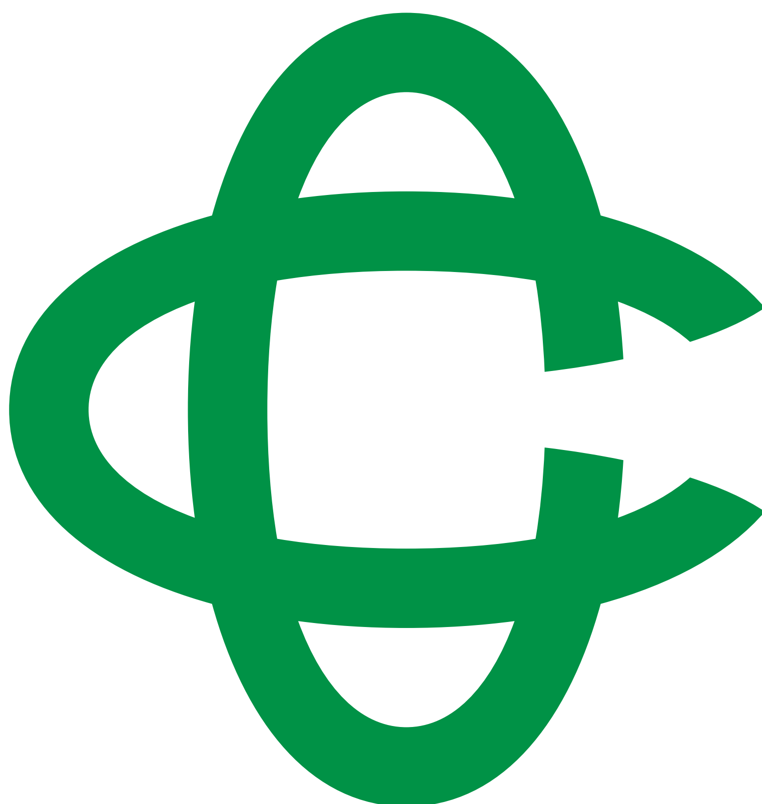
REPORTS AND CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS AT JUNE 30, 2022



GRUPPO BCC
ICCREA

Report and consolidated financial statements at June 30, 2022 of the Iccrea Cooperative Banking Group

Report and separate financial statements at June 30, 2022 of the Parent Company Iccrea Banca S.p.A.

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

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

CONSOLIDATED REPORT ON OPERATIONS
June 30, 2022

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CORPORATE BOARDS

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

BOARD OF DIRECTORS

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

* Independent directors

(1) Member of the Risks Committee

(2) Member of the Appointments Committee

(3) Member of the Remuneration Committee

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

(5) Member of the Environmental Social Governance Committee

EXECUTIVE COMMITTEE

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

BOARD OF AUDITORS

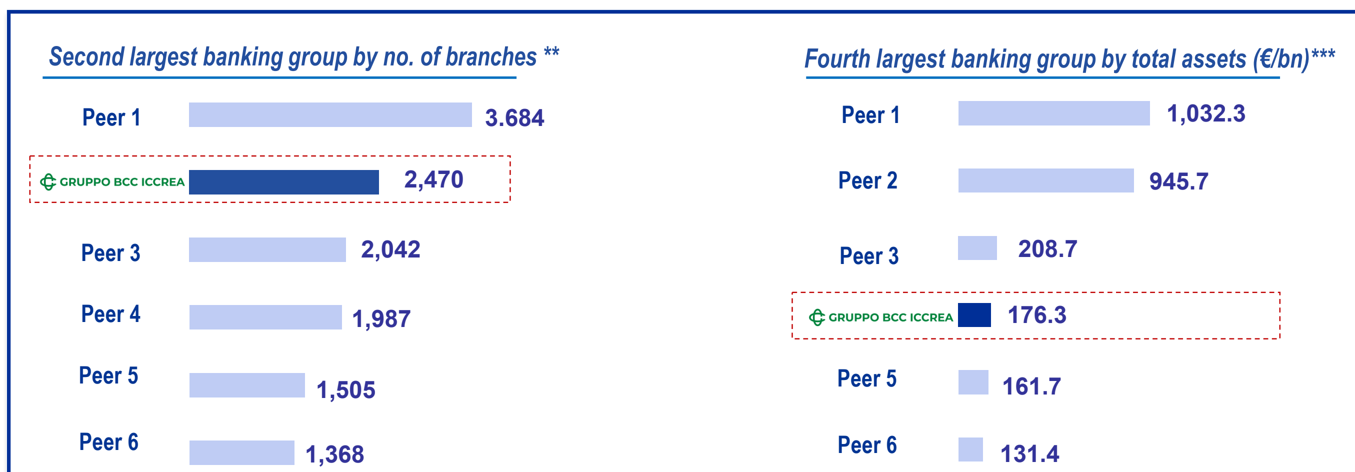
ZANARDI Barbara	*Chairman*
ANDRIOLO Riccardo	*Standing Auditor*
CAPUANO Claudia	*Standing Auditor*
ROCCHETTI Vittorio	*Alternate Auditor*
CIGNOLINI MICHELA	*Alternate Auditor*

SENIOR MANAGEMENT

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

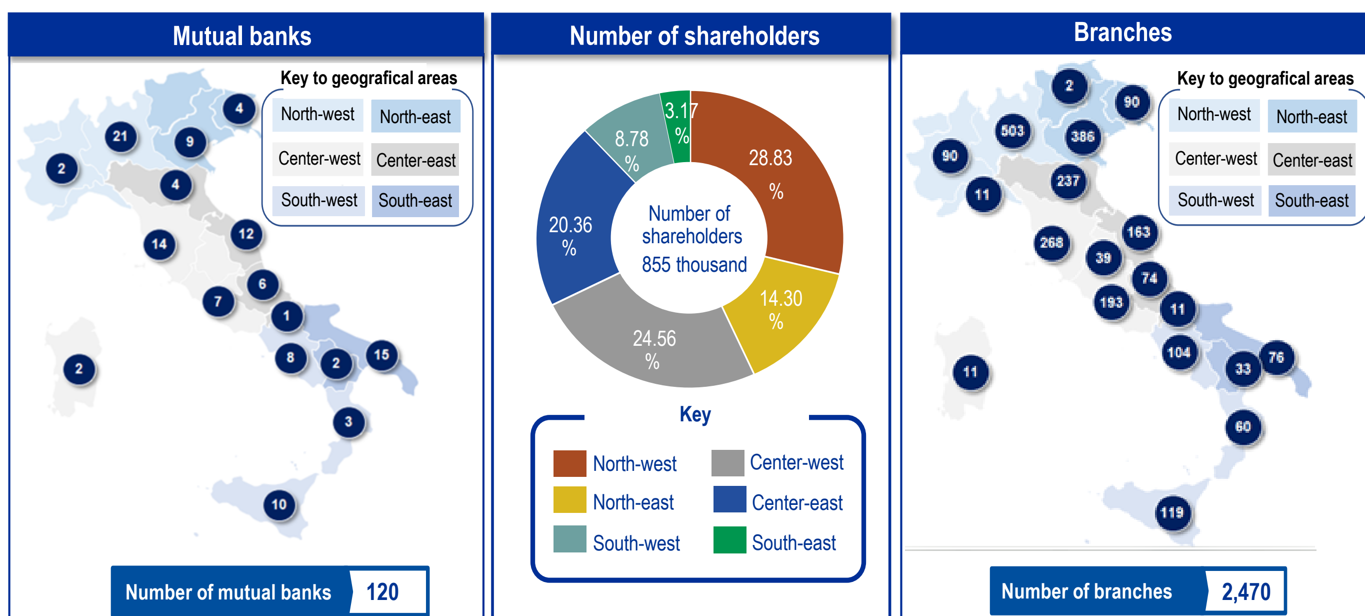
1. EXECUTIVE SUMMARY

KEY INDICATORS AND MARKET POSITIONING

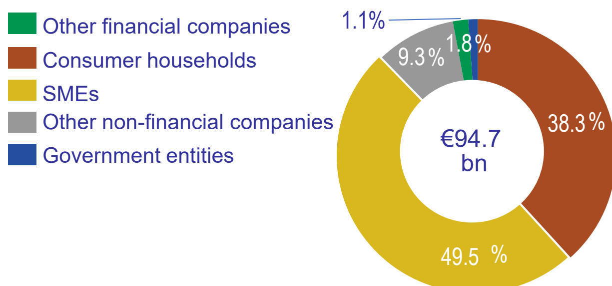


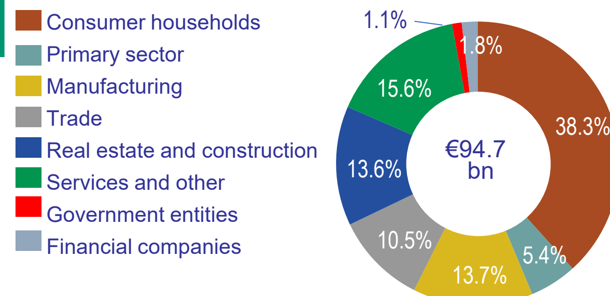
* Gross loans to customers
** Source half-year financial statements
*** Source half-year financial statements

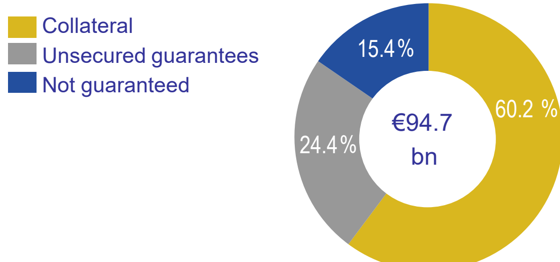
BRANCH NETWORK OF THE GROUP'S RETAIL BANKS

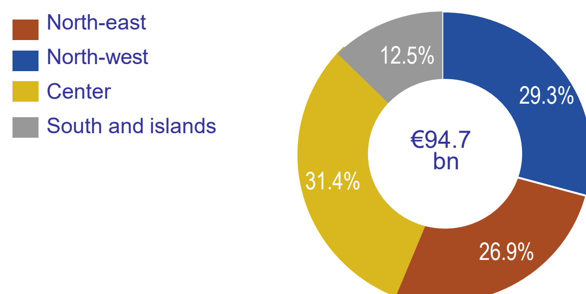


BREAKDOWN OF CUSTOMER BASE

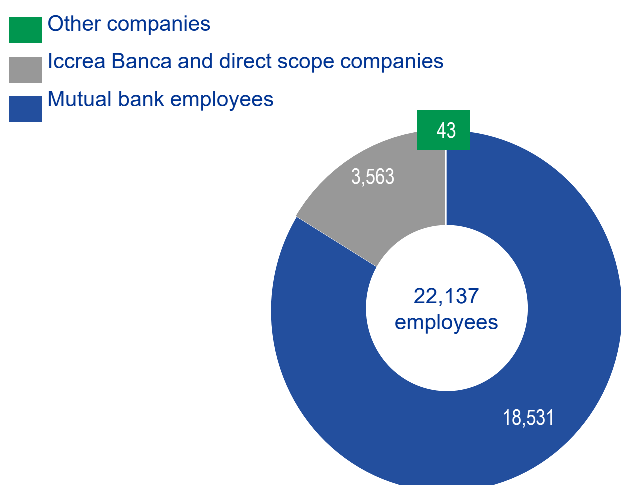


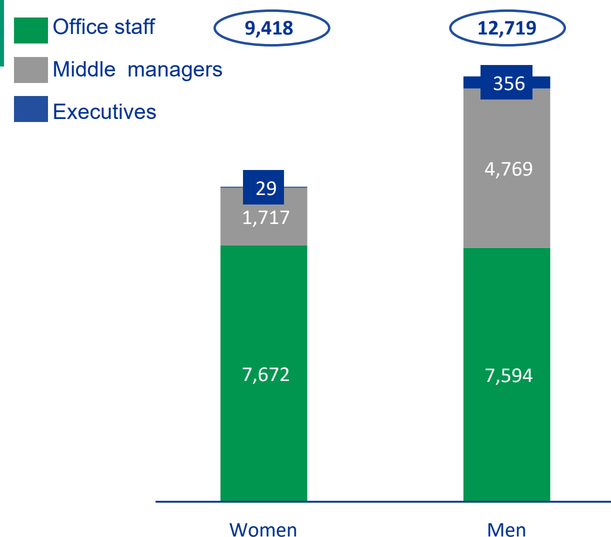






BREAKDOWN OF GROUP EMPLOYEES





MAIN INDICATORS AT JUNE 30, 2022, DECEMBER 31, 2021, AND JUNE 30, 2021

PERFORMANCE INDICATORS[1] (amounts in thousands of euros)	30/06/2022	31/12/2021	30/06/2021
STRUCTURAL RATIOS			
Net loans to customers measured at amortized cost /total assets	51.1%	49.6%	50.3%
Direct funding from customers/total liabilities	68.4%	68.2%	63.5%
Equity (including profit/loss) /total liabilities	6.2%	6.0%	6.1%
Loan to deposit ratio	70.9%	68.9%	71.5%
Net loans to ordinary customers measured at amortized cost /direct funding from ordinary customers[2]	73.8%	72.1%	74.4%
PROFITABILITY RATIOS			
ROE (Net profit)/ net equity including the profit for the period)	6.2%	4.3%	3.8%
ROTE [Net profit/net tangible equity (Equity including profit – intangible assets]	6.3%	4.4%	3.9%
ROA (Net profit/total assets)	0.4%	0.3%	0.2%
Cost/income ratio	60.8%	64.0%	64.8%
Personnel expenses/gross income	34.0%	37.0%	36.4%
Net interest income/gross income	66.1%	59.7%	58.3%
Net fee and commission income /gross income	28.2%	29.8%	28.0%
Net interest income/Number of employees at end-period	75.4	125.0	61.98
Net fee and commission income/Number of employees at end-period	32.1	62.5	29.7
Gross income/Number of employees at end-period	114.0	209.5	106.3
RISK RATIOS			
Gross impaired loans/gross loans measured at amortized cost[3]	5.7%	6.2%	8.1%
Gross impaired loans to customers/gross loans to customers measured at amortized cost	5.9%	6.9%	8.9%
Net impaired loans to customers/net loans to customers measured at amortized cost	2.2%	2.7%	4.0%
Net Stage 2 loans to customers measured at amortized cost/net performing loans to customers measured at amortized cost	10.3%	12.2%	11.1%
Net bad loans/net loans to customers measured at amortized cost	0.5%	0.7%	1.3%
Net UTP loans/net loans to customers measured at amortized cost	1.4%	1.7%	2.3%
Net writedowns/(writebacks) for credit risk/net loans to customers measured at amortized cost	0.2%	1.3%	0.4%
Writedowns of impaired loans/gross loans to customers measured at amortized cost	64.1%	62.7%	57.4%
Writedowns of bad loans/gross bad loans	81.0%	78.8%	71.9%
Writedowns of UTP loans/gross UTP loans	57.3%	53.9%	46.6%
Texas ratio	38.7%	44.3%	54.3%
CAPITAL RATIOS - *phased-in*			
Common Equity Tier 1 ratio	17.8%	17.7%	16.6%
Tier 1 ratio	17.9%	17.7%	16.5%
Total capital ratio	19.0%	18.9%	17.2%
Total own funds	12,058,058	12,005,657	11,339,935
of which: Tier 1 capital after filters and deductions	*11,337,451*	*11,279,330*	*10,902,695*
Risk-weighted assets (RWA)	63,476,153	63,670,442	65,851,133
CAPITAL RATIOS - *fully loaded*			
Common Equity Tier 1 ratio	17.0%	16.2%	15.4%
Tier 1 ratio	17.1%	16.3%	15.4%
Total capital ratio	18.2%	17.5%	16.1%
LEVARAGE RATIO			
Phased-in Tier 1/Total assets	6.2%	6.3%	6.1%
Fully loaded Tier 1/Total assets	5.9%	5.8%	5.7%
LIQUIDITY RATIOS			
Liquidity coverage ratio (LCR)	251.2%	290.5%	300%
Net stable funding ratio (NSFR)	139.8%	134.3%	131%
Encumbered asset ratio	23.6%	26.2%	25.9%

[1] For an explanation of how the performance indicators are calculated, please see Annex 2 – Alternative Performance Indicators. The figures at June 30, 2022 and December 31, 2021 do not consider the IFRS 5 reclassification of e-money operations held for sale.

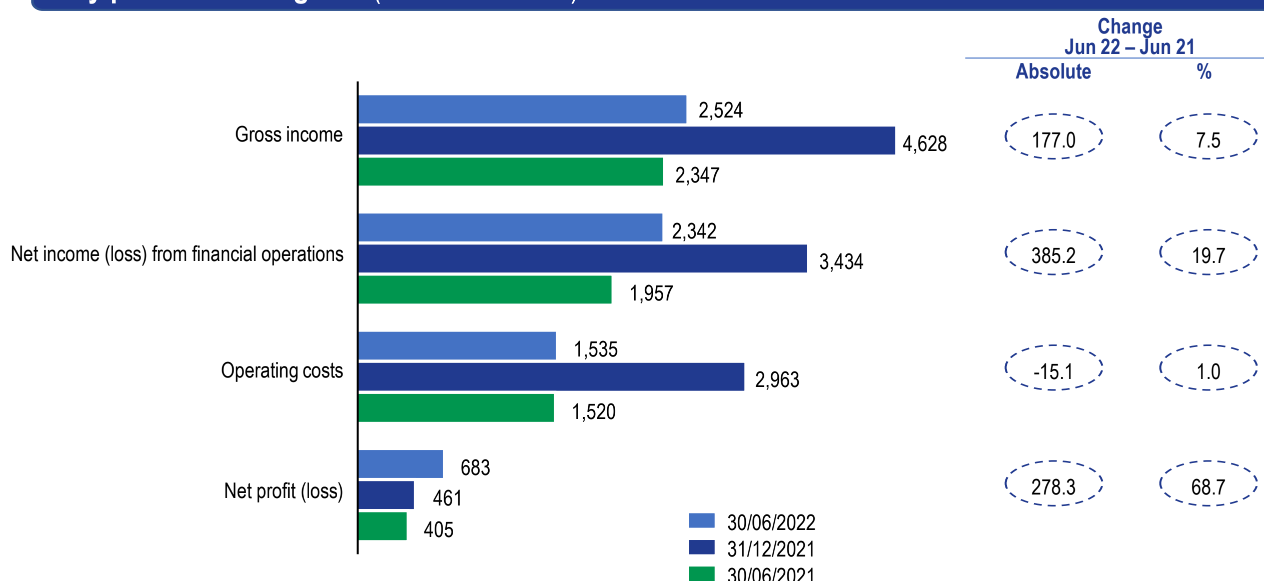
[2] Lending to and funding from customers calculated net of exposures vis-à-vis CC&G

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

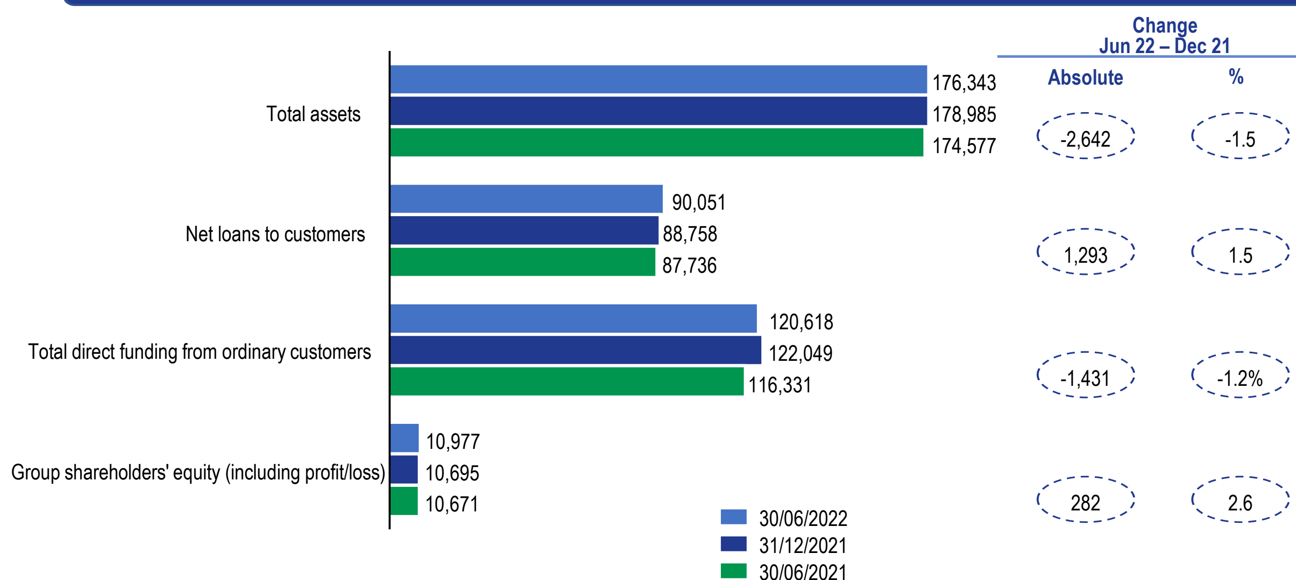
INCOME STATEMENT, BALANCE SHEET, OPERATIONAL AND STRUCTURAL DATA[4]	30/06/2022	31/12/2021	30/06/2021
Profit/(loss) for the period	683,303	460,571	404,985
Profit/(loss) attributable to the Group	676,061	456,765	400,303
Gross income	2,524,251	4,627,553	2,347,269
Operating expenses	1,535,279	2,962,783	1,520,172
Net loans to customers measured at amortized cost	90,051,498	88,758,420	87,736,045
of which: Net bad loans	*422,746*	*600,449*	*1,135,026*
of which: Net UTP loans	*1,235,564*	*1,472,292*	*2,020,611*
Net non-performing loans	1,993,272	2,405,090	3,529,349
Total direct funding from ordinary customers	120,618,131	122,049,221	116,330,725
Equity pertaining to the Group (including profit/loss)	10,977,344	10,694,904	10,670,750
Intangible assets	164,902	176,836	159,932
Total consolidated assets	176,343,084	178,985,382	174,577,128
Number of branches	2,470	2,474	2,515
Number of Group banks	124	132	134
Number of affiliated mutual banks	120	128	130
Number of employees at end-period	22,137	22,084	22,079

[4] The figures at June 30, 2022 and December 31, 2021 do not consider the IFRS 5 reclassification of e-money operations held for sale.

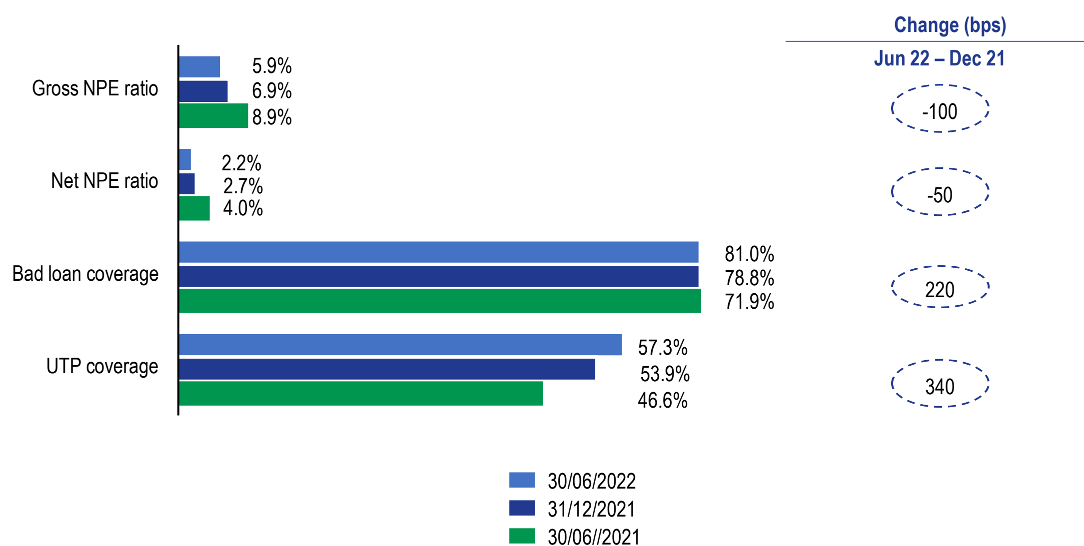
Key performance figures (millions of euros)



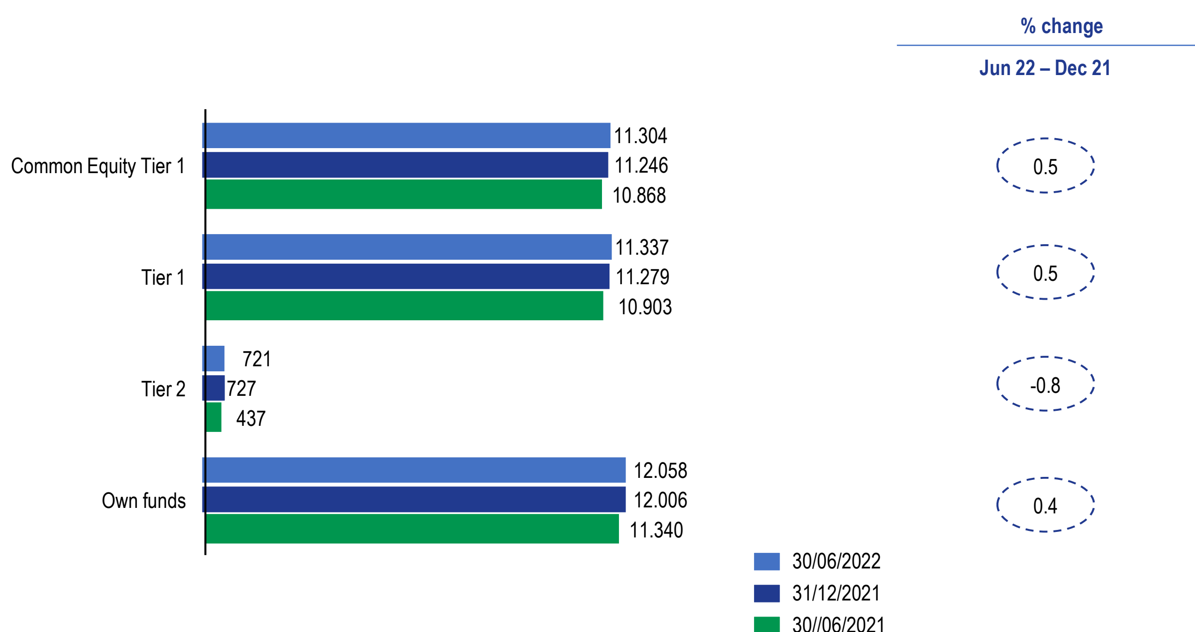
Key balance-sheet figures (millions of euros)



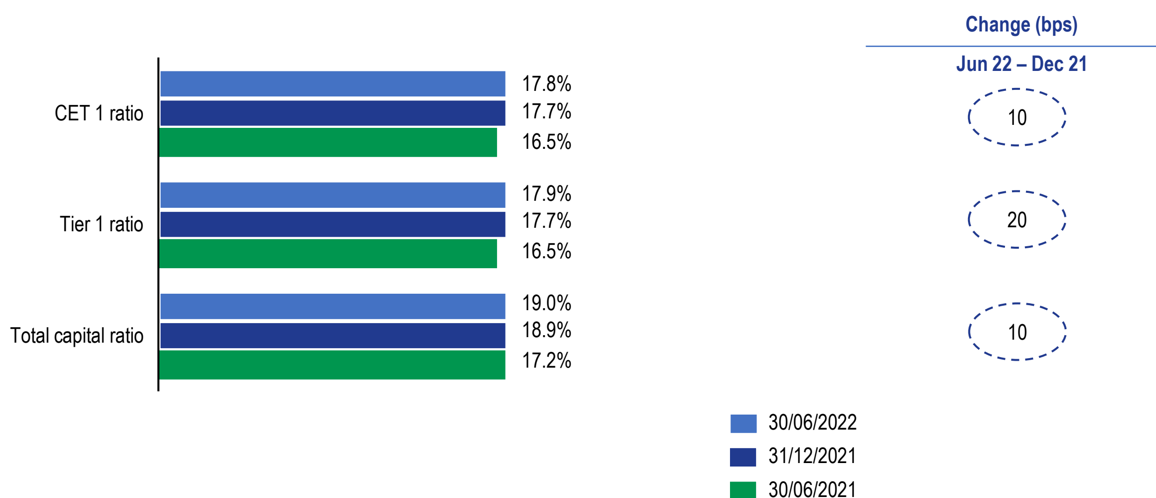
Key risk indicators (%)



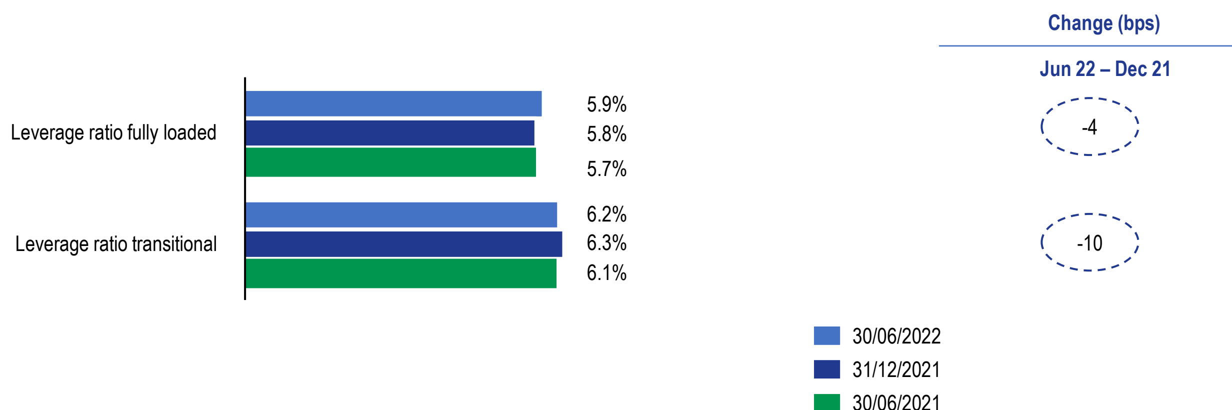
Composition of capital (millions of euros)



Capital ratios (%)



Leverage ratios (%)



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

The international and Italian macroeconomic environment

According to expectations, 2022 should have been a year of consolidation of the global recovery and the start of the normalization of economic policies after the exit from the most acute phase of the pandemic. 2021 had ended with significant growth after the deep recession registered in 2020 in the wake of the COVID-19 pandemic, which in addition to its high human and social costs had also prompted the virtual suspension of economic activity. This growth was exceptional in its intensity, reflecting both the rebound effect, with the resumption of suspended or reduced activities, and the massive response of economic policy-makers[5]. This year began with reassuring signals pointing to the continuation of economic growth, thanks to the progressive normalization of economic activities and trade in raw materials and intermediate goods. However, these were accompanied by growing concern that the sharp increase in inflation could constrain growth looking forward. In fact, among the world's major economies, only China and Japan maintained inflation significantly below their central banks' target.

Inflation subsequently continued to rise, reaching levels that had long since fallen from memory, at least in the advanced economies. Finally, COVID-19 turned out to still be an open issue for the world economy, and continuing to cause repercussions. Among its effects, it has certainly underscored the fragility of the long global value chains developed during the spread of globalization. The numerous stringent lockdowns implemented earlier, and the more recent restrictions imposed in China during the struggle to complete normalization, have laid bare the vulnerability of production, logistics and goods transport to economic closures, blockages and supply problems, perhaps induced by a lockdown at a single port or production district. This has raised awareness of the fact that shortening and simplifying value chains can be an economically attractive goal, despite higher labor costs.

Looking ahead, this could lead to a rethinking of the distribution of production sites and the fragmentation of processes, as well as the weights assigned to risks, costs and presence in target markets in the choice of production locations. However, to focus on the most immediate effects, all of the above obstacles have meant that the strong rebound in demand, linked to the general easing of health restrictions, continues to be met with weak supply, which is in the process of normalization but not yet able to achieve the same pace registered prior to the crisis as a result of interruptions of trade routes and shortages of raw materials and semi-finished products, a situation that is proving to be extremely challenging and very slow to resolve.

The mismatch between supply and demand has driven up the prices of commodities and products, which has been transferred to domestic prices as companies struggle to preserve margins. The persistence of this issue has prompted central banks to raise their policy rates, first in the emerging countries (in part to preserve credibility and currency values) and then in the industrial economies, since high inflation has gone from being considered a temporary factor to phenomenon under special observation and, finally, to concrete danger to be countered. Central banks, surprised by both the intensity and the persistence of inflation developments, have therefore elected to run for cover, taking aggressive action to avoid totally losing control of prices, although this increases the risk of recession.

This context in which the Russian invasion of Ukraine at the end of February 2022 took place, causing global uncertainty to soar to new heights and triggering enormous repercussions for the world economy, as both countries are specialized in upstream segments of the production chain, supplying large volumes of commodities, energy, minerals and food. No sector or country can be considered immune from consequences, although European countries seem fated to pay the heaviest bill, primarily as a result of their energy dependence on Russian gas. With the Russian invasion, the outlook for a large portion of the world economy now depends crucially on non-economic factors connected with the duration of the fighting in Ukraine, the resolution of the conflict, and the geopolitical conditions that will result and all the strategic interactions that are emerging, especially in the energy sector. All these are critical factors for economic growth around the world, and for Europe in particular, with the direct and collateral effects of the sanctions and restrictions imposed on Russia and the related retaliatory measures. These have propagated their macroeconomic effects above all through the prices and, even more worryingly, the availability of commodities, gas first and foremost, for energy production. The Russia-Ukraine war has also highlighted another aspect relevant to value chains: the advisability for businesses to move from a paradigm of lowest cost to one of lowest geopolitical risk (friendshoring). At the same time, a rift has emerged between the emerging economies, which have not sanctioned Russia or openly offer it concrete support of one form or another, and the industrial countries, a fracture that may well leave scars or even widen in the medium term, primarily reflecting the presence of China among the former.

The continuation of conflict in Ukraine, the worsening of political relations between Russia and the West and the consequent escalation of measures impacting the supply of Russian gas to Europe have been reflected in prices in the world markets for industrial and agricultural commodities, which have remained high on average for an extended period. The prices of many commodities have begun to return to pre-invasion levels in recent months, due both to a decline in speculative pressures and the darkening shadow of an extended recession on the horizon, with the associated outlook for a contraction in demand. Markets are responding to the increasing possibility of a sharp slowdown in the world economy, partly reflecting commodity prices themselves, partly the shortage of energy in Europe, partly by the slowdown of economic activity in China and, last but not least, the change in the slant of monetary policy. However, the price of gas in Europe remains an exception to the declines in commodity prices, reaching a peak of around $350 at the beginning of September and continuing to exhibit great volatility, fueled by the succession of moves and announcements of the European Union on the one hand and the stops (many) and goes (few) in physical deliveries of Russian gas, which are increasing the likelihood of rationing in the European Union for the next few quarters. The scarcity of supply via pipeline has diverted an increasingly large part of European demand towards liquid natural gas (LNG), which has produced price

[5] In 2021, world GDP grew by 5.9% (-3.2% in 2020), with the expansion involving both the industrial countries and the emerging economies, although not all returned to their pre-crisis GDP levels.

increases in the US and, in particular, Asian markets (which are in direct competition with the Europe for this product). Pressures on firms' costs do not appear to be easing, and closures or suspensions of production activity are multiplying, while price increases are being transferred downstream, creating the potential for additional inflationary spikes, prompting governments to intervene in two ways: on the one hand, by trying to control prices at origin by intervening in market mechanisms, and on the other hand by subsidizing households and businesses in various ways to alleviate the erosion of disposable income and the pressure exerted by the costs of increasing energy prices. None of these options have fully detailed or adopted so far. So the world economy is largely equally affected by inflationary pressures on the supply side, while the situation on the demand side is not uniform. Witness the different levels reached by inflation in the three major world regions and the different contributions of the major spending items. In Europe, where inflation has exceeded 9% year-on-year, the largest driver of inflation is still attributable to energy and food products, while the core component, although increasing, is significantly lower (5.5% in August, according to Eurostat's flash estimate). In the United States, the largest contribution to the 8.3% inflation rate recorded in August (measured with the CPI) comes from the core component (6.3%), with price growth more solidly anchored to demand. However, it is significant that European inflation has surpassed that in the United States, with the progressive pass-through of energy prices prolonging the permanence of European inflation at current levels, while US inflation seem likely to gradually subside. In China, inflation remained below the central bank's target; despite the increase in the prices of raw materials and intermediate goods, while producer price inflation is also returning to values just above 2% (2.4% in August). The containment of food prices has made the primary contribution to stabilizing consumer prices in an environment of very weak consumption compared with the average of recent years. After years, Japan has registered price growth of over 2%, not attributable to tax increases. In general, inflationary pressures are substantial at the global level but are characterized by certain national specificities. In the United Kingdom, inflation has reached 10% and still does not incorporate the change in regulated energy rates, which are expected to take effect from October 1. However, the new government could establish ceilings financed from the public budget to limit further price jumps.

As noted earlier, central banks are signaling their of strong commitment to pursuing their inflation target and taking an increasingly restrictive policy stance. Since the beginning of the year, this forward guidance has caused interest rates to rise almost 2.7 percentage points on shorter-term maturities and 1.2 percentage points on longer-term paper in the United States and by almost 1 percentage point on short-term maturities and at 10 years in the euro area, with the spread widening for some countries. These movements represent a profound shift for the markets, with sharp downward corrections in equity prices, and have led many analysts to significantly raise their expectations of a recession. The Fed maintains the most restrictive stance, having also begun a quantitative tightening that has not been replicated in Europe. Globally, virtually all central banks are tightening monetary policy, both to counter inflation and to contain the effects of the US monetary tightening on the value of their currencies. In this regard, the effect of the traditional safe-haven role played by the American currency in times of international crisis has accompanied the rise in US rates. This has generated an overwhelming force on international markets, which has produced a very large appreciation of the dollar against the main world currencies, with the exchange rate against the euro falling below par. In turn, this has fueled a trend in imported inflation that is relatively more favorable for the United States than its counterparts. The exceptions are the Russian central bank, which has significantly reduced policy rates after having raised them when the sanctions were imposed in February (rates have in any case fallen below pre-conflict levels), the Turkish central bank, whose monetary policy has become more accommodating despite the fact that inflation has reached 80%, and, above all, the People's Bank of China, which is committed to sustaining economic activity, which has been slowing sharply, both with the decrease in policy rates and the injection of liquidity.

The performance of the European real economies in the first half of the year was very positive. GDP growth in the euro area was 0.7% and 0.8% in the first and second quarters, respectively, thanks mainly to the reopening of economies after the lockdowns imposed in response to COVID-19. Unfortunately, the Russian invasion of Ukraine has completely altered the outlook. Apart from the direct impact of the sanctions, which have produced reduction in exports of marginal scale (although not negligible for certain sectors), the effects are playing out through energy prices and availability. With gas supplies coming in fits and starts at the end of 2021-early 2022 - always attributed to technical issues - European gas stocks have not been adequately replenished. With the outbreak of the conflict, already rising prices have soared to very high levels, accompanied by increases in the prices of other commodities and semi-finished products for which Russia and Ukraine are among the world's major suppliers. Costs for businesses and households have experienced an escalation that has undermined the climate of confidence (which has plummeted), the economic sustainability of production in many sectors and the spending power of households for non-energy products. In more general terms, wages have risen more slowly than inflation, eroding purchasing power. The signs in recent months of the impact on industrial production (-2.3% in the euro area in July) and consumption (with retail sales declining year-on-year) confirm the deceleration now under way. Governments are rolling out plans to support spending by households and/or firms but, beyond price controls an additional problem is represented by the effective availability of gas for electricity generation. Overall, economic activity could contract in the coming quarters, the intensity and duration of which will also be determined by exogenous factors such as the duration and severity of the conflict and/or temperatures over the winter months.

