derecognized if no form of control over it is retained. Conversely, where even a portion of control is retained, the asset continues to be recognized to the extent of the continuing involvement in the asset, measured by the exposure to changes in value of the transferred assets and changes in their cash flows.

Transferred financial assets are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

In certain cases, during the course of the life of financial assets, in particular loans, the terms of the contract may be modified from those in force at the time of initial recognition. In these circumstances, the modified terms must be analyzed to determine whether the original assets can continue to be recognized or must instead be derecognized, with the consequent recognition of new modified financial assets. In general, modifications of contractual terms lead to the derecognition of the financial asset and the recognition of a new asset when they are considered to be "substantial", with the recognition in profit or loss of any difference in carrying amounts. In conducting this assessment, qualitative judgments are called for. To this end, the assessment shall consider:

- the reasons for the modifications, distinguishing, for example, between renegotiations carried out for commercial reasons or in response to the counterparty's financial difficulties:
    - transactions carried out with performing counterparties for reasons other than debtor's financial difficulties, and therefore not related to a change in the creditworthiness of the borrower, are considered commercial renegotiations, which have the main objective of adjusting the cost of credit to market conditions. These cases include all renegotiations aimed at maintaining the commercial relationship with the client, and are therefore carried out with the aim of retaining the counterparty, who might otherwise turn to another bank. In this case, these modifications are considered substantial because if they did not occur, the customer could turn to another financial institution, thus causing the bank to lose future revenue;

  - transactions whose objective is to maximize the recoverable value of the loan are considered renegotiations due to financial difficulties of the counterparty, with the creditor therefore willing to accept a restructuring of the debt on terms potentially favorable to the debtor. In these circumstances, it is generally assumed that there has essentially been no extinguishment of the original cash flows that would therefore require derecognition of the original loan. Consequently, these types of renegotiation represent the majority of cases presented in the financial statements through "modification accounting", in which the difference between the carrying amount and the recalculated value of the financial asset is recognized in profit or loss by discounting the renegotiated or modified cash flows at the original effective interest rate;

- the presence of specific objective elements that substantially modify the characteristics and/or cash flows of the financial instrument, such that they would entail the derecognition of the instrument and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual terms that would cause the asset to fail the SPPI test or a change in the denomination of the currency of the instrument, as the entity would be exposed to a new risk.

RECOGNITION OF INCOME COMPONENTS

Gains or losses in respect of financial assets measured at amortized cost are recognized through profit or loss at the time the assets are derecognized or they incur an impairment loss. In addition, the value of interest computed using the effective interest rate method in application of the amortized cost method is recognized through profit or loss.

4 - Hedging

The Iccrea Banking Group has elected to exercise the option to continue to apply the rules provided for in IAS 39 governing hedge accounting (the "opt-out" option).

CLASSIFICATION

Risk hedging transactions are intended to neutralize the potential losses recognized on a given element or group of elements attributable to a given risk in the event that risk should actually be realized.

The types of hedges used are as follows:

- fair value hedges, which are intended to hedge the exposure to changes in the fair value (due to the various types of risk) of assets and liabilities or portions of assets and liabilities, groups of assets and liabilities, irrevocable commitments and portfolios of financial assets and liabilities as permitted under IAS 39 as endorsed by the European Commission;
- cash flow hedges are intended to hedge the exposure to changes in the future cash flows attributable to specific risks associated with items. This type of hedge is essentially used to stabilize interest flows on variable-rate funding to the degree that the latter finances fixed-rate lending. In some circumstances, analogous transactions are carried out for certain types of variable-rate lending;

Only instruments that involve a non-Group counterparty can be designated as hedging instruments.

The items "hedging derivatives" among assets and liabilities include the positive and negative values of derivatives that are part of effective hedging relationships.

RECOGNITION

Hedging derivatives and the hedged financial assets and liabilities are reported in accordance with hedge accounting rules. Where there is formal documentation of the relationship between the hedged item and the hedging instrument, a hedge is considered effective if, at inception and throughout its life, the changes in the fair value of the hedged item or the related expected cash flows are almost entirely offset by those of the hedging instrument.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Hedging derivatives are measured at fair value. More specifically:

- in the case of fair value hedges, the change in the fair value due to the risk on the hedged item is recognized in profit or loss, offset with the change in the fair value of the hedging instrument, which is also recognized in profit or loss; any difference between the two changes, which represents the partial ineffectiveness of the hedge, represents the net impact in profit or loss;
- in the case of cash flow hedges, changes in the fair value of the derivative are recognized through equity in the amount of the effective portion of the hedge. They are recognized through profit or loss only when the change in cash flows in respect of the hedge item actually occurs or if the hedge is ineffective.

The derivative is designated as a hedging instrument where there is formal documentation of the relationship between the hedged item and the hedging instrument and if it the hedge is effective at the moment of inception and throughout its life.

The effectiveness of a hedge depends on the extent to which changes in the fair value of the hedged item or the associated cash flows are offset by those of the hedging instrument. Accordingly, effectiveness is determined taking account of those changes, taking account of the intentions of the entity at the time the hedge is established.

A hedge is deemed effective when the changes in fair value (or in cash flows) of the hedging instrument nearly entirely offset (i.e. within a range of 80-125%) changes in the hedged instrument for the risk factor being hedged.

Effectiveness is measured at every reporting date through:

- prospective tests, which justify the use of hedging accounting, as they demonstrate the hedge’s expected effectiveness;
- retrospective tests, which indicate the level of effectiveness of the hedge achieved in the period under review, measuring the difference between actual results and theoretical results (perfect hedges).

If the tests do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the above criteria, the hedging derivative is reclassified as a trading instrument and the hedged financial instrument is measured using the criteria normally adopted for instruments of its category. Subsequent changes in fair value are recognized in the income statement. For cash flow hedges, if the hedged transaction is no longer expected to be carried out, the cumulative gain or loss recognized in the equity reserve is reversed through profit or loss.

5 - Equity investments

CLASSIFICATION

The item includes equity investments in associates and joint ventures.

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. Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IAS 39, as provided for financial instruments.

In determining the nature of the equity interest, only elements present at the level of the separate financial statements are considered (percentage holding, actual and potential voting rights, situations of de facto significant influence). Equity interests in subsidiaries, joint ventures and associates held for sale are reported separately in the financial statements as a disposal group and are measured at the lower of the carrying amount and the fair value excluding disposal costs.

RECOGNITION

Equity investments are initially recognized at cost at the settlement date including costs and revenue that are directly attributable to the transaction.

MEASUREMENT

Investments in associates or joint ventures are measured using the equity method (for more details, see Section 3 – Scope and methods of consolidation in Part A Accounting policies: A.1 – General information). Where there is evidence that the value of an equity investment may be impaired, its recoverable value is determined, taking account of both its market value and the present value of future cash flows. If this value is lower than the carrying amount, the difference is recognized through profit or loss as an impairment loss.

IMPAIRMENT TESTING OF EQUITY INVESTMENTS

As required by the IFRS, if there is evidence (triggers) of possible impairment, equity investments undergo impairment testing to determine whether there is objective evidence that the carrying amount of such assets is not fully recoverable and to determine the amount of any writedown.

Impairment indicators are essentially divided into two categories:

- qualitative indicators, such as the posting of losses or in any case a significant divergence with respect to budget targets or the objectives set out in the long-term plans announced to investors, the announcement/start of composition with creditors or restructuring plans, and the downgrading by more than two grades of the rating issued by a specialist agency;
- quantitative indicators consisting of a reduction in fair value below the carrying amount of over 30%, or for a period of more than 24 months, or a carrying amount for the equity investment in the separate financial statements greater than the carrying amount in the consolidated financial statements of the company's net assets and goodwill, or the distribution by the latter of a dividend greater than its comprehensive income. In the presence of evidence of impairment, the size of any writedown is determined on the basis of the difference between the carrying amount and the recoverable value, which is equal to the greater of fair value less costs to sell and the value in use.

DERECOGNITION

Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IFRS 9, as provided for financial instruments.

Equity investments are derecognized when the contractual rights to the cash flows from the assets expire or when substantially all the risks and rewards connected with ownership of the equity investment are transferred.

RECOGNITION OF INCOME COMPONENTS

Impairment losses on subsidiaries, associates and joint arrangements are recognized in profit or loss. If the reasons for the impairment should cease to obtain following an event that occurred subsequent to the recognition of the impairment loss, a writeback is taken to profit or loss. For more details on the equity method and income effects, see Section 3 – Scope and methods of consolidation in Part A Accounting policies: A.1 – General information.

6 - Property and equipment

CLASSIFICATION

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

RECOGNITION

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

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

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

This item also includes assets held under finance leases for which substantially all the risks and rewards of ownership have been assumed. These assets are initially recognized at a value equal to the lesser of the fair value and the present value of the minimum payments provided for under finance lease. This amount is subsequently subject to depreciation.

MEASUREMENT

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

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

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

DERECOGNITION

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

RECOGNITION OF INCOME COMPONENTS

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

7 - Intangible assets

CLASSIFICATION

Intangible assets are recognized as such if they are identifiable and are based on legal or contractual rights. They include application software.

RECOGNITION

Intangible assets are recognized at cost, adjusted for any incidental expenses, only if it is probable that the future economic benefits attributable to the asset will be realized and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognized in the income statement in the period in which it is incurred.

Intangible assets may be recognized in respect of goodwill arising from business combinations (purchases of business units). The goodwill recognized in business combinations that have occurred subsequent to January 1, 2004, is recognized in an amount equal to the positive difference between the fair value of the assets and liabilities acquired and the purchase price of the business combination, including ancillary costs, if that positive difference represents future economic benefits. The difference between the purchase price of the business combination and the fair value of the assets and liabilities acquired is recognized through profit or loss if it is negative or if it does not represent future economic benefits. Goodwill in respect of business combinations carried out prior to the date of transition to the IFRS are measured on a cost basis and represent the same value as that given using Italian GAAP.

MEASUREMENT

Intangible assets recognized at cost are amortized on a straight-line basis over the estimated remaining useful life of the asset, which for applications software does not exceed 5 years. Goodwill is not amortized and is tested for impairment at the reporting date.

DERECOGNITION

Intangible assets are derecognized upon disposal or when no future economic benefits are expected to be generated by the use or disposal of the asset.

RECOGNITION OF INCOME COMPONENTS

Amortization is recognized through profit or loss. Where there is evidence of possible impairment of the asset, the asset is tested for impairment. Any difference between its carrying amount and recoverable value is recognized in profit or loss. If the reasons for the impairment of intangible assets other than goodwill should cease to obtain, a writeback is recognized in the income statement. The value of the asset after the writeback shall not exceed the value that the asset would have had, net of amortization, in the absence of the prior writedowns for impairment.

8 – Non-current assets and liabilities and disposal groups held for sale

CLASSIFICATION

Non-current assets and disposal groups 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 the their sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The Group must be committed to the sale, which must be expected to be completed within one year of classification as held for sale.

RECOGNITION

Non-current assets and disposal groups held for sale are valued at the lower of their carrying amount and their fair value less costs to sell.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Following initial recognition in this category, the assets are measured at the lower of their carrying amount and their fair value less costs to sell, with the exception of assets that IFRS 5 requires be measured using the provisions of the relevant accounting standard (for example, financial assets within the scope of IFRS 9). If the assets held for sale can be depreciated, any such depreciation ceases upon classification to non-current assets held for sale. Non-current assets and disposal groups held for sale, as well as “discontinued operations”, and the associated liabilities are reported under specific items of assets (“Non-current assets and disposal groups held for sale”) and liabilities (“Liabilities associated with disposal groups held for sale”).

The results of the measurement, income, expenses and gains/losses upon disposal (net of any tax effect), of “discontinued operations” are reported in the income statement under “Profit (loss) after tax of disposal groups held for sale”.

DERECOGNITION

Non-current assets and disposal groups held for sale are derecognized upon disposal.

9 - Current and deferred taxation

CLASSIFICATION

Income taxes, which are calculated on the basis of national tax law, are accounted for as a cost on an accruals basis, in line with the recognition of the costs and revenue that gave rise to the tax liability. They therefore represent the balance of current taxes and deferred taxes in respect of income for the year. Current tax assets and liabilities report the net tax positions of the 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.

Taking account of the adoption of the national consolidated taxation mechanism by the Group, the tax positions of individual companies and those of other Group companies are managed separately for administrative purposes.

Deferred taxation is determined using the balance sheet liability method, taking account of the tax effect of temporary differences between the carrying amount of assets and liabilities and their value for tax purposes, which will give rise to taxable or deductible amounts in future periods. To that end, "taxable temporary differences" are those that in future periods will give rise to taxable amounts and "deductible temporary differences" are those that in future periods will give rise to deductible amounts.

Deferred tax is calculated by applying the tax rates established in applicable tax law, laws already issued or substantially in force at the reporting date that are expected to be applied during the year in which those assets are realized or those assets are extinguished to taxable temporary differences for which it is likely that a tax charge will be incurred and to deductible temporary differences for which it is reasonable certain there were be future taxable income at the time they become deductible (the probability test). Deferred taxes are recognized on all taxable temporary differences. With the following exceptions, deferred tax liabilities arise from the initial recognition of goodwill or 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 assets and liabilities in respect of the same tax and reversing in the same period are offset.

RECOGNITION AND MEASUREMENT

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

In cases where the deferred tax assets and liabilities regard transactions that directly impact equity with no effect on profit or loss (such as adjustments on first-time adoption of the IAS/IFRS, measurement of financial instruments measured at fair value through other comprehensive income or cash flow hedge derivatives), they are recognized in equity, under specific reserves where required (i.e. the valuation reserves).

The potential taxation in respect of items on which taxation has been suspended that will be "taxed in the event of any use" is recognized as a reduction in equity. Deferred taxes in respect of revaluations prompted by conversion of amounts to the euro that were directly allocated to a specific reserve under Article 21 of Legislative Decree 213/98 on a tax-suspended basis are recognized as a reduction of that reserve. The potential taxation in respect of items that will be taxed "only in the event of distribution" is not recognized as the amount of available reserves that have already been taxes is sufficient to conclude that no transactions will be carried out that would involve their taxation.

Deferred taxation in respect of companies participating in the consolidated taxation mechanism is recognized in their financial statements on an accruals basis in view of the fact that the consolidated taxation mechanism is limited to settlement of current tax positions.

The potential taxation of components of the equity of the consolidated companies is not recognized where the circumstances that would give rise to their taxation are not considered likely to arise, taking due consideration of the lasting nature of the investment.

The value of deferred tax assets and liabilities is reviewed periodically to take account of any changes in legislation or in tax rates.

RECOGNITION OF INCOME COMPONENTS

Income taxes are recognized through profit or loss, with the exception of those debited or credited directly to equity. Current income taxes are calculated based on taxable income for the period. Current tax payables and receivables are recognized at the value that payment to or recovery from the tax authorities is expected by applying current tax rates and regulations. Deferred income tax assets and liabilities are calculated, using expected tax rates, on the basis of temporary differences between the value attributed to the assets and liabilities in the financial statements and the corresponding values recognized for tax purposes..

10 - Provisions for risks and charges

Provisions for commitments and guarantees issued

This sub-item reports provisions estimated in respect of the credit risk on commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules for calculating expected losses in accordance with IFRS 9. In principle, these cases use the same methods for allocation to the three risk stages and the calculation of expected losses that are adopted for financial assets measured at amortized cost or at fair value through other comprehensive income.

This sub-item also includes are provisions for other types of commitments and guarantees issued that, on the basis of their characteristics, do not fall within the scope of application of impairment in accordance with IFRS 9.

Other provisions for risks and charges

RECOGNITION AND CLASSIFICATION

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

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

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

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

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

DERECOGNITION

Provisions are only used when the charges for which they were originally established are incurred. When the use of resources to fulfil the obligation is no longer deemed to be probable, the provision is reversed through profit or loss.

11 – Financial liabilities measured at amortized cost

CLASSIFICATION

Financial liabilities measured at amortized cost include amounts due to banks and customers and securities issued not held for trading in the short term, comprising all technical forms of interbank and customer funding and funding through certificates of deposit and outstanding bond issues, excluding any amounts repurchased.

RECOGNITION

The liabilities are initially recognized at fair value, which is normally equal to the amounts received or the issue price, plus or minus any additional costs or revenue directly attributable to the transaction that are not reimbursed by the creditor. Internal administrative costs are excluded.

Financial liabilities issued on non-market terms are recognized at estimated fair value and the difference with respect to the amount paid or the issue price is taken to the income statement.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Following initial recognition, these liabilities are measured at amortized cost using the effective interest rate method, excluding short-term liabilities, which are recognized in the amount received in keeping with the general principles of materiality and significance. See to the section on assets measured at amortized cost for information on the criteria for determining amortized cost.

In addition to cases of extinguishment and expiration, financial liabilities are derecognized when previously issued securities are repurchased. In this case, the difference between the carrying amount of the liability and the amount paid to repurchase it is recognized in the income statement. If the repurchased security is subsequently placed again on the market, this is treated as a new issue and is recognized at the new placement price, with no impact on the income statement.

DERECOGNITION

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

12 – Financial liabilities held for trading

CLASSIFICATION

The item reports the negative value of trading derivatives that are not part of hedging relationships as well as the negative value of embedded derivatives to be separated from hybrid instruments. Liabilities deriving from short positions in by securities trading activities are recognized under “Financial liabilities held for trading”.

RECOGNITION

Debt and equity securities representing financial liabilities are initially recognized at the settlement date, while derivative contracts are recognized at the date they are signed. The financial liabilities are initially recognized at fair value, which generally equals the amount received.

In cases in which the amount paid differs from the fair value, the financial liability is recognized at fair value, and the difference between the amount paid and the fair value is recognized through profit or loss.

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

MEASUREMENT

Subsequent to initial recognition, the financial liabilities are recognized at fair value. Refer to the previous section on measuring financial assets at fair value through profit or loss for information on determining fair value.

DERECOGNITION

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

RECOGNITION OF INCOME COMPONENTS

Gains and losses from the measurement of financial liabilities held for trading are recognized through the income statement.

13 – Financial liabilities designated as at fair value

CLASSIFICATION

This item reports financial liabilities designated as at fair value through profit or loss under the option permitted to entities in IFRS 9 (the "fair value option"). More specifically, financial liabilities are irrevocably designated as at fair value through profit or loss if, and only if, doing so eliminates or significantly reduces an accounting mismatch or if they contain an embedded derivative.

RECOGNITION

Financial liabilities at fair value through profit or loss are initially recognized at the issue date at their fair value, which normally corresponds to the price paid. If the price is different from the fair value, the financial liability is recognized at its fair value and the difference between the price and the fair value is recognized in the income statement.

MEASUREMENT

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

- if the change in fair value is attributable to a change in the credit risk of the liability, it shall be recognized in other comprehensive income (equity);
- all other changes in fair value shall be recognized through profit or loss.

The amounts recognized in equity are not subsequently reversed to profit or loss. Pursuant to IFRS 9, this accounting method shall not be applied if would create or enlarge an accounting mismatch in the income statement. In this case, the gains or losses related to the liability falling under this item shall be recognized through profit or loss. With regard to the criteria for determining fair value, please see the section on the measurement of financial liabilities held for trading.

DERECOGNITION

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

RECOGNITION OF INCOME COMPONENTS

The result of measurement is recognized through profit or loss.

14 – Foreign currency transactions

RECOGNITION

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

MEASUREMENT

At the reporting date, foreign currency items are measured as follows:

- monetary items are translated at the exchange rate prevailing at the reporting date;
- non-monetary items measured at historic cost are translated at the exchange rate prevailing at the transaction date;
- non-monetary items measured at fair value are translated using the exchange rate prevailing at the reporting date.

RECOGNITION OF INCOME COMPONENTS

Exchange rate differences in respect of monetary and non-monetary items measured at fair value are recognized through profit or loss under item 80 “Net gain (loss) on trading activities”. If the asset is classified as measured at fair value through other comprehensive income, exchange rate differences are allocated to valuation reserves.

Exchange rate differences resulting from the settlement of monetary items or from the translation of monetary items at exchange rates other than the initial translation rate, or the translation of previous financial statements, are recognized through profit or loss in the period in which they emerge.

When gains or losses relating to a non-monetary item are recognized in equity, the exchange rate difference for the item is also recognized in equity. Likewise, when a gain or less is recognized through profit or loss, the corresponding exchange rate difference is also recognized through profit or loss.

15 – Insurance assets and liabilities

This section has not been completed as there is no information to report.

16 – Other information

Employee termination benefits

Following the reform of supplementary pension schemes introduced by Legislative Decree 252 of December 5, 2005, changes were made to the way in which employee termination benefits are recognized. The portion of termination benefits accrued through December 31, 2006 is treated as a defined-benefit plan, since the company

is required under law to pay the employee an amount determined pursuant to Article 2120 of the Italian Civil Code. The change with respect to the situation prior to December 31, 2006 relates to the actuarial assumptions of the model, which must incorporate the rate of salary increases provided for by Article 2120 of the Civil Code (application of a rate equal to 1.5% plus 75% of the change in the ISTAT inflation index) and not that estimated by the company. As a result, the termination benefit provision at December 31, 2006 was measured using the new model, which no longer takes account of a number of variables such as the average annual rate of salary increases, pay grades based on seniority, and the percentage increase in salary due to promotion.

The portion of termination benefits accrued from January 1, 2007 allocated to a supplementary pension scheme or to the treasury fund managed by INPS (Italy's National Social Security Institute) are treated as a defined-contribution plan since the company's obligation towards the employee ceases upon transfer of the portions accrued to the fund.

Therefore, starting January 1, 2007, the 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.

The recognition of certain types of revenue has become a significant issue since the adoption, with effect from January 2018, of IFRS 15 - Revenue from contracts with customers, which was endorsed with the publication of Regulation no. 1905/2016. Subsequently, in 2017, Regulation 1987/2017 was approved, introducing changes

designed to clarify certain aspects and providing a number of operational simplifications of use during the transition phase.

The entry into force of the standard entailed the repeal of IAS 18 - Revenue and IAS 11 – Construction contracts, as well as the related interpretations.

The main new features are:

- the creation of a single framework for the recognition of revenue covering both the sale of goods and the provision of services;
- the adoption of a step approach;
- the introduction of a mechanism that enables the allocation of the total price of the transaction to the individual performance obligations (sale of goods and/or provision of services) included in the sale contract.

The standard introduces the following steps in the recognition of revenue:

- identification and analysis of the contract signed with the customer to identify the type of revenue. In some specific cases, multiple contracts may have to be combined and accounted for as a single contract;
- identification of the specific performance obligations in the contract. If the goods/services to be transferred are distinct, they qualify as performance obligations and are accounted for separately;
- determination of the transaction price, considering all the performance obligations in the contract. This price may be a fixed amount, but may sometimes include variable or non-monetary consideration;
- allocation of the transaction price to the performance obligations. The transaction price is allocated to the various performance obligations on the basis of the selling prices of each distinct good or service provided contractually. If it is impossible to determine the standalone selling price, it is necessary to estimate it. IFRS 15 specifies that the assessment must be carried out as from the start date of the contract (the inception date);
- recognition of revenue when the performance obligation is satisfied. Revenue is recognized following the satisfaction of the performance obligation to the customer, i.e. when the latter obtains control of the good or service. Some revenue is recognized at a point in time, while other is accrued over time. It is therefore necessary to identify the moment in which the performance obligation is satisfied. In the case of performance obligations satisfied over time, revenue is recognized over the reference period, selecting an appropriate method to measure the progress made towards complete satisfaction of the performance obligation.

Accruals and deferrals

Accruals and deferrals reporting costs and revenue accruing in the period on assets and liabilities are recognized as adjustments to the assets and liabilities to which they refer.

Expenditure for leasehold improvements

Expenses for refurbishments of buildings belonging to third parties that do not have an independent function or use are conventionally classified under “Other assets”; they are amortized over a period no greater than the term of the lease and the amortization charges are reported under other operating expenses.

DETERMINATION OF IMPAIRMENT

FINANCIAL ASSETS

At each reporting date, the Bank determines whether there is objective evidence that a financial asset or group of financial assets has incurred a significant increase in the related credit risk since initial recognition and requires the definition of a methodology for calculating the expected loss (ECL) and the related risk parameters necessary to calculate it, namely: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The staging methodology provides for the allocation each exposure/tranche to the three distinct stages on the basis of the following:

- stage 1: this includes instruments/tranches associated with performing loans/securities that, as at the date of analysis, do not show a significant increase in credit risk with respect to the date of disbursement/purchase. In this case, the 12-month expected loss is measured;
- stage 2: this includes instruments/tranches associated with performing loans/securities that, as at the date of analysis, show a significant increase in credit risk with respect to the date of disbursement/purchase. Regardless of the increase in credit risk with respect to the date of disbursement/purchase, satisfaction of two other conditions would also lead to classification in stage 2:
    - positions that at the reporting date have a probability of default in excess of a specified threshold;[5]
    - probation period: positions that at the reporting date are eligible for classification in stage 1 but have been classified in stage 2 at least once in the previous three months;[6] In this case, the lifetime expected loss is measured;
- stage 3: this includes all instruments/tranches associated with loans/securities in default, for which the loss is calculated as the difference between the contractual cash flows and expected cash flows, discounted at the effective interest rate of the instrument (lifetime expected loss), which is essentially unchanged compared with the previous accounting standard.

With regard to Expected Credit Loss, the risk parameters necessary for calculating that value have been distinguished by differentiating between the securities portfolio and the loan portfolio.

With regard to the securities portfolio:

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

With regard to the loan portfolio:

- Probability of Default (PD): the approach defined by the Iccrea Group envisages:
    - where a rating model is available, building, if not already provided by the model, a transition matrix based on rating classes from the model, conditioned to incorporate forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
    - where a rating system is absent, calculating default rates on an annual basis, conditioned to include forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
- Loss Given Default (LGD): the estimate of the LGD for the majority of Group companies is obtained as the ratio of total specific writedowns to total non-performing exposures, in some cases appropriately adjusted for the danger rate matrix
- Exposure At Default (EAD): the estimation approach for EAD differs by type of portfolio, product and stage to which the exposure has been assigned.

[5] This condition holds for positions that at reporting date have a conditional PD at 12 months of more than 20%.
[6] The probation period is not applied to positions assigned to state 2 in the previous three months solely due to the presence of forbearance measures that have lapsed as at the reporting date. This reflects the fact that forbearance is governed by a longer and more stringent probation period (24 months).

In order to condition the risk parameters for future macroeconomic scenarios, the Group annually estimates the models for obtaining projections of changes in the riskiness of the portfolio (PD) and losses generated by default of the debtor counterparties (LGD), based on a defined time horizon and certain reference variables (default rates, amount of bad loans, etc.).

In order to obtain a probability of default that reflects future macroeconomic conditions, "satellite models" are estimated, differentiated by type of counterparty, which make it possible to explain the relationship linking default rates to a set of explanatory macroeconomic variables. The forecasts of the target variable, the default rate, are obtained through the definition - on the basis of two separate scenarios - of the future values of each of the macroeconomic variables and the application of the estimated regression coefficients. The results of the satellite model in each of the two distinct scenarios enable the calculation of multiplicative macroeconomic conditioning factors.[7]

For the purpose of applying these multipliers, the Iccrea Group associates the probability of occurrence on a judgmental basis to the two scenarios, used as weights in the calculation of the average multiplier associated with each calendar year.

More specifically, three calendar years are considered subsequent to the estimation date of the satellite models (reference date), while for subsequent years, it is assumed that the economic cycle can be contained within a time horizon of three years, therefore the multiplier used is equal to the arithmetic mean of the multipliers of the three years.

In order to render the LGD forward looking, the Group estimates a regression model that explains the relationship that links a variable able to approximate losses in the event of system default (for example, gross non-performing loans for the entire system) with a set of explanatory macroeconomic variables, using the same approach adopted to condition the PD to estimate the multipliers.

With regard to exposures classified in stage 3 (credit-impaired assets), even if the definition of "impaired loans" in IAS 39 and IFRS 9 is substantially the same, the inclusion of forward-looking information, such as the consideration of alternative recovery scenarios, incorporated a number of methodological peculiarities. In particular, scenarios for the sale of credit exposures were considered in connection with possible sales of impaired positions connection with the company's objectives for reducing non-performing assets, to which a probability of realization was attributed for consideration in the context of the overall assessments. It follows that, for transferrable non-performing loans, in order to determine the overall expected loss of exposures, the "ordinary" scenario assuming a recovery strategy based on the recovery of receivables through legal action, the enforcement of guarantees, etc. , has been accompanied by scenarios that envisage the sale of the loan as a recovery strategy.

DEBT SECURITIES

With regard to the debt securities, the methodology envisages using the low credit risk exemption, which, regardless of the presence or not of a rating at origination, allocates to stage 1 exposures that have a rating equal to or better than investment grade at the reporting date.

EQUITY SECURITIES

Equity securities do not undergo impairment testing.

OTHER NON-FINANCIAL ASSETS

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

As regards real estate, fair value is mainly determined on the basis of an appraisal prepared by an independent expert.

For other property and equipment and intangible assets (other than those recognized following a business combination) it is assumed that the carrying amount normally corresponds to the value in use, as determined by a normal process of depreciation or amortization estimated on the basis of the actual contribution of the asset to

[7] The multipliers are constructed as the ratio between the forecast default rate obtained by calendar year and the last observed value of the target variable, differentiated by scenario.

the production process and having determined that the determination of fair value would be highly uncertain. The two values differ, giving rise to an impairment loss, in the case of damage, exit from the production process or other similar non-recurring circumstances.

Intangible assets recognized following acquisitions and in application of IFRS 3 at each reporting date undergo impairment testing to determine whether there is objective evidence that the asset may have incurred an impairment loss.

If there is evidence of impairment, intangible assets with a finite life undergo a new valuation to determine the recoverability of the carrying amount. Recoverable value is determined on the basis of value in use, i.e. present value, as estimated using a rate representing the time value of money, the specific risks of the asset and the margin generated by relationships in place at the valuation date over a time horizon equal to the residual term of those relationships.

Since intangible assets with an indefinite life, represented by goodwill, do not generate autonomous cash flows, they undergo annual testing of their carrying amount for the cash generating unit (CGU) to which the values were allocated in the related business combinations. The amount of any impairment is determined on the basis of the difference between the carrying amount of the CGU and the recoverable value of the unit, represented by the greater of its fair value, net of costs of disposal, and its value in use.

The carrying amount of the CGU must be determined in a manner consistent with the criteria used to determine its recoverable value. From the standpoint of a banking enterprise, it is not possible to determine the cash flows of a CGU without considering the flows generated by financial assets and liabilities, given that the latter represent the core business of the company. In other words, the recoverable value of the CGUs is impacted by those cash flows and, accordingly, the carrying amount of the CGUs must be determined using the same scope of estimation used for the recoverable value and, therefore, must include the financial assets/liabilities. To that end, these assets and liabilities must be allocated to the CGUs.

Following this approach, the carrying amount of the CGUs can be determined in terms of their contribution to consolidated shareholders’ equity, including non-controlling interests.

The value in use of a CGU is calculated by estimating the present value of the future cash flows that are expected to be generated by the CGU. Those cash flows are determined using the most recent public business plan or, in the absence of such a plan, an internal forecasting plan developed by management.

Normally, the specific forecasting period covers a maximum time horizon of three years. The flow in the final year of the forecasting period is projected forward in perpetuity, using an appropriate growth rate “g” for the purposes of the terminal value.

In calculating value in use, the cash flows must be discounted using a rate that reflects the current time value of money and the specific risks to which the asset is exposed. More specifically, the discount rates adopted incorporate current market values for the risk-free rate and equity premiums observed over a sufficiently long period of time to reflect different market conditions and business cycles. In addition, in view of the different risks in each CGU’s area of operations, different betas are also adopted.

DETERMINATION OF FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability between willing and knowledgeable market participants in an orderly transaction. In the definition of fair value, a key assumption is that an entity is fully operational (the assumption that an entity is a going concern) and does not have the intention or the need to liquidate, significantly reduce its operations or undertake transactions on unfavorable terms. In other words, fair value is not the amount an entity would receive or would pay in a forced transaction, an involuntary liquidation or a distress sale. Nevertheless, the fair value reflects the credit quality of the instrument as it incorporates counterparty risk.

FINANCIAL INSTRUMENTS

Please see section A.4 Fair value disclosures for more information on the methods used to determine the fair value of financial instruments.

NON-FINANCIAL ASSETS

Investment property is primarily valued using external appraisals, considering transactions at current prices in an active market for similar properties, in the same location and condition and subject to similar conditions for rentals and other contracts.

FINANCIAL GUARANTEES

As part of its ordinary banking operations, the Bank grants financial guarantees in the form of letters of credit, acceptances and other guarantees. Commission income earned on guarantees, net of the portion representing the recovery of costs incurred in issuing the guarantee, are recognized on an accruals basis under “Fee and commission income”, taking account of the term and residual value of the guarantees.

Following initial recognition, the liability in respect of each guarantee is measured as the greater of the initial recognition amount less cumulative amortization recognized in profit or loss and the best estimate of the expense required to settle the financial obligation that arose following the granting of the guarantee.

Any losses and value adjustments on such guarantees are reported under “value adjustments”. Writedowns for impairment of guarantees are reported under “Provisions for risk and charges”.

Guarantees are off-balance-sheet transactions and are reported under “Other information” in Part B of the notes to the financial statements.

BUSINESS COMBINATIONS

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

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

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

Goodwill is initially recognized at the cost represented by the excess of the consideration paid and the amount recorded for minority interests with respect to the identifiable net assets acquired and the liabilities assumed by the Group. If the fair value of the net assets acquired exceeds the amount paid, the Group verifies that it has correctly identified all the assets acquired and all the liabilities assumed and reviews the procedures used to determine the amounts to be recognized at the acquisition date. If the new valuation still shows a fair value for the net assets acquired that exceeds the consideration paid, the difference (profit) is recognized in profit or loss. After initial recognition, goodwill is measured at cost net of accumulated impairment losses. For the purpose of impairment testing, the goodwill acquired in a business combination is allocated, from the acquisition date, to each cash generating unit of the Group that is expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to those units.

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

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

Following the adoption of IFRS 9, the Bank has not make any changes to the business model used to manage its financial assets and, consequently, no transfers took place between portfolios of financial assets.

In accordance with the general rules established by IFRS 9 regarding the reclassification of financial assets (with the exception of equity securities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes the business model for the management of these financial assets. It is expected that such changes will be highly infrequent and must be decided by management following significant external or internal changes that can be demonstrated to external parties.

A.3.1 Reclassified financial assets: change in business model, carrying amount and interest income

No disclosure is provided as no financial assets were reclassified during the year.

A.3.2 Reclassified financial assets: change in business model, fair value and impact on comprehensive income

No disclosure is provided as no financial assets were reclassified during the year.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

No disclosure is provided as no financial assets were reclassified during the year.

A.4 -FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURES

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

Mark to market

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

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

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

Comparable approach

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

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

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

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

Mark to model approach

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

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

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

In the absence of quoted prices on active markets, financial instruments are measured as follows:

- bonds are valued using a discounted cash flow model adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer;
- structured bonds are valued using a discounted cash flow model that incorporates valuations from option pricing models, adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer, and volatility and correlation surfaces for the underlying;
- plain vanilla interest-rate derivatives are mainly valued using a discounted cash flow model. Interest-rate options and financial instruments with convexity adjustments are valued using a Normal Forward Model (Bachelier Model) with the exception of Bermuda swaptions and ratchet options, for which the One Factor Trinomial Hull-White approach is used. The inputs used are yield curves and credit spreads, and volatility and correlation surfaces;
- plain vanilla inflation derivatives are valued using the CPI Swap valuation model, while structured options use the Inflation Market Model. The inputs used are inflation swap curves and premiums on plain-vanilla options;
- equity and CIU derivatives are valued using the Black&Scholes models (or models based on it, such as the Rubinstein model for forward starts and the Nengju Ju model for Asian options), which includes an estimate of volatility through interpolation by maturity and strike prices on a volatility matric, as

well as the inclusion of discrete dividends through the escrowed dividend model. The inputs used are the price of the underlying equity, the volatility surface and the dividend curve;

- derivatives on exchange rates are valued using a discounted cash flow approach for plain-vanilla contracts or a Garman and Kohlhagen model for European options on exchange rates. The inputs are spot exchange rates and the forward points curve and volatility surfaces for plain-vanilla options;
- equity securities are valued on the basis of direct transactions in the same security or similar securities observed over an appropriate span of time with respect to the valuation date, the market multiples approach for comparable companies and, subordinately, financial and income valuation techniques;
- investments in CIUs other than open-end harmonized funds are generally valued on the basis of the NAVs (adjusted if not fully representative of the fair value) made available by the asset management companies. These investments include private equity funds, real estate investment funds and hedge funds.

The Fair Value Policy also provides for the possibility of applying valuation adjustments to the prices of financial instruments when the valuation technique used does not capture factors that market participants would use in estimating fair value.

Valuation adjustments are intended to:

- ensure that the fair value reflects the value of a transaction that could actually be carried out in a market;
- incorporate the future expected costs directly connected with the transaction;
- reduce the risk of distorting fair values, with consequent errors in profit or loss.

The factors impacting the need for an adjustment are:

- the complexity of the financial instrument;
- the credit standing of the counterparty;
- any collateral agreements;
- market liquidity.

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

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

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

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

A.4.2 Valuation processes and sensitivity

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

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

A.4.3 Fair value hierarchy

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

- **Level 1**: unadjusted quoted prices on an active market. Fair value is drawn directly from quoted prices observed on active markets;
- **Level 2**: inputs other than the quoted prices noted above that are observable on the market either directly (prices) or indirectly (derivatives on prices). Fair value is determined using valuation techniques that provide for: a) the use of market inputs indirectly connected with the instrument being valued and derived from instruments with similar risk characteristics or quoted on inactive markets (the comparable approach); or b) that use observable inputs;
- **Level 3**: inputs that are not observable on the market. Fair value is determined using valuation techniques that use significant unobservable inputs.

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

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

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

- cash and cash equivalents: book value approximates fair value;
- loans with a contractually specified maturity (classified under L3): the discounted cash flow model with adjustments reflecting the cost of credit risk, the cost of funding, the cost of capital and any operating costs;
- bad debts and positions unlikely to pay measured on an individual basis: book value approximates fair value;
- securities issued:
  - classified L1: price in relevant market;
  - classified L2: mark-to-model valuation discounting cash flows using a set of yield curves distinguished by level of seniority, type of customer and currency of issue;
- financial liabilities: discounted cash flow model with adjustment based on the issuer risk of the Iccrea Group.

A.4.4 Other information

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

QUANTITATIVE DISCLOSURES

A.4.5 FAIR VALUE HIERARCHY

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

	31/12/2018		
	LEVEL 1	LEVEL 2	LEVEL 3
1. Financial assets measured at fair value through profit or loss of which	133,739	331,046	112,877
a) financial assets held for trading	78,863	246,695	1,946
b) financial assets measured at fair value	-	-	-
c) other financial assets mandatorily measured at fair value	54,876	84,351	110,931
2. Financial assets measured at fair value through comprehensive income	364,122	49,976	40,721
3. Hedging derivatives	-	7,715	-
4. Property and equipment	12,592	458,666	3,527
5. Intangible assets	-	-	-
Total	**510,453**	**847,403**	**157,125**
1. Financial liabilities held for trading	3,515	241,940	-
2. Financial liabilities designated as at fair value	469	-	-
3. Hedging derivatives	-	69,033	-
Total	**3,984**	**310,973**	**-**

A 4.5.2 CHANGE FOR THE PERIOD IN FINANCIAL ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS (L3)

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property 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	**93,694**	**1,691**	**-**	**92,003**	**47,476**	**-**	**-**	**-**
2. Increases	**30,845**	**263**	**-**	**30,582**	**912**	**-**	**3,571**	**-**
2.1 Purchases	3,174	109	-	3,065	-	-	-	-
2.2 Profits recognized in:	5,459	11	-	5,448	-	-	-	-
2.2.1 Income statement	5,459	11	-	5,448	-	-	-	-
- of which: capital gains	4,984	-	-	4,984	-	-	-	-
2.2.2 Shareholders' equity	-	X	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	107	-	-	-
2.4 Other increases	22,212	143	-	22,069	805	-	3,571	-
3. Decreases	**(11,662)**	**(8)**	**-**	**(11,654)**	**(7,667)**	**-**	**(44)**	**-**
3.1 Sales	(8)	(8)	-	-	(252)	-	-	-
3.2 Redemptions	(11,167)	-	-	(11,167)	-	-	-	-
3.3 Losses recognized in:	(487)	-	-	(487)	(7,310)	-	(44)	-
3.3.1 Income statement	(487)	-	-	(487)	(82)	-	(44)	-
- of which: capital losses	(487)	-	-	(487)	-	-	-	-
3.3.2 Shareholders' equity	-	X	X	X	(7,228)	-	-	-
3.4 Transfers to other levels	-	-	-	-	(107)	-	-	-
3.5 Other decreases	-	-	-	-	2	-	-	-
4. Closing balance	**112,877**	**1,946**	**-**	**110,931**	**40,721**	**-**	**3,527**	**-**

A.4.5.3 CHANGE FOR THE PERIOD IN FINANCIAL LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (L3)

The table has not been completed because there were no such positions as of the balance sheet 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

	31/12/2018			
	CA	L1	L2	L3
1. Financial assets measured at amortized cost	38,832,682	6,105,347	287,851	33,267,617
2. Investment property	14,219	-	-	14,219
3. Non-current assets and disposal groups held for sale	39,026	-	2,897	36,141
Total	**38,885,927**	**6,105,347**	**290,748**	**33,317,977**
1. Financial liabilities measured at amortized cost	39,118,221	2,604,167	2,482,237	33,799,804
2. Liabilities associated with assets held for sale	20,369	96	-	-
Total	**39,138,590**	**2,604,263**	**2,482,237**	**33,799,804**

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 31/12/2018	Total 31/12/2017
a) Cash	129,085	110,637
b) Demand deposits with central banks	2	2
Total	**129,087**	**110,639**

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 31/12/2018		
	Level 1	Level 2	Level 3
A. On-balance-sheet assets			
1. Debt securities	**76,496**	**507**	**170**
1.1 structured securities	273	153	151
1.2 other debt securities	76,223	354	19
2. Equity securities	**1,901**	**21**	**219**
3. Units in collective investment undertakings	**454**	**-**	**-**
4. Loans	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-
4.2 other	-	-	-
Total (A)	**78,851**	**528**	**389**
B. Derivatives			
1. Financial derivatives	**14**	**246,167**	**1,557**
1.1 trading	14	246,167	1,557
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)	**14**	**246,167**	**1,557**
Total (A+B)	**78,865**	**246,695**	**1,946**

This item includes debt securities, equity securities and the positive value of derivative contracts held for trading.

In particular, the sub-item B.1.1 reports the market value of the derivatives originate by Group operations, involving the sale of derivative instruments to banks and other customers.

2.2 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY DEBTOR/ISSUER/COUNTERPARTY

	31/12/2018
A. On-balance-sheet assets	
1. Debt securities	**77,173**
a) Central banks	-
b) Government	72,451
c) Banks	2,209
d) Other financial companies	1,995
of which: insurance undertakings	636
e) Non-financial companies	518
2. Equity securities	**2,141**
a) Banks	-
b) Other financial companies	72
of which: insurance undertakings	-
c) Non-financial companies	2,069
d) Other issuers	-
3. Units in collective investment undertakings	**454**
4. Loans	**-**
a) Central banks	-
b) Governments	-
c) Banks	-
d) Other financial companies	-
of which: insurance undertakings	-
e) Non-financial companies	-
f) Households	-
Total (A)	**79,768**
B. Derivatives	
a) Central counterparties	-
b) Other	247,738
Total (B)	**247,738**
Total (A+B)	**327,506**

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

The table has not been completed because there were no such positions as of the balance sheet date.

2.4 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

The table has not been completed because there were no such positions as of the balance sheet date.

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

	Total 31/12/2018		
	Level 1	Level 2	Level 3
1. Debt securities	**23,712**	**34,575**	**3,105**
1.1 structured securities	-	18,531	-
1.2 other debt securities	23,712	16,044	3,105
2. Equity securities	**1,983**	**8,816**	**15,633**
3. Units in collective investment undertakings	**29,181**	**40,960**	**12,208**
4. Loans	**-**	**-**	**79,985**
4.1 repurchase agreements	-	-	-
4.2 other	-	-	79,985
Total	**54,876**	**84,351**	**110,931**

The item includes financial instruments previously classified as receivables, available-for-sale financial assets and assets measured at fair value which, following the introduction of IFRS 9, having failed the SPPI test must be recognized under financial assets mandatorily measured at fair value.

"Debt securities– structured securities" includes the amount of a credit linked note (UBS London Branch-Anleihe).

"Equity securities" includes shares Visa Inc. in the amount of about €11 million.

"Units in collective investment undertakings" includes the units of the closed-end investment fund Atlante in the amount of €8 million.

"Loans – other" includes Poste Vita S.p.A. insurance policy in the amount of €61 million.

2.6 OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

	Total 31/12/2018
1.Equity securities	**26,432**
of which: banks	10,807
of which: other financial companies	13,560
of which: non-financial companies	2,065
2. Debt securities	**61,392**
a) Central banks	-
b) Governments	1,383
c) Banks	32,016
d) Other financial companies	7,410
of which: insurance companies	-
e) Non-financial companies	20,583
3. Units in collective investment undertakings	**82,349**
4. Loans	**79,985**
a) Central banks	-
b) Governments	-
c) Banks	-
d) Other financial companies	61,021
of which: insurance companies	60,583
e) Non-financial companies	18,964
f) Households	-
Total	**250,158**

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 31/12/2018		
	Level 1	Level 2	Level 3
1. Debt securities	**358,057**	**49,966**	**-**
1.1 structured securities	3,981	-	-
1.2 other debt securities	354,076	49,966	-
2. Equity securities	**6,065**	**10**	**40,721**
3. Loans	**-**	**-**	**-**
Total	**364,122**	**49,976**	**40,721**

The portfolio of financial assets measured at fair value through other comprehensive income includes financial instruments that until the previous year were classified under financial assets available for sale and mainly includes government securities and minority shareholdings.

"Equity securities Level 3" includes AT1 instruments subscribed within the scope of capital support interventions for the mutual bank issuers for a total of €26.4 million.

3.2 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY DEBTOR/ISSUER

	Total 31/12/2018
1. Debt securities	**408,021**
a) Central banks	-
b) Governments	304,211
c) Banks	44,665
d) Other financial companies	28,023
of which: insurance companies	-
e) Non-financial companies	31,122
2. Equity securities	**46,796**
a) Banks	24,935
b) Other issuers:	21,861
- other financial companies	16,819
of which: insurance companies	9,554
- non-financial companies	4,503
- other	539
3. Loans	**-**
a) Central banks	-
b) Governments	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
Total	**454,817**

3.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: GROSS VALUE AND TOTAL WRITEOFFS

	Gross amount				Total writeoffs			Total partial writeoffs *
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	369,684	-	39,207	305	(301)	(722)	(152)	-
Loans	-	-	-	-	-	-	-	-
Total	**369,684**	**-**	**39,207**	**305**	**(301)**	**(722)**	**(152)**	**X**
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

* Value to be reported for information purposes.

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

4.1 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN OF LOANS AND RECEIVABLES WITH BANKS

	Total 31/12/2018					
	Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
A. Claims on central banks	**227,243**	**-**	**-**	**-**	**-**	**227,243**
1. Fixed-term deposits	-	-	-	X	X	X
2. Reserve requirements	227,243	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X
4. Other	-	-	-	X	X	X
B. Due from banks	**19,015,063**	**-**	**-**	**10,081**	**154,034**	**18,848,048**
1. Financing	18,724,052	-	-	-	3,298	18,724,034
1.1. Current accounts and demand deposits	706,962	-	-	X	X	X
1.2. Fixed-term deposits	164,645	-	-	X	X	X
1.3. Other financing:	17,852,445	-	-	X	X	X
- Repurchase agreements	5,062	-	-	X	X	X
- Finance leases	15,344	-	-	X	X	X
- Other	17,832,039	-	-	X	X	X
2. Debt securities	291,011	-	-	10,081	150,736	124,014
2.1 Structured securities	37,196	-	-	-	-	-
2.2 Other debt securities	253,815	-	-	10,081	150,736	124,014
Total	**19,242,306**	**-**	**-**	**10,081**	**154,034**	**19,075,291**

The sub-item "reserve requirement" includes the requirements managed on behalf of the mutual banks, with a contra-item under item 10 of liabilities (Due to banks).

Amounts due from banks are reported net of writedowns for impairment.

Amounts due from banks "Other financing - Other" include loans to the mutual banks connected with pool collateral operations, such as advances from the ECB secured with refinanceable securities, with a total value of €17.3 billion, of which €8.7 billion granted within the framework of the TLTRO II, against securities pledged as collateral by the mutual banks with a total fair value, net of the haircut, of €19.6 billion;

The sub-item "debt securities" includes:

- bonds issued by the mutual banks in the amount of €164 million;
- bonds issued by other banks in the amount of €77.8 million.

The fair value is obtained using discounted cash flow analysis.

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

	Total 31/12/2018					
	Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
1. Loans	**11,514,065**	**1,131,225**	**54,543**	**-**	**83**	**13,625,683**
1.1. Current accounts	102,001	171,701	-	X	X	X
1.2. Repurchase agreements	1,199,151	-	-	X	X	X
1.3. Medium/long term loans	2,959,553	387,895	24,812	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from wage	895,018	10,045	21	X	X	X
1.5. Finance leases	4,457,021	507,698	14,334	X	X	X
1.6. Factoring	500,137	11,773	4,078	X	X	X
1.7. Other loans	1,401,184	42,113	11,298	X	X	X
2. Debt securities	**6,945,050**	**36**	**-**	**6,095,266**	**133,734**	**566,643**
2.1 Structured securities	-	-	-	-	-	-
2.2 Other debt securities	6,945,050	36	-	6,095,266	133,734	566,643
Total	**18,459,115**	**1,131,261**	**54,543**	**6,095,266**	**133,817**	**14,192,326**

The sub-item "Current accounts" mainly regards lending secured by mortgages for residential and commercial buildings.

The sub-items "Current accounts" and "Medium/long term loans include the bad debts acquired by the "Lucrezia Securitisation Srl" vehicle as part of the fourth securitization ("segment 4") conducted among the initiatives to support distressed mutual banks with a total value of €109.3 million (BCC Romagnolo, BCC Annia, BCC Patavina, BCC Agrobresciano), in respect of which Iccrea Banca undertook to subscribe all of the corresponding notes.

"Other loans" includes:

- €655 million of cash collateral for Default Fund and margins paid to the Clearing & Guarantee Fund for transactions in secured funding;
- €103 million of sundry loans to the Mutual Bank Deposit Guarantee Fund.

Debt securities classified here include:

- a minibond (as regulated by Decree Law 83/2012 ratified with Law 134/2012) subscribed by the subsidiary Iccrea BancaImpresa with a total value of €60.4 million;
- senior unrated notes issued by the "Lucrezia Securitisation Srl" vehicle for a total of €15.1 million as part of measures to resolve the crises at BCC Padovana ed Irpina, BCC Crediveneto and BCC Teramano.

The fair value is obtained using discounted cash flow techniques.

4.3 FINANCE LEASES: BANKS

	31/12/2018					
	Explicit credit	Minimum payments			Gross investment	
		Principal		Interest		
			of which guaranteed residual value			of which unguaranteed residual value
Demand/up to 3 months	-	327	327	162	489	-
From 3 months to 1 year	-	996	996	471	1,466	-
From 1 year to 5 years	-	5,489	5,432	2,085	7,573	56
More than 5 years	-	13,929	8,715	1,541	15,470	5,214
Unspecified maturity	-	-	-	-	-	-
Gross total	**-**	**20,741**	**15,470**	**4,259**	**24,998**	**5,270**
Writedowns	-	-	-	-	-	-
Net total	**-**	**20,741**	**15,470**	**4,259**	**24,998**	**5,270**

4.3 FINANCE LEASES: CUSTOMERS

	31/12/2018					
	Explicit credit	Minimum payments			Gross investment	
		Principal		Interest		
			of which guaranteed residual value			of which unguaranteed residual value
Demand/up to 3 months	-	169,151	164,072	36,816	205,968	5,080
From 3 months to 1 year	-	487,199	466,154	99,085	586,284	21,045
From 1 year to 5 years	-	1,881,082	1,713,198	358,225	2,239,306	167,884
More than 5 years	-	1,718,787	1,184,740	229,117	1,947,904	534,048
Unspecified maturity	525,477	430,603	-	-	430,603	-
Gross total	**525,477**	**4,686,822**	**3,528,164**	**723,243**	**5,410,065**	**728,057**
Writedowns	227,444	274,015	-	-	-	-
Net total	**298,033**	**4,412,807**	**3,528,164**	**723,243**	**5,410,065**	**728,057**

4.4 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: COMPOSITION BY DEBTOR/ISSUER OF LOANS TO CUSTOMERS

	Total 31/12/2018		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired
1. Debt securities	**6,945,051**	**36**	**-**
a) Governments	6,773,375	-	-
b) Other financial companies	117,197	36	-
of which: insurance companies	-	-	-
c) Non-financial companies	54,479	-	-
2. Loans to:	**11,514,040**	**1,131,225**	**54,544**
a) Governments	144,302	260	-
b) Other financial companies	2,240,339	4,963	-
of which: insurance companies	520	-	-
c) Non-financial companies	7,310,786	1,010,097	53,285
d) Households	1,817,348	115,905	1,259
Total	**18,459,115**	**1,131,261**	**54,544**

4.5 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	Stage 1	Stage 2	Stage 3	
Debt securities	7,151,729	-	92,771	2,119	(1,803)	(6,636)	(2,083)	-
Loans	28,937,375	1,505,339	1,611,105	2,149,745	(40,935)	(42,188)	(1,018,517)	24,494
Total 31/12/2018	**36,089,104**	**1,505,339**	**1,703,876**	**2,151,864**	**(42,738)**	**(48,824)**	**(1,020,600)**	**X**
of which: financial assets purchased or originated credit-impaired	X	X	-	74,621	X	-	(20,077)	-

* Value to be reported for information purposes.

SECTION 5 - HEDGING DERIVATIVES - ITEM 50

For more information on the objectives and strategies underpinning hedging operations, please see the disclosures in Part E – Risks and risk management policies.

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

	FV 31/12/2018			NV	FV 31/12/2017			NV
	L1	L2	L3	31/12/2018	L1	L2	L3	31/12/2017
A. Financial derivatives								
1. Fair value	-	4,516	-	204,093	-	5,363	-	613,350
2. Cash flows	-	3,199	-	34,934	-	1,353	-	33,353
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**7,715**	**-**	**239,027**	**-**	**6,716**	**-**	**646,703**

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

The criteria for preparing the table have not changed from the previous year as the Group exercised the option provided for in paragraph 7.2.21 of IFRS 9 of continuing to apply the rules governing the accounting treatment of hedging transactions provided for in IAS 39.

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	326	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**326**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	4,190	-	-	-	-	-	X	3,199	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**4,190**	**-**	**-**	**-**	**-**	**-**	**-**	**3,199**	**-**	**X**
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 item "Financial liabilities" (specific fair value hedging of interest rate risk) includes the positive values of interest rate swaps (IRS) and interest rate options (IRO) hedging a fixed-rate bond issued by the Group.

The item "Financial liabilities" (specific cash flow hedging) includes cross currency interest rate swaps (CCIRS) hedging dollar-denominated bonds issued by the Group.

SECTION 6 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY - ITEM 60

6.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	Total 31/12/2018	Total 31/12/2017
1. Positive adjustments	**763**	**5**
1.1 of specific portfolios:	-	5
a) financial assets measured at amortized cost	-	5
b) financial assets measured at fair value through comprehensive income	-	-
1.2 comprehensive	763	-
2. Negative adjustments	**(13)**	**-**
2.1 of specific portfolios:	-	-
a) financial assets measured at amortized cost	-	-
b) financial assets measured at fair value through comprehensive income	-	-
2.2 comprehensive	(13)	-
Total	**750**	**5**

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	Type of relationship	Investment		% of votes
				Investor	% holding	
A. Joint ventures						
B. Companies subject to significant influence						
1. Bcc Vita S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	49%	49%
2. Bcc Assicurazioni S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	49%	49%
3. Bcc Accademia S.p.A.	Rome	Rome	Significant influence	Iccrea Banca S.p.A.	26%	26%
4. Hi-Mtf S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	25%	25%
5. M-Facility S.r.l.	Rome	Rome	Significant influence	Iccrea Banca S.p.A.	41%	41%
6. Car Server S.p.A.	Reggio Emilia	Reggio Emilia	Significant influence	Iccrea BancaImpresa S.p.A.	19%	19%
7. Satispay S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	16%	16%

7.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

	Carrying amount	Fair value	Dividends received
A. Joint ventures			
B. Companies subject to significant influence			
1. BCC Vita S.p.A.	93,003	101,430	-
2. BCC Assicurazioni S.p.A.	5,462	8,080	-
3. BCC Accademia S.p.A.	132	132	-
4. Hi-Mtf S.p.A.	1,574	1,574	-
5. M- Facility S.p.A.	139	139	-
6. Car Server S.p.A.	14,639	27,900	2,485
7. Satispay	5,226	5,226	-

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 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 S.p.A.	X	3,136,686	70,910	1,297	3,048,795	498,593	X	X	26,919	18,726	-	18,726	-	18,726
2. BCC Assicurazioni S.p.A.	X	40,988	44,952	1,470	70,768	22,494	X	X	(416)	(338)	-	(338)	-	(338)
3. BCC Accademia S.p.A. *	X	1,074	1,376	-	2,089	2,506	X	X	100	49	-	49	-	49
4. Hi-Mtf S.p.A.	X	4,175	2,529	-	507	2,454	X	X	94	48	-	48	-	48
5. M-Facility S.r.l.	X	-	1,057	428	354	-	X	X	(201)	(201)	-	(201)	-	(201)
6. Car Server S.p.A**	X	650	664,617	502,563	115,745	294,741	X	X	4,886	4,886		4,886	-	4,886
7. Satispay S.p.A.	X	8,846	12,620	-	1,143	15,845	X	X	(9,624)	(9,624)	-	(9,624)	-	(9,624)

* Figures at December 31, 2017
** Provisional figures at December 31, 2018

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.

In the presence of evidence of an impairment, the amount of any writedown is determined on the basis of the difference between the carrying amount and the recoverable value. The latter is represented by the greater of fair value, net of any costs to sell, and value in use.

No impairment losses were recognized during the year.

As regards the investments held by Iccrea Banca in BCC Vita S.p.A. and BCC Assicurazioni S.p.A., no evidence was found that would require the performance of impairment tests in consideration of the term sheet agreed between Iccrea Banca and Cattolica Assicurazione governing the signing of new 3-year shareholders' agreements concerning

the governance of the investees. It provides for Cattolica Assicurazione to acquire an additional 19% of the companies at a price equal to the carrying amount of the two companies in the balance sheet of Iccrea Banca

As regards goodwill recognized on the acquisition of controlling interests, please see the disclosures presented in section 10.3 below.

7.4 NON-SIGNIFICANT EQUITY INVESTMENTS: ACCOUNTING DATA

The table has not been completed because there were no such positions as of the balance sheet date.

7.5 EQUITY INVESTMENTS: CHANGE FOR THE PERIOD

	Total 31/12/2018	Total 31/12/2017
A. Opening balance	**111,676**	**102,285**
B. Increases	**12,066**	**17,494**
B.1 Purchases	4,685	5,565
B.2 Writebacks	-	-
B.3 Revaluations	7,381	5,817
B.4 Other increases	-	6,112
C. Decreases	**(2,780)**	**(8,103)**
C.1 Sales	-	-
C.2 Impairment losses	-	-
C.3 Writedowns	(1,713)	(2,571)
C.4 Other decreases	(1,067)	(5,532)
D. Closing balance	**120,962**	**111,676**
E. Total revaluations	**14,724**	**3,111**
F. Total impairment losses	**(2,080)**	**(19,882)**

"Writebacks/writedowns" mainly report increases and decreases in equity investments accounted for using the equity method in the net amount of €5.6 million.

"Other changes" reports the decline in the value of equity investments connected primarily with the payment of dividends.

7.6 ASSESSMENTS AND SIGNIFICANT ASSUMPTIONS FOR ESTABLISHING THE EXISTENCE OF JOINT CONTROL OR SIGNIFICANT INFLUENCE

In "Part A – Accounting Policies", Paragraph "A. 1 – General Information" and "Section 3 – Scope and methods of consolidation" sets out the general criteria for the assessment and significant assumptions made in establishing whether or not we exercise control over an investee company or another entity, as well as whether there is an agreement for joint control or the exercise of significant influence.

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 balance sheet 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 balance sheet date.

7.9 SIGNIFICANT RESTRICTIONS

The table has not been completed because there were no such positions as of the balance sheet date.

7.10 OTHER INFORMATION

The table has not been completed because there were no such positions as of the balance sheet 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 balance sheet date.

SECTION 9 - PROPERTY AND EQUIPMENT – ITEM 90

9.1 OPERATING PROPERTY AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

	Total 31/12/2018	Total 31/12/2017
1. Owned assets	**210,621**	**211,721**
a) land	30,356	26,644
b) building	130,450	131,290
c) movables	2,941	3,896
d) electrical plants	23,990	37,944
e) other	22,884	11,947
2. Assets acquired under finance leases	**5,086**	**9,441**
a) land	-	-
b) building	-	-
c) movables	-	-
d) electrical plants	5,086	9,441
e) other	-	-
Total	**215,707**	**221,162**
of which: obtained through enforcement of guarantees received	-	-

9.2 INVESTMENT PROPERTY: COMPOSITION OF ASSETS CARRIED AT COST

	Total 31/12/2018				Total 31/12/2017			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Owned assets	**14,219**	**-**	**-**	**14,219**	**14,219**	**-**	**-**	**14,530**
a) land	-	-	-	-	-	-	-	-
b) building	14,219	-	-	14,219	14,219	-	-	14,530
2. Assets acquired under finance leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(8,866)**
a) land	-	-	-	-	-	-	-	-
b) building	-	-	-	-	-	-	-	(8,866)
Total	**14,219**	**-**	**-**	**14,219**	**14,219**	**-**	**-**	**5,664**
of which: obtained through enforcement of guarantees received	-	-	-	-	-	-	-	-

9.3 OPERATING PROPERTY AND EQUIPMENT: COMPOSITION OF REVALUED ASSETS

The table has not been completed because there were no such positions as of the balance sheet date.