A number of factors supported economic activity in the United States in 2021 that have gradually weakened over the course of 2022, starting in particular from the second quarter. Although the first quarter of 2022 experienced a quarter-on-quarter decline in GDP, this was accompanied by strong growth in domestic demand, thanks primarily to the fact that households had greatly reduced their debt since the global crisis of 2008, accumulated significant savings during the years of the pandemic (thanks above all to fiscal support measures) and benefited from the sharp rise in real estate prices. Accordingly, with the lifting of COVID-19 restrictions consumers were ready to go on a spending spree. However, domestic demand also absorbed imports, causing GDP to contract due to the strong negative contribution of net real exports. The spring registered signs of economic weakness, with significant falls in financial asset prices, cooling investment in construction and the depletion of excess savings in an environment of rapidly rising interest rates, accompanied by signs of a slowdown in production and the stabilization of retail sales: the negative performance registered in the second quarter was in fact strongly influenced by a negative contribution from inventories, which could still reflect strong demand not sufficiently accompanied by supply, with consumption continuing to grow, albeit

at a decelerating pace. The decrease in investment was mainly concentrated in the real estate sector. The latest indicators show that the US economy seems better positioned than the European economy looking forward, despite the deflationary measures deployed by the Fed: the labor market remains highly dynamic and continues to create jobs, with vacancies continuing to exceed the number of unemployed. Wage growth remains in line with inflation, limiting the erosion of purchasing power. Inflation is also projected to decline, given the aggressiveness of the Fed, the decline in oil prices, lower gas prices than in Europe and the strong dollar. With the approval of the Inflation Reduction Act, fiscal policy in should be modestly expansionary or neutral. All of this supports the view that growth in the United States will outpace that in Europe in the coming quarters.

Complicating the international situation is the weakness of the Chinese economy, which mainly reflects two factors. The first is the implosion of the real estate industry, whose rapid growth in recent years had great boosted the economy. The authorities have sought to deflate this expansion with a series of administrative and regulatory measures, aimed in particular at squeezing credit to construction and real estate firms by increasing capital requirements in order to defuse an explosive debt situation. The sector has experienced a vertiginous drop in investment, new housing starts, financing, and land sold by local governments (a source of funding for this segment of the public sector) of the order of 20-40%. The sector plays an outsized role in the overall Chinese economy, accounting for about 14% of GDP and almost 20% of Chinese employment and developments in the industry obviously have a decisive impact on growth in general. The second factor remains COVID-19. While in the industrial countries the success of vaccination campaigns has significantly reduced the health impact of the disease, enabling the near-normalization of economic activity to pre-pandemic levels, China continues to pursue a draconian “zero-COVID” policy, probably prompted by the reduced effectiveness of the vaccines employed in that country. This has led to the lockdown of entire regions and millions of people at the first appearance of new cases and is straining on the country’s economic and productive fabric, which plays a central role in world manufacturing. The 5.5% growth target for 2022 will likely be missed by a considerable margin. Even worse, China’s contribution to world trade is faltering, with imports down 10% in real terms.

The overall picture for the emerging countries mostly exhibits a pattern of growth in the first two quarters, with a gradual weakening of economic conditions. While the COVID-19 situation has been improving in line with the progress of vaccinations, liberating domestic demand in many emerging markets, the rise in commodity prices has been a major additional source of income, accompanied by an appreciation of currencies. As noted earlier, this was followed with few exceptions by a tightening of monetary policies, which is impacting consumption and business expectations. More recently, decelerating or falling demand in the main industrial countries (as well as, above all, China) has lent further impetus to the weakening. The current phase of monetary tightening and weak demand has combined with a decline in the prices of raw materials in dollar terms, weaker currencies and persistent inflation, creating an environment of weakness looking forward.

World trade is progressively slowing for the many reasons highlighted above. The first and second quarters of 2022 saw trade grow by around 1% year-on-year, compared with 3% in the last quarter of 2021, a deceleration that seems likely to continue in the coming months given the forecasts for slower growth in the main economies and China.

Growth in Italy, which was barely positive in the first three months of the year, strengthened in the spring, buoyed by the contribution of all the main sectors. Services provided the main contribution thanks to the recovery of sectors such as tourism and transport, which were most severely impacted by the resurgence of the pandemic at the beginning of the year. Construction continued to benefit from favorable tax measures. The national accounts data for the second quarter were an additional positive surprise, with GDP growth of 1.1% on the previous quarter, with the contribution of all the components of demand with the exception of general government expenditure and inventories, which made a negative contribution. These developments enabled GDP to completely recover its pre-COVID level. Investment in residential construction, hitherto supported by low interest rates and generous tax concessions for the renovation and energy efficiency upgrading of buildings, continued the expansion path that had led it to exceed end-2019 levels as early as the third quarter of 2020. Despite inflationary tensions, household spending increased by 2.6%, bringing the propensity to consume back to around 90%, after several quarters in which household caution prevailed. The reopening of economic activity, the desire for normality after two years of pandemic and the return of foreign tourism have sustained the strong expansion in domestic demand for services, although this has not yet returned to pre-COVID levels. The expansion in expenditure on services was also accompanied by growth in the other items of household consumption, with the exception of non-durable goods, which includes food and energy consumption.

The new flare-up in gas prices in the summer added fuel to inflationary tensions that had been thought to be temporary. The adverse impact on economic growth, aggravated by a new increase in interest rates, will manifest itself between the end of this year and the beginning of the next with a technical recession. The increase in the prices of production inputs together with interruptions along the supply chain are exerting serious pressure on production and corporate finances, depressing the demand for investment goods, with the additional burden of higher financing costs and high uncertainty about future developments. The reduction in purchasing power will lead to a sharp deceleration in spending of households, which for precautionary reasons and the increase in interest rates will prefer to increase their saving. Exports will benefit from the depreciation of the euro, offsetting the slowdown in growth in export markets. At the same time, however, while the depreciation facilitates exports, it also accentuates the growth in imported inflation.

Labor market inputs measured in terms of labor units increased in the second quarter compared with the previous three months in all sectors except industry, although the contraction there was nevertheless modest (-0.1%). All the main sectors (agriculture, industry, construction and services) recouped the levels they had registered at the end of 2019, with the scale of the recovery reflecting differences in the evolution of the value added in the respective sectors.

As in other countries, inflationary pressures are also increasing in Italy. The consumer price index in August (preliminary data) increased by 8.4% year-on-year (7.9% in July) and by 0.8% on the previous month. On an annual basis, such an increase had not been seen since

December 1985, when inflation reached 8.8%. The disaggregated data show that a substantial portion of this increase continues to be driven by the rise in the energy component, which was exceptionally large in the wake of an increase in oil prices and the market prices of not only gas but also electricity. In August, the increase in the prices of energy goods on an annual basis was 44.9%, a further acceleration from the rise of 42.9% in July. However, the substantial increase in the general index in recent months is no longer being determined solely by the prices of energy goods, but has also spread to other sectors, especially consumer goods: the inflationary impulses deriving from energy are now being passed along through production and distribution chains. Core inflation, which until mid-year seemed to resist inflationary pressures, is now stably above 4% (4.4% in August). Here, too, we need to look back to the mid-1990s to find similar increases. The supply bottlenecks that had accompanied the exit from the pandemic have been compounded by new interruptions in supply due to the war in Ukraine, which contributed to the sharp increase in the prices of energy and many industrial and agricultural commodities. This has imparted remarkable speed to the rise in the prices of food and non-energy industrial goods. Food prices in August increased by 10.2% on an annual basis and by 1% on the previous period. The price of the "shopping basket" of consumer items, which includes food and household and personal care items, increased by 9.7% in August. The rise in gas prices continues to have a very strong impact on producer prices as well, with a year-on-year increase on the domestic market of 45.9% in July. This increase is strongly impacted by the rise in the price of energy goods (118%), but even net of this component prices are rising with a certain dynamism (13.1%).

Consumer price inflation is also expected to rise in the coming months, when the gas price increases in the summer months will make themselves felt. We expect inflation to exceed 7% on average in 2022, a further upwards revision of our forecasts of three months ago. It will also remain high in 2023, severely affecting economic growth, which could come to a halt, if not retreat, after GDP growth of just over 3% in 2022.

Financial market developments

The continuing strain of geopolitical tensions, the prolongation of the armed conflict, price tensions, the actual or announced start of monetary tightening and fears of recession heavily penalized markets over the period.

While the performance recorded in the first quarter of 2022 was positive overall, with numerous companies confirming their guidance for the end of the year, financial conditions on international markets deteriorated during the spring, reflecting both the gradual normalization of monetary policies in many advanced countries and geopolitical tensions and uncertainty about the outlook for the global economy. Equity prices fell in the main advanced economies, with a particularly steep retreat in the United States, where the Standard & Poor's 500 reflected the acceleration in the normalization of monetary policy and fears of a significant slowdown in economic growth, falling by about 15% from the beginning of April and ending the half year with a loss of 20.6%, while the NASDAQ Composite technology index slid even further (-29.5%).

The losses registered by the main equity markets in Asia were more contained: the NIKKEI 225 index slipped 6.9%, while the Chinese benchmark index SSE A Share fell 6.6%.

The Euro Stoxx index closed the half year down 20.1%, the CAC 40 recorded a loss of 17.2%, and the DAX registered a decline of 19.5%. By contrast, the IBEX 35 outperformed with a loss of just 7.1%. Outside the euro area, the Swiss SMI index closed the period down 16.9%, while the FTSE 100 index in the United Kingdom remained almost unchanged (-2.9%).

The Italian equity market performed worse than the euro-area benchmarks: the FTSE MIB index closed the half year down 22.1%, in line with the FTSE Italia All Share index. Mid-cap stocks showed a larger decline: the FTSE Italia STAR fell by 29.2%.

Expectations of a more restrictive monetary policy stance were reflected in a sharp rise in yields on the 10-year government bonds of the major advanced economies. Since the beginning of the year, the US 10-year note has risen steadily, reaching almost 3.5% in mid-June before retrenching and closing the half year around 3% (up by about 150 basis points compared with the end of 2021). A similar pattern was seen with the German 10-year Bund, which has risen since January, reaching 1.8% in mid-June before retreating to just under 1.35% at June 30, 2022 (up about 150 bps compared with last December). By contrast, yields on Japanese paper remained stable within their target range, set by the central bank at around 0% as part of its expansionary monetary policy measures. Spreads between the various euro-area countries and Germany widened further from the beginning of April, before narrowing partially after mid-June. With the announcement of the latest monetary policy decisions, the volatility of government securities, which had begun to decline again in the second half of May, jumped to levels similar to or higher than those reached at time of the outbreak of the pandemic in the United States and the euro area.

The growing strains on Italian government securities have been reflected in a widening of the BTP-Bund spread which, starting from May, has repeatedly exceeded 200 basis points, reaching 240 bps in June before narrowing and closing the half year at 193bps (58 bps greater than at the end of December 2021). The ECB's announcement of the introduction of a new anti-fragmentation tool contributed to the generalized decline in long-term European government yields and the spreads on issues by the peripheral euro-area countries recorded at the end of the half-year.

Developments in the Italian credit system

During 2022, conditions in the credit market reflected the impact of liquidity support measures, albeit to a lesser extent than in 2021. Companies' recourse to publicly guaranteed loans (FCG and SACE) increased - in June 2022 they reached €290 billion - while loan repayment moratoriums lost effect from January 2022 (in December 2021 moratoriums still active regarded about €44 billion)[6], following the Government's, contained in the 2022 Budget Act, not to extend them.

Overall, growth in bank lending to the private sector accelerated in the first part of 2022, registering a gain of 3.2% at June 2022 (excluding loans to central counterparties and net of the effect of transactions and securitizations), compared with 2.1% at December 2021. Households continue to contribute substantially to overall credit growth (+4.1% in June 2022, compared with +3.7% at the end of 2021), thanks to the resilience of the real estate market and the growth in consumer credit, in particular that connected with home renovations and modernization. Growth in corporate investment in the first half of the year combined with the increase in the prices of raw materials drove an increase in funding requirements, which translated into an increase in bank lending (+2.6% in June 2022 compared with +1.7% at the end of 2021). During the year, developments lending could still benefit from support measures: 1) SACE guarantee and extraordinary operations of the SME fund of the Clearing & Guarantee Fund, which expired in June 2022 as measures to combat the pandemic crisis, have been extended until the end of 2022[7] to cope with high energy prices and the negative effects of the war; and 2) the possibility of suspending the payment of loan installments for households who find themselves in a temporary emergency situation (the Gasparrini Fund). These are accompanied by other temporary measures introduced with the "Support Decree" of May[8] and the second "Support Decree" of August[9] to help workers, businesses and households to cope with the energy crisis. Companies will also be able to access bridging loans to cover initial liquidity requirements for the implementation of the NRRP projects.

Again in 2022, more than two years after the outbreak of the pandemic, risk indicators have remained at historically low levels. The impact of the economic crisis on asset quality has been mitigated by the measures introduced by governmental and non-governmental institutions, which have slowed the formation of impaired positions. The rate of credit deterioration remained historically low (1.1% on an annualized basis in the first quarter of 2022, in line with 2020). The volume of impaired loans was also limited by the continuation of sales of such positions (an estimated €11 billion for 2022 as a whole, after about €14 billion in 2021), with the stock of bad loans falling to €34 billion in June 2022 (-28% compared with a year earlier), equal to 2% of the stock of outstanding loans (2.2% in December 2021).[10] However, upward pressures on the risk profile remain, attributable to the lagged effects of the economic crisis in addition to those represented by the resurgence of high inflation (which will erode the financial soundness of households and firms), the sudden increase in interest rates and the expiry of support measures and the start of repayments of publicly guaranteed loans that had benefited from grace-period mechanisms. However, the increase in potential risk and the formation of new impaired positions will once again be mitigated by emergency measures deployed to limit the impact of the conflict in Ukraine on households and firms, with effects postponed primarily to 2023.

On the funding side, the new context of uncertainty associated with the geopolitical and inflationary situation was reflected in a further accumulation of liquidity by households and firms in the first six months of this year. While in 2021 the Italian economy displayed considerable resilience and an unprecedented capacity to recover, between the final months of the year and the beginning of 2022, the increase in uncertainty exacerbated by the outbreak of the conflict in Ukraine affected the investment decisions of households and businesses. More specifically, in the first six months of 2022, total deposits (gross of the Cassa Depositi e Prestiti component) continued to grow (+3.5% in June 2022 compared with +6% at the end of 2021), driven by the more liquid current accounts (+5.1%, comparted with 10% at the end of 2021), despite the marked contraction in time deposits (-19.3% on an annual basis excluding the component linked to securitizations). Despite negative real returns, households are expected to continue to accumulate deposits over the course of 2022 in reaction to uncertainty, while businesses will reduce their accumulated liquidity to finance their operations.

The seven listed significant Italian commercial banks earned profits of €6.7 billion in the first half of 2022, an improvement on the €6.3 billion registered in the first half of 2021. However, excluding BPER (whose performance reflects the effects of the acquisition of Carige), profit amounted to €5.3 billion, down from €5.8 billion in the first half of 2021, reflecting the greater impairment losses recognized by Intesa SP and Unicredit on direct exposures in Russia and Ukraine. Net of this extraordinary component, the profit of the six groups rose to €6.8 billion. More specifically, gross income increased (+3.3% compared with the first half of 2021), sustained by the increase in net interest income (attributable to an increase in the volume of lending, the TLTRO benefit and the initial effects of developments in market rates on treasury operations) and (for Intesa SP and Unicredit) the performance of trading operations. The growth in net fee and commission income was modest (+0.4%), impacted in many cases by the contraction in the asset management component. However, impairment losses on loans increased (by almost 50%), with the cost of risk rising to 42 bps (36 bps in the first half of 2021). Excluding non-recurring provisions (the writedown of exposures in Russia and Ukraine and for derisking operations), the cost of risk is equal to 27 bps (30 bps in the first half of 2021). Operating expenses registered a 2% decrease due to the effects of staff reductions (except for Credem and BP Sondrio). Other costs also declined, despite inflationary pressures, thanks to the savings achieved by Intesa SP and Unicredit.

[6] Data from the survey conducted by the joint task force coordinated by the Ministry for the Economy and Finance (see the Bank of Italy website: Task force per assicurare l'efficiente e rapido utilizzo delle misure di supporto alla liquidità). From January 2022 the Bank of Italy has suspended its periodic monitoring of participation in national loan moratorium measues and applications for guaranteed loans.

[7] With the passage in the Chamber of Deputies of the "Support Decree", the liquidity measures and public guarantee mechanisms for firms to deal with high energy costs and the negative effects of the war were extended until the end of 2022 after the approval of the European Commission, which found that the measures were compliant with the State Aid Temporary Crisis Framework adopted on March 23, 2022 following Russia's invasion of Ukraine. With the Commission's autnorization, the guarantees envisaged in Article 15 of the "Support Decree" take full effect.

[8] Decree Law 50 of May 17, 2022 containing urgent measures concerning national energy policy, business productivity and attracting investment as well as social policy and the Ukraine crisis.

[9] Decree Law 115 of August 9, 2022 containing urgent measures concerning energy, the water emergency, social and industrial policy.

[10] The indicators include loans of the CDP but do not comprise interbank lending and lending with central banks.

Asset quality improved compared with the end of 2021 (with the NPL ratio declining to 3.1% from 3.8%) thanks to derisking operations concluded in the half of the year, which will continue in the second half. The new operational environment created with the outbreak of conflict in Ukraine, however, is impacting capital ratios. The fully loaded CET1 ratio fell to 137% (-43 bps from the end of 2021) due to the capital effect linked to the decrease in reserves on FVOCI securities (following the widening of the spread on government securities) and to profit distribution policies (dividends and share buybacks).

OFFICIAL MEASURES TAKEN IN 2022

This year began with reassuring signals portending continued growth after the strong rebound of 2021, accompanied however by growing concern that inflation, which was more persistent than expected in Europe as well, could constrain growth looking forward. When the most critical point of the COVID-19 pandemic seemed to have passed, the conflict in Ukraine heightened global uncertainty.

The invasion of Ukraine has changed the outlook not only because of its dramatic human implications, but also its economic impact. Multiple challenging scenarios have emerged and the assessments of the economic effects also crucially depend on them.

The rise in inflation, which is continuing longer than expected, is the main issue of concern. It has prompted to a rapid change in monetary policy stance and the implementation of a series of emergency measures to curb the effects of higher energy and commodity prices on the financial situation of households and firms.

The following provides a summary of the main measures implemented in 2022.

Government, EU and national measures

The response of European institutions to the Ukraine crisis can be divided into three main areas: the humanitarian emergency and refugee assistance, sanctions against Russia, the need to address the impact of the energy crisis and sanctions.

With regard to refugees, the “Temporary Protection Directive” was activated by the European Commission for the first time on March 4, and on March 23 the Commission issued a communication to help Member States meet the needs of refugees. In addition to border assistance, reception and civil protection, the aim was to ensure that the beneficiaries of protection had access to education, healthcare, housing and employment, also allowing the use of the cohesion funds of the Multiannual Financial Framework for these purposes. Furthermore, the resources of the REACT-EU program have also been made available, in particular the quota for 2022, which amounts to a maximum of €10 billion, with €3.4 billion in advances.

With regard to the crisis engendered by the increase in energy prices and the impact of sanctions, a Temporary Crisis Framework concerning the rules on State aid was established on March 23 (similar to the still active Framework issued in response to the COVID-19 emergency). It will remain in force until the end of 2022 to give governments all the flexibility they need. In particular, the objective is to enable governments to: (i) grant aid to companies affected by the crisis or the related sanctions and counter-sanctions; (ii) ensure that companies have sufficient liquidity; and (iii) compensate companies for the additional costs incurred to due to the exceptionally high prices of gas and electricity. Any interventions to support the most exposed banks also fall within this flexibility mechanism.

The Temporary Crisis Framework has therefore made it possible to approve the measures that many Member States had already rolled out, especially those to respond to the increases in energy prices. These measures have been repeatedly renewed, with the volume of total resources reaching around 3% of GDP in the large EMU countries.

Another aspect of the energy crisis addressed by EU policy is the transformation of the European energy system, a task made more urgent by the need to free itself gradually but also “as soon as possible” from the dependence on Russian gas, oil and coal imports affirmed by European leaders in the aftermath of the attack on Ukraine. The steps taken have been many. They include the REPowerEU plan announced in May, which sets out savings objectives and measures, and provisions for the diversification of supply and expansion of renewables to give Europe greater energy autonomy. Other measures include the Save Gas for a Safe Winter plan issued in July, which, to prepare the EU for cuts of gas supplies, calls for a voluntary reduction (which could become binding, with exceptions) in the Member States’ demand for gas of 15% by March 31, 2023 or the most recent proposal to introduce an obligation to reduce electricity consumption by at least 5% during certain peak hours and encourage States to reduce overall electricity demand by at least 10% until March 31, 2023.

In this context, the suspension of European fiscal rules, namely the activation of the general escape clause of the Stability Pact, has also been extended to the end of 2023.

Despite the crisis, European countries have made progress in the implementation of the National Recovery and Resilience Plans (NRRP) drawn up under the Next Generation EU (NGEU) instrument. All plans have been presented and approved (with the exception of Hungary), some €133 billion in resources have already been disbursed and 282 conditions already verified, of which 194 refer to reforms and 88 to investments.

Italy has already received €45.9 billion of the €191.5 billion available through the Recovery and Resilience Facility, which will rise to €66.9 billion when the second tranche (whose payment has already been approved) concerning the conditions met by June is disbursed. In addition to the many reform and simplification measures concerning the public administration, tenders and concessions, the justice system, the tax system, the spending review and public transport, the hiring of technical personnel for the public administration has been completed. In addition,

a variety of incentives have been implemented. Monitoring of the 110% tax credit for building upgrades shows total authorized investments of over €40 billion at the end of August. Access to the Transition 4.0 program continues, alongside the launch of the use of other specific funds, including those for female entrepreneurship, SMEs and tourism, and the centers for development contracts for strategic and innovative industrial sectors, renewables and batteries. Infrastructure investments are proceeding as planned, notably those in railways, the construction of new schools, as well as the start of tendering of urban regeneration contracts, waste management plants, flagship circular economy projects, green islands, hydrogen research and development, and smart grids.

Monetary policy measures adopted by the ECB

At its meeting of February 3, 2022, the Governing Council of the ECB confirmed the monetary policy decisions taken at its previous meeting in December concerning.

- the Pandemic Emergency Purchase Programme (PEPP), for which purchases are to take place at a slower pace than in the previous quarter and are to be discontinued at the end of March 2022.
- the Asset Purchase Programme (APP), for which monthly net purchases would amount to €40 billion in the second quarter of 2022 and €30 billion in the third quarter. From October 2022, net purchases would continue at a pace of €20 billion per month as long as necessary to reinforce the impact of the accommodation of policy rates.

At its meeting on March 10, the first following the Russian invasion of Ukraine, the Governing Council of the ECB said it would ensure relaxed liquidity conditions and the implementation of sanctions decided by the European Union and European governments. Based on the updated assessment and taking account of the prevailing uncertainty, the Governing Council revised the schedule for the APP for the following months, with monthly net purchases of €40 billion in April, €30 billion in May and €20 billion in June.

On the same occasion, the Governing Council confirmed that the PEPP would be discontinued at the end of March, while maturing principal amounts would continue to be reinvested at least until the end of 2024.

In the context of the high uncertainty engendered by the Russian invasion of Ukraine and given the risks of regional spillovers with possible repercussions on the financial markets of the euro area, the Governing Council also decided to extend the Eurosystem repo facility for central banks (EUREP) until 15 January 2023.

At its meeting on April 14, the Governing Council felt that the data collected after the last meeting strengthened its expectation that net purchases under the APP would end in the third quarter of 2022, without prejudice to the previous announcement concerning the reinvestment of principal amounts on maturing securities.

At its meeting on June 9, the Governing Council of the ECB decided to discontinue net asset purchases under the APP starting from July 1, 2022, continuing to reinvest all principal repayments on maturing securities as announced at previous meetings (as well as those on securities maturing under the PEPP).

The Governing Council also assessed the conditions that, in accordance with its forward guidance, had to be met before starting to raise policy rates. It then announced its intention to raise rates by 25 basis points at the July monetary policy meeting. Over a longer period, in September the Governing Council also said it expected a further increase in policy rates (of a size to be determined based on the updated outlook for medium-term inflation). As previously announced, the specific conditions of TLTRO-III ceased to apply on June 23, 2022.

On June 15 the Governing Council of the ECB held an ad hoc meeting to exchange of views on the current market situation, pledging to act against resurgent fragmentation risks connected with the lasting vulnerabilities left by the pandemic in the euro-area economy that are contributing to the uneven transmission of the normalization of monetary policy across jurisdictions. Based on this assessment, the Governing Council decided that it will apply flexibility in reinvesting redemptions coming due in the PEPP portfolio, with a view to preserving the functioning of the monetary policy transmission mechanism and to mandate the relevant Eurosystem Committees together with the ECB services to accelerate the completion of the design of a new anti-fragmentation instrument.

At its meeting on July 21, the Governing Council decided to raise the ECB’s three key interest rates by 50 basis points and approved the Transmission Protection Instrument (TPI). The Governing Council judged that it is appropriate to take a larger first step on its policy rate normalization path than signaled at its previous meeting based on its updated assessment of inflation risks and the reinforced support provided by the TPI for the effective transmission of monetary policy. Accordingly, the interest rate on main refinancing operations, the marginal lending facility and the deposit facility were raised to 0.50%, 0.75% and 0.00% respectively.

The TPI is an addition to the Governing Council’s toolkit and can be activated to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across the euro area. The scale of purchases on the secondary market is not restricted ex ante and depends on the severity of the risks. The purchases will be focused on public sector securities with a remaining maturity of between one and ten years (purchases of private sector bonds may also be considered if appropriate). To activate the TPI four criteria must be met: (i) compliance with the EU fiscal framework; (ii) absence of severe macroeconomic imbalances; (iii) fiscal sustainability, which will take into account the debt sustainability analyses by the European Commission, the European Stability Mechanism, the IMF and other institutions, together with the ECB’s internal analysis; (iv) sound and sustainable macroeconomic policies in compliance with the commitments submitted with the NRRP and with the European Commission’s country-specific recommendations in the fiscal sphere under the European Semester.

In any case, PEPP reinvestment flexibility will continue to be the first line of defense to counter risks to the transmission mechanism related to the pandemic.

At its meeting on September 8, the Governing Council decided to raise the ECB's three key interest rates by 75 basis points. accordingly, the interest rates on main refinancing operations, the marginal lending facility and the deposit facility were increased to 1.25%, 1.50% and 0.75% respectively. This major step frontloads the transition from the prevailing highly accommodative level of policy rates towards levels that will ensure the timely return of inflation to the ECB's 2% medium-term target. The Governing Council said that it expects to raise interest rates further to dampen demand and guard against the risk of a persistent upward shift in inflation expectations (current inflation remains far too high).

Following the raising of the deposit facility rate to above zero, the two-tier system for the remuneration of excess reserves is no longer necessary. Accordingly, the Governing Council decided to suspend the two-tier system by setting the multiplier to zero.

Main measures taken in Italy to support households and firms

Addressing the high cost of energy and soaring inflation has been the Government's primary goal. Most of the resources deployed are intended to mitigate the impact of increases in energy bills, eliminating system charges, lowering VAT on gas to 5% and strengthening support for disadvantaged families. These measures have already been financed until the end of 2022. Other steps to directly impact prices include a reduction of 30.5 cents in excise duties on fuels, which is currently in force from April 22 to October 17.

Other additional measures are specific to businesses. In particular, tax credits to offset part of the higher costs for the purchase of gas and electricity, with special measures for the most affected sectors, i.e. energy-intensive companies consuming large volumes of natural gas, road transport and agriculture, and measures to support liquidity. The latter include new loan guarantees, which renew the extraordinary program of the Central Guarantee Fund for SMEs and the Italy Guarantee program of SACE until December 31, 2022. It should be remembered that about 40% of the stock of loans to firms is backed by State guarantees activated during the COVID emergency.

Another important measure directed at households is a one-off indemnity of €200, for about €7 billion has been allocated, with the aim of partially offsetting the loss of purchasing power of those in financial distress (recipients of unemployment benefits, Citizenship Income recipients) and workers or retirees with an annual income of less than €35,000. In addition, it was decided to move forward to the end of 2022 a revaluation of pensions scheduled for next year, again to counter the effects of inflation.

Investment support measures include an appropriation to enable the implementation of NRRP tenders and projects despite higher prices for energy and building materials. The funds total around €10 billion over four years, of which €3 billion in 2022. In addition, other funding has been appropriated to offset the higher operating costs of local authorities, tax credits for intangible investments and 4.0 training costs incurred by companies have been increased and the 110% tax credit for energy efficiency and seismic resilience projects has been extended to the end of 2022.

OTHER REGULATORY AND SUPERVISORY MEASURES

The package of measures presented by the EU Commission on October 27, 2021 (the "Banking Package 2021") is currently being examined by the EU co-legislators (Parliament and the Council), who will have to reach an agreement on a joint text. The package contains a proposal for a regulation (amending Regulation No. 575/2013, the so-called Capital Requirements Regulation or CRR), a proposal for a directive (amending Directive no. 36/2013, the so-called Capital Requirements Directive) and a proposal for a regulation amending the Capital Requirements Regulation in the area of resolution. The objective of the Banking Package 2021 objective is to incorporate into European legislation the international standards approved by the Basel Committee in 2017 ("Basel III Finalization"), which represent the completion of the reform of the prudential framework of the banking sector launched in the aftermath of the global financial crisis. However, the proposal is not limited to amending the capital requirements of banks, but also includes measures for integrating environmental, social and governance (ESG) risks into prudential regulation and other rules to ensure greater harmonization at the European level of supervisory tools (greater transparency in reporting, more stringent governance requirements, new rules for the establishment of branches of third-country banks in the EU). The European Parliament's Committee on Economic and Monetary Affairs (ECON) published a draft report on the Banking Package 2021 and in August 2022 the members of the Committee submitted their amendments. The many changes proposed include the introduction, under certain conditions, of a risk weighting of 150% for exposures to companies active or financing projects in the fossil fuel sector and the postponement to 2028 (instead of 2025) of the assessment of the prudential treatment of crypto-asset exposures. Discussions within ECON should lead to the adoption of a legislative report to be used to obtain a mandate from the plenary sitting of the European Parliament to initiate the Trilogue with the Council (which in turn is working on drafting its own position on the Banking Package 2021). The time require to apply the measures in the Banking Package 2021 will depend on the duration of the approval process for the final texts: if a compromise text between Parliament and the Council is agreed in 2023, most of the measures will be applied from 2025 (in the original version of the proposal of October 27, 2021, 2025 is the date envisaged for the application of the rules transposing the framework).

Regulatory changes in the ESG field include the publication, on January 24, 2022, of the EBA's final ITS (Implementing Technical Standards) on Pillar 3 disclosures on ESG risks. The Pillar 3 disclosures on ESG risks concerns all large institutions that have issued securities admitted to trading on a regulated market in any Member State. The technical standards were developed in response to the provisions of Article 434a

of the CRR, which mandates the EBA to develop implementing technical standards to specify these disclosure requirements in a transparent, sufficiently comprehensive and comparable manner to enable assessment the risk profile of banks. The ITS have been developed in line with other ongoing initiatives at the EU and international levels, in particular the recommendations presented by the Financial Stability Board Task Force on Climate Related Disclosures (FSB-TCFD), the EU Taxonomy Regulation and the Climate Benchmark Regulation. The EBA has chosen a progressive approach in the timing of implementation of the disclosure requirements. For the first year, the disclosures will be made available in the Pillar 3 documents published at the beginning of 2023 (using data at the end of 2022) and will then be published semi-annually. However, for disclosures contained in certain templates and for the calculation of the two ratios that provide information on mitigation actions, i.e. quantitative information that shows the evolution over time of the alignment of banks with the Taxonomy - so-called GAR and BTAR - different timing has been envisaged, with a gradual approach that enables banks to collect the information necessary for their compilation. The ITS has been sent to the European Commission, which will issue the related implementing regulation. It should be noted, however, that the regulatory and political framework of the ESG field is constantly evolving, meaning that in the coming years the EBA will have to review the requirements to take into account of these developments at the European and international levels. Specifically, the Banking Package 2021 (discussed above) envisages the expansion of Pillar 3 disclosure obligations to all banks, while allowing small and non-complex institutions to publish their disclosures on an annual rather than semi-annual basis. Accordingly, when the disclosure requirements currently envisaged by the CRR are extended, the ITS will be revised to proportionately define the disclosures applicable to all banks, including small and non-complex institutions.

In January 2022, the European Central Bank launched a stress test on climate risk aimed at assessing banks' preparedness for the economic and financial shocks deriving from climate risk. The exercise ended in June 2022 and did not provide for direct impacts on capital requirements because the aim was to raise awareness of climate risk among financial institutions, assess the vulnerabilities of institutions and the costs induced by non-compliance with the Paris Agreement, and improve the ability to integrate climate risk into the measurement of financial risks. The bottom-up stress test was focused on identifying both the transition risk and physical risk of banks. For this reason, the test involved only specific asset classes, i.e. those most exposed to climate risk, and not the entire balance sheet, combining traditional projections of losses with new qualitative data. The exercise, with the participation of 104 significant institutions, was divided into 3 modules: a questionnaire, a comparative analysis and a bottom-up stress test (the latter reserved for a sub-sample of 41 significant banks, to ensure proportionality in respect of smaller banks). Based on the results published by the ECB in July 2022, the questionnaire (first module) found that most banks do not include climate risk in their credit risk models and only 20% use it to inform their loan granting process. The comparative analysis (second module) revealed that almost two-thirds of banks' revenues (from non-financial customers) come from industries with high greenhouse gas intensity. In addition, banks often use indirect indicators to measure exposure to high-emission sectors, meaning that greater interaction with customers is desirable to obtain more accurate data and information on their respective transition plans. The bottom-up stress test (third module) required banks to project losses in the event of extreme weather phenomena and over transition scenarios with different time horizons. The result confirms that physical risk has a heterogeneous impact on European banks: for example, banks' vulnerability to a drought or extreme heat scenario is highly dependent on the sectoral activity and geographic location of their exposures, being reflected in a decline in productivity at the sectoral level and an increase in credit losses in the affected areas. In the short-term disorderly transition scenario and in the two physical risk scenarios, credit and market losses would amount to approximately €70 billion in aggregate terms for the 41 banks involved. The findings of the test will be considered for the purposes of the Supervisory Review and Evaluation Process (SREP) from a qualitative point of view but in 2022 they will not have a direct capital effect through the Pillar 2 Guidance. However, participating banks received individual feedback, following which the regulator expects action to be taken in line with best practices to be published in the last quarter of 2022.

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

The Iccrea Cooperative Banking Group (ICBG) has its legal foundation in the Cohesion Contract (pursuant to Article 37-bis of the Consolidated Banking Act) between the Parent Company, Iccrea Banca (the central body), and the affiliated mutual banks (affiliated banks), through which the latter have granted the Parent Company powers of management and coordination, exercised on a proportionate basis and as a function of the relative health of the affiliated banks themselves, with the aim of preserving the stability of the Group and its members and promoting the cooperative spirit and mutualistic function of the mutual banks and the Group.

In this regard, the Cohesion Contract calls for the joint and several guarantee of all obligations assumed by the Parent Company and by the affiliated banks in observance of the principles of prudence applicable to banking groups and to the individual affiliated banks as a further necessary factor in the establishment of the ICBG. This cross-guarantee between the Parent Company and the affiliated banks is governed by contract with the effect of qualifying the liabilities of the Parent Company and of the affiliated banks as joint and several obligations of all those who accept the agreement. The guarantee also calls for intercompany financial support mechanisms under which the members of the group provide mutual support to ensure solvency and liquidity in order to ensure compliance with prudential requirements and the regulations issued by the supervisory authorities as well as to avoid, where necessary, being subject to the insolvency procedures of Legislative Decree 180/2015 or the compulsory liquidation procedures of Article 80 *et seq.* of the Consolidated Banking Act.

Any necessary support (capital or liquidity) provided to the affiliated banks – taking account of the output of the early warning system (EWS) – in order to ensure the solvency and liquidity of the individual members of the Group are carried out by the Parent Company alone, drawing on the financial resources made available by the participants under the provisions of the Guarantee Agreement. Support actions may include (i) capitalization measures making use of the Ex Ante Quota of the readily available funds (RAFs); (ii) liquidity support measures using ex ante funds or the Ex Post Quota of the readily available funds by way of special-purpose lines of credit; or (iii) any other form of intervention deemed appropriate by the Parent Company.

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

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

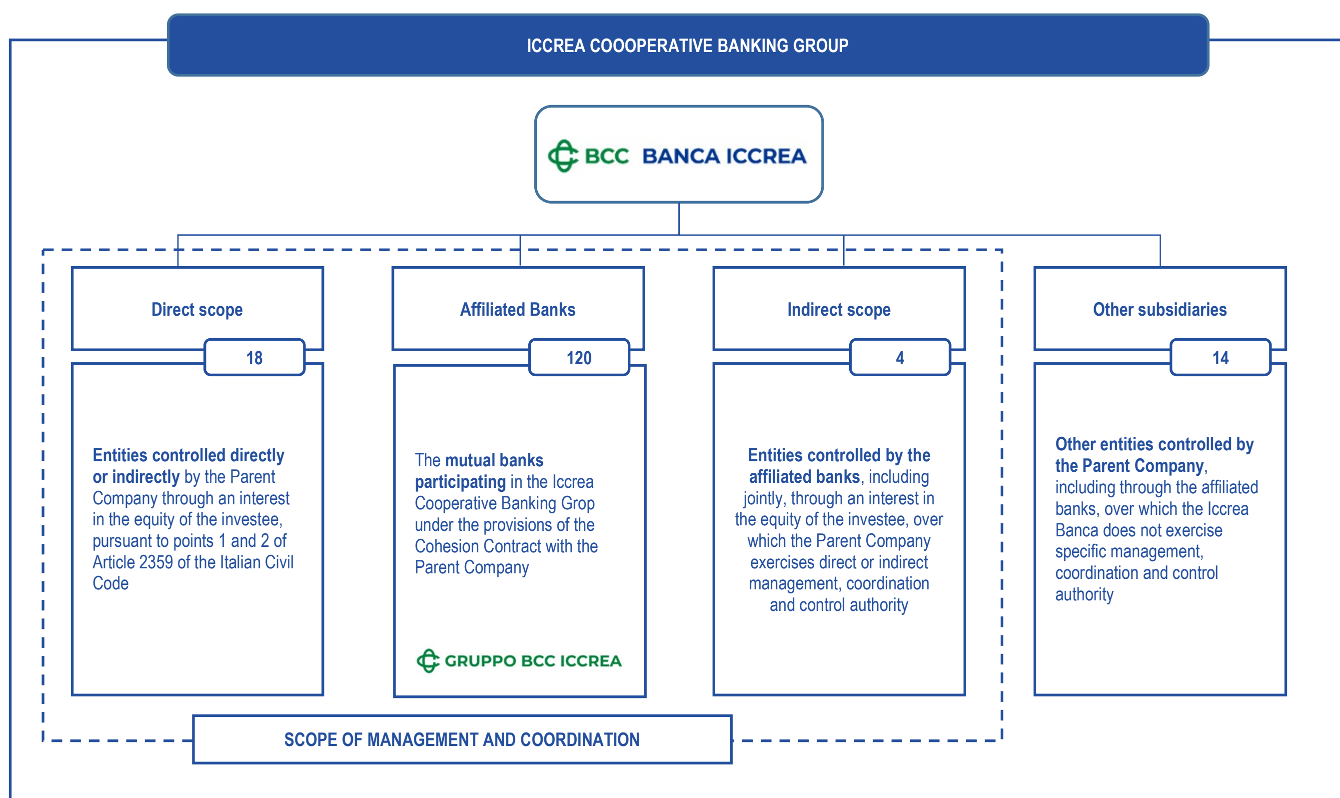
In view of the foregoing, the Iccrea Cooperative Banking Group is a group of entities affiliated with a central body pursuant to Article 10 of the CRR, with the simultaneous presence of a mutual guarantee system, given that:

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

The organizational structure of the Iccrea Cooperative Banking Group

As summarized in the following chart, at June 30, 2022, the Group is structured as follows:

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



Organizational structure of the Parent Company

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

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

Group personnel

Total Group personnel at June 30, 2022 numbered 22,137 employees (21,680.3 FTE[11]), broken down as follows:

Scope	Number of employees June 2022	FTE June 2022
Mutual bank employees	18,531	18,107.4
Iccrea Banca and direct scope companies	3,563	3,529.9
Other companies	43	43.0
Total	**22,137**	**21,680.3**

Developments in hiring and terminations within the Group in the first half of 2022 produced a net increase of 53 employees at June 30, 2022 (722 new hires compared with 669 terminations). Of these, 180 involved intragroup transfers, 72 of which regarding the disposal of a business unit of the Parent Company to BCC Pay S.p.A. (greater details below) and 22 regarding the merger of In.Cra. in Sinergia.