9.4 INVESTMENT PROPERTY: COMPOSITION OF ASSETS AT FAIR VALUE

	Total 31/12/2018			Total 31/12/2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Owned assets	**12,592**	**458,666**	**3,527**	**17,072**	**481,561**	**-**
a) land	-	-	1,058	-	-	-
b) building	12,592	458,666	2,469	17,072	481,561	-
2. Assets acquired under finance leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) building	-	-	-	-	-	-
Total	12,592	458,666	3,527	17,072	481,561	-
of which: obtained through enforcement of guarantees received	-	-	-	-	-	-

This item includes property from the consolidation of units of the "Securfondo" and "Securis Real Estate I, II, III" collective investment undertakings. As discussed in "Part A– Accounting policies " the changes in the fair value of these properties are recognized in profit or loss under "Net gain (loss) from valuation at fair value of property and equipment and intangible assets".

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

	Total 31/12/2018	Total 31/12/2017
1. Inventories of property and equipment obtained through enforcement of guarantees received	**-**	**-**
a) land	-	-
b) building	-	-
c) movables	-	-
d) electrical plants	-	-
e) other	-	-
2. Other inventories of property and equipment	**5,219**	**-**
Total	5,219	-
of which: measured at fair value net of selling costs	-	-

The item reports plant and equipment returned from terminated leases.

9.6 OPERATING PROPERTY AND EQUIPMENT: CHANGE FOR THE PERIOD

	Land	Buildings	Movables	Electronic plant	Other	Total
A. Opening gross balance	**26,854**	**179,770**	**11,643**	**83,486**	**11,918**	**313,671**
A.1 Total net writedown	(210)	(48,480)	(7,747)	(36,101)	4,782	**(87,756)**
A.2 Opening net balance	**26,644**	**131,290**	**3,896**	**47,385**	**7,136**	**216,351**
B. Increases:	**4,151**	**9,547**	**669**	**3,362**	**21,597**	**39,326**
B.1 Purchases	4,151	8,528	555	3,337	10,642	27,213
- of which business combinations	4,151	3,889	158	78	100	8,376
B.2 Capitalized improvement costs	-	-	-	-	-	-
B.3 Writebacks	-	-	1	-	2	3
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	-	1,019	113	25	10,953	12,110
C. Decreases:	**439**	**10,387**	**1,624**	**21,671**	**5,850**	**39,971**
C.1 Sales	439	4,807	1,056	91	1,626	8,019
- of which business combinations	439	-	-	-	-	439
C.2 Depreciation	-	4,993	546	10,542	4,211	20,292
C.3 Writedowns for impairment recognized in	-	-	22	-	18	40
a) equity	-	-	-	-	-	-
b) income statement	-	-	22	-	18	40
C.4 Fair value losses recognized in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	5	-	5
a) investment property	-	-	X	X	X	-
b) discontinuing operations	-	-	-	5	-	5
C.7 Other changes	-	587	-	11,033	(5)	11,615
D. Closing net balance	**30,356**	**130,450**	**2,941**	**29,076**	**22,883**	**215,706**
D.1 Total net writedowns	210	55,463	7,991	46,397	6,332	116,393
D.2 Closing gross balance	**30,566**	**185,913**	**10,932**	**75,473**	**29,215**	**332,099**
E. Measurement at cost	-	-	-	-	-	-

The increase in the item mainly reflects:

- the capitalization of the extension work related to the real estate project of the Lucrezia Romana headquarters in the amount of €4.1 million under Buildings;
- assets under construction and payments on account recognized by BCC Solutions in the amount of €6.4 million (referring to the cost of the Data Processing Center in the amount of €3.2 million).
- the effects of the acquisition of Banca Mediocredito del Friuli-Venezia Giulia reported in section "B.1 Purchases" of the table in the line "of which business combinations".

Decreases include the depreciation charge of €20.3 million for the year.

9.7 INVESTMENT PROPERTY: CHANGE FOR THE PERIOD

	Total	
	Land	Buildings
A. Opening balance		**512,852**
B. Increases:	**1,837**	**4,286**
B.1 Purchases	1,071	2,500
- of which business combinations	1,071	2,500
B.2 Capitalized improvement costs	-	-
B.3 Fair value gains	-	-
B.4 Writebacks	34	79
B.5 Positive exchange rate differences	-	-
B.6 Transfers from operating property	-	-
B.7 Other changes	732	1,707
C. Decreases	**778**	**29,040**
C.1 Sales	-	7,168
- of which business combinations	-	-
C.2 Depreciation	-	-
C.3 Fair value losses	13	20,086
C.4 Writedowns for impairment	765	1,786
C.5 Negative exchange rate differences	-	-
C.6 Transfers to:	-	-
a) operating property	-	-
b) discontinuing operations	-	-
C.7 Other changes	-	-
D. Closing balance	**1,059**	**488,098**
E. Measurement at fair value	-	14,219

9.8 INVENTORIES OF PROPERTY AND EQUIPMENT WITHIN THE SCOPE OF IAS 2: CHANGE FOR THE PERIOD

	Inventories of property and equipment obtained through enforcement of guarantees received					Other inventories of property and equipment	Total
	Land	Buildings	Movables	Electronic plant	Other		
A. Opening balance	**-**	**-**	**-**	**-**	**-**	**4,811**	**4,811**
B. Increases	**-**	**-**	**-**	**-**	**-**	**435**	**435**
B.1 Purchases	-	-	-	-	-	-	-
B.2 Writebacks	-	-	-	-	-	-	-
B.3 Positive exchange rate differences	-	-	-	-	-	-	-
B.4 Other increases	-	-	-	-	-	435	435
C. Decreases	**-**	**-**	**-**	**-**	**-**	**27**	**27**
C.1 Sales	-	-	-	-	-	2	2
C.2 Writedowns for impairment	-	-	-	-	-	25	25
C.3 Negative exchange rate differences	-	-	-	-	-	-	-
C.4 Other decreases	-	-	-	-	-	-	-
D. Closing balance	**-**	**-**	**-**	**-**	**-**	**5,219**	**5,219**

9.9 COMMITMENTS TO ACQUIRE PROPERTY AND EQUIPMENT

The table has not been completed because there were no such positions as of the balance sheet date.

SECTION 10 – INTANGIBLE ASSETS – ITEM 100

10.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 31/12/2018		Total 31/12/2017	
	Finite life	Indefinite life	Finite life	Indefinite life
A,1 Goodwill	**X**	**16,722**	**X**	**21,687**
A.1.1 pertaining to the Group	X	16,722	X	21,687
A.1.2 pertaining to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**33,728**	**18,260**	**27,046**	**677**
A.2.1 Assets carried at cost	33,728	18,260	27,046	677
a) internally generated intangible assets	-	3,033	3,349	-
b) other assets	33,728	15,228	23,697	677
A.2.2 Assets designated at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	33,728	34,983	27,046	22,364

Goodwill reflects goodwill paid in the acquisition of certain controlling interests (mainly BCC Risparmio & Previdenza and BCC Sistemi Informatici). The change with respect to December 31, 2017 is due to the writedown of the goodwill recognized in respect of Banca Sviluppo following measurement of the economic capital of the bank during impairment testing.

Other intangible assets mainly comprise software.

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	**21,686**	**-**	**2,698**	**13,475**	**12,458**	**50,316**
A.1 Total net writedown	-	-	-	(778)	(129)	(908)
A.2 Opening net balance	**21,686**	**-**	**2,698**	**12,697**	**12,329**	**49,409**
B. Increases	**-**	**-**	**1,424**	**26,933**	**7,291**	**35,648**
B.1 Purchases	-	-	-	26,933	7,291	34,224
B.2 Increases in internally generated intangible assets	X	-	1,424	-	-	1,424
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	-	-	-	0	-	0
C. Decreases	**4,965**	**-**	**1,089**	**5,901**	**4,393**	**16,348**
C.1 Sales	-	-	-	11	-	11
C.2 Writedowns	4,965	-	1,089	5,888	3,716	15,657
- Amortization	X	-	1,058	5,888	3,455	10,400
- Impairment	4,965	-	31	-	261	5,257
+ equity	X	-	-	-	-	-
+ income statement	4,965	-	31	-	261	5,257
C.3 Fair value losses recognized in	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	2	-	2
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	677	677
D. Closing net balance	**16,721**	**-**	**3,033**	**33,728**	**15,227**	**68,709**
D.1 Total net writedown	4,965	-	-	2,269	-	7,234
E. Closing gross balance	**21,686**	**-**	**3,033**	**35,997**	**15,227**	**75,944**
F. Measurement at cost	-	-	-	-	-	-

The increase in the item is mainly due to the acquisition of about €20 million in software associated with the project to establish the Iccrea Mutual Banking Group.

10.3 OTHER INFORMATION

With regard to the recognition methods for goodwill and other intangible assets, please see Part A – Accounting policies.

The table below shows the allocation of goodwill among the various cash generating units.

	Total 31/12/2018	Total 31/12/2017
Retail	11,707	16,671
Corporate	138	138
Institutional	4,877	4,877
Total	**16,722**	**21,686**

Definition of cash generating units (CGUs)

In order to identify, for the purposes of IAS 36, any impairment of intangible assets with an indefinite life (including goodwill) that only generate cash flows jointly with other business activities, the estimation of value in use requires the preliminary allocation of those intangible assets to relatively independent organizational units that are capable of generating cash flows largely independent of those produced by other business areas but interdependent within

the business unit generating them. In IAS/IFRS terminology, such business units are known as cash generating units (CGUs).

IAS 36 calls for the correlation of the level at which impairment is tested with the level of internal reporting at which management controls increases and decreases in this value. In this regard, the definition of this level closely depends on organizational models and the assignment of management responsibilities for the purposes of defining policies for operations and the consequent monitoring. These models may diverge from the organizational structures of the legal entities through which operations are carried out, and are very often closely linked to the definition of operating segments at the basis of the segment reporting envisaged by IFRS 8.

These CGUs correspond to the Group's business units and, at the same time, are the core business areas considered in segment reporting. The carrying amount of the CGUs is determined in a manner consistent with the criterion for estimating their recoverable amount.

For a bank, the cash flows generated by a CGU cannot be identified without considering the cash flows from financial assets/liabilities, as these form part of the core business. In other words, the recoverable amount of the CGUs is impacted by the aforementioned cash flows and, therefore, their carrying amount must be determined in accordance with the scope of the estimation used in determining recoverable amount; thus, they also include financial assets/liabilities. Consequently, these assets and liabilities must be properly allocated to the associated CGUs.

Under this approach (so-called "equity side"), the carrying amount of Iccrea Group CGUs can be determined in terms of their contribution to consolidated shareholders' equity including any non-controlling interests.

The table below reports the carrying amounts of the CGUs and the goodwill allocated to each.

CGU	Carrying amount	Of which goodwill
Retail	2,008,581	11,707
Corporate	8,508,602	138
Institutional	25,794,129	4,877

Impairment testing results

With regard to the goodwill recognized for Banca Sviluppo, the impairment test at December 31, 2018 was conducted using a mixed equity approach, with separate measurement of funding, under which the value of an entity or business unit is a function of book shareholders' equity and the value attributable to intangible items, which in this specific case consist of direct and indirect funding.

In measuring funding, consideration was given not only to the sales of branches closed in 2017 and 2018, but also to the binding offers accepted in 2019, whose probability of completion is significantly high. Account was also taken of elements considered by the offering banks, such as the location of branches, organizational arrangements and real estate assets. The goodwill/funding multiplier determined as part of the valuation was 0.72%.

This assessment led to a writedown of goodwill in the consolidated financial statements in the amount of €5 million.

With regard to the goodwill recognized in the consolidated accounts for the acquisition of control of BCC Risparmio e Previdenza SGR (€10.5 million), an adjusted equity method was used to value the company. The impairment test supported the carrying amounts recognized at the reporting date.

As regards the goodwill of BCC Sistemi Informatici (€4.8 million), the impairment testing involved the estimation of the economic value of the company's capital using a market multiples approach. The market multiples approach values a company by using data on the stock prices of comparable companies, calculating and applying market multiples to the indicators of the company being assessed. In this case, an international panel of companies operating in the IT sector and software development industry, which represent the main activities of BCC Sistemi Informatici, was considered, using the multiple P/BV (Price/Book Value).

In view of the fact that that the impairment test showed the economic value of the company was significantly higher than the value of the equity interest, the carrying amount of the goodwill can be considered confirmed.

In view of the methods adopted, no growth rates or discount rates were adopted in the valuations. Accordingly, the associated disclosure requirement does not apply.

Sensitivity analyses

Since value in use is determined by using estimates and assumptions that may have some level of uncertainty, sensitivity analyses were performed, as required by the IFRS, to assess the sensitivity of the results obtained to changes in the parameters and the underlying hypotheses. The goodwill recorded has been confirmed.

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

11.1 DEFERRED TAX ASSETS: COMPOSITION

	IRES	IRAP	Total
1) Recognized in income statement	**267,541**	**24,941**	**292,482**
a) DTA pursuant to Law 214/2011	157,862	14,997	172,859
Writedowns of loans to customers	157,637	14,960	172,597
Goodwill and other intangible assets at December 31, 2014	9	1	10
Tax losses/negative value of production pursuant to Law 214/2011	216	36	252
b) Other	109,679	9,944	119,623
Writedowns of amounts due from banks	547	-	547
Writedowns of loans to customers	567	108	675
Tax losses	27,302	-	27,302
Writedowns from impairment of guarantees issued recognized under liabilities	604	-	604
Provisions for risks and charges	17,106	1,521	18,627
Costs of predominantly administrative nature	141	2	143
Difference between value for tax purposes and carrying amount of property and equipment and intangible assets	829	20	849
Other	62,584	8,293	70,877
- Recognized in shareholders' equity	**16,945**	**2,833**	**19,778**
a) Valuation reserves:	5,877	1,150	7,027
Capital losses on financial assets measured through OCI	5,877	1,150	7,027
b) Other:	11,068	1,683	12,751
Actuarial gains/losses on provisions for employees	117	-	117
Other	10,951	1,683	12,634
A. Total deferred tax assets	284,486	27,774	312,260
B. Offsetting with deferred tax liabilities	(60)	(2)	(62)
C. Net deferred tax assets	284,408	27,772	312,198

11.2 DEFERRED TAX LIABILITIES: COMPOSITION

	IRES	IRAP	Total
1) Deferred tax liabilities recognized in income statement:	**2,280**	**370**	**2,650**
Difference between value for tax purposes and carrying amount of property and equipment and intangible assets	1,477	240	1,717
Other	803	130	933
2) Deferred tax liabilities recognized in shareholders' equity:	**579**	**79**	**658**
Valuation reserves:			
Capital gains on financial assets measured through OCI	9	2	11
Revaluation of property	43	-	43
Other	527	77	604
A. Total deferred tax liabilities	**2,859**	**449**	**3,308**
B. Offsetting with deferred tax assets	**(60)**	**(2)**	**(62)**
C. Net deferred tax assets	**2,799**	**447**	**3,246**

Deferred tax not recognized

Deferred tax liabilities are not recognized in respect of the revaluation reserve established pursuant to Law 342/2000 (net of the special capital gains tax already paid), Law 413/1991 and Law 196/1983.

11.3 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN INCOME STATEMENT)

	Total 31/12/2018	Total 31/12/2017
1. Opening balance	**213,048**	**235,409**
2. Increases	**86,541**	**12,906**
2.1 Deferred tax assets recognized during the period	19,954	12,762
a) in respect of previous period	213	-
b) due to change in accounting policies	-	-
c) writebacks	-	-
d) other	19,741	12,762
2.2 New taxes or increases in tax rates	-	15
2.3 Other increases	66,587	130
3. Decreases	**7,115**	**35,268**
3.1 Deferred tax assets derecognized during the period	4,324	23,526
a) reversals	3,262	21,584
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	1,062	1,941
3.2 Reduction in tax rates	-	-
3.3 Other decreases	2,791	11,742
transformation in tax credits pursuant to Law 214/2011	1,207	7,500
other	1,584	4,241
4. Closing balance	**292,474**	**213,048**

11.4 CHANGES IN DEFERRED TAX ASSETS PURSUANT TO LAW 214/2011

	Total 31/12/2018	Total 31/12/2017
1. Opening balance	**171,691**	**181,105**
2. Increases	**2,784**	**381**
3. Decreases	**-**	**9,795**
3.1 Reversals	965	1,904
3.2 Conversion into tax credits	651	7,500
a) arising from losses for the year	651	7,500
b) arising from tax losses	-	-
3.3 Other decreases	-	391
4. Closing balance	**172,859**	**171,691**

11.5 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN INCOME STATEMENT)

	Total 31/12/2018	Total 31/12/2017
1. Opening balance	**2,365**	4,068
2. Increases	**1,741**	5
2.1 Deferred tax liabilities recognized during the period	1,741	5
a) in respect of previous period	-	-
b) due to change in accounting policies	-	-
c) other	1,741	5
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**1,458**	**1,708**
3.1 Deferred tax liabilities derecognized during the period	1,345	1,682
a) reversals	1,247	1,158
b) due to changes in accounting policies	-	-
c) other	98	524
3.2 Reduction in tax rates	-	-
3.3 Other decreases:	113	26
4. Closing balance	**2,648**	**2,365**

11.6 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

	Total 31/12/2018	Total 31/12/2017
1. Opening balance	**2,212**	**4,070**
2. Increases	**22,667**	**121**
2.1 Deferred tax assets recognized during the period	18,152	63
a) in respect of previous periods	61	-
b) due to change in accounting policies	166	-
c) other	17,925	63
2.2 New taxes or increases in tax rates	1,273	-
2.3 Other increases	3,242	58
3. Decreases	**5,093**	**1,979**
3.1 Deferred tax assets derecognized during the period	4,998	1,967
a) reversals	2,825	1,950
b) writedowns for supervening non-recoverability	1,228	-
c) due to changes in accounting policies	944	-
d) other	1	17
3.2 Reduction in tax rates	-	-
3.3 Other decreases	95	12
4. Closing balance	**19,786**	**2,212**

11.7 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	Total 31/12/2018	Total 31/12/2017
1. Opening balance	**4,781**	**5,782**
2. Increases	**1,410**	**237**
2.1 Deferred tax liabilities recognized during the period	527	237
a) in respect of previous periods	-	224
b) due to change in accounting policies	-	-
c) other	527	13
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	883	-
3. Decreases	**5,531**	**1,241**
3.1 Deferred tax liabilities derecognized during the period	5,134	1,236
a) reversals	523	1,236
b) due to change in accounting policies	4,611	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	397	2
4. Closing balance	**660**	**4,781**

11.8 OTHER INFORMATION

The composition of current taxes shows the Group’s position in respect of tax authorities in application of the regulations governing the consolidated taxation mechanism. The position in respect of tax authorities, which is a creditor position this years, essentially reflects the non-deduction of IRES payments on account as a result of the negative taxable income for the Group.

As regards the Bank’s tax position:

- for the financial years 2014, 2015, 2016 and 2017 (for which the tax assessment time limit has not expired), no formal notice of assessment has yet been received;
- in November 2014, the Bank received a notice of liquidation from the Revenue Agency, Provincial Directorate of Brescia for the year 2013 concerning the registration fees of €104,770.00 for an order assigning amounts for seizure by third parties. Following adverse rulings in the first two levels of adjudication, the Bank has appealed to the Court of Cassation.

SECTION 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

	31/12/2018	31/12/2017
A. Assets held for sale		
A.1 Financial assets	36,129	214,347
A.2 Equity investments	-	-
A.3 Property and equipment	2,895	4,668
of which: obtained through enforcement of guarantees received	-	-
A.4 Intangible assets	2	-
A.5 Other non-current assets	-	1,271
Total A	39,026	220,286
of which carried at cost	-	220,286
of which measured at fair value level 1	-	-
of which measured at fair value level 2	2,896	-
of which measured at fair value level 3	36,140	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortized cost	-	-
B.4 Equity investments	-	-
B.5 Property and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	-	-
of which carried at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
C. Liabilities associated with assets held for sale		
C.1 Debt	16,939	261,099
C.2 Securities	3,414	20,773
C.3 Other liabilities	16	175
Total C	20,369	282,047
of which carried at cost	20,273	281,872
of which measured at fair value level 1	96	175
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 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	-	-

12.2 OTHER INFORMATION

Assets and liabilities held for sale regard the assets and liabilities of the branches of Banca Sviluppo that are being sold to local mutual banks for which completion of the disposal is highly likely. As the fair value of the assets being sold is greater than their carrying amount, those assets are reported at their carrying amount.

SECTION 13 – OTHER ASSETS – ITEM 130

13.1 OTHER ASSETS: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
- Trade receivables	1,375	-
- Stamp duty and other valuables	2	-
- Receivables for future premiums on derivatives	14,711	16,591
- Fees and commissions and interest to be received	25,268	33,285
- Tax receivables due from central govt. tax authorities and other tax agencies (including VAT credits)	77,416	62,249
- Receivables from social security institutions	292	134
- Tax receivables	12,905	15,534
- Receivables from employees	3,509	3,560
- Non-recurring transactions	20,132	17,573
- Items in transit between branches and items being processed	134,381	54,553
- Financial assets in respect of loans granted for a specific deal	-	68
- Accrued income not attributable to separate line item	1,680	707
- Prepaid expenses not attributable to separate line item	5,173	20,138
- Leasehold improvements	530	805
- Other (security deposits, assets not attributable to other items)	108,941	115,139
- Consolidation adjustments	48,582	72,224
Total	454,897	412,560

“Fees and commissions and interest to be received” refers to the electronic money business of Iccrea Banca in the amount of about €25 million.

“Tax receivables due from central govt. tax authorities and other tax agencies” is mainly composed of VAT credits (€35.3 million) and receivables for stamp duty (€31.1 million).

“Non-recurring transactions” refers to differences generated by the disposal of branches and offices by the Group.

“Other” includes €41 million in advances paid by BCC CreditoConsumo to the self-securitization vehicle.

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 31/12/2018			
	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
1. Due to central banks	**13,880,690**	**X**	**X**	**X**
2. Due to banks	**5,356,134**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	1,945,265	X	X	X
2.2 Fixed term deposits	2,918,433	X	X	X
2.3 Loans	364,572	X	X	X
2.3.1 Repurchase agreements	172,561	X	X	X
2.3.2 Other	192,011	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X
2.5 Other payables	127,864	X	X	X
Total	**19,236,824**	**-**	**8,879**	**19,129,739**

"Due to central banks" represents financing from the ECB, maturing in June 2020, December 2020, March 2021.

"Current accounts and demand deposits" includes correspondence account liabilities amounting to €105.7 million and demand deposits of €1.9 billion.

The sub-item "Fixed-term deposits" includes deposits received from the mutual banks in the amount of €2.6 billion.

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

	Total 31/12/2018			
	Carrying amount	Fair value		
		Level		Level 1
1. Current accounts and demand deposits	**1,478,501**	**X**	**X**	**X**
2. Fixed-term deposits	**269,856**	**X**	**X**	**X**
3. Loans	**11,860,852**	**X**	**X**	**X**
3.1 Repurchase agreements	11,791,402	X	X	X
3.2 Other	69,450	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	**-**	**X**	**X**	**X**
5. Other payables	**1,172,078**	**X**	**X**	**X**
Total	**14,781,287**	**-**	**157,928**	**14,595,315**

The sub-item "Repurchase agreements" is composed entirely of transactions with the Clearing and Guarantee Fund in the amount of €11.8 billion.

The sub-item "Loans – other" comprises €60.5 million in loans from Agos-Ducato S.p.A. to the subsidiary Bcc Credito Consumo S.p.A.

The fair value is obtained using discounted cash flow techniques.

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

	31/12/2018 Total			
	Carrying amount	Fair value		
		Level 1		Level 1
A. Securities				
1. Bonds	5,025,360	2,604,167	2,315,430	-
1.1 structured	38,282	-	4,905	-
1.2 other	4,987,078	2,604,167	2,310,525	-
2. Other securities	74,750	-	-	74,750
2.1 structured	-	-	-	-
2.2 other	74,750	-	-	74,750
Total	**5,100,110**	**2,604,167**	**2,315,430**	**74,750**

The item comprises bonds issued by the Group 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 item “Bonds- structured” mainly regards bonds with structures such as stepped and floored&capped.

“Other securities – other” include certificates of deposit issued by Banca Sviluppo SpA to customers.

The fair value of securities issued is calculated by discounting future cash flows using the swap yield curve as at the reporting date.

1.4 BREAKDOWN OF SUBORDINATED DEBT/SECURITIES

At December 31, 2018 the following subordinated securities were in issue:

ISIN	ISSUE	MATURITY	INTEREST RATE	2018 VALUE	CURRENCY
XS1246834169	18/06/2015	18/06/2025	6-month Euribor +3.50%	104,958	Euro
IT0004991995	14/03/2014	14/03/2021	4.75%	108,300	Euro
IT0005118754	29/06/2015	29/06/2025	3.50%	11,725	Euro
IT0005123820	30/07/2015	30/07/2025	6-month Euribor +350BP	16,189	Euro
IT0004674773	30/12/2010	30/12/2020	6-month Euribor ACT 365 + 0.75%	5,657	Euro
IT0004936438	15/07/2013	15/01/2019	5.00%	106	Euro
IT0004987431	23/01/2014	23/01/2021	4.10%	611	Euro
IT0004992852	17/02/2014	17/08/2021	4.50%	318	Euro
XS1081450055	30/06/2014	30/06/2024	4.56%	21,050	Euro

1.5 BREAKDOWN OF STRUCTURED DEBT

The table has not been completed because there were no such positions as of the balance sheet date.

1.6 LIABILITIES IN RESPECT OF FINANCE LEASES

The table has not been completed because there were no such positions as of the balance sheet date.

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 31/12/2018				
	NV	Fair value			Fair value *
		L1	L2	L3	
A. On-balance-sheet liabilities					
1. Due to banks	511	540	-	-	540
2. Due to customers	1,398	1,407	-	-	1,407
3. Debt securities	-	-	-	-	
3.1 Bonds	-	-	-	-	
3.1.1 Structured	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X
3. Other	-	-	-	-	
3.2.1 Structured	-	-	-	-	X
3.2.2 Other	-	-	-	-	X
Total A	**1,909**	**1,947**	**-**	**-**	**1,947**
B. Derivatives					
1. Financial derivatives		1,569	241,940	-	
1.1 Trading	X	1,569	241,881	-	X
1.2 Associated with fair value option	X	-	-	-	X
1.3 Other	X	-	59	-	X
2. Credit derivatives		-	-	-	
2.1 Trading	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X
2.3 Other	X	-	-	-	X
Total B	**X**	**1,569**	**241,940**	**-**	**X**
Total (A+B)	**X**	**3,516**	**241,940**	**-**	**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

“On-balance-sheet liabilities” represent short positions generated by securities trading.

“Financial derivatives” includes the negative value of trading derivatives entered into by the Group on behalf of mutual banks.

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 balance sheet 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 balance sheet 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 31/12/2018				
	NV	Fair value			Fair value*
		L1	L2	L3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X
1.2 Other	-	-	-	-	X
Of which:					
- commitments to disburse funds	-	X	X	X	X
- financial guarantees issued	-	X	X	X	X
2. Due to customers	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X
2.2 Other	-	-	-	-	X
Of which:					
- commitments to disburse funds	-	X	X	X	X
- financial guarantees issued	-	X	X	X	X
3. Debt securities	**446**	**469**	**-**	**-**	**442**
3.1 Structured	-	-	-	-	X
3.2 Other	446	469	-	-	X
Total	**446**	**469**	**-**	**-**	**442**

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

"Financial liabilities at fair value" refer to a stepped bond issued by Banca Sviluppo SpA maturing in 2020.

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 balance sheet date.

SECTION 4 - HEDGING DERIVATIVES - ITEM 40

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

	NV	Fair value 31/12/2018			NV	Fair value 31/12/2017		
	31/12/2018	L1	L2	L3	31/12/2017	L1	L2	L3
A) Financial derivatives	**3,331,186**	**-**	**69,033**	**-**	**1,263,599**	**-**	**56,416**	**-**
1) Fair value	3,287,518	-	67,749	-	1,221,908	-	52,457	-
2) Cash flows	43,668	-	1,284	-	41,691	-	3,959	-
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**3,331,186**	**-**	**69,033**	**-**	**1,263,599**	**-**	**56,416**	**-**

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

The criteria for preparing the table have not changed from the previous year as the Group exercised the option provided for in paragraph 7.2.21 of IFRS 9 of continuing to apply the rules governing the accounting treatment of hedging transactions provided for in IAS 39.

4.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair value							Cash flow		
	Specific									
	Debt securities and interest rates	Equity securities and stock indices	Foreign currencies and gold	Credito	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	65,784	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	920	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**65,784**	**-**	**-**	**-**	**-**	**-**	**920**	**-**	**-**	**-**
1. Financial liabilities	1,045	X	-	-	-	-	X	1,284	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**1,045**	**-**	**-**	**-**	**-**	**-**	**-**	**1,284**	**-**	**-**
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 VALUE ADJUSTMENTS OF GENERICALLY HEDGED LIABILITIES - ITEM 50

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

SECTION 6 – TAX LIABILITIES – ITEM 60

See section 11 under assets.

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

See section 12 under assets.

SECTION 8 – OTHER LIABILITIES – ITEM 80

8.1 OTHER LIABILITIES: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
Amounts due to social security institutions and State	20,435	46,513
Amounts available to customers	24,493	33,605
Non-recurring transactions (acquisitions)	3,503	-
Liabilities for future premiums on derivatives	6,051	-
Tax payables due to tax authorities	30,085	23,458
Payables due to employees	17,308	-
Financial liabilities in respect of loans granted for a specific deal	12,221	-
Accrued expenses not attributable to separate line item	652	419
Deferred income not attributable to separate line item	8,227	3,211
Items in transit and items being processed	56,179	100,452
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)	378,159	460,633
Consolidation adjustments	1,330	-
Balance of illiquid portfolio items	57,222	-
Total	**615,869**	**668,291**

The item "Amounts due to social security institutions and State" includes €8.7 million in solidarity funds for early termination incentives.

The item "Financial liabilities in respect of loans granted for a specific deal" regards specific-purpose loans granted by the EIB (J.E.S.S.I.C.A. funds).

The item "Other" is mainly attributable to failed purchase transactions (€84.7 million) and trade items.

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	31/12/2018	31/12/2017
A. Opening balance	**25,880**	**29,614**
B. Increases	**4,030**	**1,038**
B.1 Provisions for the period	383	455
B.2 Other increases	3,649	583
C. Decreases	**(5,214)**	**(4,772)**
C.1 Benefit payments	(1,998)	(3,572)
C.2 Other decreases	(3,216)	(1,200)
D. Closing balance	**24,696**	**25,880**
Total	**24,696**	**25,880**

Items Other increases/Other decreases mainly include the effects of the actuarial recalculation of the accrued obligation determined using the projected unit credit method (current service cost, interest cost and actuarial gains/losses).

9.2 OTHER INFORMATION

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 main actuarial assumptions and reference rates used are:

- demographic assumptions: ISTAT’s 2004 mortality rates and INPS disability tables;
- annual turnover rate: 2.75%;
- annual discount rate: 1.55%;
- annual rate of inflation: 1.50%;
- annual rate of increase in salaries: 2.38% (used only for seniority bonus purposes).

The independent actuary determined the discount rate using as a reference basket the Iboxx Obbligazioni Corporate AA index, with an average duration comparable to the group being assessed.

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	Total 31/12/2018
1. Provisions for credit risk in respect of commitments and financial guarantees issued	21,401
2. Provisions for other commitments and guarantees issued	91
3. Company pension plans	-
4. Other provisions for risks and charges	67,479
4.1 legal disputes	37,128
4.2 personnel expense	4,252
4.3 other	26,099
Total	**88,971**

Item 1. "Provisions for credit risk in respect of commitments and financial guarantees issued" includes provisions for credit risk in respect of commitments to disburse funds and financial guarantees issued that are subject to the impairment rules of IFRS 9. On the first-time application of IFRS 9, provisions at December 31, 2017 previously

classified under "Other liabilities" were reclassified to this item. The balance at December 31, 2018 is mainly attributable to the overall adjustments recognized by Group companies.

The sub-item 4.1 “legal disputes” mainly includes revocatory actions, litigation and disputes, and legal costs for debt collection.

The sub-item 4.2 “personnel expenses” includes about €1 million for seniority bonuses for employees and the provision for termination costs recognized by Banca Mediocredito del Friuli-Venezia Giulia (€2.5 million).

The sub-item 4.3 “Other” mainly includes provisions for income support solidarity funds for employees in early retirement schemes acquired from mutual banks in the amount of €15.5 million and provisions for the estimated contingent liability in respect of former tenants of leased properties in the amount of €5.2 million.

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	**4,609**	**-**	**63,464**	**68,073**
B. Increases	**141**	**-**	**15,732**	**15,873**
B.1 Provisions for the year	91	-	7,850	7,941
B.2 Changes due to passage of time	-	-	37	37
B.3 Changes due to changes in the discount rate	-	-	34	34
B.4 Other increases	50	-	7,811	7,861
C. Decreases	**4,659**	**-**	**11,717**	**16,376**
C.1 Use during the period	50	-	11,450	11,500
C.2 Changes due changes in the discount rate	-	-	-	-
C.3 Other decreases	4,609	-	267	4,876
D. Closing balance	**91**	**-**	**67,479**	**67,570**

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			
	Stage 1	Stage 2	Stage 3	Total
1. Commitments to disburse funds	1,928	1,890	206	4,024
2. Financial guarantees issued	4,957	10,032	2,388	17,377
Total	**6,885**	**11,922**	**2,594**	**21,401**

10.4 – PROVISIONS IN RESPECT OF OTHER COMMITMENTS AND GUARANTEES ISSUED

“Provisions in respect of other commitments and guarantees issued” regard provision for other commitments and other guarantees issued that are not subject to IFRS 9 impairment rules.

10.5 – DEFINED-BENEFIT COMPANY PENSION PLANS

The table has not been completed because there were no such positions as of the balance sheet 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 balance sheet date.

SECTION 12 - REDEEMABLE SHARES - ITEM 130

There were no such shares 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 at the reporting date, share capital was represented by 22,285,487 ordinary shares with a par value of €51.65 each, for a total of €1,151,045,403.55 held primarily by mutual banks and other entities in the mutual bank industry.

At December 31, 2018 Iccrea Bank held a residual of 87,267 shares with a par value of €51.65 each, which were repurchased at a price of €52.80 for a total of €4,607,698.

13.2 SHARE CAPITAL – NUMBER OF SHARES OF THE PARENT COMPANY: CHANGE FOR THE PERIOD

	Ordinary	Other
A. Shares at the start of the year	**22,285,487**	**-**
- fully paid	22,285,487	-
- partially paid	-	-
A.1 Treasury shares (-)	(584,222)	-
A.2 Shares in circulation: opening balance	**21,701,265**	**-**
B. Increases	**496,955**	**-**
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	496,955	-
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	**22,198,220**	**-**
D.1 Treasury shares(+)	87,267	-
D.2 Shares at the end of the year	22,285,487	-
- fully paid	22,285,487	-
- partially paid	-	-

13.3 SHARE CAPITAL: OTHER INFORMATION

Share capital is represented only by ordinary shares equal to subscribed share capital, fully paid up.

13.4 EARNINGS RESERVES: OTHER INFORMATION

Group reserves amount to €377 million and include: the legal reserve, the reserve for treasury shares and other reserves for a total of €405.6 million, as well as a negative IFRS 9 reserve of €82.6 million. Consolidation reserves are generated by the elimination of the carrying amount of equity investments against the corresponding fraction of shareholders' equity of each investment, and amount to €7.7 million.

The valuation reserves were a positive €43.3 million and include the reserves from the valuation of financial assets measured at fair value through other comprehensive income of -€10.4 million, the reserves on cash flow hedge derivatives of -€0.5 million, the reserves from special revaluation laws of €52.3 million, the negative reserve on actuarial gains (losses) for defined-benefit plans of -€2.9 million, and the reserve from the valuation of investments in associated companies of €5 million.

SECTION 14 - NON-CONTROLLING INTERESTS – ITEM 190

14.1 BREAKDOWN OF ITEM 190 "NON-CONTROLLING INTERESTS"

	31/12/2018	31/12/2017
Equity investments in consolidated companies with significant non-controlling interests		
1. Banca Sviluppo S.p.A.	38,745	43,759
2. Banca Mediocredito del F.V.G. S.p.A.	37,578	0
3. BCC Risparmio&Previdenza SGR p.A.	8,552	10,956
4. BCC CreditoConsumo S.p.A.	2,908	2,775
Other equity investments	5,097	7,933
Total	**92,878**	**65,423**

NON-CONTROLLING INTERESTS: COMPOSITION

	31/12/2018	31/12/2017
1. Share capital	107,183	52,080
2. Share premium reserve	4,672	464
3. Reserves	(21,554)	8,042
4. Treasury shares	-	-
5. Valuation reserves	743	8
6. Equity instruments	-	-
7. Gain (loss) pertaining to non-controlling interests	1,835	4,823
Total	**92,878**	**65,423**

VALUATION RESERVES PERTAINING TO NON-CONTROLLING INTERESTS: COMPOSITION

	31/12/2018	31/12/2017
1. Financial assets measured at fair value through other comprehensive income	737	46
2. Property and equipment	-	-
3. Intangible assets	-	-
4. Hedges of foreign operations	-	-
5. Cash flow hedges	-	-
6. Exchange rate differences	-	-
7. Non-current assets held for sale	-	-
8. Actuarial gain (loss) on defined-benefit plans	(81)	(125)
9. Portion of valuation reserves attributable to equity investments accounted for using equity method	-	-
10. Special revaluation laws	87	87
Total	**743**	**8**

14.2 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

The table has not been completed because there were no such positions as of the balance sheet date.

OTHER INFORMATION

1. GUARANTEES ISSUED AND COMMITMENTS

	Nominal value of financial guarantees issued and commitments			Total 31/12/2018
	Stage 1	Stage 2	Stage 3	
Commitments to disburse funds	**6,728,246**	**92,476**	**-**	**6,820,722**
a) Central banks	-	-	-	-
b) Government	-	-	-	-
c) Banks	6,448,169	36,967	-	6,485,136
d) Other financial companies	199,134	55,509	-	254,643
e) Non-financial companies	80,943	-	-	80,943
f) Households	-	-	-	-
Financial guarantees issued	**81,052**	**5,110**	**-**	**86,161**
a) Central banks	-	-	-	-
b) Government	-	-	-	-
c) Banks	72,673	4,990	-	77,663
d) Other financial companies	6,108	120	-	6,228
e) Non-financial companies	2,270	-	-	2,270
f) Households	-	-	-	-

2. OTHER COMMITMENTS AND GUARANTEES ISSUED

	Total 31/12/2018
Other guarantees issued	
of which: impaired credit exposures	200
a) Central banks	-
b) Government	-
c) Banks	-
d) Other financial companies	-
e) Non-financial companies	200
f) Households	14
Other commitments	
of which: impaired credit exposures	-
a) Central banks	-
b) Government	-
c) Banks	-
d) Other financial companies	-
e) Non-financial companies	64,029
f) Households	-

3. ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

	Amount 31/12/2018
1. Financial assets measured at fair value through profit or loss	82,949
2. Financial assets measured at fair value through other comprehensive income	75,552
3. Financial assets measured at amortized cost	5,951,023
4. Property and equipment	-
of which: property and equipment classified as inventories	-

4. INFORMATION ON OPERATING LEASES

There were no such positions at December 31, 2018.

5. COMPOSITION OF INVESTMENTS ASSOCIATED WITH UNIT-LINKED AND INDEX-LINKED POLICIES

At December 31, 2018 there were no investments associated with unit-linked and index-linked policies.

6. MANAGEMENT AND INTERMEDIATION SERVICES

	31/12/2018
1. Order execution on behalf of customers	**73,944,305**
a) Purchases	37,080,659
1. settled	35,271,061
2. not settled	1,809,598
b) Sales	36,863,646
1. settled	35,208,124
2. not settles	1,655,522
2. Asset management	**7,113,150**
a) Individual	2,983,201
b) Collective	4,129,949
3. Securities custody and administration	**255,465,962**
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	83,781,853
1. Securities issued by consolidated companies	4,183,637
2. other securities	79,598,216
c) Third-party securities deposited with third parties	82,567,691
d) Securities owned by bank deposited with third parties	89,036,417
4. Other transactions	**-**

7. 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 31/12/2018 (f=c-d-e)
				Financial instruments (d)	Cash collateral received (e)	
1. Derivatives	(513,800)	(13,591)	(500,209)	(257,406)	(48,225)	(194,578)
2. Repurchase agreements	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-
4. Other	-	-	-	-	-	-
Total 31/12/2018	**(513,800)**	**(13,591)**	**(500,209)**	**(257,406)**	**(48,225)**	**(194,578)**

8. 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 31/12/2018 (f=c-d-e)
				Financial instruments (d)	Cash collateral received (e)	31/12/2018
1. Derivatives	598,286	13,591	584,695	162,279	84,184	338,232
2. Repurchase agreements	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-
4. Other	-	-	-	-	-	-
Total 31/12/2018	**598,286**	**13,591**	**584,695**	**162,279**	**84,184**	**338,232**

9. SECURITIES LENDING TRANSACTIONS

No information to report.

10. 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 31/12/2018
1. Financial assets measured at fair value through profit or loss	**2,213**	**4**	**-**	**2,217**
1.1 Financial assets held for trading	392	-	-	392
1.2 Financial assets designated at fair value	-	-	-	-
1.3 Other financial assets mandatorily at fair value	1,821	4	-	1,825
2. Financial assets measured at fair value through other comprehensive income	**7,834**	**-**	**X**	**7,834**
3. Financial assets measured at amortized cost	**91,576**	**349,069**	**X**	**440,645**
3.1 Due from banks	8,442	2,009	X	10,451
3.2 Loans to customers	83,134	347,060	X	430,194
4. Hedging derivatives	**X**	**X**	**-**	**-**
5. Other assets	**X**	**X**	**21**	**21**
6. Financial liabilities	**X**	**X**	**X**	**115,767**
Total	101,623	349,073	21	566,484
of which: interest income on impaired financial assets	610	38,462	-	39,072

Interest on loans to customers include interest income in respect of finance leases of €156 million. Negative indexing adjustments came to €14.6 million (€17.2 million in the previous year).

Interest income on financial liabilities include ECB loans in the amount of about €64 million and operations with the Clearing and Guarantee Fund of about €42 million.

1.2 INTEREST AND SIMILAR INCOME: OTHER INFORMATION

1.2.1 INTEREST INCOME ON FOREIGN-CURRENCY FINANCIAL ASSETS

The interest received by the Group on financial assets in foreign currency mainly regards to customer relationships and totals approximately €1.2 million, mainly on loans to customers, subject-to-collection transactions and, residually, current accounts. The main currency is the US dollar, with a marginal amount in other currencies (yen and Swiss franc).

Interest income received on foreign currency bank transactions essentially concerns the Parent Company and amounted to about €814 thousand. The main currencies in transactions with banks are the US dollar and the Swiss franc.

Interest income is also generated on debt securities denominated in US dollars and pounds sterling, relating to the Parent Company, in the amount of about €310 thousand.

1.2.2 INTEREST INCOME FROM FINANCE LEASES

See the information in the comments to table 1.1.

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 31/12/2018
1. Financial liabilities measured at amortized cost	(33,787)	(88,982)	X	(122,769)
1.1 Due to central banks	-	X	X	-
1.2 Due to banks	(22,597)	X	X	(22,597)
1.3 Due to customers	(11,190)	X	X	(11,190)
1.4 Securities issued	X	(88,982)	X	(88,982)
2. Financial liabilities held for trading	-	-	-	-
3. Financial liabilities designated at fair value	-	(29)	-	(29)
4. Other liabilities and provisions	X	X	(69)	(69)
5. Hedging derivatives	X	X	(30,180)	(30,180)
6. Financial assets	X	X	X	(77,558)
Total	**(33,787)**	**(89,011)**	**(30,249)**	**(230,605)**

Interest expense on financial assets mainly include interest expense on collateralized loans with the mutual banks (about €68 million).

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 activities is essentially accounted for by bank transactions carried out by the Parent Company in US dollars, Swiss francs, yen and pounds sterling and amounted to about €5.3 million.

1.4.2 INTEREST EXPENSE ON LIABILITIES IN RESPECT OF FINANCE LEASES

The section has not been completed because there were no such positions as of the balance sheet date.

1.5 DIFFERENCES ON HEDGING TRANSACTIONS

	Total 31/12/2018	Total 31/12/2017
A. Positive differences on hedging transactions:	17,074	14,324
B. Negative differences on hedging transactions:	(47,253)	-
C. Balance (A-B)	**(30,179)**	**(7,044)**

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
a) guarantees issued	**-**	**-**
b) credit derivatives	**-**	**-**
c) management, intermediation and advisory services:	**167,256**	**171,466**
1. Trading in financial instruments	4,184	6,610
2. foreign exchange	274	294
3. asset management	57,704	70,726
3.1 individual	1,308	1,577
3.2 collective	56,396	69,149
4. securities custody and administration	-	-
5. depository services	-	-
6. securities placement	2,301	2,236
7. order collection and transmission	1,264	2,027
8. advisory services	3,840	2,053
8.1 concerning investments	456	378
8.2 concerning financial structure	3,384	1,675
9. distribution of third-party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	5,494	6,551
9.3. other	86,089	74,052
d) collection and payment services	**42,567**	**47,814**
e) servicing activities for securitizations	**746**	**420**
f) management of multilateral trading systems	**-**	**-**
g) holding and management of current accounts	**5,911**	**8,175**
h) other services	**428,323**	**337,967**
Total	651,082	527,478

“Other services" includes €371 million in fees and commissions from the electronic money segment.

2.2 FEE AND COMMISSION EXPENSE: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
a) guarantees received	**(859)**	**(987)**
b) credit derivatives	**-**	**-**
c) management and intermediation services:	**(41,624)**	**(44,694)**
1. trading in financial instruments	(1,165)	(1,445)
2. foreign exchange	(61)	(72)
3. asset management:	(35,102)	(37,280)
3.1 own portfolio	(35,102)	(37,280)
3.2 third-party portfolio	-	-
4. securities custody and administration	(3,673)	(4,014)
5. placement of financial instruments	(1,623)	(1,883)
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	**(2,356)**	**(3,487)**
e) other services	**(350,819)**	**(305,576)**
Total	(395,658)	(354,743)

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 31/12/2018		Total 31/12/2017	
	Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading	526	-	139	-
B. Other financial assets mandatorily measured at fair value	7,595	88	-	-
C. Financial assets measured at fair value through other comprehensive income	499	-	1,914	-
D. Equity investments	(1)	-	-	-
Total	8,619	88	2,053	-

The item mainly includes dividends received on the interest in Nexi (€7 million).

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses	Net gain (loss) (A+B) - (C+D)
1. Financial assets held for trading	**968**	**9,694**	**(303)**	**(5,482)**	**4,877**
1.1 Debt securities	968	9,130	(168)	(4,882)	5,048
1.2 Equity securities	-	342	(1)	(378)	(37)
1.3 Units in collective investment undertakings	-	137	(134)	(183)	(180)
1.4 Loans	-	-	-	-	-
1.5 Other	-	85	-	(39)	46
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**	**(76,849)**
4. Derivatives	**24,426**	**101,518**	**(1,405)**	**(123,547)**	**82,218**
4.1 Financial derivatives:	24,426	101,518	(1,405)	(123,547)	82,218
- on debt securities and interest rates	20,991	101,097	(1,239)	(119,667)	1,182
- on equity securities and equity indices	3,435	421	(178)	(3,880)	(202)
- on foreign currencies and gold	X	X	X	X	81,226
- other	-	-	12	-	12
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	25,394	111,212	(1,708)	(129,029)	10,245

The net result of "Financial assets and liabilities: foreign exchange differences" reports, regardless of the accounting portfolio to which it belongs, the balance of changes in the value of financial assets and liabilities denominated in foreign currencies and is correlated with the amount of "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 31/12/2018	Total 31/12/2017
A. Gain on:		
A.1 Fair value hedges	11,839	12,939
A.2 Hedged financial assets (fair value)	28,908	9,648
A.3 Hedged financial liabilities (fair value)	477	648
A.4 Cash flow hedges	3,546	566
A.5 Assets and liabilities in foreign currencies	-	9,609
Total income on hedging activities (A)	**44,770**	**33,410**
B. Loss on:		
B.1 Fair value hedges	(29,830)	(10,241)
B.2 Hedged financial assets (fair value)	(13,044)	(7,978)
B.3 Hedged financial liabilities (fair value)	(2,995)	(5,342)
B.4 Cash flow hedges	-	(11,136)
B.5 Assets and liabilities in foreign currencies	(3,466)	-
Total expense on hedging activities (B)	**(49,335)**	**(34,697)**
C. Net gain (loss) on hedging activities (A - B)	**(4,564)**	**(1,287)**
of which: net gain (loss) of hedges of net positions	-	-

For the purposes of accounting for the results of hedging, the Group 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. For this reason, in the table “5.1 Net gain (loss) on hedging activities: composition”, no amounts have been recognized in the line “of which: net gain (loss) of hedges of net positions”, which applies to entities who apply IFRS 9 to hedges as well.

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 31/12/2018		
	Gains	Losses	Net gain (loss)
Financial assets			
1. Financial assets measured at amortized cost	68,163	(40,394)	27,769
1.1 Due from banks	7	(1)	6
1.2 Loans to customers	68,156	(40,393)	27,763
2. Financial assets measured at fair value through other comprehensive income	14,547	(78,757)	(64,210)
2.1 Debt securities	14,547	(78,757)	(64,210)
2.2 Loans	-	-	-
Total assets	**82,710**	**(119,151)**	**(36,442)**
Financial liabilities measured at amortized cost			
1. Due to banks	-	-	-
2. Due to customers	-	-	-
3. Securities issued	3,665	(2,740)	925
Total liabilities	**3,665**	**(2,740)**	**925**

The gain (loss) on disposal shows a net loss of €35.5 million, the result of:

- a net loss from the disposal of financial assets measured at FV through other comprehensive income (€64.2 million), reflecting a loss of €76 million on the complete disinvestment of the HTCS investment portfolio (government securities);
- gains on the disposal of financial assets measured at amortized cost of €27.7 million (government securities);
- losses from the repurchase of securities issued of €0.9 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	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**33**	**-**	**-**	**-**	**33**
2.1 Securities issued	33	-	-	-	33
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange rate differences	X	X	X	X	-
Total	33	-	-	-	33

7.2 NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) - (C+D)]
1. Financial assets	**4,999**	**421**	**(4,246)**	**(2,927)**	**(1,753)**
1.1 Debt securities	(270)	122	(4,049)	(2,916)	(7,113)
1.2 Equity securities	1,573	-	-	(11)	1,562
1.3 Units in collective investment undertakings	3,631	299	405	-	4,335
1.4 Loans	65	-	(602)	-	(537)
2. Financial assets: foreign exchange rate differences	X	X	X	X	-
Total	4,999	421	(4,246)	(2,927)	(1,753)

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
		Stage 3				
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3	
A. Due from banks	**(608)**	**(16)**	**-**	**1,333**	**-**	**709**
- loans	(589)	(16)	-	1,297	-	692
- debt securities	(19)	-	-	36	-	17
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-
B. Loans to customers	**(37,473)**	**(194,078)**	**(209,300)**	**49,005**	**294,311**	**(97,535)**
- loans	(30,965)	(194,078)	(209,503)	48,558	294,311	(91,677)
- debt securities	(6,508)	-	203	447	-	(5,858)
of which: receivables purchased or originated credit-impaired	-	-	(10,561)	-	-	(10,561)
Total	(38,081)	(194,094)	(209,300)	50,338	294,311	(96,826)

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
		Stage 3				
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3	
A. Debt securities	**(779)**	**-**	**(199)**	**100**	**48**	**(830)**
B. Loans	**-**	**-**	**-**	**-**	**-**	**-**
- to customers	-	-	-	-	-	-
- to banks	-	-	-	-	-	-
of which: loans purchased or originated credit-impaired	-	-	-	-	-	-
Total	(779)	-	(199)	100	48	(830)

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

9.1 GAINS (LOSSES) FROM CONTRACT MODIFICATIONS: COMPOSITION

In 2018 the Group recognized a net gain on contractual modifications of loans of €208 thousand.

SECTION 10 – NET PREMIUMS- ITEM 160

The section has not been completed because there were no such positions as of the balance sheet 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 balance sheet date.

SECTION 12 - ADMINISTRATIVE EXPENSES – ITEM 190

12.1 PERSONNEL EXPENSES: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
1) Employees	**(196,232)**	**(182,909)**
a) wages and salaries	(136,613)	(127,641)
b) social security contributions	(35,454)	(35,034)
c) termination benefits	(1,530)	(1,547)
e) allocation to employee termination benefit provision	(958)	(1,283)
g) payments to external pension funds:	(10,806)	(10,654)
- defined contribution	(10,754)	(10,607)
- defined benefit	(52)	(47)
i) other employee benefits	(10,871)	(6,749)
2) Other personnel	**(2,584)**	**(1,964)**
3) Board of directors and members of Board of Auditors	**(4,548)**	**(4,438)**
4) Retired personnel	**-**	**-**
Total	(204,066)	(189,310)

The change in the item on the previous year is connected with the expansion of the Group's workforce and the inclusion of Banca Medio Credito del FVG in the Group during the year.

12.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

Employees	2,400
a) senior management	75
b) middle management	1,009
c) other employees	1,316
Other personnel	1

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

The item "Other employee benefits" mainly includes benefits such as lunch vouchers, insurance policies, training courses and early termination costs.

12.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
Information technology	**(112,458)**	**(116,852)**
Property and movables	**(54,708)**	**(15,941)**
- rental and fees	(48,681)	(9,723)
- ordinary maintenance	(5,497)	(5,638)
- security	(530)	(580)
Goods and services	**(26,628)**	**(31,148)**
- telephone and data transmission	(15,177)	(13,750)
- postal	(1,882)	(5,986)
- asset transport and counting	(816)	(1,277)
- electricity, heating and water	(2,610)	(3,236)
- transportation and travel	(5,381)	(5,939)
- office supplies and printed materials	(622)	(734)
- subscriptions, magazines and newspapers	(140)	(226)
Professional services	**(62,175)**	**(45,770)**
- professional fees (other than audit fees)	(31,445)	(17,624)
- audit fees	(916)	(1,083)
- legal and notary costs	(15,112)	(8,063)
- court costs, information and title searches	(1,913)	(1,746)
- insurance	(1,086)	(1,698)
- administrative services	(11,703)	(15,556)
Promotional, advertising and entertainment expenses	**(9,443)**	**(9,123)**
Association dues	**(5,437)**	**(6,513)**
Donations	**(9)**	**(16)**
Other	**(19,647)**	**(27,261)**
Indirect taxes and duties	**(57,820)**	**(46,121)**
- stamp duty	(5,988)	(18,639)
- long-term loan tax - Pres. Decree 601/73	(223)	(239)
- municipal property tax	(1,889)	(1,621)
- financial transaction tax	-	(19)
- other indirect taxes and duties	(49,720)	(25,603)
Total	**(348,325)**	**(298,745)**

Other administrative expenses include the ordinary contribution to the National Resolution Fund (BRRD) totaling €34.8 million and costs for the project to establish the Mutual Banking Group of about €24.2 million. In 2017 the contribution totaled €23.2 million.

Pursuant to Article 2427, paragraph 16-bis of the Italian Civil Code, we set out below the fees paid in 2018 to the audit firm Ernst&Young (and its network) by Iccrea and the Iccrea Group companies::

- statutory audit of the annual accounts (including the auditing of the interim financial statements) for €802 thousand;
- other audit-related services (translations, TLTRO 2 program, certification of tax returns) for €117 thousand;
- other non-audit services for €2.8 million, which regard technical and methodological assistance on issues regarding the formation of the Mutual Banking Group.

These amounts are shown net of VAT, Consob fees and expenses.

SECTION 13 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 200

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

	31/12/2018		
	Provisions	Reallocations of excesses	Total
Commitments to disburse funds Stage 1	(5,203)	5,113	(90)
Commitments to disburse funds Stage 2	(4,979)	8,071	3,092
Commitments to disburse funds Stage 3	(207)	45	(162)
Financial guarantees issued Stage 1	(36)	207	171
Financial guarantees issued Stage 2	(79)	11	(68)
Financial guarantees issued Stage 3	(468)	573	105

Provisions and reversals also include the effect of the passage of time (discounting effect).

For further details on the impairment model adopted by the Group and used to determine the net provisions shown in the table, see Part A "Accounting Policies" of the notes to the financial statements.

13.2 NET PROVISIONS IN RESPECT OF OTHER COMMITMENTS TO DISBURSE FUNDS AND GUARANTEES ISSUED: COMPOSITION

	31/12/2018		
	Provisions	Reallocations of excesses	Total
Net provisions in respect of other guarantees issued	(50)	-	(50)

13.3 NET PROVISIONS FOR OTHER RISKS AND CHARGES: COMPOSITION

	31/12/2018		
	Provisions	Reallocations of excesses	Total
Legal disputes	(5,926)	2,746	(3,180)
Other	(2,091)	706	(1,385)

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

14.1 NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT: COMPOSITION

	Depreciation	Writedowns for impairment	Writebacks	Net adjustments
	(a)	(b)	(c)	(a + b + c)
A. Property and equipment				
A.1 Owned	(15,764)	(2,480)	3	(18,241)
- operating assets	(15,764)	(39)	3	(15,800)
- investment property	-	(2,416)	-	(2,416)
- inventories	X	(25)	-	(25)
A.2 Acquired under finance leases	(4,382)	-	-	(4,382)
- operating assets	(4,382)	-	-	(4,382)
- investment property	-	-	-	-
Total	**(20,146)**	**(2,480)**	**3**	**(22,625)**

SECTION 15 - NET ADJUSTMENTS OF INTANGIBLE ASSETS - ITEM 220

15.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	Amortization	Writedowns for impairment	Writebacks	Net adjustments
	(a)	(b)	(c)	(a + b + c)
A. Intangible assets				
A.1 Owned	(10,904)	(292)	-	(11,196)
- generated internally by the Bank	(1,028)	-	-	(1,028)
- other	(9,876)	(292)	-	(10,168)
A.2 Acquired under finance leases	-	-	-	-
Total	**(10,904)**	**(292)**	**-**	**(11,196)**

SECTION 16 - OTHER OPERATING EXPENSES/INCOME - ITEM 230

16.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
Charges connected with lease services (consultants, insurance, taxes and duties, capital losses)	(28,573)	(29,165)
Reductions in assets not attributable to separate line item	(20)	-
Prior-year expenses not attributable to separate line item	(1,368)	(197)
Costs of outsourced services	(11)	(31)
Sundry expenses	(10,578)	(4,052)
Amortization of expenditure for leasehold improvements	(179)	(177)
Other expenses	(7,795)	(5,032)
Consolidation adjustments	(7,417)	(5,993)
Total	(55,941)	(44,647)

16.2 OTHER OPERATING INCOME: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
A) Recoveries	**39,299**	**32,161**
Recovery of taxes	15,541	15,904
Recovery for services to Group companies	344	(6)
Recovery of sundry charges	23,403	16,263
Recovery of costs from customers	11	-
B) Other income	**113,937**	**106,891**
Insourcing revenues	64,942	65,035
Property rental income	619	229
Other income	608	377
Non-recurring income not attributable to separate line item	1,949	1,180
Other income from finance leases	14,476	21,563
Other income	32,999	19,084
Consolidation adjustments	(1,656)	(577)
Total	153,236	139,052

The recovery of taxes and duties mainly regard current accounts, credit cards, savings passbooks and certificates of deposit.

“Other income” includes income from the invoicing of IT outsourcing services in the amount of €33 million by the subsidiary BCC Sistemi Informatici S.p.A.

SECTION 17 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 250

17.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total 31/12/2018	Total 12/31/2017
1) Joint ventures		
A. Gains	-	-
1. Revaluations	-	-
2. Gains on disposals	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Losses	-	-
1. Writedowns	-	-
2. Impairment	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net profit (loss)	-	-
2) Entities under significant influence		
A. Gains	10,117	5,836
1. Revaluations	10,117	5,836
2. Gains on disposals	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Losses	(1,736)	(1,584)
1. Writedowns	(1,736)	(1,584)
2. Impairment	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net profit (loss)	**8,381**	**4,252**
Total	**8,382**	**4,252**

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

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

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

	Revaluations	Writedowns	Exchange rate differences		Net result
			Positive	Negative	
	(a)	(b)	(c)	(d)	(a-b+c-d)
A. Property and equipment	**-**	**(20,052)**	**-**	**-**	**(20,052)**
A.1 owned:	-	(20,052)	-	-	(20,052)
- operating assets	-	-	-	-	-
- investment property	-	(20,052)	-	-	(20,052)
A.2 acquired under finance leases:	-	-	-	-	-
- operating assets	-	-	-	-	-
- investment property	-	-	-	-	-
B. Intangible assets	-	-	-	-	-
B.1 owned:	**-**	**-**	**-**	**-**	**-**
B.1.1 internally generated	-	-	-	-	-
B.1.2 other	-	-	-	-	-
B.2 acquired under finance leases	-	-	-	-	-
A. Property and equipment	-	-	-	-	-
Total	**-**	**(20,052)**	**-**	**-**	**(20,052)**

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

The item includes the impairment loss on goodwill, equal to €4,964 thousand previously recorded on the equity investment in Banca Sviluppo.

For the results of the assessment of the recoverability of the other goodwill recognized in the financial statements, 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 31/12/2018	Total 31/12/2017
A. Property	(130)	(255)
- Gains on disposal	1	11
- Losses on disposal	(131)	(266)
B. Other assets	7,118	5,250
- Gains on disposal	7,118	5,250
- Losses on disposal	-	-
Net result	**6,988**	**4,995**

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

21.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 31/12/2018	Total 31/12/2017
1. Current taxes(-)	(15,956)	(7,637)
2. Change in current taxes from previous period (+/-)	(924)	(924)
3. Reduction of current taxes for the period (+)	10,399	-
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	41,737	(5,849)
5. Change in deferred tax liabilities (+/-)	1,368	1,664
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**36,623**	**(11,125)**

21.2 RECONCILIATION OF THEORETICAL TAX LIABILITY AND ACTUAL TAX LIABILITY RECOGNIZED

IRES	Taxable income	Tax
Profit (loss) before tax on continuing operations	**(29,120)**	
Theoretical tax liability (24%)		**(6,989)**
Greater tax liability due to increases	139,965	33,592
Temporary	25,830	-
- Changes during the year	*25,830*	-
Definitive		-
- Reversal of temporary differences of previous years	*152*	-
- Changes during the year	*113,984*	-
Lower tax liability due to decreases	**122,029**	**29,287**
Temporary	13,527	-
- Changes during the year	*13,527*	-
Definitive	108,502	-
- Reversal of temporary differences of previous years	*(782)*	-
- Changes during the year	*109,284*	-
Taxable income (loss)	**47,056**	**0**
Current gross tax		(11,293)
IRES surtax (3.5%)		(1,647)
Current net tax in income statement		**(12,940)**
Changes in current tax/deferred tax assets/deferred tax liabilities(+/-)		47,883
Tax liability for the year		**34,952**
IRAP	**Taxable income**	**Tax**
Profit (loss) before tax for IRAP purposes	**72,617**	**-**
Theoretical tax liability (ordinary rate 5.24%)		**(3,805)**
Items not included in determination of income	**231,513**	**(12,131)**
- Revenue and income (-)	*(9,077)*	-
- Costs and charges (+)	*240,590*	-
Greater tax liabilities due to increases	11,938	(626)
Temporary	-	-
- Changes during the year	*104*	-
Definitive	-	-
- Changes during the year	*11,834*	-
Lower tax liability due to decreases	258,667	13,554
Temporary	-	-
- Changes during the year	*18,108*	-
Definitive	-	-
- Changes during the year	*240,559*	-
Value of production	57,402	-
Current tax	-	(3,008)
Current tax in income statement	**-**	**(3,008)**
Changes in current tax/deferred tax assets/deferred tax liabilities (+/-)	-	4,689
Tax liability for the year		**1,682**
Total income tax expense		**36,623**

SECTION 22 - PROFIT (LOSS) AFTER TAXES FROM DISPOSAL GROUPS - ITEM 320

22.1 PROFIT (LOSS) AFTER TAXES FROM DISPOSAL GROUPS: COMPOSITION

The table has not been completed because there were no such positions as of the balance sheet date.

22.2 BREAKDOWN OF INCOME TAXES FOR DISPOSAL GROUPS HELD FOR SALE

The table has not been completed because there were no such positions as of the balance sheet date.

SECTION 23 – NET PROFIT (LOSS) PERTAINING TO NON-CONTROLLING INTERESTS - ITEM 340

23.1 BREAKDOWN OF ITEM 340 "PROFIT (LOSS) PERTAINING TO NON-CONTROLLING INTERESTS"

	31/12/2018	31/12/2017
Consolidated equity investments with significant non-controlling interests		
1. Banca Mediocredito del F.V.G. S.p.A.	(2,652)	-
2. Banca Sviluppo S.p.A.	1,629	546
3. BCC Risparmio & Previdenza SGrpA	2,132	4,520
4. BCC CreditoConsumo S.p.A.	501	428
Other equity investments	225	653
Total	**1,835**	**6,147**

SECTION 24 – OTHER INFORMATION

It was not felt necessary to add further information other than that already provided in the previous tables.

SECTION 25 - EARNINGS PER SHARE

The ordinary shares of the Parent Company, Iccrea Banca, are not traded on a public market and the company 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 balance sheet date.

25.2 OTHER INFORMATION

No further information to report.

PART D

Comprehensive income

DETAILED BREAKDOWN OF COMPREHENSIVE INCOME

		31/12/2018	31/12/2017
10.	**Net profit (loss) for the period**	**7,502**	**35,500**
	Other comprehensive income not recyclable to profit or loss	**(5,416)**	**19**
20.	Equity securities designated as at fair value through other comprehensive income:	(9,261)	-
	a) fair value changes	(9,261)	-
	b) transfers to other elements of shareholders' equity	-	-
30.	Financial liabilities measured at fair value through profit or loss (change in credit risk):	-	-
	a) fair value changes	-	-
	b) transfers to other elements of shareholders' equity	-	-
40.	Hedges of equity securities designated as at fair value through other comprehensive income:	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	389	34
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	3,456	(16)
	Other comprehensive income recyclable to profit or loss	**(10,304)**	**(293)**
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:	746	(1,981)
	a) fair value changes	4,286	(5,481)
	b) reversal to income statement	(3,540)	7,462
	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:	(13,054)	(1,511)
	a) fair value changes	(6,369)	11,383
	b) reversal to income statement	(7,283)	(13,126)
	- adjustments for credit risk	286	-
	- gain/loss on realization	(7,569)	(13,126)
	c) other changes	598	232
160.	Non-current assets and disposal groups held for sale:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
170.	Valuation reserves of equity investments accounted for with equity method:	(2,709)	(127)
	a) fair value changes	(2,709)	(127)
	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	4,713	(636)
190.	**Total other comprehensive income**	**(15,720)**	**(274)**
200.	**Comprehensive income (item 10+190)**	**(8,217)**	**35,230**
210.	Consolidated comprehensive income pertaining to non-controlling interests	2,627	6,153
220.	**Consolidated comprehensive income pertaining to shareholders of the Parent**	**(10,844)**	**29,077**

PART E

Risk and risk management policies

INTRODUCTION

The Iccrea Group attaches great importance to controlling risks and to control systems, which are essential to ensuring the reliable and sustainable generation of value, preserving a sound financial position over time, and enabling effective management of assets and liabilities, including in respect of its core business of supporting and providing services to the mutual banks and their customers.

ORGANIZATION OF RISK MANAGEMENT

- ROLES AND RESPONSIBILITIES IN RISK MANAGEMENT

The risk management function is structured into units that operate within both the Parent Company and at the level of each subsidiary. The organizational implementation of the governance for risk management model takes account of the company structure of the Group, the specialization of business segments within the company structure, the executive effectiveness of the centralized governance approach, the complexity and impact on corporate operations of the functional areas included in the risk management function, compliance with applicable prudential regulations, the effectiveness of second-level controls in relation to management requirements and the applicable regulatory context.

Structure of Risk Management

In 2018, the reorganization of the Group Risk Management function was approved by the competent bodies, in continuity with the corporate governance project from 2017 and in consideration of the needs that have arisen in connection with the reform of the mutual banking system, as well as constant dialogue with the supervisory authorities.

This reorganization was especially necessary to better address the management and coordination activities and the expansion of the scope of the functions that the Parent Company will obligatorily centralize or perform in the form of services for Group companies.

Consistent with the centralized governance model, the upcoming organizational structure envisages a risk management model with functional governance and responsibility centralized at the Parent Company Iccrea Banca of all the affiliated banks involved in the creation of the new Mutual Banking Group (MBG). This model is generally implemented with the outsourcing of risk management functions to the Parent Company, with the adoption of specific service contracts outsourcing the function.

With the adoption of this model, it was necessary to implement organizational arrangements adapted to the new corporate structure. Thus, the main lines of development underpinning that reorganization concerned the need to:

- act as a “control center” for the risk profile of the individual affiliated banks with the appropriate territorial organization of risk management arrangements and the early warning system and the guarantee mechanism;
- coordinate local risk management officers, facilitating dialogue with the other specialist units of the Risk Management department;
- adopt an organizational unit dedicated to validating the models developed internally to quantify the risks to which the MBG will be exposed;
- implement an organizational structure capable of ensure the continuity of the existing Group while the new Mutual Banking Group is being created in order to ensure constant, efficient and effective operation.

Bearing in mind the foregoing, the reorganization of the Risk Management function involved, from the point of view of governance, the retention of centralized responsibility with the Risk Management function of the Parent Company, with the Group Risk Manager position being assigned to the CRO, while:

- at the subsidiaries, the heads of the Risk Management units of the subsidiaries report functionally to the head of Group Risk Management and hierarchically to the board of the subsidiary to which they belong;

- at the affiliated mutual banks, the heads of their Risk Management units report to the head of the local Risk Management unit of the hub to which they belong.

Other organizational changes involved the structuring of the Risk Management function into three main units reporting directly to the CRO:

- *Risk Governance and Validation*, which is involved in the definition and operational maintenance of the main risk governance processes (RAF/RAS, ICAAP, Recovery Plan, stress testing, OMR) and in the validation of the models developed internally to quantify the risks to which the MBG is exposed;
- *Group Risk Management*, which constantly monitors and mitigates the overall exposure of the Group and each individual unit to credit, financial, operational and other significant risks, applying appropriate methods for measuring all current and potential risks in compliance with the limits established in internal rules and supervisory regulations;
- *Mutual Bank Risk Management*, which gives the Parent Company's Risk Management function a "specialized hub" involved in developing methods and tools for the ongoing monitoring of the affiliated banks, as well as in monitoring the risk profile and the periodic updating of the risk categories assigned to each affiliated bank.

Under the governance arrangements, the units at the subsidiaries, which form part of the staff structure supporting their respective boards of directors, report functionally to the risk management function on the basis of the special characteristics of the operations of each subsidiary, creating segments by main line of business. More specifically, the Risk Management units of the subsidiaries report functionally to:

- the Risk Management unit of the Parent Company for BCC Risparmio e Previdenza, Iccrea BancaImpresa, BCC Credito Consumo, BCC Factoring, BCC Lease and Banca Mediocredito del Friuli Venezia Giulia;
- the Mutual Bank Risk Management unit for Banca Sviluppo.

MAIN DUTIES OF THE RISK MANAGEMENT FUNCTION

The responsibilities of the Risk Management function include participating in the definition, development and any corrective maintenance of the framework for risk assumption and management, developing proposals for the Risk Appetite Framework and its operational manifestation (Risk Appetite Statement), monitoring developments in the exposure to the different types of risk and monitoring capital requirements and prudential ratios on a current and prospective basis in relation to the targets defined by the Risk Appetite Statement and the supervisory authorities. More specifically, the function participates in the definition and development of the framework for the assumption and management of the risks for which it is responsible, ensuring that it is:

- compliant with applicable regulations;
- in line with market best practice;
- consistent with internal requirements;
- consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the ICAAP and the ILAAP.

The risk assumption and management framework consists of:

- organizational structures and corporate processes (operating, administrative and business), including first and second line controls;
- supporting applications;
- risk governance policies (policies, limits, responsibilities);
- methodologies and risk measurement and assessment criteria.

In this area, the risk assumption and management framework:

- develops the Risk Appetite Framework and its operational implementation, the Risk Appetite Statement, in accordance with applicable internal and external regulations;
- monitors developments in the exposure to the different forms of risk in relation to developments in markets and the operation of the internal management system;
- develops risk measurement and assessment methods and models;
- 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;
- 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;
- identifies any needs for fine tuning/corrective or evolutionary maintenance of the assumption and management framework for the risks for which it is responsible, providing support – within the scope of its duties – in implementing the associated actions;
- assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (capital absorption, ICAAP) and the appropriateness of the Group's liquidity profile (ILAAP);
- reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining strategic policy and risk policy and the associated implementation of those policies;
- assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to resolve the issues;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The Iccrea Group devotes special attention to managing, assessing and understanding risk. All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Parent Company. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies;
- the specification of risk limits;
- the periodic monitoring of exposures (aggregate and others) with verification of compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the Group companies in the long term, systematic and independent Internal Auditing units, etc.).

RISK GOVERNANCE POLICIES

The risk governance policies represent the reference model in organizational and process development and in the systematic execution of all the operational and business activities performed by Group companies and are an integral part of the risk management process (RMP) adopted by the Group, ensuring sound and prudent management and supporting sustainable implementation of the overall risk strategy.

The internal control system (ICS) governs the RMP, ensuring the completeness, appropriateness, functionality (in terms of effectiveness and efficiency) and reliability of the policies in a context of strict consistency with the Risk

Appetite Framework defined at Group level. The structure of the internal control system was designed in accordance with the organizational structure of the Group and, in its operational implementation, takes account of the specific operations and associated risk profiles of each of the Group companies.

The so-called first level of the ICS comprises all operational and business units, with controls integrated within the business processes of those units (e.g. hierarchical, systematic and sample controls) or through dedicated control units reporting to the heads of the operational areas or performed at the back-office level or incorporated in IT procedures.

The corporate control functions operate within the ICS. They are independent and dedicated to ensuring the correct and efficient operation of the system: Internal Audit – third-level controls; Compliance, Anti-Money Laundering (AML), Risk Management – second-level controls.

In this context, the Group develops and implements its business model through a corporate, organizational and operational model that ensures the coordinated use of human resources, technologies and methodologies on the basis of an internal regulatory framework that defines the governance structures of the management and control arrangements, management policies (rules, delegated powers and limits) and processes through which activities are performed. Risk management processes are a component of the Bank's organizational structure, forming part of all operational sectors in which risk is assumed and managed. For each sector, they provide for the identification, assessment (or measurement), monitoring, prevention and mitigation of those risks, also defining the systems (criteria, methods and means) with which those activities are performed.

The Risk Management Process is structured into five phases, the sequentiality of which is itself an integral part of the macro-process. They represent the general organizational manifestation of the Group's risk assumption and management framework:

- *risk identification (knowledge)*: this requires that each process and/or operational and business activity that involves the assumption or management of risks on an ongoing basis provide for the identification of the underlying types of risk and the factors that drive them. This phase is especially significant at the start of new initiatives, in implementing new strategies (business, organizational and infrastructural development, etc.) but is also important in existing activities in the present of changes in the surrounding context (market, operational, regulatory, etc.).
- *assessment/measurement of the identified risks (awareness)*: this requires that the level of risk connected with the activities performed be assessed/measured for each of the various types of identified risk. This phase is especially important in understanding the dynamics of the risks involved and in forecasting (or estimating) their developments in relation to developments in the underlying risk drivers and the possibility of adverse events that could jeopardize achievement of expected results or generate losses. All of this is based on a methodological framework for the assessment/measurement of each type of risk assumed and/or managed, which must be defined and implemented consistently with the provisions of internal rules and in compliance with the applicable regulatory framework. In this framework, operate all company control functions, each in their respective area of responsibility.
- *risk prevention and attenuation (strategy)*: this consists in the ex-ante identification, both at the organization stage and the execution of operational and business activities, of the possible approaches to preventing and attenuating the risks assumed and/or managed. After a cost/benefit analysis of the risk/return trade-off, this phase involves establishing the actions (or techniques) necessary to prevent the occurrence of adverse internal or external events or to attenuate the impact of an adverse event or development. Such actions are intended to guide the evolution of the possible risk scenarios underlying operations within the risk appetite levels established for the individual operating or business segment.
- *monitoring and reporting (tracking and control)*: this consists of the set of tracking and ongoing assessment (measurement) activities tracking the risks underlying operating and business activities in each segment, using methods and frequency consistent with the established methodological framework and internal rules. The monitoring and reporting system is also intended to provide preliminary support to ensure the timeliness and effectiveness of the decision-making and risk mitigation processes in the subsequent phase. All company control functions operate in this area as well, each in their respective area of responsibility.
- *risk management and mitigation (reaction and proactivity)*: this phase comprises the activities and actions that must be established for each operational and business segment to manage the development of the risks assumed and mitigate their adverse impacts. A critical success factor for the effectiveness of risk management and mitigation activities is the presence of a decision-making process to identify the activities themselves and their evolutionary/corrective maintenance that is soundly based on the results of the monitoring and reporting activities in the previous phase. The system therefore provides for the

constant monitoring of the results of these activities and the development of dedicated processes for the key operating and business units and explicitly established organizational arrangements for the performance of activities.

For each operational and business segment, the practical implementation of the general model represented by the Risk Management Process is set out in the framework of rules defined and developed by the Parent Company (policies, rules, directives, etc.) and within each Group company (rules, policies, procedures, manuals, etc.) and the consequent implementation of infrastructure (organizational, IT, methodological) to support the performance of activities by the organizational units established for that purpose.

The risk limits represent the more detailed configuration of the Risk Appetite Framework, addressing specific aspects connected with the operations of the Group’s various operational and business segments. These limits are governed within the corporate risk management policies and processes and are calibrated to ensure consistency with the respective levels of the risk indicators included in the RAS and which affect the same risk profile / operating segment. At a general level the risk limits are calibrated so as to signal situations in which the operations in progress are not consistent with the guidelines defined by the strategic and operational plans at group level or on an individual basis; as well as reporting situations in which the evolution of the risk profile could compromise the achievement of the target risk levels defined in the SAR or the compliance with the maximum tolerated / permitted exposure levels.

The risk limits are assigned to the individual organizational functions responsible for assuming risk, called risk taking units, in compliance with the activities for which they are responsible and taking into account the risks to which they are exposed in carrying out their activities and processes. The assignment of clear and unequivocal operating limits determines the responsibility of the individual "risk taking unit" to operate in compliance with the aforementioned limit. The operational functions of the Bank and of the Companies of the Group are called upon to comply with the first line controls in the performance of the activities of competence and to comply with the internal policies defined on the various risk profiles.

SECTION 1 – RISKS WITHIN SCOPE OF ACCOUNTING CONSOLIDATION

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 Impaired and unimpaired credit exposures: stocks, writedowns, changes and distribution by sector and geographical area

A.1.1 Distribution of financial assets by portfolio and credit quality (carrying amount)

	Bad debts	Unlikely to be repaid	Impaired past due exposures	Unimpaired past due positions	Other unimpaired positions	Total
1. Financial assets measured at amortized cost	439,351	663,390	28,486	162,311	37,539,147	38,832,685
2. Financial assets measured at fair value through other comprehensive income	-	152	-	-	407,872	408,024
3. Financial assets designated as at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	358	-	141,018	141,376
5. Financial assets held for sale	-	2,421	447	3,121	30,145	36,134
Total 31/12/2018	439,351	665,963	29,291	165,432	38,118,182	39,418,220

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

	Impaired assets				Unimpaired assets			
	Gross exposure	Total adjustments	Net exposure	Total partial writeoffs	Gross exposure	Total adjustments	Net exposure	Total (net exposure)
1. Financial assets measured at amortized cost	2,151,828	1,020,600	1,131,228	27,203	37,793,019	91,562	37,701,405	38,832,685
2. Financial assets measured at fair value through other comprehensive income	305	152	153	-	408,894	1,023	407,871	408,024
3. Financial assets designated as at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	358	-	358	-	X	X	141,018	141,376
5. Financial assets held for sale	4,248	1,379	2,869	-	34,009	743	33,266	36,135
Total 31/12/2018	2,156,739	1,022,131	1,134,608	27,203	38,235,993	93,328	38,283,560	39,418,220

* Value to be reported for information purposes

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	1,221	309	324,601
2. Hedging derivatives	-	-	7,715
Total 31/12/2018	1,221	309	332,316

B. DISCLOSURES ON STRUCTURED ENTITIES (OTHER THAN SECURITIZATION VEHICLES)

A structured entity is an entity that has 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 (tranches).

The Iccrea Banking 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

A structural entity is consolidated in the presence of a contractual/non-contractual involvement that gives rise to control over the relevant activities of the entity and exposes the Group to variability of returns from the performance of that entity. More specifically, structured entities consolidated by the Iccrea Group are:

- Fondo Securfondo;
- Fondo Securis Real Estate I;
- Fondo Securis Real Estate II;
- Fondo Securis Real Estate III

The following table summarizes the on-and off-balance-sheet exposures held by Group companies in respect of the consolidated structured entities noted above.

These exposures are eliminated in consolidation. In order to fully represent the involvement in the real estate risk underlying the investment in the funds, it was decided to recognize the underlying real estate portfolio rather than the units subscribed.

Structured entity	Total assets	Off-balance-sheet exposures
Securfondo	12,591	-
Fondo Securis Real Estate I	222,968	-
Fondo Securis Real Estate II	138,765	-
Fondo Securis Real Estate III	96,934	-

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

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 year 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. Vehicle							
2. CIU							
Fondo Asset Bancari II	MFV	4,768	-	-	4,768	6,206	1,438
Fondo Asset Bancari III	MFV	4,360	-	-	4,360	4,545	185
Fondo Asset Bancari IV	MFV	4,132	-	-	4,132	4,750	618
Fondo Asset Bancari VI	MFV	8,500	-	-	8,500	8,500	-
Fondo Fenice	MFV	5,900	-	-	5,900	5,900	-
Fondo Leopardi	MFV	5,548	-	-	5,548	5,657	109
Athens R.E. Fund	MFV	2,039	-	-	2,039	2,039	-
Fondo Atlante	MFV	8,284	-	-	8,284	8,284	-
Fondo Melograno	MFV	381	-	-	381	381	-
Fondo IBI - Social Housing	MFV	8,045	-	-	8,045	18,938	10,893

(*) MFV = financial assets mandatorily measured at fair value.

The value of the maximum risk exposure also includes the Group's commitments, not yet called by the fund, to subscribe additional units. The net book value corresponds to the balance sheet exposure net of writedowns recognized in the current or previous years.

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 coordinates and directs the credit risk assumption policies of the individual subsidiaries. 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 risks for the Group companies.

The procedures for taking on credit risk, which are governed in the systems of powers and delegated authority currently in place at the subsidiaries, are developed within those companies on the basis of the specific characteristics of the activities they perform. The cardinal criterion adopted in structuring delegated powers is the establishment of a lending ceiling by risk class (regarding the various categories of counterparty, technical form of the credit, guarantees) assigned to each decision-making body.

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

To ensure interaction among all the units and bodies with control and monitoring duties, the Iccrea Group has introduced the following criteria within its organization that characterize the entire credit function:

- processing of loan applications, leading to the formulation of a loan proposal;
- approval of the loan application;
- management of position: this comprises all of the activities involved in monitoring and managing outstanding loans.

In view of the multiple units within the individual Group companies that are responsible for managing credit risk, the management process is based on the following principles:

- attribution of the responsibilities of the body with strategic oversight functions and the body with management functions in the definition, implementation and supervision of the credit governance system and the associated credit risk management processes;
- independence of control functions, with clear separation of responsibilities and elimination of conflicts of interest between control units and business units;
- attribution of responsibilities to all organizational levels, designed to ensure the effective implementation of strategies and governance of the credit and credit risk management system, minimizing organizational inefficiencies.
-

The credit risk management process is implemented at the operational level in line with the business model that characterizes the internal organization of the Iccrea Group, specifically adopted in relation to the various categories of counterparties with which the Group operates.

2.2 MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

Identification of risks

Lending activities expose the Iccrea Group to default risk, i.e. the risk of incurring a loss owing to the failure of a counterparty to perform its contractual obligations or as a result of a reduction in the credit quality attributed to the counterparty. This type of risk is a function of both the intrinsic solvency of the borrower and, through certain impact transmission mechanisms, the economic conditions of the market within which the borrower operates. Given our lending operations, the emergence of adverse macroeconomic or market conditions expose the Group to a general deterioration in asset quality and a general deterioration in the solvency of borrowers. This latter dynamic translates into an increase in positions classified as non-performing loans (NPLs), the direct impact of which is manifested in profit or loss as an increase in writedowns/impairment losses recognized in the financial statements.

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).

A special process in the lending sector is the management of credit risk mitigation techniques. For regulatory purposes, use of the latter is only permitted subject to specific conditions, which must be complied with for the duration of the guarantees and which determine their eligibility for use in reducing mandatory capital requirements. Accordingly, any inefficiency or ineffectiveness in the collateral management process may expose the Group to what prudential regulations call residual risk. The operations of the Banking Group are also characterized by exposures to financial instruments, such as financial and credit derivatives transacted on unregulated markets, repurchase transactions and transactions settled forward that generate counterparty risk and, consequently, a need to determine any additional capital requirement for such transactions (credit value adjustment – CVA).

Measurement and assessment of risks

For the purpose of calculating prudential requirements for credit risk, the Iccrea 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 measurement and valuation of credit risk is the responsibility of the Risk Management function and involves:

- measuring credit risk at the single entity/business unit level and at the Group level, considering both conditions of normal operations and stress scenarios;
- formalizing credit risk exposure limits for those with delegated powers, verifying the methodological consistency of the overall structure of those limits;
- monitoring the capacity of the risk limits in terms of the associated credit risk metrics at the individual business unit level and for the Group as a whole;
- defining and updating the methods and measurement models for credit risk, dialoguing with the risk control unites of the Group companies to agree methodological issues where appropriate.

Risk prevention and attenuation

For each business line (Corporate, Financial Institutions, Retail), the Group has adopted a comprehensive system of arrangements and controls set out in the respective corporate policies that are consistent with the overall Risk Appetite Framework established by the Parent Company.

The operational units involved in lending processes are responsible for performing first-level controls, which are designed to assess credit risk in the loan application acceptance stage and to enable monitoring of borrower solvency over time and signal any irregularities.

More specifically, with regard to the following business lines:

- *Corporate*: the integration between the rating model and the front-end system permits extensive automation of the application assessment process and of the approval of operations (electronic loan

decision), while at the same time permitting control to be maintained over the process, data quality and the use of delegated powers (tracking every decision/change) The entire segment is governed by comprehensive rules set out in the Credit Handbook;

- *Financial Institutions*: the systematic oversight process performed by the business units involves assessing problem positions, tracking developments to ensure proper classification of exposures, and implementing consequent actions. It uses a specific application: BankAlert. The application generates daily key risk indicators for each segment of operations. These reports are generated with the same frequency (daily) to all business units that operate with banking counterparties.;
- *Retail*: first-level controls are structured into a series of activities performed on an ongoing basis by the branch of the mutual bank proposing the transaction in its capacity as the manager of the credit relationship with the customer, with verification carried out at the territorial level.

Loan applications received via electronic channels are checked to ensure the accuracy of the information using the following controls:

- automated check of correspondence between tax ID number and other personal data of borrowers;
- automated check of ID documents to ensure they have not been stolen or lost, including through a direct connection with the website of the State Police;
- possible direct telephone contacts at the customer's home or workplace.

The operating limits defined in the lending process are automatically controlled by the IT system by assigning specific user codes enabled on the basis of the user's category.

Second level controls are performed by the Risk Management function (with the support of its local territorial units), which is independent of those that approve and manage loans, creating effective functional separation and ensuring immediate and objective analysis of situations that exhibit a significant increase in risk.

Monitoring and reporting

The Risk Management unit performs second-level controls in verifying the adequacy, effectiveness and consistency over time of policies (and limits), processes and delegated powers with regard to the assumption and management of credit risk, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management department for RAF purposes and specific analysis of the Group's overall exposure to credit risk. The natural locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives, tolerances and limits (appetite, tolerance and capacity), with compliance ensured by the monitoring and control activities of the function.

Finally, 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.

Monitoring and reporting involves both business units and control units, in accordance with their respective duties. These activities include aggregate portfolio analysis and analysis of developments in individual positions.

For the Corporate business line, operational monitoring involves:

- aggregate analysis and analysis of developments in the overall configuration and risk of the loan portfolio;
- specific analysis through the qualitative monitoring of individual positions. This approach is based on advanced management/operational monitoring of loans, which on the basis of mass analysis of developments supplemented with all other codified information available at the company level, seeks to construct, with the contribution of the various position managers and analysts involved, an overall picture of the situation of the borrower to provide support for the decisions regarding actions to take with regard to the customer concerned.

The operational monitoring framework for the Financial Institutions business line consists of a comprehensive system of warning signals represented by Key Risk Indicators, which are drawn from monitoring indicators (financial

indicators and internal company indicators) and thresholds specified using statistical analysis that defines alert status.

For the Retail business line, monitoring of individual loans is conducted through the daily observation of past due positions as from the first unpaid instalment, using a classification based on the seriousness of the situation, which is managed using automated procedures in the IT system. The monitoring of credit risk also considers “connected” exposures, i.e. exposures that are not classified as positions in collection or in litigation but are connected with customers who have other positions in collection or in litigation. In addition, periodic monitoring has been introduced for all personal loans that, while not having unpaid instalments, have experienced repeated instances of resubmission of direct debit (RID/SDD) requests.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. ON the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports for management and the operating business units.

2.3 METHODS FOR MEASURING EXPECTED LOSSES

For financial instruments measured at amortized cost and at fair value through other comprehensive income (other than equity instruments), IFRS 9 introduced a model based on the concept of “expected loss” in replacement of the “incurred loss” concept employed by IAS 39.

Under the provisions of the new standard, the Iccrea Banking Group adopted a method for measuring expected losses on loans and securities subject to impairment 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 accounting rules, the Iccrea Group allocates each asset/tranche to one of the following stages (or buckets):

- stage 1, which includes all newly issued exposures and all exposures in respect of counterparties classified as performing that, as at the evaluation date, do not show a significant increase in credit risk with respect to the date of initial recognition;
- stage 2, which includes all performing exposures that, as at the evaluation date, show a significant increase in credit risk with respect to the date of initial recognition;

- stage 3, which includes all exposures that, as at the evaluation date, are classified as non-performing under the definition adopted.

The staging method of the Iccrea Banking Group was developed on the basis of the following drivers.

The method developed for the loan portfolio envisages:

- conventionally allocating certain exposures to stage 1, such as: exposures to mutual banks or Group companies, exposures to employees of the Company, overcollateralized exposures and any specific exposures of the individual company;
- the use of quantitative criteria based on internal rating/scoring systems, involving the analysis and comparison of the PD/rating at origination with the PD/rating at the reporting date. This identifies, on the basis of significant thresholds defined in terms of the number of notches that a rating has changed, any significant increase in credit risk on the position. If there is no origination PD/rating and only the reporting date PD/rating is available, the method provides for the use of the practical expedient of the low credit risk exemption;
- the use of qualitative criteria to identify the most risky positions in the performing portfolio. These criteria have been defined independently of the use (or not) of quantitative criteria and can be summarized in: positions under observation (where a watchlist system is available), positions more than 30 days past due and forborne performing exposures;

In addition, in order to reduce the volatility of the allocation of exposures to the various stages, the Group has develop mechanisms for the transfer of positions between stages that use a minimum probation period of 3 months, under which:

- an exposure in stage 2 can be transferred to stage 1 if the conditions for allocation to stage 1 exist at the reporting date and at least 3 continuous months have elapsed from the disappearance of the circumstances that gave rise to the allocation to stage 2;
- the restoration of performing status of an exposure previously allocated to stage 3 involves the direct allocation to stage 2 for at least 3 months following the restoration of performing status, unless the conditions for reallocation to stage 3 should arise.
- forborne performing exposures for which the regulatory probation period of 24 months is already active are excluded from the application of this criterion.

A quantitative staging criterion has been defined for Financial Institution counterparties, which, based on the use of an external rating model (RiskCalc by Moody's Analytics), determines the allocation to stage 2 of positions that show an increase of a given number of notches at the reporting date compared with the rating at the origination date.

The criterion is defined in such a way as to allocate to stage 1 all exposures that, regardless of the origination rating and reporting date, have a rating equal to or lower than the minimum investment grade rating (BBB-).

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 companies. 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. Securities issued are conventionally allocated to stage 1.

The approach adopted for FTA provides for the use of the principle of the low credit risk exemption, which regardless of the presence of an origination rating, allocates exposures with a rating that is better or equal to investment grade at the reporting date (BBB-) to stage 1.

Securities exposures to Group entities are also automatically allocated to stage 1.

Group companies 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.

Main drivers of ECL and scenarios used in IFRS 9 modeling

Probability of default (PD)

In order to ensure the probabilities of default are compliant with IFRS 9, the Iccrea Banking Group has developed a method, differentiated by individual company and using internal rating models where available, in order to obtain point-in-time, forward-looking and lifetime PDs.

For the loan portfolio, the drivers common to all of the approaches used to produce the PD regard:

- the transformation of the "through-the-cycle" PD into (or calculation of) the "point-in-time" (PIT) PD on the basis of a 1-year time horizon;
- the inclusion of forward-looking scenarios through the application of multipliers generated by the "satellite model" to the PIT PD and the definition of a series of possible scenarios that incorporate current and future macroeconomic conditions;
- the transformation of the 12-month PD into a lifetime PD in order to estimate the PD term structure over the entire residual life of the loans.

For the securities portfolio, the drivers common to all the approaches used to produce the PD to be used at FTA and subsequently regard:

- the inclusion of forward-looking scenarios through the application of multipliers generated by the "satellite model" to the PD supplied and the definition of a series of possible scenarios that incorporate current and future macroeconomic conditions;
- the transformation of the 12-month PD into a lifetime PD where not supplied (government securities) in order to estimate the PD term structure over the entire residual life class of the securities.

Loss Given Default (LGD)

The Iccrea Banking Group estimates LGD by grouping exposures at a variable level of granularity (by product, counterparty type or overall company portfolio), observing, for each uniform cluster of exposures, the ratio of provisions associated with specific writedowns deform to the total gross non-performing exposure and applying a danger rate matrix *(to quantify the probability of transition of non-performing positions from one status to another)*.

For the securities portfolio, the same LGD is used for exposures in stage 1 and stage 2. More specifically, the LGD is equal to 45%.

Exposure At Default (EAD)

The Group differentiates the approach used to estimate EAD by loan portfolio on the basis of product type and stage of the exposure, as follows.

For "Amortizing" loans:

- the EAD for stage 1 is equal to the residual debt at the reporting date;
- the EAD for stage 2 is calculated by taking the residual debt drawn from the repayment plans for each exposure, then applying a transformation coefficient differentiated by residual life.

For "Revolving" loans and "Guarantee" exposures, the EAD for stage 1 and stage 2 is equal to the residual debt t the reporting date.

For "Margin" positions, the EAD for stage 1 and stage 2 is equal to the residual debt at the reporting date with application of the regulatory CCF.

For the securities portfolio, the EAD associated with each securities issue is determined, where available, the gross value of the exposure (tel quel value) at the reporting date.

If this is not available, the carrying amount of the issue at the same date is used as proxy for the EAD.

For exposures in securities with amortization plans, the EAD for stage 1 is calculated as the residual debt at the reporting date, while the EAD for stage 2 is calculated on the basis of the residual debt drawn from the annual maturities over the residual life of the exposure, discounted and weighted appropriately to take account of the estimated increase in PDs over the residual life of the exposure (the approach for amortizing exposures in stage 2).

Exposures to the Clearing and Guarantee Fund, the exposure to the central bank, pooling deposits, overcollateralized repurchase transactions (including those under the GMRA), intercompany exposures and those to mutual banks participating in the MBG are automatically allocated to stage 1 and assigned a zero ECL in impairment testing. Exposures to employees of the Group and exposures to mutual banks that are not participating in the MBG are allocated directly to stage 1 and follow the staging method developed by the Bank.

Forward-looking conditioning of risk parameters

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

In order to obtain a PD that reflects future macroeconomic conditions, we estimate “satellite models” differentiated by counterparty type that “explain” the relationship linking default rates to a set of “explanatory” macroeconomic variables. The forecasts for the target variable – the default rate – are obtained by defining, on the basis of two separate scenarios, the future realizable values of each macroeconomic variable with the application of the coefficients of the estimated regression. Using these estimates, we construct multipliers as the ratio between the default rate forecasts obtained by calendar year and the last observed value of the target variable, differentiated by scenario.

In order to make the LGD forward looking, the Group estimates a regression model that “explains” the relationship linking a variable approximating loss given systemic default (for example, gross non-performing exposures for the system as a whole) to a set of “explanatory” macroeconomic variables, using the same approach adopted for the conditioning of PD for the estimation of the multipliers.

In order to use those multipliers, the Group associates the probabilities of occurrence in a judgmental manner to the two scenarios, which are used as weights in calculating the average multiplier for each calendar year. More specifically, we consider three calendar years following the estimation date of the satellite models (the reference date), while for subsequent years, the multiplier is equal to the arithmetic mean of the multipliers in the three years.

Finally, an additional conditioning for LGD was used to take account of the strategies for the sale of impaired assets by a number of Group companies (Iccrea BancaImpresa, Banca Sviluppo and BCC Factoring). Assessing elements in the sale plans concerning the probability of sale associated with each individual position in the sale group and the weight of the sale group as a proportion of the total impaired portfolio, the LGD metrics were adjusted assuming an adjustment to new levels of recovery on positions as a result of the disposal of impaired assets.

2.4 CREDIT RISK MITIGATION TECHNIQUES

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 doubtful positions, i.e. positions that have been judged unlikely to fully discharge their credit obligations to the Group;
- clear and timely escalation mechanisms accompanied by actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- clear and timely escalation mechanisms accompanied by actions to be taken in the event the limits specified in the risk policies are breached.

3. IMPAIRED CREDIT EXPOSURES

3.1 MANAGEMENT STRATEGIES AND POLICIES

The Group’s strategies for managing impaired credit exposures are an integral part of the Group's overall long-term Strategic Plan. The objectives for managing NPEs are incorporated in an Operational Plan, consisting of all the activities that the Group undertakes to effectively implement the Strategic Plan in a manner consistent with applicable regulations and regulatory policy.

The operational planning of the objectives to be achieved for the NPE portfolio also enables the Group to monitor the ongoing effectiveness of its strategies and to identify appropriate corrective measures in the event of deviations from targets.

The Group has implemented appropriate governance and operational structures to enable the efficient and sustainable management of impaired loans.

More specifically:

- the analysis, recovery and restructuring of non-performing exposures is structured around units that are separate from the units responsible for origination and those that monitor performing positions. In cases where the establishment of an organizational unit is not possible, internal controls have been established to ensure adequate mitigation of potential conflicts of interest. As a corollary to the foregoing, the decision-making bodies of the units involved in managing non-performing exposures do not have decision-making authority for performing positions, while those of the units responsible for managing performing positions do not have authority to make decisions concerning non-performing positions;
- criteria for allocating exposures have been specified. They are used to trigger a change in responsibility for/ownership of exposures at the level of the units specialized in managing impaired exposures, in compliance with the principle of assigning a position to a single manager;
- the system also provides for activities, including self-assessment, to assess the suitability, in both quantitative and qualitative terms, of the structures and resources deployed to manage impaired financial assets.

The reduction in the impaired exposures envisaged in the 2018-2020 plan will be accomplished with the implementation of a series of strategies, namely:

- maintaining positions on the balance sheet in the short term, to be applied to positions in reversible financial difficulty that are expected to return to performing status with short-term measures;
- maintaining positions on the balance sheet in the long term, to be applied to positions in a more advanced, albeit reversible, state of financial difficulty that are expected to return to performing status with long-term measures, including the debt restructuring measures provided for by law;
- legal action, to be applied to severely impaired positions for which legal action is taken to recover the claim, as the state of crisis appears deeply rooted and irreversible;
- active portfolio reduction, to be applied to impaired positions that are not considered recoverable. They are slated for disposal as the state of crisis appears to be deeply rooted and irreversible and the sale of the positions can also contribute to reducing the operating costs of managing NPEs.

In summary, the main actions are as follows:

- attempts at amicable recovery of loans and assets in the case of lease transactions;
- restructuring of exposures, using the options available under bankruptcy law where appropriate. This activity is based on an analysis of the credibility and repayment capacity of the counterparty, as well as the overall sustainability of the plans. The Group's policies are aimed at taking early action to restructure loans as the positive effects of curing on exposures are all the more effective the earlier they are implemented. In this regard, the instruments for monitoring counterparties have been strengthened in order to detect the initial signs of deterioration and promptly guide subsequent action;
- settlements, predominantly on an out-of-court basis;
- legal and out-of-court recovery of loans and assets, with a focus on remarketing leased assets;
- disposal of non-strategic NPE portfolios, making significant use of GACS state guarantee scheme. In addition to the sale of portfolios, the strategies also provide for one-to-one transfers where the terms offered are attractive, taking account of prices prevailing in market transactions.

The actions to be pursued are selected following an assessment of the cost-effectiveness of the measures and is reflected in a clustering of customers/transactions structured so as to guide operations effectively and facilitate the monitoring of the activities performed.

3.2 WRITEOFFS

Extinguishing loans – apart from ordinary recovery actions – essentially involves writing off positions and the non-recourse assignment of exposures.

Writeoffs may involve part or all of a position and do represent waiver of the legal right to recover the loan.

Initiation of writeoff procedure presupposes that the NPE has residual balance for which no further recovery is envisaged for the following reasons:

- a final judgment has been issued that establishes the impossibility of recovery;
- all possible forced recovery procedures have failed;
- there is no expectation of recovery (also linked to the position's vintage) and the impossibility of taking further actions given that any guarantees are essentially worthless or the overall financial position and profitability of the obligors are such as to recommend terminating recovery actions;
- the start or continuation of legal action would be uneconomic.

3.3 FINANCIAL ASSETS PURCHASED OR ORIGINATED CREDIT-IMPAIRED

Extinguishing loans – apart from ordinary recovery actions – essentially involves writing off positions and the non-recourse assignment of exposures.

Writeoffs may involve part or all of a position and do represent waiver of the legal right to recover the loan.

Initiation of writeoff procedure presupposes that the NPE has residual balance for which no further recovery is envisaged for the following reasons:

- a final judgment has been issued that establishes the impossibility of recovery;
- all possible forced recovery procedures have failed;
- there is no expectation of recovery (also linked to the position's vintage) and the impossibility of taking further actions given that any guarantees are essentially worthless or the overall financial position and profitability of the obligors are such as to recommend terminating recovery actions;

the start or continuation of legal action would be uneconomic.

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4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONSAND EXPOSURES SUBJECT TO FORBEARANCE MEASURES

The definition regards exposures subject to renegotiation and/or refinancing - forbearance measures – in respect of performing borrowers or classified as non-performing loans. In a broad sense, the category includes all new forbearance measures and modifications of the original contractual terms aimed at avoiding default by a customer in financial distress. It therefore includes both credit exposures subject to management restructuring (not only statutory restructuring measures) and normal renegotiation of counterparty payments.

A customer is in "objective" financial distress when one or more of the following states exists:

- the customer is classified as "non-performing";
- a payment instalment on at least one of any exposures to the customer is past due by more than 30 days in the three months prior to the opening of the forbearance procedure;
- the Bank has been notified by the customer of its financial distress.

Other circumstances that would represent a state of financial distress that the position manager must assess in order to classify any action as "forbearance" can include:

- an increase in the probability of default (PD) of the rating class over a time horizon defined by the opening of the forbearance procedure;
- the assignment of the counterparty to one of the worst rating classes;
- the assignment of the exposure to the watchlist category during the three months prior to the opening of the forbearance procedure.

In the absence of the above requirements, the position manager or the decision-making body may still classify the action as forbearance they find evidence that the borrower is in situation of financial distress.

As indicated in the ECB publication "Guidance to banks on non-performing loans", the following list outlines general supervisory guidance for the categorization of viable forbearance:

- a solution comprising short-term forbearance measures. it should be considered economically sustainable where:
    - the institution can demonstrate (based on reasonable documented financial information) that the borrower can afford the forbearance solution;
    - short-term measures are truly applied temporarily and the 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 these regard separate contracts if the loan was refinanced in a previous forbearance solution).
- a forbearance solution including long-term forbearance measures should only be considered viable where:
    - the institution can demonstrate (based on reasonable documented financial information) that the borrower can realistically afford the forbearance solution;
    - the resolution of outstanding arrears is fully addressed and a significant reduction in the borrower's balance in the medium to long term is expected;
    - in cases where there have been previous forbearance solutions granted in respect of an exposure, including any previous long-term forbearance measures, the bank should ensure that additional internal controls are implemented to ensure this subsequent forbearance treatment meets the viability criteria. These controls should include, at a minimum, that such cases should receive explicit approval of the relevant senior decision-making body.

Any assessment of viability should be based on the financial characteristics of the debtor and the forbearance measure to be granted at that time.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

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

A.1.1 PRUDENTIAL CONSOLIDATION - DISTRIBUTION OF FINANCIAL ASSETS BY TIME PAST DUE (CARRYING AMOUNT)

	Stage 1			Stage 2			Stage 3		
	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	1,327,180	9,940	15	48,547	39,479	18,095	46,654	31,128	887,294
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	152
Total 31/12/2018	1,327,180	9,940	15	48,547	39,479	18,095	46,654	31,128	887,446

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			
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	of which: individual writedowns	of which: collective writedowns
Opening balance	50,288	396	(1,089)	51,076	47,210	418	(6,863)	54,190
Increases in financial assets purchased or originated	-	-	(19)	19	-	-	-	-
Derecognition other than write-offs	(689)	-	388	(1,077)	(54)	-	533	(587)
Net writedowns/writebacks for credit risk (+/-)	(6,903)	(334)	(152)	(7,932)	(427)	(71)	(852)	(358)
Contractual modifications without derecognition	-	-	5	(5)	-	-	-	-
Change in estimation method	55	-	-	-	356	-	-	-
Writeoffs	-	-	-	-	-	-	-	-
Other changes	800	239	245	794	920	375	1,349	(54)
Closing balance	43,552	301	(622)	42,875	48,005	722	(5,833)	53,190
Recoveries from collection on written-off financial assets	-	-	-	-	-	-	-	-
Write-off recognized through profit or loss	-	-	-	-	-	-	-	-

	Total writedowns					Total provisions for commitments to disburse funds and financial guarantees issued			Total
	Stage 3				of which: purchased and originated credit-impaired financial assets				
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	of which: individual writedowns	of which: collective writedowns		Stage 1	Stage 2	Stage 3	
Opening balance	1,274,025	-	1,186,995	53,805	-	7,539	14,110	2,113	1,396,099
Increases in financial assets purchased or originated	5,784	-	5,580	204	-	-	-	-	5,784
Derecognition other than write-offs	(225,581)	-	(180,810)	(15,398)	-	(18)	-	(14)	(226,355)
Net writedowns/writebacks for credit risk (+/-)	(23,660)	-	(38,646)	14,425	-	(712)	(2,209)	516	(33,800)
Contractual modifications :hout derecognition	21	-	-	-	-	-	-	-	21
Change in estimation method	1,845	-	-	-	-	11	23	(2)	2,289
Writeoffs	(37,932)	-	(33,951)	(971)	-	-	-	-	(37,932)
Other changes	12,200	152	12,197	3	-	-	-	-	12,601
Closing balance	1,020,600	152	965,262	52,068	10,561	6,820	11,924	2,614	1,134,689
Recoveries from collection on written-off financial assets	-	-	-	-	-	-	-	-	-
Write-off recognized through profit or loss	-	-	-	-	-	-	-	-	-

A.1.3 PRUDENTIAL 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	456,896	457,188	112,268	20,551	89,247	1,893
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	305	-
3. Commitments to disburse funds and financial guarantees issued	52,188	47,606	2,813	11	1,684	-
Total 31/12/2018	509,085	504,794	115,081	20,562	91,235	1,893

A.1.4 PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired assets	Unimpaired assets			
A. ON-BALANCE-SHEET EXPOSURES					
a) Bad debts	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to be repaid	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Impaired past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Unimpaired past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other unimpaired assets	X	19,320,387	3,193	19,317,194	-
- of which: forborne exposures	X	-	-	-	-
TOTAL A	-	19,320,387	3,193	19,317,194	-
B. OFF-BALANCE-SHEET EXPOSURES					
a) Impaired	-	X	-	-	-
b) Unimpaired	X	2,990,270	721	2,989,550	-
TOTAL B	-	2,990,270	721	2,989,550	-
TOTAL A+B	-	22,310,657	3,914	22,306,744	-

**Values to be reported for information purposes*

A.1.5 PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired assets	Unimpaired assets			
A. ON-BALANCE-SHEET EXPOSURES					
a) Bad debts	1,099,517	X	660,166	439,351	15,710
- of which: forborne exposures	111,288	X	74,239	37,049	2,024
b) Unlikely to be repaid	1,019,301	X	353,337	665,964	8,483
- of which: forborne exposures	510,025	X	163,832	346,194	7,767
c) Impaired past due exposures	37,918	X	8,627	29,291	-
- of which: forborne exposures	7,892	X	1,047	6,845	-
d) Unimpaired past due exposures	X	172,747	7,315	165,432	-
- of which: forborne exposures	X	6,180	192	5,989	-
e) Other unimpaired assets	X	18,958,974	82,819	18,876,155	-
- of which: forborne exposures	X	194,286	6,160	188,125	-
TOTAL A	2,156,736	19,131,721	1,112,265	20,176,193	24,193
B. OFF-BALANCE-SHEET EXPOSURES					
a) Impaired	33,075	X	2,624	30,451	-
b) Unimpaired	X	1,434,972	18,008	1,416,964	-
TOTAL B	33,075	1,434,972	20,632	1,447,415	-
TOTAL A+B	2,189,811	20,566,693	1,132,897	21,623,608	24,193

** 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 debts	Unlikely to pay	Impaired past-due
A. Opening gross exposure	-	-	56
- of which: exposures assigned but not derecognized	-	-	-
B. Increases	-	-	-
B.1 from unimpaired 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	-	-	-
C. Decreases	-	-	(56)
C.1 to unimpaired exposures	-	-	-
C.2 writeoffs	-	-	(56)
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	-	-	-
- 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

The table has not been completed because there were no such positions as of the balance sheet date.

A.1.7 PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS IMPAIRED POSITIONS

	Bad debts	Unlikely to pay	Impaired past-due
A. Opening gross exposure	**1,392,465**	**1,088,253**	**61,951**
- of which: exposures assigned but not derecognized	647	15,052	1,257
B. Increases	**229,827**	**260,646**	**63,433**
B.1 from unimpaired exposures	16,072	179,230	43,619
B.2 from purchased or originated impaired financial assets	-	13,594	-
B.3 from other categories of impaired exposures	167,155	22,015	415
B.4 contractual modifications without derecognition	-	635	-
B.5 other increases	46,600	45,172	19,398
C. Decreases	**(522,775)**	**(329,598)**	**(87,466)**
C.1 to unimpaired exposures	(15)	(20,002)	(10,770)
C.2 writeoffs	(27,368)	(15,544)	(180)
C.3 collections	(77,620)	(134,446)	(33,460)
C.4 realized on disposals	(112,613)	(2,029)	(74)
C.5 losses on disposals	(304,361)	(10,558)	(47)
C.6 to other categories of impaired exposures	-	(146,913)	(42,672)
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	(800)	(105)	(264)
D. Closing gross exposure	**1,099,517**	**1,019,301**	**37,918**
- of which: exposures assigned but not derecognized	11,543	19,151	781

A.1.7 BIS PRUDENTIAL CONSOLIDATION - 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	**619,797**	**187,254**
- of which: exposures assigned but not derecognized	2,698	8,028
B. Increases	**129,135**	**152,202**
B.1 from performing credit exposures without forbearance	16,151	55,810
B.2 from performing credit exposures with forbearance	23,400	X
B.3 from impaired exposures with forbearance	X	17,524
B.4 other increases	89,584	78,868
C. Decreases	**(119,727)**	**(138,990)**
C.1 to performing credit exposures without forbearance	X	(80,258)
C.2 to performing credit exposures with forbearance	(17,524)	X
C.3 to impaired exposures with forbearance	X	(23,400)
C.4 writeoffs	(10,141)	(286)
C,5 collections	(77,005)	(30,949)
C.6 realization from disposal	(1,335)	(1,950)
C.7 losses on disposal	(5,044)	-
C.8 other decreases	(8,679)	(2,147)
D. Closing gross exposure	**629,205**	**200,466**
- of which: exposures assigned but not derecognized	2,630	8,556

A.1.8 PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET IMPAIRED CREDIT EXPOSURES TO BANKS: CHANGE IN TOTAL ADJUSTMENTS OF LOANS

	Bad debts		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	-	-	-	-	41	-
- of which: exposures assigned but not derecognized	-	-	-	-	-	-
B. Increases	-	-	-	-	16	-
B.1 writedowns of purchased or originated credit-impaired assets	-	X	-	X	-	X
B.2 other writedowns	-	-	-	-	16	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 from other categories of impaired positions	-	-	-	-	-	-
B.5 contractual modifications without derecognition	-	X	-	X	-	X
B.6 other increases	-	-	-	-	-	-
C. Decreases	-	-	-	-	(56)	-
C.1 writebacks from valuations	-	-	-	-	-	-
C.2 writebacks from collections	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 writeoffs	-	-	-	-	(56)	-
C.5 to other categories of impaired positions	-	-	-	-	-	-
C.6 contractual modifications without derecognition	-	X	-	X	-	X
C.7 other decreases	-	-	-	-	-	-
D. Total closing adjustments	-	-	-	-	-	-
- of which: exposures assigned but not derecognized	-	-	-	-	-	-

A.1.9 PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET IMPAIRED CREDIT EXPOSURES TO CUSTOMERS: CHANGE IN TOTAL ADJUSTMENTS OF LOANS

	Bad debts		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	871,079	56,105	393,750	178,110	9,571	165
- of which: exposures assigned but not derecognized	112	-	3,207	590	171	33
B. Increases	205,364	31,925	107,125	41,098	9,582	3,884
B.1 writedowns of purchased or originated credit-impaired assets	4,877	X	10,357	X	67	X
B.2 other writedowns	85,334	12,951	87,274	27,150	6,945	1,284
B.3 losses on disposal	33,858	434	877	8	47	-
B.4 from other categories of impaired positions	69,875	14,425	2,784	80	74	-
B.5 contractual modifications without derecognition	-	X	-	X	-	X
B.6 other increases	11,421	4,116	5,832	13,860	2,449	2,600
C. Decreases	(416,277)	(13,791)	(147,537)	(55,377)	(10,525)	(3,002)
C.1 writebacks from valuations	(30,361)	(595)	(38,947)	(21,121)	(708)	(116)
C.2 writebacks from collections	(286,522)	(10,489)	(15,078)	(5,194)	(461)	(232)
C.3 gains on disposal	(53,770)	(499)	(4,806)	(12)	-	-
C.4 writeoffs	(27,330)	(1,965)	(15,545)	(8,374)	(216)	-
C.5 to other categories of impaired positions	-	-	(65,984)	(14,231)	(6,749)	(77)
C.6 contractual modifications without derecognition	-	X	-	X	-	X
C.7 other decreases	(18,293)	(242)	(7,176)	(6,445)	(2,391)	(2,578)
D. Total closing adjustments	660,166	74,239	353,337	163,832	8,627	1,047
- of which: exposures assigned but not derecognized	3,108	388	5,167	582	69	-

A.2 CLASSIFICATION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED 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	69,047	14,086	22,520,459	1,126	-	94	17,553,068	40,157,880
- Stage 1	67,991	4,436	22,136,541	1,114	-	94	14,086,887	36,297,064
- Stage 2	1,020	9,650	379,597	12	-	-	1,305,018	1,695,297
- Stage 3	36	-	4,320	-	-	-	2,161,163	2,165,518
B. Financial assets measured at fair value through other comprehensive income	79,725	5,100	136,310	6,344	-	-	182,261	409,738
- Stage 1	79,725	5,100	105,193	-	-	-	180,209	370,226
- Stage 2	-	-	31,117	6,344	-	-	1,747	39,207
- Stage 3	-	-	-	-	-	-	305	305
Total (A+B)	148,772	19,186	22,656,769	7,470	-	94	17,735,327	40,567,618
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	13,594	13,594
C. Commitments to disburse funds and financial guarantees issued								
- Stage 1	59,950	16,813	449,316	610	-	40	3,182,291	3,709,020
- Stage 2	2,948	673	115,320	142	171	-	101,882	221,136
- Stage 3	-	-	-	-	-	-	32,557	32,557
Total (C)	62,898	17,487	564,636	752	171	40	3,316,730	3,962,714
Total (A+B+C)	211,669	36,673	23,221,405	8,222	171	134	21,052,058	44,530,332

A.2.2 PRUDENTIAL CONSOLIDATION - DISTRIBUTION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BY INTERNAL RATING GRADES

	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	973,570	1,018,941	1,197,121	1,036,740	819,410	620,632	352,730	158,797
- Stage 1	973,361	1,000,310	1,168,898	874,362	614,275	384,529	152,524	5,702
- Stage 2	209	18,631	28,223	162,378	205,135	235,832	200,206	152,269
- Stage 3	-	-	-	-	-	272	-	825
B. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A+B)	973,570	1,018,941	1,197,121	1,036,740	819,410	620,632	352,730	158,797
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
C. Commitments to disburse funds and financial guarantees issued								
- Stage 1	128,191	88,908	119,909	46,822	45,037	48,137	96,861	43,244
- Stage 2	-	800	-	348	5,094	6,067	30,163	32,792
- Stage 3	-	-	-	-	-	-	-	-
Total (C)	128,191	89,708	119,909	47,170	50,131	54,204	127,024	76,036
Total (A+B+C)	845,379	929,233	1,077,212	989,569	769,279	566,428	225,705	82,761

	Internal rating grades						Not rated	Total
	Class 9	Class 10	Class 11	Class 12	Class 13	Class 14		
A. Financial assets measured at amortized cost	78,952	23,234	1,679,398	23,315	-	8	3,209,280	11,192,128
- Stage 1	1,598	1,732	14	23,305	-	3	2,595,038	7,795,651
- Stage 2	77,346	21,414	-	10	-	5	395,801	1,497,459
- Stage 3	8	88	1,679,384	-	-	-	218,441	1,899,018
B. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A+B)	78,952	23,234	1,679,398	23,315	-	8	3,209,280	11,192,128
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
C. Commitments to disburse funds and financial guarantees issued								
- Stage 1	8,754	-	-	10,995	-	14,779	369,123	1,020,760
- Stage 2	19,187	7,350	-	-	1,103	-	22,957	125,861
- Stage 3	-	-	20,995	-	-	-	3,737	24,732
Total (C)	27,941	7,350	20,995	10,995	1,103	14,779	395,817	1,171,353
Total (A+B+C)	51,011	15,884	1,658,403	12,320	(1,103)	(14,771)	2,813,463	10,020,775

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)									Total
							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	(1)+(2)
1. Secured on-balance-sheet credit exposures:	**17,544,728**	**17,544,622**	**1,230**	**13,123**	**17,502,089**	**25,244**	**-**	**-**	**-**	**-**	**-**	**-**	**13**	**2,525**	**13**	**17,544,237**
1.1 fully secured	17,544,728	17,544,622	1,230	13,123	17,502,089	25,244	-	-	-	-	-	-	13	2,525	13	17,544,237
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance-sheet credit exposures:	**21,164**	**21,103**	**-**	**-**	**12,914**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,210**	**980**	**-**	**21,103**
2.1 fully secured	21,164	21,103	-	-	12,914	-	-	-	-	-	-	-	7,210	980	-	21,103
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 PRUDENTIAL CONSOLIDATION – ON- AND OFF-BALANCE SHEET SECURED CREDIT EXPOSURES TO BANKS

			Collateral (1)				Unsecured guarantees (2)									Total
							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	(1)+(2)
1. Secured on-balance-sheet credit exposures:	**10,730,693**	**9,624,250**	**2,460,773**	**3,287,427**	**1,201,288**	**1,543,150**	**-**	**-**	**-**	**-**	**-**	**361,159**	**94,186**	**47,050**	**339,404**	**9,334,437**
1.1 fully secured	10,336,105	9,285,959	2,422,831	3,240,561	1,196,603	1,522,349	-	-	-	-	-	285,656	62,802	36,207	322,573	9,089,582
- of which: impaired	1,847,001	1,008,185	430,729	448,507	1,388	77,587	-	-	-	-	-	13,976	9,676	4,317	28,133	1,014,311
1.2 partially secured	394,588	338,290	37,942	46,866	4,685	20,801	-	-	-	-	-	75,503	31,384	10,843	16,831	244,855
- of which: impaired	62,071	22,015	9,180	1,948	-	1,349	-	-	-	-	-	3,160	2,303	1,952	2,227	22,118
2. Secured off-balance-sheet credit exposures:	**237,612**	**235,451**	**50**	**-**	**369**	**2,907**	**-**	**-**	**-**	**-**	**-**	**81,440**	**17,127**	**24,632**	**172,603**	**299,128**
2.1 fully secured	211,440	209,444	50	-	333	2,801	-	-	-	-	-	74,396	12,425	23,331	163,838	277,173
- of which: impaired	14,356	13,936	50	-	-	273	-	-	-	-	-	2,024	5,918	1,575	5,733	15,572
2.2 partially secured	26,172	26,007	-	-	36	106	-	-	-	-	-	7,044	4,701	1,302	8,766	21,955
- of which: impaired	89	33	-	-	-	-	-	-	-	-	-	25	-	-	25	50

A.4 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 and equipment		**5,370**	**6,837**	**1,618**	**5,219**	**-**
A.1. Used in operations		-	-	-	-	-
A.2. Investment property		-	-	-	-	-
A.3. Inventories		5,370	6,837	1,618	5,219	-
B. Equity and debt securities		-	-	-	-	-
C. Other assets		-	-	-	-	-
D. Non-current assets and disposal groups held for sale		-	-	-	-	-
D.1. Property and equipment		-	-	-	-	-
D.2. Other assets		-	-	-	-	-
Total	**31/12/2018**	**5,370**	**6,837**	**1,618**	**5,219**	**-**

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 debts		-	-	858	14,305	-	-
- of which: forborne exposures		-	-	-	-	-	-
A.2 Unlikely to be repaid		252	26	1,646	521	-	-
- of which: forborne exposures		241	15	1,005	102	-	-
A.3 Impaired past due exposures		7	1	2,817	86	-	-
- of which: forborne exposures		-	-	26	9	-	-
A,4 Unimpaired exposures		7,295,720	1,432	2,476,205	7,724	-	-
- of which: forborne exposures		-		-	-	-	-
	Total (A)	(7,295,979)	1,460	(2,481,527)	22,636	-	-
B. Off-balance sheet							
B.1 Impaired exposures		-	-	428	1	-	-
B.2 Unimpaired exposures		49,562	14	63,055	56	-	-
	Total (B)	(49,562)	14	(63,483)	57	-	-
Total (A+B)	**31/12/2018**	(7,345,541)	1,474	(2,545,010)	22,693	-	-

		Non-financial companies		Households	
		Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance sheet					
A.1 Bad debts		378,614	539,298	59,879	106,562
- of which: forborne exposures		34,733	71,389	2,316	2,850
A.2 Unlikely to be repaid		619,328	328,207	44,738	24,584
- of which: forborne exposures		326,081	155,036	18,867	8,679
A.3 Impaired past due exposures		13,453	1,554	13,013	6,998
- of which: forborne exposures		5,945	777	875	261
A,4 Unimpaired exposures		7,451,523	51,342	1,818,624	29,636
- of which: forborne exposures		180,548	5,486	13,566	865
	Total (A)	(8,462,917)	920,401	(1,936,253)	167,781
B. Off-balance sheet					
B.1 Impaired exposures		28,214	2,584	1,810	39
B.2 Unimpaired exposures		1,046,081	17,653	72,841	286
	Total (B)	(1,074,295)	20,237	(74,651)	325
Total (A+B)	**31/12/2018**	(9,537,212)	940,638	(2,010,904)	168,106

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
A. On-balance-sheet						
A.1 Bad debts		438,925	655,745	376	2,715	-
A.2 Unlikely to be repaid		663,466	348,792	353	4,008	-
A.3 Impaired past due exposures		28,611	8,639	5	1	1
A.4 Unimpaired exposures		18,657,408	88,726	221,905	1,123	84,471
	TOTAL A	19,788,410	1,101,901	222,639	7,847	84,472
B. Off-balance-sheet						
B.1 Impaired exposures		27,921	2,624	690	-	-
B.2 Unimpaired exposures		1,037,492	16,833	51,623	889	19,465
	TOTAL B	1,065,413	19,457	52,313	889	19,465
TOTAL (A+B)	31/12/2018	20,853,823	1,121,359	274,952	8,736	103,937

		ASIA		REST OF THE WORLD	
		Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet					
A.1 Bad debts		-	-	51	10
A.2 Unlikely to be repaid		2,145	265	-	-
A.3 Impaired past due exposures		673	-	-	-
A.4 Unimpaired exposures		73,242	79	5,045	36
	TOTAL A	76,060	344	5,096	46
B. Off-balance-sheet					
B.1 Impaired exposures		1,575	-	-	-
B.2 Unimpaired exposures		642	32	715	14
	TOTAL B	2,217	32	715	14
TOTAL (A+B)	31/12/2018	78,276	376	5,811	60

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
A. On-balance-sheet						
A.1 Bad debts		-	-	-	-	-
A.2 Unlikely to be repaid		-	-	-	-	-
A.3 Impaired past due exposures		-	-	-	-	-
A.4 Unimpaired exposures		19,098,904	2,849	204,024	243	10,633
	Total A	19,098,904	2,849	204,024	243	10,633
B. Off-balance-sheet						
B.1 Impaired exposures		-	-	-	-	-
B.2 Unimpaired exposures		144,950	657	15,248	18	236
	Total (B)	144,950	657	15,248	18	236
Total (A+B)	31/12/2018	19,243,854	3,506	219,273	262	10,869

		Americas	Asia		Rest of the world	
		Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure
A. On-balance-sheet						
A.1 Bad debts		-	-	-	-	-
A.2 Unlikely to be repaid		-	-	-	-	-
A.3 Impaired past due exposures		-	-	-	-	-
A.4 Unimpaired exposures		100	432	-	2,418	1
	Total A	100	432	-	2,418	1
B. Off-balance-sheet						
B.1 Impaired exposures		-	-	-	-	-
B.2 Unimpaired exposures		2	6,051	39	242	5
	Total (B)	2	6,051	39	242	5
Total (A+B)	31/12/2018	102	6,483	39	2,660	6

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 a bank's own funds. It is no longer possible to use favorable weightings for interbank exposures and new methods have been introduced for calculating exposures in the presence of investment schemes.