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

The composition of the workforce by category and gender at June 30, 2022, is reported in the following table:

Position	Men	Women	Total
Senior management	356	29	385
Middle management	4,769	1,717	6,486
Office staff	7,594	7,672	15,266
Total	**12,719**	**9,418**	**22,137**
of which:			
On open-ended contracts	12,410	9,123	21,533
On fixed-term contracts	309	295	604

As a result of the agreement signed between the parties on 22 December 2020, the employees of the Parent Company and those of the companies within the direct scope had the opportunity to terminate their employment relationship and receive extraordinary benefits through the Cooperative Credit Solidarity Fund if they would meet the first of the pension requirements (old age, Fornero Act early retirement) within 60 months, starting from April 1, 2021 and up to March 31, 2022. Under the agreement, in the first half of 2022, the companies within the direct scope registered 13 terminations. A further 3 employees terminated their employment relationship through the "Quota 100" early retirement incentive plan.

During the first half of 2022, the sale of the business unit from Iccrea Banca to BCC Pay was completed on May 1, marking the full operational start-up of BCC Pay, which at June 30, 2022 had a workforce of 74 employees, 72 of whom transferred from the Parent Company.

The Parent Company's workforce showed a net decrease of 28 at June 30, 2022: 105 additions, of whom 22 from other Group companies, and 133 outgoing employees, of whom 80 to other companies of the Group, 72 of whom connected with the transfer of the business unit to BCC Pay.

Distinctive features of the mutual banks

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

In addition to a business model based on this relationship, the difference between the mutual banks and their more traditional brethren is explicated in the Consolidated Banking Act (Articles 33 et seq. of the Consolidated Banking Act, with significant amendments introduced with the Reform Law 49/2016).

More specifically, primary legislation (Articles 33-37 of the Consolidated Banking Act, as amended by the legislation governing cooperative banking groups) requires the following of mutual banks: (i) that they be established as limited-liability, joint-stock cooperatives (*società cooperativa per azioni a responsabilità limitata*); (ii) that they have no fewer than 500 shareholders; (iii) that their shareholders be residents of or have operations, on an ongoing basis, in the community in which the bank operates; (iv) that every shareholder have one vote, regardless of the number of shares held; (v) that no shareholder may own shares with a total nominal value of greater than €100,000; and (vi) at least 70% of annual net profits be allocated to the legal reserve (3% of annual net profits is allocated to mutualistic funds for the promotion and development of cooperation efforts).

The vocation of service to local communities is also expressed in secondary legislation issued by the Bank of Italy (Bank of Italy Circular no. 285, Part III, Chapter 5), which, in implementation of Article 35(2) of the Consolidated Banking Act,[12] states that no less than 95% of all business shall be conducted within the bank's territory,[13] and at least 50% of this business shall be in favor of shareholders,[14] such that the funding of the bank shall, in essence, go to supporting and financing the economic growth of the traditional area of operations. The aforementioned rules for the preservation of mutuality and localism were confirmed by the reform of the sector, whose objective – as underscored by the Bank of Italy - was solely to "remove the regulatory and operational constraints typical of entities established as cooperatives - which could have hindered rapid recapitalization, including through access to the capital market, in case of need - and the related diseconomies associated with the small size of such entities" (Circular no. 285, Part Three, Chapter 5, Section 1, sub-section 1).

[12] Which states that articles of association shall contain provisions related to assets, lending, funding, and territory of operations, as well as to the powers granted to the parent company in accordance with Article 37-bis, with such provisions being based on the criteria set by the Bank of Italy.

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

- central government entities of the Italian Republic or other euro-area countries, the European Central Bank and the Bank of Italy;
- the parent company and other companies belonging to a cooperative banking group , including commitments and guarantees undertaken in execution of the joint and several Guarantee Agreement;
- guarantee systems established between mutual banks.

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

- central government entities of the Italian Republic or other euro-area countries, the European Central Bank and the Bank of Italy;
- the parent company and other companies belonging to a mutual banking group, including commitments and guarantees undertaken in execution of the joint and several Guarantee Agreement;
- guarantee systems established between mutual banks.

In line with their nature as mutual banks, the affiliated banks pursue the objective of maximizing the social utility in their local territories.

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

At June 30, 2022, the Group had 120 affiliated mutual banks, distributed in almost all regions of the country, with the exception of Valle d'Aosta, Trentino Alto Adige, Liguria and Umbria (although the Group does have branches in the latter three regions).

The Group has 2,470 branches, of which 56% located in Lombardy, Veneto, Tuscany and Emilia-Romagna, with a national branch market share of 11.65%.

In the first half of 2022, the affiliated bank branch network saw the closure of 25 branches, largely offset by the opening of new branches in locations with greater potential for business development. The result of these changes was a net reduction of 4 branches compared with December 2021. The developments in the network, which focused on strengthening its presence in more attractive markets, nevertheless involved a lesser impact from rationalization than that recorded by the rest of the national banking system and must in any event be framed within the mission of the affiliate mutual banks, for which a local presence is one of the founding assets of the relationship with the shareholder-customer and local communities, in accordance with the Group's territorial development plan.

The ICBG has at least one branch in 1,700 of the 4,788 Italian municipalities served by banks (35.5% of the total). In 343 of these municipalities (20.2% of the total), the Group's branches are the only banking presence, consistent with the organization's community-centric mission. Lombardy is the region in which the Group is present in the most municipalities (395), while Tuscany boasts the largest share of municipalities with a banking presence with a Group branch (60%).

Region	Municipalities with banking services	with ICBG branch	(%)	of which ICBG is only bank	(%)
Lombardy	1,011	395	39.07%	95	24.05%
Veneto	467	266	56.96%	43	16.17%
Tuscany	248	149	60.08%	4	2.68%
Emilia-Romagna	306	121	39.54%	8	6.61%
Sicily	258	102	39.53%	34	33.33%
Lazio	193	98	50.78%	17	17.35%
Marche	169	98	57.99%	14	14.29%
Campania	266	86	32.33%	38	44.19%
Calabria	122	57	46.72%	30	52.63%
Piedmont	461	63	13.67%	11	17.46%
Friuli-Venezia Giulia	155	61	39.35%	11	18.03%
Puglia	198	62	31.31%	2	3.23%
Abruzzo	127	55	43.31%	14	25.45%
Basilicata	73	31	42.47%	13	41.94%
Umbria	67	23	34.33%	3	13.04%
Molise	25	10	40.00%	5	50.00%
Liguria	109	11	10.09%	1	9.09%
Sardinia	261	10	3.83%	0	0.00%
Trentino-Alto Adige	248	2	0.81%	0	0.00%
Valle d'Aosta	24	0	0.00%	0	
Total	**4,788**	**1,700**	**35.51%**	**343**	**20.18%**

Source: based on Bank of Italy data at June 30, 2022.

With regard to competitive pressure, 20% of the municipalities in which the Group is present have at most one branch of another bank, while 34% of municipalities have more than three bank competitors.

No. of other banks present in the municipalities in which ICBG has a presence	0	1	2	3	more than 3	Total
No. municipalities	343	331	265	181	580	1,700
% of total	20.2%	19.5%	15.6%	10.6%	34.1%	100.0%

Source: based on Bank of Italy data at June 30, 2022.

Strategic positioning of the Group's retail banks

The retail banks of the Iccrea Cooperative Banking Group, including Banca Sviluppo, have a total market share of lending to resident customers (performing loans to consumer households and firms, net of repurchase agreements and Monetary Financial Institutions) of 6%, with a value of almost €78 billion, broken down similarly between loans to consumer households and to firms.

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

Region	Market share of lending to households and firms	Market share consumer households	Market share firms
Marche	14.13%	14.05%	14.18%
Tuscany	9.78%	9.64%	9.91%
Abruzzo	10.39%	9.09%	11.56%
Basilicata	10.22%	6.36%	13.87%
Friuli-Venezia Giulia	9.46%	11.81%	7.77%
Veneto	9.34%	10.36%	8.65%
Emilia-Romagna	6.90%	8.11%	6.12%
Calabria	6.14%	4.49%	8.67%
Molise	5.61%	3.86%	7.74%
Umbria	4.33%	3.86%	4.68%
Lombardy	5.03%	5.08%	5.00%
Piedmont	4.16%	3.89%	4.38%
Puglia	4.47%	3.27%	6.05%
Sicily	3.35%	2.43%	4.84%
Campania	3.06%	1.89%	4.38%
Lazio	6.22%	7.03%	5.46%
Sardinia	2.19%	0.87%	4.01%
Liguria	1.46%	1.24%	1.69%
Valle d'Aosta	0.33%	0.32%	0.33%
Trentino-Alto Adige	0.34%	0.13%	0.44%
Total	**6.0%**	**5.9%**	**6.00**

Source: based on supervisory and Bank of Italy data at June 30, 2022. Loans to customers have been allocated on the basis of customer residence.

With regard to deposits by resident customers, the market share of the Group retail banks is 6.4%, with about €107 billion in funds. Customer deposits (consumer households and firms) are also led by Marche, in which the Group has a 15.4% market share, followed by Tuscany and Veneto.

Region	Market share of customer deposits (consumer households and firms)
Marche	15.36%
Tuscany	11.35%
Veneto	10.62%
Friuli-Venezia Giulia	10.08%
Abruzzo	9.37%
Basilicata	7.29%
Emilia-Romagna	6.92%
Lombardy	6.39%
Umbria	5.71%
Calabria	5.16%
Sicily	5.06%
Lazio	5.18%
Puglia	4.44%
Piedmont	4.23%
Campania	3.06%
Molise	2.89%
Sardinia	1.96%
Liguria	1.26%
Valle d'Aosta	0.24%
Trentino-Alto Adige	0.21%
Total Italy	**6.41%**

Source: based on supervisory and Bank of Italy data at June 30, 2022. Customer deposits have been allocated on the basis of customer residence.

With regard to ownership structure, at June 2022 shareholders numbered approximately 855 thousand, an increase of over 21 thousand compared with June 30, 2021 (+2.6%) and 9,884 compared with December 2021. The northern and central areas account for about 43% and almost 44% of shareholders, respectively, together representing some 88% of the shareholder base.

Geographical area	No. shareholders Jun 22	(%)	No. shareholders Jun 21	(%)	∆ Jun 22 – Jun 21	% change Jun 22 – Jun 21	No. shareholders Dec 21	∆ Jun 22 – Dec 21	% change Jun 22 – Dec 21
North-west	246,454	28.8%	243,984	29.3%	2,470	1.0%	244,589	1,865	0.8%
North-east	122,235	14.3%	119,787	14.4%	2,448	2.0%	121,194	1,041	0.9%
Center-west	210,018	24.6%	204,342	24.5%	5,676	2.8%	206,808	3,210	1.6%
Center-east	174,092	20.3%	166,444	19.9%	7,648	4.6%	171,412	2,680	1.6%
South-west	75,057	8.8%	72,547	8.7%	2,510	3.5%	74,730	327	0.4%
South-east	27,129	3.1%	26,183	3.1%	946	3.6%	26,368	761	2.9%
Total	**854,985**	**100.00%**	**833,287**	**100.00%**	**21,698**	**2.6%**	**845,101**	**9,884**	**1.2%**

Source: based on supervisory data at June 30, 2022. The number of shareholders is shown by area in which the bank is headquartered.

4. DEVELOPMENTS IN GROUP OPERATIONS

The following provides an overview of the main balance sheet and income statement figures of the Iccrea Cooperative Banking Group as at June 30 2022. To enable a more immediate understanding of the Group's balance sheet and income statement, the following tables contain more condensed schedules than those provided for in Circular no. 262/05 of the Bank of Italy. In addition, the figures for the e-money operations[15] managed by Iccrea Banca, which are reported as held for sale in the financial statements, are included in the appropriate items of the consolidated financial statements in the following tables in order to enable year-on-year comparisons of operational developments.

BALANCE SHEET

Consolidated assets

€/thousands	30/06/2022	31/12/2021
Cash and cash equivalents	1,700,905	1,674,568
Financial assets measured at fair value through profit or loss	1,666,290	1,728,765
Financial assets measured at fair value through other comprehensive income	8,695,265	7,850,471
Financial assets measured at amortized cost	153,721,098	159,230,846
a) due from banks	2,489,533	9,265,356
b) loans to customers	90,051,498	88,758,420
c) securities	61,180,067	61,207,070
Hedging derivatives and value adjustments of macro-hedged financial assets	855,951	106,620
Equity investments	74,062	128,524
Property, plant and equipment	2,606,032	2,646,505
Intangible assets	164,902	176,836
Tax assets	1,873,987	1,901,863
Non-current assets and disposal groups held for sale	8,302	12,694
Other assets	4,976,291	3,527,689
Total assets	**176,343,084**	**178,985,382**

Il The consolidated assets of the Iccrea Cooperative Banking Group totaled more than €176 billion, down €2.6 billion (-1.5%) compared with December 31, 2021. The decline is mainly attributable to the decrease in the exposure with central banks in reflection of the partial repayment of a TLTRO loan in the second quarter of 2022.

Financial assets measured at fair value through profit or loss amounted to €1.7 billion. they include financial assets held for trading of €0.2 billion (which mainly includes derivatives and government securities held for trading), financial assets designated as at fair value in the amount of €0.3 billion (represented by instruments in which liquidity from the Guarantee Scheme is invested, mainly European government securities) and other financial assets mandatorily measured at fair value in the amount of €1.2 billion (mainly in the form of units of collective investment undertakings - CIUs, policies and postal bonds).

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

[15] This regards the e-money operations managed by Iccrea Banca S.p.A., whose sale to BCC Pay S.p.A. was completed in the first half of 2022, and the results of the subsidiary BCC Pay, which was sold to FSI through the vehicle Pay Holding S.p.A. on August 4, 2022. For a description of the operation, please see the section "Developments in Parent Company operations and the main items of the balance sheet and income statement".

€/thousands	L1	L2	L3	Total 30/06/2022	Total 31/12/2021
Financial assets held for trading	37,641	144,784	3,610	186,035	168,649
Debt securities	32,883	70	761	33,714	84,125
Equity securities	2,460	0	4	2,464	1,157
Units in collective investment undertakings	1,486	735	880	3,100	3,009
Financial derivatives	812	143,979	1,966	146,757	80,358
Financial assets designated as at fair value	262,481	-	1,772	264,253	275,467
Debt securities	262,481	-	-	262,481	272,555
Financing	-	-	1,772	1,772	2,913
Financial assets mandatorily measured at fair value	79,641	897,520	238,840	1,216,001	1,284,648
Debt securities	20,846	48,239	5,565	74,650	71,479
Equity securities	42,768	23,474	4	66,246	70,202
Units in collective investment undertakings	14,024	91,678	191,517	297,219	307,331
Financing	2,003	734,129	41,754	777,887	835,637
Financial assets measured at fair value through profit or loss	**379,763**	**1,042,305**	**244,222**	**1,666,290**	**1,728,765**

The portfolio of financial assets measured at fair value through other comprehensive income amounted to €8.7 billion, an increase on December 31, 2022, and is mainly represented by government securities held in accordance with the HTCS business model. The aggregate also includes minority interests in the amount of €499 million, which are measured at fair value through other comprehensive income without recycling to profit or loss.

€/thousands	L1	L2	L3	Total 30/06/2022	Total 31/12/2021
Debt securities	8,176,325	19,920	183	8,196,429	7,524,144
Equity securities	22,775	408,526	67,535	498,836	326,327
Financial assets measured at fair value through other comprehensive income	**8,199,100**	**428,446**	**67,719**	**8,695,265**	**7,850,471**

Financial assets measured at amortized cost amounted to €153.7 billion, of which 60% in loans with the remainder in debt securities. These assets break down by risk level as shown below.

€/thousands	Gross value		Total writedowns	
	Stages 1 and 2	Stage 3	Stages 1 and 2	Stage 3
Financing	91,635,094	5,557,655	(1,087,391)	(3,564,328)
Loans to banks[16]	2,492,017	1,295	(2,539)	(1,241)
Loans to customers[16]	89,143,077	5,556,360	(1,084,852)	(3,563,088)
Debt securities	61,286,988	1,481	(107,233)	(1,169)
Total financial assets measured at amortized cost	**152,922,083**	**5,559,135**	**(1,194,623)**	**(3,565,497)**

More specifically, net loans to customers totaled €90 billion, €88 billion of which performing and about €2.4 billion related to impaired positions. Of this total, more than 80% was in medium and long-term financing (both loans and leases). Lending to ordinary customers increased by €1 billion during the first half of 2022, while exposures to the Clearing & Guarantee Fund rose by €0.3 billion compared with December 2021).

€/thousands	Total 30/06/2022	% share	Total 31/12/2021	% share
Current accounts	6,420,649	7.1%	6,070,859	6.8%
Repurchase agreements	271,887	0.3%	203,329	0.2%
Medium/long-term loans	69,499,492	77.2%	68,557,704	77.2%
Credit cards, personal loans and salary-backed loans	2,308,960	2.6%	2,167,986	2.4%
Lease financing	3,935,118	4.4%	4,103,305	4.6%
Factoring	510,483	0.6%	574,051	0.6%
Other lending	7,104,909	7.9%	7,081,186	8.0%
Financial assets measured at amortized cost – Loans to customers	**90,051,497**	**100.0%**	**88,758,420**	**100.0%**

Gross impaired loans, which have continued to decrease in recent years thanks to robust de-risking efforts pursued in coordination with the Parent Company, came to about €5.6 billion, or 5.7% of total gross lending (5.9% of loans to customers alone). Net impaired loans amounted to about €2 billion, equal to 2.1% of net lending (2.2% when considering only ordinary customers). The ratios of net bad loans and net unlikely-to-pay positions to total net lending came to 0.5% and 1.3%, respectively (0.5% and 1.4% when considering only ordinary customers).

As shown in the table below, efforts to improve the Group's risk profile can also be seen in the more prudent assessment policies, which have

[16] Source: Based on consolidated Finrep data.

resulted in an increase in the coverage of NPLs to 64.1% in the first half of 2022, an increase of 1.4 percentage points compared with the end of the previous year.

Type of exposure	Gross exposure	Writedowns	Net exposure	Coverage 30/06/2022	Coverage 31/12/2021
Bad loans	2,228,345	(1,805,599)	422,746	81.0%	78.8%
Unlikely-to-pay positions	2,895,844	(1,660,280)	1,235,564	57.3%	53.9%
Impaired past-due positions	432,170	(97,208)	334,962	22.5%	20.9%
Impaired exposures to customers at period end	**5,556,360**	**(3,563,088)**	**1,993,272**	**64.1%**	**62.7%**

The particular business model of the affiliated banks, which account for the largest component of assets and of total loans to customers, is reflected, above all, in the type of counterparty. Total loans disbursed, a gross amount of €94.7 billion, have mainly gone to households and small and medium-sized enterprises (SMEs), which accounted for 38% and 49% of total lending, respectively. As shown in the table below, these segments feature a lower NPL ratio than for the corporate segment, thereby confirming the ability to better discriminate and manage credit relationships with households and SMEs, which have always been the core customer base of mutual banks.

Type of counterparty	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	NPL Ratio	Ratio to total NPL
Ordinary customers	93,684,056	98.9%	94.0%	98.9%	6.0%	100.0%
Consumer households	36,226,569	38.3%	96.3%	39.2%	3.7%	23.9%
Small and medium-sized enterprises	46,911,900	49.5%	94.1%	49.5%	5.9%	50.0%
- Family businesses	7,781,790	8.2%	92.9%	8.1%	7.1%	9.9%
- Micro-businesses, associations and other organizations	8,142,703	8.6%	91.9%	8.4%	8.1%	11.9%
- Other SMEs	30,987,407	32.7%	94.9%	33.0%	5.1%	28.2%
Other non-financial companies	8,834,145	9.3%	83.9%	8.3%	16.1%	25.5%
Other financial companies	1,711,443	1.8%	98.0%	1.9%	2.0%	0.6%
Government entities	1,015,381	1.1%	100.0%	1.1%	0.0%	0.0%
Total loans to customers at period end	**94,699,437**	**100.0%**	**94.1%**	**100.0%**	**5.9%**	**100.0%**

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

Geographical area	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	NPL Ratio	Ratio to total NPL
North-east	27,700,112	29.3%	94.9%	29.5%	5.1%	25.6%
North-west	25,477,209	26.9%	94.7%	27.1%	5.3%	24.1%
Center	29,728,508	31.4%	93.4%	31.1%	6.6%	35.4%
South and islands	11,793,607	12.5%	93.0%	12.3%	7.0%	14.9%
Total loans to customers at period end	**94,699,437**	**100.0%**	**94.1%**	**100.0%**	**5.9%**	**100.0%**

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

Economic segment of borrowers	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	Ratio to total	Ratio to total NPL
Consumer households	36,226,569	38.3%	96.3%	39.2%	3.7%	23.9%
Primary sector	5,149,521	5.4%	94.9%	5.5%	5.1%	4.7%
Manufacturing	12,990,391	13.7%	95.1%	13.9%	4.9%	11.5%
Commerce	9,960,392	10.5%	93.2%	10.4%	6.8%	12.1%
Real estate and construction	12,899,351	13.6%	86.1%	12.5%	13.9%	32.0%
Services and other	14,746,388	15.6%	94.3%	15.6%	5.7%	15.1%
Government entities	1,015,381	1.1%	100.0%	1.1%	0.0%	0.0%
Financial companies	1,711,443	1.8%	98.0%	1.9%	2.0%	0.6%
Total loans to customers at period end	**94,699,437**	**100.0%**	**94.1%**	**100.0%**	**5.9%**	**100.0%**

The particular model of mutual banking, featuring a prevalence of medium and long-term lending to households and small businesses, is responsible for the high rate of collateral-backed lending (more than 60%). More specifically, about 71.5% of all impaired lending is backed by collateral, and this figure is to be interpreted in conjunction with the high level of NPL coverage, underscoring the prudent approach adopted

in assessing loan recoverability.

Type of guarantee	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	Ratio to total	Ratio to total NPL
Collateral	57,075,362	60.2%	93.0%	59.6%	7.0%	71.5%
Unsecured guarantees	23,069,827	24.4%	95.5%	24.7%	4.5%	18.6%
Not guaranteed	14,554,248	15.4%	96.2%	15.7%	3.8%	9.9%
Total loans to customers at period end	**94,699,437**	**100.0%**	**94.1%**	**100.0%**	**5.9%**	**100.0%**

With regard to financial assets measured at amortized cost, amounts due from banks amounted to about €2.5 billion and include €1.6 billion in respect of the reserve requirement with central banks (down €6.5 billion on December 31, 2021, mainly reflecting the decrease in the exposure with central banks as a result of the partial repayment of a TLTRO loan in the second quarter of 2022).

€/thousands	Stages 1 and 2	Stage 3	Total 30/06/2022	% share	Total 31/12/2021	% share
Due from central banks – reserve requirement	1,563,789	-	1,563,789	62.8%	8,014,335	86.5%
Loans to banks - financing	925,690	54	925,744	37.2%	1,251,021	13.5%
Financial assets measured at amortized cost – Loans to banks	**2,489,479**	**54**	**2,489,533**	**100.0%**	**9,265,356**	**100.0%**

Finally, debt securities measured at amortized cost (under the HTC business model), largely represented by Italian government securities, totaled €61.2 billion, in line with December 31, 2021.

Among assets: *(i)* equity investments (€74 million) mainly represent interests in associates, the most significant of which are the investments in BCC Vita (€38.3 million), Pitagora S.p.A. (€10.6 million) and BCC Assicurazioni (€5.2 million); *(ii)* property, plant and equipment, totaling €2.6 billion, which mainly includes property used in operations (€2 billion) as well as properties contributed to consolidated real estate investment funds in the amount of €0.4 billion; *(iii)* intangible assets (€164.9 million) mainly include software and user licenses (€126 million) and goodwill of €21 million, a portion of which has been recognized among assets for the affiliated banks for the acquisition of bank branches (€5.6 million) prior to creation of the Cooperative Banking Group; *(iv)* tax assets totaling about €1.9 billion, including current taxes of about €0.4 billion and deferred tax assets of about €1.5 billion, the latter of which includes about €1 billion referring to Law 214/2011; and (v) other assets of about €5 billion, which among other things include tax credits of about €2.3 billion.

Consolidated liabilities and equity

€/thousands	30/06/2022	31/12/2021
Financial liabilities measured at amortized cost	157,712,544	163,443,580
a) due to banks	30,701,488	34,585,361
b) due to customers	117,061,431	117,551,739
c) securities issued	9,949,626	11,306,480
Financial liabilities held for trading	150,823	129,475
Financial liabilities designated as at fair value	-	256
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	315,963	495,080
Tax liabilities	61,684	44,173
Other liabilities	6,343,424	3,378,853
Post-employment benefits	236,806	277,961
Provisions for risks and charges	544,496	521,102
Equity	10,301,284	10,238,138
Profit/(loss) for the period	676,061	456,765
Total liabilities and equity	**176,343,084**	**178,985,382**

Total consolidated liabilities and equity amounted to more than €176 billion, down 2.6 billion (-1.5%) on December 31, 2021. The decline in mainly attributable to liabilities measured at amortized cost following deleveraging transactions during the period (partial repayment of TLTRO loans).

More specifically, financial liabilities measured at amortized cost include direct funding from ordinary customers totaling about €120.6 billion, down slightly on the end of 2021, attributable to the decline in securities issued, reflecting maturing securities that were not offset by new issues (-€1.4 billion).

€/thousands	30/06/2022	31/12/2021
Due to customers	110,668,506	110,742,741
Current accounts and demand deposits	104,888,325	104,311,902
Time deposits	4,252,539	4,865,989
Other amounts due	1,527,641	1,564,850
Outstanding securities	9,949,626	11,306,480
Bonds	5,931,855	6,617,687
Other securities	4,017,771	4,688,793
Financial liabilities measured at amortized cost – Direct funding from ordinary customers	**120,618,131**	**122,049,221**

Amounts due to ordinary customers came to €110.7 billion, broadly unchanged. Of the total, 91.3% is represented by funding from consumer households and SMEs.

€/thousands	30/06/2022		31/12/2021	
	Total	Ratio to total	Total	Ratio to total
Ordinary customers	108,686,289	98.2%	108,721,797	98.2%
Consumer households	67,647,144	61.1%	67,428,205	60.9%
Small and medium-sized enterprises	33,373,975	30.2%	33,557,404	30.3%
- Producer households	6,481,397	5.9%	6,422,567	5.8%
- Micro-businesses, associations and other organizations	6,547,094	5.9%	6,255,307	5.6%
- Other SMEs	20,345,484	18.4%	20,879,530	18.9%
- Other non-financial companies	4,583,504	4.1%	5,271,798	4.8%
- Other financial companies	3,081,666	2.8%	2,464,390	2.2%
Government entities	1,982,217	1.8%	2,020,944	1.8%
Deposits and current accounts at amortized cost	**110,668,506**	**100.0%**	**110,742,741**	**100.0%**

The remainder of financial liabilities measured at amortized cost comprises funding from institutional customers (€37 billion) and includes: i) €5.1 billion in repurchase agreements, almost entirely with the Clearing & Guarantee Fund; (ii) €30.7 billion in amounts due to banks, of which €28.8 billion in operations with the ECB (notably TLTROs) and €1.9 billion in other amounts due to banks outside the Group.

Amounts due to banks decreased by €3.9 billion. Of the total, 94% regard exposures to central banks. Those exposures contracted, of which €4.4 billion regarded deleveraging transactions carried out in the second quarter of 2022 (partial repayment of TLTRO funding).

€/thousands	30/6/2022	31/12/2021
Loans to customers	6,392,925	6,808,999
Repos	5,116,043	5,635,000
Other	1,276,882	1,173,999
Due to banks	30,701,488	34,585,361
Due to central banks	28,767,056	33,158,972
Due to banks	1,934,432	1,426,388
Current accounts and demand deposits	1,540,427	217,542
Time deposits	47,013	92,858
Loans and repurchase agreements	147,277	1,065,857
Other	199,714	50,131
Financial liabilities measured at amortized cost – Funding from institutional customers	**37,094,413**	**41,394,360**

Other main liabilities include the following: *(i)* financial liabilities held for trading, in the amount of €150.8 million (+€21.3 million on 2021), which include the negative fair value of trading derivatives; *(ii)* tax liabilities totaling €61.7 million, which include €26 million in deferred tax liabilities on temporarily non-taxable revenues; *(iii)* other liabilities of about €6.4 billion; *(iv)* post-employment benefits for the Group totaling €237 million; and *(v)* provisions for risks and charges of €544 million (which includes provisions for credit risk in the amount of €302 million against commitments to disburse funds and financial guarantees issued).

Consolidated shareholders' equity

Consolidated shareholders' equity totaled €10.9 billion. Share capital includes the capital of the Parent Company, amounting to €1.4 billion, and the capital of the mutual banks, which, together with the Parent Company, constitute a single consolidating entity. Treasury shares mainly represent the capital of Iccrea Banca held by the affiliated banks consolidated in application of Article 1072 of Law 145/2018.

Reserves totaled €9.1 billion and mainly included legal reserves of €10.8 billion – accumulated as a result of an aggressive use of self-funding by the affiliated banks in relation to the aforementioned obligation for the capitalization of at least 70% of earnings – and a negative IFRS 9 reserve of €1.6 billion.

€/thousands	30/06/2022	31/12/2021
Share capital	2,295,243	2,302,817
Equity instruments	30,139	30,139
Share premium reserve	149,344	148,345
Treasury shares	(1,333,096)	(1,263,218)
Valuation reserves	(58,469)	218,665
Reserves	9,145,512	8,735,189
Profit for the period	676,061	456,765
Equity attributable to shareholders of the Parent Company	**10,904,734**	**10,628,702**
Non-controlling interests	**72,610**	**66,202**
Total shareholders' equity	**10,977,344**	**10,694,904**

INCOME STATEMENT

Consolidated income statement

€/thousands	30/06/2022	30/06/2021
Net interest income	**1,669,530**	**1,368,463**
Net fee and commission income	**711,046**	**656,271**
Dividends, net gain/(loss) on trading activities, net gain/(loss) on hedging and net gain/(loss) on assets and liabilities at FVTPL	2,619	35,663
Net gain (loss) on disposals	141,056	286,873
Gross income	**2,524,251**	**2,347,269**
Net writedowns/writebacks for credit risk	(181,610)	(389,795)
- Financial assets measured at amortized cost – Loans to customers	*(178,843)*	*(382,552)*
Gains/losses from contract modifications without cancellations	(859)	(867)
Net income/(loss) from financial operations	**2,341,782**	**1,956,608**
Administrative expenses	(1,560,272)	(1,546,804)
a) personnel expenses	(858,013)	(853,678)
b) other administrative expenses	(702,259)	(693,126)
Depreciation, amortization and provisions	(136,058)	(130,655)
- of which provisions for guarantees issued	*(8,412)*	*(11,794)*
Other operating income/expense	161,050	157,287
Operating expenses	**(1,535,279)**	**(1,520,172)**
Profit/(loss) from equity investments	(567)	20,475
Net gain/(loss) from fair value measurement of property, plant and equipment and intangible assets	(6,092)	(7,915)
Profit/(loss) from disposal of investments	(557)	55
Profit/(loss) before tax on continuing operations	**799,287**	**449,051**
Income tax expense from continuing operations	(115,984)	(44,065)
Profit/(loss) for the period	**683,303**	**404,985**
Net profit/(loss) attributable to non-controlling interests	**7,242**	**4,682**
Net profit/(loss) attributable to shareholders of the Parent Company	**676,061**	**400,303**

The Group ended the first half of 2022 with a net profit of €683.3 million (+€278 million on the first half of 2021), of which €676 million attributable to the shareholders of the Parent Company.

More specifically, net interest income came to €1.7 billion, the net result of interest income of about €1.9 billion (€1.1 billion on loans to customers, €835 million on debt securities and €196 million on funding with negative interest rates) and interest expense of about €0.2 billion, mainly related to amounts due to customers and outstanding securities recognized among financial liabilities and measured at amortized cost.

The increase in net interest income (+€301 million compared with June 2021) mainly reflects: *(i)* higher interest income on debt securities (+€464 million, connected with the expansion of the securities portfolio and, mainly, to the improved performance of BTPi in reflection of rising inflation); *(ii)* an increase in negative differentials connected with hedging derivatives on hedged financial instruments (-€209 million); *(iii)* an increase in interest accrued on tax credits resulting from tax incentive measures contained in government programs (+€36 million); and *(iv)* a decline in interest expense (-€17 million) accrued in the period on debts, bonds and certificates of deposit.

Interest and similar income

€/thousands	Debt securities	Loans	Other transactions	Total 30/06/2022	Total 30/06/2021
Financial assets measured at fair value through profit or loss	5,738	814	-	6,552	6,133
Financial assets measured at fair value through other comprehensive income	52,662	-	-	52,662	23,820
Financial assets measured at amortized cost	776,358	1,103,637	-	1,879,995	1,462,551
Hedge derivatives	-	-	(315,116)	(315,116)	(105,633)
Other assets	-	-	38,291	38,291	2,128
Financial liabilities	-	-	196,472	196,472	185,363
Interest and similar income	**834,758**	**1,104,451**	**(80,353)**	**1,858,856**	**1,574,362**

Interest and similar expense

€/thousands	Payables	Securities	Other transactions	Total 30/06/2022	Total 30/06/2021
Financial liabilities measured at amortized cost	(86,555)	(80,806)	-	(167,361)	(185,523)
Financial liabilities held for trading	-	-	(52)	(52)	(86)
Financial liabilities designated as at fair value	-	(1)	-	(1)	(47)
Other liabilities and provisions	-	-	(720)	(720)	(762)
Hedge derivatives	-	-	1,168	1,168	1,169
Financial assets	-	-	(22,360)	(22,360)	(20,651)
Interest and similar expense	**(86,555)**	**(80,807)**	**(21,964)**	**(189,326)**	**(205,899)**

Net fee and commission income amounted to €0.7 billion in the first half of 2022, an increase from the previous year (+€55 million). It includes fee and commission income of about €1 billion (mainly relating to commissions for the management of current accounts, other collection and payment services, and distribution of third-party services) net of commission expense of €268 million. The rise in net fee and commission income is mainly attributable to the general recovery in the economy following the lockdown in the early months of last year.

Fee and commission income

€/thousands	30/06/2022	30/06/2021
Guarantees issued	12,467	12,200
Management, intermediation and advisory services	74,342	70,031
Management of current accounts	267,674	250,229
Other collection and payment services	442,484	224,740
Distribution of third-party services	131,647	110,823
Other services	49,976	53,348
Fee and commission income	**978,591**	**721,372**

Fee and commission expense

€/thousands	30/06/2022	30/06/2021
Guarantees received	(810)	(527)
Management and intermediation services	(6,157)	(5,680)
Collection and payment services	(249,771)	(50,045)
Other services	(10,807)	(8,849)
Fee and commission expense	**(267,545)**	**(65,101)**

The net gain (loss) on sales amounted to €141 million (-€146 million compared with the first half of 2021). It is mainly attributable to the sale of debt securities classified at amortized cost and assets measured at fair value through other comprehensive income (totaling €135 million) and, to a lesser extent, to the assignment of loans carried out by the Group as part of derisking operations (€5.7 million).
Net writedowns for credit risk amounted to €182 million, a decrease compared with the first six months of the previous year, partly reflecting the close oversight of impaired positions implemented by the Group since its establishment, with a coverage ratio of 64.1% (57.4% at June 30, 2021).
Operating expenses amounted to about €1.5 billion, substantially in line with the first half of 2021.

CONSOLIDATED OWN FUNDS AND CAPITAL ADEQUACY

Own funds

The following table offers a breakdown of own funds at June 30, 2022, which amounted to about €12.1 billion.

Capital and capital ratios - €/thousands	30/06/2022	31/12/2021	30/06/2021
Share capital	2,295,243	2,302,817	2,305,267
Share premium reserve	149,344	148,345	146,043
Treasury shares and repurchase commitments	(1,381,947)	(1,331,942)	(1,331,892)
Reserves	9,400,562	8,993,918	8,997,312
Profit/(Loss) for the period	641,088	209,277	(16,984)
Other components of other comprehensive income	(313,519)	(37,884)	(10,052)
Transitional provisions – IFRS 9	609,973	1,087,121	897,250
Goodwill (net of related tax effects)	(20,866)	(20,897)	(22,722)
Intangible assets (net of related tax effects)	(86,796)	(86,002)	(72,192)
Other deductions	(27,663)	(24,666)	(32,324)
Prudential filters	25,967	(4,858)	(6,187)
Non-controlling interests	12,678	10,409	14,835
Common Equity Tier 1 (CET1)	**11,304,062**	**11,245,637**	**10,868,354**
Additional Tier 1 (AT1)	33,389	33,693	34,341
Tier 1 (T1)	**11,337,451**	**11,279,330**	**10,902,695**
Eligible subordinated loans	720,607	726,327	437,240
Tier 2 (T2)	**720,607**	**726,327**	**437,240**
Total Own Funds (TC)	**12,058,058**	**12,005,657**	**11,339,935**

In light of the special accounting rules applicable[17] and the obligation under Article 38 of the Consolidated Banking Act for the affiliated banks to allocate at least 70% of annual earnings to reserves, own funds mainly include reserves (about €9.4 billion), in addition to share capital in the amount of €2.3 billion (mainly composed of the shareholder contributions of the affiliated banks and the associated share premiums), which decreases to €913 million after elimination of the capital of the Parent Company held by the affiliated banks (reported under treasury shares).

CET1 at June 30, 2022, which represents about 94% of total capital, declined with respect to December 2021 by a total of about €58 million (0.5%), reflecting the algebraic sum of developments in a number of its main components, and specifically: (i) an increase in reserves (+€406 million, due primarily to the capitalization of 2021 net profit;; (ii) calculated net profit for the first half – as per application to the ECB submitted on August 5, 2022 and approved by the ECB on August 10 – totaling €641 million; (iii) the reduction of the IFRS 9 phase–in from 50% to 25% in respect of the static and dynamic components of first-time application and from 100% to 75% of the quick-fix changes (total reduction of about €477 million); and (iv) a reduction in the FVOCI reserve of €313 million (-€276 million compared with December 2021).