In the light of these changes, the following reports positions that, in exceeding 10% of own funds, represent large exposures.

The following represents the situation at December 31, 2018:

a) Number of positions: 45

b) Carrying amount: 34,232 million

c) Weighted amount: 1,610 million

The positions mainly regard transactions with bank counterparties in the mutual banking industry.

C. SECURITIZATIONS

QUALITATIVE DISCLOSURES

The Iccrea Banking Group operates in the securitization market as both an originator and investor. The main objectives pursued through securitization can be summarized as follows:

- diversifying the sources of funding and reducing its cost;
- strengthening the liquidity position by creating eligible assets for refinancing operations with the ECB (so-called self-securitizations).

The following section details the main securitizations by originator.

OWN SECURITIZATIONS

"GACS I" – BCC NPLs 2018 SRL SECURITIZATION

In June 2018, a multioriginator securitization of a portfolio of non-performing loans was completed. It qualified for the State guarantee mechanism for the liabilities issued (the so-called "GACS" mechanism) pursuant to Decree Law 18 of February 14, 2016, ratified with Law 49 of April 8, 2016 and subsequently implemented with the Decree of the Ministry for the Economy and Finance (MEF) of August 3, 2016.

The transaction saw Iccrea Banca participate as promoter and joint arranger (together with JP Morgan Securities Limited) and involved the sale by Iccrea BancaImpresa and Banca Sviluppo and 21 mutual banks pursuant Law 130/1999 of the same number of portfolios of unsecured and mortgage loans, mainly secured by first mortgages, classified as bad debts as at the date of sale with a total carrying amount of €1,046 billion 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 independent of the assignors.

The securitized portfolios from Iccrea BancaImpresa and Banca Sviluppo include non-performing loans at the sale date of June 25, 2018, with a gross value at December 31, 2017 of €64.8 million and €109.2 million respectively, which were sold for €17.6 million and €30.2 million, respectively.

As part of the transaction, the special purpose vehicle acquired the portfolio from the banks, financing the purchase by issuing securities with a total nominal value of about €323.86 million, divided into the following classes.

Class	Rating (Moody's/Scope Rating)	Amount (€/millions)	Amount (%)	Interest rate
A	Baa3/BBB-	282	26.95%	6M Euribor + 0.40%
B	Caa2/B+	31.4	3%	6M Euribor + 6%
C	NR - JUNIOR	10.4	1%	12% + Class J Notes variable Return

The securities are not listed on any regulated market.

On July 10, 2018 Good Hill Partners subscribed 94.96% of the mezzanine notes and 95% of the junior notes.

In order to comply with the requirement to maintain a material net economic interest of 5% in the securitization pursuant to (i) Article 405, paragraph 1, letter a) of Regulation (EU) no. 575/2013 (the "CRR"), (ii) Article 51, paragraph 1, letter a) of Delegated Regulation (EU) no. 231/2013 (the "AIMFD Regulation") and (iii) Article 254, paragraph 2, letter A) of Delegated Regulation (EU) no. 35/2015 (the "Solvency II Regulation"), the assignor banks undertook to retain at least 5% of the nominal value of each tranche of securities issued as part of the securitization (the "vertical slice approach").

Iccrea BancaImpresa and Banca Sviluppo subscribed the notes in the following amounts.

Class	Nominal value (€)
Class A	43,405,000
Class B	262,000
Class C	86,974

Following the settlement of the market placement of the mezzanine and junior tranches, Iccrea BancaImpresa and Banca Sviluppo derecognized the loans involved and recognized under item 100 "Net gain (loss) on the sale or repurchase of financial assets measured at amortized cost" a capital loss equal to the difference between the aggregate gross value at the date of assignment of the loans, net of writedowns at the same date and including any collections from those loans and pertaining to the vehicle company at the date of sale.

In addition, as part of the operation:

- the special purpose vehicle entered into two derivative contracts to hedge the interest rate risk;
- a cash reserve was established in the amount of 5.0088% of the nominal value of the senior notes (€14,125 million) in order to manage the risk of any mismatch between the funds deriving from the collections and the amounts necessary to pay the senior costs of the transaction and interest on the senior notes. In accordance with market practice, this reserve is financed in conjunction with the issue of the notes by an interest-bearing limited recourse loan granted by Iccrea Banca;
- time-call and clean-up call options have been established in order to permit repayment of the notes before maturity.

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, 2018.

"GACS II" – BCC NPLS 2018-2 SRL SECURITIZATION

In December 2018, a second securitization of multiple portfolios of non-performing unsecured and mortgage loans was completed. As part of the operation, on December 27, 2018 the assignor banks submitted a preliminary application to the Ministry for the Economy and Finance 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, ratified with Law 49 of April 8, 2016 and subsequently implemented with the Decree of the Ministry for the Economy and Finance (MEF) of August 3, 2016, the MEF Decree of November 21, 2017 and the MEF Decree of October 10, 2018.

The transaction involved the "en bloc" sale of a portfolio of bad debts originated by Iccrea BancaImpresa and Banca Sviluppo and 71 other mutual banks with a gross book value of more than €2 billion.

The securitized portfolios from Iccrea BancaImpresa and Banca Sviluppo include non-performing loans at the sale date of June 25, 2018, with a gross value at December 31, 2017 of €16.8 million and €40.3 million respectively, which were sold for €16.5 million and €39.82 million, respectively.

As part of the transaction, the special purpose vehicle acquired the portfolio from the banks, financing the purchase by issuing securities with a total nominal value of about €558.53 million, divided into the following classes.

Class	Rating (DBRS/Scope Rating)	Amount (€/millions)	Amount (%)	Interest rate
A	BBB Low/BBB	478	85.6%	6M Euribor + 0.30%
B	BBB Low/BBB	60.13	10.7%	6M Euribor + 6%
J	NR - JUNIOR	20.4	3.7%	12% + Class J Notes Variable Return

The securities are not listed on any regulated market.

At the issue date, J.P. Morgan Securities Plc subscribed 94.52% of the mezzanine notes and 94.58% of the junior notes.

In order to comply with the requirement to maintain a material net economic interest of 5% in the securitization pursuant to (i) Article 405, paragraph 1, letter a) of Regulation (EU) no. 575/2013 (the "CRR"), (ii) Article 51, paragraph 1, letter a) of Delegated Regulation (EU) no. 231/2013 (the "AIMFD Regulation") and (iii) Article 254,

paragraph 2, letter A) of Delegated Regulation (EU) no. 35/2015 (the “Solvency II Regulation”), the assignor banks undertook to retain at least 5% of the nominal value of each tranche of securities issued as part of the securitization (the “vertical slice approach”).

Iccrea BancaImpresa and Banca Sviluppo subscribed the notes in the following amounts.

Class	Nominal value (€)
Class A	55,423,000
Class B	345,000
Class C	114,815

Following the settlement of the market placement of the mezzanine and junior tranches, Iccrea BancaImpresa and Banca Sviluppo derecognized the loans involved and recognized under item 100 "Net gain (loss) on the sale or repurchase of financial assets measured at amortized cost" a capital loss equal to the difference between the aggregate gross value at the date of assignment of the loans, net of writedowns at the same date and including any collections from those loans and pertaining to the vehicle company at the date of sale.

In addition, as part of the operation:

- a cash reserve was established in the amount of about 3% of the nominal value of the senior notes in order to manage the risk of any mismatch between the funds deriving from the collections and the amounts necessary to pay the senior costs of the transaction and interest on the senior notes. In accordance with market practice, this reserve was financed at the issue date of the notes by a limited recourse loan granted by Iccrea Banca;
- early amortization events have been specified, including certain cases of non-payment on the notes, breaches of obligations with respect to the notes and in the event of insolvency of the SPV. The SPV also has the possibility of invoking an optional redemption clause at each payment date following the total redemption date of the senior notes; and
- a subordination event has been specified (if the collections on the loans are below certain levels specified in the transaction documentation, payment of the interest on the mezzanine notes will be subordinated to repayment of the principal on the senior notes).

The securitization was structured to possess the characteristics that would make the senior notes eligible for the State guarantee, in view of the deconsolidation by the assignors of the loans involved in the transaction, in accordance with IAS/IFRS. On December 27, 2018, a preliminary application for admission to the State guarantee mechanism was submitted

"CREDIPER CONSUMO" SECURITIZATION

At the end of 2018, a self-securitization denominated "Crediper Consumo" was finalized, as part of which BCC CreditoConsumo sold a portfolio of performing receivables in respect of personal loan contracts to the Crediper Consumer Srl securitization vehicle for a total of €650 million.

The transaction has a 20-month revolving period and involved the participation of Iccrea Banca as the sole arranger. The following securities were issued as part of the securitization:

Class	Rating (DBRS /Fitch)	Amount (€/millions)	Amount (%)	Expected maturity
A	AA / AA-	520	80%	Nov-2052
B	NR	140.5	20%	Nov-2052

All of the securities were subscribed by the originator and are listed on the Irish Stock Exchange in Dublin.

The Class A notes, with a tranching of about 80% and a total value of €520 million, were subscribed by BCC CreditoConsumo for use as underlying assets in refinancing transactions with the European Central Bank.

"AGRI9" - ICCREA SME CART 2016 SRL SECURITIZATION

On August 10, 2016, the Agri#9 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.

Class	Rating (Moody's/S&P)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A1	Aa2/AAA	202.3	14.7%	3M Euribor + 0.10%	Jun-2019
A2	Aa2/AA (low)	480	35%	3M Euribor + 0.85%	Jun-2021
B	A1/A	65	4.7%	3M Euribor + 1.15%	Dec-2021
C	NR - LOW MEZZANINE	9.4	0.7%	3M Euribor + 1.20%	Dec-2018
D	NR - JUNIOR	617.5	44.9%	Residual remuneration	Mar-2022

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.

Redemption of the Class A1 notes began in December 2018 at the end of the two-year revolving period.

Redemption of the Class C notes may only begin if and to the extent that the special purpose entity has sufficient funds, exclusively for interest, to use for that purpose after having paid all costs in the interest payment ranking that have priority over redemption. Redemption of the notes, which could have begun at the end of the revolving period, did not begin.

The contract assigning the portfolio of performing leasing receivables to the special purpose entity was executed on July 20, 2016. The portfolio was selected on the basis of criteria agreed with the Arranger and the investors, in an amount essentially equal to the value of the Class A1, A2, B and D securities issued, broken down into four pools. At the assignment date, they had the following composition:

Pool	Amount (€/millions)	Amount (%)
1) - Industrial vehicles	85.7	6.28%
2) - Equipment	329.2	24.12%
3) - Real estate	925.1	67.78%
4) - Auto	24.8	1.82%
Total	**1,364.8**	**100%**

Revolving operations ended in September 2018, The value of the bargain purchase option was not assigned.

Servicing activities are performed by Iccrea BancaImpresa, which carries out monitoring, collection and recovery activities using the same procedures adopted for the company portfolio. The contract gives the vehicle the option of terminating the servicer activities of Iccrea BancaImpresa and the transfer of the Servicer role to the Back-Up Servicer where Iccrea BancaImpresa:

- is in material breach of the provisions of the Servicing agreement; or
- becomes insolvent; or
- is not, or ceases to be, an entity resident in or with its registered office in a country of the European Union, or that status should apply to the Parent Company of the banking group to which Iccrea BancaImpresa belongs.

"CREDITI IN BONIS 2006" SECURITIZATION– CREDICO FINANCE 7 SRL

In 2006, a multi-originator securitization was carried out, in which the former Banca Romagna Cooperativa (whose assets and liabilities were subsequently acquired by Banca Sviluppo) assigned without recourse performing residential mortgage loans to Credico Finance 7 Srl (the SPV) with a nominal value of €37,318,807.

The transaction involved Societè Générale as arranger and Iccrea Banca SpA as co-arranger.

The senior and Mezzanine notes were placed with institutional investors and have been rated as follows:

Class	Rating (Moody's/S&P)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/BBB-	449.2	94%	3-month Euribor + 0.16%	31/03/2039
B	Aa2/BBB-	19.1	4%	3-month Euribor + 0.55%	31/03/2039
C	NR - JUNIOR	9.5	2%	Residual remuneration	31/03/2039

The Class C notes were subdivided into 16 series, each in an amount proportionate to the amount of the loans assigned by the individual participating banks, which subscribed those notes in full.

Each subscribed only the series of subordinated securities pertaining to them, with payment of the price at par. The structure of the transaction enables the assignor banks to benefit from any return on the assigned portfolio that exceeds the amount paid to the subscribers of the senior and mezzanine notes.

The amount of the Class C – Junior notes subscribed originally by the former Banca Romagna Cooperativa (later acquired by Banca Sviluppo) was €746,807.

The purchase price for the portfolio of assigned loans was equal to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The assigned portfolio is composed of performing loans from mortgage transactions secured by first mortgages.

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans.

"CREDITI IN BONIS 2009" SECURITIZATION– CREDICO FINANCE 8 SRL

In 2009, a multi-originator securitization was carried out, in which the former Banca Crediveneto (whose assets and liabilities were subsequently acquired by Banca Sviluppo) assigned without recourse performing residential mortgage loans to Credico Finance 8 Srl (the SPV) with a nominal value of €39,835,432.

The purchase price for the portfolio of assigned loans was equal to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 14 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by the former Banca Crediveneto was €3,785,432.

The senior notes have been rated as follows:

Class	Rating (Moody's/DBRS)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/AAA	369.25	90.5%	3-month Euribor + 0.30%	31/07/2046
B	NR - JUNIOR	38.77	9.5%	Residual remuneration	31/07/2046

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

The transaction involved Iccrea Banca SpA as arranger.

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans.

At January 2019 payment date, the repayment of the Class A notes is expected to be completed and the originator banks have announced their intention to repurchase the remaining loans. In particular, the repurchase price of the loans has been set at the principal value of the loans at November 30, 2018.

On this payment date (the Redemption Payment Date), the special purpose entity will therefore use the available funds to carry out the final distribution of the separate assets.

"CREDITI IN BONIS 2011" SECURITIZATION – CREDICO FINANCE 9 SRL

In 2011, a multi-originator securitization was carried out, in which the former Banca Romagna Cooperativa (whose assets and liabilities were subsequently acquired by Banca Sviluppo) assigned without recourse performing residential mortgage loans to Credico Finance 9 Srl (the SPV) with a nominal value of €35,471,478.

The transaction involved Iccrea Banca SpA as arranger.

The Senior notes have been rated as follows:

Class	Rating (Moody's/DBRS)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/AAA	554.4	87%	3-month Euribor + 0.30%	15/11/2050
B	NR - JUNIOR	82.8	13%	Residual remuneration	15/11/2050

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

The Class B – Junior notes were subdivided into 18 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by the former Banca Romagna Cooperativa (later acquired by Banca Sviluppo) was €4,571,478.

The purchase price for the portfolio of assigned loans was equal to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The assigned portfolio is composed of performing loans from mortgage transactions secured by first mortgages.

The operation provides for a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans.

"CREDITI IN BONIS 2012" SECURITIZATION – CREDICO FINANCE 10 SRL

In 2012, a multi-originator securitization was carried out, in which the former Banca Romagna Cooperativa and the former Banca Crediveneto (whose assets and liabilities were subsequently acquired by Banca Sviluppo) assigned without recourse performing residential mortgage loans to Credico Finance 10 Srl (the SPV) with a nominal value of €36,668,028 and €34,275,649, respectively.

The purchase price for the portfolio of assigned loans was equal to €70,943,677, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 30 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by BRC was €5,769,000, while Crediveneto subscribed €5,376,000.

The Senior notes have been rated as follows:

Class	Rating (Moody's/DBRS)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/AA	1,333.2	84.25%	3-month Euribor + 0.30%	31/10/2050
B	NR - JUNIOR	249.2	15.75%	Residual remuneration	31/10/2050

The transaction involved Iccrea Banca SpA as arranger.

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

ALCHERA SECURITIZATION

In 2013, a multi-originator securitization was completed by Banca Mediocredito del FVG together with Cassa di Risparmio di Saluzzo Spa and Banca Cassa di Risparmio di Savigliano Spa, with the issue of asset-backed securities by the vehicle Alchera SPV, a company established pursuant to Law 130/99.
More specifically, Alchera SPV issued:

- senior notes totaling €419 million (subscribed by Banca Mediocredito del FVG in the amount of €112.5 million, equal to 26.85%). These notes, listed on the Irish Stock Exchange, were rated A+ by Standard & Poor's Credit Market Services Italy and A by DBRS Ratings Limited and meet the requirements to be used for refinancing operations with the European Central Bank;
- junior notes totaling €240.45 million (subscribed by Banca Mediocredito del FVG in the amount of €64.6 million, equal to 26.85%).

The transaction involved a portfolio of performing receivables in respect of retail mortgage loans.

The notes were subscribed pro-rata by Banca Mediocredito del FVG for refinancing or guarantee purposes.

The securitized loans are managed with the same criteria and by the same units designated to manage other non-securitized loans. The transaction is therefore monitored by the Bank in terms of collections and management of relations with the vehicle; reporting is produced on a monthly basis.

In compliance with the principle of prevalence of substance over form envisaged by international accounting standards, since all the risks and rewards connected with the loan portfolio have not been substantially transferred, the transferred loan continue to be recognized by the assignor bank, while the notes subscribed and the related interest received are not directly recognized in the financial position and profit or loss.

On February 1, 2017, the Alchera transaction was restructured, with the assignment of a further portfolio of loans of Banca Mediocredito del FVG in the total amount of about €65 million.

The new tranching provided by the rating agencies was as follows:

- Class A-2017: 65% of the total nominal value of the issue;
- Class M: 10% of the total nominal value of the issue;
- Class J-2017: 25% of the total nominal value of the issue.

After the restructuring, Banca Mediocredito del FVG has subscribed a total of:

- €80.9 million in senior notes;
- €14.98 million in mezzanine notes;
- €33.73 million in junior notes.

The Group does not hold an interest in the vehicle.

GIANO SECURITIZATION

In 2015, a securitization was completed by Banca Mediocredito del Friuli Venezia Giulia with the assignment of a portfolio of performing receivables in respect of lease contracts and the consequent issue of asset-backed securities by the vehicle Giano SPV, a company established pursuant to Law 130/99. The transferred portfolio comprised 369 contracts with a total value of about €173 million.

More specifically, Giano SPV issued senior notes of €124.6 million and junior notes of €51 million. All of the notes were subscribed by Banca Mediocredito del FVG;

The Bank also acted as Paying Agent and Account Bank in this transaction.

The senior notes, subscribed in their entirety by Banca Mediocredito del FVG, were used as collateral in a repurchase transaction with a third-party bank.

The securitized loans are managed with the same criteria and by the same units designated to manage other non-securitized loans. The transaction is therefore monitored by the Bank in terms of collections and management of relations with the vehicle.

In compliance with the principle of prevalence of substance over form envisaged by international accounting standards, since all the risks and rewards connected with the loan portfolio have not been substantially transferred, the transferred loan continue to be recognized by the assignor bank.

The Group does not have an involvement in the vehicle.

THIRD-PARTY SECURITIZATIONS

LUCREZIA SECURITISATION

The Group subscribed unrated senior notes issued by the "Lucrezia Securitisation" vehicle in the first three securitizations ("Lucrezia 1-2-3") carried out within the scope of special procedures for the resolution of bank crises ordered by the supervisory authorities (Bank of Italy).

In particular, in the first three transactions the vehicle purchased bad debts in the total gross amount of €1.02 billion and issued notes in the amount of about €330 million, subscribed by numerous banks to extinguish the loans granted by them in relation to their voluntary participation in resolution interventions.

Since these are third-party securitizations (the banks subscribing the notes are not the originators of the securitized loans), the underlying loans are not recognized in the Group's financial statements. The loans were derecognized by the originator banks involved in special administration or compulsory liquidation procedures, which have been incorporated into or sold their assets and liabilities to other mutual banks.

The following is a summary of the notes issued in the first three securitizations and the amounts recognized in the financial statements under "Financial assets measured at amortized cost - Loans to customers".

Securities	ISIN	Type of note	Assets	Assignor bank	Assigned portfolio (€/millions)	Carrying amount (€/millions)
LUCREZIA SEC,16/26 TV	IT0005216392	Senior	NPL	BCC Irpinia/BCC Padovana	209.81	7.45
LUCREZIA SEC,17/27 TV	IT0005240749	Senior	NPL	BCC Crediveneto	76.62	6.18
LUCREZIA SEC,17/27 TV	IT0005316846	Senior	NPL	BCC del Teramo	40.22	1.52
TOTAL					326.25	15.15

In the fourth securitization ("Lucrezia 4"), the special purpose vehicle purchased bad debts with a total gross value of €375 million, acquired by the special purpose vehicle as part of support measures in favor of distressed mutual banks (BCC Romagnolo, BCC Annia, BCC Patavina, BCC Agrobresciano). All the securities issued by the vehicle (€113.7 million) were subscribed by Iccrea Banca, which had committed itself to subscribe 100% of the notes at the start of the transaction.

QUANTITATIVE DISCLOSURES

The following tables do not report exposures in respect of securitizations in which the Group companies, acting as originators, subscribed the ABSs issued by the SPV at issue: Credico Finance 8, Credico Finance 9, Credico Finance 10, Credico Finance 14, Crediper Consumer, Alchera and Giano. For more details on these operations, please see the qualitative disclosures earlier in this section.

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	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks
A. Fully derecognized																		
A.1 - BCC NPLs 2018 srl																		
impaired exposures	44,329	4	86		3													
A.2 - BCC NPLs 2018-2 srl																		
impaired exposures	57,562	626	39		2													
B. Partially derecognized																		
C. Not derecognized																		
C.1 - Iccrea SmeCart 2016 srl																		
performing exposures	120,151				617,460													
C.2 - Credico Finance 7 srl																		
performing exposures					30	2												
C.3 - Crediper Consumer srl																		
performing exposures	624,658	13,440																

The exposures reported in item C. "Not derecognized " refer to the Iccrea Sme Cart 2016 and Credico Finance 7 securitizations carried out by Iccrea BancaImpresa and Banca Sviluppo.

The exposures reported in item A. "Fully derecognized" refer to the assignments of bad debts in the GACS I and GACS II transactions.

For more details on these securitizations, please see to the qualitative disclosures at the beginning of this section.

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	Carrying amount	Writedowns / writebacks	Carrying amount	Carrying amount	Writedowns / writebacks	Carrying amount	Carrying amount	Writedowns / writebacks	Carrying amount	Carrying amount	Writedowns / writebacks	Carrying amount	Carrying amount	Writedowns / writebacks	Carrying amount
Credico Finance 7 srl																		
performing exposures					714	85												
Lucrezia Securitisation srl - Padovana/Irpina																		
impaired exposures	4,742	(2,748)																
Lucrezia Securitisation srl - Crediveneto																		
impaired exposures	2,077	(1,706)																
Lucrezia Securitisation srl - Teramo																		
impaired exposures	763	(1,109)																
Lucrezia Securitisation srl - Comparto 4																		
impaired exposures	113,972	-																
Multiseller NPL srl																		
impaired exposures	1,371	(375)																

This table, for the Credito Finance 7 transaction, reports the exposure in respect of the third-part assets as a proportion of the total securitized assets, as the securitizations are multi-originator operations.

C.3 PRUDENTIAL CONSOLIDATION – INVOLVEMENT IN SPECIAL PURPOSE SECURITIZATION VEHICLES

The Group does not have an involvement in securitization vehicles.

C.4 PRUDENTIAL CONSOLIDATION - INVOLVEMENT IN UNCONSOLIDATED SPECIAL PURPOSE SECURITIZATION VEHICLES

	Asset portfolios	Total assets (A)	Liability portfolios	Total liabilities (B)	Net carrying amount (C=A-B)	Maximum exposure to risk of loss	Difference between the exposure to the risk of loss and carrying amount (E=D-C)
1. Vehicle							
Lucrezia Securitisation srl	AC	129,138	-	-	129,138	-	129,138
BCC NPLs 2018 S.r.l.	AC	43,505	-	-	43,505	-	43,505
	FVOCI	349	-	-	349	-	349
BCC NPLs 2018-2 S.r.l.	AC	55,423	-	-	55,423	-	55,423
	FVOCI	460	-	-	460	-	460
Multiseller NPL srl	FVOCI	1,371	-	-	1,371	-	1,371

*AC= Financial assets measured at amortized cost
FVOCI = Financial assets measured at fair value through other comprehensive income

C.5 PRUDENTIAL CONSOLIDATION – SERVICER ACTIVITIES - COLLECTIONS ON SECURITIZED ASSETS AND REDEMPTION OF SECURITIES ISSUED BY SECURITIZATION VEHICLE

Servicer	Vehicle	Securitized assets (end-period figure)		Loan collections in the year		Percentage of notes redeemed (end-period figure)					
						senior		mezzanine		junior	
		Impaired	Performing	Impaired	Performing	Impaired	Performing	Impaired	Performing	Impaired	Performing
Iccrea Bancalmpresa SpA	Iccrea SmeCart 2016 srl			3,869	367,611		41%				
Banca Sviluppo SpA	Credico Finance 7 srl	7	2,574		756		-				

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: 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	-	-	-	X	-	-	-
1. Debt securities	-	-	-	X	-	-	-
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	**49,972**	**-**	**49,972**	**-**	**97,629**	**-**	**97,629**
1. Debt securities	49,972	-	49,972	-	97,629	-	97,629
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortized cost	**2,455,051**	**1,279,767**	**1,168,734**	**23,132**	**3,210,221**	**545,386**	**2,658,157**
1. Debt securities	1,168,734	-	1,168,734	-	2,658,157	-	2,658,157
2. Loans	1,286,317	1,279,767	-	23,132	552,064	545,386	-
Total 31/12/2018	**2,505,023**	**1,279,767**	**1,218,706**	**23,132**	**3,307,850**	**545,386**	**2,755,786**

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 DIVESTED ASSETS NOT DERECOGNIZED: FAIR VALUE

	Fully recognized	Partially recognized	Total 31/12/2018
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	**-**	**-**	**-**
1. Debt securities	-	-	-
2. Equity securities	-	-	-
3. Loans	-	-	-
E. Financial assets measured at amortized cost	**5,530**	**-**	**5,530**
1. Debt securities	-	-	-
2. Loans	5,530	-	5,530
Total financial assets	**5,530**	**-**	**5,530**
Total associated financial liabilities	**3,335**	**-**	**X**
Net value 31/12/2018	**2,195**	**-**	**5,530**

B. FINANCIAL ASSETS ASSIGNED AND DERECOGNIZED WITH RECOGNITION OF CONTINUING INVOLVEMENT

The table has not been completed because there were no such positions at the reporting date.

1.2 MARKET RISKS

1.2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. General aspects

Market risk is defined as the risk of incurring losses generated by operations in markets for financial instruments, foreign exchange and commodities (see Bank of Italy Circular 263/2006, Title II, Chapter 4, Part One). At the Iccrea Banking Group level, operational management of finance activities is centralized with Iccrea Banca, which is responsible for funding and the assumption and management at the individual and consolidated levels of interest rate, exchange rate and liquidity risk in order to ensure the essential sterilization and optimization of overall funding and hedging costs for Group companies.

Intermediation for the mutual banks is the main strategic objective of Iccrea Banca. This is pursued by seeking to ensure that the breadth and content of the financial portfolios are consistent with the needs of the mutual banks and in line with the evolution of the markets. Position activities are carried out using standard financial instruments as well as derivative contracts. In all cases, the management of maturity transformation both at medium/long-term and within the context of treasury operations is carried out in compliance with a financial risk containment policy.

The main activities performed are:

- funding and lending on the interbank market;
- trading as a primary dealer on the MTS market;
- acting as market maker and direct participant (to handle orders from mutual banks) on the multilateral trading systems Hi-MTF and EuroTLX;
- participating in the primary market for equities and bonds and in auctions and subscriptions of government securities;
- transacting repurchase agreements on OYC markets and regulated markets, as well as derivatives on regulated markets;
- structuring, creation and management of financial derivatives on unregulated markets, mainly to meet the specific needs of Bank customers;
- providing the mutual banks will investment services, trading on own account, execution on customer account, order reception and transmission, trading on third-party account and placement of financial instruments issued by the Bank or third parties;
- providing the mutual banks access to the standing facilities of the ECB;
- managing liquidity and the short-term interest rate risk profile associated with interbank operations, foreign exchange markets and precious metal markets;
- structuring of medium/long-term funding operations on domestic and international markets.

Within the framework of delegated operating powers, specific operating limits have been set for trading positions that generate exposures to market risks. These are mainly assumed through domestic government securities and transactions in futures contracts traded on official markets with clearing and guarantee funds, as well as derivatives on interest rates, mainly plain vanilla instruments to support the hedging needs of the mutual banks.

Operations in interest rate derivatives also include interest rate swaps with institutional counterparties to support the vehicle companies in transforming the interest flows generated by mutual bank securitizations. The overall

exposure to interest rate risk is concentrated in euro-denominated transactions and, accordingly, correlation effects between developments in the yield curves in different currency areas are minimal.

B. Management and measurement of interest rate risk and price risk

Governance and organizational model

The market risk management and governance framework of the Iccrea Banking Group adopts a "centralized" approach. Iccrea Banca, as the Parent Company, is responsible for the overall governance of financial operations and the associated market risks at the Group level because:

- it is responsible for setting the Group's market risk policies;
- it monitors the exposure to market risks at the centralized level;
- it manages market risks at the Parent Company level.

Within these organizational arrangements, the assumption/identification of market risks is the responsibility of the business units, which with the support of Risk Management monitor and analyze new risk components for risk positions already held, new types of business, developments in the financial market and the various combinations of financial instruments and markets in which the Group may be operating.

Risks positions are taken on by the trading and investment desks and are actively managed by them during the working day using appropriate position-keeping applications.

Front office staff operate with the various units and risk positions are assumed in compliance with the portfolio tree and the associated risk limits.

Coordination of the trading and investment desks is performed through the unit heads, each at his or her level in the hierarchy, who are responsible for ensuring compliance with the assigned limits.

The operational model for managing market risks at both the consolidated and individual levels is the responsibility of the Finance department, within which exposures are assumed and managed by the following units:

- Capital Markets, which is tasked with managing activities connected with the trading book and identifying funding needs at the individual and consolidated level, monitoring the interest-rate, exchange-rate and liquidity risks of the banking book. The unit also manages interest-rate and liquidity risks at medium and long term. It acts as a market maker on multilateral trading systems, and as a specialist and primary dealer, as well as handling the structuring and own-account trading of OTC financial derivatives. It operates in accordance with the policies defined and the guidelines set for the management of the portfolios within the established risk limits and seeking to achieve profit targets;
- Treasury, which uses derivatives on interest rates and exchange rates in order to manage the short-term interest rate and exchange rate risk profile in respect of trading on the interbank money market and intercompany transactions.

Risk management processes

Identification of risks

Operations in financial market, especially positions in the trading book, expose the Bank to market risks and other subcategories of risk. The identification of risks is mainly carried out in the process of specifying and updating risk models and metrics for market risks, and involves the following activities:

- the specification and updating of risk metrics, i.e. the evolution by the Risk Management department of measurement and monitoring methods on the basis of developments in markets, regulations and best practice;
- the approval process, conducted before the start of operations in a new financial instrument and the associated definition of the procedures for measuring fair value and risks.

Market risks are managed using advanced measurement and monitoring methods. The Risk Management unit is responsible for the development, use and maintenance of these measurement procedures.

Risk measurement and assessment

Risk Management, acting through the Financial Risk Methodologies & Solutions unit, is the main actor in the processes for development and using measurement models and metrics for market risk.

Updates of the models and metrics are identified by Risk Management in the performance of its duties, including analysis of regulatory requirements, market best practices and input from the business units involved (Finance in particular).

Iccrea Banca uses the standardized approach for the purpose of calculating capital requirements for market risks, in accordance with the applicable supervisory regulations.

Measurement is centralized with the Risk Management unit and involves:

- 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.

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)

To calculate VaR, the Iccrea Banking Group uses an approach based on historical simulations (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.

At Iccrea Banca, 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 effectiveness management of market risk 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.

At the operational process level, the Group has a complete system of arrangements and controls that help define the overall control model, which is set out and formalized in the risk management policy.

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, which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

The second-level controls, carried out by the Market & Counterparty Monitoring & Control unit, are aimed at monitoring the Bank’s exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators defined for managing financial risk. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of market risk indicators has been provided for.

Monitoring risk indicators is 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/tolerance 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 Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the Bank's General Manager. In this context, a thorough discussion of risk developments increases awareness of the risks assumed (in line with defined profit targets) and therefore facilitates the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

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

Risk management and mitigation

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

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

QUANTITATIVE DISCLOSURES

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

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. SUPERVISORY TRADING BOOK: DISTRIBUTION OF EXPOSURES IN EQUITY SECURITIES AND EQUITY INDICES BY MAIN COUNTRIES OF LISTING

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

3. SUPERVISORY TRADING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

With regard to market risks on the trading book, which are managed at the Group level by Iccrea Banca, a risk tolerance of €2.5 million in 1-day VaR with a 99% confidence level has been established. From the start of the year, the risk profile of all trading operations has never breached the RAS limit. The Market Risk Policy sets consistent VaR limits in terms of total operations and in terms of sub-limits for the various books, measured using the same VaR method.

In the last 250 trading days, the average VaR of the trading book has been €0.5 million, with a minimum of €0.12 million and a maximum of €1.65 million (registered on August 3, 2018), which is below the overall risk limit for that specific category of operations, which was €2.0 million for the head of Finance.

At December 31, 2018 the VaR was €0.82 million.

Daily VaR on Trading Book	Notional	VaR	
	31/12/2018	Limit	Risk Profile
Iccrea Banca	14,407	2.00	0.82

** Figures in millions of euros at December 31, 2018*

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 management

The framework for managing and governing interest rate risk on the Iccrea Banking Group's banking book is based on a centralized model. Iccrea Banca is responsible for overall governance of financial operations and risk at the Group level since:

- it is responsible for setting the Group's policies for managing interest rate risk on the banking book, which sets out guidelines, principles for prudent management, the roles and responsibilities of corporate bodies and operating units and control processes for interest rate risk on the banking book;
- it measures and monitors the exposure to such risk at the centralized level;
- it manages such risk at the Group level;
- it defines and governs the internal transfer pricing system.

Iccrea Banca is the interface between the individual mutual banks and Group companies and domestic and international money and financial markets. More specifically, the Bank:

- performs treasury activities, managing the liquidity transferred to it by the mutual banks;
- operates on Italian and foreign securities markets, including as a primary dealer on the MTS market;
- ensures that the financial requirements of Group companies are met, raising funds within the mutual banking system and on financial markets;
- ensures, with the support of Risk Management, the monitoring and management of interest rate risk at the individual and consolidated levels, as well as compliance with the limits set during the strategic planning process.

The management of interest rate risk on the banking book is performed by the Asset & Liability Management (ALM) function, performed by the Finance unit:

The management of mismatching of interest rate risk generated by operations conducted by subsidiaries with customers is transferred to the Parent Company using intercompany funding/lending transactions with comparable maturities whose characteristics hedge the exposure to interest rate risk, in compliance with the risk limits set by the Parent Company.

Risk management processes

Identification of risks

The ability to identify sources of interest rate risk and manage the short and medium/long-term exposure to such risk, while at the same time limiting potential declines in interest income, is crucial to ensuring profitability in line with the targets established in strategic planning.

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: reprising risk, yield curve risk, basis risk and option risk.

Risk measurement

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- current earnings approach: this seeks to assess the potential effects of adverse interest rate variations on an income variable, i.e. net interest income. In this perspective, the analysis is conducted using a dynamic "going-concern" approach, with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged, or a "dynamic balance sheet" view, developing projections for new business that are consistent with the hypotheses defined in strategic planning.
- economic value approach: this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book (economic value of equity), construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis. Under this perspective, the analysis is conducted using a static “gone concern” approach, in which we assume the run-off of positions at maturity, without any replacement or renewal, or using a dynamic approach, developing projections for new operations that are consistent with the assumptions defined during strategic planning.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.

The metrics used in the current earnings approach are:

- Repricing gap: this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The weighting of the exposure for each time bucket for the time between the repricing date and the selected time horizon and the subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income;
- NII sensitivity: the potential impact on net interest margin of hypothetical changes in risk-free rates is calculated using a "full revaluation" method that compares, over a selected time horizon, expected prospective net interest income In the event of changes in interest rates with expected net interest income in a "base" scenario of no variations. This approach is also used to quantify the impact on net interest income of possible variations in credit spreads (CSRBBs).

The metrics adopted in the economic value approach are:

- Duration gap: the change in the expected value of the banking book due an interest rates shock. It is calculated by weighting the net exposure of each time bucket, determined by placing positions in the banking book in different time buckets on the basis of their repricing date, by the associated modified duration;
- EVE sensitivity: the change in the expected value of the banking book is calculated using a “full revaluation” approach that involves the discounting of the cash flows of items in the book in a base

scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time ("bucket sensitivity").

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The measurement scenarios applied to interest rates are intended to monitor the risk categories to which the Group may be exposed. Each can be associated with internally developed or regulatory scenarios.

- repricing risk: in order to monitor this risk category, parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged for regulatory purposes, in the standard outlier test, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
- yield curve risk: in order to monitor this risk category, non-parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged by the reference guidelines, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
- basis risk: the analysis provides for the segmentation of the banking book based on the market parameters to which the items involved are indexed and the analysis of the time series of basis spreads with respect to the pivot rate (3-month Euribor) for the purpose of determining the size of the shocks to be applied to each;
- option risk: the analysis includes a preliminary identification of the automatic/behavioral option components in the assets and liabilities of the IBG 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.

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. The definition of this system, which distinguishes the Risk Management Framework, took account of the nature, objectives and complexity of operations.

The system of limits is defined by Iccrea Banca, taking due account of RAS and Risk Limit indicators consistent with the policy-setting and coordination role attributed to it in its capacity of Parent Company and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the interest rate risk management model adopted.

The current policy provides for setting risk limits for exposures in terms of the sensitivity of economic value and net interest income at both the consolidated and individual levels. Risk limits and additional metrics are also established to monitor the exposure of the individual business lines responsible for managing interest rate risk on the banking book, which come under the competent function.

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 risk management 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, 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 on a daily basis, in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of indicators has been provided for.

Monitoring risk indicators is 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 a control function for the continuous monitoring of all indicators with respect to assigned risk levels, signaling when risk profiles approach or breach the threshold/limit/tolerance 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 interest rate risk control and monitoring activities are performed through a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.[8] At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the General Manager.

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 I accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the Group Finance Committee, operating units, top management and boards of directors.

Risk management and mitigation

The management and mitigation of risk seek to reconcile profitability with management of the risk to which the Group companies, and thus the Group, are exposed. The system is based on the following principles:

- managing the overall profitability of the Group: the centralized management and control of developments in net interest income represent a key requirement of the Iccrea Banking Group's overall control system. That role is played by Iccrea Banca in exercising its functions of setting the strategic policy of the Group and coordinating the individual Group companies;
- managing interest rate risk: funding and lending with supervised intermediaries, financial and intercompany activities involve normal parameter mismatches at the various maturities. The ability to manage short and long-term mismatches, while at the same time limiting potential decreases in net

[8] *See "Interest Rate Risk in the Banking Book Policy (IRRBB Policy)".*

interest income, is of fundamental importance in ensuring that profitability is in line with the targets set in the strategic planning stage. Within the Group, the function of pooling parameters and managing rate mismatches is the responsibility of Iccrea Banca, which handles the centralized management of the exposure to interest rate risk. The management of interest rate risk mismatches generated by operations carried out by the subsidiaries with customers is transferred to Iccrea Banca through intragroup funding/lending transactions with matched average maturities and characteristics such as to cover the exposure to interest rate risk, compatibly with the established risk limits.

STRESS TEST FRAMEWORK

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The scenarios used in measuring the exposure to the different sources of risk and in analyzing stress tests are based on both regulatory shocks and shocks defined internally.

In accordance with regulatory provisions, the Group develops scenarios characterized by larger movements in yield curves than the shocks applied for the continuous monitoring of the IRRBB in order to test the vulnerabilities of the banking book in the presence of stress conditions.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses:

- sensitivity analysis: analysis of the exposure to the IRRBB and the CSRBB with respect to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result;
- scenario analysis: analysis consisting in the assessment of the Group's ability to cope with a potential increase in its exposure to IRRBB and CSRBB based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

The identification of risk categories is a starting point and a linkage among the main strategic processes to manage risk management (Risk Appetite Framework, Internal Capital Equity Assessment Process, Contingency & Recovery Plan) and is aimed at limiting the set of risk factors/parameters for which stress scenarios are developed.

For each of the risk categories identified it is possible to define the associated risk factor(s), understood as an exogenous variable whose shock can have a negative impact on the economic value of the banking book and/or on the associated net interest income, in terms of smaller-than-expected loss or profit. In this perspective, the identification of risk factors is a preliminary phase in the definition of the shocks associated with stress scenarios.

All the stress scenarios adopted are generally calibrated using the historical simulation approach, based on prudential percentiles of the empirical distributions associated with the various risk parameters, using expert-based adjustments where appropriate in order to integrate forward-looking elements that are not present in the available historical data. To these scenarios, we add "purely" historical scenarios (i.e. without calculating a percentile of the historical empirical distribution), scenarios defined on a judgmental basis and scenarios provided by external sources (e.g. EBA Stress Test scenario).

QUANTITATIVE DISCLOSURES

1. BANKING BOOK: DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY (REPRICING DATE)

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. BANKING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

The interest rate risk on the banking book used for management purposes with regard to sensitivity indicators for economic value and net interest income is reported below. The analysis of the exposure to the risk is monitored on a monthly basis by the Group Finance Committee.

€/millions	Scenario	
	-100 bp	+100 bp
Impact on economic value	-20.5	34
Impact on net interest income at 12 months	-12.3	7.2

1.2.3 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

A. General aspects, management and measurement of exchange rate risk

Exchange rate risk is managed in a centralized manner by the Treasury and Foreign Exchange Unit. The Bank constantly scales the positions it assumes in the various currencies in relation to the support it provides to the foreign exchange requirements of the mutual banks and other Group companies.

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.

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

	Currency					
	USD	GBP	JPY	CAD	CHF	OTHER
A. Financial assets	**145,830**	**4,868**	**9,600**	**849**	**30,289**	**6,166**
A.1 Debt securities	96,322	123	-	-	151	533
A.2 Equity securities	11,304	1,983	-	-	-	-
A.3 Loans to banks	30,421	2,762	8,400	849	25,849	5,633
A.4 Loans to customers	7,783	-	1,200	-	4,289	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**6,122**	**3,505**	**515**	**571**	**3,498**	**1,329**
C. Financial liabilities	**227,781**	**8,287**	**8,298**	**4,565**	**18,863**	**10,346**
C.1 Due to banks	150,686	8,213	8,298	4,480	18,837	10,255
C.2 Due to customers	1,359	74	-	85	26	91
C.3 Debt securities	75,736	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**202**	-	-	-	-	-
E. Financial derivatives	-	-	-	-	-	-
- Options	-	-	-	-	-	-
+ Long position	3,036	-	-	-	-	1,316
+ Short positions	3,036	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ Long positions	3,328,902	204,270	336,764	5,113	426,912	165,315
+ Short positions	3,275,643	204,549	339,798	312	446,274	166,410
Total assets	**3,483,890**	**212,643**	**346,879**	**6,533**	**460,699**	**174,126**
Total liabilities	**3,506,662**	**212,836**	**348,096**	**4,877**	**465,137**	**176,756**
Difference (+/-)	22,772	193	1,217	(1,656)	4,438	2,630

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 AMOUNTS

	31/12/2018			
	Over the counter			Organized markets
	Central counterparties	Without central counterparties		
		Covered by netting arrangements	Not covered by netting arrangements	
1. Debt securities and interest rates	**-**	**10,730,382**	**1,303,242**	-
a) Options	-	752,390	461,407	-
b) Swaps	-	9,977,992	694,458	-
c) Forwards	-	-	5,977	-
d) Futures	-	-	141,400	-
e) Other	-	-	-	-
2. Equity securities and equity indices	**-**	**2,244**	**4,658**	-
a) Options	-	2,244	-	-
b) Swap	-	-	-	-
c) Forwards	-	-	3,866	-
d) Futures	-	-	792	-
e) Other	-	-	-	-
3. Foreign currencies and gold	**-**	**7,072,017**	**197,483**	-
a) Options	-	9,800	6,072	-
b) Swaps	-	7,291	7,291	-
c) Forwards	-	7,054,926	184,120	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	-
5. Other underlyings	**-**	**-**	**-**	-
Total	**-**	**17,804,643**	**1,505,383**	-

A.2 FINANCIAL DERIVATIVES HELD FOR TRADING: GROSS POSITIVE AND NEGATIVE FAIR VALUE – BREAKDOWN BY PRODUCT

	31/12/2018			
	Over the counter			Organized markets
	Central counterparties	Without central counterparties		
		Covered by netting arrangements	Not covered by netting arrangements	
1. Positive fair value				
a) Options	-	3,496	(2,911)	-
b) Interest rate swaps	-	155,699	27,173	-
c) Cross currency swaps	-	464	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	66,146	4	-
f) Futures	-	-	2	-
g) Other	-	-	-	-
Total	**-**	**225,805**	**24,268**	**-**
2. Negative fair value				
a) Options	-	924	6,343	-
b) Interest rate swaps	-	202,672	(8,098)	-
c) Cross currency swaps	-	-	458	-
d) Equity swaps	-	-	-	-
e) Forwards	-	48,083	1,738	-
f) Futures	-	-	1,566	-
g) Other	-	-	-	-
Total	**-**	**477,484**	**26,275**	**-**

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	1,169,831	51,511	1,132,837
- positive fair value	X	5,110	403	24,838
- negative fair value	X	21,858	288	2,867
2) Equity securities and equity indices				
- notional value	X	792	3,866	-
- positive fair value	X	-	-	-
- negative fair value	X	5	-	-
3) Foreign currencies and gold				
- notional value	X	14,324	183,159	-
- positive fair value	X	2	1	-
- negative fair value	X	692	1,729	-
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 not covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	-	10,172,727	557,655	-
- positive fair value	-	155,335	3,739	-
- negative fair value	-	192,789	10,806	-
2) Equity securities and equity indices				
- notional value	-	1,500	-	744
- positive fair value	-	85	-	10
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	6,211,802	860,215	-
- positive fair value	-	66,060	576	-
- negative fair value	-	40,391	7,692	-
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	3,963,902	4,012,229	5,108,430	13,084,561
A.2 Financial derivatives on equity securities and equity indices	2,292	2,867	1,744	6,903
A.3 Financial derivatives on exchange rates and gold	7,254,679	14,820	-	7,269,499
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2018	**11,220,873**	**4,029,916**	**5,110,174**	**20,360,963**

B. CREDIT DERIVATIVES

The section has not been completed because there were no such positions as of the balance sheet 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 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.

A. Fair value hedging

Fair value hedging has the objective of hedging the exposure to changes in the fair value (attributable to the different types of risk) of 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). This hedging therefore applies both to well-identified financial instruments (securities, bond issues, loans and other financing) and to portfolios of financial instruments (fixed-rate loans and demand deposits).

Within the scope of micro fair value hedging, hedges are mainly used for securities holdings, bonds issued and loans to customers, while macro hedging is applied to a portion of fixed-rate loans.

The main types of derivatives used are represented by plain or structured interest rate swaps (IRS), overnight index swaps (OIS), cross currency swaps (CCS) and options on interest rates entered into with third parties. Derivatives are not listed on regulated markets, but are traded on OTC markets.

The hedging strategy for financial instruments classified as held-to-collect (HTC) or held-to-collect & sell (HTCS) considers the contractual characteristics of each instrument and the business model. The hedging strategy for portfolios of financial instruments is applied to interest rate exposures that are not already covered by micro hedges and reflects the nominal amount and financial conditions of the hedging derivatives.

The hedging relationship is classified at the inception of the hedge with the identification of the portion and the type of hedged risk, the hedging strategy, the hedging instrument and the methodology used to assess the effectiveness of the hedging relationship.

B. Cash flow hedging

The cash flow hedging seeks to hedge the exposure to changes in future cash flows attributable to particular risks associated with balance sheet items or highly probable forecast transactions.

The Group adopts specific hedges (micro cash flow hedges) mainly to stabilize the flow of interest on floating-rate funding in the form of bonds issued to the extent that the latter finance fixed-rate loans.

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

During 2018, the Group did not undertake hedging of exchange rate risk on foreign currency transactions.

D. Hedging instruments

Designated hedging transactions, with formal documentation of 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 assessed 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 performed on the basis of scenario methods that justify the application of hedge accounting as they demonstrate its expected effectiveness;
- retrospective tests that highlight the effectiveness of the hedge achieved in the period to which they refer, carried out using 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 hedged underlying at the time of the initial designation or generated subsequently, as in the case of partial repayments of loans or the repurchase of bonds;
- the application of different curves to hedging derivatives and hedged items for the purpose of performing effectiveness tests for fair value hedges;
- the inclusion in the effectiveness test of the value of the floating leg of the hedging derivative, in the case of fair value hedging.

The ineffectiveness of the cover 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, hedge accounting is discontinued from that moment and the derivative hedging contract is reclassified under trading instruments.

The Group does not use dynamic hedges, as defined in IFRS 7, paragraph 23C.

E. Hedged items

At the Group level, hedged items that qualify for hedge accounting are mainly government securities, bond issues of the Parent Company and fixed-rate loans to customers in the form of mortgages and leases.
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, OISs and CCSs as hedging instruments. Interest rate and inflation risk is hedged for the duration of the obligation. The effectiveness tests are carried out using the dollar offset method for the retrospective assessment and the scenario method for the prospective assessment.

Debt securities issued

The Group currently has active micro fair value hedging relationships for fixed-rate or structured funding and micro cash flow hedges for floating rate funding, using IRSs and CCSs as hedging instruments. Interest rate risk is hedged for the duration of the obligation. The effectiveness tests are carried out using the dollar offset method for the retrospective assessment and the scenario method for the prospective assessment.

Fixed-rate loans

The Group has designated micro fair value hedges and macro fair value hedges for fixed-rate loans to customers and secured loans to banks, mainly using IRSs and OISs as hedging instruments. The interest rate risk is hedged for the entire term of the underlying. For micro-type hedges, the effectiveness tests are carried out using the dollar-offset method for the retrospective assessment and the scenario method for the prospective assessment. For macro hedges, effectiveness is periodically verified on the basis of specific prospective and retrospective tests based on the volatility risk reduction method.

QUANTITATIVE DISCLOSURES

A. FINANCIAL HEDGING DERIVATIVES

A.1 FINANCIAL HEDGING DERIVATIVES: END-PERIOD NOTIONAL AMOUNTS

	31/12/2018			
	Over the counter			Organized markets
	Central counterparties	Without central counterparties		
		Covered by netting arrangements	Covered by netting arrangements	
1. Debt securities and interest rates	**-**	**3,449,612**	**42,000**	**-**
a) Options	-	-	-	-
b) Swaps	-	3,449,612	42,000	-
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	-	**78,603**	-	-
a) Options	-	-	-	-
b) Swaps	-	78,603	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlyings	-	-	-	-
Total	**-**	**3,528,215**	**42,000**	**-**

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 31/12/2018				Total 31/12/2018
	Over the counter			Organized markets	
	Central counterparties	Over the counter			
		Covered by netting arrangements	Covered by netting arrangements		
Positive fair value					
a) Options	-	-	-	-	-
b) Interest rate swaps	-	11,074	-	-	-
c) Cross currency swaps	-	3,199	-	-	-
d) Equity swaps	-	-	-	-	-
e) Forwards	-	-	-	-	-
f) Futures	-	-	-	-	-
g) Other	-	-	-	-	-
Total	-	**14,273**	-	-	-
Negative fair value					
a) Options	-	-	-	-	-
b) Interest rate swaps	-	65,988	22,846	-	-
c) Cross currency swaps	-	1,284	-	-	-
d) Equity swaps	-	-	-	-	-
e) Forwards	-	-	-	-	-
f) Futures	-	-	-	-	-
g) Other	-	-	-	-	-
Total	-	**67,272**	**22,846**	-	-

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	116,188	-	-
- positive fair value	X	-	-	-
- negative fair value	X	22,846	-	-
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	-	3,038,655	410,957	-
- positive fair value	-	11,061	13	-
- negative fair value	-	60,803	5,185	-
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	52,402	26,201	-
- positive fair value	-	597	2,602	-
- negative fair value	-	1,284	-	-
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	1,563,192	777,202	1,225,406	3,565,800
A.2 Financial derivatives on equity securities and equity indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	34,934	43,668	-	78,602
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2018	**1,598,126**	**820,870**	**1,225,406**	**3,644,402**

B. CREDIT HEDGING DERIVATIVES

The section has not been completed because there were no such positions as of the balance sheet date

C. NON-DERIVATIVE HEDGING INSTRUMENTS

The section has not been completed because there were no such positions as of the balance sheet date

D. HEDGED ITEMS

D.1 FAIR VALUE HEDGES

	Micro hedges: carrying amount	Micro hedges - net positions: carrying amount of assets or liabilities (before netting)	Micro hedges			Macro hedges: carrying amount
			Cumulative value of fair value changes of the hedged instrument	Discontinuance of hedge: cumulative value of residual changes in fair value	Change in value used to calculate hedge effectiveness	
A. ASSETS						
Financial assets measured a fair value through other comprehensive income - hedges of:	**1,334**	**1,334**	**28**	**-**	**-**	**45,700**
1.1 Debt securities and interest rates	1,334	1,334	28	-	-	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:	**3,130,006**	**3,130,006**	**(37,538)**	**-**	**-**	**150,000**
1.1 Debt securities and interest rates	3,130,006	3,130,006	(37,538)	-	-	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 31/12/2018	**-**	**-**	**-**	**-**	**-**	**195,700**
B. LIABILITIES						
1. Financial liabilities measured at amortized cost - hedges of:	**697,200**	**697,200**	**2,760**	**-**	**-**	**-**
1.1 Debt securities and interest rates	697,200	697,200	2,760	-	-	X
1.2 Foreign currencies and gold	-	-	-	-	-	X
1.3 Other assets	-	-	-	-	-	X
Total 31/12/2018	**697,200**	**697,200**	**2,760**	**-**	**-**	**-**

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	-	-	-
1.1 Debt securities and interest rates	-	-	-
1.2 Equity securities and equity indices	-	-	-
1.3 Foreign currencies and gold	-	-	-
1.4 Loans	-	-	-
1.5 Other	-	-	-
2. Liabilities	3,540	580	-
1.1 Debt securities and interest rates	3,540	580	-
1.2 Foreign currencies and gold	-	-	-
1.3 Other	-	-	-
Total A 31/12/2018	**3,540**	**580**	**-**
B. HEDGES OF INVESTMENTS IN FOREIGN OPERATIONS	X	-	-
Total A+B 31/12/2018	**3,540**	**580**	**-**

E. EFFECTS OF HEDGING TRANSACTIONS IN EQUITY

The section has not been completed as there is nothing to report.

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	-	21,653,356	3,186,640	-
- positive fair value	-	111,342	1,013	-
- negative fair value	-	178,183	18,658	-
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

Liquidity risk for the Group is the risk of not being able to discharge one's payment obligations and can take different forms depending on the source of that risk, which can be caused by:

- the inability to raise funds or efficiently discharge one's payment obligations at market prices (expected and unexpected outlays), i.e. incurring high funding costs, without jeopardizing the daily operations of the bank or its financial position (funding liquidity risk);
- the existence of limitations on the liquidation of assets or incurring capital losses (owing to insufficient liquidity in the market or disruption of the market) following their liquidation (market liquidity risk).

The framework for governing and managing liquidity risk within the Iccrea Banking Group is designed to ensure the sound and prudent management of liquidity and the associated risk, and has the following objectives:

- to enable the Bank to remain solvent in both "the normal course of business" and in a liquidity crisis;
- to ensure that the Bank constantly holds an appropriate amount of liquid assets in relation to the limits it has set and with respect to internal and external constraints;
- to ensure the compliance, in accordance with the principal of proportionality, of the system for the governance and management of liquidity risk with applicable supervisory regulations.

That framework is based on the centralization of those activities. The Parent Company is responsible for overall governance of liquidity and liquidity risk at the Group level, as it:

- is responsible for defining Group liquidity risk management policies;
- monitors the exposure to liquidity risk (operational and structural) on a centralized basis;
- manages liquidity risk at the consolidated level with the preparation of a funding plan that is consistent with current and prospective operations;
- defines and governs the internal transfer pricing system.

Liquidity risk is managed centrally by the Asset & Liability Management function, which is performed by the Finance unit.

More specifically, the liquidity risk management model establishes that:

- operating liquidity is managed on a centralized basis by the Parent Company, which performs the following functions:
  - managing liquid assets and funding in euros and foreign currencies over a time horizon of 12 months for all the Group companies included within the scope of liquidity risk management activities;
  - managing operations in repurchase transactions and pooling with the central bank, market counterparties and the mutual banks;
  - funding the securities portfolio at the Group level;
  - managing the reserve requirements (on its own behalf and for Group companies subject to reserve requirements as well as centralized management of the requirement for mutual banks who request that service);
  - managing open market operations with the ECB.

- the management of structural liquidity is centralized with the Parent Company, which takes corrective action to ensure that medium/long-term assets and liabilities are balanced appropriately at both the individual and consolidated level, while at the same time seeking to optimize the cost of funding and:
  - performing transactions with subsidizing entities or national/supranational entities (CDP, EIB, etc..);
  - structuring and issuing debt instruments on the market.

All the Group companies included within the scope of liquidity risk management activities have direct access to the interbank market in accordance with the procedures established by the Parent Company. They contribute to creating short-term liquidity imbalances in their transactions with customers and transfer them to Iccrea Banca through reciprocal current accounts, time deposits, bond issues and other technical forms.

Risk management processes

Identification of risks

Liquidity risk is identified and monitored by defining and monitoring the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Group and market conditions.

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.

Measurement of risks

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder. The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, the Group develops two maturity curves: operational and structural.

The operating maturity ladder is constructed in accordance with the rules issued by the Bank of Italy as part of its periodic monitoring and it comprises a time horizon of up to 12 months.

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 used by the Group in monitoring the medium/long-term liquidity position is designed to monitor the balance of the funding profile and control maturity transformation (also on the basis of the strategic instructions issued by management). 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.

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" bonds.

The money market position is measured on a daily basis by quantifying the liquidity reserves and covering any deficit in the prospective liquidity balance at 1 and 30 days with those reserves.

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, which distinguishes the Risk Management Framework, took account of the nature, objectives and complexity of operations.