The changes in the other aggregates of own funds (Additional Tier 1 and Tier 2) were marginal, amounting to a reduction of about €6 million, almost entirely regarding Tier 2 capital in respect of the supervisory amortization of subordinated instruments.

Capital adequacy

Following the Supervisory Review and Evaluation Process, on January 24, 2022 the supervisory authorities notified Iccrea Banca of their SREP decision, which establishes the prudential requirements to be respected at the consolidated level with effect from March 1, 2022 (broken down into own funds requirements and qualitative requirements).

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

- an additional Pillar 2 requirement (P2R) of 2.83% (of which 8 bps for the NPE P2R in reflection of calendar provisioning, which could be lowered by the end of the year subject to certain conditions), of which a minimum of 56.25% to be held in the form of Common Equity Tier 1, CET1) and 75% in the form of Tier 1 capital;
- a recommendation for Pillar 2 Guidance (P2G) of 1.75%, which should consist entirely of Common Equity Tier 1 capital and held in addition to the Overall Capital Requirement (OCR).

Given the above, for 2022 the Iccrea Cooperative Banking Group is therefore required to meet:

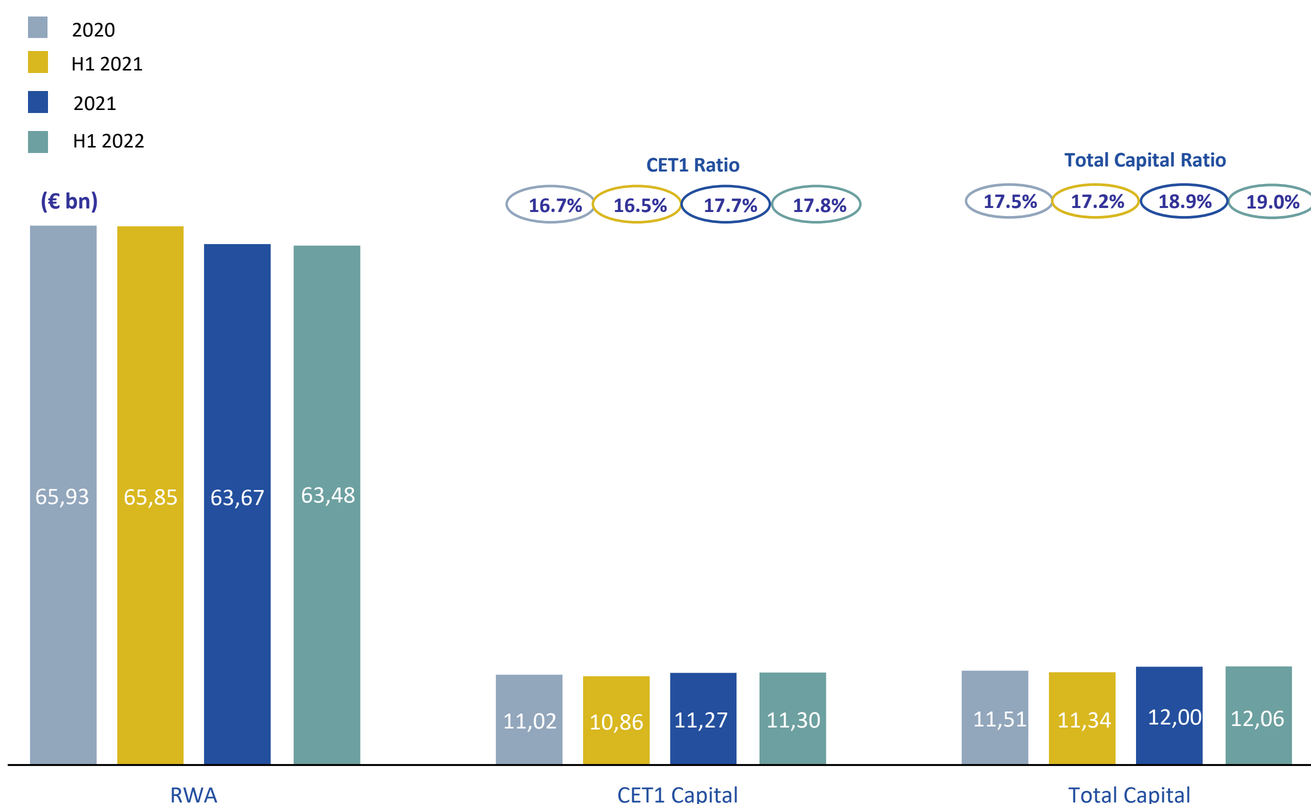
- a Total SREP Capital Requirement (TSCR) of 10.83%;

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

- an OCR equal to 13.33%.
- a Target Requirement (including P2G) of 15.08%.

With the dynamics in own funds noted above, RWAs were in line with the level at the end of 2021 (€63.48 billion, -0.3%), reflecting the combined effect of the reduction associated with the IFRS 9 transitional adjustment and obtaining the public guarantee for the GACS V transaction and the increase in weighted assets connected with the expansion of operations.

At June 30, 2022, the CET1 ratio came to 17.8%, while the TC ratio came to 19%. As shown in the figure below, both of these ratios registered a small increase compared with December 2021 (when they were 17.7% and 18.9%, respectively).



Minimum Requirement of Eligible Liabilities (MREL)

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

In March 2022, Iccrea Banca, as the Group Resolution Entity, received the decision of the Single Resolution Board on the determination of the minimum requirement of own funds and eligible liabilities (MREL - Minimum Requirement of Eligible Liabilities), including the subordination requirement, defined in terms of total risk exposure (RWAs) and a metric of total the leverage exposure (LRE) to be achieved on a consolidated basis by the Resolution Group.

The final mandatory level of the MREL on a consolidated basis (with which the Parent Company is compliant), to be met by January 1, 2026, is equal to 24.75% of RWAs (including the combined buffer requirement of 2.5 % of RWAs) and 6.57% of the LRE. The intermediate subordination requirement, to be met on a consolidated basis starting from January 1, 2022, is equal to 20.57% of RWAs (including the combined buffer requirement of 2.5% of RWAs) and 6.40% of the LRE.

With regard to the subordination requirement on a consolidated basis (with which the Parent Company is compliant), the final mandatory target, to be met by January 1, 2026, is equal to 17.14% of RWAs (including the combined buffer requirement of 2.5% of RWA) and 6.57% of the LRE. The intermediate subordination requirement, to be met on a consolidated basis starting from January 1, 2022, is equal to 16% of RWAs (including the combined buffer requirement of 2.5% of RWAs) and 6.40% of the LRE.

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

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

At the reference date of June 30, 2022, the Group had, with respect to:

- the mandatory intermediate MREL on a consolidated basis, a surplus of about €648 million in terms of RWAs (+1.02% of consolidated RWAs) and a surplus of about €1,965 million in terms of the LRE (+1.07 % of the consolidated LRE);
- the mandatory intermediate subordination requirement on a consolidated basis, a surplus of about €1,956 million in terms of RWAs (+3.08% of consolidated RWAs) and a surplus of about €373 million in terms of the LRE (+0.20% of the consolidated LRE).

5. THE GROUP'S STRATEGIC LINES OF BUSINESS

CONSOLIDATED BANKS AND OTHER COMPANIES

The ICBG's product and service delivery model is based on an organizational structure (defined internally for operational purposes) that is divided into the following strategic lines of business, chosen on the basis of factors that management considers in making its operational and strategic decisions and consistent with IFRS 8's disclosure requirements. A specific segment has been retained for the mutual banks based on their unique qualities, in line with the sector regulations that distinguish and preserve the nature of cooperative banking.

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

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTERSEGMENT TRANSACTIONS	TOTAL
Financial assets	392,245	14,264,481	64,817	62,618,216	(4,306,302)	73,033,457
Due from banks	92,482	24,883,323	22,415	11,482,947	(33,991,635)	2,489,533
Due from customers	5,062,419	6,428,206	1,376,333	79,493,097	(2,309,159)	90,050,896
Funding from banks	4,804,782	33,862,575	1,440,480	30,356,724	(39,763,073)	30,701,488
Funding from customers	441,308	7,267,061	114,886	109,261,628	(192,789)	116,892,094
Securities and other financial liabilities	58,780	5,416,764	2,367	7,861,200	(2,922,242)	10,416,869

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTERSEGMENT TRANSACTIONS	TOTAL
Net interest income	67,117	114,848	26,280	1,461,713	(175)	1,669,783
Net fee and commission income	5,185	52,072	30,287	593,712	(22,324)	658,931
Other financial expense and income	977	24,082	875	106,883	10,859	143,675
Gross income	**73,278**	**191,002**	**57,441**	**2,162,308**	**(11,640)**	**2,472,389**
Net value adjustments	23,506	3,654	(4,101)	(205,459)	(69)	(182,469)
Net income/(loss) from financial operations	**96,784**	**194,656**	**53,340**	**1,956,849**	**(11,709)**	**2,289,920**
Operating expenses	(39,256)	(207,309)	(24,247)	(1,247,820)	10,279	(1,508,353)
Other costs and revenues	-	13,193	-	(2,050)	(1,184)	9,959
Profit/(loss) before tax from continuing operations	**57,528**	**540**	**29,093**	**706,979**	**(2,613)**	**791,526**
Income tax expense from continuing operations	(16,681)	8,598	(9,418)	(91,146)	423	(108,223)
Profit/(loss) for the period	**40,847**	**9,138**	**19,675**	**615,833**	**(2,190)**	**683,303**
Profit/(loss) attributable to non-controlling interests	**2,745**	**4,511**	**(14)**	**-**	**-**	**7,242**
Profit/(loss) attributable to shareholders of the Parent Company	**38,102**	**4,627**	**19,690**	**615,833**	**(2,190)**	**676,061**

INSTITUTIONAL BUSINESS AREA

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

Balance sheet

€/thousands	INSTITUTIONAL											
	Iccrea Banca		BCC Pay		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other [18]	
	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021
Cash and cash equivalents	1,108,903	1,214,582	178,630	298	13,454	6,157	3,277	3,541	19,896	13,065	28,052	27,558
Financial assets measured at fair value through profit or loss	2,118,403	1,287,573									2,003	1,984
Financial assets measured at fair value through other comprehensive income	912,360	510,674			8	8	2	2	4	3		
Financial assets measured at amortized cost	42,486,228	48,971,725	601								3,011	3,079
a) due from banks	24,883,323	30,960,093										45
b) loans to customers	6,468,673	5,983,404	601									
c) securities	11,134,231	12,028,229									3,011	3,035
Hedging derivatives and value adjustments of macro-hedged financial assets	472,912	36,505										
Equity investments	1,027,556	998,822							135	135		
Property, plant and equipment	3,425	4,251	57		32,509	24,041	109,810	114,841	3,857	4,365	68,964	65,747
Intangible assets	682	822	2,197		119,696	127,008	148	193	2,622	3,279	1,232	1,393
Tax assets	71,349	68,924			2,856	3,480	296	320	1,537	1,421	3,432	5,026
Non-current assets and disposal groups held for sale	21,100	206,869										
Other assets	633,182	477,861	146,750	3	66,376	30,484	9,242	9,213	21,345	17,097	14,293	12,456
Total assets	**48,856,101**	**53,778,609**	**328,235**	**302**	**234,899**	**191,179**	**122,774**	**128,109**	**49,395**	**39,364**	**120,985**	**117,243**

€/thousands	INSTITUTIONAL											
	Iccrea Banca		BCC Pay		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other	
	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021
Financial liabilities measured at amortized cost	44,708,368	50,480,116	169,337		12,741	153	49,625	58,786	2,558	3,096	23,195	24,526
a) due to banks	33,848,298	39,337,080					34,993	42,248	1,011	1,109	21,323	22,413
b) due to customers	7,265,330	7,394,398	169,337		12,741	153	14,633	16,538	1,547	1,987	1,871	2,113
c) securities issued	3,594,740	3,748,638										
Financial liabilities held for trading	1,293,811	430,857										
Financial liabilities designated as at fair value	357,636	335,392										
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	170,119	247,018										
Liabilities associated with disposal groups held for sale		182,098			233	563	157	129	375	176	1,184	1,773
Tax liabilities	2,532	1,650	4,986	243								
Other liabilities	614,409	354,896	120,915		104,913	76,996	11,385	9,336	25,261	22,246	15,407	14,350
Post-employment benefits	13,205	15,347	402		3,211	3,988	272	309	2,672	2,115	1,254	1,520
Provisions for risks and charges	39,089	42,121	2,067		848	848	63	79	1,332	1,409	3,763	3,062
Shareholders' equity	1,671,474	1,635,936	20,609	483	109,037	104,035	59,509	56,119	12,824	4,977	70,895	68,319
Profit/(loss) for the period (+/-)	(14,542)	53,178	9,920	(426)	3,917	4,597	1,763	3,352	4,373	5,345	5,288	3,692
Total liabilities and equity	**48,856,101**	**53,778,609**	**328,235**	**302**	**234,899**	**191,179**	**122,774**	**128,109**	**49,395**	**39,364**	**120,985**	**117,243**

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

Income statement

€/thousands	INSTITUTIONAL											
	Iccrea Banca		BCC Pay		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other	
	30/06/2022	30/06/2021	30/06/2022	30/06/2021	30/06/2022	30/06/2021	30/06/2022	30/06/2021	30/06/2022	30/06/2021	30/06/2022	30/06/2021
Net interest income	116,008	88,245	(253)		(75)	(30)	(612)	(703)	(32)	(43)	(71)	(93)
Net fee and commission income	46,529	44,349	25,457	(108)			(2)	(2)	(9)	(9)	5,567	5,769
Dividends	11,902	27,865										
Net gain/(loss) on trading	8,012	10,003			(14)							
Net gain/(loss) on hedging	(1,988)	210										
Net gain/(loss) on disposals	25,672	54,682										
Net gain/(loss) on financial assets and liabilities at FVTPL	(25,084)	(3,256)										
Gross income	181,050	222,097	25,204	(108)	(89)	(30)	(614)	(704)	(40)	(52)	5,496	5,676
Net writedowns/writebacks for credit risk	3,654	(18,177)									-	-
Net income/(loss) from financial operations	184,705	203,920	25,204	(108)	(89)	(30)	(614)	(704)	(40)	(52)	5,496	5,676
Administrative expenses	(226,192)	(227,680)	(13,455)	(316)	(107,590)	(96,124)	(14,800)	(12,925)	(43,429)	(33,987)	(8,905)	(8,793)
a) personnel expenses	(99,539)	(98,482)	(1,322)	(63)	(21,656)	(19,847)	(3,994)	(3,266)	(19,146)	(14,143)	(2,690)	(2,658)
b) other administrative expenses	(126,653)	(129,198)	(12,133)	(253)	(85,934)	(76,276)	(10,807)	(9,659)	(24,283)	(19,844)	(6,215)	(6,135)
Depreciation, amortization and provisions	1,595	7,249	(113)		(23,261)	(20,117)	(5,887)	(5,876)	(1,627)	(1,469)	(2,360)	(2,420)
Other operating expenses/income	4,719	87,840	3,270	(1)	136,480	121,407	23,664	21,928	51,319	38,148	12,425	12,637
Operating expenses	(219,878)	(132,591)	(10,298)	(318)	5,629	5,166	2,976	3,128	6,262	2,692	1,160	1,424
Profit/(loss) from equity investments	(240)	12,011										
Profit/(loss) from disposal of investments												
Net gain/(loss) from FV measurement of property, plant and equipment and intangible assets												
Impairment of goodwill												
Profit/(loss) before tax on continuing operations	(35,414)	83,340	14,906	(426)	5,539	5,136	2,363	2,423	6,221	2,641	6,656	7,100
Income tax expense from continuing operations	13,617	(13,214)	(4,986)		(1,622)	(1,304)	(598)	(568)	(1,848)	(807)	(1,369)	(1,513)
Profit/(loss) on discontinued operations after tax	7,255	11,040										
Profit/(loss) for the period	**(14,542)**	**81,166**	**9,920**	**(426)**	**3,917**	**3,832**	**1,765**	**1,856**	**4,373**	**1,834**	**5,288**	**5,587**

ICCREA BANCA S.P.A.

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

Financial services

Iccrea Banca provides the affiliated banks and, through them, their own customers with a series of investment services through the Group Finance unit. These services include providing support in accessing trading venues and over-the-counter (OTC) markets and order receipt and transmission services.

In particular, within the scope of activities to support and develop the operations of the mutual banks and strengthen the management of financial risks for the entire Group, Group Finance supports: (*i*) the management of financial assets, including with the definition and recommendation of investment strategies; (*ii*) the development of the system for liquidity management; and (iii) capital and money-market activities and hedging. In a financial context that - due in part to the Russia-Ukraine conflict - has seen a significant increase in the main risks (interest rate, credit, market, liquidity), the active role played by Group Finance has taken on further importance in maintaining an adequate level of safeguards and overall profitability.

Examining the substance of the main operational developments, with specific reference to liquidity management, in the first half of 2022 the funding activity of the Group banks remained mainly concentrated in the ECB’s long-term auctions. The use of TLTRO auctions as a proportion of collateralized funding remained at levels above 80% (in line with trends in the second half of 2021). The average liquidity held by the affiliated banks on the daily settlement account was about €3.4 billion. The average balance held on reserve requirement accounts was approximately €6.4 billion. The Group Treasury managed an average balance at the Bank of Italy of €9.4 billion to take greatest advantage of the central bank’s tiering system. Following the deleveraging operations described below, the closing balance at June 30, 2022 stood at €1.9 billion.

In June 2022, as part of the initiatives defined for compliance with the MREL, deleveraging transactions were carried out at the Group level, focused on the liquidity deposited with the ECB with regard to lending and on TLTRO for funding operations. In particular, the partial early repayment of TLTRO III amounted to €1 billion for banks with direct access to monetary policy operations and about €3.2 billion for Iccrea Banca (of which about €1 billion relating to banks belonging to the TLTRO Group).

The total TLTRO funding outstanding at June 30, 2022 amounted to €29.1 billion, of which €18 billion for Iccrea Banca (TLTRO Group) and €11 billion from direct mutual bank operations. For the Group banks, all the objectives assigned for the target envisaged for the TLTRO III operations in the second observation period (from October, 1, 2020 to December 31, 2021) was achieved. Achieving this goal permits the assignment of a rate equal to approximately -1% in the period June 24, 2020 - June 23, 2022 on the amounts borrowed from the ECB. From June 24, 2022 until the operations mature, the rate of the TLTRO-III operations will be equal to the average deposit facility rate established at ECB meetings.

In light of the growing volatility of the markets and the concerns engendered by the Russia-Ukraine conflict, the structural liquidity needs of Iccrea Banca and the companies within the direct scope were met mainly by resorting to the internal affiliated bank channel.

Capital market funding operations included the issue on June 15, 2022, through the €3 billion EMTN program of a Senior Non-Preferred bond (XS2491620865) in the amount of €54.5 million (fixed-to-floating, with a maturity of 4.75 years and early redemption possible after 3.75 years), which has been rated “B+” by Standard and Poor’s and Fitch. The issue, which was placed with professional customers of the affiliated banks, is also intended to ensure compliance with the MREL.

Other structural funding operations included the finalization of a long-term loan of €250 million from Cassa Depositi e Prestiti (CDP), of which €100 million disbursed in the first half of the year. The initiative is intended to support access to credit for smaller Italian companies, increasing sustainable investment and generating a positive impact on the environment by guaranteeing new finance, over a time horizon of up to 18 years, to SMEs and mid-cap enterprises committed to investing in sectors such as the renewable energy generation, energy efficiency, the circular economy, sustainable mobility and the modernization of water networks. The operation is part of the broader collaboration between CDP and the Group launched in 2020 to promote joint initiatives to support Italian companies throughout the country. The agreement follows two loans of €250 million each intended to support companies operating, respectively, in the agricultural and agro-industrial sectors and in the tourism industry. With this new agreement between CDP and the Group, the resources made available to SMEs and mid-caps in the last three years now totals €750 million.

With regard to the companies in the direct scope, the funding plan for the year provides for total funding of some €7.1 billion (of which €4.1 billion through intra-group channels and about €3 billion through external channels), of which the structural component (medium-long term term) is equal to €4 billion and the remainder, equal to €3.1 billion, consisting of forms of short-term funding.

As part of the implementation of the plan, at June 30, 2022 overall medium/long-term lending amounted to €0.99 billion, €1 billion lower than

the level envisaged in the plan (€2 billion).

At June 30, 2022, the outstanding Iccrea Banca bonds totaled €3.4 billion, with a weighted average residual maturity of 4.44 years.

With regard to Treasury and Foreign Exchange operations, at June 30, 2022, 49 thousand contracts were outstanding, a small increase (+11%) compared with 2021, with a total volume of approximately €4.3 billion, of which €2.1 billion in swap transactions, €2.1 billion in spot transactions and €70 million in outright transactions. Trading activities also continued, transacting a total of €22 billion, mainly in the form of swaps.

With regard to Italian government securities, within market making operations on the Hi-MTF and EuroTLX platforms, the first half of 2022 saw the listing of 130 securities for a total volume handled of €0.8 billion. Trading continued on the MOT market of Borsa Italiana, with a decline in volumes compared with the same period of the previous year (totaling €3.1 billion). Trading on the MTS, BondVision and Bloomberg platforms reserved for institutional investors totaled €18.2 billion. As part of market making operations for eurobonds, Iccrea Banca quoted 368 eurobonds on the Hi-MTF market, 263 eurobonds on the EuroTLX market, and 122 eurobonds on ExtraMOT and MOT. Total volumes traded on these markets came to about €630 million.

With regard to execution activities on national and foreign financial markets on behalf of the mutual banks, the first six months of 2022 were characterized by a decline of 15% in overall volumes compared with the same period of the previous year, reflecting growing market tensions (inflation, distortions in the production and distribution chains due to the zero-COVID policy in China and the Russia-Ukraine conflict). With total transacted value of €7.456 billion, the Italian equity sector recorded a volume of €2.8 billion, unchanged compared with the previous year, benefiting from the strong volatility on the market. Foreign equities recorded volumes of €546 million, a decrease of 49% compared with 2021. The reduction essentially reflected the strategic choices of customers, who have repositioned themselves towards the domestic market. Operations in the bond segment posted a transacted volume of €4 billion, a decrease of 17% compared with the previous year. This decline, recorded above all by mutual bank shareholders, is mainly attributable to the uncertainty on the Italian government securities market, which is recording gradually rising yields. Conversely, transactions on behalf of third parties in this segment registered an increase of about 40% compared with the previous year, driven by the rise in the yields offered on the market.

In its operations in OTC derivatives, Iccrea Banca transacted a total nominal amount of about €10 billion, an increase of about 61% on the first half of 2021.

The mutual bank members of the Group carried out derivatives transactions with a nominal value of about €4.2 billion, registering an increase of about 121% compared with the first half of the previous year. In particular, the mutual banks conducted cash flow hedge transactions on CCTs in the nominal amount of €2.3 billion, hedges of the interest rate risk on fixed-rate mortgage portfolios in the nominal amount of about €0.6 billion and hedges of investments in fixed-rate or inflation-linked securities in the nominal amount of around €1.3 billion.

With regard to derivatives transactions with Iccrea BancaImpresa, transactions with a total notional amount of about €108 million were closed, a decrease of about 34% compared with the previous year.

With regard to operations in the Parent Company's financial portfolio, and with a view to managing and mitigating financial risk, interest-rate and/or inflation derivatives were used for hedging purposes in the amount of about €1.4 billion, a decrease of about 27% on the previous year.

At June 30, 2022, the Parent Company's banking book amounted to about €10.52 billion, of which €10.09 billion (96% of the total) represented by Italian sovereign exposures, €0.347 billion in financial securities (3.3% of the total), €0.07 billion in corporate securities (0.7% of the total) and the remainder in equities and funds. Of the €10.52 billion in the Banking Book, 67% is hedged with derivatives positions with a total nominal value of €7 billion.

The financial portfolio of the Parent Company's banking book consists of investments held in accordance with the HTC business model – the Strategic Portfolio – with a value of about €7.4 billion with a residual life of 6.74 years (70.9% of the total, with a coverage of 85.78%) and those held in the Tactical Portfolio in the amount of about €2.3 billion, with a residual life of 1.05 years (22.5% of the total, with a coverage ratio of 12.23%), as well as investments held in accordance with the HTCS business model for the remaining €0.7 billion, with a residual life of 3.54 years (6.6% of the total, with a coverage of 45.10%).

With regard to the operations carried out in the Parent Company's banking book in the first half of the year, securities traded amounted to a nominal amount of about €3.69 billion, of which €2.63 billion in the HTCS portfolios and €1.06 billion euros in the HTC Strategic Portfolio, overall trading in derivatives in the nominal amount of about €2.03 billion.

Payment systems

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

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

In quantitative terms, the first half of 2022 registered higher volumes than the same period of 2021 (+14.6% in transactions handled), confirming the overall growth trend in the sector. This reflected the greater use of digital payment services (ordinary and instantaneous SEPA credit

transfers, direct debit and PagoPA transactions), which more than offset the contraction registered by traditional paper-based products (checks, cashier's checks, bills, etc.).

The main collections and payments initiatives implemented in the first half of 2022 included the following:

- the reorganization of contracts with cash management companies, with the launch of a new operating model for coins;
- the operational activation of the new "smart cashier" service for the large retailer customers of the mutual banks;
- renewal of the contract with INPS for the payment of pension benefits to the customers of the mutual banks;
- the start of testing for the migration of Target 2 and Swift operations to the new technical rules defined by the ECB (T2 Consolidation) and Swift (CBPR +) scheduled for November 2022;
- the completion of the activation of BCC Pay S.p.A. on Iccrea intermediation services for the settlement of transactions and commissions with customers;
- the migration to the new continuous gross settlement system (CGS) of the pan-European platform that manages the SEPA instruments (STEP2 by Eba Clearing).

At the institutional and interbank level, Iccrea Banca participates in the main national working groups sponsored by ABI, the Bank of Italy, CBI, EBA, CIPA, PagoPA, the Electronic Invoicing and Dematerialization Observatory, ANORC and AGID, as well as the associative body of the European banking industry charged with of managing the SEPA payments scheme and liaising with the European authorities (the European Payments Council), participating in the analysis of new initiatives launched at European level (e.g., digital euro, request-to-pay).

Electronic money

In the first half of 2022, Iccrea Banca continued to develop the electronic money business in order to strengthen its range of products and services in line with the strategic policies set by the Group. The Group's main commercial focus was concentrated on the launch of issuing and acquiring products to enhance the CartaBCC and CartaBCC POS range.

In particular, on the acquiring front, from June 1 major support was provided for the distribution of advanced terminals with the launch of a new initiative (Summer Smart POS Connects) for the placement of the SmartPOS Connect, which in the first month of the launch saw the placement of 2,820 new Smar POS terminals, generating a volume five times greater than the previous month.

As in 2021, investment continued this year, with commercial initiatives to support small businesses through:

- the offer of digital POS (Smart POS) at no charge for 6 months;
- the provision of support for safe remote sales, through the offer of PAYWay (virtual POS), PayWay Mail and Mobile POS services with zero fees for 6 months;
- the launch of new value-added services such as TAX Free (a service that allows merchants to offer customers residing outside the European Union to obtain a VAT refund) in order to enhance the product offering for the tourism sector.

In support of the issuing sector, June saw the presentation of the Debit Business card, with the involvement of all the mutual banks through the inclusion of the card in the card product catalogue.

More generally, in terms of the number of cards, the resumption of placement activity brought the number of cards in operation to more than 4 million, with an increase of 2.7% compared with 2021.

The progressive easing of restrictive measures has obviously had a positive impact on transaction metrics. Specifically, in the first half of 2022, the issuing segment recorded an increase of €2.0 billion (+21.3%) compared with the same period of 2021, while the POS acquiring front registered growth of €1.8 billion (+26.8%). Similar developments were registered in ATM acquiring volumes (cash withdrawals), with an increase compared with the first half of 2021 of about €800 million (+19%).

BCC SISTEMI INFORMATICI S.P.A.

The information technology segment of the Group in the first half of 2022 continued its involvement in projects: (i) to ensure compliance with operational and legislative developments; (ii) involving the evolution of system architecture, functionality, digitalization and innovation (e.g. digital banking and the customer relationship); (iii) related to the management of core processes; (iv) related to the completion of the progressive convergence of the affiliated banks using technical-service providers other than BCC SI with the proprietary structure; and (v) regarding management of merger processes.

RETAIL BUSINESS AREA

Balance sheet

€/thousands	RETAIL							
	MUTUAL BANKS		BCC CreditoConsumo		BCC R&P		Banca Sviluppo	
	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021
Cash and cash equivalents	4,310,490	5,086,896	115,680	11,289	45,774	43,046	29,434	40,685
Financial assets measured at fair value through profit or loss	1,464,421	1,508,746	-	-	5,998	6,254	187	188
Financial assets measured at fair value through other comprehensive income	9,174,035	8,652,210	-	-	3	3	783	909
Financial assets measured at amortized cost	142,067,700	143,704,309	1,254,842	1,064,608	41,231	46,554	160,528	161,044
a) due from banks	11,495,000	15,078,970	18	6	12	7	22,385	2,518
b) loans to customers	79,493,097	78,397,053	1,254,824	1,064,602	41,220	46,547	80,297	97,150
c) securities	51,079,603	50,228,287	-	-	-	-	57,846	61,377
Hedging derivatives and value adjustments of macro-hedged financial assets	377,938	130,058	-	-	-	-	-	-
Equity investments	35,830	35,829	-	-	-	-	-	-
Property, plant and equipment	1,920,449	1,946,289	41	23	4,269	4,367	28,949	29,146
Intangible assets	17,570	19,689	1,290	1,536	2,631	3,327	672	672
Tax assets	1,506,997	1,524,960	6,643	7,073	855	1,251	42,555	43,779
Non-current assets and disposal groups held for sale	8,302	11,394	-	-	-	-	-	12,642
Other assets	3,711,363	2,115,178	114,492	108,835	7,588	4,814	26,328	29,717
Total assets	**164,595,095**	**164,735,557**	**1,492,988**	**1,193,364**	**108,349**	**109,616**	**289,436**	**318,783**

€/thousands	RETAIL							
	MUTUAL BANKS		BCC CreditoConsumo		BCC R&P		Banca Sviluppo	
	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021
Financial liabilities measured at amortized cost	147,409,386	150,455,216	1,373,276	1,083,392	40,000	38,218	144,466	136,095
a) due to banks	30,419,059	32,123,985	1,360,682	1,070,869	39,912	38,126	39,894	32,126
b) due to customers	109,261,628	109,399,432	12,594	12,523	88	92	102,206	101,650
c) securities issued	7,728,700	8,931,800					2,367	2,319
Financial liabilities held for trading	551	1,188						
Financial liabilities designated as at fair value		256						
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	150,051	318,963						
Tax liabilities	50,901	37,409	462	509	42	914	539	669
Liabilities associated with disposal groups held for sale								34,934
Other liabilities	5,563,009	2,869,371	24,555	26,857	9,998	19,980	14,830	14,597
Post-employment benefits	213,349	251,221	200	249	230	273	103	294
Provisions for risks and charges	451,031	423,752	125	102	2,002	3,702	6,111	6,810
Equity	10,140,087	9,989,214	82,308	62,691	46,551	25,859	125,324	128,007
Profit/(loss) for the period (+/-)	616,730	388,968	12,062	19,564	9,528	20,669	(1,938)	(2,623)
Total liabilities and equity	**164,595,095**	**164,735,557**	**1,492,988**	**1,193,364**	**108,349**	**109,616**	**289,436**	**318,783**

Income statement

€/thousands	RETAIL							
	MUTUAL BANKS		BCC CreditoConsumo		BCC R&P		Banca Sviluppo	
	30/06/2022	30/06/2021	30/06/2022	30/06/2021	30/06/2022	30/06/2021	30/06/2022	30/06/2021
Net interest income	1,461,732	1,178,787	25,507	23,072	-	-	751	4,149
Net fee and commission income	593,706	549,984	4,311	1,651	25,826	24,491	153	439
Dividends	8,822	7,557			11	9	21	
Bet gain/(loss) on trading activities	5,854	4,069					1	0
Net gain/(loss) on hedging	(1,314)	(254)						
Net gain/(loss) on disposals	119,837	230,580	1,132				(29)	32
Net gain/(loss) on assets and liabilities at FVTPL	(27,821)	3,081			(265)	(45)	2	163
Gross income	2,160,816	1,973,804	30,950	24,722	25,572	24,455	899	4,784
Net writedowns/writebacks for credit risk	(205,458)	(321,078)	(3,030)	(5,446)			(1,071)	(1,694)
Net income/(loss) from financial operations	1,955,358	1,652,726	27,920	19,277	25,572	24,455	(172)	3,089
Administrative expenses	(1,366,136)	(1,344,183)	(10,715)	(9,843)	(12,545)	(11,992)	(2,762)	(4,669)
a) personnel expenses	(692,960)	(695,598)	(2,320)	(2,549)	(2,563)	(2,614)	(973)	(1,925)
b) other administrative expenses	(673,176)	(648,585)	(8,395)	(7,294)	(9,982)	(9,378)	(1,789)	(2,744)
Depreciation, amortization and provisions	(99,764)	(107,464)	(287)	(312)	794	(322)	(213)	(612)
Other operating expenses/income	218,929	133,399	988	705	(83)	(42)	574	469
Operating expenses	(1,246,972)	(1,318,249)	(10,013)	(9,451)	(11,835)	(12,356)	(2,402)	(4,812)
Profit/(loss) from equity investments								
Profit/(loss) from disposal of investments	(510)	48						
Net gain/(loss) from FV measurement of property, plant and equipment and intangible assets								
Impairment of goodwill								
Profit/(loss) before tax on continuing operations	707,876	334,525	17,907	9,826	13,737	12,098	(2,573)	(1,722)
Income tax expense from continuing operations	(91,146)	(17,527)	(5,845)	(3,172)	(4,209)	(3,546)	636	444
Profit/(loss) on discontinued operations after tax								
Profit/(loss) for the period	**616,730**	**316,998**	**12,062**	**6,654**	**9,528**	**8,553**	**(1,938)**	**(1,278)**

AFFILIATED BANKS

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

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

Balance sheet

The structure of the mutual banks' balance sheets reflects the nature of local banking, characterized by a high level of funding from customers stemming from the historic ties that the mutual banks have with their local areas, with a prevalence of loans to households and small firms and a fairly low ratio of loans to deposits, as well as the investment of excess liquidity primarily in government securities.

The following offers a brief description of the main balance sheet and income statement items of the 120 mutual banks belonging to the Iccrea Cooperative Banking Group as at June 30, 2022, presented in aggregate form and gross of intercompany items.

Total assets at June 30, 2022 amounted to €164.6 billion, essentially in line with December 31, 2021.

Financial assets measured at amortized cost decreased by €1.6 billion to €142 billion and consist of:

- loans to customers totaling €79.5 billion (+€1.1 billion compared with the end of 2021), mainly represented by loans to customers (€66.6 billion), current accounts (€6.3 billion), other financing (€5.5 billion) and transactions involving credit cards, personal loans and loans repaid by automatic deductions from wages (€1.1 billion);
- amounts due from banks of €11.5 billion, a decrease of €3.6 billion compared with 2021, reflecting the partial repayment of TLTRO funding during the period. The item consists of time deposits of €11.3 billion and other financing (€0.2 billion);
- debt securities amounting to about €51 billion, represented by €50 billion in securities with customers (largely Italian government securities and securities issued by banks in the amount of €1 billion (essentially unchanged on 2021).

The characteristics of the mutual banks' business model is reflected primarily by the type of customers served. Total loans to mutual bank customers were made largely to consumer households and SMEs (41.7% and 48.5% of total lending, respectively).

The aggregate NPL ratio stood at 5.7%, while the coverage ratio for impaired loans was 62.8% (61.3% at December 31, 2021). The mutual banking mission means that the mutual banks supported their local economies, even during periods of persistent crisis, so that, despite the credit crunch that has occurred in recent years, the mutual banks have continued to provide loans to households and SMEs; the default rates in these segments were nonetheless smaller (NPL ratios of 3.7% and 5.6%, respectively) thanks to our better understanding of these types of customers. The share of loans to larger firms was more limited (8.7% of the total) and had a higher NPL ratio.

Counterparties	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances		
		Ratio to total loans by counterparty	Percentage of total performing loans of the affiliated banks	Ratio to total loans by counterparty	Ratio to total NPLs of the affiliated banks	Coverage NPL
Ordinary customers	98.9%	94.2%	98.9%	5.8%	100.0%	62.8%
Consumer households	41.7%	96.3%	42.6%	3.7%	27.0%	52.3%
Small and medium-sized enterprises	48.5%	94.4%	48.6%	5.6%	48.0%	61.0%
Producer households	8.8%	93.1%	8.6%	6.9%	10.7%	57.6%
Micro-enterprises, institutions and associations	8.9%	92.5%	8.7%	7.5%	11.7%	65.6%
Other SMEs	30.9%	95.3%	31.2%	4.7%	25.6%	60.3%
Large corporate	8.7%	80.4%	7.7%	19.6%	24.9%	78.1%
Government entities	1.0%	100.0%	1.1%	0.0%	0.0%	16.6%
Central banks, credit institutions and other financial companies	0.0%	98.0%	0.0%	2.0%	0.0%	95.8%
Total	**100.0%**	**94.3%**	**100.0%**	**5.7%**	**100.0%**	**62.8%**

Financial investments totaled about €58.6 billion[19] and consist almost entirely of government securities (especially those issued by the Italian State). Of these, 87% are allocated to the portfolio measured at amortized cost (Hold-to-Collect – HTC - business model) in line with the traditional business model that characterizes these banks, in order to take advantage of the coupon yield and at the same time to not expose its funds to risks associated with volatility. Consistent with the mutualistic aim, the stock of securities allocated to the accounting portfolio measured at fair value through profit or loss is very small.

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

The portfolio of financial assets measured at fair value through other comprehensive income, represented almost entirely by Italian government securities, amounted to about €9.2 billion, up slightly compared with the previous year. Financial assets measured at fair value through profit or loss amounted to €1.5 billion, in line with 2021, and are almost entirely represented by financial assets mandatorily measured at fair value (which also include receivables in respect of the Parent Company for the Ex-Ante contribution to the Guarantee Scheme) and assets held for trading (€18 million).

Finally, other relevant items include property, plant and equipment - which amounted to about €2 billion and mainly includes land and buildings for use in operations (€1.7 billion) and other capital equipment - while intangible assets amounted to just €17.6 million, of which €5 million in goodwill paid on the acquisition of bank branches before the formation of the ICBG.

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

Accordingly, liabilities largely consist of financial liabilities measured at amortized cost, which amounted to €147.4 billion, down about €3 billion on the end of the previous year. More specifically:

- amounts due to customers were essentially unchanged on the end of 2021, totaling €109.3 billion, and were represented by current accounts and demand deposits of €103.8 billion, time deposits of €4.8 billion and other financing of €1.3 billion;
- amounts due to banks came to €30.4 billion, mainly attributable to loans obtained through TLTRO operations and refinancing transactions with the Parent Company. The decrease of €1.7 billion is attributable to deleveraging transactions carried out in the second quarter of 2022 (partial repayment of TLTRO funding);
- securities issued came to €7.7 billion, a decline of €1.2 billion due to maturing securities. Of the total, €3.7 billion are represented by bonds and €4 billion by certificates of deposit.