The system of limits is defined by Iccrea Banca, taking due account of RAS and Risk Limit indicators consistent with the policy-setting and coordination role attributed to the Bank as the Parent Company 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 risk management 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 interest rate risk profile and activate escalation mechanisms;
- Level III controls, which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

The process of monitoring the liquidity indicators defined by the Group is structured and supplemented with the liquidity risk governance and management model adopted by the Group and the subsidiaries. Liquidity risk is monitored by the Risk Management unit of the Parent Company. This activity is based on assessing and measuring the risk profile against the RAS, Risk Policies and Contingency indicators established for managing liquidity risk, consistent with the RAF and the system of limits, as well as on measuring additional metrics.

Monitoring risk indicators is 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 a control function in relation to the continuous monitoring of all indicators that signal breaches of assigned risk levels, signaling the approach of risk profiles towards the threshold/limit/tolerance 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 Risk Management unit of the Parent Company, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with the individual subsidiaries (where these have been specifically allocated liquidity risk indicators). As part of the liquidity risk management and monitoring activities carried out by Risk Management, a reporting process has been defined for reporting to corporate boards, top management and operational units, in accordance with the rules on corporate control reporting. The data and information used in the reporting support the effectiveness and efficiency of communication, using terminology and references that are understandable to the recipients to whom it is addressed.

STRESS TEST FRAMEWORK

The Group’s liquidity position is monitored in the normal course of business and under stress conditions. For the latter, a stress test framework has been defined on the basis of the indicators that characterize the Liquidity Risk Framework.
The stress test analyses are used to measure the degree to which the liquidity position can deteriorate in the event of especially adverse market conditions, thereby enabling verification of its robustness.

Accordingly, the objectives of the stress testing are:

- to verify the capacity to cope with unexpected liquidity crises in the first period in which they occur, before activating initiatives to modify the structure of assets or liabilities;
- to assess vulnerabilities in the liquidity profile, evaluating possible connections between the various risk categories as part of the periodic monitoring process;
- to calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits enables the maintenance of a level of liquidity that ensures that any coverage actions do not compromise the Group’s business strategies;
- to identify, in preparing the recovery plan, scenarios that would compromise the survival of the Group if appropriate recovery actions were not taken;
- to test the effectiveness of mitigation actions taken within the Contingency Funding & Recovery Plan and recovery actions provided for in the “near-default” scenarios to be taken in adverse situations in order to limit the Group’s exposure to liquidity risk;
- verify the feasibility of the funding plan, taking due account of the findings of the stress analysis.

In accordance with regulatory provisions, the Bank develops scenarios characterized by stress scenarios associated with the occurrence of systemic or idiosyncratic events in order to test potential liquidity vulnerabilities.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses:

- sensitivity analysis: analysis of liquidity position to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- scenario analysis: analysis consisting in the assessment of the Bank’s ability to cope with a potential deterioration in its liquidity profile based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics;

- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

The types of stress test that characterize the framework provide for the occurrence of sever but plausible events (scenarios) that can be classified into three categories:

- stress scenarios caused by a systemic event, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy and therefore for the Iccrea 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 Banking Group. In defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Group;
- stress scenarios generated by a combination of specific and systemic events, i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimated inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Group to cope with any liquidity strains.

For each scenario, the Group has incorporated shocks generated by the main risk variables, which have been identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

The stress scenarios do not take account of the effects of exchanges rates on currencies, as exchange rate risk is assumed to be negligible and/or essentially offset at the Group level.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.
-

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of asset to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

The stress tests are performed using a static or dynamic approach depending on the type of indicator being stressed. On the basis of the approach selected, assumptions that modify the maturity structure of assets and/or

liabilities or the composition of funding are introduced (dynamic approach) or are not introduced (static approach) within the time horizon considered.

QUANTITATIVE DISCLOSURES

1. DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY

CURRENCY 242 - 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	2,708,170	1,475,868	414,627	1,080,115	2,659,389	2,814,279	3,646,698	18,789,760	6,178,223	232,890
A.1 Government securities	-	-	478	-	11,603	75,605	522,308	3,318,313	2,942,054	-
A.2 Other debt securities	1,236	53	56	1,226	1,666	19,366	9,224	326,178	261,268	350
A.3 Units in collective investment undertakings	480,117	-	-	-	-	-	-	-	-	-
A.4 Loans	2,226,817	1,475,815	414,093	1,078,889	2,646,120	2,719,308	3,115,166	15,145,269	2,974,901	232,540
- banks	1,090,218	1,387,760	380,515	959,309	1,471,473	1,725,599	1,829,337	10,040,366	11,301	232,299
- customers	1,136,599	88,055	33,578	119,580	1,174,647	993,709	1,285,829	5,104,903	2,963,600	241
On-balance-sheet liabilities	4,611,209	5,596,234	847,305	790,406	2,954,776	1,124,682	3,122,043	19,939,502	461,563	-
B.1 Deposits and current accounts	4,081,268	137,266	116,295	41,022	237,552	89,412	676,444	1,079,004	-	-
- banks	2,566,166	132,501	110,005	26,003	190,630	46,464	608,109	1,000,300	-	-
- customers	1,515,102	4,765	6,290	15,019	46,922	42,948	68,335	78,704	-	-
B.2 Debt securities	1,993	10,734	11,119	62,367	47,615	70,921	671,012	3,988,114	245,195	-
B.3 Other liabilities	527,948	5,448,234	719,891	687,017	2,669,609	964,349	1,774,587	14,872,384	216,368	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	1,706,009	188,498	318,874	1,101,468	9,107	6,898	19,293	7,370	-
- short positions	-	1,519,565	123,030	365,903	1,033,098	7,465	110,520	142,065	70,967	-
C.2 Financial derivatives without exchange of principal										
- long positions	355,683	539	46	95	7,215	4,981	4,145	-	-	-
- short positions	374,275	86	6	3	3,884	9,074	19,160	-	-	-
C.3 Deposits and loans to receive										
- long positions	-	56,536	-	-	1,010,790	290,435	-	-	-	-
- short positions	-	9	-	-	56,527	-	306,101	995,124	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	149,422	12,400	-	234	366	111	1,200	122,599	216,239	-
- short positions	515,011	12,400	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

CURRENCY 999 – OTHER

	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	15,111	4,373	6,984	24,665	11,223	20,943	10,214	73,114	22,616	200
A.1 Government securities	-	-	61	4,504	283	3,353	5,048	54,346	4,554	-
A.2 Other debt securities	-	-	106	-	643	81	514	13,376	15,719	200
A.3 Units in collective investment undertakings	-	-	-	-	-	-	-	-	-	-
A.4 Loans	15,111	4,373	6,817	20,161	10,297	17,509	4,652	5,392	2,343	-
- banks	14,800	4,373	6,817	20,161	9,486	13,638	203	2,629	-	-
- customers	311	-	-	-	811	3,871	4,449	2,763	2,343	-
On-balance-sheet liabilities	77,647	54,698	20,060	22,248	17,607	2,748	27,252	44,773	154	-
B.1 Deposits and current accounts	77,647	54,698	20,060	16,385	5,909	1,767	4,566	-	-	-
- banks	76,866	54,698	20,060	16,385	5,909	1,767	4,566	-	-	-
- customers	781	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	10,403	981	22,686	43,888	-	-
B.3 Other liabilities	-	-	-	5,863	1,295	-	-	885	154	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	2,243,474	630,101	397,023	1,034,356	5,439	120,302	52,296	1,349	-
- short positions	-	2,428,446	698,808	331,121	958,402	6,419	5,929	8,058	1,416	-
C.2 Financial derivatives without exchange of principal										
- long positions	1,487	-	-	-	-	-	-	-	-	-
- short positions	1,694	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to receive										
- long positions	-	4,936	-	-	-	-	-	-	-	-
- short positions	-	4,936	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	-	8,085	-	-	-	-	-	-	-	-
- short positions	-	8,085	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

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 Group, it is exposed to operational risks across the entire organization.

Within the regulatory framework, the deregulation and the globalization of financial services, together with the progressive refinement of the financial technology supporting transactions, are making the Group's activities, and thus the associated operational risk engendered, increasingly complex. In the absence of appropriate controls, the growing use of highly automated technology under way in the Group can transform the risk of manual errors and data processing errors into system malfunctions, given the increasing recourse to integrated IT infrastructure and applications.

In addition, the growing use of electronic money and e-commerce generates other potential risks (or example, internal and external fraud, system security, customer data processing and IT risks) whose comprehensive mastery and mitigation represents a strategic and enabling factor in the development of the Group's business.

In addition, the presence of banks and financial companies in the Group, delivering services on a mass scale (the mutual banking system) to the public makes it necessary to constantly maintain adequate internal controls and backup systems, with the increasing 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 countless national and international regulations to which the Group is subject.

Governance and organizational model

In 2018, the Board of Directors of the Parent Company adopted a new organizational model for the Risk Management function, targeting the establishment of the Iccrea Mutual Banking Group. With specific regard to the management of operational risk, responsibilities are allocated to two levels:

- at the Parent Company, the Operational & IT Risk Management unit has been established and charged with:
  - centralized responsibility for policy-making and coordinating the operational risks for the Iccrea Mutual Banking Group as a whole. This unit operates as a specialist hub for operational risks;
  - responsibility for supporting the Risk Management functions of the direct subsidiaries and, through the Mutual Bank Risk Management Coordination unit, the Risk Management functions of the affiliated banks;
- at the banks and other companies directly controlled by the Parent Company, the Risk Management units report to their boards of directors and are responsible, among other duties, for monitoring and managing developments in the exposure to operational and IT risks.

With regard current governance arrangements, the Risk Committee of the Board of Directors provides support to that body, engaging in strategic supervision of risks and the internal control system, including the frameworks for the management of operational risk and IT risk.

In particular, the 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 framework is structured into the following phases:

- identification of risks (knowledge): a set of processes, methods and tools to identify operational risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (i.e. operational loss data) and potential risk (assessed through the collection of business expert opinion).
- evaluation/measurement of identified risks (awareness): processes, methods and tools for assessing/measuring Group operational risks.
- risk prevention and attenuation (strategy): processes, methods and tools for the ex-ante identification of the possible ways of preventing and mitigating unfavorable developments in the dynamics of operational risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational risks, and the implementation of measures to ensure that possible operational risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.
- monitoring and reporting (tracking and control): processes, methods and tools 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): processes, methods and tools to support the management of developments in operational risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to operational risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments (operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

The operational risk assessment framework outlined above also includes legal risk and is integrated with that for assessing IT risk (IT Risk Management Framework), in line with the relevant regulations.

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. The Operational & IT Risk Management unit 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 Banking Group uses the Basic Indicator Approach (BIA), 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.

In 2018, the activities connected with the evolution of the Group's operational risk management framework were completed. Specifically, the Board of Directors of the Parent Company approved the adoption at the Group level

of the general process rules for Loss Data Collection and Operational Risk Self-Assessment. These rules were transmitted with a specific directive to the direct subsidiaries, which implemented them through their own BoDs.

In 2018 the software selection process was also completed. It was intended to identify an application to support operational and IT risk management activities and, with specific reference to the Loss Data Collection process, the parameterization phase of the system with a view to extending it to the Group companies and the affiliated mutual banks.

Support was also provided for the collection of operational loss events at the Group level for QIS and COREP regulatory reporting.

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 this risk within the Group's internal control systems. These include the Operational Risks, Compliance and Anti-Money-Laundering units of the Parent Company and the individual subsidiaries. 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);
- minimum acceptable level in respect of the findings of controls of individual relationships with regard to compliance (an indicator specified for the entire scope of application of the RAF);

Risk management and mitigation

Operational risk management and mitigation activities are governed by a set of codified and formalized rules that include:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in the risks assumed;
- the adoption of a set of measures for managing the problems found as part of the risk assessment framework;
- the actions to be taken in the event of breaches of monitoring thresholds or risk tolerances and the risk limits set out in the Risk Appetite Statement;
- the actions to be taken in the event of breaches of the limits defined in risk policies.

Monitoring and reporting

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. In particular, these activities are governed by the unified management framework described earlier and defined within the applicable policies.

The Operational & IT Risk Management unit prepares the necessary reporting in this area, bringing it to the attention of the various internal users (Board of Directors, senior management, operating units).

QUANTITATIVE DISCLOSURES

As provided for in Circular no. 285/2013 of the Bank of Italy as updated, for reporting purposes the 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 Iccrea is "gross income".

In particular, the capital requirement, equal to 15% of the average of the last three observations of gross income at the end of the year, amounted to €92,577 thousand.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2018	T	634,286
- at December 31, 2017	T-1	625,565
- at December 31, 2016	T-2	622,690
Relevant indicator average		**627,514**
Regulatory coefficient		**15%**
Capital requirement		**94,127**

The indicators include the contribution of Banca MedioCredito FVG, which was consolidated during 2018.

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

QUALITATIVE DISCLOSURES

Consolidated capital is managed by centralized units of Iccrea Banca, through the definition of a set of internal policies and processes that ensure dynamic equilibrium and appropriate consistency between the Group's overall capital resources, the range of risks the Group has assumed or intends to assume, and the targets for growth in size and profitability as specified in the strategic planning process.

With a view to achieving sustainable and balanced growth, the Iccrea Banking Group continues to pursue capital adequacy through careful management of both regulatory requirements (First Pillar) and operational constraints (Second Pillar – ICAAP). In particular, the Group's compliance with capital adequacy requirements is ensured:

- for the First Pillar, through the management and monitoring of regulatory capital, so as to ensure compliance with the minimum statutory capitalization limits, so as to be able to handle with the risks typical of the banking business;

- for the Second Pillar, through a process that controls current and prospective capital adequacy, which in addition to First Pillar risks also considers other material risks that affect or could affect the Group's operations, in order to determine an adequate level of internal capital in relation to the overall risk exposure.

Accordingly, management of financial soundness at the consolidated level is structured in a dynamic process, which is managed on both an ongoing basis in accordance with the corporate objectives set out in the strategic planning process (annual budget, three-year business plan) and on a non-recurring basis in conjunction with extraordinary transactions (acquisitions, mergers, asset disposals) that modify the composition or scope of the Group's operations.

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	1,257,781	-	(2,216)	2,663	1,258,228
2. Share premium reserve	10,505	-	(948)	1,196	10,753
3. Reserves	313,660	-	49,544	(47,351)	315,853
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)	(4,608)	-	-	-	(4,608)
6. Valuation reserves:	44,148	-	(82)	-	44,066
- Equity securities designated as at fair value through other comprehensive income	(7,043)	-	-	-	(7,043)
- Hedges of equity securities designated as at fair value through other comprehensive income	-	-	-	-	-
- Financial assets measured at fair value through other comprehensive income	(2,628)	-	-	-	(2,628)
- Property and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedging of investments in foreign operations	-	-	-	-	-
- Cash flow hedges	(580)	-	-	-	(580)
- Hedging instruments [undesignated elements]	-	-	-	-	-
- Foreign exchange differences	-	-	-	-	-
- Non-current assets held for sale	-	-	-	-	-
- Financial liabilities designated as at fair value through profit or loss (change in own credit rating)	-	-	-	-	-
- Actuarial gains (losses) on defined benefit plans	(2,980)	-	(82)	-	(3,062)
- Share of valuation reserves of equity investments accounted for using equity method	5,045	-	-	-	5,045
- Special revaluation laws	52,334	-	-	-	52,334
7. Net profit (loss) for the period (+/-)	12,188	-	(1,432)	(3,254)	7,502
Shareholders' equity	**1,633,674**	**-**	**44,866**	**(46,746)**	**1,631,794**

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	590	3,217	-	-	-	-	-	-	590	3,217
2. Equity securities	-	7,043	-	-	-	-	-	-	-	7,043
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2018	**590**	**10,260**	**-**	**-**	**-**	**-**	**-**	**-**	**590**	**10,260**

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	**5,505**	**(1,237)**	**-**
2. Increases	**2,012**	**(8)**	**-**
2.1 Fair value gains	52	-	-
2.2 Writedowns for credit risk	986	X	-
2.3 Reversal to income statement of negative reserves: from realization	375	X	-
2.4 Transfers from other components of shareholders' equity (equity	-	-	-
2.5 Other changes	598	(8)	-
3. Decreases	**(10,144)**	**(5,797)**	**-**
3.1 Fair value losses	(4,225)	(5,797)	-
3.2 Writebacks for credit risk	(700)	-	-
3.3 Reversal to income statement of positive reserves: from realization	(5,322)	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	-	-	-
3.5 Other changes	103	-	-
4. Closing balance	**(2,627)**	**(7,042)**	**-**

B.4 VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

Valuation reserves for to defined-benefit plans show a negative balance of €2.9 million, a positive change of €335 thousand compared with the previous year.

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

Acquisition of control of Banca Mediocredito del Friuli Venezia Giulia S.p.A.

As discussed in the section of the report on operations concerning significant events during the year, on July 11, 2018, the acquisition by the Iccrea Group of a majority (51.5%) of the share capital of Banca Mediocredito del Friuli Venezia Giulia S.p.A. was completed. Following the agreement between the Region of Friuli Venezia Giulia, Fondazione CR Trieste, Iccrea Banca and Banca Mediocredito del Friuli Venezia Giulia, the transaction was implemented through:

- the subscription by Iccrea BancaImpresa of a reserved capital increase by MCFVG of about €19.7 million. The capital increase was represented by 277,464,780 newly issued shares reserved to Iccrea BancaImpresa, at a price of €0.071 per share, of which €0.03 per share as the share premium;
- the exchange of shares representing the interest of the Foundation in MCFVG (301,389,763 shares equal to 35.6 5% of share capital) with shares of Iccrea Banca (380,000 shares with a par value of €51.65 per share for a total of 1.7051% of share capital). Following the transaction, Iccrea Banca held a stake of 26.838% in Banca MedioCredito del Friuli-Venezia Giulia.

The operation was completed following the issue of the required authorizations by the supervisory authorities.

As a result of the direct and indirect interest so acquired, Iccrea Banca now holds a total of 51.546% of the share capital of Banca MedioCredito del Friuli-Venezia Giulia and exercises management and coordination powers over that bank.

The acquisition of control by Iccrea Banca qualifies as a business combination for which IFRS 3 is applicable, which provides that "an entity shall account for each by applying the acquisition method". In particular, the recognition principle establishes that "as of the, the shall recognize, separately from, the assets acquired, the liabilities assumed and any in the". As far as the measurement principle is concerned, "the acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values".

Iccrea Banca performed these measurements and the allocation of the purchase price for Banca Mediocredito del Friuli Venezia Giulia (Purchase Price Allocation, PPA) with the support of a leading consulting company.

On the basis of the provisions of the accounting policies discussed in Part A of the notes to the consolidated financial statements, IFRS 3 requires that any business combination transaction be accounted for on the basis of the acquisition method, which involves the following phases:

- a) identification of the acquirer;
- b) determination of the acquisition date;
- c) determination of the acquisition cost;
- d) recognition and measurement of the identifiable assets acquired and the liabilities assumed - allocation of the purchase price;
- e) recognition of the result of the transaction (goodwill or gain from a bargain purchase).

a) Identification of the acquirer

Under IFRS 3, the acquirer is the entity that obtains control, i.e. the power to determine the financial and management policies of the acquiree in order to obtain benefits from its activities.

With regard to the business combination under review here, the acquirer has been identified as Iccrea Banca SpA.

b) Determination of the acquisition date

The reference date for the measurements is July 11, 2018. However, account was taken of the financial position at June 30, 2018 as no significant changes were judged to have taken place between June 30, 2018 and the reference date, with the exception of the capital increase of the acquiree bank reserved to Iccrea BancaImpresa.

c) Determination of the acquisition cost

The acquisition cost was determined to be equal to the value of the Iccrea Banca shares exchanged, the capital of the acquiree bank subscribed by Iccrea BancaImpresa and the value attributed to the non-controlling shareholders, equivalent to the pro-rated net asset value, which was equal to the post-PPA shareholders' equity.

The acquisition cost was €80.7 million.

d) Recognition and measurement of the identifiable assets acquired and the liabilities assumed - allocation of the purchase price

Under IFRS 3, the acquisition cost of the business combination must be allocated to the identifiable assets acquired and liabilities assumed, including contingent liabilities, which shall be measured on the basis of their respective acquisition-date fair values. The acquirer shall also recognized non-controlling interests in the acquiree, which in this transaction were recognized in proportion to the interest held in the ne identifiable assets of the acquiree.

More specifically, the measurement at fair value of the identifiable assets acquired and liabilities assumed led to the identification of equity acquired of €81.5 million.

The smaller value of the equity acquired (measured at fair value) compared with the carrying amount of the equity acquired was allocated to the assets and liabilities measured and amounted to €22.8 million net of tax effects.

The following table provides a reconciliation of the carrying amount of shareholders' equity and the associated fair value (amounts in millions of euros).

Carrying amount of shareholders' equity of MCFVG at June 30, 2018 including capital increase		104.3
Increase in value of assets	**0.7**	
Financial assets measured at amortized cost (debt securities)	0.3	
Property and equipment	0.4	
Decrease in value of assets	**(34.1)**	
Financial assets measured at amortized cost (loans to customers)	(34.1)	
Increase in liabilities	**(0.1)**	
Financial liabilities measured at amortized cost (securities issued)	(0.1)	
Overall fair value difference (gross of tax effects)	**(33.5)**	
Tax effects	**10.8**	
Overall fair value difference (net of tax effects)		**(22.8)**
Fair value of shareholder' equity of MCFVG at June 30, 2018		81.5

For the balance sheet items affected by the process, a brief description is given below of the measurement method used and the related outcomes:

- loans to customers: the fair value of the item, mainly represented by loans and receivables in respect of finance leases, was determined as the present value of expected cash flows and was €23.1 million lower than the carrying amount, net of tax effects;
- property: the fair value of properties used in operations, determined on the basis of appraisals conducted by independent experts, was €0.3 million higher than the carrying amount;
- securities at amortized cost: the fair value was determined by considering the market price provided by Bloomberg. It exceeded the carrying amount by €0.2 million, net of tax effects;
- securities issued: the fair value of securities issued was estimated using valuation techniques that take account of the issuer risk, adjusted by an illiquidity spread and, in one case, the degree of subordination of the security.

No intangible assets were identified.

e) Recognition of the result of the transaction

In view of the foregoing, the cost of the business combination was substantially in line with the value of the assets acquired and the liabilities assumed. The result was a positive €0.8 million, equal to the negative difference between the acquisition cost and the net shareholders' equity acquired measured at fair value.

SECTION 2 – TRANSACTIONS AFTER THE CLOSE OF THE PERIOD

The section has not been completed because there were no such positions as of the balance sheet date.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

The section has not been completed because there were no such positions as of the balance sheet date.

PART H

Transactions with related parties

1. 1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table reports information concerning the remuneration paid in 2018 to members of the Board of Directors, the Board of Auditors and key management personnel of the Parent Company who can be considered "related parties".

	Short-term benefits	Post-employment benefits	Other long-term benefits	Loans and guarantees	Share-based payments	Total 31/12/2018
Members of the Board of Directors and the Board of Auditors and key management personnel	6,973	29	-	294	-	7,296

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

In December 2011, the Bank of Italy issued regulations governing on related party transactions contained in Circular no. 263/2006 with the aim of strengthening arrangements to ensure that close ties with the decision-makers of a bank cannot compromise the impartiality and objectivity of decisions relating to the granting of loans and other transactions involving them, with possible distortions in the resource allocation process, the exposure of the bank to risks that are not measured or monitored appropriately and the generation of losses for deposit holders and shareholders.

The individual companies of the Iccrea Banking Group, and therefore the Group as a whole, have adopted a document governing the principles and rules applicable to related party transactions in compliance with the supervisory regulations. Transactions between the Iccrea Banking Group and corporate officers regard ordinary Group operations. They are undertaken in accordance with agreements applicable to all employees, where the necessary conditions are met. Transactions with corporate officers, their immediate family and entities controlled by them amounted to €0.3 million.

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. These transactions amounted to €31 million and included commitments to disburse funds in the amount of €7.6 million. At December 31, 2018, the Group companies had no exposures to the National Pension Fund for employees of the mutual banks.

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.

PART I

Share-based payments

As at the reporting date, the Group had no payment agreements based on its own equity instruments in place.

PART L

Operating segments

A. PRIMARY REPORTING BASIS

- For segment reporting, a summary income statement and key financial aggregates are prepared and presented. The companies within the Group mainly operate exclusively in individual operating segments, which, as noted in Section 5 of Part A.1 of these notes to the financial statements, are as follows:
-
  - Institutional: business conducted with institutional counterparties (mutual banks, other banks and public institutions), such as payment services, financial intermediation (trading and capital markets), and foreign activities, as well as additional support services for member banks;
  - Corporate: business focused mainly on financing small and medium-sized companies that are customers of the mutual banks;
  - Retail: mainly asset management activities on an individual and collective basis for retail customers;
  - Corporate Center: internal Group activities of an administrative and support nature, as well as all intercompany eliminations.

A.1 DISTRIBUTION BY BUSINESS SEGMENT: INCOME STATEMENT

	31/12/2018					
	CORPORATE	ISTITUTIONAL	RETAIL	CORPORATE CENTER	INTER-SEGMENT TRANSACTIONS	TOTAL
Net interest income	**182,374**	**74,440**	**75,540**	**(1,115)**	**4,639**	**335,880**
Net fee and commission income	**12,511**	**198,965**	**51,806**	**(2)**	**(7,854)**	**255,427**
Other financial expense and income	596	26,308	(5,084)	-	(44,671)	(22,851)
Gross income	**195,482**	**299,713**	**122,263**	**(1,117)**	**(47,886)**	**568,455**
Net value adjustments	(81,839)	(4,590)	(11,228)	-	-	(97,657)
Net gains (losses) on financial operations	**113,851**	**295,123**	**111,035**	**(1,117)**	**(47,886)**	**471,005**
Operating expenses	(90,205)	(316,405)	(90,484)	3,114	3,501	(490,478)
Other costs and revenues	(3,013)	(31,141)	6,987	1	17,519	(9,647)
Profit/(loss) from continuing operations before tax	**20,632**	**(52,424)**	**27,539**	**1,998**	**(26,866)**	**(29,120)**
Income tax for the period on continuing operations	18,589	20,854	(2,694)	(917)	792	36,624
Profit/(loss) for the period	**39,222**	**(31,570)**	**24,845**	**1,081**	**(26,074)**	**7,502**
Profit/(loss) for the period pertaining to non-controlling interests	**2,393**	**-**	**4,238**	**-**	**9**	**1,835**
Profit/(loss) for the period pertaining to shareholders of the Parent Company	**41,615**	**(31,570)**	**20,608**	**1,081**	**(26,065)**	**5,667**

A.2 DISTRIBUTION BY BUSINESS SEGMENT: BALANCE SHEET

	CORPORATE	ISTITUTIONAL	RETAIL	CORPORATE CENTER	INTER-SEGMENT TRANSACTIONS	TOTAL
Financial assets	264,516	812,241	9,647	2	(46,213)	1,040,193
Due from banks	288,069	21,040,097	514,937	3,590	(2,895,394)	18,951,299
Loans to customers	8,956,805	3,941,790	1,483,981	-	(1,737,286)	12,645,290
Funding from banks	3,278,365	19,522,753	941,555	52,345	(4,558,192)	19,236,827
Funding from customers	1,327,352	12,511,205	976,547	-	(33,815)	14,781,289
Securities and other financial liabilities	4,407,802	5,342,139	163,401	-	(4,498,277)	5,415,066

B. SECONDARY REPORTING BASIS

As regards the secondary reporting basis, please note that the Group operates almost exclusively in Italy.

REPORT OF THE AUDIT FIRM

Iccrea Banca S.p.A.

Consolidated financial statements as at December 31, 2018

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

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 Iccrea Banca S.p.A. (the "Company") and its subsidiaries (the "Iccrea Banking Group" or the "Group"), which comprise the consolidated balance sheet as at December 31, 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholders' equity and the statement of cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the the Group as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n.136, dated August 18, 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 *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Iccrea Banca S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. 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.

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Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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We identified the following key audit matters:

Key audit matter	Audit Response
Impact related to the first time application of the International Financial Reporting Standard 9 – Financial Instruments	
On January 1, 2018 the International Financial Reporting Standard 9, endorsed by the European Commission on November 22, 2016 with Regulation no. 2016/2067 (the "standard" o "IFRS 9") became effective, replacing the standard IAS 39 in relation to the classification and measurement of the financial instruments. As required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and in accordance with the first time application approach envisaged by IFRS 9, the Group accounted for in the opening balances the cumulative effects derived from the transition to the new standard, for an amount of Euro 82.6 million. In addition, the Group exercised the option provided for in the standard to not restate the comparative data. The IFRS 9 first time application constituted a relevant aspect for the audit, both because the financial impact have been significant for the financial statements as a whole and for the significant implementation related to processes, procedures, controls, methodologies and IT systems by the Group. The disclosures on the effects of first time application is provided by the directors within the section "Compliance with IFRS 9" in the notes to the financial statements.	In addressing these issues, our audit procedures included, among others: § understanding and analysis of the main accounting and implementation choices made by the Group in relation to the classification, measurement and impairment of financial instruments; § understanding and analysis, also with the support of our specialists in risk management, the measurement of financial instruments, disposal of non performing loans and IT systems, processes and controls implemented in relation to the IFRS 9 first time application and the execution of compliance procedures for key controls, including those concerning IT systems; § understanding the approach adopted by the Group to determine the impact of first time application and performing substantive procedures aimed at verifying appropriateness and consistency with the provisions of the standard; § analysis of the adequacy of the disclosures provided in the notes to the financial statements.

Key audit matter	Audit Response
Classification and measurement of loans to customers	In addressing these issues, our audit procedures included, among others:
Loans to customers measured at amortized cost, which are reported in item 40 b) of the balance sheet, amounted to Euro 19,950 million at December 31, 2018, representing 46% of total consolidated assets. The process of classifying loans to customers in the various risk and measurement categories is relevant for the audit in view of the significance of the value of loans as a proportion of assets and in consideration of the fact that the recoverable value of loans is determined by the directors through the use of estimates that have a high degree of subjectivity, with particular reference to: i) the identification of objective evidence of impairment of a loan; ii) the realizable value of the collateral acquired; iii) the determination of the expected cash flows and their timing of collection; iv) the definition of homogeneous credit-risk categories of loans; and v) the determination of Probability of Default ("PD") and the related estimated loss (Loss Given Default –"LGD"), based on historical data observation for each risk class and on forward looking information, including macroeconomic factors, and the determination of significant risk increase parameters for the classification among the various reference stage. Disclosures on the classification and measurement of loans to customers is provided by the directors in Part A and Part E of the notes to the financial statements.	§ understanding of the policies, processes and controls established by the Group in relation to the classification and measuring loans to customers and performing compliance procedures on the key controls, including those concerning IT systems; § performing sample substantive procedures aimed at verifying the correct classification of the loan portfolio and the measurement of credit positions measured individually, as well as the appropriate use of the collective measurement model for the performing portfolio; § understanding and analysis, also with the support of our risk management specialists, the measurement of financial instruments, the assignment of portfolios of non performing loans and the IT systems, processes and controls implemented for first time application of IFRS 9 and the performance of conformance procedures for key controls, including those concerning IT systems; § performing comparative analysis procedures for the loan portfolio and the related coverage levels for each risk category through comparison with the data for previous years and an analysis of the most significant divergences, taking due account of the effects of the first-time application of IFRS 9; § analysis of the adequacy of the disclosures provided in the notes to the financial statements.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n.136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they 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 Iccrea Banking Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Iccrea Banca S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Iccrea Banking Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain 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 conducted 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 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 an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for 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 have obtained an understanding of internal control relevant to the audit in order to design 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 have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of 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. If we conclude that 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 consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- we have 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 a manner that achieves fair presentation.
- we have 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.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of the Company, in the general meeting held on June 24, 2010, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the Report on Operations and of the specific information included in the Report on Corporate Governance and Ownership Structure, as provided for by article 123-bis, paragraph 2, subparagraph b) of Legislative Decree n.58, dated February 24, 1998, of the Group as at December 31, 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Iccrea Banking Group as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Iccrea Banking Group as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Rome, April 12, 2019

EY S.p.A.
Signed by: Wassim Abou Said, Partner

This report has been translated into the English language solely for the convenience of international readers.

2018 CONSOLIDATED NON-FINANCIAL STATEMENT

Prepared in accordance with Legislative decree 254/2016

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1 CHAIRMAN'S LETTER TO STAKEHOLDERS

Dear shareholders,

The 2018 Non-Financial Statement (NFS) of the Iccrea Banking Group (the "Group") serves ideally as a bridge to a new phase of our history that began with the formation of the Iccrea Mutual Banking Group (ICBG), officially on March 4, 2019.

The perspective from which stakeholders will view future non-financial reporting is set to change completely. The companies consolidated in the 2018 edition are those of the Group that fall within the scope of consolidation for NFS purposes (including Mediocredito del Friuli Venezia Giulia as of July 2018), while the 2019 edition will also include all 142 of the mutual banks affiliated with the ICBG.

The 2018 NFS focuses on the distinctive business model of the Italian mutual banking system that – from the foundation of the first mutual bank, Cassa Rurale di Loreggia (Padua) in 1883 – unites its vocation of working for the social good and local communities (a minimum of 95% of the loans given by the mutual banks must be made in their home territories) with the three pillars of sustainable development centering on environmental, social and economic wellbeing, while taking a long-term view.

More specifically, the 2018 NFS reports that, in operational terms, mutual banking is one of the main players in supporting and developing the real economy of local communities. In this area the Group – which at December 31, 2018 had 256 shareholders, of which 230 are mutual banks (BCC) – had significant success: the retail (individuals and households) segment grew by 2% compared with 2017, while the SMEs served by the Group increased by 3% on the previous year.

During the reporting period the Group continued to support enterprises through financial programs focusing on sustainability. These include agricultural land loans targeted at persons under 40 years of age and loans for developing agro-energies (i.e. biogas), just to name a few examples. The data on microcredit for businesses (unsecured loans of up to €25 thousand for starting up or developing entrepreneurial activities or entering the labor market and backed by a government guarantee) were also in line with these initiatives. Therefore, during the three years 2016-2018, the microcredit section of the Central Guarantee Fund for SMEs, reported a 67% increase in transactions.

The housing lease program has also been created to support young people and families. This is a special type of financing designed to help young people and young couples purchase their primary residence. Social housing also falls under this general category, with long-term investments intended to provide an adequate response to emergency housing demand. There were 29 rental and sale arrangements in 2018, with another 25 to be added in 2019.

Another major area of focus has been our personnel. The 2018 NFS recorded a significant reduction, almost 40%, in fixed-term employment contracts (going from 43 contracts in 2017 to 26 in 2018). This figure is worth mentioning given the generalized increase in temporary employment arrangements in Italy.

In addition, the ongoing reorganization of the Iccrea Mutual Banking Group led to a staff increase of 290 employees through a hiring process that gave priority to mutual banking system employees. This resulted in an overall increase in personnel of 6%, with turnover of 5%. This stands in contrast to general hiring trends.

Again regarding human resources, at the end of 2018 the Group reported a total workforce of 2,475 employees, 38% of whom are women. This is an area on which we should focus in order to narrow the gap between the number of women and men at various job levels.

With regard to the environment, the Group posted considerable success. During the year we purchased and consumed 49,568 gigajoule (GJ) of electricity (with a savings of about 12% compared with 56,182 GJ for 2017), coming entirely from renewable resources with certification of origin and 129 GJ of thermal energy from district heating (compared with 1,441 GJ in 2017 for a 91% drop in consumption).

Finally, consistent with the local nature of the mutual banking system, 95% of procurement was made through suppliers residing in Italy and in the main areas of operations of the Group companies, compared with 91% in 2017 and in 2016. These data and information are in line with the principle of serving local communities that inspires the mutual banks, which are local banks expressing the environment in which the company operates. The deposits collected are used to support and finance the development of the real economy, creating a geo-circular economy.

Moreover, only using the specific metrics of the NFS (Global Reporting Initiative - GRI Standards 2016) as measurement, we can monitor and control the performance of non-financial actions undertaken in the interests of our internal and external stakeholders. It is no accident that the process of approving various European regulations on some of these issues has begun and that it will soon have an impact on the operations of our banks.

These results were achieved also through the ongoing commitment of those who make an important contribution to recording the non-financing factors that, along with the financial information, offer a comprehensive picture of the Group.

The primary data presented in this extensive documentation and summarized here offer a typical snapshot of the Banking Group, founded with the support of the mutual banks, creating with them a coherent ecosystem capable of giving substance to Article 2 of the bylaws of the mutual banks.

This article embodies the identity and mission of the mutual banks and, for the Banking Group, represents a true, binding roadmap from which descends our mission and that serves as a starting point for outlining the vision that drives us to invest in and move forward with development projects.

The Iccrea Banking Group's relationship with its stakeholders, owing to the role, mission and characteristics of the mutual banking system, is a distinguishing - by that I mean fundamental - feature of our work. These constitute strong interconnections, well looked after and developed, first and foremost with the most traditional stakeholders: shareholders, employees, customers and the socio-economic environment in which the Group operates. For these reasons we feel that we can say with pride and conviction that the reality embodied in the Iccrea Mutual Banking Group is that of the country's top local bank!

The Chairman
Giuseppe Maino

2 IDENTITY OF THE ICCREA BANKING GROUP

Group structure

The Iccrea Banking Group was established in 2016 through the merger of Iccrea Holding (founded in 1995), parent company of the first Iccrea Group, with and into Iccrea Banca (a second-level bank). This latter was the historic Istituto Centrale del Credito Cooperativo, established in 1963. Today, the Iccrea Banking Group works to support the operations of the mutual banks (BCC) and of the rural savings banks (CRA) in meeting the needs of their customers, which are made up of businesses and retail customers, with an integrated system of products and services.

During the year the Group also enlarged its scope of consolidation through the acquisition of Banca Mediocredito del Friuli Venezia Giulia in July 2018. This transaction has enabled the Iccrea Banking Group to leverage that bank's traditional role of supporting the small and medium-sized enterprises (SMEs) that operate in Friuli Venezia Giulia, while at the same time improving the current resources and potential of the Iccrea Banking Group.

Furthermore, in 2018, to better integrate all the mutual banks located throughout the country, the Group undertook a path that led, in 2019, to the formation of the Iccrea Mutual Banking Group (ICBG), in accordance with the requirements laid down by the European Central Bank (ECB) concerning the mutual banking system.

The Iccrea Banking Group is organized around a Parent Company, Iccrea Banca Spa, and a number of specialized "product" companies controlled by the Parent Company that complete the product range for the benefit of the mutual banks. The capital of Iccrea Banca Spa is primarily held by the mutual banks themselves, which are simultaneously the shareholders and the main customers of the Iccrea Banking Group. Thanks to the services and products developed by the companies of the Group, the mutual banks are able to enhance their positioning on the local market, be efficient and competitive and maximize the added value of banks at the service of local economic development.

The products and services offered by the Group range from financial to investment products, including advisory services, extraordinary corporate finance, training for company strategies and the entire insurance sector (life and non-life) through equity stakes in companies who work for the mutual banking sector.

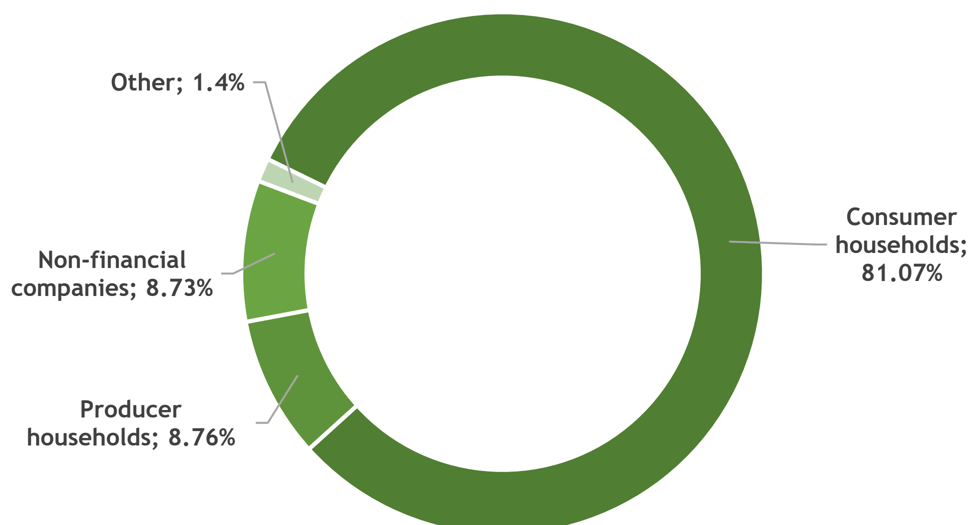
More specifically, the activities of the Iccrea Banking Group break down into three main business areas:

- Institutional segment: this groups the companies that offer products and services dedicated to mutual banks. The wide range of solutions available include securitizations, lending, payment systems, electronic money, securities administration, debt collection services, web services and call centers. The companies involved in this segment are Iccrea Banca (the Parent Company), BCC Sistemi Informatici, and BCC Gestione Crediti. BCC Solutions is also part of the institutional segment, although its products are addressed exclusively to the companies of the Iccrea Banking Group.
- Corporate segment: through Iccrea BancaImpresa, this segment offers services and products for corporate clients of the mutual banks, including advisory services and financial services and solutions. The product range includes effective solutions and customized tailored to the needs of businesses, from traditional forms of bank services to the most advanced and innovative solutions. The portfolio of products ranges from ordinary finance to corporate finance, lending, services for international trade, finance and operational leases through the vendor channel and factoring, with support from the products offered by BCC Lease and BCC Factoring. The product range is completed by hedging derivatives, insurance services and subsidized financing offered as well through Mediocredito del Friuli Venezia Giulia SpA (hereinafter "Mediocredito FVG"), which historically has specialized in short- and medium/long-term loans using pooling.
- Retail segment: this comprises the companies that offer products and services for the household customers of the mutual banks. The product range includes asset management services, personal loans, mortgages and e-commerce services. The companies that operate in this area are BCC Risparmio&Previdenza, BCC Credito al Consumo, BCC Retail, Banca Sviluppo (in 2017, as instructed by the Parent Company, in part prompted by the reform of the mutual banking system and the formation of the Mutual Banking Group, the process of selling the branches to the mutual banks began) and Ventis. Through minority interests both in BCC Vita and BCC Assicurazioni, and in Satispay SpA, the Group also offers mutual bank customers insurance services in the life and non-life sectors and payment services.

The Iccrea Banking Group in figures (December 31, 2018)*	
Mutual banks served	2681
Corporate customers**	365,934
Retail customers	2,775,074
Employees	2,475
Headquarters and local offices	13

* Does not include 142,270 joint account holders since, by their very nature, it is not possible to determine whether they are Corporate or Retail customers.
** To ensure the year-on-year comparability of the data, 147,806 Corporate customers of BCC Lease, BCC Vita, BCC Factoring and Banca Mediocredito del Friuli Venezia Giulia SpA were not included because these companies were included in the Group's customers monitoring systems only in 2018.

Customers by sector (SAE classification)



The local network

The Iccrea Banking Group is based in Rome and Milan. In Rome, Iccrea Banca, Iccrea BancaImpresa, BCC Solutions, Banca Sviluppo, BCC Credito Consumo, BCC Sistemi Informatici, BCC Lease and BCC Factoring have offices in the via Lucrezia Romana complex. BCC Gestione Crediti has a separate office in Rome. BCC Risparmio & Previdenza, BCC Sistemi Informatici, BCC Credito Consumo, Ventis, BCC Lease, BCC Retail, Banca Sviluppo, BCC Factoring, Iccrea Banca and Iccrea BancaImpresa are located in Milan.

Operations are conducted throughout the national territory, with a prevalence of business in the North, where the mutual banks have a larger number of branches. More specifically, the Iccrea Banking Group, through the network of mutual banks, is present in about 1,720 municipalities throughout Italy. The Group's geographical reach also includes 13 offices in a variety of Italian cities.

Through the direct presence of the branches of Banca Sviluppo, the Iccrea Banking Group guarantees access to financial services for 17 municipalities located in "less-favored areas", as defined by Regulation (EC) 1257/99, in Calabria, Campania, Basilicata, Veneto, Emilia Romagna and Sicily.

The history of the Group

The Iccrea Banking Group was born of a long history of consolidation of the mutual banking system in Italy, as shown below. Details concerning changes to the Group's structure, in part a result of the transformation of the entire mutual banking system, can be found in Chapter 3 – "The Transformation of the Mutual Banking Group" of this NFS.

Year	Main events
1849	The first credit union was established in the Rhineland (Germany) by Friedrich Wilhelm Raiffeisen, who is considered the founder of cooperative banking in Europe.
1883	Founding of the first rural mutual bank, Cassa Rurale di Loreggia (Padua), by Leone Wollemborg.
1890	Founding of the first Catholic rural bank in the province of Venice by don Luigi Cerutti.
1909	Establishment in Brescia of Federazione Italiana delle Casse Rurali e Artigiane with the mission of representing and protecting the interests of its member banks.
1950	Re-formation of Federazione Italiana delle Casse Rurali e Artigiane.
1961	The first local federations were gradually founded.
1963	Iccrea Banca was founded in Rome through the signing of the articles of association of Istituto di Credito delle Casse Rurali e Artigiane (CRA), with the aim of making the activity of the rural banks more extensive and effective by providing lending, banking intermediation and financial assistance services.
1978	Creation of the Central Guarantee Fund, a voluntary "protection" scheme established between the rural banks, and indirectly their depositors, within Iccrea.
1995	On January 1, 1994 the new Consolidated Law on Banking came into force, converting the rural banks into the current mutual banks. Subsequently, the Group underwent an extensive reorganization with the formation of Iccrea Holding, which began operating in 1995 with controlling interests in Iccrea Banca, Banca Agrileasing (now Iccrea BancaImpresa) and Aureo Gestioni (now BCC Risparmio&Previdenza).
1997	The Deposit Guarantee Fund (Fondo di Garanzia dei Depositanti del Credito Cooperativo) was formed. This fund is an obligatory financial instrument for protecting depositors based on the provisions of Directive 94/19/EC on deposit-guarantee schemes, transposed in Italy with Legislative Decree 659/1996.
1999	Formation of Banca Sviluppo SpA with nine shareholders, including leaders of the cooperative banking movement: ICCREA Holding SpA, BCC di Roma, BCC di Alba Langhe e Roero, BCC Pordenonese, BCC di Pompiano e della Franciacorta, BCC di Bene Vagienna, BCC di Treviglio, BCC G. Toniolo di San Cataldo and EmilBanca (formerly CrediBo). The Bank was established with the purpose of making acquisitions and managing banks, branches, assets and legal relationships on behalf of mutual banks in difficulty, in collaboration with the Deposit Guarantee Fund.
2004	The Bondholders Guarantee Fund (Fondo di Garanzia degli Obbligazionisti del Credito Cooperativo) was formed. This fund is a voluntary fund for protecting the mutual banks' bondholders.
2008	The Institutional Mutual Bank Guarantee Fund is formed to monitor and prevent crises tied to the mutual banks' "liquidity and solvency" problems.
2013	130th anniversary of the founding of the first rural bank, Cassa Rurale di Loreggia (1883-2013), by Leone Wollemborg.
2015	The mutual banks are exempted from the urgent measure passed by the Government with Decree Law 3/2015, limited, therefore, to the *popolari* banks. The project to reform the mutual banking system takes effect.
2016	The process of reforming the mutual banking system begins with Decree Law 18/2016 (converted into Law 49/2016) and concludes on November 3rd with the publication of implementing provisions by the Bank of Italy. Thereafter, the Temporary Fund is established as a "temporary tool" for supporting, including through the distribution of assistance, the consolidation and concentration of the mutual banks.
2016	Iccrea Holding and Iccrea Banca merge, placing Iccrea Banca at the head of the Iccrea Banking Group, in accordance with the requirements of the European Central Bank.
2017	The process of forming the Mutual Banking Groups begins, which lead to the official establishment of the Iccrea Mutual Banking Group (142 mutual banks) and the Gruppo Cassa Centrale-Credito Cooperativo Italiano (84 mutual banks).
2018	Iccrea Banca presents to the ECB an application to form a Mutual Banking Group ("MBG"), having met the conditions for establishment. During the year Banca Mediocredito del Friuli Venezia Giulia joins the Group.
2018	Celebration of the 200th anniversary of the birth, in Germany, of Friedrich Wilhelm Raiffeisen, who is considered the founder of modern cooperative banking.
2019	In 2019 the Iccrea Mutual Banking Group was formed, with the purpose of better integrating all the mutual banks.

Group mission and values

The Iccrea Banking Group pursues a strategy aimed at promoting the stability and development of mutual banks while respecting their territorial, historical, cultural, social and economic identity.

The Group seeks to support the mutual banks in approaching the market, selecting products and services and accompanying them in the preparation of the necessary technical and organizational arrangements, in order to improve their market position and enhance their ability to compete. In addition, thanks to its efforts, the Group is committed to furthering the predominantly mutualistic mission typical of the mutual banks.

The primary distinctive characteristics of the mutual banks are:

- 50.1% of exposures are intended for shareholders and/or risk-free assets;
- a minimum of 95% of loans must remain in the territory covered;
- dividends distributed cannot exceed the maximum interest on interest-bearing postal savings bonds plus 2.5 percentage points with respect to the capital actually paid in (Article 2514 of the Civil Code);
- the profit for the year reported in the financial statements is distributed as follows:

  - a minimum percentage of 70% to form or increase the legal reserve;
  - a percentage to the mutual benefit funds to promote and expand cooperation, to the extent and in the manner provided by law;
  - any residual profits can be:
    - allocated to increasing the nominal share value, as provided by law;
    - allocated to other reserves or funds;
    - distributed to the shareholders, as long as not in excess of the maximum interest on interest-bearing postal savings bonds plus 2.5 percentage points with respect to the capital actually paid in;
    - any residual profits still remaining are allocated for charitable or mutual benefit purposes;
    - allocated to the cooperative bank shareholders as a capital dividend, based on the provisions of Article 50 of the bylaws of the mutual banks.

All the Group companies are constantly focused on looking after and further developing the relationship with the mutual banks, making for a stronger partnership and closeness. The different institutional relations activities and the dialogue with the mutual banks make it possible to create opportunities and develop tools for comparing and exchanging views on the main business issues.

The Group's choices and actions are constantly guided by the ethical principles expressed in the **Charter of Mutual Banking Values,** which expresses the principles on which the action, strategy and practices of the mutual banks are based. It also represents both a constitution for the mutual banking movement and guidelines for the action of the mutual banks. In addition, the Charter of Free, Strong, Democratic Finance reiterates the mutual banks' commitment to taking economic, civil and social action to relaunch Italy. The Charter sets out the "finance that we want" in ten points, specifically: responsible, social, plural, inclusive, comprehensible, useful, incentivizing, educational, efficient and participatory.

The Iccrea Banking Group has also drafted a "**Code of Ethics and Conduct**", which represents an essential element of the Compliance Model pursuant to and for the purposes of Legislative Decree 231/2001. The main purpose of the Code of Ethics is to define and proclaim the values of the Iccrea Banking Group and direct operations in respect of legality and compliance. The Code expresses the principles shared by all the Group companies and the ethical and behavioral commitments and responsibilities that the Group undertakes and implements in exercising its institutional activities.

The mutual banking system

The Iccrea Banking Group operates in the Italian financial sector, mainly carrying out traditional second-level banking activity, aimed at supporting the mutual banks in offering products and services to households and businesses, especially small and medium-sized enterprises.

More specifically, the Group operates within the national mutual banking system, which in 2018 comprised about 300 mutual banks, with more than 1,200,000 shareholders. In recent years, the number of mutual banks in Italy has decreased due to a process of concentration and consolidation. As of December 31, 2018, the total number of mutual banks present in Italy was 268. The banks of the system are characterized by their deep local roots, represented by a network of 4,238 branches located in over 2,600 municipalities, of which 620 have mutual banks as the only bank, and 101 provinces.

The mutual banks' market share of customer funding (including bonds) is 7.8%, while their gross lending market share is 7.2%.

From an organizational standpoint, the mutual banking system is a subsidiary and supportive system. In particular, the mutual banking system is structured in 2018 into two tracts: the associative and the entrepreneurial.

Its membership is, in turn, broken down into three levels (local, regional and national) and includes the local federations – of which numerous mutual banks are members – associated with the national federation (Federcasse), which represents them and protects their interests (in addition to providing legal and tax-related assistance, organizational and communications help and training for the entire mutual banking system) and through which the mutual banks take part in the European Association of Co-operative Banks (EACB). In Europe there are over 3,000 cooperative banks, with 81 million shareholders and 209 million customers (source: European Association of Co-operative Banks). On the business side, it is composed of central second-level groups, including the Iccrea Banking Group, which provide their products and services to the mutual banks, which, through Iccrea Banca, are members of the single Banking Group.

In addition, the Italian mutual banking system is part of the larger Italian and international cooperation

system, Confcooperative, and participates in the International Raiffeisen Union, the body that proposes to popularize cooperative banking in the countries in the southern hemisphere, according to the teachings of Friedrich Wilhelm Raiffeisen, the "father" of the movement. In 2011, the Alliance of Italian Cooperative Banks was created, uniting the three main Italian cooperative associations (Confcooperative, Legacoop, General Association of Italian Cooperative Banks - Agci), with the goal of: "Building a single body that is responsible for coordinating representation before the Government, Parliament, the European Institutions and social partners: labor unions and associations representing employers".

At the international level, there is also the International Cooperative Alliance (ICA) which brings together, represents and serves the cooperative banks throughout the world. Founded in 1895, it is one of the oldest and largest non-governmental organizations, with more than 1 billion members. The global cooperative banking network consists of 315 organizations in 110 countries.

In operational terms, the mutual banking system is one of the main financial actors in supporting and developing the **real economy** of the territories in which it is present. An objective pursued thanks to the specific features of its banking products and services, which over the years have ensured that local communities have constant access to credit. Article 2 of the bylaws of the mutual banks states: "The purpose of the Bank ... is to favor shareholders and members of local communities in bank operations and services, pursuing the improvement of their moral, cultural and economic conditions and promoting ... social cohesion and responsible and sustainable growth of the territory in which it operates."

Indeed, the cooperative banking system rests on three pillars that render it unique and deserving of support and of economic and social focus: the principles of cooperation, localism and mutual benefit. The first is expressed through the pursuit of long-term financial objectives, including that of offering shareholders its own products/services at "advantageous" market terms. The uniqueness lies in the centrality of the person, in the social motivation for pursuing profit and in the links to the values of solidarity, participation, association. The democratic nature of governance is ensured by limiting the size of shareholdings and through per capita voting (one person, one vote), while the profit motive is excluded by restrictions on distributing profits (as noted above) and the principle of the indivisibility of reserves. Therefore, each shareholder has the right to just one vote regardless of the size of their shareholding (this is done in part to avoid that inequality between shareholders could block the achievement of mutual benefit purposes). In accordance with the principle of serving local communities, the mutual banks are local banks since the members represent the environment in which the company operates and the deposits collected are used to support and finance the development of the real economy, creating a geo-circular economy.

Within this system, the Iccrea Banking Group, in carrying out its mission to support the mutual banks, contributes to the creation of value in local communities, both by providing products and services in the various segments of its operations and by distributing financial resources to the mutual banks.

3 THE TRANSFORMATION OF THE MUTUAL BANKING GROUP

With the approval of Law 49/2016 in April 2016, the process of reforming the Italian mutual banking system began. The definition of a new organizational structure will ensure greater integration among all of the mutual banks operating in Italy. This integration will allow the mutual banks to respond effectively to new market environments and the regulatory developments associated with the entry into force of the Banking Union within the European Union.

This reform, therefore, represents a major change, one that will enable the Italian mutual banks to become part of a new and original organizational model, one that unites local culture and European scope. They will remain autonomous, mutual and local banks. In fact, the reform does not deprive the banks of their identity but rather seeks to preserve the role of the mutual banks as local institutions with a predominantly mutualistic mission and enable shareholders to participate in the social capital of the mutual banking system.

Under the new organizational model envisaged by the reform, each mutual bank has joined a **Mutual Banking Group (CBG)** as the primary condition for the issue of a banking license. The process of joining the Group is regulated by a specific cohesion contract that will govern the operation of the Group itself. In particular, with the signing of the cohesion contract, the affiliated mutual banks accept the management, coordination and control activities of the Parent Company, without prejudice to the respect for the mutualistic purposes that characterize the mutual banking system. At the same time, the Parent Company will assume the duties and responsibilities in respect of the affiliated banks connected with its role as the entity in charge of the strategic and operational management of the Group and contacts with the supervisory authorities.

After a long and complex process, in 2019 the two national Mutual Banking Groups began operation: one headed by Iccrea Banca (headquartered in Rome) with 142 member mutual banks and the other by Cassa Centrale Banca (headquartered in Trento), with 84 mutual banks.

In this context, the Iccrea Banking Group, through Iccrea Banca, on April 27, 2018 proposed itself as the Parent Company of the future Iccrea-branded Mutual Banking Group, promoting the start of activities for the formal establishment of the new banking entity. On July 24, 2018 the ECB's Governing Council also determined that the conditions for the formation of the CBG were satisfied.

The integration process for the new Mutual Banking Group required the future Parent Company and the member institutions to launch joint working groups through which they will define shared policies and identify common management, administration, control and reporting tools.

Among these, also in the light of the reformed regulatory environment introduced with Legislative Decree 254/16, some of the projects involved in preparing the future Group are focused on the definition of common management and reporting tools among all the institutions involved and, with regard to some strategic and operational aspects, the centralization of resources and activities, also addressing non-financial issues. The participating banks are therefore engaged in a joint process of transposing the provisions of the decree, addressing the complexities generated by the need to combine different organizations with strong identities and diversified business activities.

Instead, based on amendments passed by the Government in November 2018, Casse Raiffeisen dell'Alto Adige opted to form an Institutional Protection Scheme (IPS) as an alternative to a Mutual Banking Group that would operate only in the province of Bolzano.

The Iccrea Banking Group and associations

Within the mutual banking system and the Italian banking industry in general, the Iccrea Banking Group is an active participant in the management of and activities sponsored by agencies, institutions and industry associations, as reported in the following table:

TRADE ASSOCIATION		
Name of organization	*Activity*	*Type of participation*
ABI Iccrea Banking Group companies belonging to the organization: *Iccrea Banca* *Iccrea BancaImpresa BCC* *Credito Consumo Banca Sviluppo*	ABI - Italian Banking Association - is a voluntary non-profit association that works to represent, protect and promote the common or specific interests of its members through the organization of studies and debates, the solicitation of regulatory innovation, national collective bargaining, information activities, training and dissemination, preparation of guidelines and codes of conduct, collaboration with national and supranational public institutions, and cooperation initiatives among the members. The ABI also represents the Italian credit and financial system in all international fora, including the European Banking Federation and the European Mortgage Federation. The ABI is not involved in the banking activity carried out by its members and does not possess databases with information on customer banking relationships.	Iccrea Banca participates as an ordinary member. The Chairman, Giulio Magagni, was member of the Governing Council and the Executive Committee in 2018. General Manager Leonardo Rubattu was member of the Executive Committee until July 2018 and has been a member of the Governing Council since July 12 of the same year.
Federcasse Iccrea Banking Group companies belonging to the organization: *Iccrea Banca*	Federcasse - National Federation of Mutual Banks - is the trade association of the mutual banks. It performs most of the activities that ABI offers to the Italian banking system. In particular, it manages national collective bargaining (there is a specific national collective bargaining agreement for the mutual banks – see Section 8.2), offers legal and tax advice and assistance services, conducts studies and provides statistical services, promotes the image of the industry through national communication campaigns, and conducts training and information activities. In addition, it manages the external and institutional relations for the mutual banks at the national and international levels, represents the mutual banks, safeguarding their specific interests, with the main national (ABI and Confcooperative) and international industry associations (European Association of Cooperative Banks).	Iccrea Banca participates as an ordinary member and designates two directors. It also participates in the activities of EACB through Federcasse.
Assosim Iccrea Banking Group companies belonging to the organization: *Iccrea Banca*	Assosim represents operators in the Italian securities market in relations with government institutions, other business associations, economic and social organizations and other associations, agencies and public and private entities. It carries out research, regulatory assistance and training services, with publications and the organization of conferences and workshops. The association has about 80 members among banks, securities investment firms and Italian branches of foreign intermediaries that are active on the primary and secondary markets and on derivatives markets, with a share of 82% of the entire volume traded on regulated markets in Italy. Since 2007, membership has expanded to include law firms, consultancies and IT solutions development companies, and to those who provide services to securities brokers.	Iccrea Banca participates as an ordinary member.
Assilea Iccrea Banking Group companies belonging to the organization: *Iccrea BancaImpresa*	Assilea is the Italian Leasing Association. It represents leasing companies with sector organizations operating in various institutional, national and international fora. At the national level, Assilea is an automatic member of the ABI and is a founding member of the O.I.C. (the Italian Accounting Board). It collaborates institutionally with Confindustria and with the main national associations of producers and distributors of goods and markets of interest to the industry. Internationally, Assilea participates in the bodies and activities of Leaseurope and maintains direct collaborative relations with the main international leasing institutions.	Enrico Duranti, General Manager of Iccrea BancaImpresa, is President of Assilea
Assifact Iccrea Banking Group companies belonging to the organization: *BCC Factoring*	Assifact, a trade association for factoring companies, was founded in 2018 to aggregate factoring operators and promote the efficient development of the sector's market. The association therefore proposes to collaborate in analyzing and finding solutions to problems affecting factoring. It conducts research and provides information and technical assistance to its members. In addition, it is responsible for representing the interests of the sector with regard to the economic and financial system, monetary and supervisory authorities and governmental entities.	BCC Factoring is an ordinary member of Assifact.
IFLA Iccrea Banking Group companies belonging to the organization: *Iccrea BancaImpresa*	An association founded in 1965, today it is composed of leasing companies from all over the world, with a representative company for each nation. The member companies are generally affiliated with leading international banking groups. Its main objective is to offer members a forum for the exchange of ideas, experiences and information for the benefit of all participants.	Enrico Duranti, General Manager of Iccrea BancaImpresa, is President of IFLA. Roberta Campanelli, Operations Manager of BCC Lease, is Secretary General of IFLA.