The aggregate equity of the mutual banks amounted to €10.8 billion and consists of €1 billion of share capital, with the rest made up of reserves.

Income statement

The affiliated mutual banks closed the first half of 2022 with an aggregate net profit of €616.7 million, an increase of €299.7 million compared with the first six months of the previous year.

More specifically, gross income increased by €187 million to €2.2 billion, as a result of:

- an increase in net interest income (+€282.9 million), largely attributable to the increase in interest income on securities (+€331 million, thanks in part to the stronger performance of BTPi holdings as a result of the rise in inflation) and higher interest accrued on tax credits connected with tax incentive measures provided for in government programs (+€33 million), partially offset by an increase in negative differences on hedging derivatives (-€81 million), lower interest on customer deposits and on liabilities issued (a total of -€23 million);
- an increase in net fee and commission income of €43.7 million;
- a deterioration in the overall performance of finance operations (-€141 million) attributable to a decrease in sales of securities generating capital gains in the first half of 2022.

In the period, writedowns for credit risk were amounted to €205.5 million (a decrease of €115.6 million compared with the first half of 2021), the net result of additional writedowns of impaired positions and writebacks of ECL attributable to the positive performance of the performing portfolio.

Operating expenses amounted to around €1.2 billion, substantially in line with the first six months of the previous year.

BCC CREDITOCONSUMO S.P.A.

In the first half of 2022, BCC CreditoConsumo continued to distribute consumer credit products (exclusively personal loans) through the mutual-bank branch network and the internet channel, where customers can use a form provided through the Crediper.it website to submit online loan applications.

Production at June 30, 2022, was a record for the company, reaching €285.3 million, a marked increase over the same period of the previous year (€232.6 million at June 30, 2021, up 22.7%).

The table below provides a breakdown of gross loans to customers for consumer credit at June 30, 2022, by credit quality, including an indication of the absolute and percentage coverage levels, which represents the prudence adopted in the measurement of credit, in accordance with the models and guidance provided by the Parent Company.

Classification	Gross amount €/thousands	Writedowns €/thousands	% coverage	Average market coverage in 2021
Performing	1,280,827	31,910	2.5%	2.6%
Impaired past due	9,197	5,120	55.7%	57.3%
Unlikely to pay	8,412	7,075	84.1%	60.7%
Bad loans	29,457	28,962	98.3%	80.1%
Total	**1,327,893**	**73,067**	**5.5%**	
average % coverage of impaired positions			87.4%	69.9%

The containment of impaired positions was attributable in part to the finalization in January 2022 - in application of the Group's strategic derisking guidelines - of a sale of impaired loans in the amount of about €10.3 million.

Income statement

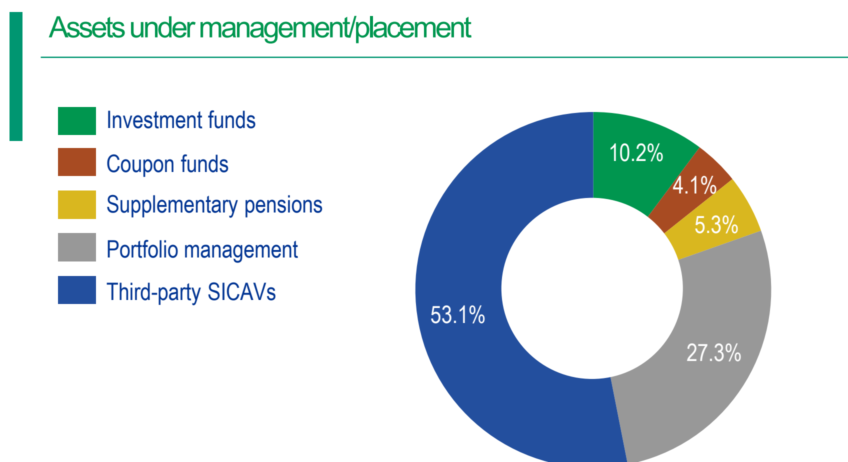
The company closed the period with net profit of €12.2 million (€6.6 million in the first half of 2021), an all-time high for the company, reflecting the significant increase in volumes and the overall prudence of the company's management. Gross income grew 25% from June 2021, primarily as a result of an increase in net fee and commission income (+161%) from business under the distribution agreement for salary-backed lending with Pitagora along with the all-time high production levels achieved for the product. The improvement in performance also reflected the contraction in the cost of risk (-44.4%), which was primarily attributable to a further slowdown in new defaults, confirming the excellent quality of the loan portfolio.

BCC RISPARMIO&PREVIDENZA SGRPA

Assets under management

At June 30, 2022, total assets managed or placed by BCC Risparmio&Previdenza amounted to €20.7 billion. Compared with December 31, 2021, this represented an overall decrease of €1.8 billion, despite the positive net inflows in the period of about €1 billion. The decrease is attributable to the ongoing geopolitical tensions that have affected the performance of the financial markets, with a consequent contraction in assets under administration of about €2.9 billion.

The chart below shows the weight of each investment product out of total assets under management/placement as at June 30, 2022.



Net funding

The net funding of investment funds in the period was slightly negative (-€28.9 million). Supplementary pension funds confirmed the growth seen in 2021, with net funding of €71 million and assets under management of €1.1 billion. Net funding by retail, institutional and insurance portfolio management products and SICAVs was also positive in the amount of €331 million and €653 million respectively.

Income statement

The first half of 2022 closed with pre-tax profit of €13.7 million (about €9.5 million after tax), an increase of 13% over the previous year (about €12.1 million). This increase is partly attributable to the increase in net fee and commission income (which rose from €24.5 million in 2021 to €25.8 million the half-year ending June 30, 2022)[20].

Among operating expenses, personnel expenses were broadly in line with their level in the first half of 2021, while other administrative expenses rose to €10 million in the first half of 2022, up €0.6 million on 2021.

[20] Excluding performance fees, the increase would be even larger, at €4.9 million (performance fees in the first half of 2021 amounted to €4.2 million, compared with €592 million in the first half of 2022.

BANCA SVILUPPO S.P.A.

In line with established strategy, Banca Sviluppo continued to pursue the disposal of its branch network in the first half of 2022, a process slowed in its final stages by the need to wait for the IT migration to BCCSI of one of the mutual banks acquiring the last remaining branches of the bank. In March 2022, the sale of the two aforementioned branches was completed, which enabled the de facto completion of the multi-year plan for the sale of Banca Sviluppo branches to local mutual banks.

At June 30, 2022, the Bank operates exclusively through the captive Lucrezia Romana branch, with the aim of continuing to provide banking services to the staff of the ICBG.

Income statement

The period ended June 30, 2022, closed with a pre-tax loss of €2.6 million and a net loss of €1.9 million.

Generally speaking, performance in the first half reflected the contraction in volumes connected with the disposal of the branch network. Another significant factor was the adjustment of the residual portfolio of NPLs.

CORPORATE BUSINESS AREA

The corporate business area is composed of the Iccrea Banca S.p.A. subsidiaries that offer solutions to small and medium-sized enterprises and to local government entities that are customers of the affiliated mutual banks. These companies provide a wide range of products and services to meet all customer needs, even the most advanced ordinary lending and special corporate finance products, medium/long-term lending and international services, leasing, factoring, rental and other advanced consulting. The Group companies that operate in this area are: Iccrea BancaImpresa, BCC Factoring, BCC Lease, and Banca Mediocredito del Friuli Venezia Giulia.

Balance sheet

€/thousands	CORPORATE							
	Iccrea BancaImpresa		BCC Lease		BCC Factoring		MCFVG	
	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021
Cash and cash equivalents	33,580	4,493	49	111	7,311	4,870	71,400	88,132
Financial assets measured at fair value through profit or loss	67,189	32,099					22,517	25,150
Financial assets measured at fair value through other comprehensive income	283	283			11	11	62,619	81,667
Financial assets measured at amortized cost	3,709,942	3,864,836	487,418	500,788	503,436	570,519	703,608	738,495
a) due from banks	15,579	16,338	1,489	1,662	-	136	75,933	79,449
b) loans to customers	3,649,554	3,804,642	485,929	499,126	503,436	570,382	432,811	463,933
c) securities	44,809	43,856					194,865	195,113
Hedging derivatives and value adjustments of macro-hedged financial assets								
Equity investments	25,750	25,750						
Property, plant and equipment	7,141	9,152	156	106	34	59	10,708	9,966
Intangible assets			313	244	31	61	254	340
Tax assets	165,466	172,647	3,847	4,151	6,028	6,611	42,684	44,272
Non-current assets and disposal groups held for sale								
Other assets	50,910	83,871	10,072	11,355	5,911	6,933	6,623	7,632
Total assets	**4,060,261**	**4,193,132**	**501,855**	**516,754**	**522,762**	**589,063**	**920,414**	**995,656**

€/thousands	CORPORATE							
	Iccrea BancaImpresa		BCC Lease		BCC Factoring		MCFVG	
	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021
Financial liabilities measured at amortized cost	3,553,989	3,737,911	440,359	458,600	480,181	556,204	776,267	853,507
a) due to banks	3,524,860	3,656,326	436,356	454,053	477,409	552,148	366,156	351,311
b) due to customers	29,129	81,585	4,003	4,547	2,772	4,056	405,404	476,718
c) securities issued							4,706	25,479
Financial liabilities held for trading	53,986	20,380						
Financial liabilities designated as at fair value								
Hedging derivatives and value adjustments of macro-hedged financial liabilities								
Tax liabilities	249		213	553			78	78
Liabilities associated with assets held for sale								
Other liabilities	69,684	79,958	13,219	15,735	21,205	13,126	40,379	43,610
Post-employment benefits	1,238	1,423	132	166	306	397	233	227
Provisions for risks and charges	31,269	30,868	254	216	1,078	1,135	5,465	4,558
Equity	322,682	362,907	41,507	30,726	18,245	19,071	92,273	96,680
Profit/(loss) for the period (+/-)	27,164	(40,315)	6,172	10,758	1,746	(868)	5,718	(3,004)
Total liabilities and equity	**4,060,261**	**4,193,132**	**501,855**	**516,754**	**522,762**	**589,063**	**920,414**	**995,656**

Income statement

€/thousands	CORPORATE							
	Iccrea Bancalmpresa		BCC Lease		BCC Factoring		MCFVG	
	30/06/2022	30/06/2021	30/06/2022	30/06/2021	30/06/2022	30/06/2021	30/06/2022	30/06/2021
Net interest income	43,180	46,801	12,107	11,686	2,722	1,915	8,917	5,567
Net fee and commission income	807	676	(169)	(236)	1,785	1,559	3,061	2,539
Dividends		8,224						
Net gain/(loss) on trading activities	2,323	2,064			11	14	127	122
Net gain/(loss) on hedging		174						
Net gain/(loss) on disposals	(196)	12					979	1,567
Net gain/(loss) on financial assets and liabilities at FVTPL	(55)	(1,023)					(2,388)	(730)
Gross income	46,059	56,929	11,938	11,450	4,518	3,488	10,696	9,065
Net writedowns/writebacks for credit risk	17,469	(38,677)	(1,250)	(718)	1,864	446	5,423	(5,084)
Net income/(loss) from financial operations	63,528	18,252	10,688	10,732	6,382	3,934	16,118	3,981
Administrative expenses	(19,208)	(22,045)	(5,324)	(5,211)	(4,053)	(3,886)	(6,921)	(6,435)
a) personnel expenses	(5,223)	(5,405)	(1,440)	(1,456)	(1,831)	(1,779)	(2,777)	(2,610)
b) other administrative expenses	(13,985)	(16,640)	(3,884)	(3,755)	(2,222)	(2,108)	(4,144)	(3,825)
Depreciation, amortization and provisions	(2,830)	(125)	(125)	(76)	(33)	619	(3,268)	(36)
Other operating expenses/income	(1,261)	(2,124)	3,074	3,185	52	125	603	201
Operating expenses	(23,299)	(24,294)	(2,375)	(2,102)	(4,033)	(3,142)	(9,586)	(6,270)
Profit/(loss) from equity investments								
Profit/(loss) from disposal of investments								
Net gain/(loss) from FV measurement of property, plant, equipment and intangible assets								
Goodwill impairment								
Profit/(loss) before tax on continuing operations	40,229	(6,042)	8,313	8,630	2,349	793	6,532	(2,289)
Income tax expense from continuing operations	(13,065)	2,676	(2,141)	(1,772)	(603)	(254)	(814)	1,912
Profit/(loss) after tax on discontinued operations								
Net profit/(loss) for the period	**27,164**	**(3,365)**	**6,172**	**6,858**	**1,746**	**539**	**5,718**	**(377)**

ICCREA BANCAIMPRESA S.P.A.

As already extensively discussed in the financial statements at December 31, 2021, which readers are invited to consult for more details, as part of the reorganization of the Group's Corporate business area, as of January 1, 2021, company operations are focused exclusively on finance leasing.

Balance sheet

New lending during the period saw the execution of 1,672 new contracts with a total value of €334 million, an increase of 17.5% on the same period of 2021 (compared with an increase of 9.6% in lending in the lease market as a whole[21]).

More specifically, equipment leasing accounted for over 71% of new business, followed by 15.6% for real estate leasing. Compared with 2021, equipment leasing, despite having suffered most from the sharp slowdown in commercial development caused by the uncertainties posed by economic conditions and the crisis in raw materials, grew by 33% (compared with growth of 150% in 2021 as a whole).

Product line	Lease volumes (€/thousands)							
	30/06/2022		30/06/2021		% comp. 2022		Annual change	
	Number	Amount	Number	Amount	% Num	% Val	% Num	% Val
Light commercial vehicle leasing	89	4,378	70	5,769	5.3%	1.3%	27.1%	-24.1%
Heavy vehicle leasing	316	38,915	319	37,956	18.9%	11.7%	-0.9%	2.5%
Equipment	1,177	237,560	968	178,432	70.4%	71.2%	21.6%	33.1%
Air and nautical	2	867	5	2,955	0.1%	0.3%	-60.0%	-70.7%
Property – built	57	21,133	52	20,097	3.4%	6.3%	9.6%	5.2%
Property – to be built	31	30,976	24	38,871	1.9%	9.3%	29.2%	-20.3%
Total leasing	**1,672**	**333,829**	**1,438**	**284,080**	**100%**	**100%**	**16.27%**	**17.51%**

Of the bank's lending portfolio, totaling about €3.7 billion, 90% has gone to finance non-financial companies, as indicated in the following table.

€/thousands	30/06/2022	31/12/2021	% change
1. Debt securities	**44,809**	**43,856**	**2.17%**
b) Other financial companies	44,809	43,856	2.17%
2. Financing to:	**3,649,554**	**3,804,642**	**-4.08%**
a) Government entities	153,708	151,192	1.66%
b) Other financial companies	10,982	16,091	-31.75%
of which: insurance undertakings	365	877	-58.37%
c) Non-financial companies	3,322,619	3,467,805	-4.19%
d) Households	162,245	169,554	-4.31%
Total	**3,694,363**	**3,848,498**	**-4.01%**

The following provides a breakdown by technical form.

€/thousands	30/06/2022	31/12/2021	% change
Financing	**3,649,554**	**3,804,642**	**-4.08%**
1.3. Medium/long-term loans	11,410	12,021	-5.09%
1.5. Lease financing	3,460,381	3,610,757	-4.16%
1.7. Other financing	177,764	181,864	-2.25%
Debt securities	**44,809**	**43,856**	**2.17%**
1.2. Other debt securities	44,809	43,856	2.17%
Total	**3,694,363**	**3,848,498**	**-4.01%**

As regards the impaired component of the portfolio, the first half of 2022 was characterized by a significantly lower-than-expected rate of default. This - together with the high level of coverage of NPLs, in continuity with the Bank's rigorous prudence in the valuations applied to positions – produced a modest improvement in key ratios. More specifically, the coverage ratio stood at 70.27% (compared with 69.9% at the end of 2021), the gross NPL ratio was 11.26% (11.89% at December 31, 2021) and the net NPL ratio stood at 3.67% (3.95% at the end of 2021). In the second half of the year, further portfolio transfers are planned (in part through securitization), in line with the strategic guidelines for the progressive derisking of the Group.

[21] Source: data produced by Assilea for the first half of 2022.

Income statement

The Bank closed the first half of 2022 with a pre-tax profit of €40 million (compared with a loss of €6 million in the first half of 2021). Net profit for the period amounted to €27 million. Among the main components of the income statement, interest income amounted to €51.7 million (€54.7 million in the first half of last year, a decrease of approximately 5%). The decrease in interest income was accompanied by an increase in interest expense (+8.75%), which amounted to €8.6 million against €7.9 million in the first half of 2021, a direct consequence of the increase in interest rates starting last April. Net fee and commission income came to €0.8 million, essentially unchanged.

Administrative expenses amounted to €19.2 million, a decrease of approximately €2.8 million, entirely due to the decrease in “Other administrative expenses”, which went from the €16.6 million recorded in 2021 to the €14 million posted in the first half of this year.

Writedowns and writebacks of loans shows net writebacks of €17.5 million (compared with net loss of €38.5 million in 2021). This result, in addition to reflecting developments in the classification of new impaired positions, was significantly influenced by the improvement of the classification of the performing portfolio the first and second stages, a consequence on the one hand of the improvement in the ratings of the portfolio and on the other of the non-deterioration of loans that, having benefited in previous periods from payment suspensions, exiting the monitoring period during the period with an improvement in creditworthiness. The careful risk assessment policy conducted in the last few years has also affected the classification dynamics described above.

BCC LEASE S.P.A.

This company operates in small-ticket leasing segments. Developments in the first half of 2022 showed a contraction of 9.9% in new business (9,480 contracts agreed with a total value of €116.9 million, compared with 11,549 and €129.8 million in the same period of 2021). The breakdown of new production in the period is given in the following table, with comparative figures for the year-earlier period:

New contracts	30/06/2022		30/06/2021		Diff. %		Percentage share	
	No.	Amount €/thousands	No.	Amount €/thousands	No.	Amount	Nr.	Amount €/thousands
Equipment vendor								
Operating leases	3,293	27,601	4,962	38,240	-33.6%	-27.8%	35%	24%
Equipment leasing	2,378	38,279	2,188	34,097	8.7%	12.3%	25%	33%
Special-purpose financing	3,050	26,355	3,466	28,738	-12.0%	-8.3%	32%	23%
Total vendor	**8,721**	**92,235**	**10,616**	**101,076**	**-17.9%**	**-8.7%**	**92%**	**79 %**
Mutual banks								
Light commercial vehicle leasing	317	11,315	408	13,024	-22.3%	-14.3%	3%	10%
Equipment leasing	284	6,108	323	6,914	-12.1%	-11.7%	3%	5%
Heavy vehicle leasing	27	1,761	34	2,047	-20.6%	-14.0%	0%	2%
Total mutual banks	**628**	**19,184**	**765**	**22,165**	**-17.9%**	**-13.4%**	**7%**	**16%**
Other								
Light commercial vehicle leasing – Agents	96	3,719	104	,3,484	-7.7%	6.7%	1%	3%
Heavy vehicle leasing – Agents	35	1,840	64	3,101	-45.3%	-40.7%	0%	2%
Total other	**131**	**5,559**	**168**	**6,585**	**-22.0%**	**-15.6%**	**1%**	**5%**
Total	**9,480**	**116,978**	**11,549**	**129,827**	**-17.9%**	**-9.9%**		

Net lending came to €487.4 million, a slight decrease on the end of 2021 (€500.1 million). In terms of risk profile, the company closed the period with a gross NPL ratio of 3.9% (the net NPL ratio came to 1.1% thanks to a coverage ratio of 72.7%).

Income statement

Profit before tax for the first half of the year amounted to €8.3 million (compared with €8.6 million in the same period in 2021). Net profit stood at €6.2 million (€6.8 million for the first half of 2021).

More specifically, gross income totaled €11.9 million, up 27% compared with the corresponding period of the previous half year thanks to both the stability of the interest income and the reduction in the average cost of funding. The cost of risk rose (€1,250 million, compared with the €718 million recorded in the same period of the previous year).

BCC FACTORING S.P.A.

The period closed with a profit before tax of €2,349 million (and a net profit of €1,746 million), with the figure being strongly impacted by the writeback of over €1.8 million recognized under item 130 of the income statement and a sharp increase in the gross income.

The growth in turnover compared with the same period of 2021 produced a substantial increase in fee and commission income, proportionally greater than the growth in volumes, thanks to the strong commercial drive aimed at recovering margins.

Balance sheet

The company's turnover rose by 19.51% on the previous year. With these developments in the business, the company's total assets, almost entirely in the form of loans to customers, came to €522.8 million, down from the €589.1 million posted at the end of 2021, a figure that exceeded forecasts and is in line with the company's ordinary performance.

Credit quality improved sharply, with gross impaired loans decreasing to 3.4% from 5.6% at the end of 2021.

Income statement

Gross income increased by €1 million to €4.52 million, reflecting an increase in net interest income and in net fee and commission income.

Administrative expenses rose by €157 thousand, while personnel expenses rose slightly. The income statement also benefited from writebacks of "generic" provisions of performing loans.

BANCA MEDIOCREDITO FVG S.P.A.

Banca Mediocredito del Friuli Venezia Giulia S.p.A. specializes in mainly medium and long-term loans and is also responsible for the loan granted through subsidized financing instruments that the Autonomous Region of Friuli Venezia Giulia (in part under Revolving Funds) and other public entities have made available to businesses. New lending disbursed to businesses in the Friuli Venezia Giulia region in the first half of 2022 totaled €45.6 million, of which €16.9 million related to non-subsidized lending with the remainder being in lending based on third-party funds.

Balance sheet

At June 30, 2022, total assets came to €920 million, €433 million of which in loans to customers (a decrease of about €40 million from the end of 2021), about €280 million in financial assets, and the remainder in loans to banks (about €76 million) and tax assets (€43 million).

Net performing loans came to €421 million, a decrease of 5.7% from the end of 2021. Net impaired exposures also decreased by 32.3% to €11.7 million (from 17.3 million at December 31, 2021).

The decline reflected €9.3 million in collections and extinguishments and €1.5 million in cures to performing status, offset by new impaired positions of €1.1 million. As a result, the gross NPL ratio came to 10.97% and the net ratio to 2.71%.

Direct funding from customers came to €210 million, a decrease of 24.6% from the end of 2021. The decline reflected a specific strategy to restructure interest-bearing liabilities and reduce the cost of funding.

Income statement

At June 30, 2022, the income statement again reported a profit before tax of €6.5 million (compared with a loss of €2.3 million in the first half of 2021) and a net profit of €5.7 million.

Gross income amounted to €19.3 million, an increase of €1.6 million attributable to a rise in interest income primarily associated with finance operations (€2.4 million), a decrease in interest expense (€0.9 million), an increase in fee and commission income (€0.5 million) and a net loss on financial assets mandatorily measured at fair value (-€1.7 million).

Writebacks on loans and assets returned from terminated finance leases totaled €4.2 million, while net accruals to the provision for risks amounted to €1.8 million.

Operating expenses increased due to the costs incurred in the migration to the new Group information system.

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

The following provides a summary description of the main items of the Parent Company's balance sheet and income statement at June 30, 2022. In order to permit a more immediate assessment of the items, the balance sheet and income statement schedules shown below are presented in a more summary format than those provided for by Circular 262/05 of the Bank of Italy.

BALANCE SHEET

Assets

€/thousands	30/06/2022	31/12/2021	Change	% change
Financial assets measured at amortized cost – *Due from banks – Loans and securities*	26,103,642	32,171,399	(6,067,757)	(18.9)
Financial assets measured at amortized cost –*Due from customers – Loans*	6,468,673	5,984,049	484,625	8.1
Financial assets measured at amortized cost – *Due from customers – Securities*	9,913,913	10,816,923	(903,010)	(8.3)
Financial assets measured at fair value through profit or loss	2,118,403	1,287,573	830,830	64.5
Financial assets measured at fair value through other comprehensive income	912,360	510,674	401,687	78.7
Equity investments	1,048,656	998,822	49,834	5.0
Other assets	633,182	681,328	(48,146)	(7.1)
Total interest-bearing assets	**47,198,830**	**52,450,768**	**(5,251,938)**	**(10.0)**
Other non-interest-bearing assets	1,657,272	1,327,841	329,430	24.8
Total assets	**48,856,101**	**53,778,609**	**(4,922,508)**	**(9.2)**

At June 30, 2022, total assets amounted to €48.9 billion, a decrease from the €53.8 billion posted at the end of December 2021, mainly reflecting the following developments:

- a decrease in loans measured at amortized cost of €6.5 billion compared with the end of 2021. More specifically:
  - the decline in amounts due from banks takes the form of a decrease in the reserve requirement maintained on behalf of the mutual banks (-€5.1 billion) and in time deposits and loans (-€0.9 billion), also reflecting the deleveraging performed in the second quarter, with a similar impact on "Financial liabilities measured at amortized cost";
  - the reduction in loans to customers is largely attributable to a decrease in investments in debt securities (-€0.9 billion, mainly Italian government securities), only partly offset by an increase in other financing (+€0.4 billion, of which about +€0.2 billion represented by margins with the Clearing & Guarantee Fund and €0.2 billion by exposures to Group companies);
- an increase of €0.8 billion in financial assets measured at FVTPL (to €2.1 billion), attributable to the net effect of the following developments: (i) an increase in assets held for trading, mainly reflecting an increase in the value of trading derivatives (+€908.4 million; an analogous change is recorded under trading derivatives in liabilities), partially offset by a decrease in purchases of government debt securities (-€49.5 million); (ii) a reduction in assets originally designated as at fair value (-€11.4 million), represented by the assets included in the Guarantee Scheme, in reflection of a decline in the value of the investment portfolio; and (iii) a decrease in other financial assets mandatorily measured at fair value (-€17.3 million), mainly reflecting a decrease in the value of units in CIUs (-€17 million) and equity securities (-€4.7 million), partially offset by an increase in purchases of debt securities (+€4.5 million);

€/thousands	Financial assets held for trading	Financial assets designated as at FV	Other financial assets mandatorily measured at FV	Total
Debt securities	19,513	283,839	58,920	362,272
Equity securities	1,752	-	41,570	43,322
Units of CIUs	634	-	412,678	413,312
Derivatives	1,299,497	-	-	1,299,497
Total 30/06/2022	**1,321,396**	**283,839**	**513,168**	**2,118,403**
Total 31/12/2021	**461,902**	**295,250**	**530,421**	**1,287,573**
Change	**859,494**	**(11,411)**	**(17,253)**	**830,830**

- an increase of €401.7 million in financial assets measured at fair value through comprehensive income, which are held under the HTCS business model, reflecting the purchase of debt securities (primarily government issues) in the amount of €253 million and equity securities of banks in the amount of €148.7 million (mainly Bank of Italy shares);
- an increase in equity investments (+€49.8 million), mainly due to the subscription of the capital increase of BCC Pay S.p.A. (+€20.6 million) and shares acquired under Article 150 ter of the Consolidated Banking Act subscribed as the manager of the Guarantee Scheme in Banca di Pisa e Fornacette (+€20.9 million) and Banca Centropadana (+€6.9 million).

The following table provides a breakdown of amounts due from banks, largely represented by loans to the mutual banks (€19.6 billion, broadly unchanged on 2021). These loans, disbursed against pool collateral, include about €14.7 billion in operations with the ECB (TLTRO III), with the remainder being other forms of collateralized financing.

€/thousands	30/06/2022	31/12/2021	Change	% change
Mutual banks	19,634,267	20,103,869	(469,602)	(2.3)
Other credit institutions	6,469,375	12,067,530	(5,598,155)	(46.4)
Due from banks	**26,103,642**	**32,171,399**	**(6,067,757)**	**(18.9)**

Amounts due from other credit institutions (including debt securities) include €43.8 billion in intercompany lending (about €3.5 billion to Iccrea BancaImpresa) and deposits with third parties for the remainder.

Loans to ordinary customers amounted to €6.5 billion, a small rise on the €6.0 billion posted at the end of December 2021. Of the total, €2.3 billion regard intercompany loans. The change in the item is largely attributable to an increase in other transactions (+€0.4 billion) and in repurchase transactions with the Clearing & Guarantee Fund (+€0.1 billion).

€/thousands	30/06/2022	31/12/2021	Change	% change
Current accounts	239,663	234,053	5,610	2.4
Medium/long-term loans	2,568,293	2,566,541	1,752	0.1
Repurchase transactions	218,892	143,286	75,606	52.8
Other transactions	3,390,887	2,977,544	413,344	13.9
Impaired assets	50,938	62,625	(11,687)	(18.7)
Loans to customers	**6,468,673**	**5,984,049**	**484,625**	**8.1**

The following table provides a breakdown of impaired positions:

€/thousands	Gross exposure	Impairment losses	Net exposure	% coverage
Bad loans	70,246	57,451	12,795	81.8
Unlikely to pay	141,591	106,702	34,889	75.4
Impaired past-due	3,873	619	3,254	16.0
Total 30/06/2022	**215,710**	**164,772**	**50,938**	**76.4**
Total 31/12/2021	**269,745**	**207,120**	**62,625**	**76.8**
Change	**(54,035)**	**(42,348)**	**(11,687)**	**(0.4)**

Liabilities and equity

€/thousands	30/06/2022	31/12/2021	Change	% change
Financial liabilities measured at amortized cost – *Due to banks*	33,848,298	39,337,080	(5,488,782)	(14.0)
Financial liabilities measured at amortized cost – *Due to customers*	7,265,330	7,510,089	(244,760)	(3.3)
Financial liabilities measured at amortized cost – *Securities issued*	3,594,740	3,748,638	(153,899)	(4.1)
Financial liabilities held for trading	1,293,811	430,857	862,954	200.3
Financial liabilities designated as at fair value	357,636	335,392	22,245	6.6
Other liabilities	614,409	418,410	195,999	46.8
Total interest-bearing liabilities	**46,974,224**	**51,780,466**	**(4,806,242)**	**(9.3)**
Other non-interest-bearing liabilities	224,945	309,029	(84,084)	(27.2)
Shareholders' equity	1,671,474	1,635,936	35,539	2.2
Profit for the period	(14,542)	53,178	(67,720)	(127.3)
Total liabilities and equity	**48,856,101**	**53,778,609**	**(4,922,508)**	**(9.2)**

The decrease in liabilities recorded in the period compared to the figure registered at the end of 2021 is entirely attributable to a €4.8 billion decrease in interest-bearing funding, which was the net effect of the following developments:

- a decrease of €5.5 billion in amounts due to banks to €33.8 billion, reflecting a reduction in intercompany time deposits (-€2.3 billion), repurchase transactions (-€0.4 billion) and funding with the ECB (-€3.3 billion), attributable to the deleveraging discussed earlier, all partially offset by an increase in current accounts and demand deposits (+€0.5 billion);
- a reduction of €0.4 billion in amounts due to customers and securities issued, which declined to €10.9 billion, due to: (i) a decrease in repurchase agreements with the Clearing & Guarantee Fund (-€0.5 billion); (ii) an increase in funding through current accounts (+€0.2 billion); iii) a decrease in securities issued due almost entirely to the redemption of maturing securities (-€0.4 billion), only partially offset by new issues (+€0.2 billion);
- an increase in liabilities held for trading, attributable mainly to a rise in the value of trading derivatives (+€0.9 billion, connected with the analogous development in the corresponding asset item).

Amounts due to banks, which include €5.1 billion in deposits of the affiliated banks to meet reserve requirements, include:

- €14.3 billion in positions with the affiliated banks mainly in respect of time deposits (€11.1 billion) and amounts held on the daily settlement account (€2.9 billion);
- €19.5 billion in amounts due to other credit institutions, largely related to financing from the ECB under TLTRO III (€17.8 billion).

€/thousands	30/06/2022	31/12/2021	Change	% change
Mutual banks	14,307,230	17,459,981	(3,152,751)	(18.1)
Other credit institutions	19,541,069	21,877,100	(2,336,031)	(10.7)
Due to banks	**33,848,298**	**39,337,080**	**(5,488,782)**	**(14.0)**

Funding with customers amounted to €7.3 billion, slightly down (-€0.2 billion) on December 31, 2021. The contraction reflects a decline in repurchase transactions (-€0.5 billion), partially offset by an increase in current account funding (+€0.2 billion).

€/thousands	30/06/2022	31/12/2021	Change	% change
Current accounts and deposits	1,069,046	829,417	239,629	28.9
Financing	5,670,411	6,094,575	(424,164)	(7.0)
Other payables	525,873	586,097	(60,224)	(10.3)
Due to customers	**7,265,330**	**7,510,089**	**(244,760)**	**(3.3)**

Equity

€/thousands	30/06/2022	31/12/2021	Change	% change
1. Capital	1,401,045	1,401,045	-	-
2. Share premium reserve	6,081	6,081	-	-
3. Reserves	236,509	183,456	53,053	28.9
4. Equity instruments	-	-	-	-
5. (Treasury shares)	-	-	-	-
6. Valuation reserves:	27,839	45,354	(17,515)	(38.6)
Total	**1,671,474**	**1,635,936**	**35,539**	**2.2**

At June 30, 2022, the share capital of Iccrea Banca, represented by 27,125,759 ordinary shares with a par value of €51.65 each, was equal to €1.4 billion, unchanged from 2021. Shareholders' equity, excluding profit for the period, amounted to €1.7 billion, an increase of €35.5 million compared with December 31, 2021. The main changes reflect the allocation of 2021 profit (€53.2 million, of which €5.3 million to the legal reserve and €47.9 million to cover prior-period losses) and a decrease in valuation reserves (€17.5 million), mainly due to changes in the cash flow hedge reserve as a result of new hedges during the period and, to a lesser extent, a decrease in valuations of securities in the FVOCI portfolio.

Income statement

€/thousands	30/06/2022	30/06/2021	Change	% change
Net interest income	**116,008**	**88,245**	**27,763**	**31.5**
Other gains/losses on financial transactions	6,612	61,639	(55,027)	(89.3)
Dividends	11,902	27,865	(15,963)	(57.3)
Net fee and commission income	**46,529**	**44,349**	**2,180**	**4.9**
Other operating expenses/income	**181,050**	**222,097**	**(41,047)**	**(18.5)**
Gross income	(99,539)	(98,482)	(1,058)	1.1
Personnel expenses	(126,653)	(129,198)	2,545	(2.0)
Other administrative expenses	(1,176)	(1,291)	115	(8.9)
Net adjustments of property, plant and equipment and intangible assets	4,719	87,840	(83,121)	(94.6)
Total operating expenses	**(222,649)**	**(141,131)**	**(81,518)**	**57.8**
Gross operating profit	**(41,599)**	**80,966**	**(122,565)**	**(151.4)**
Net provisions for risks and charges	2,771	8,541	(5,770)	(67.6)
Net losses/recoveries on impairment of loans and other financial transactions	3,654	(18,177)	21,832	(120.1)
Total provisions and adjustments	**6,425**	**(9,637)**	**16,062**	**(166.7)**
Profit/(loss) from equity investments	(240)	12,011	(12,251)	(102.0)
Profit/(loss) before tax	**(35,414)**	**83,340**	**(118,754)**	**(142.5)**
Income tax expense	13,617	(13,214)	26,831	(203.0)
Profit/(loss) after tax on discontinued operations	7,255	11,040	(3,785)	(34.3)
Profit/(loss) for the period	**(14,542)**	**81,166**	**(95,709)**	**(117.9)**

The loss for the first half of 2022 amounted to €14.5 million, compared with a profit of €81.2 million in the first half of 2021.

The main factors driving the result were the following:

- a decrease of €41 million in gross income to €185.8 million, reflecting:
  - an increase in net interest income (+€27.8 million) attributable to: i) an increase in the yields on securities (+€12.5 million, almost all of which are Italian inflation-linked government securities); ii) the restructuring of the mix of funding instruments through the issue of bonds to finance the mutual banks (including for MREL purposes) and time deposits, with a consequent reduction in interest expense (+€8.5 million and +€4.1 million respectively); and iii) the recognition of interest income on tax credits (+€3.2 million), an item that was not present in the first half of 2021;
  - a contraction in other income/(loss) from financial operations, which amounted to €6.6 million (-€55.0 million on the year-earlier period; see following table), reflecting a decrease in sales volumes compared with the first half of 2021 (-€29.0 million on June 2021). Also decreasing was the value of the HTCS portfolio (-€21.8 million on the first half of 2021), main reflecting a decrease in the value of equity securities (-€17.4 million) and debt securities (-€3.9 million). Trading in securities and derivatives also showed a loss (-€2.0 million), as did hedging activities (-€2.2 million);

€/thousands	30/06/2022	30/06/2021	Change	% change
Net gain (loss) on trading activities	8,012	10,003	(1,991)	(19.9)
Net gain (loss) on hedging activities	(1,988)	210	(2,199)	(1.045.9)
Net gain (loss) on the disposal or repurchase of:	25,672	54,682	(29,010)	(53.1)
a) financial assets measured at amortized cost	30,636	53,080	(22,445)	(42.3)
b) financial assets measured at fair value through other comprehensive income	(4,965)	1,657	(6,622)	(399.6)
c) financial liabilities	1	(56)	57	(101.8)
Net gain (loss) of other financial assets and liabilities measured at fair value through profit or	(25,084)	(3,256)	(21,828)	70.3
a) financial assets and liabilities measured at fair value	(2,889)	(1,477)	(1,412)	95.6
b) other financial assets mandatorily measured at fair value	(22,194)	(1,779)	(20,415)	1.147.3
Total "Other income/(loss) from financial operations"	**6,612**	**61,639**	**(55,027)**	**(89.3)**

- a decrease in dividend income, which amounted to €11.9 million, a decline of €16.0 million on the same period of 2021. The decrease reflected the decision to not distribution dividends of the companies in the direct scope, partially offset by dividends from the interest in the Bank of Italy (+€6.8 million);

- an increase of €81.5 million in operating expenses, which rose to €222.6 million, reflecting the net impact of the following developments:
  - a decrease in other operating expenses/income (-€83.1 million), mainly attributable to the recognition of one-off charges (€90 million) connected with long-term exclusive distribution contracts and agreements for the products and services of BCC Pay between Iccrea Banca and the Group mutual banks. Excluding this component, revenues from services rendered to ICBG companies increased;
  - an increase in personnel expenses (+€1.1 million) as a result of an increase in provisions for variable components of remuneration (lump-sum bonus, performance bonus, MBO bonus);
  - a decrease in administrative expenses (-€2.5 million), mainly reflecting the decrease in the Resolution Fund (BRRD) contribution (-€5 million), partially offset by an increase in other expenses;
- a decrease in the cost of risk (see following table) with the recognition of writebacks on on-balance-sheet and off-balance-sheet exposures of €6.4 million, the net effect of writebacks on stage 1 and 2 exposures (+€9.1 million) and impairment losses on non-performing stage 3 exposures (-€2.7 million).

€/thousands	30/06/2022	30/06/2021	Change	% change
A. On-balance-sheet exposures				
Stage 1 and 2	6,166	11,961	(5,795)	(48.4)
Stage 3	(2,513)	(30,139)	27,626	(91.7)
B. Off-balance-sheet exposures				
Stage 1 and 2	2,979	6,133	(3,154)	(51.4)
Stage 3	(200)	2,660	(2,860)	(107.5)
Total	**6,432**	**(9,385)**	**15,817**	**(168.5)**

- a reduction in gains recognized on controlling interests (-€12.3 million). The figure for the first half of 2021 was heavily impacted by the capital gain of €12 million registered on the sale of the interest in Satispay.