Leaseurope Iccrea Banking Group companies belonging to the organization: *Iccrea BancaImpresa*	Leaseurope, is the European Federation of Leasing Company Associations. Founded in 1972, Leaseurope boasts 45 members from 32 European and Mediterranean countries (Morocco, Tunisia, Turkey). Today it is a central body that involves both leasing and car rental companies. Its mission is mainly to represent, including through policy positions prepared by experts and technicians, the interests of its members in respect of European institutions, to promote an appropriate market environment for the sector, to inform its members about regulatory developments that impact the sector, to produce statistical data and to offer a platform for the exchange of experiences among members.	Enrico Duranti, General Manager of Iccrea BancaImpresa, is a director of Leaseurope.
Assofin Iccrea Banking Group companies belonging to the organization: *BCC Credito Consumo*	Assofin is an association that brings together the main financial operators operating in the consumer credit sector. Its members are all captive arms of large companies, industrial or banking groups, both Italian and foreign. Through its delegates it represents its members on the Board of the ABI and is a member of Eurofinas, the European Federation of Finance House Associations. Its main aims are: the coordination of common initiatives, the exchange of experience on relevant common problems; the representation of its members in the relevant fora; maintaining an ongoing dialog with administrative and legislative bodies; the production of information of a statistical, legal, fiscal, administrative or advisory nature on matters of common interest; dissemination and communication to contribute to transparency and a better understanding of the consumer credit sector.	BCC Credito Consumo is an ordinary member of Assofin.
Assogestioni Iccrea Banking Group companies belonging to the organization: *BCC Risparmio e Previdenza*	Assogestioni is the Italian association of asset managers and represents the majority of Italian and foreign asset management companies operating in Italy, as well as banks and insurance companies active in individual and collective asset management. The association offers its members advice and technical support on legal, fiscal and operational issues and promotes a constant dialogue with industry operators and institutions on the issues of investment, the protection of savings, corporate governance and regulatory and operational innovation in the industry. Internationally, Assogestioni is part of EFAMA (European Funds and Asset Management Association), with which it collaborates on the development of Community legislation and the effective self-regulation of the European asset management sector.	BCC Risparmio & Previdenza is an ordinary member of Assogestioni.
Assoprevidenza Iccrea Banking Group companies belonging to the organization: *BCC Risparmio e Previdenza*	Assoprevidenza, the Italian Association for Supplementary Pension Providers, is a non-profit organization operating as a national technical center for supplementary pension and welfare providers, bringing together second-pillar pension schemes of all types, funds and bodies providing welfare services as well as sector operators. After operating unofficially for more than five years, the Association was formally established in August 1991, at the initiative of a group of directors and managers of supplementary pension funds. The number of members has rising from the initial 20 to the more than 120 current members. Assoprevidenza is financed with the membership fees and the contributions from sector operators for study and research activities.	BCC Risparmio & Previdenza is an ordinary member of Assoprevidenza.
CSR Europe Iccrea Banking Group companies belonging to the organization: *Iccrea Banca*	CSR Europe is the leading European Corporate Social Responsibility (CSR) network. Through a network of 40 firms and 41 national organizations, it brings together over 10,000 companies on a single platform. CSR Europe is the European hub for multi-stakeholder initiatives to tackle the United Nations' 2030 Agenda for Sustainable Development. Sustainable development is central to its mission. CSR Europe also beyond the borders of Europe and cooperates with corporate social responsibility organizations in other regions of the world.	Iccrea Banca is an ordinary member of CSR Europe.

As part of its function of taking part in institutional and interbank discussions, Iccrea Banca also participates in the working groups at the Customer to Business Interaction Consortium (CBI), the European Banking Authority (EBA) and the Electronic Invoicing and Dematerialization Observatory.

Iccrea Banca also sits on the board of the European banking industry association responsible for managing the rulebooks of the Single Euro Payments Area (SEPA) and for liaising with the European Payments Council. Therefore, Iccrea Banca takes part in Italian campaigns coordinated by ABI, along with Unicredit, Intesa San Paolo (ISP) and Istituto Centrale delle Banche Popolari Italiane (ICBPI), giving it the possibility to have input on strategic decisions while they are being made. Finally, it participates in the working group that is updating the SEPA rulebooks.

4 GOVERNANCE OF THE ICCREA BANKING GROUP

The governance model adopted by the Group

Iccrea Banca is a bank formed as a public limited company under Italian law (*società per azioni*) and, following its merger with Iccrea Holding, as from October 1, 2016 it assumed the role of Parent Company of the Iccrea Banking Group.

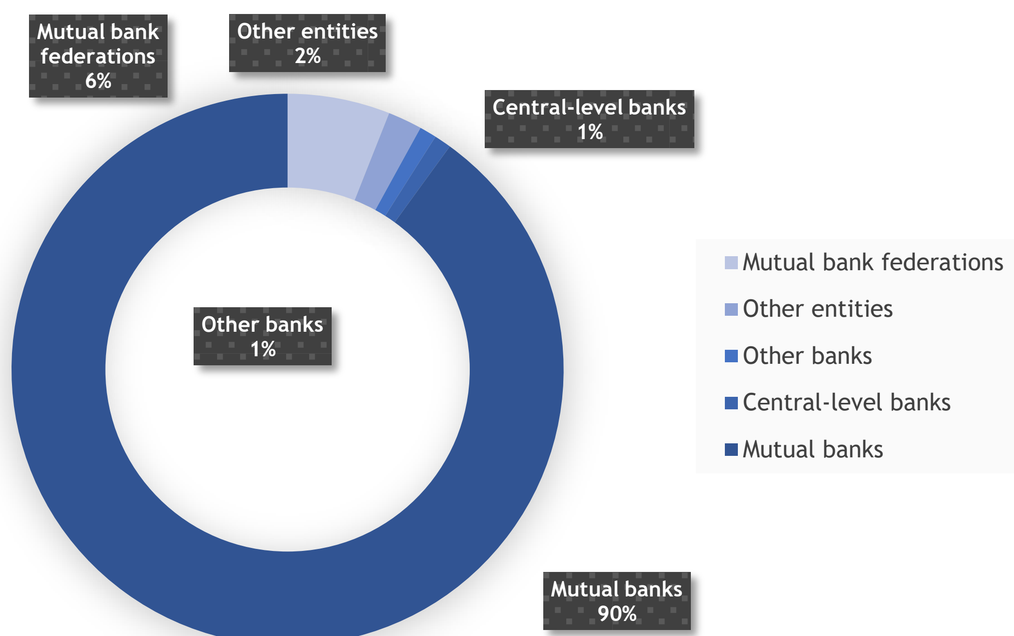
In September 2014, the European Central Bank, following the designation of the Iccrea Banking Group as a significant group pursuant to Article 6(4) of Council Regulation on the Single European Supervisory Mechanism - MVU (Regulation No. 1024/2013) has placed the Parent Company and the banks it controls under its direct supervision.

The Iccrea Group is formed by the Parent Company, Iccrea Banca, and by all subsidiaries subject to the management and coordination of the Parent Company, including those in which other entities, whether or not they belong to the mutual banking industry, have an interest.

The Parent Company and the banking, financial and instrumental companies controlled by it constitute the Iccrea Group entered in the Register of Banking Groups maintained by the Bank of Italy.

As at December 31, 2018 the share capital of Iccrea Banca is held by 256 shareholders:

- 230 Banche di Credito Cooperativo e Casse Rurali e Artigiane;
- 2 central-level banks (Cassa Centrale Banca – Credito Cooperativo del Nord Est SpA e Raiffeisen Landesbank Sudtirol SpA);
- The National Federation, as well as the Regional and Interregional Federations, and the Provincial Federations of Trento and Bolzano;
- 3 Banks other than the mutual banks;
- 5 other entities.



Under the current bylaws, at December 31, 2018, no shareholder may hold more than five percent of the company's share capital, except for Cassa Centrale Banca - Credito Cooperativo del Nord Est SpA, Raiffeisen Landesbank Sudtirol SpA and the local Federations.

The complexity of the company and the Group, as well as the Parent Company's shareholder structure, has prompted the Group to adopt a traditional governance model, structured into separate bodies for management and control, characterized in particular by a body with strategic supervision and management

functions, the **Board of Directors**, and one exercising control functions, the **Board of Auditors**. The statutory audit of the accounts is conducted by external audit firms.

Furthermore, in order to ensure efficient management based on the clear division of duties, the Parent Company's Board of Directors has delegated specific management functions to an Executive Committee.

The members of the Board of Directors and the Board of Auditors are appointed by the Shareholders' Meeting on the basis of the voting mechanism envisaged in the current bylaws. More specifically, the voting system for the appointment of directors provides for the use of competing slates of candidates, one of which is presented by the outgoing Board of Directors and the others are presented by shareholders representing at least 10% of the share capital, in order to foster the active participation of shareholders in the appointment of company officers.

In compliance with current regulations, the Board of Directors determines its optimal size and the qualifications of its members in relation to the need to effectively perform the functions of the administrative body and informs the shareholders of that guidance on the occasion of the election of the Board of Directors.

The bylaws also provide for integrity, experience and independence requirements for the members of the Board of Directors and the Board of Auditors of Iccrea Banca.

Pursuant to the bylaws and in compliance with applicable supervisory regulations, the Parent Company, Iccrea Banca, has established internal Board committees (Appointments Committee, Remuneration Committee and Risk Committee) to support the Parent Company's Board of Directors, performing preliminary assessments, offering advice and making recommendations in their areas of responsibility.

Responsibility for economic, social and environmental issues within the Iccrea Banking Group has been assigned to the Board of Directors and no further attribution of responsibilities in these areas to other bodies is currently envisaged.

The current model is governed by the Corporate Governance Regulation approved by Iccrea Banca SpA’s Board of Directors on October 4, 2016. It indicates the Group governance mechanisms and the rules that govern the relationships between the Parent Company and the subsidiaries.

Therefore, the Regulation provides the basic framework for all the group companies and is the basis for standard organizational conduct and rules, which are also consistent with supervisory regulations.

Given the reform of the mutual banking system and the new role that Iccrea Banca has taken on as Parent Company of the Iccrea Mutual Banking Group, its structure and governance model are being revised.

In this regard, management and coordination activity will be weighed based on control that can be exercised and shareholdings.

The material topics of the Iccrea Banking Group

In compliance with the requirements of Legislative Decree 254/2016 and in accordance with the reporting standards of the Global Reporting Initiative (GRI) – specifically the Core option of the 2016 standard – the Iccrea Banking Group carried out in 2017 an initial materiality analysis with the aim of identifying issues relevant to itself and stakeholders that significantly influence its ability to create value in the short, medium and long term.

In this context, “material” topics are those that reflect the significant economic, environmental and social impacts of the organization or that could substantially influence the assessments and decisions of stakeholders. The first phase of the materiality analysis process involved carrying out a benchmarking activity in the financial sector and specific studies and guidelines in the area of sustainability, which led to the identification of approximately 70 material issues for the sector. Subsequently, these issues underwent assessment by the Group's management in order to define their relevance, leading to the identification of 15 material topics for the Group.

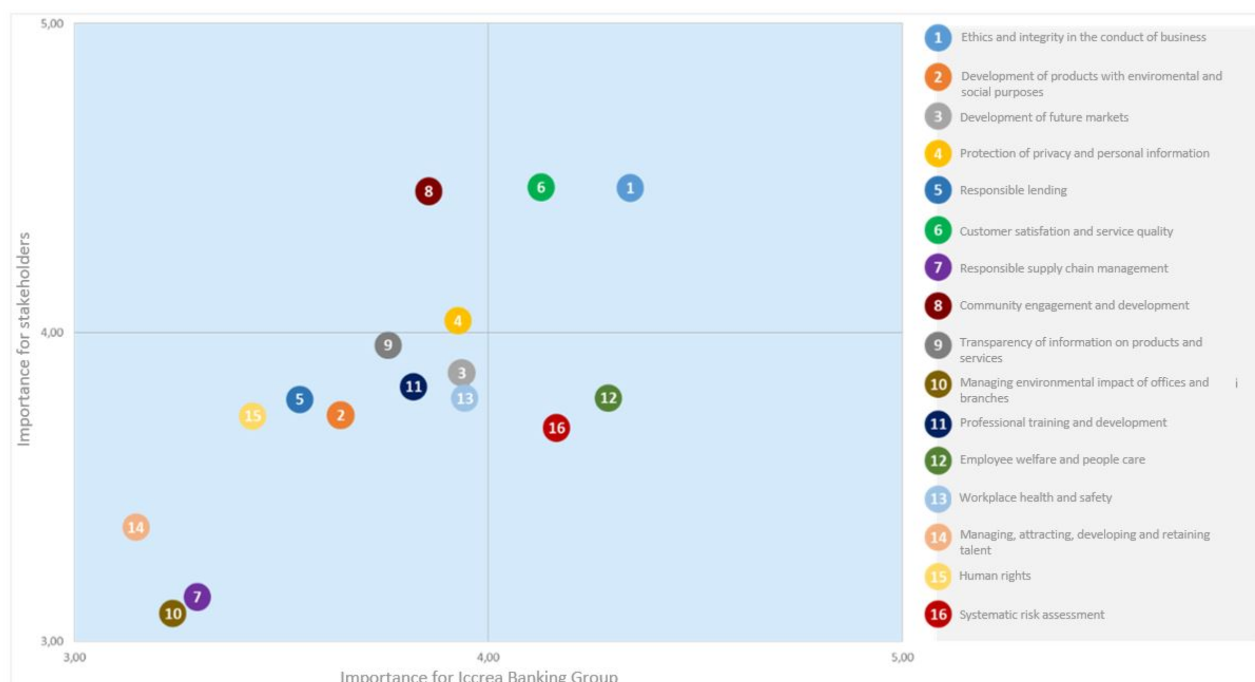
In 2018 the Group involved representatives of the Group’s management and the employees of the functions directly involved in the process of preparing and defining the Group’s materiality matrix for the Consolidated Non-Financial Statement. With regard to this, they were asked to assess the importance of material topics both as spokespersons for the Bank, and as interpreters of the point of view of the stakeholders based on their own professional experience. In addition, the Group also invited representatives of various mutual banks to take part in developing the materiality matrix, asking them to assess the importance of the material topics both as customers and as shareholders of the Iccrea Banking Group. The Group included human rights in its

own material topics given the requirements of Legislative Decree 254/2016 and the growing interest of stakeholders in this area.

The result of the assessments of the material issues described above are shown in the graph below in which the more important issues are placed along two axes:

- the x-axis represents the importance of the aspects to the Group;
- the y-axis represents the importance of the aspects for the Group's main stakeholders;

Materiality matrix of the Iccrea Banking Group (2018)



Risk management processes and the internal control system

The Iccrea Banking Group conducts its activities based on the principles of prudence and containment of the exposure to risks, given the need for stability in the exercise of banking activities and the primary support and service function performed on behalf of the mutual banks and their customers. In line with these principles, the Group pursues its development objectives in line with the needs of the mutual banking system, guaranteeing reliable and sustainable generation of value over time through balanced risk management.

The year 2018 was marked by intense preparation for the launch of the Iccrea Mutual Banking Group, in accordance with the guidelines set out in Law 49/2016. In this regard, many of these initiatives were directed towards establishing the risk appetite framework (RAF) of the forming Group, in order to ensure unified strategic, managerial and technical/operational control for the Group as a whole and operational equilibrium for the individual affiliated banks. The RAF, established and adopted by the Group, is an integral and key part of the Group's overall risk governance; in fact, it is logically and closely intertwined with the strategic processes of governance and control and with the internal stability mechanisms that are unique to the Group.

With the RAF as a base, consistent operational limits were established as part of the comprehensive risk management policies. These constitute, in turn, the internal regulatory expression of the "rules" on assuming and managing risks and are an integral part of the Group's risk management process (RMP). They safeguard the sound and prudent management and support a sustainable implementation of the overall risk strategy.

The Risk Management Process is structured into five phases that represent the general organizational manifestation of the Group's risk assumption and management framework:

- **Risk identification** (knowledge): this requires that each process and/or operational and business activity that involves the assumption or management of risks on an ongoing basis provide for the identification of the underlying types of risk and the factors that drive them. This phase is especially

significant at the start of new initiatives, in implementing new strategies (business, organizational and infrastructural development, etc.) but is also important in existing activities in the present of changes in the surrounding context (market, operational, regulatory, etc.).

- **Assessment/measurement of the identified risks** (awareness): this requires that the level of risk connected with the activities performed be assessed/measured for each of the various types of identified risk. This phase is especially important in understanding the dynamics of the risks involved and in forecasting (or estimating) their developments in relation to developments in the underlying risk drivers and the possibility of adverse events that could jeopardize achievement of expected results or generate losses. All of this is based on a methodological framework for the assessment/measurement of each type of risk assumed and/or managed. It must be defined and implemented consistently with the provisions of internal rules and in compliance with the applicable regulatory framework (and for this purpose recall the role played by company control functions, each in their respective area of responsibility).
- **Risk prevention and attenuation** (strategy): this consists in the ex-ante identification, both at the organization stage and the current execution of operational and business activities, of the possible approaches to preventing and attenuating adverse developments in the risks assumed and/or managed. After a cost/benefit analysis of the risk/return trade-off, this phase involves establishing the actions (or techniques) necessary to prevent the occurrence of adverse internal or external events or to attenuate the impact of an adverse event or development. Such actions are intended to guide the evolution of the possible risk scenarios underlying operations within the risk appetite levels established for the individual operating or business segment.
- **Monitoring and reporting** (tracking and control): this consists of the set of monitoring and ongoing assessment (measurement) activities tracking the dynamic evolution of the risks underlying operating and business activities in each segment, using methods consistent with the established methodological framework, providing for reporting at the frequency and levels established in the applicable internal rules for the segment, and functionally preliminary in terms of timeliness, accuracy and effectiveness to the decision-making process underlying the subsequent management and mitigation phase and for this purpose (recall the role played by company control functions, each in their respective area of responsibility).
- **Risk management and mitigation** (reaction and proactivity): this phase comprises the activities and actions that must be established for each operational and business segment to manage the development of the risks assumed, to mitigate any adverse impacts on expected results in the event of unfavorable actual or expected (estimated) developments, also providing for the constant monitoring of the results of the activities performed. The most important operational and business sectors perform entire corporate processes dedicated to these activities, with corresponding organizational arrangements specifically established for their performance. A critical success factor for the effectiveness of risk management and mitigation activities is the presence of a decision-making process to identify the activities themselves and their evolutionary/corrective maintenance that is soundly based on the results of the monitoring and reporting activities in the previous phase.

The **Internal Control System (ICS)** operates on the RMP, which must, in general, ensure the completeness, adequacy, functionality (in terms of effectiveness and efficiency) and reliability of the RMP and its consistency with the RAF. The structure of the ICS was designed in line with the Group's organizational structure and takes account of the specific operations and associated risk profiles of each of the companies that comprise the Group.

The ICS also comprises the operation of the independent **corporate control functions (CCF)**, dedicated to ensuring the correct and efficient functioning of the system itself. These include:

- the Compliance function (CCO Area) –second-level control
- the Anti-money laundering function (CAMLO Area) – second-level control;
- the Risk Control function (CRO area) – second-level control;
- the Internal Audit function – third-level control.

Completing the internal control system are the first-level functions, i.e. all the operational and business structures that perform controls on their own business processes and the units dedicated solely to carrying out controls in specific operating environments.

Main non-financial risks identified

Alongside the typical business, financial and commercial risks, which are described in more detail in Chapter 7, “Main risks and uncertainties to which the Iccrea Banking Group is exposed,” of the Report on Operations, the Group has identified potential direct and indirect risks on a non-financial nature.

These risks have been identified through a process of mapping the economic, social and environmental issues that could have a significant impact on Group activities, starting with an internal analysis of the institution and supplementing it with information drawn from a market benchmarking exercise and from the publications of international institutions, such as the World Economic Forum (WEF).

The following are the results of the non-financial risk identification and assessment process, highlighting the correlation between the areas provided for in Legislative Decree 254/2016 and the main risks identified, and the Group's material topics.

Area of interest	Material topic	Main risks	Governance
Social - Customers and service	Protection of privacy and personal information Development of future markets	Privacy violation	At present, each Group company addresses the issue individually in their capacity as a Data, in accordance with the regulator Processor y requirements introduced by Regulation (EU) No 2016/679, i.e. the General Data Protection Regulation (GDPR), on the protection of natural persons with regard to the processing of personal data and on the free movement of such data. To protect against these risks, the rules for handling incidents, which includes privacy violation, are being updated to make them compliant with regulatory changes.
		Loss of data and sensitive information	In the ICT Security sector, in accordance with the "Group Information Security and Information Classification Policies" approved by the Parent Company's Board of Directors, the ICT Security function is responsible for the specialist operational activities relating to IT security and risk management , monitoring any threats. A project to strengthen the monitoring of IT risks, including cyber risk, was also completed, providing for the issue of dedicated insurance policies.
	Customer satisfaction and service quality	Failure to introduce safeguards	The Iccrea Banking Group has adopted a specific regulation on handling complaints by customers of each of the Group companies. Complaint management has been assigned to a Complaints Office that is part of the Compliance Unit, at the individual company level. As for institutional customers, the Group keeps in direct contact with the mutual banks and gathers any reports through annual customer satisfaction surveys. As for the electronic money sector, complaints are handled in accordance with Directive 64/2007 (Payment Service

			Directive 1-"PSD1") and subsequently by Directive 2366/2015 ("PSD2").
	Transparency of information on products and services	Lack of compliance with regulations on product and service transparency	The Group prepares quarterly information sheets on products and services and sheets on the average overall effective rate (AOER) that the mutual banks make available to their customers. In addition, the Group ensures that its investment products comply with the MiFID II on the provision of investment services.
Social - Supply chain	- Responsible supply chain management	Lack of transparency in supplier selection processes	The Group manages the procurement of goods and services on a centralized basis for the companies of the Iccrea Group under the responsibility of the Central Purchasing Unit of BCC Solutions. In addition, a specific mechanism has been set up that requires all suppliers to be registered in the Group Supplier Register, with provision for a formal selection process as per the Group Purchasing Regulations and the Cost Management – Supply Chain rules (again for instrumental goods and services).
Social – Lending practices	Responsible lending Development of products and services with environmental and social purposes	Financing of activities in "controversial" sectors	To protect against potential impacts, the Group does not permit lending to certain sectors of activity deemed “controversial” as per the Code of Ethics and Anti-Money-Laundering Policy. With regard to risks in the Corporate segment, the risk of financing activities with critical environmental and social factors is governed by the rules that regulate specific financing activities.
		Financing of activities affected by environmental and social issues	
Environment	Managing environmental impact of offices and branches	Inadequate waste management	The Code of Ethics addresses the environmental impact of the activities of the Group companies and condemns any form of damage, deterioration or violation of the provisions of the law concerning the environment, building, urban planning, pollution and illegal disposal of waste. In addition, specific rules of conduct regarding the environment are defined in the Compliance Model 231/01 of each company.
		Failure to comply with environmental protection regulations	
Human resources management	Professional training and development	Missing or inadequate staff training	The “human resources” risk factor is included in the operational risk events defined by the Basel Committee and incorporated in the Regulation (EU) No 575/2013 (CRR). The monitoring of this risk was therefore integrated into the operational risks management framework adopted by the Group. Within the framework itself, risk events are monitored, both ex-ante (assessment of the operating context, risk assessment) and ex-post (loss data collection). On the basis of any findings that emerge, appropriate mitigation actions are proposed to the Human Resource Management department. Health and safety risks (Legislative Decree 81/08) are managed on a uniform basis at the Group level, where a specific management system has been
	Managing, attracting, developing and retaining talent	Inadequate systems to guarantee equal opportunities in personnel recruitment and recruitment activities	

	Workplace health and safety	Accidents and situations of danger for workers	established. The regulatory system to govern these risks provides for: - specific arrangements within the Compliance Model 231/01 of each company regarding personnel management (selection, remuneration and incentive system) - specific policies for the selection and formalization of the onboarding of new personnel and intragroup changes.
		Risks in occupational health and safety related to bank personnel and contractors	
	Employee welfare and people care	Lack of protection of and attention to employee welfare	The Group has an Industrial Relations and People Care unit, dedicated to handling People Care policies. In addition, an Easy Welfare IT platform was launched to enable all Group employees to take advantage of flexible benefits. The Group has also created tools and solutions for promoting employee wellbeing and a better work-life balance.
Corruption	Ethics and integrity in the conduct of business	Risks of corruption and money laundering in Group activities	The risk of corruption is regulated by the Compliance Model adopted by the Group pursuant to and for the purposes of Legislative Decree 231/2001. In order to monitor and appropriately manage the risks of money laundering and terrorist financing, the Iccrea Banking Group has issued a “Policy for the governance and management of the risk of money laundering and terrorist financing”, which incorporates the guidelines on which the different management models applied within the individual Group companies are based, in compliance with the applicable legislation.

With regard to human rights, specifically with regard to the predicate offenses provided for by Legislative Decree 231/2001, the Group has identified and assessed the areas of crime that could generate a negative, direct or indirect, impact on respect for human rights. As a result of these assessments, the Group did not identify any significant residual risks in these areas. However, it believes that respect for these rights is an essential requirement in the performance of its activities, and for this reason it protects and promotes continuous compliance in this area, including through the application of the Code of Ethics and the Charter of Mutual Banking Values.

Finally, the Group, with the exception of general reputational risk, did not find any significant risks associated with the management of relations with local communities and the territory.

Policies for managing ESG issues

The Iccrea Banking Group has established a codified and formalized internal regulatory system representing a benchmark for all corporate structures. Indeed, such system helps to ensure the certainty and consistency of company organization and the appropriate management of the Group's activities in its various areas of operations. In particular, it consists of “primary rules”, which regulate the corporate governance of the Group, the roles and responsibilities of the corporate bodies and units as well as the principles and general

rules of conduct; and "secondary rules", which, in compliance with the roles and responsibilities defined in the primary rules, govern corporate conduct and the operating procedures of activities through the formalization of processes and the specification of operating rules and technical criteria for personnel to follow.

Drawing on the results of the materiality analysis illustrated in Section 4.2, the Group has identified the policies currently implemented to manage the material topics that emerged from that study. In particular, in the course of its business activities, the Iccrea Banking Group has defined specific processes and operating practices that set out governance approaches and responsibilities for the issues considered relevant.

Specifically, in 2018, the Group adopted the "Procedure for preparing the Consolidated Non-Financial Statement", designed to regulate the roles, activities, duties and timetables involved in preparing the document. It describes the phases, activities, roles and duties of the functions involved in the non-financial reporting process. In addition, it contains detailed information on the process for validating non-financial data and information, as well as on how the NFS is prepared and its approval and verification.

Moreover, the mutual banking systems' strong commitment to the principles of sustainable finance are summarized in the Charter of Free, Strong, Democratic Finance (see Section 2.3).

Commitments to stakeholders

Over the years the Iccrea Banking Group has established a sound relationship with its internal and external stakeholders based on the principles of transparency and mutual trust. Having a dialogue with and constantly listening to all stakeholders is, for the Group, fundamental for obtaining relevant information on the economic and social environment of reference and for gaining feedback on its operations in order to continually improve them.

The table below provides an overview of the Group's various stakeholders and highlights the primary general commitments made by the Group to them, as set out in the bylaws, the Code of Ethics and the Charter of Values.

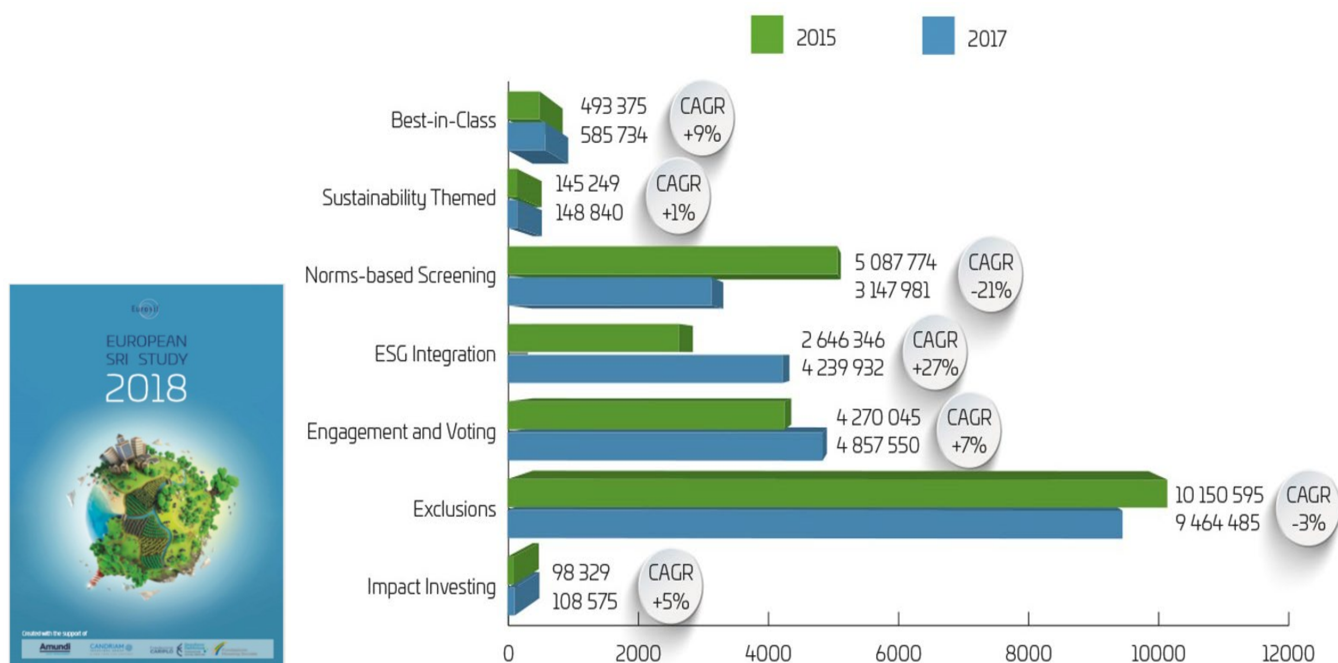
STAKEHOLDERS	
Category	**General commitments of the Group**
Mutual banks	• Promote relationships based on the principles of collaboration, professionalism and transparency • Support the stability and continuous development of the mutual banks
Customers	• Promote relationships based on the principles of collaboration, professionalism and transparency • Ensure the transparency of banking transactions and financial culture through exhaustive advance information • Adopt effective IT security practices • Satisfy the financial needs of customers by constantly improving high quality services and products
Iccrea Banking Group personnel	• Promote staff growth and development, in compliance with the principle of equal opportunity • Recognize and enhance the skills of our employees • Ensure the protection of the psychological and physical integrity of employees and respect for their moral personality • Ensure the dignity of each person and prevent all forms of discrimination
Suppliers	• Favor local suppliers in order to foster development of the territories in which the Group operates • Select suppliers based on the principle of impartiality, avoiding preferential or discriminatory treatment
Territory and local communities	• Contribute to the enrichment of the economic, intellectual and social heritage of the territory and local communities • Support and promote, through charitable contributions, sponsorships and donations, initiatives to support and develop the community
Environment	• Reduce the environmental impact of our activities through the rational use of resources • Promote environmentally responsible behavior by all internal personnel and external partners • Purchase goods and services with a lower environmental impact

While the Iccrea Banking Group has not structured a process for the involvement of stakeholders, we have established several channels of communication with them. Constant and direct dialogue with the Italian mutual banks, which are the main channel of contact with ordinary customers as well as with the territories and local communities in which they operate, is key in order to understand their needs and identify potential critical issues.

More specifically, in 2018, the Group invited representatives of the various mutual banks to a meeting to discuss and debate the assessment of the Group's material topics, and to initiate a direct dialogue with them

on non-financial topics. During the meeting, the mutual banks attending pointed to the great importance of the issues of "Ethics and integrity in the conduct of business", "Customer satisfaction and service quality" and "Community engagement and development". These topics, in fact, serve as the basis for mutual banking system's business model, which focuses on sustainable and ethical business, with ongoing improvement of its relationship with its customers, not just with individuals but also with their entire communities. Indeed, the importance attributed to community engagement and development is fully in line with the strong ties that exist between the mutual banks and the territories in which they operate.

In fact, awareness of sustainable finance (and the related environmental, social and economic issues) is rising among stakeholders in the market and it can no longer be ignored. In Europe, in recent years, sustainable and responsible investments (SRI) continue to rise. Below is an overview of the trend in SRI strategies in Europe for 2015-2017.



Source: Eurosif 2018 SRI Study.

Therefore, in keeping with the European commitments on sustainable finance, in September the Iccrea Banking Group organized a workshop entitled "Sustainable Finance and Financial Sustainability". In addition to employees of Iccrea Banca, representatives of the Bank of Italy, the Forum on Sustainable Finance, ABI, European Sustainable Investment Forum (EUROSIF) and the European Commission's High-Level Expert Group (HLEG) on Sustainable Finance also took part.

One of the sustainability topics addressed was that of the direct and indirect impact of climate change on the Italian financial system. It has become apparent how these changes are altering production processes and the relative market and, therefore, the process of lending by financial institutions (especially those focusing on local businesses). In recent years, in fact, one of the greatest economic impacts of climate change is the persistent reduction in labor productivity. This clearly has created widespread uncertainty about the climate policies to be defined and implemented.

In particular, it was pointed out that the risk to the climate posed by the emission of greenhouse gases (falling under physical risks) may also increase financial risk. This means that it is necessary to measure and manage new risks, such as transition risk, caused by the decarbonization process, and legal liability risk, tied to attempting to recover losses generated by climate events. In this regard, some of the studies conducted by researchers at the Bank of Italy have focused on "climate intelligence". Specifically, they measured two statistical relationships: one between hydrogeological risk and credit supply to firms (among the effects of physical risk) and the other between carbon risk and the value of European electricity companies (among the effects of transition risk).

At the international level, in January 2018, the European Commission's High-Level Expert Group on Sustainable Finance prepared a report in which it formally sets out strategic recommendations, aimed at the financial sector in support of sustainable development. Based on these recommendations, in March 2018, the

Commission presented the “Action Plan: Financing Sustainable Growth” (COM 2018, 97) with the goal of establishing for Europe a position of “global leadership with the move towards sustainable development”.

The Plan contains a series of measures, broken down into proposed primary and secondary legislation, non-legislative measures, communications or guidelines, some of which directly involve the activities of the members, for example:

- integrate sustainability considerations in financial advice;
- foster investment in sustainable projects;
- integrate sustainability in prudential requirements;
- strengthen disclosure and accounting on sustainability issues;
- establish a standard taxonomy for sustainable products.

At the national level, the Italian Observatory on Sustainable Finance (Osservatorio Italiano sulla Finanza Sostenibile - OIFS) formed four working groups focusing on financial centers for sustainability, “green” finance for reindustrialization, the international scope of sustainability and monitoring progress made. In addition, ABI analyzed the impact of climate change on banking.

Of considerable importance in communications with stakeholders, are the Group’s social media channels. Using these instruments, certain Group companies are able to maintain contact, inform and communicate actively with customers and users of the web, encouraging participation and dialogue to ensure transparency and interaction.

Social media channels are also used to gather suggestions and questions on territorial initiatives, institutional initiatives and activities carried out and published.

5 PREVENTING AND COUNTERING CORRUPTION

Compliance with the law, as well as with the provisions of its bylaws, is a principle of fundamental importance and is essential for Iccrea banking Group. The Group undertakes to manage relations with all its stakeholders employing the utmost degree of honesty, transparency and compliance with internal rules and applicable legislation, preventing any conflict between corporate and personal interests.

In order to prevent possible wrongdoing or irresponsible behavior, in compliance with the legislative requirements of Legislative Decree 231/01, the Group companies have prepared a Compliance Model pursuant to and for the purposes of Legislative Decree 231/2001 ("Compliance Model" or simply the "Model"). More specifically, the Model adopted by the Parent Company consists of the following elements:

- Code of Ethics and Conduct: this sets out the principles and ethical values underlying the corporate culture and management philosophy as well as the main rules of conduct to be observed in the performance of its functions and in its internal and external relationships;
- Crime risk mapping matrix: this is a summary document in which all sensitive activities are identified and reported with reference to the commission of the offenses defined in the 231/01 catalogue;
- Behavioral Protocols - General Part: this is a document illustrating the contents of Legislative Decree 231/01, outlining the profile of the Supervisory Body and defining the methods for conducting training and information activities;
- Behavioral Protocols Special Part: this is a document defining the special preventive arrangements and the rules of conduct governing those working in "sensitive" corporate areas, as managers of processes considered potentially exposed to the commission of the identified offenses that could be committed;
- Internal Disciplinary System: this is a document that defines the system of penalties that can be imposed on violators of the provisions of the Compliance Model, in accordance with principles and procedures that comply with the Workers' Statute and the applicable national collective bargaining agreement.

The Group has given responsibility for verifying compliance with the Compliance Model and the Code of Ethics to the Supervisory Body. The Supervisory Body is specifically appointed by the Board of Directors and meets the autonomy and independence requirements provided for in Legislative Decree 231/01. The Group has given the role and functions of the Supervisory Body to the Board of Auditors.

The Banking Group has also launched a long-term project to update and, where necessary, implement a Compliance Model within all the Group companies that adopts a uniform methodological approach but is tailored to the specific businesses and the activities carried out by each company. Alongside this project, the Parent Company also required the subsidiaries to implement the Group's Code of Ethics and Conduct.

Preventing corruption

With regard to corruption offenses under the Model, the Parent Company has performed an analysis of the main processes and activities exposed to the risk of corruption, both between individuals and in relations with government. Following this identification process, the Parent Company established a specific system of responsibilities and controls to govern processes whose activities are potentially exposed to the risk of corruption.

Failure to comply with the provisions of the Model, as well as the values and principles expressed internally in the Code of Ethics, by all the parties involved triggers the application of specific disciplinary sanctions.

Reports of violations or irregularities in the conduct of the parties operating in/for the companies and the Group should be sent in writing via e-mail to the appropriate e-mail address established by the Supervisory Body of each company. In addition, the Group issued the "Policy and process guidelines on internal systems for reporting violations", which envisages the creation of a channel for reporting violations available to all of the Group's collaborators. This channel sends any reports, in written form, to the members of the Reports of Internal Violations Committee.

The entire violation reporting process is duly tracked, and therefore all the documentation is saved in accordance with the provisions on information security and privacy. The persons responsible for receiving, examining and assessing the reports ensure that they are traceable and that all the related documentation is saved and stored.

These systems are designed so as to ensure that the reporting person's identity is kept confidential and that he/she is protected in accordance with applicable regulations and corporate procedures regarding privacy and the processing of the personal data of all persons involved and/or cited in the reports.

During the year, the Parent Company, together with updating the Models of Iccrea BancaImpresa and BCC Solutions, also conducted an analysis of the Group's processes and companies related to potential corruption offenses. In particular, 30 processes (about 20% of the total) were analyzed by the Iccrea Banking Group.

Furthermore, providing information and training to all employees on the Group's policies and procedures in this area are key to preventing corruption offenses. Therefore, over the last year the Group completed an e-learning training program, begun in 2017, on anti-corruption topics. It provided more than 860 hours of training to 201 employees.

HOURS OF ANTI-CORRUPTION TRAINING BY GENDER AND LEVEL

	2018			2017		
	Men	Women	Total	Men	Women	Total
Executives	68	-	68	88	4	**92**
Managers	232	104	336	2,232	848	**3,080**
Office staff	200	256	456	2,408	2,342	**4,732**
Total	500	360	860	4,728	3,176	7,904

NUMBER OF EMPLOYEES INVOLVED IN ANTI-CORRUPTION TRAINING BY GENDER AND LEVEL

	2018			2017		
	Men	Women	Total	Men	Women	Total
Executives	17		17	22	1	**23**
Managers	58	26	84	558	212	**770**
Office staff	50	50	100	602	581	**1,183**
Total	125	76	201	1,182	794	1,976

PERCENTAGE OF EMPLOYEES INVOLVED IN ANTI-CORRUPTION TRAINING BY GENDER AND LEVEL

	2018			2017		
	Men	Women	Total	Men	Women	Total
Executives	21%	-	20%	38%	33%	**38%**
Managers	7%	9%	8%	81%	83%	**82%**
Office staff	7%	8%	8%	86%	89%	**87%**
Total	8%	8%	8%	82%	87%	84%

In addition, during the year the anti-corruption policies adopted by the Group were communicated to all of the directors of ICCREA BancaImpresa and of BCC Solutions, as part of the revision of the Model, and to 15 commercial partners of the Group, equal to 1% of the total.

Preventing money laundering

With regard to anti-money-laundering activities, the Iccrea Group has identified an exposure to the risks of money laundering and terrorist financing associated with activities aimed at non-financial parties, such as corporate and retail customers. In this regard, examples include:

- the e-money distribution activities and related payment system services performed by Iccrea Banca;
- the financing activities performed for corporate and retail customers respectively by Iccrea BancaImpresa, and BCC Lease and BCC Credito Consumo.

At the same time, operations with banking, financial and institutional counterparties, although presenting a lower level of risk, are screened for potential money laundering activity using mechanisms established in Group regulations that include due diligence measures and sample monitoring of transactions.

In order to monitor and appropriately manage the risks of money laundering and terrorist financing, the Iccrea Banking Group has issued a "Policy for the governance and management of the risk of money laundering and terrorist financing", which incorporates the guidelines on which the different management models applied within the individual Group companies are based, in compliance with the applicable legislation.

On the basis of the policy, each Group company has developed a specific body of internal rules that set out the control activities conducted on the basis of the individual obligations envisaged in Legislative Decree

90/2017, in relation to the operating and distribution model adopted by that company. More specifically, the overall body of rules is made up of a general process standard and secondary rules governing customer due diligence, the conservation and registration of information relevant for anti-money-laundering activities and the reporting of suspicious transactions.

Reports concerning money laundering and terrorist financing offenses are also made in accordance with the procedures set out in the Group policy on internal reporting systems.

The monitoring activities carried out during the year by the Group companies subject to the obligations in this area provided for the analysis of the processes connected with potential money laundering and terrorist financing offenses. In this context, the Group analyzed 21 processes (approximately 20% of the total) for a total of 7 companies, as reported by them to the Parent Company's Anti-Money-Laundering unit.

In parallel with the e-learning training in the anti-corruption filed, the Iccrea Banking Group defined a specific training course on anti-money-laundering issues, for which the Group provided 5,606 hours of training to 1,103 employees.

Furthermore, 20 members of the Board of Directors of Iccrea Banca took part in training and information sessions on anti-money-laundering issues.

HOURS OF ANTI-MONEY LAUNDERING TRAINING BY GENDER AND LEVEL

	2018			2017		
	Men	Women	Total	Men	Women	Total
Executives	56	-	56	140	8	**148**
Managers	1,526	590	2,116	1,699	677	**2,376**
Office staff	1,596	1,839	3,435	1,854	2,266	**4,120**
Total	**3,178**	**2,428**	5,606	**3,693**	**2,951**	**6,644**

NUMBER OF EMPLOYEES INVOLVED IN ANTI-MONEY-LAUNDERING TRAINING BY GENDER AND LEVEL

	2018			2017		
	Men	Women	Total	Men	Women	Total
Executives	11	-	11	21	2	**23**
Managers	288	112	400	310	124	**434**
Office staff	316	376	692	411	449	**860**
Total	**615**	**488**	1,103	**742**	**575**	**1,317**

6 CUSTOMERS

In carrying out their activities in the three business areas (institutional, corporate and retail), the companies of the Iccrea Banking Group offer financial products and services to the network of mutual banks, to small and medium-sized enterprises and to individuals and families who are customers of the mutual banks. With regard to its customers, the Group seeks to manage, monitor and safeguard the territories it operates in by offering products and services that are capable of meeting the needs of people, enterprises and institutions.

The mutual banks

The institutional segment includes all the companies of the Iccrea Banking Group, which offer products and services to support the operations of the mutual banks.

In this area, the Iccrea Banking Group offers the mutual banks a wide variety of solutions that include financial services, payment systems, securities settlement and administration, debt recovery, facility management, property management, asset management and IT infrastructure management services.

Thanks to this broad range of services, during the year the Group assisted most of the mutual banks that make up the current mutual banking system, operating throughout Italy. At the end of 2018 there were 268 mutual banks served by the Iccrea Banking Group; 142 local banks chose Iccrea as the Parent Company of the nascent Mutual Banking Group (Law 49/2016).

Small and medium-sized enterprises

The corporate segment represents the Group's offer for companies, mainly small and medium-sized enterprises (SMEs), who are the main corporate clients of the mutual banks.

In this segment, working through Iccrea BancaImpresa and its subsidiaries BCC Factoring and BCC Lease, the Iccrea Banking Group offers Italian SMEs services tailored to the needs of different business sectors, with products ranging from traditional forms of lending to more evolved and innovative financing options.

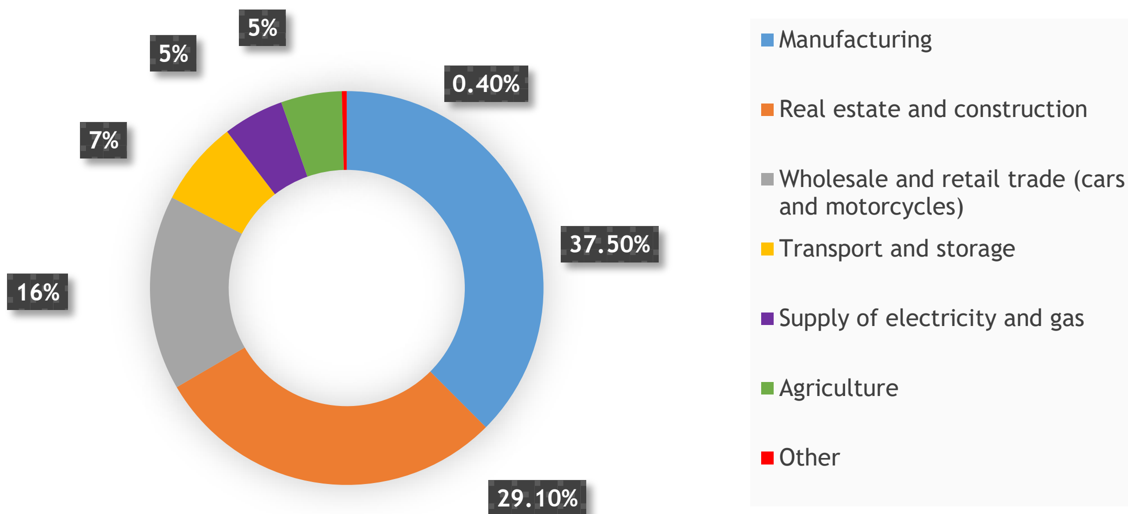
The Group has therefore developed a broad selection of products going from ordinary lending to extraordinary corporate finance. The selection also includes project finance, services for international trade, subsidized financing, mini-bonds, finance and operational leasing and factoring. In addition to financial products and lending, Iccrea Banca, with the help of mutual banks as placement agents, offers its corporate customers specific e-money products (e.g. corporate credit cards, payment acceptance services) and the possibility of selling their goods through the new online platform offered by Ventis.

The corporate segment also includes Banca Mediocredito del Friuli Venezia Giulia, specializing in short- and medium/long-term lending to SMEs operating in its region.

During the 2018, the Banking Group supported 365,934 SMEs[1] with its products and services, up by about 3% over 2017 (when the Group supported 354,869 SMEs).

[1] To ensure the year-on-year comparability of the data, 147,806 Corporate customers of BCC Lease, BCC Vita, BCC Factoring and Banca Mediocredito del Friuli Venezia Giulia SpA were not included because these companies were included in the Group's customers monitoring systems only in 2018.

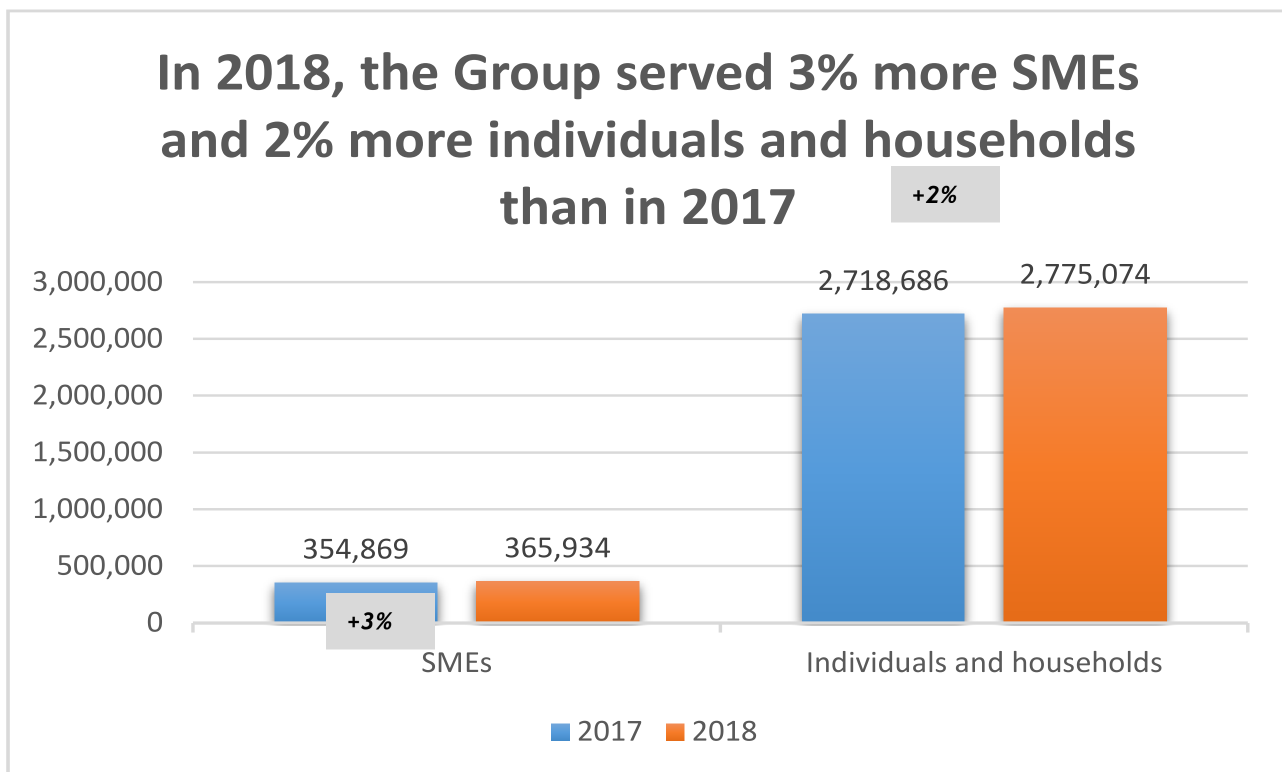
Main sectors served by Iccrea BancaImpresa in lending

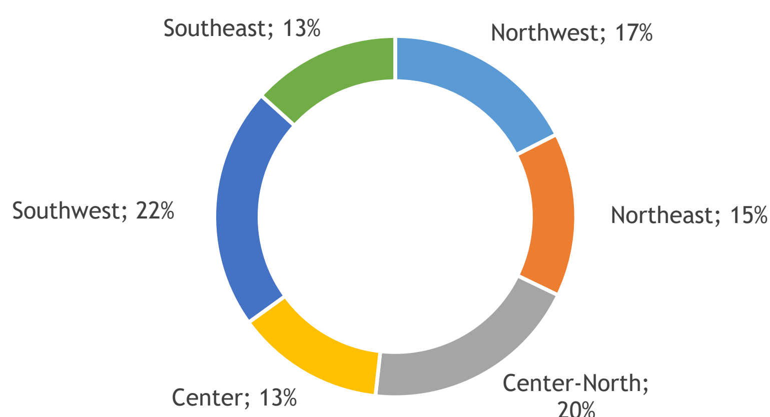


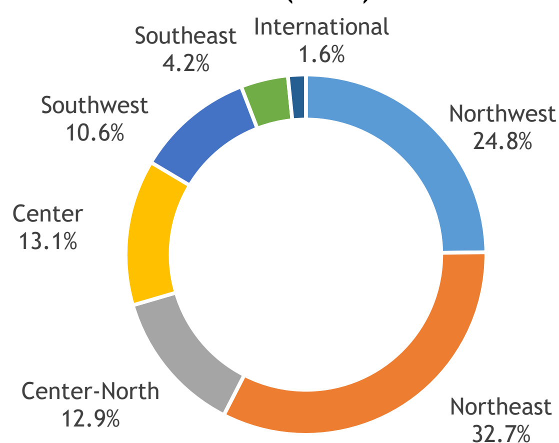
Individuals and families

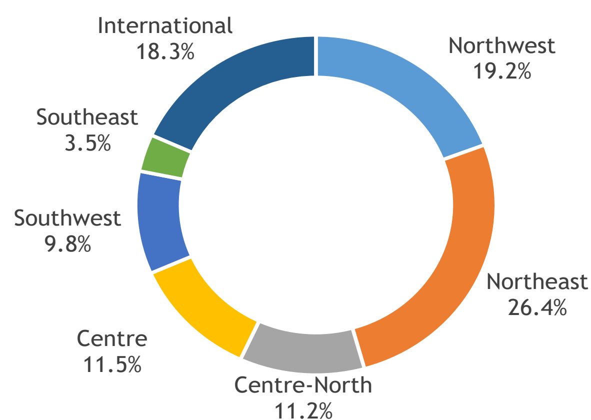
The retail segment includes the Group's product range for individuals and families who are customers of the mutual banks. The offer includes asset management services, pension and insurance products, personal loans, mortgages and card-based payment systems. BCC Risparmio & Previdenza, BCC Credito al Consumo, BCC Retail, Banca Sviluppo and Iccrea Banca operate in this segment with the help of the mutual banks as placement agents.

During the year the Group sold products and services to 2,775,074 retail customers, up by about 2% over 2017 (when individual and families served were 2,718,686).









*The geographical breakdown of retail and corporate customers does not include joint account holders since, by their very nature, it is not possible to determine to which of these categories they belong.

Value of business lines as a proportion of the Group's consolidated assets

	Institutional	Corporate	Retail
Value of business lines as a percentage of 2018 consolidated assets	71%	23%	6%

Transparency, fairness and quality of service

The Iccrea Banking Group seeks to ensure the satisfaction and appreciation of its customers, responding to their financial needs through the continuous development of quality innovative services and products. The Group also seeks to establish a relationship of mutual trust with the customers of the mutual banks, based on the principles of collaboration, availability, professionalism and transparency, ensuring full compliance with current regulations.

The quality and appropriateness of products and services

The Iccrea Banking Group pays particular attention to the development of financial products and services in order to mitigate the potential regulatory and reputational risks that could be generated by a failure to comply with the applicable regulations on transparency and consumer protection and any divergence of those products and services from the values expressed by the Group.

In this context, the Group companies have their own internal regulations that define the rules for the development of new products and services as well as entry into new markets. In addition, in accordance with the new MiFID, Iccrea Banca rolled out a dedicated Production Governance policy. The model adopted covers all the phases of the production management process, from conception and design to approval (updating its products catalogue) and subsequent distribution. The process also involves ongoing monitoring of whether product distribution meets the real needs of the target audience. Furthermore, in 2018, the Group drew up its corporate policy of Product Oversight Governance (POG) to become compliant with the new regulation in this area, which imposed new requirements on procedures, functions and strategies that the companies must prepare in order to invent and distribute products that satisfy these requirements to one or more target markets and to offer services that meet customers' needs.

Also in 2018, following the entry into force of the Insurance Distribution Directive, the Iccrea Banking Group approved a clear overarching framework for managing insurance product distribution. The Group described this framework in a document entitled "Group policy on the governance and monitoring of insurance products": Specifically, it sets out the main product governance guidelines, common to the entire Group and applicable to the Group companies as "distributors" of others' insurance products, in accordance with the regulation.

BCC Risparmio & Previdenza S.G.R, a Group asset management company, has set up an internal **Product Development Committee**. This Committee has the task of evaluating - on the basis of market analysis, regulatory developments and the policies and strategic guidelines set by the Parent Company - the advisability of introducing new products, services and lines of business or modifying existing ones. In particular, the Product Development Committee provides the board of directors of the company, which is responsible for the final decision, with all the information and analyses necessary to take informed strategic decisions.

Quality in customer relations

The relationship with institutional, corporate and retail customers is managed by the Iccrea Group through various traditional or digital channels.

For the institutional sector, in 2018 the Group involved mutual bank customers in a customer satisfaction exercise. This activity is managed through a **Brand Audit** aimed at understanding the quality of the relationship between the various mutual banks and the Iccrea Banking Group, as well as through surveys aimed at recording the degree of customer satisfaction with the products and services offered by the individual Group companies. The current customer satisfaction approach includes seven surveys, composed of fifty questions each, conducted using computer-assisted telephone interviewing (CATI). Each question asks the interviewee for a rating on a scale of 1 (lowest) to 10 (highest).

The survey for 2018 was completed during the reporting year and the results are in the process of being collated; they will be made official in 2019. The initial analysis points to the growing perception, compared

with the previous survey, of the Group as solid and reliable and increasingly a partner of the mutual banks. In fact, it encourages the exchange of ideas and opportunities for discussion and comparison and supports the mutual banks in developing their business in their territories. The Group is thus viewed as a partner, more than a mere provider of products and services, that is seen as being strongly committed and as operating ever more as a Group, laying out a single, shared strategy.

In addition, there is growing satisfaction with the Group companies. In particular, the performance of BCC Credito Consumo was good, having already been given the distinction, in 2016, of being the best performer for the products and services offered and its commercial network. Areas for improvement were identified as promptness (intended as speed in resolving problems and proactiveness in developing innovative products and services) and streamlining processes.

With regard to relationship with corporate and retail customers, the Iccrea Banking Group conducts direct engagement activities only in certain cases and relies mainly on the mutual banks in the local community. Businesses, individuals and households, however, can contact all the Group companies through their websites and the main social networks. For some brands such as CartaBCC, the Group is also present on Facebook.

Within the customer relationship, the transparency of the information on products and services is of particular importance, bearing in mind the need to protect the less informed customers who find it more difficult to manage relationships with banks.

In this area, the transparency of products and services is guaranteed by the companies of the Group through the preparation of detailed fact sheets for products and services and the info sheets on the average global effective rates that the mutual banks offer their customers. This applies to all products and services that require it.

Furthermore, for regulatory compliance in the area of investor protection and market structure, the Group companies involved have undertaken a process to ensure compliance with the requirements set out in the new MiFID II and PSD2 regulations. Both of these are in force since January 2018. MiFID II revises and expands the previous regulation (MiFID) on the provision of investment services, introducing greater safeguards to protect investors, with particular attention to disclosure obligations in the placement of financial products. The PSD2 directive on payment services extends the previous framework (PSD) and aims to promote the development of an efficient, secure and competitive payment market by strengthening the protection of users of payment services, supporting innovation and increasing the security of electronic payment services. In particular, in 2018 the Iccrea Banking Group updated the CartaBcc website, with new functions as provided for in the PSD2 regulations, mainly in terms of disclosure to third parties.

Digitization and multichannel systems

Technological and digital development has produced significant changes in the financial sector. The Iccrea Banking Group is committed to seizing the opportunities offered by technological innovation and emerging methods for the distribution of financial services and customer contact services.

This commitment is clearly maintained in compliance with the main national and, above all, Community legislation (e.g. PSD2) in the areas of instant payments, security measures (strong customer authentication) and new operators (so-called “third parties”).

With an official document approved by the Board of Directors of the Parent Company, the Iccrea Banking Group has prepared an innovation development program for 2018-2020, envisages achieving major results as early as 2018.

In this delicate phase of the evolution from a second-level banking group to a Mutual Banking Group in 2019, the innovation development program seeks to combine short-term results with long-term structural changes in three macro-dimensions:

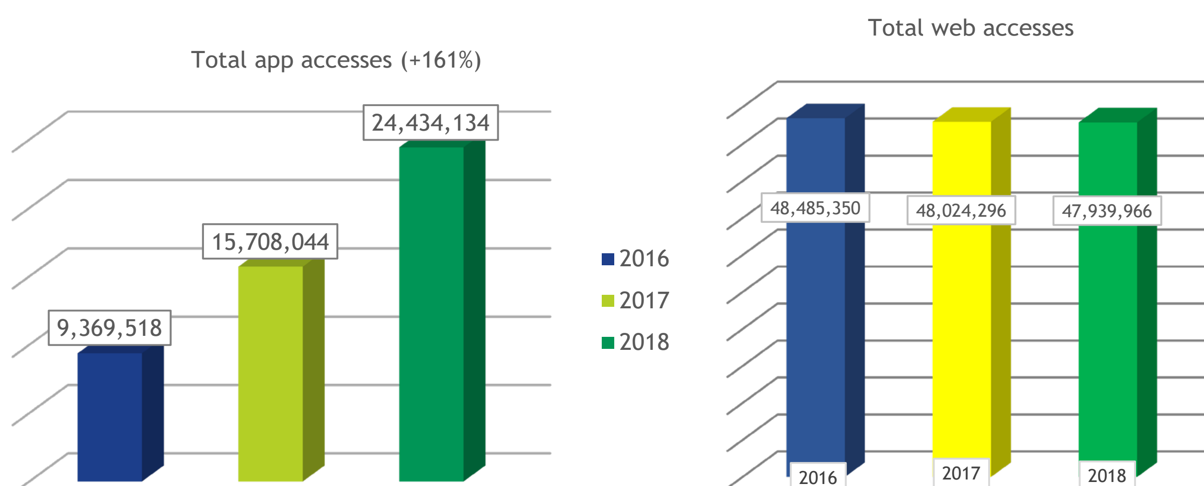
- strengthening and enhancing the concept of proximity by making the digital an additional means of strengthening the relationship with customers through all channels;
- adopting operational approaches and building more efficient and flexible infrastructures through the introduction of new technologies and an architecture open to integration in an open banking context;
- supporting the continuous development of innovation with the introduction of new business models that facilitate the support of local communities and their examples of excellence. In this field, the Group has embarked on a specific process of digitizing its structures in order to exploit the online

environment as a communication channel and offer services in synergy with the traditional physical network.

At the same time, the Group has set up a specific service design unit to design an improved digital customer experience, simplifying customer interaction and the ease of navigation on different internet channels. Particular attention was paid during the year to online accessibility for disadvantaged groups, through participation in national and European working groups in which the issues of financial inclusion and digitization are addressed.

On the digital front, the Iccrea Banking Group, through BCC Sistemi Informatici, offers the mutual banks numerous products for the digitization of banking services, in particular:

- **Relax Banking**, an Internet banking tool on a multi-channel platform that allows customers of the BCC to connect and access updated information on their accounts and cards and carry out the main banking transactions directly online. Relax Banking is accessible through the website www.relaxbanking.it, the RelaxBanking Mobile app, available on GooglePlay and AppStore and the m-site accessible for the visually impaired. More specifically, during the 2016-2018 three-year period, there was a 161% increase in the number of accesses to the App against a slight decline in the number of accesses to the Internet portal.



- **Electronic signature**, through which, with the acquisition of the biometric data of the signature, it is possible to manage contractual and accounting documents directly online. This tool allows the mutual banks to obtain advantages in terms of efficiency and environmental impact, thanks to the possibility of eliminating the paper version of documents.
- **Digital payment services**, which include both traditional payment instruments, such as wire transfers and cards, revised and adapted to the needs of speed and simplicity of the "new generation" (e.g. Instant Payment, CartaBCC multifunction app, etc.) and more innovative services.

- With this in mind, Iccrea considered it appropriate to supplement the product range:
-
    - investing in the "Satispay" smart payment start-up, which enables smartphones and tablets to be used for C2B payments and C2C transfers;
    - launching profitable business partnerships with giants Apple and Samsung to integrate CarteBCC with the Apple Pay and Samsung Pay payment services.
    - developing new solutions for launching e-wallets and digital payment systems. In this regard, during the year the Group collaborated with Garmin to develop “Garmin Pay”, a service that allow persons to associate their credit card with their Garmin device.

In addition, the Parent Company decided to invest in the Ventis digital start-up operating in the online sale of goods and services and now become a key asset in the Iccrea Banking Group’s “Open Banking” strategies.

Finally, the Iccrea Banking Group is also participating in Italian and European working groups to monitor and steer legislation in the areas of digital innovation, fintech, privacy and innovative payments in order to

prevent the emergence of critical problems and risks for the public and customers and to foster the development of innovative products and services that increase consumer confidence, ease of use, boost competition and, as a result, reduce costs.

Privacy and data protection

In compliance with national regulations on privacy and personal data protection, the Group companies have their own internal rules for the management of privacy and data that specify roles and responsibilities in the management of personal data processing activities.

The security measures adopted by the Group, including "minimum" measures, are diversified according to whether the data processing is being performed with or without the aid of electronic tools or concerns the sensitive or legal information of the interested parties.

The Iccrea Banking Group also periodically updates the privacy documentation and disclosures on the company intranet, on the website and that provided to customers in order to comply with the evolving regulatory framework. Specifically, in 2018, the Group upgraded its personal data management systems to bring them in line with Regulation (EU) 679/2016 (the General Data Protection Regulation – GDPR). It therefore ensures that the Group companies and the mutual banks are in regulatory compliance. The Group set up an email address (dpo@iccrea.bcc.it) through which stakeholders can report any violations of the policy to the Group's Data Protection Officer (DPO) or request additional information on personal data protection.

Consistent with the digital evolution of the banking world and the emergence of new threats to privacy and customer data, the organizational units that are responsible for operational information security activities monitor the related threats in order to ensure the protection of IT resources and the information handled, implementing and verifying IT security processes, safeguards and measures, in line with the Group Policy in this area.

Furthermore, given that global economic, demographic and geopolitical trends, combined with rapid technological progress, are transforming the traditional risks with which international companies used to deal with in the past, in 2017 the Iccrea Banking Group began a project to redesign the "insurance map" aimed at ensuring a consistent, uniform and integrated level of satisfaction and coverage. The project showed the need to implement even more coverage and mitigation measures for cyber risk, an increasingly major threat in terms of impact on corporate reputation. Accordingly, in 2017 the Iccrea Banking Group launched a process to strengthen the tools available to monitor this risk. In particular, this process - based on the results of an in-depth analysis of the business of the various Group companies, the market and the entire technological infrastructure – was intended to implement an insurance coverage system. Such a system is useful to reduce the Group's exposure to losses deriving from events such as, for example, the theft of sensitive data or the interruption of business as a result of the blocking of IT systems.

During 2018, the Iccrea Banking Group did not register any violations of privacy rules. During the course of the year BCC Sistemi Informatici found an operational error that generated only one complaint from a customer of a mutual bank.

During the year there were no cases of loss or theft of sensitive data from the Bank's information systems.

Complaint management

The Iccrea Banking Group has adopted specific rules for the management of customer complaints and has entrusted the management of such complaints to a specific **Complaints Office**, within the Compliance unit, at each company of the Group.

With regard to complaints from institutional customers, the Group has set up a direct contact channel with the mutual banks.

For corporate and retail customers, the Italian mutual bank network represents the direct contact channel for the Group and is the initial point of reception for complaints. In the e-money field in particular, the management of complaints from cardholders is governed at the Community level by Directive 64/2007 (PSD1) as amended by Directive 2366/2015 (PSD2) as well as, of course, by the detailed provisions of national

legislation and the competent authorities in this area (e.g. the Bank of Italy).

In addition to the physical channel, Iccrea Banca and Iccrea BancaImpresa have created other channels for customers to file a complaint by ordinary mail, e-mail to a specific e-mail address and certified e-mail (PEC).

Please note that all complaints made by customers, whether in written or oral form, are brought to the attention of the Complaints Office, which is required to receive them, register them, assess them and settle them within the time limit established in current legislation.

If the internal channels established by the Bank are not sufficient to resolve disputes, customers can contact the Banking and Financial Ombudsman (ABF), a resolution system for disputes between customers and banks and other intermediaries concerning banking and financial transactions and services.

Responsible and sustainable products

In pursuing its mission to promote the stability and development of the mutual banks, the Group is committed to enriching its product line with financial products linked to eco-sustainable initiatives, territorial development and social inclusion.

Support for enterprises

Regarding products with a social or environmental scope targeted at enterprises, the Group offers different financing solutions for business initiatives that incorporate sustainability. In particular, the Group offers:

- agricultural land loans targeted at persons under 40 years of age. By providing them with the resources needed to start up their farming activity, the Group supports the entry of young farmers into the market;
- financing for the advance on subsidized insurance policies, targeted at crop protection associations. This financing is to ensure the funding of subsidized multi-risk policies for affiliated farms. Up to now, there have been more than 10,000 beneficiaries;
- loans for innovative investment in terms of production aimed at national farms (e.g. high-tech greenhouses). The objective is to ensure the production of quality fruit and vegetable varieties at any time of the year. In this context, in 2017 the Group was the leader of a pooled loan with other mutual banks (BCC Alpi Marittime and Banca TEMA) for a total amount of €11.4 million, destined for the innovative start-up Sfera Società Agricola to help it build a 13-hectare high-tech hydroponic greenhouse. The greenhouse makes maximum use of rainwater, using up to 90% less water than land-based cultivation with a yield of 10 times higher and also provides for a reduction in energy consumption of 70%;
- loans for developing agro-energies (i.e. biogas), also targeted at the nation's farms. The purpose of this loan is to develop plants for producing electricity to be fed into the grid – making use of food and other waste that can be reused for this purpose – with zero impact on the environment.

- Furthermore, specifically for Special Purpose Vehicles (SPVs) - which in most cases are small and medium-sized enterprises - the Group offers the following products:

- mortgage loans (and other loans secured by collateral) for the construction and management of plants that produce electricity from renewable sources. Up to 2018, more than 40 SPVs have been beneficiaries for a total of about €118 million in loans signed, contributing to the saving of 16.25 tons of CO_2 against 30.6 GWh of electricity produced;
- signature loans (through bid bonds) for taking part in auctions of the incentives provided by the Energy Services Manager (GSE), of which 3 customers have benefited.

More specifically, during the three-year period 2016-1028, Iccrea BancaImpresa contributed to the development of the following subsidies and guarantees:

- agreement with the European Investment Fund (EIF) for access to the InnovFin guarantee product. This agreement allows the financial intermediary to receive a 50% guarantee on a portfolio of new financing transactions, in favor of SMEs and small midcap companies (companies with up to 499

employees at Group level) focusing on innovation. This tool is part of the European Horizon 2020 program for research and innovation;

- access to interest rate subsidies under the "Sabatini" Law (a subsidy that supports investments to buy or lease machinery, equipment, facilities, capital goods, etc.). Thanks to this service, aimed at the mutual banks' SME customers, Iccrea BancaImpresa process the applications indicated below during the 2016-2018 three-year period;
- access to the guarantee of the Central Guarantee Fund on bank loans provided by the mutual banks to SMEs. Iccrea BancaImpresa, through a specific service, manages the guarantee both directly in favor of SMEs and indirectly on behalf of the affiliated mutual banks.

TRANSACTIONS WITH INNOVATIVE FIRMS

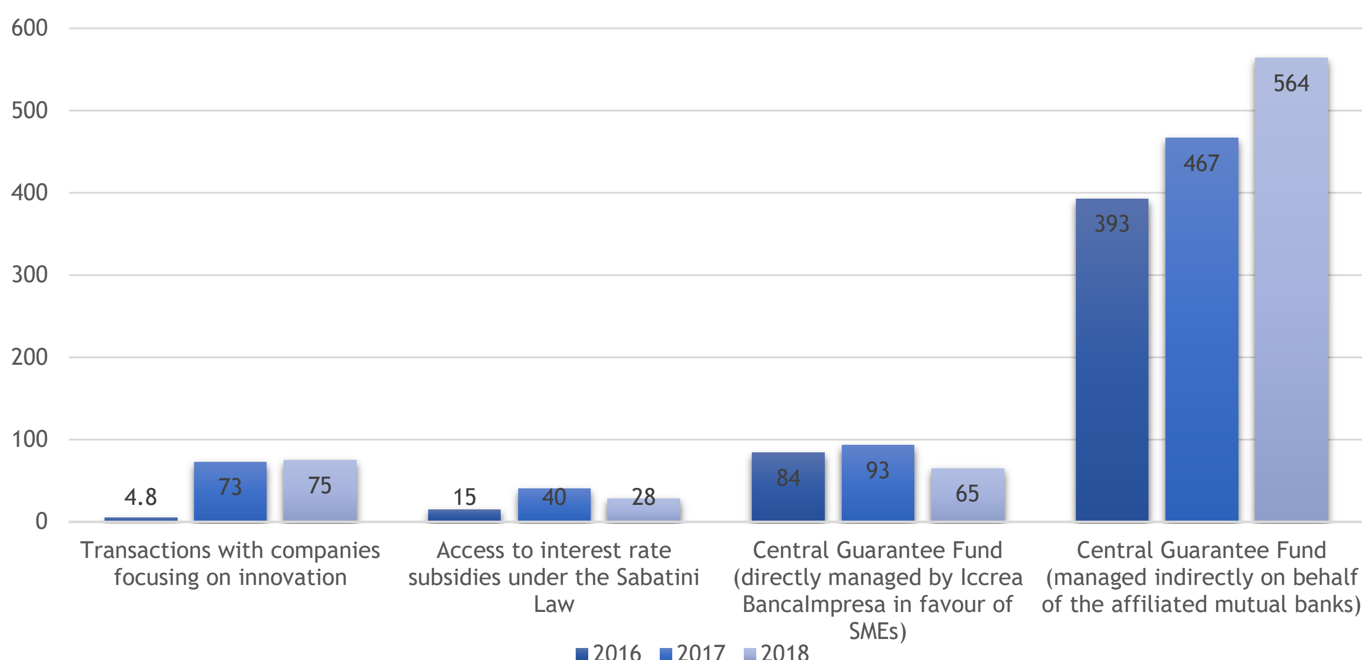
	2018	*2017*	*2016*
Amount	€75 million	€73 million	€4.8 million
No. of transactions	77	91	7

PROCESSED INTEREST RATE SUBSIDIES PURSUANT TO THE SABATINI LAW

	2018	*2017*	*2016*
Amount of interest subsidized	€28 million	€40 million	€15 million
Total amount	€317 million	€472 million	€200 million
No. of transactions	1,353	1,965	870

CENTRAL GUARANTEE FUND (granted directly to the SMES)			
	2018	*2017*	*2016*
Total lent	€65 million	€93 million	€84 million
No. of applications	162	241	230
CENTRAL GUARANTEE FUND (granted to the SMEs on behalf of the participating mutual banks)			
Total lent	€564 million	€467 million	€393 million
No. of applications	3,688	3,038	2,910

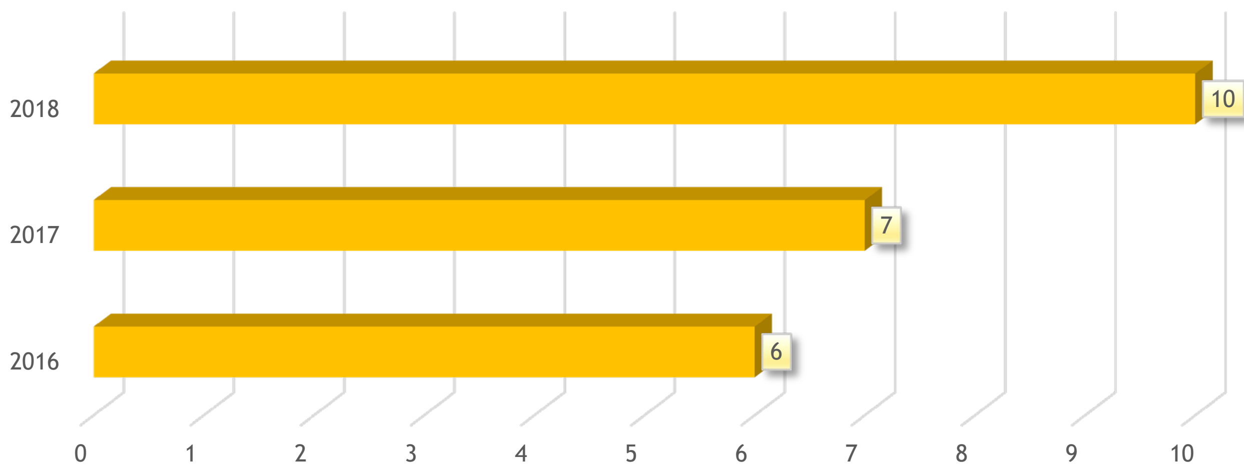
During the three-year period 2016-2018, there was a steady increase in subsidies granted by Iccrea BancaImpresa (in millions of euros)



Special mention should be made of the activity performed with regard to the **guarantee of the Fund for microcredit transactions**, for which a growing trend was recorded in the reference three-year period. Through these entrepreneurial microcredit transactions, the Iccrea Banking Group promotes the development of start-ups by young people.

CENTRAL GUARANTEE FUND FOR MICROCREDIT

	2018	*2017*	*2016*
Total lent	€10 million	€7 million	€6 million
No. of applications	438	308	270



Support for young people and families

With regard to products designed to meet particular needs of social relevance for families and young people, Iccrea BancaImpresa has created the **housing lease**, a specific type of financing intended to support young people and young couples in the purchase of their primary residence. This product offers greater tax benefits and easier access to credit compared with ordinary first-home mortgages. In particular, in 2016, a contract was signed for €1 million, while in 2017, six contracts worth over €1.37 million were signed.

Alongside the housing lease, Iccrea BancaImpresa is also involved in s**ocial housing**. These are long-term investments, not meant to respond to emergency situations, but rather for those who are unable to find an appropriate response to their housing needs. Sometimes the targeted customers are able to pay a controlled rent amount, but often they do not meet the requirements for accessing public housing and also have a problem entering the free market. On this front, during the year, the Iccrea Banca Fund invested more than €6 million in Rimini to buy two buildings with 54 social housing units. The goal of the Fund is to increase the stock of social housing available at controlled rents, with a “rent to own” formula, (a type of rental agreement for which the rental instalments can be paid towards the purchase of the property, after a defined period subject to certain terms and conditions) and for sale at lowered prices, to provide support for and integration of public policies to address housing deprivation. The investment incurred by Iccrea BancaImpresa made it possible to rent and sell 29 residential units in 208, with another 25 to be added in 2019.

In addition, the Group, through the Crediper Green range of products from BCC Credito Consumo and the CasaRinnovabile project (supported by the non-profit Italian consumer rights group, Altroconsumo, and of which BCC Credito Consumo is a partner – see Chapter 10), households can obtain loans to improve the energy efficiency of their homes, enabling them to cut their energy costs while respecting the environment. They can take advantage of a tax benefit that allows them to take a tax deduction for the costs of efficiency enhancement works on their homes or condominium common areas. Tax deductions can be taken for work to:

- reduce the amount of energy required for heating;
- improve the heat retention of buildings by adding insulation, replacing flooring, windows and doors;
- install solar panels;
- replace heating systems.

In support of the youngest customers, the Group has developed numerous solutions connected to the digital world, especially involving the use of electronic payment cards and payment instruments, including:

- Carta Tasca for minors: a special rechargeable prepaid card designed for teen budgeting, which does not require an associated current account and can be reloaded at any time with the cash immediately available. As well as ensuring young people have access to financial services, this solution is also part of a broader policy of reducing cash in circulation.
- CUS Card: a prepaid card associated with an IBAN that can be used by students as an electronic money instrument and university badge. Over the course of the year over 1,570 students, enrolled at participating universities, signed up for a CUS Card.
- Basic Card Account: a debit card linked to a "Basic Account" with special monetary limits and restrictions on the number of transactions that can be carried out, designed to help young people learn how to use financial instruments while reducing the associated risks. As of today, more than 26,000 customers have chosen the Basic Card Account.
- Ventis card: a credit card created by a commercial partnership with Ventis, aimed at offering millennials (i.e. those born between the beginning of the 1980s and the end of the 1990s) access to the online market. The product is structured to encourage purchases on the Ventis.it portal (with a discount coupon for each new card, cash back for purchases on the Portal, etc.). At present, more than 6,500 Iccrea Banking Group customers have signed up for the Ventis card.

Products offered through the support of the mutual banks

The Iccrea Banking Group has also established considerable synergies with the mutual banks in the areas of financing and other products dedicated to the development of the real economy, through the completion of investment projects to the benefit of the development of the economy and the wellbeing of the territory.

More specifically, the Group entered into financing transactions to support investments in renewable energy. Through the participation of Iccrea BancaImpresa in a loan pool with some mutual banks, in 2016 the Group contributed to a €20 million loan to the Vallette-Finam Group (the leading group in Italy for the production of renewable energy sources) to support renewable energy and the destined bio-methane. The loan was to be used to carry out a complex operation involving the acquisition of Azienda Agricola Sant'Ilario (a 1,300-hectare farm south of Venice), and the development of a plan for investing in renewable energy by increasing the production of biogas from agricultural biomass. In addition to Iccrea BancaImpresa, the mutual banks involved in the transaction were BCC Pordenonese, BCC Banca Prealpi, BCC Banca Santo Stefano Credito Cooperativo Martellago Venezia and Cassa Centrale Raiffeisen.

In addition, in 2018, Iccrea BancaImpresa and Banca di Verona Credito Cooperativo Cadidavid completed a project finance transaction totaling €15 million to finance a portfolio of plants that produce 6.5 MW of electricity from renewables owned by Alps Energy RE Fund, a real estate investment fund managed by Serenissima SGR SpA (an asset management firm headquartered in Verona and owned by La Centrale Finanziaria Generale). The goal is to produce electricity from diversified sources using ground-mounted photovoltaic plants (3.3 MW), biogas plants that produce electricity through the process of anaerobic digestion of biomass plant (3.0 MW) and a small hydroelectric plant. The plants financed should produce 27 million kWh of renewable energy each year, the equivalent of saving 12,000 tons of CO_2 emissions into the atmosphere.

Since 2011, the Group has guaranteed support to the mutual banks in the consumer credit sector through BCC Credito Consumo, which has progressively expanded its offering with competitive online and offline financial services. In particular, thanks to the Affinity agreements (mainly involving businesses, universities, sporting associations, e-commerce, bodies and institutions), the Crediper brand is becoming the one identified with helping certain categories of customers access credit, for example, for public or private bodies interested in offering their members access to online loans with exclusive terms and conditions. Interested customers will be able to consult Crediper's offering of online personal loans featuring promotional terms and conditions and that are highly competitive with the market through the new portal (www.crediper.it).

Beyond providing support to the mutual banking movement by acquiring banks in difficulty, Banca Sviluppo serves as a commercial tool for spreading, with growing strength and synergies, the Group companies' products across territories that differ by culture and banking needs. Specifically, Banca Sviluppo conceived of the "Tomorrow Account", a special account for children from the very young up to 18 years of age. It is designed to meet their present and future needs, through discounted account management fees and access to all services via the internet and a simple App.

Investment products

Within the range of investment products, the Group is engaged in the development and placement of ethical solutions with environmental protection objectives.

During 2017, the Group handled the placement of the following bonds:

- **World Bank bonds for sustainable development**, aimed at promoting projects to reduce poverty and inequality. These initiatives are conducted in compliance with the principles of environmental, social and fiscal sustainability in order to improve the quality of life, protect the environmental heritage and support the development of the education, health and infrastructure sectors. In 2017 the bonds were placed with 35 banks in addition to 46 in 2016;
- **World Bank "green growth" bonds**, issued as part of the "Green Bond" program aimed at promoting projects to protect the environment and combat the effects of climate change. These bonds were placed with 27 banks in 2017.

Also in 2017 the Group participated in the issuance program under which **Savings Bonds for the Southern Economy (TREM Bond)** may also be issued. The funds raised with the latter must be used for medium-long

term investments in SMEs with registered offices in the regions of Southern Italy or to finance of ethical projects in order to reduce the imbalance between the Southern regions and the rest of the country. In light of this constraint on the allocation of the funds raised, these securities benefit from a flat 5% withholding tax on the interest accrued by the subscribers and therefore represent an opportunity for the holders of the securities to earn a better return. For TREM issues carried out in previous years and still in outstanding, the MEF was sent the notifications of the constraint on the use of the funds necessary to self-certify the incremental flow of medium/long-term lending to SMEs registered in in the previous calendar year to the MEF, which must be at least equal to the funding raised through the issue of the bonds.

In 2018, with the goal of helping the mutual banks access the capital markets, the Group renewed its participation in the European Central Bank’s Targeted Longer-Term Refinancing Operations program, designed to offer Eurosystem credit institutions financing with longer maturities to assist then in making loans for the development of the real economy. In particular, the Group, through the formation of the TLTRO Group headed by ICCREA Banca, guarantees access to TLTRO-II for all member mutual banks.

Mutual banks that took part in TLTRO-II		
2016	2017	2018
161	132	125

Responsibility in lending

The Parent Company has established a lending policy that identifies sectors that, while involving legal activities, cannot be financed for ethical reasons. More specifically, these include:

- the manufacture, distribution and marketing of weapons (with the exclusion of weapons for sporting or recreational activities), equipment and systems that can be used for military purposes;
- the manufacture, distribution and marketing of equipment for betting, video-poker, slot machines and gambling in general;
- the manufacture and distribution of material related to pornography (sex shops, pornographic publications, etc.).

Loan applications received from parties operating in these sectors, regardless of the size of the loan requested, the same are brought to the attention of the Credit Committee, which acts as an advisory body in the assessment of transaction eligibility, in order to verify that it does not violate the Bank's ethical policies. The request for an opinion submitted to the Credit Committee must be accompanied by a detailed report by the application manager containing the reasons that prompted the decision to consider the operation eligible. In these cases, the Credit Committee may also act as the body responsible for final approval of the transaction. In 2018, no operations involving the excluded sectors were brought to the attention of the Credit Committee.

7 SUPPORTING LOCAL COMMUNITIES

Contributing to the development and the involvement of the territory and local communities is the primary activity on which the operations of the mutual banking system, to which the Iccrea Banking Group offers its services and support, is based. This commitment is, indeed, clearly set out in the bylaws, Code of Ethics and the Charter of Mutual Banking Values

Support and promotion is also provided through donations and sponsorships. Local activities and initiatives are aimed at safeguarding and enhancing the historical, cultural and natural heritage, the education and training of young people, scientific and university research, humanitarian projects and social and health assistance, and artistic, sporting and recreational initiatives.

More specifically, with regard to charitable donations, Banca Sviluppo has always preferred donating to schools and local cultural events. In 2018, it donated €9,762, down from the two preceding years (€14,857 in 2016 and €14,210 in 2017). Iccrea BancaImpresa, instead, donated €2,000 to charities and recorded promotional/advertising and entertainment expenses of more than €1.6 million, up 41% compared with 2016 and 70% compared with 2017.

In order to guarantee constant and structured support to the territories, the Senior Management of the Iccrea

Banking Group annually establishes a dedicated budget for charitable giving of €4,500 total in the southern territorial area and €7,500 in the north.

Moreover, during the year, the Board of Directors of Iccrea Banca supported a variety of charitable initiatives, which were selected on the basis of:

- **sector**, supporting organizations engaged in humanitarian, healthcare, social assistance and environmental conservation efforts and the protection of cultural heritage;
- **geographical distribution**, supporting organizations that operate both nationally and internationally;
- **long-term collaborative relationships** between the associations supported and the Bank.

In 2018, to support these initiatives, Iccrea Banca donated almost €480 thousand to charity, supporting, specifically:

- Religious and lay associations operating in the city and province of Rome, or in the Lazio region, including Associazione ABC, Caritas, Comunità di Sant'Egidio, Comunità di Capodarco, Assohandicap, Peter Pan Onlus, Sport Senza Frontiere, Fondazione Domenico Tardini, CRI-Gruppo Donatori Sangue, Associazione Italiana Sclerosi Multipla (AISM), Ente Nazionale Sordi, Associazione Kiasso e Associazione Sordomuti XIII Municipio, Migranti e Banche. The Bank donated around €184,000 to these institutions. The figure also includes a contribution of €150,000 to the Blood Donor Area of the Metropolitan Area Committee of Rome of the Italian Red Cross to purchase a three-station bloodmobile to operate at the regional level.
- National and international associations working for intercultural and humanitarian dialog, international cooperation, environmental protection and the restoration or conservation of the historical and artistic heritage. Some €145,000 were disbursed to: Cortile dei Gentili, Doctors Without Borders, Coopermondo (projects in Togo and Colombia), Governatorato dello Stato Città del Vaticano, Lega del Filo d'Oro, Associazione Donatori di Midollo Osseo (ADMO), Legambiente, Federparchi and Fondo Ambiente Italiano (FAI).

In addition, Iccrea Banca donated €20,000 to the Associazione Amici della Normale di Pisa, under a five-year sponsorship plan that began in 2016. This contribution, amounting to €100,000 over five years, is intended to fund the establishment a chair of economic history to be named after President Carlo Azeglio Ciampi, at Palazzo Strozzi in Florence, where an advanced study institute will be established as a center for post-graduate and post-doctoral interdisciplinary education with a special focus on the international perspective.

Each year, the companies of the Iccrea Banking Group also support the CRAL, an employee group that promotes cultural, sporting and recreational initiatives for personnel. More specifically, since 2006 the CRAL has organized a national five-a-side football tournament for the mutual bank sector in a different venue each year. The event involves hundreds of mutual bank employees from all over Italy and interacts directly with the local communities in which the tournament is held. In 2018, the contribution to CRAL from the Group amounted to €118,000.

In 2018, the Group contributed €50,000 to the organization of the mutual banking system's five-a-side football tournament. About 1,200 employees of the Group and the mutual banks took part and the local communities in which the tournament was held benefitted in monetary terms in the amount of around €32,000 (spending on hotels, sports facilities, locally produced products, water, various services, ambulances, restaurants, etc.).

Many initiatives in favor of the local community involve the Iccrea Banking Group indirectly, that is through the direct presence of the mutual banks (customers and directors of the Group) in the territory, since the nature of the Group's governance (second level) does not entail direct contact. The mutual banks, given their unusual governance style, are the ones that conduct business in their territories of responsibility and influence. In fact, at least 95% of the loans given by the mutual banks must stay in their territories (see Section 2.3). Therefore, next year, with the consolidation of the 142 mutual banks, affiliated with the Iccrea Mutual Banking Group, it will be possible to provide more detailed information on the operations and the implementation of programs involving the local community.

Promoting urban development

With the establishment in 2006 of the Iccrea Banking Group headquarters and the then 1,500 employees in

the Lucrezia Romana neighborhood, previously largely uninhabited, the Group promoted the urban development of the area concerned, both from a residential and commercial point of view.

Beginning in 2015, BCC Solutions launched a project to develop an area of historical significance owned by the Iccrea Banking Group adjacent to our main offices in Rome.

The project, which was completed in 2018, involved the construction of an **archaeological park** with an adjoining play area for children, all of which can be enjoyed by the community during the day. The site is located within an excavated archaeological area featuring the ancient route of the Via Latina between the sixth and seventh mile and a necropolis. The initiative involved a collaborative effort between BCC Solutions, the Archaeological Superintendency of Rome and the City of Rome.

In particular, in synergy with the Superintendency and the technical offices of the City of Rome, BCC Solutions implemented a series of measures to prevent potential urban and visitor safety risks, including:

- Creation of paths inside the park using materials selected in agreement with the Superintendency;
- Construction of a new border fence;
- Creation of internal walkways to safely visit the archaeological park;
- Creation of the sidewalk in front of the archaeological park and of the public lighting system for pedestrian safety;
- Installation of a video surveillance system and night lighting inside the park.

Furthermore, BCC Solutions attends and supports the initiatives and activities promoted by the neighborhood committees that are involved with the areas concerned.

With regard to the activities of the corporate bank, during 2018 Iccrea BancaImpresa continued to manage the JESSICA funds, a program launched in 2012 within the context of the 2007–2013 Regional Operational Programme (POR) as part of the European Regional Development Fund (ERDF) for Sicily and Campania, by entering into specific agreements with the European Investment Bank. The EU resources were used to finance energy efficiency and urban development projects. They were promoted by firms and public entities and are intended to improve the quality of life and urban functions by reducing climate-altering emissions and gradually regenerating destructured urban spaces.

In addition, Iccrea BancaImpresa consolidated its position in the health and social services sector by signing contracts for a number of financing operations for social and healthcare facilities and has acquired additional projects. The purpose of these projects is to increase the supply of financial services to support the third sector, responding to the needs of the community dictated by the progressive aging of the population and to support the disabled.

Community involvement initiatives

The Iccrea Banking Group sponsored numerous initiatives on a variety of topics, as shown in the following table:

Sponsorships of community and territorial programs	
Environment	The Group participated in Festambiente, the international festival on ecology organized each year by Legambiente. The values promoted by Festambiente 2018 are similar to those of the mutual banking system. Specifically, that edition addressed issues relating to the civil and circular economy, agriculture and sustainable tourism, legality and renewable energy. Iccrea Banca hosted a stand (Civil Economy Pavilion), hosting debates, meetings and entertainment and promoting its projects. It used communication tools, such as banners and totems, and had a 16m^2 stand staffed by appropriately trained Legambiente personnel. In addition, again with Legambiente, the Group sponsored the awards ceremony for Legambiente's 28th National Tasting Exhibition of Organic and Biodynamic Wines, involving numerous top wine producers across the nation. Iccrea Banca's sponsorship goes to support the most important efforts for promoting and enhancing the project. Finally, it organized with Legambiente, the following conferences: the Ecoforum - "The circular economy of waste" in Rome, attended by 140 persons, and the "School Ecosystem" Forum in Naples, with more than 160 attendees.
Cultural and social issues	The Iccrea Banking Group sponsored #Be Alive, a day dedicated to outdoor sports. Stations were devoted to various sports and champion athletes from the various disciplines interacted with students and visitors, helping them try out and learn different activities, in a day dedicated to physical activity, fund and sharing. The primary goal was to promote sports as a medium of participation and social inclusion as well as being an expression of shared values and equal opportunity for all, through dialogue on the playing field, which transcends the barriers of religion, race, culture, beliefs, gender and ability. Iccrea Banca also sponsored the conference on "The Governance of Tertiary Sector Entities", organized by Dynamo Camp Onlus, allowing its logo to appear on all the communication material for the conference. In addition, the sponsorship of the non-profit initiatives organized by Associazione Culturale Valorizzazione Rango (which is of growing importance since the village of Rango, benefitting from its help, has undergone a revival, leading it to be recognized as the most beautiful village in Italy), has led them to become closely identified with the Group, in part because the mutual banking system has always promoted the territories in which it is located. By becoming a sponsor, Iccrea Banca was able to place its new logo "IB" on the association's new site and on its all communication materials during the Christmas markets season.
Scientific, cultural, artistic and technological dissemination	In 2018, the Group sponsored TEDEx Roma, the cultural event organized in Italy by the international non-profit organization TED (the series of US conferences managed by the non-profit The Sapling Foundation). In addition, in 2018, on the occasion of the Holy See's first-time participation in the Architecture Exhibition of the 2018 Biennale in Venezia, "the Courtyard of the Gentiles", the Pontifical Council for Culture for the dialogue between believers and non-believers, organized an event, the Group's sponsorship of which was for a discussion on the topic of "architecture and spirituality" between four world-famous architects: Stefano Boeri, Mario Botta, Santiago Calatrava and David Chipperfield.

In the environmental field, already in 2017 Iccrea Banca signed an agreement with Legambiente for the promotion of green economy initiatives, energy efficiency, renewable sources, agro-ecology and good environmental practices. The agreement provides for the organization of dissemination and information activities on these issues, including the development of an app, with the collaboration of Legambiente and financial support for the initiatives from Iccrea Banca. The agreement is part of efforts to ensure continuity in the relationship between Legambiente and the world of mutual banking, which began in 2006 with the signing of the first agreement between Legambiente and Federcasse.

Focus on financial education

Involving and developing the territory and the community are an integral part of the Iccrea Banking Group's mission. It organizes training events, conferences and other meetings for local communities, the mutual banks' shareholders and local firms and cooperatives to explain issues of common interest in the area of financial education.

During the year, the Group's Marketing department organized 43 seminars on foreign operations in the banking sector, and on the Central Guarantee Fund. Overall, 52 mutual banks for a total of 3,536 participants took part in the events. Furthermore, the Group organized conferences on microcredit and financing for the energy sector. It also offered training to the mutual banks' corporate customers and the local chapters of the National Council of the Accounting Profession. These initiatives focused on issues related to the 2018 Budget Law ("Sabatini Law", "super-amortization" and "hyper-amortization", Industry 4.0, etc.)

A meeting was arranged in the leasing segment, attended by 60 persons, with the Alba Retailers' Association on the topic of "Leasing for properties under constructions", which represents a real opportunity for municipalities.

Moreover, the Group organized 3 interactive webinars for the mutual banks' customers in order to provide information on individual retirement plans (PIR), the new form of investment introduced in the 2017 Budget Law for Italian residents.

Training on some financial products was provided online through the main social media channels for certain Iccrea Banking Group's products, such as Carta BCC and CrediPer.

Relationships with universities

The Iccrea Banking Group has entered into agreements with various Italian universities and educational institutions to organize internship programs aimed at actively promoting the integration of young people into the world of work. In particular, again in 2018, the Group collaborated with the following institutions:

- Università degli Studi di Roma Tor Vergata;
- Università degli Studi di Roma La Sapienza;
- LUISS - Libera Università Internazionale degli Studi Sociali Guido Carli di Roma;
- Università Commerciale Luigi Bocconi di Milano;
- Università degli Studi di Udine;
- Università di Pisa;
- Università degli Studi di Milano Bicocca;
- Associazione per la Cultura e il Tempo Libero (ACTL) – sportello stage.

8 HUMAN RESOURCE MANAGEMENT

The personnel of the Iccrea Banking Group

People are an indispensable resource for the Iccrea Banking Group as it is thanks to their involvement and their abilities that the Group is able to achieve its corporate objectives. The Group recognizes the central role played by its staff and calls on them to act with professionalism, dedication, loyalty, honesty and a spirit of collaboration in line with the principles and values of the Iccrea Banking Group, which stand on a foundation of ethics and integrity.

In the management of human resources, the Iccrea Banking Group offers all employees the same opportunities with no discrimination in the selection, recruitment, training, management, development and remuneration of personnel. The Group, in fact, fights any kind of discriminatory differentiation, harassment and mobbing of its personnel. It also ensures that personnel can work in an environment that nurtures and improves the capabilities and potential of each one, that promotes diversity and that protects the work-life balance.

The selection and hiring of personnel are carried out by Group companies in compliance with the values of equal opportunity, equality and personal growth. All hiring is conducted in compliance with the provisions of the law, the Workers' Statute and the applicable national collective bargaining agreement.

In its human resource management, the Group has enshrined, the principles of mutual respect, fair treatment and meritocracy within the Code of Ethics and Conduct, as well as the commitment to the fight against any form of favoritism, nepotism or discrimination.

The Iccrea Banking Group believes in the importance of staff engagement with a view to increasing the sense of belonging and continuous development, creating communication initiatives and tools and adapting them to the specific needs of those involved. To this end, the Group undertakes to recognize and leverage the skills of its human resources, providing appropriate training and updating tools.

At the end of 2018, the Group has 2,475 employees, of whom 38% are women. Compared with the previous year, the workforce increased as a result of the need to reorganize the Group. During the year, 171 employees left the company while 290 new employees joined (mostly coming from the mutual banks), with a positive turnover rate of 5%.

EMPLOYEES BY GENDER AND EMPLOYMENT CATEGORY *

Employment category	2018			2017			2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Executives	82	5	**87**	58	3	**61**	37	31	**68**
Managers	777	291	**1068**	686	255	**941**	824	653	**1,477**
Office staff	672	648	**1,320**	698	656	**1,354**	683	276	**959**
Total	1,531	944	2,475	1,442	914	2,356	1544	960	2,504

*The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l. and Mediocredito FVG. The figures for the latter, which was acquired in July 2018, will be reported in the data for the Iccrea Banking Group, in Chapter 11 "Appendix".

NEW EMPLOYEES BY GENDER AND AGE GROUP*

	2018			2017			2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Under 30	19	14	**33**	17	11	**28**	11	16	**27**
Between 30 and 50	129	79	**208**	16	22	**38**	86	101	**187**
Over 50	41	8	**49**	10	4	**14**	40	28	**68**
Total	189	101	290	43	37	80	137	145	282

* The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l. and Mediocredito FVG. The figures for the latter, which was acquired in July 2018, will be reported in the data for the Iccrea Banking Group, in Chapter 11 "Appendix".

EMPLOYEES LEAVING THE COMPANY BY GENDER AND AGE GROUP *

	2018			2017			2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Under 30	4	4	**8**	8	5	**13**	2	11	**13**
Between 30 and 50	50	48	**98**	31	41	**72**	36	32	**68**
Over 50	46	19	**65**	107	36	**143**	29	10	**39**
Total	**100**	**71**	**171**	**146**	**82**	**228**	**67**	**53**	**120**

* The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l. and Mediocredito FVG.

INBOUND TURNOVER RATE BY GENDER AND AGE GROUP*

	2018			2017			2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Under 30	48%	45%	**46%**	53%	39%	**47%**	30%	52%	**40%**
Between 30 and 50	16%	13%	**15%**	2%	4%	**3%**	10%	15%	**13%**
Over 50	6%	3%	**5%**	2%	1%	**2%**	6%	10%	**7%**
Total	**12%**	**11%**	**12%**	**3%**	**4%**	**3%**	**9%**	**15%**	**11%**

* The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l. and Mediocredito FVG. The figures for the latter, which was acquired in July 2018, will be reported in the data for the Iccrea Banking Group, in Chapter 11 "Appendix".

OUTBOUND TURNOVER RATE BY GENDER AND AGE GROUP *

	2018			2017			2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Under 30	10%	13%	**11%**	25%	18%	**22%**	5%	35%	**19%**
Between 30 and 50	6%	8%	**7%**	4%	7%	**5%**	4%	5%	**5%**
Over 50	7%	6%	**7%**	17%	13%	**15%**	4%	4%	**4%**
Total	**7%**	**8%**	**7%**	**10%**	**9%**	**10%**	**4%**	**6%**	**5%**

* The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l. and Mediocredito FVG.

This significant increase in Parent Group staffing is attributable to the need to reinforce the units involved in the formation of the Mutual Banking Group and to absorb the personnel of the national and local federations into the control functions and in the territorial branches, in line with the centrality of human resource within the Group.

Specifically, in 2018, work began to redistribute within Iccrea Banca around 400 employees from the Corporate Control Functions (CCFs), namely Risk Management, Compliance, Audit and Anti-money-laundering, of the local federations and the mutual banks that joined the Mutual Banking Group. This centralization of resources within the Parent Company also addresses the ECB's specific provisions on CCFs, which envisages governance by the holding company.

Almost all employees were hired with open-ended contracts, for an increase of about 6%, in line with that of the rise in total staffing, compared with 2017. In fact, there was a significant decrease of almost 40% in fixed-term contracts, which went from 43 in 2017 to 26 in 2018, against the increase in staffing by 290 new employees in 2018.

In addition, in the reporting period, 115 employees opted for part-time contracts (7% lower than in 2017). Finally, about 60% of employees were between 30 and 50 years of age.

TOTAL NUMBER OF EMPLOYEES BY TYPE OF EMPLOYMENT CONTRACT AND GENDER*

	2018			2017			2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Fixed-term contract	12	14	**26**	19	24	**43**	13	17	**30**
Open-ended contract	1,519	930	**2,449**	1,423	890	**2,313**	1,531	943	**2,474**
Total	**1,531**	**944**	**2,475**	**1,442**	**914**	**2,356**	**1544**	**960**	**2,504**

* The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l, and Mediocredito FVG. The figures for the latter, which was acquired in July 2018, will be reported in the data for the Iccrea Banking Group, in Chapter 11 "Appendix".

TOTAL NUMBER OF EMPLOYEES BY TYPE OF EMPLOYMENT AND GENDER*

	2018			2017			2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Full-time	1,525	835	**2,360**	1,433	797	**2,230**	1,535	834	**2,369**
Part-time	6	109	**115**	9	117	**126**	9	126	**135**
Total	**1,531**	**944**	**2,475**	**1,442**	**914**	**2,356**	**1544**	**960**	**2,504**

*The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l. and Mediocredito FVG. The figures for the latter, which was acquired in July 2018, will be reported in the data for the Iccrea Banking Group, in Chapter 11 "Appendix".

TOTAL NUMBER OF EMPLOYEES BY GENDER, EMPLOYMENT CATEGORY AND AGE GROUP *

	2018			2017			2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Executives	**82**	**5**	**87**	**58**	**3**	**61**	**66**	**3**	**69**
Under 30	-	-	0	-	-	0			0
Between 30 and 50	30	2	32	17	2	19	18	1	19
Over 50	52	3	55	41	1	42	48	2	50
Managers	**777**	**291**	**1068**	**686**	**255**	**941**	**727**	**252**	**979**
Under 30	6	1	7	0	1	1	-	-	0
Between 30 and 50	325	153	478	269	123	392	289	123	412
Over 50	446	137	583	417	131	548	438	129	567
Office staff	**672**	**648**	**1,320**	**698**	**656**	**1,345**	**751**	**705**	**1456**
Under 30	34	30	64	32	27	59	37	31	68
Between 30 and 50	443	458	901	480	475	955	517	529	1,046
Over 50	195	160	355	186	154	340	197	145	342
Total	**1,531**	**944**	**2,475**	**1,442**	**914**	**2,356**	**1544**	**960**	**2,504**

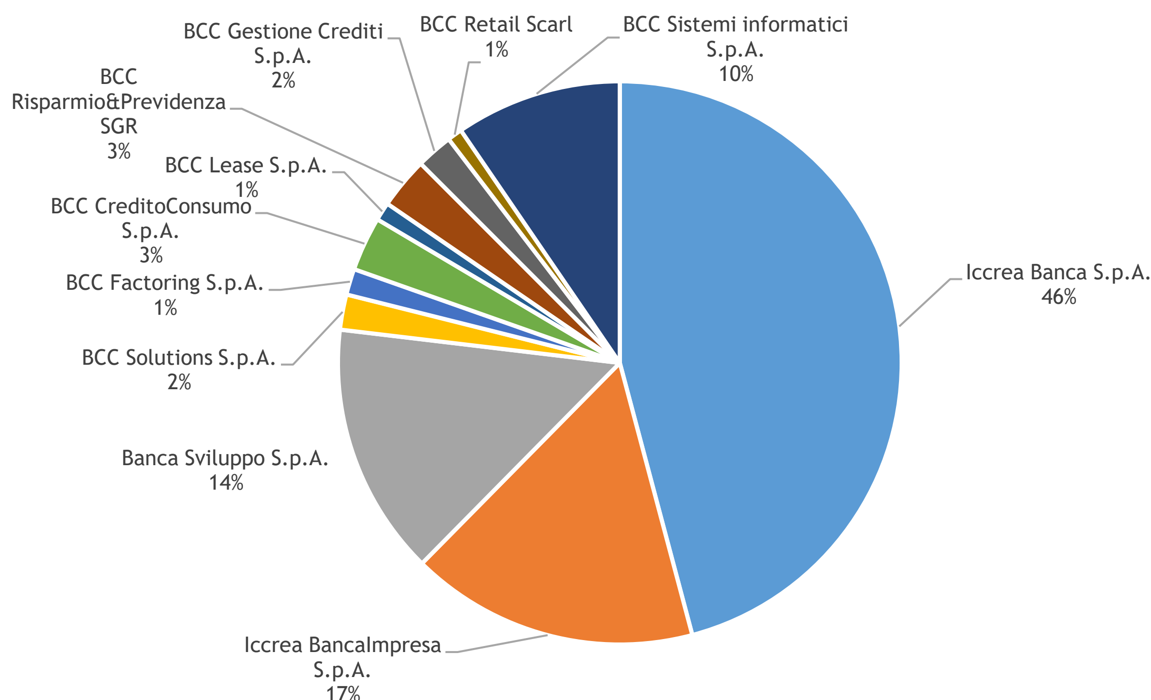
* The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l. and Mediocredito FVG.

PERCENTAGE OF EMPLOYEES BY GENDER, EMPLOYMENT CATEGORY AND AGE GROUP *

	2018			2017			2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Executives	5%	1%	4%	4%	0%	3%	4%	0%	3%
Under 30	0%	0%	0%	0%	0%	0%	0%	0%	0%
Between 30 and 50	2%	0%	1%	3%	0%	2%	1%	0%	1%
Over 50	3%	0%	2%	1%	0%	1%	3%	0%	2%
Managers	51%	31%	43%	48%	28%	40%	47%	26%	39%
Under 30	0%	0%	0%	0%	0%	0%	0%	0%	0%
Between 30 and 50	21%	16%	19%	19%	13%	17%	19%	13%	16%
Over 50	29%	15%	24%	29%	14%	23%	28%	13%	23%
Office staff	44%	69%	53%	48%	72%	57%	49%	73%	58%
Under 30	2%	3%	3%	2%	3%	3%	2%	3%	3%
Between 30 and 50	29%	49%	36%	33%	52%	41%	33%	55%	42%
Over 50	13%	17%	14%	13%	17%	14%	13%	15%	14%

* The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l. and Mediocredito FVG.

In order to provide a more complete picture of the Iccrea Banking Group human capital, the following graph shows the distribution of employees by Group company:



*The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti SpA, Ventis S.r.l. and Mediocredito FVG.

The quality of relations with human capital

As expressly set out in the Code of Ethics and Conduct, the Iccrea Banking Group considers respect for individual freedoms and the protection of human rights to be an essential principle.

Furthermore, the Group complies with Law 68/1999 (the purpose of which is to encourage the insertion and integration of persons with disabilities into the workplace by providing support services and through targeted placement) guaranteeing that it meets the required percentage, namely 7%, of the staff being comprised of persons with disabilities. In addition, the Group complies with Article 46 of Legislative Decree 198/2006, for which it is required to prepare the “Biennial Report on gender for companies with more than 100 employees". This document contains detailed information on each of the professional categories, state of affairs regarding recruitments, training and any other factor that makes up the process of the professional development of the human capital.

During events for the entire workforce, such as group meetings and “60minuti con” (themed events that involve various corporate functions), the Group offers interpretation services. The goal is to enable deaf employees to also participate in events. Specifically, Iccrea Banca makes use of qualified persons to offer this service who translate all the speeches given during these events into sign language.

CORPORATE EVENTS DEDICATED TO TOPICS ON DIVERSITY		
Date	Event	Duration (in hours)
March 19, 2018	60Minuti con DG	1
May 28, 2018	60Minuti con People Care	1
October 3, 2018	Group meeting	4

For the year 2019, the Group also planned events of “social advertising” on gender-based violence, in collaboration with the Carabinieri. There is also a special psychological counselling program for new mothers to help them return to the workplace and a donation of 100 “baby packages” was made to employees who became new parents.

Group employees can use a dedicated tool – an email box – for written communication to report any incidents

of discrimination. Any complaint is brought to the attention of the Group companies, which take appropriate disciplinary measures against those who conduct themselves or abuse their position of authority within the Group in a discriminatory manner. The Group has developed an internal policy for whistleblowing systems to enable staff to report acts and facts that may constitute an infringement of the rules governing banking activity, while ensuring the confidentiality and protection of the personal data of the individual making the report and the individual being reported. Customers, instead, may lodge complaints with the Procurement Department of BCC Solutions, which is also responsible for transmitting reports of violations.

With regard to this, during this year no problems relating to vulnerable groups were found, nor were cases of discrimination or violation of human rights brought to our attention. Furthermore, the Human Resources unit and the trade unions of the Iccrea Banking Group have never reported cases of this kind.

Remuneration of personnel

The Iccrea Banking Group has established a remuneration system designed to attract, motivate and value people with the professional qualities required by the business. This system is structured in accordance with the principles of fairness, transparency and honesty.

The Group periodically reviews its **remuneration and incentive policies** in compliance with external regulations, through which it ensures that remuneration systems promote the creation of the best conditions for the professional achievement of all employees. It also pursues these goals by enhancing the potential of individuals through effective, fair and transparent processes aimed at promoting, recognizing and rewarding professional skills and their development. Moreover, the remuneration and incentive policies for the Group's key personnel are based on the system for analyzing and assessing positions within the organization. The categories chosen are those indicated in the national collective bargaining agreement for managers and for professionals and the specific ones (again under the national collective bargaining agreement) for the managers of the mutual banks. In should also be noted that the mutual banking system has a special agreement, different from the rest of the banking sector.

The remuneration system implemented by the Iccrea Banking Group consists of a fixed and a variable component. For the fixed component, the Group uses the items envisaged in the national collective bargaining agreement. The variable component, on the other hand, is determined with annual incentive system broken down for the different categories of employee, which provides for the payment of a bonus linked to the achievement of specified performance targets. In addition, the remuneration for employees considered key is determined based on the provisions of the national collective bargaining agreement for the mutual banking system and on the second-level contract (CIA) provided for under current regulations.

This incentive system is intended stimulate people's motivation to achieve the specified improvement objectives and enables the Group to reward the personnel who have contributed most to the achievement of corporate objectives in line with the strategic plans.

BASE SALARY OF WOMEN AS A PROPORTION OF BASE SALARY OF MEN BY EMPLOYMENT CATEGORY *

	2018	2017	2016
Executives	61%	71%	90%
Managers	86%	86%	86%
Office staff	93%	94%	93%

*The figures for base salary are those for gross annual salary (GAS) for each employee category. The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti SpA, Ventis S.r.l. and Mediocredito FVG. The figures for the latter, which was acquired in July 2018, will be reported in the data for the Iccrea Banking Group, in Chapter 11 "Appendix".

AVERAGE SALARY OF WOMEN AS A PROPORTION OF AVERAGE SALARY OF MEN BY EMPLOYMENT CATEGORY *

Employee category	2018	2017	2016
Executives	57%	71%	88%
Managers	85%	86%	86%
Office staff	93%	93%	93%

* The figures for average salary are those for gross annual salary (GAS) for each employee category. The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti SpA, Ventis S.r.l. and Mediocredito FVG. The figures for the latter, which was acquired in July 2018, will be reported in the data for the Iccrea Banking Group, in Chapter 11 "Appendix".

The Iccrea Banking Group's remuneration of executives shows a disparity between women's and men's salaries. Since incentives and bonuses began to be awarded in 2018 (in accordance with the Group's remuneration and incentive policies)[2] following the satisfaction of requirements put in place to protect the

[2] As specified in the 2018 Remuneration and Incentive Policies: "All variable remuneration awarded, whether up front or deferred, will be conditional on the satisfaction of all the requirements established from year to year, as well as the Group having posted a gross profit. All requirements represent the sound

system, differences between gross annual income and global annual income (i.e. gross annual income plus the variable component) have been recorded. In addition, the increase in average gross annual income and the average global annual income is essentially attributable to increases in staff size and in the compensation package, owing to market position linked to the formation of the Mutual Banking Group. For the remaining personnel, the difference between men's and women's salaries is also due to the greater impact of part-time contracts: about 11% of female employees have a part-time work contract (as opposed to 0.4% of male employees).

Training and development

Faced with the continuous technological evolution of banking services and the transformation of sector regulations, the Group considers the development of skills and professional growth to be of fundamental importance for its employees.

To this end, the Iccrea Banking Group has established a Development and Change Management department at the Parent Company, which among other things is responsible for managing technical-specialist, mandatory and behavioral training activities. It also establishes the training and development policies for personnel, in line with the strategic objectives of the Group and the individual companies and ensures that they are properly adopted. Management of training activities associated with the personal and professional growth of employees is the responsibility of the Human Resource Development unit within the department.

Training and development policies that regard the formation of the Mutual Banking Group are in the process of being drafted. These policies will serve as a point of reference for technical/specialized training and for that relating to corporate culture and soft skills.

- Training initiatives for the employees of the Iccrea Banking Group fall into two main categories, depending on who is organizing the initiative and how it is being managed:
  - Centralized training (in house), which includes all the training and development initiatives planned and delivered internally by the Parent Company.
  - Individual training (out-sourced), which includes courses, conferences, seminars, workshops and webinars organized and delivered by different training organizations outside the Group through their own channels. In this case, the Training unit of the Parent Company acts as an intermediary between the participant and the training organization.
-

For centralized training, the training plan is prepared following a survey of training needs, in which the managers of the various company departments may provide indications regarding the training areas and the courses deemed useful for the development of their staff. The Training unit analyses the survey data and defines a training plan that is consistent with the strategies set out by top management, with the support of external partners. A calendar is established containing the dates on which the courses chosen are held. More specifically, the unit is responsible for organizing courses, interacting with suppliers and handling the logistical and organizational aspects of each edition.

With regard to human capital development initiatives, the Group defines the annual objectives on a centralized basis, in line with the strategies set out by top management. The Human Resources Development department of Iccrea Banca identifies the recipients and the initiatives to be undertaken. It is also responsible, with the help of external partners, for designing and carrying out programs, which are structured so as to foster integration among the employees of different Group companies.

The Group also monitors training activities and their appropriateness to the needs expressed by employees, using questionnaires to get feedback on course content and organizational aspects. The data are analyzed so that any improvement actions can be taken or as inspiration for any further planning.

In addition, in 2017, the Iccrea Banking Group also implemented an **online platform** to manage training activities, providing information on courses, enrolment processes, registration of attendance and monitoring of training activities. The platform has an innovative, easy-to-use interface. After a pilot phase that was held from September to October 2017, the new training management process was fully extended to all training initiatives.

Two dedicated email addresses were also added, for training and development respectively, to which

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profitability of the Group measured using special indicators that take account of capital, liquidity and value creation levels adjusted for the Group's level of risk".

personnel can write to report problems or anomalies and ask for needed support or clarification.

HOURS OF TRAINING PLANNED BY THE GROUP BY GENDER AND EMPLOYMENT CATEGORY *

	Men	Women	Total
Executives	4,593	243	**4,836**
Managers	35,070	14,484	**49,555**
Office staff	27,738	28,240	**55,978**
Total	**67,402**	**42,967**	**110,369**

*The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l. and Mediocredito FVG.

HOURS OF TRAINING PROVIDED BY THE GROUP BY GENDER AND EMPLOYMENT CATEGORY *

	Men	Women	Total
Executives	2,293	132	**2,425**
Managers	20,032	9,120	**29,152**
Office staff	17,846	19,230	**37,076**
Total	**40,170**	**28,482**	**68,652**

* The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l. and Mediocredito FVG. The data for years 2017 and 2016 are not available since such information was not monitored prior to the launch of the platform.

NUMBER OF EMPLOYEES INVOLVED IN TRAINING ACTIVITIES BY GENDER AND EMPLOYMENT CATEGORY *

	Men	Women	Total
Executives	70	3	**73**
Managers	717	269	**986**
Office staff	644	632	**1,276**
Total	**1,431**	**904**	**2,335**

* The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l. and Mediocredito FVG.

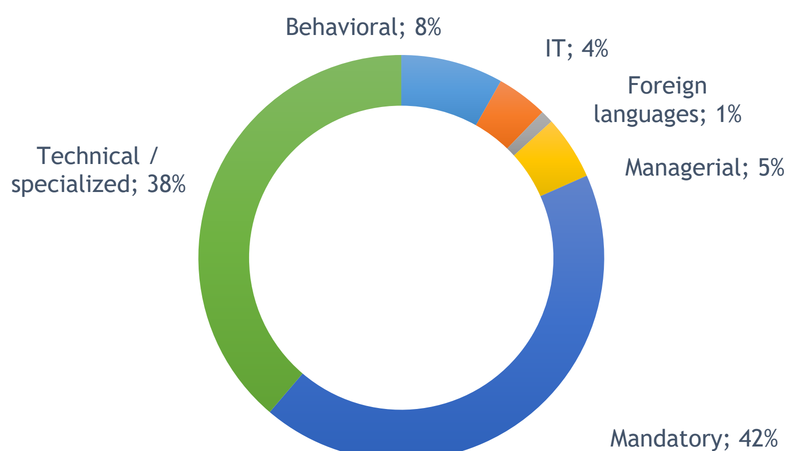
AVERAGE NUMBER OF HOURS OF TRAINING BY GENDER AND EMPLOYMENT CATEGORY *

	Men	Women	Total
Executives	28	26	**28**
Managers	26	31	**27**
Office staff	27	30	**28**

* The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l. and Mediocredito FVG.

There were 68,652 training hours provided in 2018, about half in the Professional Areas. The hours were distributed across 6 thematic areas (Behavior, IT, Foreign Languages, Managerial, Mandatory, Technical/Specialized). About two-thirds of the total training hours were dedicated to the Mandatory and Technical/Specialized areas.

In addition to training activities for the entire company, and those for certain staff members, based on specific training needs and regulatory requirements, as necessary, during the year training focused on two particular target audiences: young persons and managers. In fact, the Group is actively engaged in fostering the talents and developing the potential of younger employees. The goal is to groom the next generation of professionals and managers.



A special training program was targeted at managers in order to raise their awareness of the central role of the Group's new values and their importance for improving team management, strengthening their leadership role and a reinforcing a culture of change. In 2018, training focused on the top management, holder of key positions in the Group and other central positions, with a view towards their growth.

A new regulatory provision requires the Board of Directors to prepare appropriate succession plan for the top management positions. Therefore, an analysis was conducted to understand the professional skills of those holding key positions, the skills held that are needed for developing business strategies and the gap that exists between the skills needed and those possessed. Through the assessment of the top management, the Group was able to gain a clearer vision of their skills and therefore prepare targeted development plans for them. These plans made it possible to strengthen the skills deemed critical for the Group's management. Specifically, training, thus defined, will better meet the needs and key skills required to handle the new scenarios, vastly different from those of the past, faced by the new Mutual Banking Group.

HOURS OF ASSESSMENT PROVIDED TO EMPLOYEES BY GENDER AND EMPLOYMENT LEVEL

	Men	Women	Total
Executives	1,188	36	**1,224**
Managers	1296	396	**1,692**
Office staff	72	-	**72**
Total	**2,556**	**432**	**2,988**

NUMBER OF EMPLOYEES THAT TOOK PART IN THE ASSESSMENT BY GENDER AND EMPLOYMENT LEVEL

	Men	Women	Total
Executives	66	2	**68**
Managers	72	22	**94**
Office staff	4	-	**4**
Total	**142**	**24**	**166**

In order to develop the planned training plans, the Group increased the funding for training and development from €1,330,000 in 2017 to about €1,900,000 in 2018, for a roughly 3% increase.

NUMBER OF EMPLOYEES THAT RECEIVED REPORTS ON THE RESULTS AND ON CAREER DEVELOPMENT

	Men	Women	Total
Executives	65	3	**68**
Managers	597	226	**823**
Office staff	475	494	**969**
Total	**1,137**	**723**	**1,860**

*Figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l. and Mediocredito FVG.

PERCENTAGE OF EMPLOYEES THAT RECEIVED REPORTS ON THE RESULTS AND ON CAREER DEVELOPMENT DURING THE PERIOD, BY GENDER AND EMPLOYMENT CATEGORY

	Men	Women	Total
Executives	93%	75%	92%
Managers	82%	82%	82%
Office staff	72%	76%	76%
Total	**78%**	**78%**	**78%**

*Figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l. and Mediocredito FVG.

An integral part of the skills development activities of Group employees is the annual **professional evaluation** process. During the year, approximately 78% of employees received a review of their job performance, with the actual percentage of employees undergoing evaluation in each Group company varying from a minimum of 56% to a maximum of 97%.

In 2017, the **360° Feedback** tool on the norms of behavior of the Iccrea Banking Group was also introduced in the evaluation process. It enables each person to receive feedback from colleagues, collaborators and their manager. In this latter case, the observations of behavior were incorporated in the **professional evaluation** form mentioned above.

NORMS OF BEHAVIOUR OF THE ICCREA BANKING GROUP

Cooperation	Openness and attention to others in order to forge a common good together, responsibly and knowingly, going beyond the individual.
Openness	We create opportunities out of the needs of our customers
Excellence	Continuously improving with passion and creative drive
Merit	We recognize valuable contributions.
Courage	Having the heart to achieve change with entrepreneurial accountability.

Caring for employees and people care

Since 2013, the Iccrea Banking Group has developed a system of People care, establishing the Industrial Relations and People Care unit. The system has tools, policies and solutions aimed at promoting the well-being of people and forging a better balance between professional and private life, to be combined in a socially responsible way.