The item "profit (loss) after tax on discontinued operations" reports the net profit of the assets and liabilities transferred during the period to BCC Pay as part of the spin-off of e-money operations. For more details on developments associated with that transaction, please see the next section, bearing in mind that the transfer took place during the period and BCC Pay began full operations.

PRO FORMA FIGURES INCLUDING ELECTRONIC MONEY BUSINESS UNIT

During the first half of 2022, the strategic operation to leverage the e-money business, approved by the Board of Directors on November 29, 2018, was completed. On January 29, 2022 the Bank signed an agreement for a strategic partnership with FSI SGR S.p.A. (Fondo Strategico Italiano, hereinafter "FSI") aimed at developing the e-money business. As part of this operation, on March 17, 2022, the sale of the "e-money" business unit to BCC Pay was officially completed. The latter is the company selected to develop the business. It was authorized to issue electronic money and provide payment services pursuant to Article 1, paragraph 2, letter h-septies. 1) of the Consolidated Banking Act with a measure issued by the Bank of Italy on October 5, 2021 and is entered in the Register of Electronic Money Institutions with effect from October 12, 2021. The business unit transferred comprised the assets and liabilities relating to the e-money business including, among others, the associated human resources, assets and related legal relationships. Specifically, "Acquiring" e-money operations were transferred with from April 1, 2022 and "Issuing" operations were transferred with effect from May 1, 2022. On August 3, 2022, Iccrea Banca and FSI finalized the strategic partnership agreed in January 2022 to further develop BCC Pay as a fintech operator, which after the transfer of assets and liabilities manages some 4 million payment cards, more than 200 thousand POS terminals and about €50 billion in transactions a year. The operation

was concluded following receipt of authorization from all the competent authorities and provided for the investment of FSI in BCC Pay through the acquisition - through the vehicle PAY Holding S.p.A. – of 60% of the company's share capital, while Iccrea Banca - again through PAY Holding S.p.A. - holds the remaining 40%. In addition to providing for payment at closing, the investment agreement with FSI also contains a number of adjustment mechanisms tied to achievement of plan targets. In addition, contracts and exclusive long-term distribution agreements were signed for the products and services of BCC Pay for Iccrea Banca and the Group's mutual banks. Specifically, the operating model defined in the partnership provides for a promotion and placement agreement between BCC Pay and Iccrea Banca and a promotion and placement agreement between Iccrea Banca and the mutual banks. Iccrea Banca thus maintains its role as coordinator of commercial activities, providing support to the mutual banks in the form of commercial planning, management and coordination of the internal and external commercial network, branding and marketing strategies, the management of innovation needs and the definition of training plans.

In order to provide appropriate disclosure on a management-reporting basis and to facilitate the comparison of information, the following reclassified income statement reports data at June 30 in which the data for the e-money sector has been "normalized". These figures take into consideration not only the performance of the Bank with the allocation of the costs and revenues associated with e-money operations to specific items as recorded up to the date of transfer, but also the performance registered by BCC Pay in the period. The result for the period thus determined was also sterilized of the one-off effect connected with the exclusive contract - referred to above – between Iccrea Banca and the affiliated mutual banks, which amounted to a charge of €90 million.

€/thousands	30/06/2022	30/06/2021	Change	% change
Net interest income	**115,755**	**88,245**	**27,510**	**31.2**
Other income/(loss) from financial operations	6,612	61,639	(55,027)	(89.3)
Dividends	11,902	27,865	(15,963)	(57.3)
Net fee and commission income	**98,644**	**88,749**	**9,894**	**11.1**
Gross income	**232,912**	**266,498**	**(33,586)**	**(12.6)**
Personnel expenses	(103,033)	(101,546)	(1,487)	1.5
Other administrative expenses	(157,591)	(161,452)	3,862	(2.4)
Net adjustments of property, plant and equipment and intangible assets	(1,706)	(1,755)	49	(2.8)
Other operating expenses/income	102,561	95,063	7,498	7.9
Total operating costs	**(159,769)**	**(169,690)**	**9,921**	**(5.8)**
Gross operating profit	**73,143**	**96,807**	**(23,664)**	**(24.4)**
Net provisions for risks and charges	2,964	8,284	(5,319)	(64.2)
- of which provisions for commitments and guarantees issued	2,778	8,794	(6,016)	(68.4)
Net writedowns(writebacks for impairment of loans and other transactions	3,654	(18,177)	21,831	(120.1)
Total provisions and adjustments	**6,619**	**(9,893)**	**16,512**	**(166.9)**
Profit (loss) from equity investments	(240)	12,011	(12,251)	(102.0)
Profit (loss) before tax on continuing operations	**79,522**	**98,926**	**(19,404)**	**(19.6)**

The operating result for the period before taxes thus determined amounts to a profit of €79.5 million, down €19.4 million compared with the same period of 2021 (+98.9 million).

The above data shows that net fee and commission income increased by €9.9 million, mainly reflecting the improved performance of e-money operations, which also gains in comparison with the previous period, although performance in that period was affected COVID-19 restrictions.

Net of the one-off charges of €90 million related to the exclusive contract, other operating expenses charges and income show an increase in revenues from services provided to ICBG companies (+€7.5 million).

7. SIGNIFICANT EVENTS DURING THE PERIOD

Group Consolidated 2022-2024 Business Plan

In April 2022, the Group Consolidated 2022-2024 Business Plan was approved. It was prepared in accordance with the strategic guidance approved by the Board of the Parent Company, which mainly focuses on:

- the improvement of credit quality;
- the improvement of profitability;
- the maintenance of adequate capital buffers with respect to regulatory levels and MREL capacity with respect to minimum requirements.

As regards credit quality, the consolidated business plan targets a gross NPL ratio of 4.5% in 2024 (with a net NPL ratio of 2.1% in 2024), with a significantly improved cost of risk compared with the 2021 figure (63 bps in 2024 vs. 127 bps in 2021), leveraging the continuation of the derisking initiatives under way since the Group's launch and increased oversight of the loan disbursement and monitoring processes.

With regard to profitability, the consolidated plan targets a ROE of 5.5%. Profitability is mainly supported by growth in the contribution of net fee and commission income as a consequence of development initiatives for customer services, in particular in asset management and payments. Despite the gradual easing of the effects of the expansionary monetary policy stance, the scenario for rising rates will achieve substantial stability in net interest income due to the positive impact on the profitability of lending to customers and the portfolio of financial assets. The expected developments in the cost of risk will also contribute significantly to the improvement in margins. The cost/income ratio is forecast to reach 67.1% in 2024, a significant improvement compared with 2021 adjusted for extraordinary components.

With regard to the capital profile, the TCR is projected at 18.7% in 2024 and MREL capacity will ensure an adequate buffer with respect to the target requirements. The liquidity profile remains solid both at short term (an LCR of 229% by 2024) and on a structural basis (an NSFR of 136% by 2024).

The execution of the 2022-2024 business plan encompasses the Group's entire business model, confirming its evolution towards tangible results and producing an increasingly balanced and solid situation, characterized by significantly improved credit quality and a more-than-sound liquidity and capital position.

The plan, which represents the synthesis of a planning process involving all the Group entities, leveraging the transformation plan projects and other strategic initiatives, is anchored to a macroeconomic scenario at the end of 2021 that did not incorporate the potential effects of the Russia-Ukraine conflict. Without prejudice to the strategic initiatives already identified in the plan, the significant recent changes in the macroeconomic environment make it necessary to revise the plan projections, an initiative that will begin in the last quarter of 2022.

An analysis of progress in June shows the substantial alignment of the balance sheet items with the expected values. From a financial performance point of view, on the other hand, profitability was greater than expected, mainly driven by net interest income, buoyed by yields on the securities portfolio and the cost of credit risk, which was significantly lower than expected due to the improved quality of the portfolio and better performance achieved in the management of the non-performing portfolio. Net operating expenses and net fee and commission income were substantially in line with the specified targets.

NPE strategy

As part of the broader strategic planning process and in accordance with the regulatory requirements that require banks to develop specific credit strategies designed to reduce impaired exposures, the 2022-2024 NPE Plan was developed in March 2022, factoring in the impact of the indications provided by the supervisory authorities in the 2021 Asset Quality Review (AQR), the changes in the macroeconomic context and market conditions and the recommendations formulated by the supervisory authorities in the annual SREP Letter. Within this context, the new NPE plan defines the levels of asset quality and cost of risk expected for the next three years and outlines a path of gradual de-risking aimed at achieving the target GNPL ratio of 4.5% by 2024.

The target GNPL ratio to be achieved by the end of the plan period will be pursued by way of a gradual, ongoing reduction in total non-performing exposures, which will hinge on the proactive engagement of the Group's banks in boosting ordinary management efforts, while confirming the utility of making significant use of NPE sales, which will be assessed on a case-by-case basis in light of market conditions and any incentivizing mechanisms that may be in place. The effort will also seek the rebalance the components of the impaired portfolio, with a substantial reduction in bad loans as a proportion of the overall stock of exposures.

With regard to de-risking efforts in the first half of 2021, in May we completed the sixth securitization of non-performing loans backed by government guarantees (GACS V).This operation concerned a total portfolio of 9,017 bad loans associated with 5,696 borrowers, sold by 68 banks of the ICBG (including Iccrea Banca, Iccrea BancaImpresa, Banca Sviluppo and Mediocredito del Friuli-Venezia Giulia) and by a number of non-Group commercial banks (Cassa di Risparmio di Asti S.p.A., Banca Valsabbina and Banca di Credito Popolare). Of this portfolio, which had a total exposure in excess of €644 million and a GBV of €582 million, €535 million of which related to the Group, about 33% was unsecured loans, while the remainder was home loans or commercial mortgage loans.

On May 2, 2022, a "block sale" was completed in which the participating banks assigned a portfolio of bad loans to the securitization vehicle BCC NPLs 2022, established in accordance with Law 130/99, and, on May 10, 2022, this vehicle completed the issue of ABSs, and more specifically:

- €142 million in class A senior asset-backed floating-rate notes maturing in January 2047, with ratings of Baa1(sf) by Moody's Italia Srl, BBB(sf) by Scope Rating GmbH, and BBB(sf) by ARC Ratings S.A.;
- €19.5 million in class B mezzanine asset-backed floating-rate notes maturing in January 2047;
- €6.5 million in class J junior asset-backed fixed-rate and variable-return notes maturing in January 2047.

The senior notes were subscribed entirely by the assignor banks, along with at least 5% of the mezzanine and junior notes, in accordance with the retention rule to maintain a net financial interest in the operation as required by supervisory regulations, whereas the remaining 95% of the mezzanine and junior notes were placed on the market and purchased by a leading international investor within the scope of an auction in which 10 leading international investors participated.

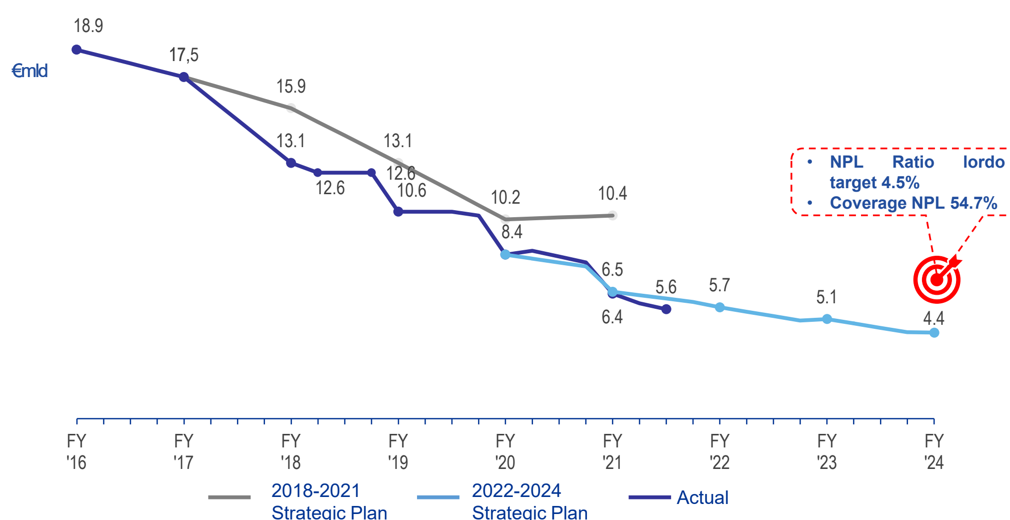
With this transaction, and considering the previous GACS I to GACS V securitizations, in 2018-2021 the Group deconsolidated some €8 billion in its non-performing positions.

On August 8, 2022, after the reporting date, Iccrea Banca S.p.A. and Iccrea BancaImpresa S.p.A. completed a transfer of exposures - primarily unlikely-to-pay ("UTP") positions - to Illimity Real Estate Credit Fund (iREC), an Italian restricted closed-end alternative investment fund established on the same date, receiving in return units in the fund managed by Illimity Sgr.

The sale - which is part of a broader operation with the participation of other Italian banking groups – involved the sale of non-performing loans granted to 22 borrowers with a total GBV of €43 million in return for fund units with a corresponding NAV of €22 million, equal to 25.1% of the Fund's credit units at first closing.

Within the context of the Group's de-risking efforts, in the second half of 2022 we initiated a new multi-originator sale of bad loans potentially secured under the GACS guarantee scheme, and this is expected to be completed in December 2022. At the moment, 39 other banks are expected to participate.

In the light of the intensive de-risking actions pursued thus far and the outlook as described under the new NPE plan, the figure below shows developments in the last 5 years in the level of impaired exposures and the forecasts for the 2022–2024 period - compared with the 2018–2021 period –to illustrate the acceleration in the Group's de-risking efforts.



2021 marketing plan and implementation of commercial and marketing strategy

In the first half of 2022, the Group continued efforts to enhance our model of banking in support of the local communities of the affiliated banks, while maintaining a keen focus on the needs of territory and on the satisfaction our customers and shareholders.

In support of this development path, execution of numerous projects continued, including:

- Full Commercial Potential, a project of business development and specialization for the mutual banks, in line with the adoption of the new service models and revision of the distribution models, including development of the catalogue of products and services (especially

in the areas of asset management, insurance and bancassurance, business lending and services, consumer credit, payment services, and ancillary services for individuals). With the loosening of restrictions imposed in response to the COVID-19 health emergency, many mutual banks are already active, and encouraging results have been achieved in terms added value in customer advisory services and an increase in the provision of other premium services;

- Customer Relationship Management (CRM), with the goal of providing the mutual banks with a single tool at the Group level that orchestrates commercial initiatives and commercial relationship management using all available channels and based on a single base of information with a 360° view of the customer. In the first half of 2022, the application was released to all of the Group's mutual banks, and the commercial roll-out, which entails a training and operational support program, continued with the aim of complete activation of the CRM tool with the mutual banks in order to maximize return on commercial efforts;
- Wealth Management Platform (WMP), aimed at creating an IT platform for the development of our advisory models in order to ensure the quality of the offering and management of investment, funding, and life and non-life insurance. The WMP was launched into production in April 2021, and during the first half of 2022 the onboarding activities of the banks on the platform continued; at June 30, there were 54 active banks on the WMP;
- Asset Management, with the goal of further strengthening the role of the Group's investment unit within our proprietary asset management company by broadening its range of action and transitioning from product company to a hub for investment services. Again in 2022, the launch of projects continued aimed at expanding the range of products and services available to the Group banks for their customers. The main initiatives include: *(i)* the launch of the family of business managed portfolio products dedicated to organizations, including an enrichment of the range of sustainable asset-management lines; *(ii)* the extension of agreements with international asset managers currently being finalized;
- launch of the project to rationalize the product catalog, which will improve the quality of information in the catalog and reduce the number of products;
- partnership with Arval for inclusion of the long-term rental offering in the catalog;
- partnership with Edenred for inclusion of the corporate welfare offering in the catalog for business customers of the mutual banks;
- B2C campaigns targeting the customers of the mutual banks with the goal of supporting the placement of the products managed by the product companies through cross-selling and upselling. In particular, the first data-driven campaign was created on Crediper;
- implementation of the new shareholder loyalty program and of the first B2C customer satisfaction analyses among mutual bank customers.

Finally, the commercial initiatives promoted within the scope of Italy's NRRP deserve particular mention. Under the direction of the Corporate division, these efforts aim to enable the mutual banks to assist their customers in accessing the subsidy measures released over time through the provision of both consultancy services and funding to be used to finance investments in the energy and digital transitions.

Reorganization of the Group's retail segment – Electronic money

As mentioned previously, in line with the overall development and positioning strategy in the segment with the aim of allowing the affiliated banks to develop their full commercial potential in part through the achievement of new synergies by the product company, work has continued in order to implement the new electronic-money model as defined in the Strategic Plan.

In particular, during the first half of 2022, work continued on the creation of a company for the electronic-money segment of Iccrea Banca with the transfer of the acquiring and issuing business units to BCC Pay S.p.A.. Having obtained the authorization from the competent supervisory authorities to operate as an electronic money institution on October 5, 2021, followed by listing with the Italian register of electronic-money institutions on October 12, 2021, on April 1 and May 1, 2022, the transfers of the acquiring and issuing business units by Iccrea Banca to BCC Pay were completed for a total of approximately €20.6 million.

Within this context, the closing of the partnership agreement signed with FSI SGR S.p.A. was completed on January 29, 2022. In particular, following the authorization process by the competent supervisory authorities, which ended in July 2022, on August 3, 2022, FSI SGR S.p.A. and Iccrea Banca, through the special-purpose vehicle Pay Holding S.p.A., with 60% and 40% interests held respectively, acquired the entire share capital of BCC Pay for a total valuation of up to €500 million (including a deferred component of up to €50 million). The transaction resulted a gross gain of approximately €430 million at both the separate and consolidated levels. A long-term distribution agreement for BCC Pay products and services was also signed for Iccrea Banca and, through it, for the affiliated banks.

Lastly, also during the first half of 2022, Iccrea Banca began efforts aimed at acquiring (directly or through a newly formed company) from Coopersystem (company within the indirect scope) a business unit pertaining to the placement, maintenance and support of POS terminals. Having completed the necessary procedures started in September 2022, this operation will be completed between the end of the current year and the beginning of 2023.

Reorganization of the Group's operations segment – Single Hub

In the first half of 2022, the "Operations Strategy" project defined within the Transformation Plan continued. The aim is to create a Single Hub within the Group to provide – with increasing scope – administrative services in favor of the affiliated banks and product companies, including through the acquisition of back-office business units from the affiliated banks themselves or by mergers and acquisitions from outside the Group.

With regard to the acquisition of the back-office business units of affiliated banks, which has already seen the completion of three transactions in 2021, during the first half of the year a further five transactions were approved in favor of Sinergia, grouped into two macro-projects: (i) the transfer of the back-office business unit from Credito Cooperativo Romagnolo – BCC di Cesena e Gatteo S.C., with effect from February 1, 2022; (ii) the transfer of four back-office business units from the four mutual banks involved in the merger into Banca di Credito Cooperativo della Calabria Ulteriore – Società Cooperativa (Banca del Catanzarese – Credito Cooperativo S.C.; BCC del Crotonese – Credito Cooperativo; Credito Cooperativo di San Calogero e Maierato – BCC del Vibonese; Banca di Credito Cooperativo di Cittanova – Società Cooperativa), effective from March 30, 2022. In line with the path being pursued, four additional transactions similar to those described above are planned, two of which in 2022 and two within the first half of 2023.

Furthermore, the merger of In.Cra Società consortile a responsabilità limitata and Sirius Project S.r.l. into Sinergia was approved. Both companies are already operating in the same segment in terms of both back-office activities and serving the local community. With regard to In.Cra., the transaction was concluded effective June 3, 2022, while in relation to Sirius Project S.r.l., a company already wholly owned by Sinergia, the transaction was concluded as of August 1, 2022.

Within this context, a feasibility study was also launched regarding the merger of two special-purpose companies, BCC Solutions and Sinergia, both wholly owned by the Parent Company. This study, completed during the first half of 2022, led to the authorization by the boards of directors concerned for completion of the merger by the end of the current year. Specifically, BCC Solutions and Sinergia are active in the Operations segment and have highly complementary businesses. Their customers are the other companies in the direct scope and the affiliated banks. The initiative, which would allow for further rationalization of the segment with the potential for further efficiency gains, will be completed as of January 1, 2023, once legal and regulatory matters have been completed and the target integration model has defined, in terms of both organization and operations.

Revision of the territorial organization of the affiliated banks

During the first half of 2022, the process of rationalizing the operational structure of the affiliated banks within the territory continued, mainly through mergers aimed at the creation of banks that – in maintaining the wealth of knowledge of their respective territories – also had the size and organizational structure capable of taking full advantage of their corporate function.

More specifically, the following mergers took place in the first half of 2022:

- Cereabanca 1897 was merged into Banca di Verona e Vicenza (new name: "BCC di Verona e Vicenza Credito Cooperativo - Società Cooperativa") with legal effect from February 21, 2022;
- BCC di Massafra was merged into Banca di Taranto (new name: "Banca di Taranto e Massafra - Credito Cooperativo - Società Cooperativa") with legal effect from March 16, 2022;
- Credito Cooperativo di San Calogero e Maierato – BCC del Vibonese, BCC del Crotonese - and Banca di Credito Cooperativo di Cittanova SC were merged into the Banca del Catanzarese Credito Cooperativo SC (new name: "Banca di Credito Cooperativo della Calabria Ulteriore – Società Cooperativa") with effect from April 11, 2022;
- BCC di Oppido Lucano e Ripacandida was merged into BCC di Spinazzola (new name: "Banca di Credito Cooperativo Appulo Lucana S.C.") with legal effect from May 6, 2022;
- Banca di Credito Cooperativo Mutuo Soccorso Gangi was merged into Banca di Credito Cooperativo San Giuseppe delle Madonie (new name: "Banca di Credito Cooperativo delle Madonie - Società Cooperativa") with effect from May 23, 2022;
- BCC Bergamo e Valli was merged into BCC di Milano (retaining the name "Banca di Credito Cooperativo di Milano Società Cooperativa") with legal effect from June 13, 2022.

In addition, during the first half of 2022, authorization requests were submitted to the ECB for the following two extraordinary transactions, with scheduled effect from the second half of 2022:

- on April 14, 2022, for the full, non-proportionate demerger of VivalBanca – Banca di Credito Cooperativo di Montecatini Terme, Bientina e S. Pietro in Vincio and subsequent merger of the two separate entities into Banca Alta Toscana and into Banca Centro - Credito Cooperativo Toscana – Umbria;
- on June 7, 2022, for the merger of BCC di S. Michele di Caltanissetta e Pietraperzia into BCC "G. Toniolo" di San Cataldo (new name: Banca di Credito Cooperativo "G. Toniolo" e San Michele di San Cataldo.

Actions within the scope of the guarantee mechanism

In the first half of 2022, the Parent Company launched two capital support initiatives through the guarantee scheme for a total nominal amount of €28 million, drawing on the ex ante portion of the readily available funds and, more specifically:

- the subscription of shares issued in accordance with Article 150-ter of Legislative Decree 386/93 by Banca di Pisa e Fornacette for a total of about €21.0 million;
- the subscription of shares issued in accordance with Article 150-ter of Legislative Decree 386/93 by Banca Centropadana for a total of about €7.0 million.

These capitalization initiatives were attributed proportionately to each participant in the scheme.

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

In execution of the agreement signed in 2019 with Cassa Centrale Banca S.p.A., which provides for the reorganization of the stakes held by the mutual banks belonging to the two cooperative banking groups as well as the stakes held in entities belonging to said groups, in January 2022, 897,000 shares of Iccrea Banca S.p.A., for a total of about €47.4 million, were transferred from entities belonging to the Cassa Centrale Banca Group – Credito Cooperativo Italiano to affiliated banks.

In execution of the aforementioned agreement, a further transaction will be completed by the end of 2022 – subject to prior authorization by the supervisory authorities – which calls for the transfer of 899,078 Iccrea Banca S.p.A. shares from entities belonging to the Cassa Centrale Banca Group – Credito Cooperativo Italiano to affiliated banks.

Capital increase of Hi-MTF

In the first quarter of 2022, Hi-MTF SIM (a joint venture held in equal 20% shares by Iccrea Banca, FinecoBank S.p.A., Banca Akros S.p.A., Banca Sella Holding, and Luzzatti SCpA) updated its 2022-2026 strategic plan, which sees the new Hi-Cert segment as being the main driver of growth. To achieve the established objectives, Hi-MTF has planned an important investment plan supported by the contribution of new capital by the shareholders for a total of €3.5 million. With the goal of facilitating pursuit of the company's strategic plan, Iccrea Banca subscribed the capital increase of Hi-MTF SIM for €0.7 million in proportion to its shareholding.

Recovery Plan

At the start of 2022, work was completed to update to the Group's Recovery Plan, which was submitted to the supervisory authorities. The assessments/analyses conducted in order to determine the Group's ability to restore the financial performance and standing of all Group companies in the event of particularly adverse circumstances, characterized by both extraordinary and systemic risks, take account of developments in the COVID-19 emergency, but not of the new landscape emerging in the wake of the crisis in Ukraine. In the first half of 2022, preparatory work began on updating the Group's Recovery Plan, taking account of the expectations expressed by the supervisory authorities.

The COVID-19 health emergency

The first weeks of 2022 were characterized in Italy by a new wave of infections caused by the rapid spread of the omicron variant, the appearance of which at the end of 2021 led to the extension, with Decree Law 221 of December 24, 2022 (the "Christmas Decree"), of the state of emergency until March 31, 2022.

Decree Law 24 of March 24, 2022, issued in relation to cessation of the state of emergency, established, along with elimination of the system of colored risk areas and the precautionary quarantines for close contact:

- the obligation until April 30 of the basic "green pass" for all workers, regardless of age, for access to the workplace;
- the elimination, from April 1, of the basic green pass for customer access to banking, financial and retail services;
- the use of face masks in the workplace until April 30.

On the subject of the use of personal protective equipment, on April 28 an ordinance was issued by the Ministry of Health – effective until the date of entry into force of the law ratifying Decree Law 24/2022 and, in any event, until no later than June 15, 2022 – limiting the obligation to use protective equipment indoors to specific and limited cases. This was followed on May 4 by the meeting between the Government and the social partners confirming, until June for the private sector, the full application of the protocol signed on April 6, 2021, on measures to contain the pandemic in the workplace with the obligation to use of personal protective equipment in all contexts that call for the sharing of workplaces, both indoors and out.

From May 1, the legal obligation for workers to exhibit a green pass to access the workplace introduced by the aforementioned Decree 24/2022 expired. As a result, it is no longer necessary to check body temperatures or read the QR code on green passes before entering a building.

With the aim of ensuring continuity in operations and a prompt response in the event of a rapid deterioration of national conditions with a significant impact on the Group's operations, it was decided to maintain the COVID-19 emergency task force established at beginning of the pandemic. Through the functions that have operated within the task force, therefore, management and coordination of the actions necessary to ensure the protection of personnel, customers and suppliers, as well as to ensure the continuity of critical services in full compliance with the provisions issued by the competent authorities, was provided. These activities were conducted and regulated in line with the gradual improvement of conditions at the national level, as well as with the termination of the state of national emergency, which took place on March 31, 2022, by revising internal company rules to incorporate any new obligations imposed and to determine, where appropriate, measures oriented around the utmost prudence based on developments in the health emergency, particularly with regard to the situations of greatest vulnerability.

In terms of systems and services – both from an operational point of view and from the view of the provision of systems – the implementation of remote work, activated last year and adapted in response to trends in infections and other assessments carried out by the expert in occupational health and safety, has continued. Available infrastructures have been constantly monitored in order to ensure the effective operation of systems supporting operating procedures in place, while ensuring compliance and the management of the various projects underway essentially in line with established plans.

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

With regard to the network of branches of the banks and other companies of the Group, the uniform and coordinated approach to the opening of offices has been maintained. Where necessary, selective closures have been performed based on developments in the health emergency, but these have been very limited in number and have had no impact on the operations of the banks or on the customers. Access to branches has been ensured by way of specific regulations that call for the observance of safety standards. Communication with customers has been maintained by way of in-branch signage and other means of communication (e.g. the website).

As regards the extraordinary measures in support of the Italian economy, of businesses and of households, during the COVID period, Group banks granted legislative and non-legislative loan repayment moratoriums to more than 128,000 counterparties for a total of about €14 billion. At June 30, 2022, the gross exposure relating to loans and advances subject to a moratorium amounted to approximately €90 million, 91.13% of which was in non-impaired exposures. A total of 73.54% of the moratoriums in place relate to exposures to non-financial companies.

Loans and advances subject to legislative and non-legislative moratoriums granted (values in thousands of euros at June 30, 2022)

Counterparties		of which performing			of which impaired		
	Gross total exposure	Gross performing exposure	of which: forborne	of which: stage 2	Gross deteriorating positions	of which: forborne	of which: bad loans
Households	23,714	22,226	4,482	11,839	1,488	1,234	1,308
of which: backed by residential real estate	16,163	14,973	3,979	7,849	1,190	967	1,190
Non-financial companies	66,191	59,697	3,867	31,755	6,494	3,836	2,123
of which: SMEs	50,019	46,916	3,208	21,581	3,104	1,363	1,038
of which: backed by non-residential real estate	16,874	16,343	1,041	14,513	531	531	531
Total	**89,905**	**81,923**	**8,349**	**43,594**	**7,982**	**5,070**	**3,431**

Within the context of initiatives concerning the extraordinary measures by Government in response to the health emergency, the banks of the Group have granted new finance pursuant to Article 13 of the Liquidity Decree for over €9.1 billion, with public coverage of approximately 82.31%. Approximately 85% of the new financing was allocated to non-financial companies.

With the "Revival Decree" (No. 34/2020), measures were introduced to support the construction sector (first of all by raising the tax credit to 110% for the redevelopment of real estate for energy efficiency and seismic performance, i.e. the 110% "super bonus" introduced with Article 119) carried out by individuals, outside of business activities, arts and professions, tenants, and parties other than companies. In lieu of the credit, taxpayers can opt for the provider to apply a corresponding discount on the amount to be paid, or for the transfer to third parties (including banks) of an equivalent tax credit. The decree also provided for the possibility to transform the main tax credits due in the construction and energy sectors into a discount on the amount due and into a transferable tax credit (Article 121), as well as the possibility, for the beneficiaries of the tax credits granted by provisions issued in response to the COVID-19 emergency, to opt for the transfer to other subjects instead of using them directly (Article 122). In response to these interventions, the Group has activated dedicated solutions which produced a portfolio of tax credits acquired in the amount of €2.2 billion at June 30, 2022.

The Russia-Ukraine conflict

With regard to the Russia-Ukraine conflict and the consequent international sanctions imposed on Russia, in particular for trade finance (guarantees and documentary credits), the Group had limited exposure to the countries involved. As for existing positions with Russian counterparties, for residual debt at the reporting date of approximately €2.7 million, it should be noted that all loans are 100% guaranteed either by the Italian parent companies (with regard to intercompany transactions) or by SACE (as regards without-recourse discounting) and that, at the moment, all exposures are being settled normally, albeit with certain difficulties related to Russian counter-sanctions.

Since the day following the onset of the Ukrainian crisis, operational memorandums have been issued to the Group banks in order to properly manage the risks underlying operations with the countries involved and implement rigorous procedures for compliance with the financial sanctions imposed by the competent authorities. These guidance efforts continued in relation to the additional sanctions subsequently implemented by the competent authorities.

In the area of IT security, cyber risk, and business continuity, the Group immediately activated a specific task force with the aim of following developments in this area, so as to ensure timely response to any critical issues that should emerge. The Integrated Security and Operational & IT Risk Management functions of the Parent Company, the ICT Security, Incident Management and Infrastructure functions of BCC SI, as well as the heads of the Business Continuity Plan of the special-purpose companies BCC Solutions and Sinergia participate directly in the task force. The companies of the direct scope and the affiliated banks were also coordinated by way of specific communications.

The task force was in constant contact with and actively participated in the information-sharing activities carried out as part of the working groups with the national bodies responsible for monitoring IT risk and business continuity for the financial sector (i.e. CERTFin and CODISE), which in turn interface with the National Cybersecurity Agency (ACN), within which the Computer Security Incident Response Team (CSIRT) operates, with responsibility for monitoring incidents at national level and issuing warnings and/or alerts about risks and incidents,.

The actions coordinated by the task force concerned (i) organizational and procedural areas; (ii) technical and technological areas; and (iii) the unavailability of relevant third parties.

As part of the organizational and procedural measures, the presence, for the Group, of suppliers of IT services and/or IT goods attributable to the Russian Federation was investigated, and action was taken for any (potential or actual) critical issues in the related supply agreements. In addition, all the Group's procedures for responding to potential IT security incidents deriving from this landscape have been verified.

As part of the technical measures, a communication channel was activated with CERTFin to facilitate the exchange of information on new cyber threats with a view to prevention, and we have also strengthened monitoring by means of security bulletins acquired by way of threat intelligence services in order to identify and implement any mitigation efforts for potential vulnerabilities applicable to the Group. In addition, action was taken by reviewing and, where appropriate, further strengthening the security level of the Group's services exposed to or accessible via the internet.

As part of the monitoring of any unavailability of relevant third parties, developments related to SWIFT have been carefully monitored, and no impacts for the Group have been encountered.

With regard to potential developments in the supply of energy resources, the operational resilience of the sites hosting critical services has been verified in order to determine whether, in the face of any disconnection of utilities, there could be a significant impact on normal operations and, if so, what further measures may be necessary. This aspect is constantly monitored, in part in coordination with the specific national working group coordinated by CODISE.

During the first half of the year, the Group conducted analyses of the Group's performing enterprises portfolio in order to determine any segments of the portfolio that could be impacted, in terms of higher expected risk, by the changing macroeconomic landscape brought about by the Russia-Ukraine conflict.

This analysis was carried along two main lines:

- counterparties operating in specific sectors in which production is *highly energy intensive*;
- counterparties potentially impacted by the *increasing prices of raw materials*.

In order to support the Group banks in identifying positions deemed to be at greatest risk, the monitoring process by the Parent Company's central Lending unit was reinforced with specific data on the counterparties affected by these circumstances.

To complete the ICAAP & ILAAP analyses conducted in the first half of 2022, and in line with the specific requirements/expectations communicated by the supervisory authorities, the Group conducted further assessments and sensitivity analyses, of both capital and liquidity, in order to factor in potential direct and indirect impacts/implications of the conflict and assess the adequacy of capital and liquidity. Although we are aware of the great uncertainty surrounding potential developments and the consequent repercussions they may have on the macroeconomic landscape, the analyses carried out did not point to any areas of significant vulnerability for the Group as a whole.

Within the scope of humanitarian initiatives, the Group participated in the fundraising event "Ukraine 2022 - *Vicini ai bambini e agli adolescenti*" with the current account organized by mutual banking industry in collaboration with Caritas Italiana.

National collective bargaining agreement renewal

On June 11, 2022, following intensive and complex negotiations that began on October 13, 2021, an agreement was reached between Federcasse and the trade unions for renewal of the national collective bargaining agreement for the professionals and middle managers of mutual banks, which expired in December 2019.

The renewal agreement, which will expire on December 31, 2022, is in line with the agreements of May 13, 2021, which had sanctioned new contractual arrangements, calling for the replacement of the local federations by the Parent Company in many areas.

The main elements related to wages and salaries include the adjustment of the remuneration tables to those of the ABI banking sector, with an overall increase for area 3A4L of €150 from August 2022, which increases to €190 when fully operational as of October 2022, in the increase in payments into the bilateral entities for the industry of the Mutual Pension Fund and the National Pension Fund and in the revision of the performance bonus model, now renamed “Company Productivity Value”, which will be calculated on the basis of indicators specified under section 48 of the national collective bargaining agreement (e.g. profitability, efficiency, productivity, consistency with the mutualistic nature of mutual banks, environmental impact, diversity and inclusion, etc.) that are representative of the overall performance of the companies.

With regard to the main legislative changes, leave of absence for specific categories of workers suffering from serious illnesses and for the protection of parenthood has been made more flexible and increased, legal protection for acts committed in the exercise of one’s duties, and introduction of measures to ensure the right to disconnect. The number of hours to be allocated to training has been increased, with a particular emphasis on the fundamental nature of mutual banking and on inclusion and diversity.

Of particular interest is the introduction of hybrid work, which includes the granting of meal vouchers, a maximum of 10 days per month unless otherwise established by second-level negotiations, and priority given to the needs of parents and other groups with special needs.

Remuneration and incentive policies

In accordance with provisions concerning remuneration and incentive policies and practices within banks and banking groups issued by the Bank of Italy, the Parent Company has adopted Group policies regarding the remuneration and incentive systems – in line with the characteristics of the Group and of all its component parts, taking due account of the vocation of cooperation with local communities of the Group and of the affiliated banks – in order to achieve a unified, proportional application of related legislation and to ensure observance of the applicable requirements.

In accordance with the provisions of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, the policies adopted in 2022 have taken account of issues of sustainability, which have resulted in a series of sustainability targets and performance indicators in line with the sound and prudent management of ESG risks as part of the system of short-term incentives of the Parent Company and of the companies within the direct scope. The policies adopted in 2022 also pursue gender neutrality ensuring that, for a given position type, personnel have an equal level of remuneration, including in terms of the conditions for its recognition and payment.

The document was approved by the shareholders of the Parent Company – based on a proposal by the Board of Directors – meeting in ordinary session on June 16, 2022, and is available on the Bank’s website.

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

As for the goal of ensuring standardization in the application of the principles underlying the ICBG’s remuneration and incentives policies, a standard was drafted to assist the affiliated banks in adoption of their own remuneration policies and incentive systems consistent with Group policies, applicable regulations and the principle of proportionality. Furthermore, in declining the policies, the affiliated banks took into consideration the exceptions allowed by supervisory provisions in compliance with the principle of proportionality and, therefore, apply the rules on remuneration based on the separate financial statements, calculated as the average of the four years immediately preceding the current financial year, regardless of the consolidated size of the Group. Therefore, each bank has declared in its remuneration and incentive policies that it is either a bank of smaller size or operational complexity or a bank that is not of smaller size or operational complexity.

In 2022, the Parent Company, in compliance with regulatory requirements and the Cohesion Contract with the affiliated banks, also provided instructions relating to identification of Material Risk Takers (MRTs) on the basis of the new Commission Delegated Regulation No. 2021/923 – Material Business Units and Credit Institutions, to disclosure obligations pursuant to Article 450 of the CRR, to the methods for calculating the bonus pool, and to collecting the information necessary for consolidated reporting and disclosure requirements (EBA and Pillar III).

Refinement of the impairment model and changes/additions to group policies on the assessment of credit exposures

In conjunction with financial reporting for the first half of 2022, full technical continuity was ensured for actions to manage the impact of the Asset Quality Review (AQR), as previously implemented by the Group in conjunction with the 2021 annual report.

That said, as part of the management of transitional actions relating to the COVID-19 health emergency, a refinement of the IFRS 9 – Impairment framework has been put in place concerning the mechanisms for managing temporary measures to support the enterprise liquidity as defined by Decree Law 23/2020 (the “Liquidity Decree”), as converted into Law 40/2020. More specifically, starting from June 2022, the

hold was removed on the transition to stage 2 of the positions subject to the Liquidity Decree. Therefore, the stages of the positions in question has been determined in a manner consistent with the stage allocation triggers envisaged by the model.

On-Site Inspection (OSI) – Capital Adequacy and Commercial Real Estate

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

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

The supervisory authorities conducted an additional OSI at the Group level from March 31 to August 5, 2022, concerning credit and counterparty risk in the area of asset quality of commercial real estate (CRE), with the aim of assessing compliance with and implementation of IFRS 9, as well as performing a credit quality review on select portfolios and assessing credit risk processes.

The outcome of the inspection will be released in the fourth quarter of 2022.

Judicial seizure of BCC del Crotonese

On February 15, 2022, by ruling of the Court of Catanzaro, BCC del Crotonese (now merged into BCC della Calabria Ulteriore) was notified of application of an order of judicial administration of economic assets pursuant to Article 34 of Legislative Decree 159/2011 for a period of six months on the basis of alleged exposure of the bank to circumstances that would justify the application of judicial administration.

From investigations that concluded in February 2021 (about a year before notification of the measure), the Public Prosecutor’s Office alleged that the bank’s overall anti-money laundering safeguards would have abetted customers and shareholders with a criminal history or involved, directly or indirectly, in the events that emerged as part of the inspection carried out by the Bank of Italy. These shortcomings led the Bank of Italy, following the inspection, to call for a significant break from past policies.

According to the public prosecutor’s office, on the date of filing the proposal for adoption of the measure in question (February 26, 2021), this discontinuity did not then occur. The request to place BCC del Crotonese under judicial administration pursuant to Article 34 of Legislative Decree 159/2011, which was followed by the provision of the Court of Catanzaro appointing the judicial administrators, was founded on these assumptions.

From the analyses conducted by Iccrea Banca, it emerged that, during the period between the end of the investigations and the notification of the court ruling (about one year), a series of remedial actions were put in place, both in governance and AML (in implementation of a remediation plan established with the Bank of Italy), which made it possible to present to the directors and, through them (as part of the detailed report drawn up by them pursuant to Article 36 of Legislative Decree 159/2011), to the court an overall different picture from that which originally emerged from the inspection of the Bank of Italy.

This made it possible to continue the merger, as already authorized by the supervisory authorities and initiated in 2021, which saw the merger of BCC del Vibonese, BCC del Crotonese and BCC di Cittanova into Banca del Catanzarese, thereby creating a new credit institution to serve the communities concerned.

On March 31, 2022, following the resolutions passed by the shareholders of the mutual banks involved in the merger, and in compliance with the measure of March 22, 2022, by which the Court of Catanzaro authorized the judicial administrators to complete the operation, the merger was formalized and, on April 11, 2022, the merger of BCC del Vibonese, BCC del Crotonese and BCC di Cittanova into Banca del Catanzarese became effective, changing its name at the same time to “Banca di Credito Cooperativo della Calabria Ulteriore – Società Cooperativa”.

Subsequently, with an order issued on April 13, 2022, the Court of Catanzaro ordered the continuation (on the surviving mutual bank) of the preventive measure previously adopted against BCC del Crotonese for the original period of six months (thereby expiring on August 15, 2022), while redefining the scope of the activities entrusted to the judicial administrators and granting them the necessary powers, without, however, assigning any managerial powers over the operations of the mutual bank.

The Court of Catanzaro also set a hearing for October 17 to decide on the measures to be adopted pursuant to Article 34, paragraph 6, of Legislative Decree 159/2011 (i.e. revocation, renewal of the measure, or application of other preventive measures).

In compliance with the aforementioned report pursuant to Article 36 of Legislative Decree 159/2011, filed on March 15, 2022, the Court of Catanzaro, BCC della Calabria Ulteriore initiated the additional actions/investigations requested by the judicial administrators, which are currently being completed.

Given the need to conclude all actions before the end the preventive measure expires, in order to present to the Court of Catanzaro a status

report that encompasses all measures adopted so as to allow for an assessment of revocation of the measure adopted at the time, the judicial administrators filed with the Court of Catanzaro a request for extension of the preventive measure adopted against BCC del Crotonese and subsequently passed onto the assets of the mutual bank now merged into BCC della Calabria Ulteriore, granted until September 30, 2022, while confirming the aforementioned hearing of 17 October.

Environmental, Social and Governance (ESG) and climate change

At the end of 2021, with regard to supervisory expectations and the increasing attention of external and internal stakeholders on issues relating to Environmental, Social and Governance (ESG) issues and sustainability generally, a multi-year program was approved in order to bring together the numerous initiatives launched by the Group to comply with relevant provisions within the overarching context of governance, all aimed at improving the management of cross-functional connectivity and synergies and at increasing standardization.

The program is divided into thematic work streams based on the expectations of the ECB:

- Governance – Business Strategy – Organizational Structure – Disclosures, which includes efforts aimed at developing the governance and organizational structure as it concerns ESG issues, as well as the functional actions needed to integrate ESG factors into strategic and operational planning and to update the system of disclosures to stakeholders.

  As concerns corporate governance, the ESG Committee was set up in April 2022 and plays a proactive and advisory role towards the Board of Directors with regard to issues relating to sustainability and the identity of mutual banking. Corporate governance policies have also been updated in order to focus the Board's actions on issues relating to sustainable finance, to strengthen the ESG competencies of the directors, and to introduce diversity and inclusion issues as defined by current laws and regulations. In terms of the organizational structure: (i) the central unit dedicated to the coordination of ESG issues as they concern strategy and disclosures was reinforced; (ii) a unit dedicated to ESG risks was created within the Risk Management function; (iii) a sustainability policy has been established at the Group level that sets out the overall governance, management, control and disclosure structure and defines the principles and guidelines aimed at ensuring the stable, effective and complete management of the Group's sustainability model; (iv) the sustainability policy on investments, which outlines the Group's commitment to the integration of environmental, social and governance factors into decision-making processes relating to the provision of investment and advisory services on investment or insurance, has been updated; (v) given the cross-functional nature of the impact of integrating ESG issues into all business processes, an ESG Ambassador has been defined to work – at the level of each area of the Parent Company and in each company of the Group – as a pivot point for ESG issues in close collaboration with the central sustainability function.

  With regard to corporate strategy, the planning process integrates ESG objectives as distinct, determinant factors in market positioning. In this regard, prior to defining the new strategic lines concerning ESG issues, an analysis of positioning was developed in order to assess the level of maturity in various drivers of sustainability and to then determine the priority actions aimed at taking advantage of new market opportunities within the context of the significant changes in legislation. Finally, as concerns the regulatory disclosure process, the program envisages a project site dedicated both to developing the operational and control mechanisms and processes within current reporting system throughout the scope covered by applicable legislation and to adding all the necessary functional safeguards for the reporting of taxonomy eligibility and taxonomy alignment.

- Risk Management, which includes all the activities functional to the assessment and integration of ESG risks, and of climate and other environmental risks in particular, within the Group's overall Risk Management and Risk Governance Framework.

  During the year, the Group entered into a partnership with a leading external, specialist supplier aimed at providing system-specific information relating to the new types of risk (i.e. transition risk and physical risk) and methodological approaches to determining key risk indicators (KRIs) used to measure the overall positioning of the Group and of the companies concerned in terms of potential exposure to climate and other environmental risks.

  The transition-risk assessment approach calls for the integration of quantitative components and judgments with the aim of including elements that otherwise could not be captured. The physical-risk assessment approach calls for an analysis of the risk of the area to which the companies and real estate belong, based on their geographic location, making use of public sources of data and analyzing certain risk events, such as flood risk, landslide risk and seismic risk.

  The policy governing the first system for identifying and assessing climate and other environmental risks and the methodology annex containing the operational/methodological specifications underlying the assessment of physical and transition risk for corporate counterparties and for the real estate being used as collateral and the repossessed properties of the Group are being prepared. The results of application of the model defined in the policy will be presented in a materiality assessment of the Group's first positioning with respect to climate and other environmental risks (for first-time application, specifically related to counterparty transition risk and physical risk). Work has also begun on integrating these risks into the traditional risk management process (for credit, operational and business continuity, market and liquidity risk) and within the Risk Governance Framework.

- Climate Stress Testing (CST). In line with the ongoing process of integration involving the broader Risk Management Framework, this work stream includes activities aimed at integrating climate and other environmental factors/risks within the stress testing system defined and adopted by the Group to support climate-risk stress testing (CST) for both regulatory and management purposes. The CST carried out by the ECB ended in July 2022 with delivery of the individual report with the results expressed by the authority for each test module and publication of the aggregate results of all participating banks. Participation in the CST and receipt of the ECB

feedback has made it possible to better qualify and direct efforts to enrich the information needed to properly identify and integrate climate and other environmental factors within the CST management framework, the activities of which are currently being defined and developed and will extend over a multi-year time horizon.

- Lending. This includes activities aimed at integrating ESG assessments into lending decisions and, in general, into the broader loan granting and monitoring process. In this regard, an ongoing process to adapt the Group's lending policies and systems has been undertaken, along with the integration of ESG assessments within the framework of credit strategies in order to define appropriate strategic guidelines for granting credit that also include ESG issues.
- Investment and Financial Services. This includes the activities under way regarding the provision of investment services and relating to disclosures to be provided to customers (SFDR), the processes and procedures to integrate the sustainability preferences of customers in assessing the adequacy of investments, and the updating of governance rules for financial products. Within this context, the main work being done includes: i) updating the MiFID questionnaire in order to collect investor sustainability preferences, aimed at integrating them into customer adequacy assessments; ii) updating the methodology annexes to the Group's internal policies on product management relating to the provision of investment services; iii) updating the Group policy on the management of conflicts of interest and related mapping in order to ensure that the inclusion of sustainability preferences in the advisory process does not lead to mis-selling and does not harm customers; and iv) establishing a proprietary methodology which makes it possible, in part by using information provided by an external provider, to map investment products and assign an ESG rating to them. An update of the disclosure models has also been carried out, particularly with regard to pre-contractual and contractual information, aimed at integrating the information to be provided to customers in relation to ESG issues.

2022-2024 sustainability plan

An integral part of the Group's three-year strategic plan is the 2022-2024 sustainability plan, which is organized around 13 objectives and 74 targets for the three drivers of sustainability (i.e. Environment, Social and Governance issues).

ENVIRONMENT

A1. Efficiency enhancement
A2. Emissions reduction
A3. Dematerialization

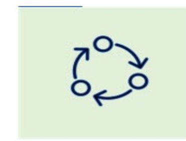
SOCIAL

S1. Valorization of territories
S2. Human resources
S3. Third sector

GOVERNANCE

G1. Female talent
G2. Governance and policy

TRANSVERSAL



T1. ESG communication
T2. ESG disclosure
T3. Sustainable finance
T4. Digitalization
T5. ESG risk measurement tools

With regard to each objective, for the purposes of monitoring actual implementation of the plan, key performance indicators have been defined in order to assess efficacy in both qualitative and quantitative terms (i.e. implementation, process and result KPIs).

As for the environmental component, the actions defined are aimed at the gradual reduction of carbon dioxide emissions, in part by increasing the energy efficiency of workplaces and through actions in the area of mobility. There are also initiatives aimed at reducing the amount of paper used by way dematerialization. Also of note is the project for the establishment and funding of Energy Communities (already activated by a mutual bank of the Group and being expanded nationally), which calls for the use of renewable energy and a reduction in the cost of the supply of energy to the newly established communities.

With regard to the social component, in line with the mission that has historically distinguished the work of the mutual banks to support local communities, customer support initiatives have been defined in which the Group acts as the engine of sustainable and socially inclusive change in models of community development.

In terms of governance, an intensive training program has been activated, aimed at disseminating a culture of sustainability at all levels of the organization, as well as at increasing the advisory role of the Group in relations with customers, which works alongside initiatives aimed at aligning with supervisory expectations (see the dedicated section in chapter 7).

With the view that sustainability represents an opportunity to reaffirm the principles and values of mutual banking, our focus on the community, on people and on the local economy in respect of the environment, and our pursuit of Article 2 of the standard articles of association of the mutual banks, the sustainability plan includes action aimed at assisting customers, and SMEs in particular, in the process of sustainable transformation (e.g. assessing the level of sustainability and consequently redirecting their development strategies), the main elements of which are:

- Information and training in ESG issues by organizing targeted events on sustainability, defining training packets for customers, and training Group employees involved in customer relations in order to develop specialists on the subject;

- ESG positioning analysis and development plan by providing business accounts a qualitative/quantitative assessment of their level of maturity with respect to sustainable environmental, social and governance practices, at the end of which a plan is proposed to improve their ESG performance in support of an adjustment in strategy and operations;
- Financial support and advisory services to customers on the effective implementation of the corrective measures needed to improve brand reputation and ESG performance.

8. MAIN RISKS AND UNCERTAINTIES

Geopolitical crisis and outlook

As already underscored in section 2 of this report, which provides an overview of the macroeconomic environment and the main risks connected with geopolitical developments, the global economy is undergoing a period of profound uncertainty. Russia's attack on Ukraine is having serious repercussions on manufacturing output and trade and is driving inflation, which, particularly in Europe, reflects a continuation in the extraordinary increase in the price of energy and, to a lesser extent, of food. The outlook is also affected by the continuing challenges in the international supply chains of intermediate goods, which are further exacerbated by the new restrictions introduced by China to combat the spread of COVID-19. In the background, there is also the continuing increase in poverty and social inequality, as fueled by the pandemic, and issues relating to the fight against climate change and the challenge of costs for the energy transition, objectives that are partly in response to current energy crisis. Geopolitical tensions are also having a marked impact on Italy's economy, which, together with Germany, are among those most dependent on imports of raw materials from Russia. Economic activity also remains exposed to a potential resurgence of the pandemic.

Given all of the above, the risks and uncertainties of the global landscape remain significant.

Independent of this environment, the Group is paying close attention to the timely assessment and adoption of adequate measures to contain the potential impact of the various risks and uncertainties on our operations and to the consequent adaptation of strategies as the current landscape evolves. These risks and uncertainties are also subject to constant observation by way of the set of risk policies, the updating of these policies, and monitoring efforts aimed at verifying their implementation and adequacy.

Within this context, the Group is carefully monitoring the evolution of repercussions of the crisis on the real economy and on the main financial variables, while also evaluating potential effects on profitability and capital adequacy. Within this constantly evolving landscape, excluding any potentially extreme escalations of the conflict that could lead to outcomes that are difficult to assess at present, the Group, in facing this challenging economic context, is nonetheless operating from a state of more than adequate capital resources[22] and appears to be fully capable of ensuring compliance with regulatory constraints and the more stringent limits that have been set internally.

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

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

Finally, as regards the going-concern assumption, the directors affirm that they are reasonably certain that both the Company and the Group will continue as a going concern into the foreseeable future and, consequently, the interim report at June 30, 2022, has been prepared in accordance with this assumption. It should be noted in this regard that no evidence has been found in the consolidated financial statements or in the operating performance of the Group that could give rise to uncertainty surrounding the going-concern assumption.

9. OTHER SIGNIFICANT INFORMATION

Iccrea rating

Considering recent developments in economic conditions, the rating agencies reviewed their ratings of the leading banks. More specifically, for the Group:

- on February 10, 2022, Fitch Ratings confirmed its rating of the medium/long-term debt of Iccrea Banca and Iccrea BancaImpresa at "BB-", with a revision of the outlook from "stable" to "positive;
- on October 19, 2021, S&P Global Rating confirmed its rating of the medium/long-term debt of Iccrea Banca at "BB", with a revision of the outlook from "negative" to "stable". After revising its assessment criteria, the agency confirmed the rating on January 31, 2022;
- on December 1, 2021, DBRS Morningstar confirmed its rating of the medium/long-term debt of Iccrea Banca at "BB (high)" with a "stable" outlook.

[22] It should be noted that, at June 30, 2022, the ratio of the highest quality capital to risk-weighted assets (the CET1 ratio) was 17.8%.

Treasury shares

At June 30, 2022, Iccrea Banca S.p.A. did not hold any treasury shares.

EWS and mutual banks under administration

During the first half of 2022, the Early Warning System continued to continuously monitor the risk profile of the affiliated banks and the related quarterly reporting to the corporate bodies. These activities found that the affiliated banks exhibited overall balance in their financial position, performance and operations. Affiliated banks that reveal imbalances undergo the procedures envisaged in the Cohesion Contract, which provide for the definition of rebalancing and de-risking initiatives. More specifically, mutual banks under administration or similar arrangements are the subject of specific directives containing the remedial actions and plans to be adopted or the cure objectives to be achieved in order to improve their risk profile. With regard to the EWS classification at June 30, 2022, there were eight affiliates in risk classes from "E" to "G", representing an overall situation of "critical" risk. These entities exhibited a positioning gap with respect to the threshold levels for profitability indicators, asset quality and internal governance and control system issues.

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

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

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

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

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

Transactions with related parties

Group policy for the management of conflicts of interest and transactions with related parties governs the management of conflicts of interest in respect of transactions with related parties, decisions within the scope of application of Article 136 of the Consolidated Banking Act and Article 2391 of the Italian Civil Code and, where applicable, conflicts of interest connected with the application of the Early Warning System. As from January 28, 2022, the policy also incorporates the rules governing lending to related parties referred to in Article 88 of the CRD-V Directive.

The policy establishes the responsibilities of the companies subject to the management and coordination of the Parent Company, creating management arrangements consistent with the regulations established by the Bank of Italy while at the same time serving the Group's organizational and corporate structure.

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

In addition, decision–making procedures have been tailored to the risk level of the transactions involved. Since the materiality threshold envisaged under supervisory regulations is 5% of consolidated own funds, a lower threshold, equal to 5% of the individual own funds of the

Bank, has been established to identify significant-value transactions of lesser importance for which the enhanced decision-making process should be activated.

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

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

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

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

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

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

10. SUBSEQUENT EVENTS

Reorganization of the Group's corporate segment

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

As regards Banca MedioCredito FVG, following the award by Iccrea Banca of the public tender launched by the Region of Friuli Venezia Giulia (47% shareholder) and carried out on December 2, 2021, as well as acceptance by the other minority shareholders (representing approximately a 1% interest) during the first half of 2022 of the offer made by Iccrea Banca, the Parent Company completed the purchase of the shares of the Region of Friuli Venezia Giulia on September 15, 2022, for approximately €26 million and of the other minority shareholders on July 18, 2022, for approximately €0.6 million. Following these acquisitions, Iccrea Banca now holds 100% of Banca MedioCredito FVG and will start a further optimization process of the segment managed by the bank.

With regard to finance leasing, in line with the development and positioning strategies for the segment, on September 30, 2022, Iccrea Banca made a contribution for a future capital increase in favor of Iccrea BancaImpresa in the amount of €70 million. This contribution will allow Iccrea BancaImpresa to continue on its development path, in addition to improving risk management.

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

Reorganization of the Group's Bancassurance segment

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

In particular, on August 6, BCC SA made a purchase offer to the shareholders of ASSI.CRA. Veneto S.r.l. (the regional agency for the Veneto region) for the acquisition of 100% of the stake held (18.2% held by Iccrea Banca, 30% by the Veneto federation of mutual banks, and the remaining 51.8% by affiliated banks and by Banca Sviluppo), the completion of which is expected by October 2022, to then proceed with the merger of ASSI.CRA. Veneto S.r.l. into BCC SA.

Furthermore, on September 19, 2022, a capital increase of €265 million by BCC SA was finalized and fully subscribed by the sole shareholder, Iccrea Banca, aimed at continuing the process of rationalization and centralization within BCC SA of the Group's insurance businesses, which is expected to include the acquisition (subject to necessary supervisory authorizations) by BCC SA of the equity interests held by the Parent Company in BCC Assicurazioni and BCC Vita.

Within this context, in view of the expiration on December 31, 2022, of the existing partnership with Cattolica, the process envisaged by the agreements was initiated which will lead to renewal with Cattolica or the selection of a new insurance partner.

Outlook for operations

Without prejudice to the economic developments taking shape in connection with the Ukrainian crisis discussed previously and the consequent impact on the real economy, the main initiatives of the Group in the next three years of the plan (2022- 2024) will continue to reflect the strategic importance of our de-risking objectives, which will also be pursued by giving further impetus to the “ordinary” activities of managing impaired and defaulted positions. This effort will also involve taking advantage of appropriate market opportunities to dispose of portions of the non-performing portfolio, which in the period saw the completion of the Group’s sixth securitization with GACS support, or the transfer of these assets to funds highly specialized in the effective management of these categories of loans and collateral.

The Group will also continue to implement actions to enhance profitability, an objective also supported by a macroeconomic scenario with rising rates and an expected greater contribution from qualified funding. A positive contribution is also expected from the continuation of the substantial cost excellence and operational strategy initiatives and, in this latter context, from progress on the actions taken to rationalize the branch network, banks and companies within the direct scope of consolidation.

In September, work will begin on updating the projections of the consolidated strategic plan for 2023-2025, which will be completed by the end of the first quarter of next year. Without prejudice to the strategic initiatives already undertaken, the plan review is necessary in light of recent significant changes in the macroeconomic environment.

ATTACHMENT 1 - RECONCILIATION OF EQUITY AND NET PROFIT OF THE PARENT COMPANY WITH GROUP EQUITY AND NET PROFIT

€/thousands	SHARE CAPITAL	RESERVES	VALUTATION RESERVES	EQUITY INSTRUMENTS	NET PROFIT	SHAREHOLDERS' EQUITY
Iccrea Banca S.p.A. financial statements	**1,401,045**	**242,591**	**27,838**	**-**	**(14,542)**	**1,656,932**
Financial statements of fully consolidated company	1,009,497	9,095,212	(17,882)	30,139	702,445	**10,819,411**
Financial statements of companies accounted for using equity method		(21,858)	(51,794)		(327)	**(73,980)**
Elimination of Group company dividends		577			(577)	**-**
Adjustment of intercompany writedowns (revaluations)		164,999			-	**164,999**
Goodwill		15,426			-	**15,426**
Other consolidation adjustments	(115,300)	(1,535,186)	(16,632)		(10,937)	**(1,678,054)**
Consolidated shareholders' equity	**2,354,110**	**7,968,149**	**(58,358)**	**30,139**	**683,304**	**10,977,344**
Non-controlling interests	**58,867**	**6,388**	**112**		**7,242**	**72,610**
Group shareholders' equity	**2,295,243**	**7,961,761**	**(58,470)**	**30,139**	**676,062**	**10,904,734**

ATTACHMENT 2 - ALTERNATIVE PERFORMANCE MEASURES

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

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

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

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

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

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

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

Structural indicators

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

Profitability measures

- ROE - Return On Equity: the measure is calculated as the ratio between net profit and shareholders’ equity and expresses the profitability generated by available equity.
- ROTE - Return On Tangible Equity: the measure is calculated as the ratio between net profit and tangible equity.[23]

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

- ROA - Return On Assets: the measure is calculated as the ratio between net profit and total assets and provides an indication of the profitability of company assets.
- Cost/Income Ratio: the measure is calculated as the ratio between operating costs (personnel expenses, administrative expenses and depreciation/amortization) and net operating income in the income statement and provides an indication of the efficiency of operations.

Risk measures

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

GROUP FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Assets		30/06/2022	31/12/2021
10.	Cash and cash equivalents	1,522,274	1,674,568
20.	Financial assets measured at fair value through profit or loss	1,666,290	1,728,764
	a) financial assets held for trading	186,035	168,649
	b) financial assets designated as at fair value	264,253	275,467
	c) other financial assets mandatorily measured at fair value	1,216,002	1,284,648
30.	Financial assets measured at fair value through other comprehensive income	8,695,265	7,850,471
40.	Financial assets measured at amortized cost	153,720,496	159,230,200
	a) due from banks	3,406,178	10,185,851
	b) loans to customers	150,314,318	149,044,349
50.	Hedging derivatives	1,491,834	42,960
60.	Value adjustments of financial assets hedged generically (+/-)	(635,883)	63,660
70.	Equity investments	74,062	128,524
90.	Property, plant and equipment	2,605,975	2,646,457
100.	Intangible assets	162,705	174,127
	- goodwill	21,212	21,212
110.	Tax assets	1,873,987	1,901,863
	a) current	399,733	468,304
	b) deferred	1,474,254	1,433,559
120.	Non-current assets and disposal groups held for sale	336,538	219,563
130.	Other assets	4,829,541	3,324,225
	Total assets	**176,343,084**	**178,985,382**

Liabilities and shareholders' equity		30/06/2022	31/12/2021
10.	Financial liabilities measured at amortized cost	157,543,207	163,327,889
	a) due to banks	30,701,488	34,585,361
	b) due to customers	116,892,093	117,436,048
	c) securities issued	9,949,626	11,306,480
20.	Financial liabilities held for trading	150,823	129,475
30.	Financial liabilities designated as at fair value	-	256
40.	Hedging derivatives	316,421	495,268
50.	Value adjustments of financial liabilities hedged generically (+/-)	(457)	(187)
60.	Tax liabilities	56,698	44,173
	a) current	31,187	8,124
	b) deferred	25,511	36,049
70.	Liabilities associated with assets held for sale	297,706	182,098
80.	Other liabilities	6,222,509	3,315,338
90.	Employee termination benefits	236,404	277,528
100.	Provisions for risks and charges	542,429	518,641
	a) commitments and guarantees issued	302,161	293,183
	c) other provisions for risk and charges	240,268	225,458
120.	Valuation reserves	(58,470)	218,665
140.	Equity instruments	30,139	30,139
150.	Reserves	9,145,513	8,735,189
160.	Share premium reserves	149,344	148,345
170.	Share capital	2,295,243	2,302,817
180.	Treasury shares (-)	(1,333,096)	(1,263,218)
190.	Non-controlling interests (+/-)	72,610	66,201
200.	Net profit (loss) for the period (+/-)	676,061	456,765
	Total liabilities and shareholders' equity	**176,343,084**	**178,985,382**

CONSOLIDATED INCOME STATEMENT

		30/06/2022	30/06/2021
10.	Interest and similar income	1,858,856	1,574,362
	of which: interest income calculated using effective interest rate method	1,962,537	1,428,890
20.	Interest and similar expense	(189,073)	(205,899)
30.	**Net interest income**	**1,669,783**	**1,368,463**
40.	Fee and commission income	755,552	721,372
50.	Fee and commission expense	(96,620)	(65,101)
60.	**Net fee and commission income (expense)**	**658,932**	**656,271**
70.	Dividends and similar income	20,179	12,061
80.	Net gain (loss) on trading activities	20,028	12,683
90.	Net gain (loss) on hedging activities	10,582	5,673
100.	Net gain (loss) on the disposal or repurchase of:	141,056	286,873
	a) financial assets measured at amortized cost	137,795	238,533
	b) financial assets measured at fair value through other comprehensive income	2,969	48,554
	c) financial liabilities	292	(214)
110.	Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss	(48,171)	5,246
	a) financial assets and liabilities designated as at fair value	(10,082)	(2,902)
	b) other financial assets mandatorily measured at fair value	(38,089)	8,148
120.	**Gross income**	**2,472,389**	**2,347,269**
130.	Net losses/recoveries for credit risk in respect of:	(181,610)	(389,795)
	a) financial assets measured at amortized cost	(180,946)	(388,267)
	b) financial assets measured at fair value through other comprehensive income	(664)	(1,528)
140.	Gains/losses from contractual modifications without derecognition	(859)	(867)
150.	**Net income (loss) from financial operations**	**2,289,920**	**1,956,608**
180.	**Net income (loss) from financial and insurance operations**	**2,289,920**	**1,956,608**
190.	Administrative expenses:	(1,525,217)	(1,546,804)
	a) personnel expenses	(854,520)	(853,678)
	b) other administrative expenses	(670,697)	(693,126)
200.	Net provisions for risks and charges	(19,589)	(18,941)
	a) commitments and guarantees issued	(8,412)	(11,794)
	b) other net provisions	(11,177)	(7,147)
210.	Net adjustments of property, plant and equipment	(94,523)	(92,031)
220.	Net adjustments of intangible assets	(21,608)	(19,683)
230.	Other operating expenses/income	152,584	157,287
240.	**Operating costs**	**(1,508,353)**	**(1,520,172)**
250.	Profit (loss) from equity investments	(567)	20,475
260.	Net gain (loss) from valuation at fair value of property, plant and equipment and intangible assets	(6,092)	(7,915)
280.	Profit (loss) from disposal of investments	(557)	55
290.	**Profit (loss) before tax on continuing operations**	**774,351**	**449,051**
300.	Income tax expense from continuing operations	(108,223)	(44,065)
310.	**Profit (loss) after tax on continuing operations**	**666,128**	**404,985**
320.	Profit (loss) after tax on discontinued operations	17,175	-
330.	**Net profit (loss) for the period**	**683,303**	**404,985**
340.	Net profit (loss) for the period – non-controlling interests	7,242	4,682
350.	**Net profit (loss) for the period – shareholders of the Parent Company**	**676,061**	**400,303**

STATEMENT OF COMPREHENSIVE INCOME

		30/06/2022	30/06/2021
10.	**Net profit (loss) for the period**	**683,303**	**404,985**
	Other comprehensive income net of taxes not recyclable to profit or loss	**25,208**	**8,930**
20.	Equity securities designated as at fair through other comprehensive income	(704)	5,124
50.	Property, plant and equipment	-	(107)
70.	Defined-benefit plans	25,912	3,913
	Other comprehensive income net of taxes recyclable to profit or loss	**(303,688)**	**(16,206)**
120.	Cash-flow hedges	(33,296)	19,908
140.	Financial assets (other than equity investments) measured at fair value through other comprehensive income	(217,278)	(37,483)
160.	Share of valuation reserves of equity investments accounted for with equity method	(53,114)	1,369
170.	**Total other comprehensive income net of taxes**	**(278,480)**	**(7,276)**
180.	**Comprehensive income (Item 10+170)**	**404,823**	**397,709**
190.	**Comprehensive income - non-controlling interests**	**6,568**	**4,643**
200.	**Comprehensive income - shareholders of the Parent Company**	**398,255**	**393,066**

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

				Allocation of net profit of previous period			Change in the period											
							Equity transactions											
	As at 31/12/2021	Change in opening balance	As at 1/1/2022	Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Change in equity holdings	Comprehensive income as at 30/06/2022	Shareholders' equity at 30/06/2022	Shareholders equity attributable to shareholders of the Parent Company	Non-controlling interests
Share capital:																	
- ordinary shares	2,360,652		2,360,652				5,593	(13,120)							2,353,125	2,295,243	57,882
- other shares	985		985												985		985
Share premium reserve	152,345		152,345	(804)			1,802								153,343	149,344	3,999
Reserves:																	
- earnings	8,769,369		8,769,369	412,312		2,732									9,184,413	9,173,562	10,851
- other	(35,389)		(35,389)			(1,121)									(36,510)	(28,048)	(8,462)
Valuation reserves	219,450		219,450			672								(278,480)	(58,358)	(58,470)	112
Equity instruments	30,139		30,139												30,139	30,139	
Treasury shares	(1,263,218)		(1,263,218)				1,999	(71,877)							(1,333,096)	(1,333,096)	
Net profit (loss) for the period	460,571		460,571	(411,508)	(49,063)									683,303	683,303	676,061	7,242
Total shareholders' equity	**10,694,904**		**10,694,904**		**(49,063)**	**2,283**	**9,394**	**(84,997)**						**404,823**	**10,977,344**	**10,904,734**	**72,610**
Shareholders' equity - shareholders' of Parent Company	**10,628,703**		**10,628,703**		**(48,999)**	**2,378**	**9,394**	**(84,997)**						**398,255**	**10,904,734**		
Shareholders' equity - non-controlling interests	**66,201**		**66,201**		**(64)**	**(95)**								**6,568**	**72,610**		

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

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

STATEMENT OF CASH FLOWS: INDIRECT METHOD

	30/06/2022	30/06/2021
A. OPERATING ACTIVITIES		
1. Operations	**956,307**	**944,438**
- net profit (loss) for the period (+/-)	683,303	404,985
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+)	(15,781)	(25,011)
- gains (losses) on hedging activities (-/+)	(6,272)	(1,561)
- net losses/recoveries on impairment (+/-)	133,693	345,954
- net adjustments of property, plant and equipment and intangible assets(+/-)	116,132	111,714
- net provisions for risks and charges and other costs/revenues (+/-)	(27,741)	69,362
- taxes, duties and tax credits to be settled (+/-)	107,594	41,800
- other adjustments (+/-)	(34,621)	(2,806)
2. Net cash flows from/used in financial assets	**1,798,086**	**(5,683,662)**
- financial assets held for trading	37,283	54,260
- financial assets designated as at fair value	11,214	29,844
- other assets mandatorily measured at fair value	29,758	7,661
- financial assets measured at fair value through other comprehensive income	(1,060,681)	(1,355)
- financial assets measured at amortized cost	3,392,057	(5,653,301)
- other assets	(611,545)	(120,771)
3. Net cash flows from/used in financial liabilities	**(2,796,494)**	**4,801,928**
- financial liabilities measured at amortized cost	(5,615,344)	3,225,897
- financial liabilities held for trading	21,348	(36,879)
- financial liabilities designated as at fair value	(256)	(2,441)
- other liabilities	2,797,759	1,615,351
Net cash flows from/used in operating activities	**(42,100)**	**62,704**
B. INVESTING ACTIVITIES		
1. Cash flow from	**31,377**	**28,693**
- sales of equity investments	12,011	4,611
- dividends on equity investments	4,373	4,373
- sales of property, plant and equipment	16,538	17,058
- sales of intangible assets	(1,545)	2,650
2. Cash flow used in	**(23,529)**	**(84,441)**
- purchase of equity investments	54,462	(7,497)
- purchases of property, plant and equipment	(67,181)	(63,733)
- purchases of intangible assets	(10,810)	(13,211)
Net cash flows from/used in investing activities	**7,848**	**(55,748)**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	(68,979)	(13,632)
- dividend distribution and other	(49,063)	(40,687)
Net cash flows from/used in investing activities	**(118,042)**	**(54,319)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(152,294)**	**(47,364)**

Key
(+) generated
(-) used in

RECONCILIATION

	30/06/2022	30/06/2021
Cash and cash equivalents at beginning of period	1,674,568	992,575
Net increase/decrease in cash and cash equivalents	(152,294)	(47,364)
Cash and cash equivalents at end of period	1,522,274	945,211

NOTES TO THE FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

SECTION 1 – DECLARATION OF CONFORMITY WITH INTERNATIONAL ACCOUNTING STANDARDS

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, the consolidated interim financial statements of the Iccrea Cooperative Banking Group have been prepared in condensed form and in accordance with the recognition and measurement criteria of the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRS - IC), endorsed by the European Commission and in force as of the reporting date.

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

These interim financial statements are in conformity with the provisions of IAS 34 Interim Financial Reporting and have been prepared using the format and main schedules provided for in Circular no. 262 of December 22, 2005 – 7th update of October 29, 2021 issued by the Bank of Italy in the exercise of the powers established by Article 43 of Legislative Decree 136/2015, as well as with the Communication of the Bank of Italy of December 21, 2021 – Supplement to the provisions of Circular no. 262 "Bank financial statements: formats and rules of preparation" concerning the impact of COVID-19 and the measures to support the economy.

These consolidated interim financial statements were prepared using the same accounting standards as those used for the consolidated financial statements at December 31, 2021.

The following table sets out the new international accounting standards and amendments to existing accounting standards, with the related endorsement regulations of the European Commission, that took effect that took effect, either on a mandatory basis or with the option of early adoption, as from January 1, 2022:

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

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

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

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
2036/2021	**IFRS 17 Insurance contracts** The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers. On June 25, 2020, the IASB published the following amendments to IFRS 17: – a reduction in costs with the simplification of certain requirements of the accounting standards; – the simplification of statements of financial performance; – the deferral of the effective date until 2023.	Annual reporting periods beginning on or after January 1, 2023.

357/2022	**Amendments to IAS 1 Presentation of Financial Statements – Disclosure of Accounting Policies** The amendments to IAS 1 are intended to improve disclosure of accounting policies and require companies to disclose material accounting policy information for their financial statements.	Annual reporting periods beginning on or after June 1, 2023. Early application is permitted.
357/2022	**Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of accounting estimates** The amendments to IAS 8 clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.	Annual reporting periods beginning on or after June 1, 2023. Early application is permitted.
1392/2022	**Amendments to IAS 12 (Income Taxes)** The amendments to IAS 12 are intended to specify how to account for deferred tax on transactions such as leases and decommissioning obligations.	Annual reporting periods beginning on or after June 1, 2023. Early application is permitted
1491/2022	**Amendment of transition requirements of IFRS 17** The amendment of the transition requirements of IFRS 17 allows entities to eliminate one-off classification differences in comparative information for the previous period at the date of initial application of IFRS 17 and IFRS 9 Financial Instruments.	Annual reporting periods beginning on or after January 1, 2023.
To be determined	**Amendments to IAS 1 – Presentation of Financial Statements: classification of liabilities as current or non-current** The amendments seek to clarify one of the criteria of IAS 1 for the classification of a liability as non-current, i.e. the requirement that an entity must have the right to defer the settlement of the liability for at least 12 months after the end of the reporting period. The changes: – specify that the right to defer settlement must exist at the end of the reporting period; – clarify that the classification is unaffected by management's intentions or expectations regarding the possibility of exercising the right to defer settlement; – clarify how the terms of a liability impact its classification; and – clarify the requirements for the classification of liabilities that an entity intends to settle or could settle with the issue of equity instruments.	Annual reporting periods beginning on or after January 1, 2023.

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

SECTION 2: GENERAL PREPARATION PRINCIPLES

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

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

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

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

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

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

In compliance with the provisions of IAS 1, these consolidated interim financial statements have been prepared on a going-concern basis. In this regard, the Directors are not aware of any significant uncertainties, events or conditions that could warrant serious concern about the

Group's ability to continue to operate as a going concern in the foreseeable future, taking particular account of the system of cross-guarantees on which the Cooperative Banking Group is based, for which a discussion is provided in the Report on Operations.

Content of the financial statements and the explanatory notes

Balance sheet and income statement

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

Statement of comprehensive income

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

Statement of changes in equity

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

Statement of cash flows

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

Content of the notes to the financial statements

The notes to the financial statements include the information required by international accounting standards, with particular regard to IAS 34 Interim Financial Reporting, using the main schedules provided for in Bank of Italy Circular no. 262/2005, 7th update of October 29, 2021.

SECTION 3 – SCOPE AND METHODS OF CONSOLIDATION

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

- the financial statements of Iccrea Banca S.p.A. in its capacity as Parent Company and Central Body;
- the financial statements of the 120 affiliated mutual banks, which together with Iccrea Banca S.p.A. comprise the Consolidating Entity;
- the financial statements of the companies over which, in application of IFRS 10, IFRS 11 and IAS 28, Iccrea Banca and the affiliated mutual banks exercise control, joint control or significant influence.