Since 2014 the Group has allowed its employees to convert all or part of their performance bonus into corporate welfare benefits and services. More specifically, for 2018 as well, the Iccrea Banking Group granted open-ended and fixed-term contract employees financial benefits, such as health insurance, disability and invalidity coverage, maternity/paternity benefits and a pension. In addition to these benefits, childcare services and wellbeing and healthy eating programs are planned.

An integral part of this program is the activation of **flexible benefit** plans, which allow employees to obtain an annual reimbursement for

- the expenses incurred for childcare and education services;
- the use of use assistance services for elderly relatives;
- the repayment of interest on mortgages for the construction, renovation and purchase of primary or secondary homes;
- the cost of local public transportation passes.

Moreover, to simplify the use of flexible benefits by all employees, the Group has implemented the Easy Welfare digital platform. More specifically, the benefits were provided in 2018 to one-third of the Group's personnel. In addition, the Iccrea Banking Group anticipates paying a share of employee compensation into two institutions. The first is the National Pension Fund, whose business is geared toward sustainable investment, and the second is the National Mutual Benefit Fund, a healthcare fund set up pursuant to an agreement with the unions arrived at through national collective bargaining, signed by Federcasse. This fund has the institutional purpose of providing its members with health insurance, generally in the form of reimbursement of expenses incurred. Coverage is provided to employees and members of their nuclear families. Employees can remain enrolled, along with family members, even when they retire and for their entire lives. There are 5,905 employees eligible, of which 3,071 are beneficiaries. In 2018 over €1.6 million in reimbursements were paid out against contributions paid in of more than €2.1 million.

Moreover, in December 2018 the Group began to offer insurance counselling at its Rome offices (via Lucrezia Romana and via Carucci). This service, provided in partnership with Marsh and UnipolSai, enables all employees to take advantage of special discounts on insurance products and pay insurance premiums in instalments at zero percent interest.

To better understand its employees' needs, during the year the Group conducted two important surveys:

- a survey on the food services offered on the Group's premises to provide a service that better meets personnel's requirements.
- a survey on the Group's People Care services to offer programs that are better suited to its employees' needs.

Based on these surveys, the Group developed a People Care model that can provide employees with a structured range of solutions regarding sustainable mobility, support for families, promoting better employee health, work-life balance, flexible working hours (hours of leave, vacation days, part-time work, etc.) and solidarity among employees through programs allowing them to donate vacation time to colleagues. In addition, the Group offers employees an integrated system of financing terms and financial contributions that include subsidies for the purpose of public transportation passes, scholarships and other benefits. In particular, through the Corporate Benefits portal the Group provides employees access to special deals with more than 150 vendors of various sort.

Beginning in 2016, the **Mobility Management** function was established with the appointment of a Group Mobility Manager to implement a range of initiatives for public transport and carpooling. Specifically, in 2018, the Carpooling 2.0 project was launched, enabling employees to form a group, composed of 2 or more co-workers, for whom one of five special parking spots is reserved in the Lucrezia Romana company carpark. In addition, there is an external pole station and three wall stations located in the carparks of buildings A, B and C of the Lucrezia Romana complex. The purpose is to encourage e-mobility (for further information on

this see the environmental programs described in Section 10.1 of the NFS).

To support the families of employees, the Group set up a **company nursery** in 2017. This structure, adjacent to the Lucrezia Romana complex, can accommodate up to 30 children, staffed by highly qualified educators. The Italian Model United Nations (IMUN) project, first offered in 2017, was repeated in 2018. By paying for the program registration costs, Iccrea Banking Group offers its employees' children the possibility to take part for free in the IMUN project, the largest simulation of diplomatic processes in Italy for secondary school students. In 2018 the Group funded 100 registrations for IMUN, in addition to 100 the year prior, giving the three best students grants to take part in the Global Citizens Model United Nations (GCMUN), held in New York at the UN's headquarters in the Crystal Palace.

To help families, the Group provides an active listening space at its Rome, Milan and Pioltello offices. This is a place where employees can receive counselling from a psychologist on problems they might be encountering in their personal or professional lives, or to obtain information on international adoption and receive advice and support. As from January 2019, the service will be expanded to offer counselling to new parents, targeted at those with children under 3 years of age. The service is free, offered in partnership with child aid organization CIAI (*Centro Italiano Aiuti all'Infanzia*).

With regard to its employees' health and wellbeing, during the year the Group sponsored days devoted to preventing and screening for melanoma (130 free screening provided) and prostate cancer (286 free screenings provided). Again in the spirit of prevention, in 2018 the Group offered its employees the change to receive the anti-flu vaccine.

The Group supports cultural activities through the Bancariochilegge! service, launched in 2016, which enables employees to borrow for free digital books from an online library that is constantly adding new selections.

In addition, in 2018 the Group donated 340 books from 3 different authors to its employees, during the "In-company Stories and Authors" events. In particular, it organized two events during the year featuring Massimo Cuomo, who presented the book "Bellissimo", and Fabio Stassi, who spoke about "L'ultimo ballo di Charlot". The events were attended by 120 employees.

As regards work flexibility and solutions to reconcile private and working life, in 2017 the Group launched an experimental project for the dissemination of smart working solutions among its employees, which has now taken effect. Employees can perform their work from home, in specially appointed spaces onsite, in other company offices or from other locations as agreed in advance. Flexible working, which places the person at its heart, represents a profound cultural shift, reinforcing the relationship of mutual trust and accountability between supervisors and staff, between company and employee. Employees whose profiles make smart working feasible can take part on a voluntary basis and can work from a different location for three, four or five days per week. In 2017, there were 69 smart working employees, representing 2.9% of the total workforce, while in 2018 the number was 136, or 5.5%.

Once again in 2018 the Group offered "**solidarity holidays**", to support employees suffering from serious medical conditions or who need leave to assist family members. Under this system, Iccrea Banking Group employees can voluntarily transfer part of their holiday entitlement to support their colleagues in need. In addition, **for each voluntary donation the company contributes to the solidarity holiday pool increasing by 50% the days transferred by employees**.

Other programs included "Running for Good", carried out in partnership with "Sports Without Borders". In 2018, some of the Group's employees took part in the 2018 Milan Marathon. The Group was represented in the event by 6 marathon runners and 84 other runners, who formed 23 relays, with the participation of 8 young migrants. The event was held to raise money for charity, donating €9,557 Euro to "Rete del Dono", through personal fundraising by employees and a contribution from the Group.

Iccrea Banking Group also organized the "ConViva – Awareness, vision, value" project, consisting of single-topic meetings intended to highlight discontinuity and the culture of change. The topics addressed during the year were: "The team and performance: Merit at the service of the company", "Cooperation and the importance of teamwork", "Changing perspective, the path to Excellence" and "Founder's mindset: values and mistakes of an imperfect - but true - story". Overall 354 employees attended these events. ConViva involves discussions by one or more speakers over the course of about an hour and a half. The event is usually held in the late afternoon and, at the end, there is time for participants to informally mingle. Exclusive video interviews are also produced for each event to be shared on the Group's social media channels (also available on HuBa, the Group's smart intranet).

Occupational health and safety

The Iccrea Banking Group, aware of the importance of guaranteeing optimal health and safety conditions in the workplace, is constantly engaged in promoting and encouraging responsible behavior among its employees and in preserving the health and safety of all staff and third parties present on our premises.

Recently, a major renovation of the Lucrezia Romana head office was carried out, housing more than 2,470employees in a “citadel” designed to ensure compliance with anti-seismic regulations, by eco-sustainable and preserve the safety of workers.

All employees are required to collaborate, to the extent to which they are responsible, in maintaining a healthy, safe and efficient work environment, observing internal rules on workplace safety, as provided for by Legislative Decree 81/08. In particular, they must not act in a manner that could jeopardize the safety of their colleagues or other people or create a risk of damage to property or plant. They are required to use company assets, premises, furnishings, infrastructures and their work equipment with diligence and care.

The Group has created an **Occupational Health and Safety Management System** in accordance with UNI INAIL guidelines, with certification of conformity from an external organization. Beginning in 2016, this system, which was initially designed for the individual companies, was extended to the Group level. Banca Sviluppo, BCC Sistemi Informatici, Ventis and Mediocredito FVG currently do not fall within the scope of the system.

In order to harmonize and direct activities related to occupational health and safety at each company within the Group's Occupational Health and Safety Management System, the **Intragroup Committee for Occupational Health and Safety** was set up, chaired by the health and safety sub-delegate of BCC Solutions, with the participation of the health and safety sub-delegates of the other Group companies and the Occupational Health and Safety Management System Officers of the companies involved.

In accordance with the Occupational Health and Safety Management System, the Group, as required by law, has designated the people responsible for managing the health and safety of workers and has assigned health surveillance activities to physicians present in the different companies, who are responsible for the ongoing monitoring of the health of employees and the hygiene of workplace premises.

Furthermore, in accordance with the applicable regulations, the Group has designated the Worker Safety Representatives, who are involved, for all companies, in the processes of risk assessment and the development of prevention and training processes.

Although the Group has determined workers are exposed to a low level of risk, it adopts a preventive approach through an annual plan of improvement measures, which comprises the workplace safety measures that the various companies are required to implement.

In 2018, 30 injuries were recorded, of which the majority were incurred travelling to or from work, with one fatal incident.

INJURIES AND INJURY RATES *

	2018			2017			2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Number of injuries	**13**	**17**	**30**	**15**	**15**	**30**	**16**	**10**	**26**
At work	3	5	**8**	4	5	**9**	6	4	**10**
Travelling to and from work	10	12	**22**	11	10	**21**	10	6	**16**
Fatal accidents	1	-	**1**	-	-	-	-	-	-
At work	-	-	-	-	-	-	-	-	-
Travelling to and from work	1	-	**1**	-	-	-	-	-	-
Cases of occupational disease	-	-	-	-	**1**	**1**	-	-	-
Days lost to injuries	**245**	**401**	**646**	**397**	**374**	**772**	**357**	**270**	**627**
At work	70	266	**336**	106	180	**286**	98	110	**208**
Travelling to and from work	175	135	**311**	291	195	**486**	259	160	**419**
Injury rate	**5.760**	**13.275**	**8.481**	**5.954**	**11.124**	**7.757**	**6.79**	**7.89**	**7.17**
Lost day rate	**0.109**	**0.313**	**0.183**	**0.158**	**0.278**	**0.200**	**0.15**	**0.21**	**0.17**
Occupational disease rate	-	-	-	-	**1.48**	**0.52**	-	-	-

*The figures do not include BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l. and Mediocredito FVG.
Notes on the calculation of rates:
Lost day rate (Number of days lost to injuries / Total number of hours worked) *1,000
Injury rate (IR):(Total number of injuries / Total number of hours worked) *1,000,000
Occupational disease rate (ODR): (Total number of cases of occupational diseases / Total number of hours worked) *200,000

EMPLOYEE ABSENTEEISM BY TYPE * (in days)

	2018			2017			2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Illness	8.937	6.888	**15.825**	8.830	7.668	**16.498**	234	2.688	**2.921**
Injury	245	401	**646**	397	374	**772**	2.676	2.025	**4.700**
Stress	-	-	-	-	-	-	-	-	-
Absentee rate	**3%**	**3%**	**3%**	**2%**	**4%**	**3%**	**1%**	**2%**	**1%**

*The figures do not include *BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A, Ventis S.r.l. and Mediocredito FVG.*

As regard contractors, in 2018 the Group reported 2 accidents, of which one travel related, and no fatal accidents.

Trade union relations

In the Iccrea Banking Group, relations with trade unions are inspired by the principles of honest dealing and respect for roles, as well as compliance with the applicable rules. With the goal of achieving a growing consensus for growth, competitiveness and sustainable employment, the Industrial Relations and People Care unit is also responsible for these relations with trade unions.

After a long period of considerable conflict, 2017 saw the re-establishment of a healthy and constructive dialogue with the union, in which the negotiators sought out shared solutions to occupational, professional, economic and regulatory issues for the benefit of personnel, keeping abreast of the reorganization of the operational and corporate structures of our Group. In addition, conflict was contained by applying the discussion and settlement procedures provided by legislation (Law 300/1970), the labor contract (Articles 11-bis and 22 of the Federcasse National Collective Bargaining Agreement) and by the supplemental contracts for the Group companies. More specifically, the above articles and the supplemental contracts for the companies specify the notice period and the consultation and negotiation procedures, providing for a minimum period of two weeks' notice for communicating significant organizational changes.

In 2017 the impact on structural personnel costs of the application of the trade union agreement of July 26, 2016 made itself felt, with 93 employees - 12 of whom executives – receiving support under the Mutual Bank Solidarity Fund. In addition, during the reporting year, all employees were covered by collective bargaining agreements.

From December 2017, an agreement on the establishment of the **Group Trade Union Delegation has been**

in force, which permits a more streamlined and effective management of trade union relations.

In 2017, the company agreed a range of innovative solutions with the trade unions with a view to acknowledging the greater organizational and work commitment required from personnel under the 2016-2019 cost reduction plan. An agreement was reached on the payment of the performance bonus, based on an amount envisaged under the cost reduction plan and tied to developments in the consolidated gross operating margin. The amount awarded can also be used through the mechanisms provided for in the flexible benefit system, i.e. in the form of reimbursements (see Section 8.4).

The Iccrea Banking Group actively involves worker representatives in the health and safety issues envisaged by Legislative Decree 81/08. This collaborative effort meant that it was not necessary for the Group to reach other specific agreements with the trade unions on occupational health and safety issues.

9 SUPPLY CHAIN MANAGEMENT

The Group has prepared specific internal rules to govern the process of managing suppliers and procuring goods and services for the Group companies, in compliance with the applicable legislation in this area (Legislative Decree 231/01, privacy, anti-money laundering, "relevant persons").

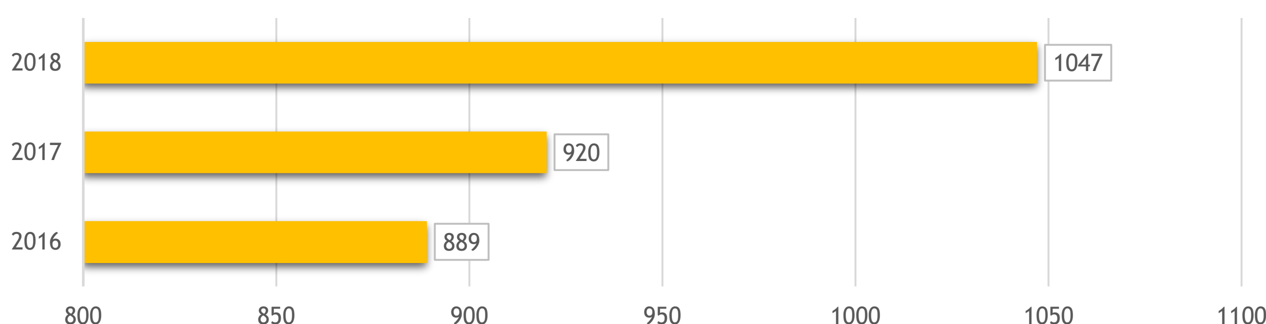
The process for evaluating and selecting Iccrea Group suppliers is based on a careful technical and economic analysis of a variety of parameters, such as the analysis of the product, the offer, pricing, the technical and professional appropriateness, competence and reliability, and service quality. In the selection process, the Group also assesses the suppliers' possession of certifications, such as ISO 14000 (which provides managerial tools for the control and improvement of parameters in terms of organization and related environmental impacts) and ISO 18000 (with which management tools are acquired to protect the worker health and safety).

In specific cases provided for in the relevant internal rules, the Iccrea Banking Group verifies that the supplier's officers meet integrity and reputability requirements. In the Code of Ethics and Conduct, the Group emphasizes, among other things, the importance of ensuring that relations with suppliers are conducted in compliance with the law and current internal rules. To this end, the Group makes all suppliers aware of the contents of the Code and requires compliance with the principles expressed in it. Any violation of the general principles of the Code by the suppliers is grounds for exercising the termination clauses included in the individual supply contracts.

In general terms, the Group avails itself of suppliers to provide services, products and instruments necessary to pursue and enhance the efficiency of banking activities, property management, ICT activities and services, logistics, marketing and personnel.

During 2018, the Group involved 1,047 suppliers in its procurement processes for goods and services. This represented an increase of approximately 14% compared with 2017 (when suppliers numbered 920[3]) and of about 18% over 2016 (when suppliers were 889[4]). **The share of suppliers resident in Italy and in the Bank's main areas of operation[4] came to 95%, from 91% in 2017 and 2016.**

In 2018, suppliers involved in the procurement process for goods and services increased by about 14% compared with 2017, and by about 18% over 2016. The share of Italian suppliers increased of about 4% over the previous years.



[3] The data shown differs from that reported in the 2017 NFS as the method for identifying the suppliers used by the Group has been refined.
[4] For a precise definition of the Group areas of operation, see the section "The local network" at page 9 of this document.

10 ENVIRONMENT

The environmental impact of offices and branches

The Iccrea Banking Group pays particular attention to environmental protection issues, including with regard to the opportunities for savings that can be pursued through energy efficiency measures, compliance with sector regulations, and coherence with the objectives defined in the Strategic Plan.

The Group considers the environmental heritage to be a public good whose protection requires not only full compliance with the relevant legislative requirements, but also the commitment of all personnel for the continuous improvement of services. Therefore it adopts all measures aimed at reducing the environmental impact of its activities, through the rational use of resources, the search for innovative and effective solutions, reducing the impact of its activities, the promotion of responsible attention by all internal and external actors.

More specifically, the environmental management of the Group's buildings is entrusted to BCC Solutions, which manages real estate and logistics services for Group companies. The company is responsible for the management of real estate projects involving the Group's premises, ensuring the necessary quality of real estate and logistics services.

During 2017 and 2018, we continued the **restyling and energy efficiency upgrade begun in 2015 and** managed by BCC Solutions, of the external facades of the various buildings that make up the Group's Via Lucrezia Romana complex in Rome. In addition to achieving a 67% reduction in the heat transfer of the façade, the project also saw the construction of a photovoltaic system for internal power generation (for more details, see the following table). The Iccrea Banking Group's renovation and energy efficiency project at the Rome offices enabled the Parent Company to win the **2017 Legambiente Prize** "Good Practices for Renewable Sources and Energy Efficiency". Moreover, in 2018, the Group sponsored the annual Legambiente Festival, dedicated to the civil and circular economy, agriculture and sustainable tourism, legality and renewable energy (see Section 7 of the Statement).

Another initiative of the Group to support limiting greenhouse gas emissions involved the launch of the Group **"Car Policy"**. This sets out the general principles for the assignment, use and management of the cars of the Group's vehicle fleet. The definition of specific parameters for the selection of company cars assigned to executives in an important part of environmental protection, with standards and limits for power, consumption and carbon dioxide emissions.

The Group implements a series of initiatives and activities to protect the environmental heritage and reduce its own impact.

Environmental initiatives	
Informed use of paper	
Reduction of paper use thanks to electronic signature	BCC Sistemi Informatici initiated the Electronic Signature Service, which consists in acquiring the customer's signature directly on a special tablet that allows the electronic registration of biometric data and the generation of documents in digital format, replacing paper documentation.
Energy efficiency and reduction of CO_2 emissions	
Restyling and energy efficiency upgrade of Lucrezia Romana headquarters complex	BCC Solutions managed the project for the expansion, restyling and energy efficiency upgrading of the Via Lucrezia Romana headquarters in Rome. With regard to the restyling and energy efficiency modifications, the old facades of the building, dating back to the 1990s, were replaced with new material with a low degree of heat transfer. Thermal performance was evaluated in accordance with the provisions of Decree 311/2006. The new façade cladding covers an area of 16,800 square meters and has made it possible to achieve the goal of reducing the heat dispersion of the façade by 67%: • average transmittance before works 2.32 W/mqK • average transmittance after works 0.75 W/mqK To enable the generation of electricity from an renewable internal source, a photovoltaic system with a capacity of 74.25 kW has been set up on Building B of the headquarters complex. It will include twenty-two 250 W modules over an area of 1,100 square meters. It is

	estimated that annual electricity generation will amount to about 107,066 kWh, enough to meet 10% of the annual consumption of the Building B offices. The photovoltaic system (which will enter service during 2019) will enable annual savings of 20 tons of oil-equivalent, thus reducing CO_2 emissions by 47 tons each year. The Milan office in Via Carlo Esterle actively uses energy generated by the photovoltaic system already in operation. In order to make the lighting system more efficient in the offices occupied by the IBG companies, every time there are renovations or requests for changes to the existing layout, traditional lamps are replaced with those of the latest generation, such as LEDs. Furthermore, a number of modifications have been made to the air conditioning and heating system, as well as to the air renewal system, by replacing existing plant with more energy-efficient systems, ensuring better performance and higher yields, as well as the reduction of emissions in the atmosphere due to gas combustion. For example, we have acquired machines that, by recovering heat, reduce the energy requirements of the rooms served, in addition to decreasing operating costs, especially in mid-seasons. Another important measure is the installation of a monitoring system for electricity consumption (being finalized), both for the Rome office (via Lucrezia Romana) and for the Milan office (via Carlo Esterle), which will be the main tool for ensuring an energy efficiency approach. In fact, it enables us to know and quantify energy flows and, as a result, our spending.
BIT	The Group is a founding shareholder of BIT, which operates with the Banks of the Group and other leading banks. BIT SpA is a technical advisor for the renewables, energy efficiency, environmental and agri-food sectors. It aims to provide banks and their customers with energy audits, technical and economic financial analysis, in relation to investment and energy-saving projects in agriculture, for agri-food supply chains, agro-energy and efficiency initiatives, the rational use of energy and renewable energy sources, making available its specialized expertise in the fields of agriculture, food production and the environment. Furthermore, BIT Energia Srl (a company incorporated and wholly owned by BIT) is an Energy Services Company (ESCo.), established in 2007 and ISO certified (UNI CEI 11352). It offers energy services for all types of activities and has gained significant experience in the energy markets, also with the establishment of the BCC Energia Consortium.
BCC Energia Consortium	The Iccrea Banking Group procures electricity and natural gas through the BCC Energia Consortium, which uses a portfolio management approach to operate on energy markets through structured contracts. The Consortium also manages value-added services in the energy sector. The BCC Energia Consortium has 123 members including mutual banks and Group companies. Every year, it manages an energy supply portfolio of over 115 GWh of electricity and over 3.5 million cubic meters of gas. This integrated management enabled cumulative savings of over 21.1 million over nine years (compared with the Salvaguardia service). The exclusive purchase of green energy, from a certified renewable source with Guarantee of Origin (GO) allowed economic savings, besides been a concrete measure in favor of the environment. Bringing together the mutual banks and the Group companies in a single large purchasing force on the free market makes it possible to have an important bargaining power, but above all to be protagonists on the markets, with evolved contractual forms that modify the approach towards an active management of the procurement portfolio. In addition to this fundamental activity, the Consortium makes it possible to capture the potential for energy efficiency, with a specialized contribution aimed at harness technological solutions, regulatory opportunities, incentives and, in general, an approach to energy management that reduces the impact on the environment and

	energy expenditure.
“M’illumino di Meno” initiative	The Iccrea Banking Group participated in the "M'illumino di Meno" initiative, whose theme in 2018 was: “The beauty of walking”. The symbolic objective was to cover - by putting together 555 million steps - the distance separating the Earth from the Moon. The event, whose slogan was "Those who walk leave a footprint", asked Group companies to adopt virtuous behavior, in terms of energy saving, and to organize ad hoc initiatives aimed at sharing and transmitting a significant "cooperative" message.
Green economy initiative by Iccrea Banking Group, BIT and BCC Energia	In November 2018, the IBG, BIT and BCC Energia took part – within the broader Ecomondo event - in the seventh edition of the States General of the Green Economy, with a workshop on "Environmental and energy sustainability. Business Opportunities for Mutual Banks,” at the Rimini Fair. The event was an opportunity to illustrate the sustainability paths of the IBG, focused on three pillars: new European legislation, sustainable banking and non-financial reporting.
AltroConsumo initiatives	In 2018, the Iccrea Banking Group, with BCC Credito Consumo, participated in the inaugural day of the Altroconsumo Festival "FestivalFuturo-Ri-Generations, the age of circular economy". The event presented new declinations of a development model that is revolutionizing industrial processes and people's everyday experience. Discussions focused on the building of new solutions and an ecosystem that involves consumer life in every sector, from energy to information, from transport to catering, from telecommunications to mass distribution and waste management. This is consistent with the desire to build a circular economy, fostering waste reduction, sustainability, recycling and recovery. In addition, BCC Credito Consumo has long been a partner of "Casarinnovabile", an initiative of Altroconsumo within the European project "Clear 2.0", for the enhancement of renewable energy sources. The purpose of the initiative is to support the environment through projects dedicated to energy saving and energy upgrading of buildings, reducing costs while respecting the environment.
Sustainable mobility	The Iccrea Banking Group benefits from a dedicated service of shuttles that allows its employees to go to work using public transport and, therefore, promoting sustainable mobility. In the reporting year, more than 103,000 employees were transported in over 16,000 trips to the Via Lucrezia Romana headquarters in Rome, with an average of 230 transported employees per day. The data for the other offices are: 3,300 employees and 1,640 trips for the office in via Carucci (Rome) and 2,640 employees transported and 440 trips for the office in Pioltello (Milan). A charging station (Pole Stations) - located in the outdoor area - and three others (Wall Stations) - located in the garages of buildings A, B and C - were installed at the Lucrezia Romana headquarters in order to encourage electric mobility with its advantages: zero production of local emissions, reduction of harmful emissions in the urban environment and related health risks, minimum noise emissions (electric cars are extremely quiet). In particular, the external charging station serves employees provided with a special card (at the moment only surveillance personnel), while the three Wall Stations are for the exclusive use of company electric and hybrid cars. A policy is being defined that will allow the Group employees to join the electric charging service with the possibility of using the Pole Stations located within the Lucrezia Romana headquarters.
Investment in renewables	The Iccrea Banking Group supports the development of renewable energies, also through Iccrea BancaImpresa investment activities. These included participation in a €20 million loan pool dedicated to the support of renewable energy and bio-methane in Veneto (whose beneficiary was the Vallette-Finam Group) in 2016, and a €15 million investment by Iccrea BancaImpresa and Banca di Verona in the Alps Energy renewable energy fund, managed by Serenissima Sgr, in 2018. The aim of the project was the production of electricity from renewable sources, with a total capacity of 6.5 MW. These plants will enable the generation of 27 million kWh of renewable energy,

reducing CO_2 emissions by 12,000 tons per year.

In November 2017 the Board of Directors of Iccrea BancaImpresa approved **General Rules for the Environmental Risk Mitigation Process**. This standard, issued in June 2018, is mainly intended to identify control functions to mitigate the risk of potential environmental offenses that the Bank might commit in the provision of banking services to existing or potential customers. The foregoing essentially applies to the real estate leasing sector, giving the bank's role as owner and lessor of assets under finance leases. The model adopted – which holds for all forms of pollution, but with a particular focus on certain types (for example the presence of asbestos) – envisages prevention, analysis and control mechanisms throughout the entire lending process, from the valuation of the asset when credit is granted through to recovery of the asset. The model provides for both the involvement of the network of existing experts and, where necessary, of organizations specialized in the analysis and reclamation of potentially polluted sites.

Use of materials

Within the Group the main materials used are paper and toner for office printers and those used by customers. Iccrea is committed to reducing the consumption of these materials thanks to initiatives (such as the implementation of electronic signature) with consequent economic and environmental benefits. During the year, 51.6 tons of paper and 941 kg of toner for printers were used within the Group.

Energy consumption and emissions

The Iccrea Banking Group monitors its direct emissions created by the direct consumption of energy produced by the use of natural gas for heating (Scope 1) and indirect emissions deriving from the consumption of electricity purchased from third parties (Scope 2).

During the year the Group consumed 72,956 GJ (a 14% decrease from 84,504 GJ in 2017). The Group's energy consumption is mainly linked to the use of heating and air conditioning systems, office lighting systems and the use of the company vehicle fleet.

The offices and most of the Group's agencies have an electrically powered heating/cooling system. The remaining gas-powered agencies had direct energy consumption for heating of 11,370 GJ (down by 22% from 14,583 GJ in 2017). The Group consumed 11,889 GJ of energy during the year for the use of the vehicle fleet (diesel powered), down by 3.3% from 12,298 GJ in 2017. In addition, the Group purchased and consumed 49,568 GJ of electricity (down by 12% on 2017, when the figure was 56,182 GJ), coming entirely from renewable sources with a certification of origin and 129 GJ of thermal energy from district heating (down 91% from 1,441 GJ in 2017).

DIRECT ENERGY CONSUMPTION BY SOURCE

	Unit	*2018***	*2017*	*2016****
Heating	GJ	**11,370**	**14,583**	**8,509**
Natural gas		9,928	13,172	8,509
Diesel		1,442	1,411	-
Vehicle fleet		**11,889**	**12,298**	**-**
Diesel*		11,889	12,298	-

*In calculating energy consumption, we consider 70% of diesel consumption by cars used for personal and business purposes. The 70% figure was determined by applying the provisions of Article 51, paragraph 4(a) of the Uniform Income Tax Code to the calculation of emissions.
**Consumption data for 2018 do not include the electricity produced by the photovoltaic system installed at the Via Esterle headquarters in Milan. This is because only estimated figures are currently available for the plant, in service since 2017. Measures to calculate energy produced have been implemented.
*** *Data for vehicle fleet consumption in 2016 are not available.*

INDIRECT ENERGY CONSUMPTION BY SOURCE

	Unit	*2018*	*2017*	*2016*
Electricity	GJ	**49,568**	**56,182**	**34,099**
From non-renewables		-	-	-
From renewables		49,568	56,182	34,099
District heating		**129**	**1,441**	**1,206**
From non-renewables		129	1,441	1,206
From renewables		-	-	-

Against this energy consumption, the Iccrea Banking Group registered greenhouse gas emissions equivalent to approximately 1,572.22 metric tons of CO_2 equivalent in the year (down by about 9.5% from 1,738.66 $t.CO_{2eq}$ in 2017).

GREENHOUSE GAS EMISSIONS

	Unit	2018	2017	2016
Total emissions*	t. CO_{2eq}	**1,572.22**	**1,738,66**	**557.52**
Scope 1		***1,565***	***1,658***	***490***
From heating		683	852	490
From use of vehicle fleet		882	807	-
Scope 2*		***7.22***	***80.66***	***67.52***
Market Based		7.22	80.66	67.52

* Emissions are given in metric tons of CO_2 equivalent and include emissions of CO2, CH4 and N2O, as provided for in the guidelines on the application in banks of GDI environmental indicators issued by AbiLAb.

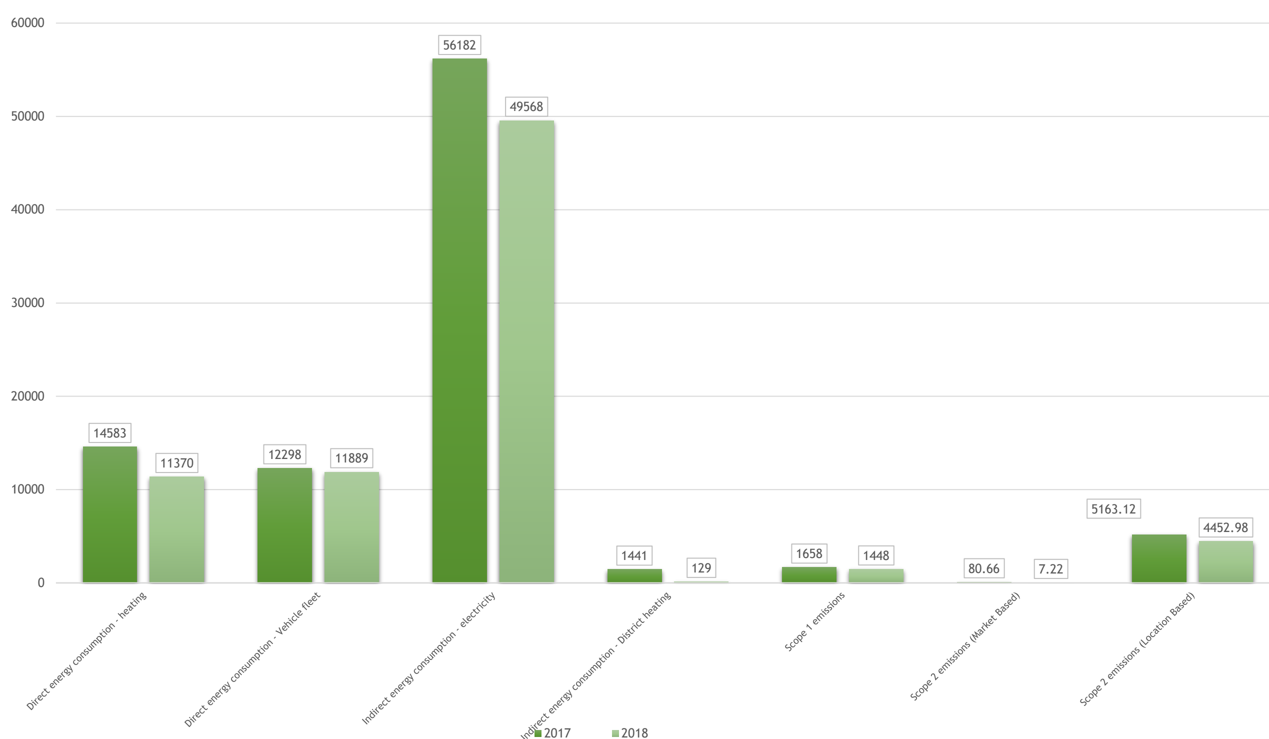
**To calculate Market Based emissions: 1) emissions from electricity purchased from non-renewable sources were calculated based on the Residual Mix for Italy issued by the Italian Banking Association (ABI) for 2016, equal to 471 gCO2e/kWh; 2) the share of electricity purchased from renewable sources is entirely covered by Certificates of Origin, therefore the emission factor is considered equal to 0; 3) emissions relating to district heating are estimated on the basis of the average emission factors defined by ISPRA applied to the fuel used for the production of thermal energy by the supplier.

Furthermore, following the December 2018 update of the Guidelines on the application of the 2016 GRI Standards to Banks, by ABI, the reporting of greenhouse gas emissions (Scope 2) is based on a more refined methodology than the previously-used "Market Based" approach. This method, called "Location Based", considers the contribution of the average emission factors of the distribution network used by the organization for its own electricity consumption. The Guidelines provide for the use of a formula in which the main variable refers to the total kWh of electricity purchased by the Group (both renewable and non-renewable).

GREENHOUSE GAS EMISSIONS (Location Based method)				
	Unit	*2018*	*2017*	*2016*
Scope 2*	$t.CO_{2eq}$			
Location Based		**4,452.98**	**5,163.12**	**3,163.42**

* The calculation of Location Based emissions was based on the formula proposed by the ABI guidelines on the application of the GRI standards to banks (version 12 November 2018): ((Y * 321 + 28 * Y * 0.0181 + 265 * Y * 0.004) /1,000,000), where Y refers to the total kWh of electricity purchased by the Group (both renewable and non-renewable).

Total energy consumption (in GJ) in 2018 decreased by about 14% over 2017, while greenhouse gas emissions (t.CO2 eq.) were down by about 16.3%



Finally, the different trend in consumption and emissions for the 2016-2018 three-year period can be explained not only with the change in the scope of data collection (due for example to the sale of several Banca Sviluppo branches),[5] but also with the many efficiency measures described above. In particular, the transition from gas to electricity for the Lucrezia Romana B building had a significant impact. The transition will be implemented in the C building in the coming years. Consumption and emissions in the three-year period were also impacted by weather-related factors.

[5] Thirteen sales transactions were carried out as of January 2019; currently, 52 branches are still present in the territory.

The LEED® certification process

As part of environmental management policies, the adoption of sustainable practices in building design and management produces environmental, economic and social benefits (at local and global level), with obvious positive effects on all building users, including owners, occupants and the general population.

The Group has chosen to start the process of international and voluntary environmental sustainability certification denominated "LEED O + M v4.1 Beta version" (where LEED stands for Leadership in Energy and Environmental Design), focused on the management and maintenance of existing buildings. In particular, it implies the measurement of the objective performance of the building, in terms of consumption of energy and water resources, green procurement, environmental impact of transport and quality of the internal environment (both perceived and measured) compared with buildings of similar size, intended use and usage levels. The building is given a LEED® certification rating ("Certified", "Silver", "Gold" and "Platinum"). The objective is to monitor the headquarters of Lucrezia Romana over the course of 2019 to obtain certification in the early months of 2020.

The independent certification body is Green Business Certification Inc. ("GBCI"), issuing the certification based on a 12-month monitoring of the building's activity. The initial certification is valid for one year after which it is necessary to continue to track and provide data on the performance of the building, following the same procedure as the first year, for the following 5 years.

The LEED® protocol requires the adoption of good practices for:

- the adoption of systems for an efficient use of energy as well as monitoring and reducing consumption;
- the responsible use and management of water resources, monitoring and reducing consumption;
- management, collection and disposal of waste, produced in accordance with modern recycling practices, using production processes that will gradually reduce waste;
- encouraging the use of shared transport as well as sustainable mobility and teleworking;
- favoring the purchase of energy produced from renewable sources;
- favoring the purchase of low environmental impact products based on a life cycle analysis;
- monitoring environmental quality and internal comfort.

LEED® certification also requires a survey on at least an annual basis of how employees travel from home to the workplace in order to encourage alternative and sustainable mobility policies, as well as a survey on the quality of the internal environment and the level of comfort perceived by the users of the building. The certification also includes the uploading of consumption data on a dedicated online platform (www.arkscoru.com), which assigns a performance rating for each credit depending on the different impact categories.

The main reasons that prompted the Group to undertake the LEED® certification process are:

- the value attributed to the rigorous verification by the GBCI third-party certification body, thanks to which the LEED® certification is synonymous with transparent processes and operations with specific and high quality standards. It is also a guarantee of the correct functioning of the entire building system and the correct implementation of the sustainability measures undertaken;
- from a strategic-management point of view, the reduction of costs associated with energy consumption.

The certification process is an integrated path that requires the involvement of all the parties involved in the use, management and maintenance of a building, with the establishment and management of a dedicated LEED team.

Participation in the **LEED O+M v4.1 Beta version certification process** for the Lucrezia Romana premises:

- is a first test of a system;
- enables the Group to verify, confirm and improve its building management policies, recognizing the advantages of the LEED® quality certification process for the Group and encouraging efficiency choices in the plant and management environment, in order to improve the final score.

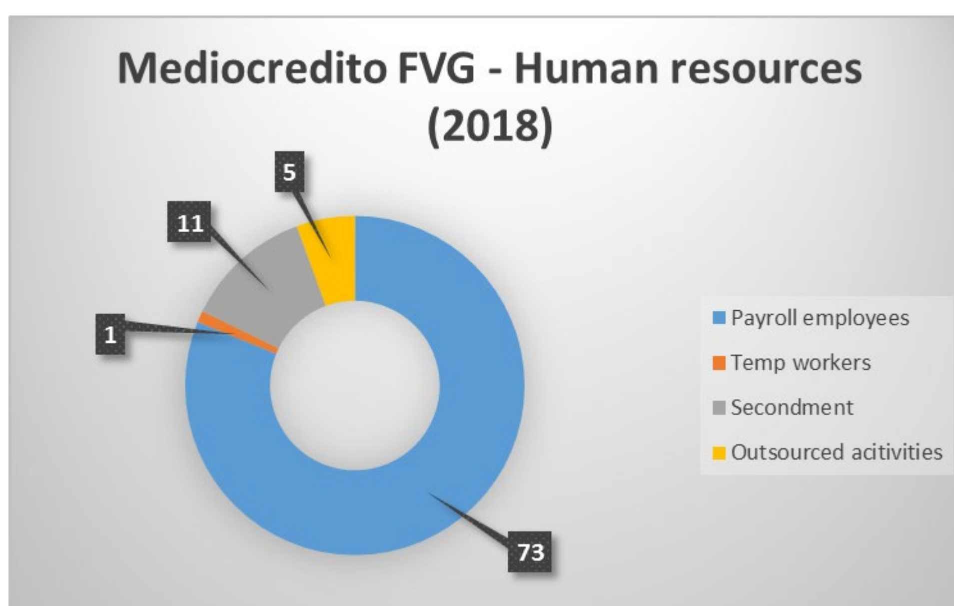
11 APPENDIX

Banca Mediocredito del Friuli Venezia Giulia: human resources

In 2018, Banca Mediocredito del Friuli Venezia Giulia (hereinafter Mediocredito FVG) had a workforce of 75, of whom 46 men and 29 women, all hired on a permanent, full time contracts. One of the employees is seconded to BCC Factoring.

2018	*Men*	*Women*	*Total*
EMPLOYEES BY GENDER AND AGE GROUP			
Under 30	0	1	**1**
Between 30 and 50	24	15	**39**
Over 50	22	13	**35**
EMPLOYEES BY EMPLOYMENTAND GENDER			
Executives	1	0	**1**
Managers	19	12	**31**
Office staff	26	17	**43**
Total	**46**	**29**	**75**

Mediocredito FVG also benefits from the contribution of non-payroll staff: in particular, one person is hired on a temp contract, 11 are on secondment while 5 come from companies to which non-core activities have been outsourced.



With regard to remuneration, the ratio between female and male employees' base salary and total remuneration in 2018 by professional level is approximately 80%. The details are shown in the following table:

2018	Ratio of female to male base salary	Ratio of female to male total remuneration
Executives	**0%**	**0%**
Managers	**79%**	**82%**
Office staff	**87%**	**85%**

The benefits provided to full-time employees are exclusively of a financial nature. In particular, Mediocredito FVG offers life insurance, health care, disability coverage, maternity and paternity leaves, pensions and subsidized loans. In the reporting year, no incidents of discrimination and violation of human rights were reported.

In the occupational health and safety (OSH) field, only one accident incurred while travelling to or from work was registered in 2018, which led to an absence from work of two days. Considering absences due to illness, permits and work-related stress, a total of 320 days of absences were recorded, with an absenteeism rate of

4%. Mediocredito FVG has not signed collective agreements or specific agreements with the trade unions on OSH issues. For the communication of significant organizational changes, a minimum notice period of 2 weeks is required.

12 METHODOLOGICAL NOTES

Standards applied

The Consolidated Non-Financial Statement of the Iccrea Banking Group (hereinafter also the "Statement"), prepared in accordance with Article 4 of Legislative Decree 2554/2016 (hereinafter also the "Decree"), contains information concerning environmental, social, personnel-related, human rights compliance and anti-corruption issues helpful in providing stakeholders with an accurate, comprehensive and transparent vision of the strategies, activities undertaken, the Group's performance and results from it has achieved in ensuring its financial growth and business development, taking account of the expectations of the stakeholders involved and seeking continuous improvement in the environmental and social impacts generated by its activities.

This Statement, which is published on an annual basis, has been drawn up pursuant to Legislative Decree 231/2004 and the reporting standards used are the "GRI Sustainability Reporting Standards – Core Option" issued in 2016 by the Global Reporting Initiative (GRI). These guidelines are currently the most widely adopted and internationally recognized standard for non-financial reporting. Furthermore, where appropriate, the indications of the GRI G4 Financial Services Sector Disclosure have been applied. In order to facilitate readers in tracing information within the document, the GRI Content Index is shown on page 79.

The information included in non-financial reporting reflects the principle of materiality or relevance, a characteristic that is provided for in the relevant legislation and characterizes the GRI Standards: the topics covered in the Statement are those that, following an analysis and evaluation of materiality (described on pages 17 and 18 of this document) were considered relevant, as they can reflect the social and environmental impacts of the Bank's activities or influence the decisions of its stakeholders.

The 2018 Consolidated Non-Financial Statement of the Iccrea Banking Group has undergone a limited review ("limited assurance engagement" in accordance with ISAE 3000 Revised) by the audit firm EY SpA. The report describing the procedures carried out and the related conclusions is available on page 85.

Scope of the Statement

The qualitative and quantitative information contained in the Statement refer to the performance of the Group for the year ended December 31, 2018.

If useful for the purposes of the comparison or contextualization of the information, data for 2017 and 2016 have been included and duly indicated, with the exclusion of certain exceptions, also duly indicated.

The data and information refer to all fully consolidated Group companies included in the consolidated financial statements at December 31, 2018, with the exception of BCC Beni Immobili S.r.l, FDR Gestione Crediti S.p.A. and Ventis S.r.l., as these companies are not considered material in understanding the Group's business, its performance, its results and the impact it generates, as defined in Article 3 of Legislative Decree 254/2016. The businesses of these entities differ from the core business of the Group and their small size means that their non-inclusion does not prejudice the comprehensiveness of the representation provided in this document.

Banca Mediocredito of Friuli Venezia Giulia only joined the Group in July 2018. Yet, with a view to enhancing transparency and completeness of information, Group deemed it appropriate to provide disclosure on the main activities, products and the composition of human resources. In particular, the data relating to human resources are reported in the "Appendix", since the Bank's integration into the Group's management systems took place in January 2019. However, quantitative information concerning the environmental sphere, such as, for example, energy consumption and emissions, are not available for the period under review.

In addition, we should emphasize that the energy data cover the **reporting scope of BCC Solutions, the 14 Group offices managed by BCC Solutions, Banca Sviluppo and BCC Sistemi Informatici,** whose utilities for 2018 were managed by BCC Solutions. This area corresponds to over 90% of the Group total. The management of the supply and consumption of energy for all these companies is performed by a single external provider. There may be an additional narrowing of scope connected with certain individual corporate premises, of

little importance, not managed by the energy provider. Finally, the Group's consumption of water is limited to ordinary civil uses and to fire-fighting systems and should therefore be considered as not material for the purposes of this Statement.

Materiality analysis

In order to select the individual topics for which non-financial disclosures would be provided pursuant to Legislative Decree 254/2016, a materiality analysis was conducted in accordance with the provisions of the "GRI Sustainability Reporting Standards". The main phases of the process adopted for this analysis are briefly described below:

- internal identification of possible non-financial topics relevant to the financial sector, through peer analysis, reports published by ESG analysts and rating agencies (Environmental, Social, Governance), sectoral studies and the media;
- evaluation of the topics identified by the management of the Group and the employees of the departments directly involved in the drafting of the NFS in 2017;
- involvement of the representatives of different mutual banks, who assessed the relevance of the material topics in their dual capacity as customers and shareholders of the Iccrea Banking Group;
- preparation of the materiality matrix for the year 2018 based on the assessments provided by the Group's stakeholders;
- approval of the materiality matrix by the Board of Directors on March 1, 2019.

Contacts

For more information and details on the contents of the Statement, please contact the Public Affairs & Sustainability unit, through the NFS function, at DNF@iccrea.bcc.it.

Reconciliation of material topics and GRI standards

Material topics identified by the bank	GRI reference standard	Scope of impacts		
		Internal impact	External impact	Limitations
Ethics and integrity in corporate conduct **Development of products and services with environmental and social purposes**	Ethics and integrity Anti-corruption	•		
Development of future markets	Product portfolio*	•		
Protection of privacy and personal information	**	•		
Responsible lending	Customer privacy	•		
Customer satisfaction and quality of service	Product portfolio*	•		
Responsible supply chain management	**	•		
Engagement and community development	Procurement practices	•		
Transparency of information on products and services **Professional training and development**	Indirect economic impacts Local communities	•		
Employee wellbeing	Marketing and labeling	•		
Workplace health and safety	Training and education	•		
Management, attraction, development and retention of talent	Employment Diversity and equal opportunity	•		
Ethics and integrity in corporate conduct	Occupational health and safety	•		
Development of products and services with environmental and social purposes	Training and education	•		
Development of future markets	Energy Emissions	•		
Protection of human rights	Non - discrimination	•		
Systematic risk assessment	Strategy	•		

*The GRI aspects regard the “GRI-G4 Financial Services Supplement”
**With regard to this issue (which is not directly connected with an aspect envisaged in the GRI Standards), the Group reports the management approach adopted and the associated indicators in the document.

13 GRI INDICATORS

The table below shows the summary of the GRI indicators reported, with the relative page references and any notes or omissions. Furthermore, for the material themes not referable to a GRI indicator, the reference of the pages in which they are reported is provided.

GRI CONTENT INDEX			
GRI standard	Standard description	Page number and notes	Omissions
GRI 102: GENERAL DISCLOSURES			
ORGANIZATION PROFILE			
GRI 102-1	Name of the organization	5	
GRI 102-2	Activities, brands, products, and services	5 - 7	
GRI 102-3	Location of headquarters	7	
GRI 102-4	Location of operations	7	
GRI 102-5	Ownership and legal form	16	
GRI 102-6	Markets served	5 - 7	
GRI 102-7	Scale of the organization	6	
GRI 102-8	Information on employees and other workers	52 - 54, 75	
GRI 102-9	Supply chain	66	
GRI 102-10	Significant changes to the organization and its supply chain	12, 64, 65	
GRI 102-11	Precautionary principle or approach	18, 19	
GRI 102-12	External initiatives	9	
GRI 102-13	Membership of associations	13 - 15	
STRATEGY			
GRI 102-14	Statement from senior decision-maker	3, 4	
GRI 102-15	Key impacts, risks, and opportunities	20 - 23	
ETHICS AND INTEGRITY			
GRI 102-16	Values, principles, standards, and norms of behavior	9	
GOVERNANCE			
GRI 102-18	Governance structure, including committees of the highest governance body. Committees responsible for decision-making on economic, environmental, and social topics	16, 17	
GRI 102-20	Executive-level responsibility for economic, environmental, and social topics and description of how those aspects are reported directly to the highest governance body	16, 17	
GRI 102-24	Description of nomination and selection processes for the highest governance body and its committees	16, 17	
STAKEHOLDER ENGAGEMENT			
GRI 102-40	List of stakeholder groups	25, 26	
GRI 102-41	Percentage of total employees covered by collective bargaining agreements	100% of employees are covered by collective bargaining agreement	
GRI 102-42	The basis for identifying and selecting stakeholders with whom to engage	25	
GRI 102-43	The organization's approach to stakeholder engagement	25, 26	
GRI 102-44	Key topics and concerns that have been raised through stakeholder engagement and how the organization has responded	26 - 28	
REPORTING PRACTICE			
GRI 102-45	Entities included in the consolidated financial statements	76	
GRI 102-46	Defining report content and topic boundaries	17, 18, 76, 77	
GRI 102-47	List of material topics	18	
GRI 102-48	Restatements of information	Any changes to the information included in the previous documents are appropriately identified in the text by specific explanatory notes.	
GRI 102-49	Changes in reporting	76, 77	
GRI 102-50	Reporting period	76	
GRI 102-51	Date of most recent report	The 2017 Non-financial consolidated statement (pursuant to Legislative Decree 254/2016) was published on April 24, 2018	
GRI 102-52	Reporting cycle	76	

GRI 102-53	Contact point for questions regarding the report	77	
GRI 102-54	Claims of reporting in accordance with the GRI Standards	76	
GRI 102-55	GRI content index	79	
GRI 102-56	External assurance	85	
TOPIC-SPECIFIC DISCLOSURE			
GRI standard	Standard description	Page number	Omissions
GRI 200: ECONOMIC PERFORMANCE			
GRI 203: INDIRECT ECONOMIC IMPACTS			
GRI 103-1, 103-2, 103-3	Management Approach	18, 40 - 45	
GRI 203-1	Development and impact of significant infrastructure investments and services supported, mainly for public use	40 - 45	
GRI 204: PROCUREMENT PRACTICES			
GRI 103-1, 103-2, 103-3	Management Approach	18, 66	
GRI 204-1	Proportion of spending on local suppliers	66	
GRI 205: ANTI-CORRUPTION			
GRI 103-1, 103-2, 103-3	Management Approach	18, 29 – 31	
GRI 205-1	Operations assessed for risks related to corruption	30, 31	
GRI 205-2	Communication and training on anti-corruption policies and procedures	30, 31	
GRI 205-3	Confirmed incidents of corruption and actions taken	During the year, the Group did not report any episodes of corruption	
GRI 206: ANTI-COMPETITIVE BEHAVIOUR			
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices and outcomes of legal actions	An appeal is pending before the Lazio Regional Administrative Court against ruling no 26565 of the Competition Authority of April 28, 2017, issued following proceeding no. I794 and notified to Iccrea Banca (together with other banks and the Italian Banking Association) on May 16, 2017.	
GRI 300: ENVIRONMENTAL TOPICS			
GRI 302: ENERGY			
GRI 103-1, 103-2, 103-3	Management Approach	18, 67 - 74	
302-1	Energy consumption within the organization	71, 72	
GRI 305: EMISSIONS			
GRI 103-1, 103-2, 103-3	Management Approach	18, 67 - 74	
305-1	Direct (Scope 1) GHG emissions	71	
305-2	Energy indirect (Scope 2) GHG emissions	71	
GRI 400: SOCIAL TOPICS			
GRI 401: EMPLOYMENT			
GRI 103-1, 103-2, 103-3	Management Approach	18, 52, 53, 61 - 63	
GRI 401-1	New employee hires and employee turnover	52, 53	
GRI 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Group employees on fixed-term contracts receive the same benefits as those hired on open-ended contracts	
GRI 402: INDUSTRIAL RELATIONS			
GRI 103-1, 103-2, 103-3	Management Approach	18, 64, 65	
GRI 402-1	Minimum notice periods regarding operational changes	Articles 11 bis and 22 of the Federcasse collective bargaining agreement provide for a minimum of two weeks' notice	
GRI 403: OCCUPATIONAL HEALTH AND SAFETY			
GRI 103-1, 103-2, 103-3	Management Approach	18, 63, 64, 75	
GRI 403-1	Workers representation in formal joint	100% of employees are	

	management-worker health and safety committees	represented on formal joint management-worker health and safety committees	
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	63, 64, 75	The accident rate of the workforce outside the Group is not available for the year under review.
GRI 403-4	Health and safety topics covered in formal agreements with trade unions	63, 65	
GRI 404 - TRAINING AND EDUCATION			
GRI 103-1, 103-2, 103-3	Management Approach	18, 57 - 60	
GRI 404-1	Average hours of training per year per employee	58	
GRI 404-2	Programs for upgrading employee skills and transition assistance programs	The Group organizes technical-specialized, mandatory and behavioral training programs together with targeted personal and professional growth activities. To date, the Group has not developed specific transition assistance programs (retirement, termination of employment, retraining) for its employees.	
GRI 404-3	Percentage of employees receiving regular performance and career development reviews	60	
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY			
GRI 103-1, 103-2, 103-3	Management Approach	18, 52 - 57	
GRI 405-1	Diversity of governance bodies and employees	53, 54	In accordance with Article 10 of Legislative Decree 254/16 amending Legislative Decree 58/98, the Iccrea Banking Group is not required to report on the composition of its administrative, management and control bodies.
GRI 405-2	Ratio of basic salary and remuneration of women to men	56	
GRI 406: NON DISCRIMINATION			
GRI 103-1, 103-2, 103-3	Management Approach	18, 55, 56	
GRI 406-1	Incidents of discrimination and corrective actions taken	No incidents of discrimination occurred during the year.	
GRI 413: LOCAL COMMUNITIES			
GRI 103-1, 103-2, 103-3	Management Approach	18, 46 - 51	

GRI 413-1	Operations with local community engagement, impact assessments, and development programs	18, 46 - 51	The nature of the Group's governance (second-tier bank) ensures that initiatives in favor of local communities provide for indirect involvement of the Group. In light of this, it is not possible to report on the calculation of the percentage required by the indicator. With the establishment of the Mutual Banking Group, the data will be reported in the 2019 NFS.
GRI 417: MARKETING AND LABELLING			
GRI 103-1, 103-2, 103-3	Management Approach	18, 36, 37	
GRI 417-1	Types of information is required by the organization's procedures for product and service information and labeling and Percentage of significant product or service categories covered by and assessed for compliance with such procedures	36, 37	
GRI 417-2	Incidents of non-compliance concerning product and service information and labeling	No incidents of non-compliance occurred during the year.	
GRI 417-3	Incidents of non-compliance concerning marketing communications	No incidents of non-compliance occurred during the year.	
GRI 418: CUSTOMER PRIVACY			
GRI 103-1, 103-2, 103-3	Management Approach	18, 39, 40	
GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	40	
GRI 419: SOCIO-ECONOMIC COMPLIANCE			
GRI 419-1	Non-compliance with laws and regulations in the social and economic area	No incidents of non-compliance occurred during the year.	
GRI G4 Supplement for financial services sector			
PRODUCT PORTFOLIO			
EX FS2	Procedures for assessing and verifying social and environmental risks in business lines	45	
FS-6	Portfolio for business lines by specific region, customer size and sector	32 - 35	
FS-7	Products and services designed to deliver a specific social benefit	40 - 45	
FS-8	Products and services designed to deliver a specific environmental benefit	40 - 45	
LOCAL COMMUNITIES			
FS-13	Access points in low-populated or economically disadvantaged areas by type	7	
OTHER MATERIAL TOPICS			
CUSTOMER SATISFACTION AND SERVICE QUALITY			
GRI 103-1, 103-2, 103-3	Management Approach	18, 36, 37, 40	
DEVELOPMENT OF FUTURE MARKETS			
GRI 103-1, 103-2, 103-3	Management Approach	18, 37, 38	

REPORT OF THE AUDIT FIRM

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Independent auditors' report on the consolidated disclosure of non-financial information in accordance with Article 3, par. 10, of Legislative Decree 254/2016 and with Article 5 of CONSOB Regulation adopted with Resolution n. 20267 of January 2018
(Translation from the original Italian text)

To the Board of Directors of
Iccrea Banca S.p.A.

We have been appointed to perform a limited assurance engagement pursuant to Article 3, paragraph 10, of Legislative Decree 30 December 2016, n. 254 (hereinafter "Decree") and article 5 of CONSOB Regulation adopted with Resolution 20267/2018, on the consolidated disclosure of non-financial information of Iccrea Banca S.p.A. (hereinafter the "Bank") and its subsidiaries (hereinafter the "Group" or "Iccrea Banking Group") for the year ended December 31, 2018 in accordance with article 4 of the Decree approved by the Board of Directors on March 28, 2019 (hereinafter "DNF").

Responsibilities of Directors and Board of Statutory Auditors for the DNF

The Directors are responsible for the preparation of the DNF in accordance with the requirements of articles 3 and 4 of the Decree and of the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by GRI – Global Reporting Initiative (the "GRI Standards") mentioned in paragraph "Methodological Notes" of the DNF, identified by them as a reporting standard.

The Directors are also responsible, within the terms provided by law, for that part of internal control that they consider necessary in order to allow the preparation of the DNF that is free from material misstatements caused by fraud or not intentional behaviors or events.

The Directors are also responsible for identifying the contents of the DNF within the matters mentioned in article 3, par. 1, of the Decree, considering the business and the characteristics of the Group and to the extent deemed necessary to ensure the understanding of the Group's business, its performance, its results and its impact.

The Directors are also responsible for defining the Group's management and organization business model, as well as with reference to the matters identified and reported in the DNF, for the policies applied by the Group and for identifying and managing the risks generated or incurred by the Group.

The Board of Statutory Auditors is responsible, within the terms provided by the law, for overseeing the compliance with the requirements of the Decree.

Auditors' independence and quality control

We are independent in accordance with the ethics and independence principles of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, based on fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior. Our audit firm applies the International Standard on Quality Control 1 (ISQC Italia 1) and, as a result, maintains a quality control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

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Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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Auditors' responsibility

It is our responsibility to express, on the basis of the procedures performed, a conclusion about the compliance of the DNF with the requirements of the Decree and of the GRI Standards. Our work has been performed in accordance with the principle of "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This principle requires the planning and execution of work in order to obtain a limited assurance that the DNF is free from material misstatements. Therefore, the extent of work performed in our examination was lower than that required for a full examination according to the ISAE 3000 Revised ("reasonable assurance engagement") and, hence, it does not provide assurance that we have become aware of all significant matters and events that would be identified during a reasonable assurance engagement.

The procedures performed on the DNF were based on our professional judgment and included inquiries, primarily with company's personnel responsible for the preparation of the information included in the DNF, documents analysis, recalculations and other procedures in order to obtain evidences considered appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant topics in relation to the activities and characteristics of the Group reported in the DNF, in order to assess the reasonableness of the selection process applied in accordance with the provisions of article 3 of the Decree and considering the reporting standard applied;

2. analysis and evaluation of the criteria for identifying the consolidation area, in order to evaluate its compliance with the provisions of the Decree;

3. understanding of the following aspects:

   - Group's management and organization business model, with reference to the management of the topics indicated in article 3 of the Decree;
   - policies adopted by the Company related to the matters indicated in art. 3 Decree, results achieved and related key performance indicators;
   - main risks, generated or suffered related to the matters indicated in the article 3 of the Decree.

   With regard to these aspects, we obtained the documentation supporting the information contained in the DNF and performed the procedures described in item 4. a) below.

4. understanding of the processes that lead to the generation, detection and management of significant qualitative and quantitative information included in the DNF.
   In particular, we have conducted interviews and discussions with the management of the Bank and with its personnel and we have performed limited documentary evidence procedures, in order to collect information about the processes and procedures that support the collection, aggregation, processing and transmission of non-financial data and information to the management responsible for the preparation of the DNF.

   Furthermore, at group level, for significant information, considering the Group activities and characteristics:

   - at Group level:
     a) with reference to the qualitative information included in the DNF, and in particular to the business model, policies implemented and main risks, we carried out inquiries and

acquired supporting documentation to verify its consistency with the available evidence;

b) with reference to quantitative information, we have performed both analytical procedures and limited assurance procedures to ascertain on a sample basis the correct aggregation of data.

- for some companies (Iccrea Banca S.p.A., Banca Sviluppo S.p.A., Iccrea BancaImpresa S.p.A. and BCC Sistemi Informatici S.p.A.), selected based on their activity and contribution to the consolidated performance indicators; we have obtained evidence about the appropriate application of the procedures and the calculation methods used to determine the indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that DNF of the Iccrea Banking Group for the year ended December 31, 2018 has not been prepared, in all material aspects, in accordance with the requirements of articles 3 and 4 of the Decree and the GRI Standards.

Other Information

The comparative information presented in the DNF for the year ended December 31, 2016 have not been examined.

Rome, April 12, 2019

EY S.p.A.
Signed by: Wassim Abou Said, Partner

This report has been translated into the English language solely for the convenience of international readers.