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

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

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

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

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

		Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
91	Cassa Rurale e Artigiana dell'Agro Pontino - BCC S.C.	Pontinia				
92	BCC di Pratola Peligna S.C.	Pratola Peligna				
93	Centromarca Banca - Credito Cooperativo di Treviso e Venezia, S.C.	Treviso				
94	BCC di Recanati e Colmurano S.C.	Recanati				
95	Banca di Ripatransone e Del Fermano - Credito Cooperativo S.C.	Ripatransone				
96	Cassa Rurale e Artigiana di Rivarolo Mantovano Credito Cooperativo S.C.	Rivarolo Mantovano				
97	BCC della Provincia Romana S.C.	Riano				
98	Banca di Verona e Vicenza - Credito Cooperativo S.C.	Fara Vicentino				
99	Banca del Valdarno - Credito Cooperativo S.C.	San Giovanni Valdarno				
100	Banca di Pesaro Credito Cooperativo S.C.	Pesaro				
101	BCC di Santeramo In Colle S.C.	Santeramo In Colle				
102	Banca TEMA - Terre Etrusche di Valdichiana e di Maremma S.C.	Chiusi				
103	BCC di Scafati e Cetara S.C.	Scafati				
104	BCC Appulo Lucana S.C.	Spinazzola				
105	BCC di Staranzano e Villesse S.C.	Staranzano				
106	Banca Centro Credito Cooperativo Toscana - Umbria S.C.	Sovicille				
107	Cassa Rurale - BCC di Treviglio S.C.	Treviglio				
108	BCC di Triuggio e della Valle del Lambro S.C.	Triuggio				
109	BCC della Valle del Fitalia S.C.	Longi				
110	Banca Alta Toscana Credito Cooperativo S.C.	Quarrata				
111	BCC Bergamasca e Orobica S.C.	Cologno Al Serio				
112	Banca Don Rizzo - Credito Cooperativo della Sicilia Occidentale S.C.	Alcamo				
113	BCC dei Colli Albani S.C.	Genzano Di Roma				
114	BCC G. Toniolo di San Cataldo S.C.	San Cataldo				
115	Banca San Francesco Credito Cooperativo S.C.	Canicattì				
116	BCC delle Madonie S.C.	Petralia Sottana				
117	BCC San Michele di Caltanissetta e Pietraperzia S.C.	Caltanissetta				
118	BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	Casagiove				
119	BCC degli Ulivi - Terra di Bari S.C.	Palo Del Colle				
120	RivieraBanca Credito Cooperativo di Rimini e Gradara S.C.	Rimini				
121	BCC di San Marco Dei Cavoti e Del Sannio - Calvi S.C.	San Marco Dei Cavoti				
122	BCC Risparmio&Previdenza SGrpA	Milan	1	Iccrea Banca S.p.A.	100.0	100.0
123	Iccrea BancaImpresa S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.0	100.0
124	BCC Factoring S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.0	100.0
125	Banca Sviluppo S.p.A.	Rome	1	Iccrea Banca S.p.A.	99.3	99.3
126	Banca Mediocredito del F.V.G. S.p.A.	Udine	1	Iccrea Banca S.p.A.	52.0	52.0
127	BCC Gestione Crediti S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.0	100.0
128	BCC Solutions S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.0	100.0
129	BCC Beni Immobili S.r.l.	Rome	1	Iccrea Banca S.p.A.	100.0	100.0
130	BCC Lease S.p.A.	Rome	1	Iccrea BancaImpresa S.p.A.	100.0	100.0
131	BCC CreditoConsumo S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.0	100.0
132	BCC Sistemi Informatici S.p.A.	Milan	1	Iccrea Banca S.p.A.	99.4	99.4
				Banca Sviluppo S.p.A.	0.0	0.0
133	BCC Pay S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.0	100.0
134	Coopersystem Societa' Cooperativa	Firenze	1	Banca di Anghiari E Stia - Credito Cooperativo S.C.	0.0	5.7
				Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	0.0	5.7
				Chiantibanca - Credito Cooperativo S.C.	0.1	5.7
				Banca del Valdarno - Credito Cooperativo S.C.	0.1	5.7
				Banca di Pescia e Cascina - Credito Cooperativo S.C.	0.0	5.7
				Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	0.0	5.7
				BCC di Pontassieve S.C.	0.0	5.7
				Banca dell'Elba - Credito Cooperativo S.C.	0.0	5.7

		Headquarters	Type of di relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
				Credito Cooperativo Valdarno Fiorentino Banca di Cascia S.C.	0.0	5.7
				Banca Alta Toscana Credito Cooperativo S.C.	0.4	5.7
				Banca Centro Credito Cooperativo Toscana - Umbria S.C.	0.1	5.7
				Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	0.1	5.7
				Banca TEMA - Terre Etrusche di Valdichiana e di Maremma S.C.	0.0	5.7
135	Sigest S.r.l.	Calcinaia	1	BCC Pisa e Fornacette Credito Cooperativo S.C.	100.0	100.0
136	Sinergia S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.0	100.0
137	Fondo Securis Real Estate	Rome	4	Iccrea Banca S.p.A.	78.0	78.0
				BCC Brianza e Laghi S.C.	1.2	1.2
138	Fondo Securis Real Estate II	Rome	4	Iccrea Banca S.p.A.	84.8	84.8
139	Fondo Securis Real Estate III	Rome	4	Iccrea Banca S.p.A.	79.5	79.5
140	Fondo Il Ruscello	Milano	4	BCC di Milano S.C.	100.0	100.0
141	Fondo Sistema BCC	Rome	4	BCC di Milano S.C.	44.4	44.4
				Credito Cooperativo Di Caravaggio Adda e Cremasco - Cassa Rurale S.C.	8.9	8.9
				BCC del Garda - BCC Colli Morenici Del Garda S.C.	29.4	29.4
				BCC di San Marco Dei Cavoti e Del Sannio - Calvi S.C.	10.6	10.6
142	Asset Bancari V	Rome	4	BCC di Milano S.C.	16.0	16.0
				Banca di Anghiari e Stia - Credito Cooperativo S.C.	16.0	16.0
				BCC del Garda - BCC Colli Morenici Del Garda S.C.	19.3	19.3
				Cassa Rurale e Artigiana di Binasco - Credito Cooperativo S.C.	4.0	4.0

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

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

Introduction

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

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

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

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

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

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

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

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

- "for the purposes of preparing the consolidated financial statements, the parent company and the banks belonging to the cooperative banking group shall constitute a single consolidating entity";
- "in the preparation of the consolidated financial statements, the accounting items pertaining to the Parent Company and the affiliated banks shall be recognized on a consistent basis.

The regulatory changes introduced in the Italian legal system are consistent with the position expressed by the European Commission in 2006 regarding the adoption of international accounting standards, according to which the obligation to draw up the consolidated financial statements must be determined in accordance with the provisions of the national legislation transposing European directives[24] notwithstanding the provisions of those accounting standards.

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

Taking account of the foregoing, in particular:

- the provisions introduced with the 2019 Budget Act that specify the procedures for complying with consolidation requirements in the case of groups of banks affiliated to a central body;
- the provisions of the Consolidated Banking Act, which are important in defining the governance powers of the central body over the affiliated mutual banks, defined in the Cohesion Contract;

[24] European Commission, Agenda Paper for the Meeting of the Accounting Regulatory Committee on 24th November 2006, paragraph 4.3. [… the determination of whether or not a company is required to prepare consolidated accounts will continue to be made by reference to national law transposed from the Seventh Council Directive"].

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

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

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

Scope and methods of consolidation

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

- the financial statements of Iccrea Banca S.p.A. in its capacity as Parent Company and Central Body;
- the financial statements of the 120 affiliated mutual banks, which together with Iccrea Banca S.p.A. comprise the Consolidating Entity;
- the financial statements of the companies over which, in application of IFRS 10, IFRS 11 and IAS 28, Iccrea Banca and the affiliated mutual banks exercise control, joint control or significant influence.

Subsidiaries

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

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

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

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

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

Costs and revenues of a subsidiary are included in consolidation from the date on which control is acquired. Costs and revenues from a subsidiary disposed of are included in the consolidated income statement up to the date of disposal, which is to say up to the point at which control over the subsidiary is lost. The difference between the payment received on disposal of the subsidiary and the carrying amount of its net assets at the same date is recognized in profit or loss under item 280 "Gain/(loss) from the disposal of investments". Any residual interest held must be measured at fair value as of the date control is lost.

The share pertaining to non-controlling interests is presented on the balance sheet under item 190. "Non-controlling interests", separately from the liabilities and shareholders' equity pertaining to the shareholders of the Parent Company. The portion pertaining to non-controlling interests is also presented separately in the income statement, under item 340 "Profit/(loss) pertaining to non-controlling interests".

For companies that are included in the scope of consolidation for the first time, the fair value of the costs incurred in order to obtain control of

that equity interest, inclusive of ancillary costs, is measured as at the acquisition date.

Changes in interests in a subsidiary that do not entail loss of control are recognized in equity.

Controlling equity investments held for sale are consolidated on a line-by-line basis and reported separately in the financial statements as a disposal group valued as of the reporting date at the lower of carrying amount or fair value less costs to sell.

Non-material subsidiaries are not consolidated.[25] Their exclusion from the scope of consolidation does not have a material impact on Group equity.

Associated companies

Associates are companies in which the Consolidating entity directly or indirectly holds at least 20% of the voting rights or over which, even with a smaller share of the voting rights, it exercises a significant influence, which is defined as the power to participate in determining the financial and operational policies of the associate without having control or joint control.

More specifically, Significant influence is assumed to exist when the parent company:

- directly or indirectly holds at least 20% of the voting rights of another company;
- is able, including through shareholders' agreements, to exercise significant influence through:
    - representation on the company's management body;
    - participation in the process of setting policies, including participation in the decision-making process concerning dividends;
    - the existence of significant transactions;
    - the exchange of management personnel.

Associates are accounted for using the equity method. Equity in the associated company includes goodwill (net of any impairment loss) paid for the acquisition. The carrying amount of the interest is increased or decreased to reflect the share of the post-acquisition profits or losses of the associate and is recognized in the income statement under item 250. "Profit/(loss) from equity investments". Any distribution of dividends is indicated as a decrease in the carrying amount of the equity investment. The goodwill associated with an associate or joint venture is included in the carrying amount of the investment and does not undergo separate impairment testing.

Any change in the other comprehensive income relating to these investee companies is presented as part of the comprehensive income of the Group. In addition, if an associated company recognizes a change allocated directly to equity, the Group recognizes its share, where applicable, in the statement of changes in equity.

If the portion of the losses pertaining to the Group equals or exceeds the carrying amount of the investment in the associate, further losses are not recognized unless. there is contractual obligation to cover such losses or in the presence of payments made on behalf of the associate.

Unrealized profits on transactions between the Group and its associated companies are eliminated at the same percentage of the Group's interest in the profits of the associates. Unrealized losses are also eliminated, unless the transactions carried out show evidence of an impairment loss on the assets involved. Valuation reserves for associated companies are recognized separately in the statement of comprehensive income.

A number of interests of more than 20%, albeit of limited amount, over which the Parent Company does not have the direct or indirect ability to participate in setting management policies are excluded from the scope of consolidation and classified in accordance with the provisions of IFRS 9. Non-material associates are also excluded from the scope of consolidation. Their exclusion from the scope of consolidation does not have a material impact on Group equity.

Joint arrangements

Entities held under joint arrangements are those over which control is shared under a contractual agreement with other investors. More specifically, a joint arrangement is a contractual arrangement whereby two or more parties exercise joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Under IFRS 11 joint arrangements are classified as either joint operations or joint ventures based upon the contractual rights and obligations held by the Group. A joint operation is a joint arrangement whereby the parties have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. Investments in joint arrangements are accounted for using the equity method. At June 30,

[25] The scope of consolidation does not include subsidiaries with total assets of less than €10 million, subject to the condition that the total assets of all unconsolidated subsidiaries do not exceed €50 million.

2021 the Group had no interests in joint arrangements.

Structured entities

Subsidiaries may also include any "structured entities" in which the voting rights are not deemed significant in assessing control and include special purpose entities and investment funds.

Structured entities are treated as subsidiaries where:

- the Group has the power through contractual rights to direct the relevant activities;
- the Group is exposed to the variable returns arising from such activities.

The structured entities that are consolidated because the Group has the power to govern the relevant activities of the entity as a result of the financial instruments it has subscribed include:

- real estate investment funds;
- special purpose securitization vehicles.

Structured entities – Real estate investment funds

In the real estate investment funds, the control relationship takes account of the purpose/scope of the operation and has been deemed to exist in the following cases:

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

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

In view of their business model (real estate) and the composition of their assets, essentially composed of properties measured at market value, these funds have been consolidated, recognizing their assets under property, plant and equipment in the consolidated financial statements, recognizing any increases/decreases under "*Net gain/loss from valuation at fair value of property, plant and equipment*" in the income statement.

Structured entities –securitizations

In securitizations, the indicators that a control relationship exists include:

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

The segregated assets of the operations originated by banks of the Group that did not give rise to the derecognition of the assigned loans have been consolidated through consolidation of the originating banks.

3. INVESTMENTS IN SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

NON-CONTROLLING INTERESTS, VOTING RIGHTS OF NON-CONTROLLING INTERESTS AND DIVIDENDS DISTRIBUTED TO NON-CONTROLLING INTERESTS

	Non-controlling interests	Non-controlling interest percentage of votes [1]	Dividends distributed to non-controlling interests
1. Banca Mediocredito del F.V.G. S.p.A.	48.01%	48.01%	-
2. Coopersystem Società Cooperativa	99.21%	26.32%	64

(1) Percentage of votes in ordinary shareholders' meeting

4. SIGNIFICANT RESTRICTIONS

There are no significant restrictions as envisaged under IFRS 12, paragraph 13, applicable to the banks and companies that form the area of consolidation of the Iccrea Cooperative Banking Group.

5. OTHER INFORMATION

Data used for consolidation

The accounting data used for line-by-line consolidation are those at June 30, 2022, as approved by the competent bodies of the companies included in the scope of consolidation, adjusted where necessary to adapt them to the uniform Group accounting policies.

Subsidiaries whose annual financial statements have not been drawn up on the basis of the international accounting standards (IAS-IFRS) prepare a specific reporting package using such standards to permit the Parent Company to perform the consolidation. This reporting package is approved by the boards of directors of the companies.

With regard to the reporting packages of the associated BCC Vita S.p.A. and BCC Assicurazioni S.p.A, in application of the "*deferral approach*" (or *temporary exemption*) provided for under IFRS 9, the companies continue to recognize financial assets and liabilities in accordance with the provisions of IAS 39 pending the entry into force of the new standard on insurance contracts (IFRS 17), which is currently expected in 2023. In accordance with the provisions of Regulation (EU) 2017/1988 of November 3, 2017, the Parent Company has elected to use the temporary exemption from certain provisions of IAS 28, which are indicated in paragraphs 20O and 20P of IFRS 4, and is consequently exempt the use of uniform accounting policies for the two insurance companies in its application of the equity method.

SECTION 4 – EVENTS SUBSEQUENT TO THE REPORTING DATE

In the period between the reporting date of the interim financial statements and their approval by the Board of Directors on September 30, 2022, no events occurred that would entail a modification of the financial data approved at that meeting.

SECTION 5 – OTHER MATTERS

Risks and uncertainties associated with the use of estimates

In conformity with the IAS/IFRS, management is required to formulate accounting estimates that can impact the values of the assets, liabilities, costs and revenues recognized in the financial statements. The formulation of these estimates is based on prior experience, available information, the adoption of assumptions and subjective judgements.

Estimation processes were used to support the carrying amount of some of the largest items recognized in the consolidated financial statements, such as:

- the verification of compliance with the requirements for classifying financial assets in the accounting portfolios that adopt the amortized cost criterion (SPPI test), with particular regard to the performance of the benchmark test;
- the quantification of impairment losses on loans and, more generally, other financial assets;
- the assessment of the appropriateness of the value of equity investments and other non-financial assets (e.g. goodwill);
- the use of valuation techniques in the recognition of the fair value of financial assets not listed on active markets;
- the determination of the fair value of financial instruments to be used for financial reporting purposes;
- the estimation and assumptions concerning the recoverability of deferred tax assets;
- the quantification of provisions for legal and tax risks and charges.

The description of the accounting policies applied to the main financial statement aggregates provides the information necessary to identify the main assumptions and subjective assessments used in the preparation of the financial statements. In particular:

- for allocation to the three stages of credit risk provided for under IFRS 9 of loans and debt securities classified under financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income and the associated calculation of expected losses, the main estimates regard the determination of the parameters representing a significant increase in credit risk, the inclusion of forward-looking factors in determining PD, EAD and LGD and the determination of future cash flows from impaired loans;

- for the quantification of provisions for risks and charges, the estimation of the amount of outlays necessary to discharge liabilities, taking account of the effective probability of having to employ resources to do so.

For further information concerning the composition and associated carrying amounts of the items affected by these estimates, please see the specific sections in the notes to the financial statements.

By their nature, estimates may vary from year to year and, therefore, it cannot be ruled out that in subsequent years the current values recorded in the financial statements may differ significantly as a result of changes in the subjective assessments employed.

Risks, uncertainties and impacts of the COVID-19 pandemic

The main subjective judgments made by management in assessing the impact of the COVID-19 pandemic are summarized below.

The quantification of impairment losses on receivables

A key element of the comprehensive set of actions implemented by the Group for the structural management of the COVID-19 emergency was the effort to revise the credit risk forecasting metrics to factor the conditions associated with the emergency into ordinary valuation processes and, in particular, within the IFRS 9 impairment framework in order to calculate the expected credit loss (ECL) on performing loans.

Please see part A in Reports and Consolidated and Separate Financial Statements at December 31, 2021 for more information.

Contract modifications resulting from COVID-19

Contract modifications and derecognition (IFRS 9)

The Group has adopted an articulated series of measures aimed at facilitating a prompt response to customer needs, working promptly in acknowledging and, where necessary, adapt to the initiatives undertaken by the various national and European Authorities, with the aim of facilitating as much as possible the timely activation of the support measures gradually defined.

In this context, they were:

- streamlined loan-origination processes and the acceptance of applications by customers given the exceptional nature of this period, while also preserving the principle of sound and prudent credit management;
- allowed temporary exceptions to Group policies limited to the perimeter of lending operations falling within the sphere of application of the measures of the Cure Italy and Liquidity decrees and of the ABI moratoriums;
- enhanced the constant monitoring and control of the measures granted;
- maintained and reinforced the principle of the separation of roles as governed by Group policies with regard to the granting and execution of credit and the close observation of borrowers who had already shown anomalies prior to the pandemic, while assessing the resilience of exposures and the validity of the management strategies undertaken.

Please see the Report on Operations for more information on the contract modifications made in relation to the support measures issued by the authorities.

Amendment of IFRS 16

On May 28, 2020, the IASB published the amendment to IFRS 16 “COVID-19 Related Rent Concessions”, endorsed with Regulation (EU) no. 1434/2020, with application of the amendment for financial statements for periods on or after June 1, 2020. The amendment, which was taken in response to the COVID-19 crisis, allows lessees not to account for temporary reductions and/or suspensions of rent payments granted for the period from the beginning of the pandemic to June 30, 2022 as a direct consequence of COVID-19 as a “lease modification”. On the basis of the provisions of IFRS 16, in the event of a change in the original contractual conditions of a lease, it would be necessary to modify the amortization plan of the lease (“lease modification”) with consequent recalculation of the liability. The amendment of IFRS 16 makes it possible, as a practical expedient, to treat the unpaid rent as a variable payment, to be recognized as a reduction in costs in the profit or loss, without necessarily having to recalculate the financial liability.

The Commission Regulation (EU) 2021/1421 of August 30, 2021 was published in Official Journal L 305 of August 31, 2021, endorsing “Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)”. Companies shall apply the amendments starting from April 1, 2021 for annual reporting periods beginning on or after January 1, 2021. The amendment to IFRS 16 extends the operational, optional and temporary concessions connected with the COVID-19 pandemic granted to lessees involving the reduction of payments originally due on or before June 30, 2021 to include concessions involving the reduction of payments originally due on or before June 30, 2022. In other words,

the termination of the period of application of the amendments to IFRS 16 (paragraphs 46A and 46B) has been extended from June 30, 2021 to June 30, 2022, permitting a number of simplifications in accounting for lease concessions granted in connection with Covid-19, such as the suspension or reduction of lease payments.

The companies of the Group have not requested any reduction or suspension of lease payments and, therefore, have not made use of the practical expedient provided for in this amendment.

Impairment testing of equity investments and goodwill

In compliance with IAS 36, at each reporting date, the Group companies shall verify that there is no objective evidence that the carrying amounts of equity investments and goodwill is not recoverable on the basis of the common guidelines, criteria and methodological models developed by the Parent Company.

With particular regard to the goodwill recognized by the Group banks, the so-called dividend discount model (DDM) in the excess capital variant (which estimates the value of a company on the basis of future dividends attributable to shareholders) was used for the full company CGU, while the discounted cash flow (DCF) in the "levered variant" (which estimates the value of the economic capital of a company as the sum of the present value of cash flows to the shareholders that it will be able to generate over a specific explicit planning period for prospective performance/financial data and the residual value at the end of that period, discounted at a rate equal to the cost of equity) was used for the branches acquired CGU.

At December 31, 2021, the above approaches, which are discussed in greater detail in part B of the notes to the financial statements at that date, were applied on the basis of 2022-2024 forecasts of each Group company, based on the results of the 2021-2023 corporate strategic plan developed in accordance with the Group's strategic guidelines in order to reflect developments in performance in 2021 and the changes made to estimation models for the cost of credit at the Group level.

The monitoring of the main impairment indicators performed by the Group as at June 30, 2022 with respect to both goodwill and equity investments did not reveal evidence of a potential reduction in the value of these assets and it was therefore not necessary to re-estimate the recoverable value or recognize impairment losses.

Probability testing of DTAs

The probability testing conducted to verify the conditions for continuing to recognize existing and new deferred tax assets in the financial statements was performed on the basis of the common criteria and methods adopted by the Group, estimating the profit or tax loss (IRES/IRAP) over a forecast period deemed reasonable and verifying that this would be sufficient to ensure recovery of the total amount of DTAs requiring testing. The test did not reveal any evidence of impairment of the deferred tax assets recognized in these interim financial statements.

Disposal scenarios

Taking into account our NPE reduction strategies, which among other options provide for the reduction of the stock of impaired credit exposures through disposals, for the purpose of valuing bad loans and UTP positions that could potentially be involved in sale, we identified a pool of exposures to which a probabilistic disposal scenario has been applied. This assessment is connected with the provisions of IFRS 9 that require companies to consider all forward-looking information available at the time of preparation of the financial statements, including the methods the Group companies plan to use to recover the loans, which in addition to initiatives to recover against debtors or the guarantees they have pledged to secure their debt also include the sale of loans to third parties.

For more information on the criteria used to identify and measures positions, please see the disclosures in the notes to the financial statements at December 31, 2021.

Targeted Longer-Term Refinancing Operations (TLTRO) with the ECB

Loans under TLTRO III program are variable rate loans, indexed to ECB rates, with a reward mechanism for determining the final rate applicable to each operation based on the achievement of certain performance objectives for eligible loans. Interest is settled in arrears.

The financial terms applicable to loans under the TLTRO III program have been modified by the ECB on several occasions, as discussed in in the reports on operations accompanying these and the previous financial statements, which readers are invited to consult for further information.

The characteristics of the TLTRO-III transactions do not allow for immediate classification under cases specifically dealt with by the IAS/IFRS. We believe we can refer by analogy to "IFRS 9 - Financial Instruments" for the purposes of the accounting treatment of the following situations:

- change in the estimates of achievement of the objectives;
- recognition of financial effects, "special interest";

- management of early repayments.

The Group has elected to refer to the provisions of IFRS 9 in accounting for the operations, believing that the funding conditions to which the banks have access through the TLTRO operations promoted by the ECB are on market terms and conditions. These rates can be considered "market rates" since it is the ECB itself that establishes the level, determining this level in line with the lending objectives to be achieved (monetary policy operations). Furthermore, the ECB has the power to change the TLTRO III interest rate at any time. This right of modification by the ECB, however, must be assessed on the basis of paragraph B5.4.5 of IFRS 9 (floating-rate loans), resulting in a change in the internal rate of return (IRR) of the loan to reflect changes in the benchmark rate. A different situation arises when the loan rate changes due to the modification of the forecasts for achieving the benchmark net lending target. In this case, with the same IRR, the modification of future cash flows can only lead to the measurement of the amount of the loan at amortized cost.

Furthermore, the conditions under which interest is to be calculated are a function of the probability of achieving the net lending target.[26]

The operation essentially has the following financial structure:

- it is a floating-rate transaction indexed to the rate on main refinancing operations (MRO), which is the base rate for the main refinancing operations of the ECB;
- in its basic structure it has a spread of -50 bps in the so-called "special interest rate period" from June 24, 2020 to June 23, 2021 and an "additional special interest rate period" from June 24, 2021 to June 23, 2022;
- in the event of achievement of the target for the "special reference period" (from March 1, 2020 to March 31, 2021) and the "additional special interest rate period" (from October 1, 2020 to December 31, 2021), the structure of the transaction changes as follows:
  - the benchmark rate becomes the rate on the ECB's deposit facility (DF), which was -50 bps until July 26, 2022, and can be modified by the ECB during the term of the respective loans;
  - for the "special interest rate period" and the "additional special interest rate period" a cap of -1.00% is applied to the final rate (deposit facility rate – 50 bps).
- in the event the target for the "special reference period" is not achieved, three different mechanisms will be applied depending on achievement of the secondary objective (growth of 1.15% between April 1, 2019 and March 31, 2021):
- in the event the target for the "additional special reference period" is not achieved:
  - for the first 7 auctions from June 23, 2021, the rate provided for the three different levels of growth in eligible lending in the period between April 1, 2019 and March 31, 2021 will be applied;
  - for the subsequent 3 auctions, the average MRO rate will be applied for the entire term of the loan, with the exception of the additional special interest rate period (June 24, 2021 – June 23, 2022), during which the average MRO rate less 50 basis points will be applied.

The final rate applicable to each transaction is therefore influenced by three factors:

- the average rate applicable to the ECB's main refinancing operations, currently equal to 0.0% or in case of positive performance, the average deposit facility rate, currently equal to – 0.50%, which can be modified by the ECB during the term of the respective loans;
- a fixed spread, in favor of Iccrea Banca, equal to 4.5 bps, which can be reset to zero under certain conditions;
- the possible performance of the TLTRO Group as a whole and the individual performance of each mutual bank.

On September 10, 2021, the Bank of Italy confirmed that the Iccrea Group had fully achieved the target set for the two-year period March 2019-March 2021 and for the first special period. The application of the most favorable rate, equal to -1% (DF rate + spread – 0.5%) is definitive. The rates for the additional special interest rate period were announced by the Bank of Italy on June 10, 2022, confirming full achievement of the target for that period as well.

On the basis of the performance monitoring exercise at October 31, 2021, net lending was reasonably higher than the net lending benchmark. Consequently the conditions for recognizing in profit or loss - for the period June-December 2021 - the incentivized rates granted in recognition of the achievement of the specific performance target, i.e. the greater negative interest rate of 0.50% potentially applicable in the special additional special interest rate period, were met.

Interest accrued at June 30, 2022, recognized in the income statement under item "10. Interest and similar income", amounted to a total of €196 million.

[26] This accounting choice is consistent with the Public Statement issued by ESMA on January 6, 2021 regarding the "… the third series of the ECB's Targeted Longer-Term Refinancing Operations (TLTRO III)".

Purchase of tax credits

Among the urgent measures deployed in response to the COVID 19 pandemic and to support the real economy, Decree Law 18/2020 (the "Cure Italy Decree") and Decree Law 34/2020 (the "Revival Decree") introduced specific tax incentives into Italian law in the form of tax credits. The right to the credit held by the beneficiary can be monetized through a discount granted by a supplier directly in the invoice issued to the beneficiary, with the supplier either receiving a corresponding tax credit or transferring the original credit to third parties.

The tax credits can be used in compensation by the assignee on the basis of the residual installments of the credit not used by the original beneficiary, with no annual limit on the amount. The assignees of the tax credits must use them specifically, having regard to the individual installments of the tax credit that would have been due each year to the original beneficiary of the tax credit, offsetting them again the tax liability they report in their income tax return.

If the assignee cannot can offset the entire installment of the tax credit for the year, it can be transferred to third parties (or recorded as a loss equal to the part not offset).

With regard to the transferability of tax credits, the current regulatory framework provides that the beneficiary of the credit (or the company that applied a discount in the invoice) can transfer the credit to anyone (including financial intermediaries). The latter, however, can in turn assign the tax credit only to supervised intermediaries (including banks), who can assign it only one more time, always to a supervised intermediary. Furthermore, banks are always allowed to assign the tax credit to their customers (other than consumers), who, however, cannot further assign the credit.

In view of the economic substance of these transactions, their accounting treatment is based - by analogy and where applicable - on the provisions of IFRS 9 on financial instruments. For more information, please see the disclosures in the notes to the financial statements at December 31, 2021.

Covered bonds

In 2021, the Group conducted an issue of covered bonds (guaranteed bank bonds), a multi-originator transaction in which a number of Group banks sold high credit quality assets to a vehicle. The assets were of a quality such as to serve as collateral for the guarantee issued by the vehicle to the subscribers of the covered bonds issued under the program. At the same time, the banks granted the vehicle a subordinated loan (the CB Loan) to fund the purchase of those assets, the repayment of which is linked to the performance of the asset portfolio transferred to the vehicle. Following the sale, the Parent Company issued the covered bonds backed by the aforementioned guarantee. Subsequently, the Parent Company granted a loan with conditions and characteristics consistent with those of the covered bonds issued to the affiliated banks that contributed the assets to be sold.

For more information on the structure of the transaction, please see the disclosures in the notes to the financial statements at December 31, 2022.

Securities obtained against assets transferred in non-cash transactions

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

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

Consolidated tax mechanism option

Iccrea Banca S.p.A. and the Group subsidiaries belonging to the so-called "direct scope" have adopted the "consolidated tax mechanism", governed by Articles 117-129 of the Uniform Income Tax Code ("TUIR"), introduced with Legislative Decree 344/2003. It consists of an optional tax regime under which total net income or the tax losses of each subsidiary taking part in the tax consolidation –along with withholdings, deductions and tax credits – are transferred to the parent company. Only one taxable income or tax loss that can be carried forward (the algebraic sum of the parent company's and its participating subsidiaries' income/losses resulting in a single tax payable/receivable) is calculated and attributed to the parent company. Under this option, the Group companies that participate in the consolidated tax mechanism calculate their tax liabilities and the corresponding taxable income, which is transferred to the parent company. If one or more subsidiaries reports negative taxable income, the tax losses are transferred to the parent company when there is consolidated income for the period or a

high probability of future taxable income.

Other issues

The condensed consolidated interim financial statements have undergone a limited audit by Mazars S.p.A., which has also been engaged to monitor the keeping of the accounts pursuant to Article 14 of Legislative Decree 39/2010; the engagement for the period 2021-2029 was conferred in execution of the shareholders' resolution of May 28, 2021.

A.2 - THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

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

Classification of financial assets

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

- the business model used to manage the financial assets;
- the characteristics of the contractual financial flows of the financial asset (the "SPPI Test" - *Solely Payments of Principal and Interest Test*).

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

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

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

The business model

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

- "Hold to collect": this includes financial assets held with the objective of collecting contractual cash flows, retaining the financial instrument to maturity, with the exception of sales permitted under Group policies in line with IFRS 9;
- "Hold to collect and sell": this includes financial assets held with the aim of both collecting contractual cash flows over the life of the assets and the proceeds from the sale of those assets;
- "Other": this is a residual business model that includes financial instruments that cannot be classified in the previous categories, mainly represented by financial assets held for the purpose of generating cash flows through sale (including trading).

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

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

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

With specific reference to the "hold to collect" model, according to IFRS 9, the sale of a debt instrument or a loan does not itself determine the business model. In fact, an HTC business model does not necessarily imply that an instrument will be held to maturity and the standard itself offers examples of sales deemed admissible within this model. Accordingly, the Group's policies govern the types of sale considered consistent with this model, as in the case of sales made in response to an increase in the credit risk of the counterparty.

Specifically, sales that have occurred as a result of the following circumstances are considered consistent with this business model:

- in the case of an increase in credit risk and, more specifically:
  - on the basis of developments in CDS spreads with regard to the securities portfolio, taking due account of all reasonable and supportable information concerning forecasts, approved/authorized as appropriate;
  - on the basis of the staging indicator for the loan portfolio;
- in the case of sales that occur near the maturity date, i.e. when they approximate the cash flows that would be generated obtained by not selling the security;
- to manage structural liquidity in order to respond to extreme liquidity situations;
- when the sales are frequent but not material in value terms or are occasional even if material in value terms. Frequency and materiality thresholds have been specified to determine those aggregates:
  - frequency is defined as the number of trading days considered in the period considered;
  - materiality is defined as the percentage ratio between the nominal value of sales and the total nominal value of the instruments held in the portfolio during the period considered.

In cases where both frequency and materiality thresholds are exceeded, an assessment must be conducted to determine compliance with the requirements of the business model identified.

The SPPI test

In order to determine whether a financial asset can be measured at amortized cost or at fair value through other comprehensive income, it is important to determine whether the contractual cash flows of the asset are represented by solely payments of principal and interest on the principal amount outstanding. Such contractual flows are compatible with a basic lending arrangement, where the consideration for the time value of money and credit risk are typically the most significant elements of interest. However, interest may also include consideration for other risks, such as liquidity risk, and the costs associated with holding the financial asset. Furthermore, interest may also include a profit margin that is compatible with a basic lending arrangement. The principal amount is represented by the fair value of the financial asset at recognition. Contractual terms introducing exposure to risks or volatility in contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to inverse changes in interest rates, in equity prices or in commodity prices, do not give rise to contractual cash flows that are solely payments principal and interest on the principal amount outstanding. As determined by analysis conducted by the Group, such types of instrument cannot be considered SPPI-compliant and must therefore be measured at fair value through profit or loss.

In some cases, the time value of money element may be modified. That would be the case if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate (for example, the interest rate resets every month to a one-year rate). When assessing a modified time value of money element, the objective is to determine how different the contractual cash flows could be from the cash flows that would arise if the time value of money element was not modified In these cases, IFRS 9 requires the performance of a "benchmark test", an exercise that involves comparing the interest on the actual instrument, calculated at the contractually specified interest rate, and the interest on the benchmark instrument, calculated using the interest rate that does not contain the change in the time value of money, all other contractual clauses being equal. The benchmark test therefore consists of a comparison between the sum of the undiscounted expected cash flows of the actual instrument and the sum of those for the benchmark instrument. In doing so, we consider only reasonably possible scenarios, therefore excluding stress test scenarios.

Furthermore, for the purposes of the SPPI test, any contractual term that could change the timing or amount of the contractual cash flows (for example, the case of a prepayment option, subordinated instruments or an option to extend the term for payment of principal and/or interest) shall also be considered.

Finally, a contractual cash flow characteristic does not affect the classification of the financial asset if it could only have a de minimis effect on the cash flows. At the same time, if a contractual cash flow characteristic is "not genuine", it does not affect the classification of the financial asset. A cash flow characteristic is not genuine if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur. To make a determination of the de minimis effect, an entity must consider the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial instrument.

From an operational standpoint, the Group has established guidelines for conducting the SPPI test, which represent the methodology adopted by the Group and reflected in its internal rules, so as to be able to represent the benchmark instrument for the performance of the testing by all the functions involved. In this context, with specific reference to the loan portfolio, these guidelines have been implemented in a tool within the Group's application systems that enables the benchmark test to be performed. With specific reference to the securities portfolio, on the

other hand, the outcome of the test is provided by a leading sector info-provider, based on the guidelines and methods defined by the Group.

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

Classification

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

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

The category therefore includes:

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

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

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

In accordance with the provisions of IFRS 9, reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity’s senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the Group’s operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line.

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

Recognition

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

Measurement

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

For financial instruments listed on active markets, the fair value of financial assets or liabilities is determined on the basis of the official prices at the reporting date. For financial instruments that are not listed on active markets, including equity instruments, fair value is determined using

valuation techniques and observable market data, such as: the price of listed instruments with similar features, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions.

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

For more information on the determination of fair value, please see section A.4 “Fair value disclosures” of Part A of the notes to the financial statements.

Derecognition

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

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

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

Recognition of income components

The results of the measurement of financial assets held for trading are recognized through profit or loss under “Net gain (loss) on trading activities”. The results of the measurement of financial assets designated as at fair value and of those mandatorily measured at fair value are instead recognized under “ Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss”, respectively under sub-items “a) financial assets and liabilities designated as at fair value” and “b) other financial assets mandatorily measured at fair value. Dividends from equity instruments held for trading are recognized through profit or loss under “Dividends and similar income” when the right to receive payment is established.

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

Classification

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

The category also includes capital instruments not held for trading for which the option envisaged under IFRS 9 was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income with no recycling to profit or loss of any gains or losses on disposal.

Specifically, the item includes:

- loans and debt securities held with a “hold to collect and sell” business model that pass the SPPI test;
- equity interests - that do not represent an interest in subsidiaries, associates or joint arrangements – not held for trading for which the option was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income. This includes equity investments intended to strengthen the Group’s commercial presence and extend its reach into business areas in which it is not present. Similarly, this option is exercised for equity instruments that have been acquired for strategic and institutional purposes and are therefore held with no intention of selling them in the short term, representing instead a medium/long-term investment.

In accordance with the provisions of IFRS 9, reclassifications are only allowed following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity’s senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the Group’s operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line.

The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that

moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at fair value through other comprehensive income to the category of financial assets measured at amortized cost, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. In the event of reclassification to financial assets measured at fair value through profit or loss, the cumulative gain or loss previously recognized in other comprehensive income is recognized though profit or loss.

Recognition

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

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

Measurement

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

Equity instruments classified in this category under the option provided for by IFRS 9 are measured at fair value through other comprehensive income. Unlike other instruments classified here, however, those amounts are not subsequently transferred to profit or loss, even if the instruments are sold (no recycling). Accordingly, the only element associated with the equity instruments recognized through profit or loss is any associated dividends.

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

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

Derecognition

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

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

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

Recognition of income components

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

Interest calculated on debt instruments using the effective interest method, which takes account of both the amortization of transaction costs and the differential between the initial value and the repayment value, are recognized under “Interest and similar income”.

Writedowns and writebacks for credit risk and the recognition of an impairment loss are recognized under the item " Net losses/recoveries for credit risk in respect of financial assets measured at fair value through other comprehensive income", with a corresponding adjustment of the relevant valuation reserve in equity.

Cumulative gains and losses recognized in other comprehensive income are recognized through profit or loss under item 100 "Gain (loss) on disposal of financial assets measured at fair value through other comprehensive income" on the disposal of the asset.

Dividends on an equity instrument are recognized through profit or loss when the right to receive payment is established.

3 - Financial assets measured at amortized cost

Classification

This category comprises financial assets such as loans and debt securities held within a business model whose objective is achieved by collecting contractual cash flows on a financial asset ("hold to collect" business model) that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

Specifically, this category includes credit exposures to banks (including the central bank) and to customers that, regardless of technical form (bonds, loans, credit lines and deposits), meet the requirements indicated above.

In accordance with the provisions of IFRS 9, reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity's senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties. This occurs, for example, when a relevant activity is begun or terminated after the entity has acquired, disposed of or terminated a business line.

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

Recognition

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

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

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

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

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

Measurement

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

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

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

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

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

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

- at the time of initial recognition in an amount equal to 12-month expected credit losses;
- at the time of subsequent measurement of the asset where credit risk has not increased significantly since initial recognition in an amount equal to the change in the loss allowance for 12-month expected credit losses (stage 1);
- at the time of subsequent measurement of the asset where credit risk has increased significantly since initial recognition in an amount equal to the loss allowance for lifetime expected credit losses (stage 2);
- at the time of subsequent measurement of the asset where credit risk has increased significantly since initial recognition but the increase is no longer "significant" in an amount equal to the adjustment of the cumulative loss allowances to take account of the transition from lifetime expected credit losses to 12-month expected credit losses (return to stage 1).

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

Non-performing loans, unlikely-to-pay positions, restructured exposures and past-due or over-limit exposures are considered impaired in accordance with the applicable rules of the Bank of Italy, consistent with the IAS/IFRS and European supervisory regulations (stage 3).

Measurement of the financial assets takes account of the best estimate of expected future cash flows in respect of principal and interest payments. Also taken into consideration is the realizable value of any guarantees excluding recovery costs, recovery times estimated based on contractual maturities, if any, and on reasonable estimates in the absence of contractual provisions, and the discount rate, which is the original effective interest rate. For impaired positions at the transition date, where determining this figure would be excessively burdensome, the Bank has adopted reasonable estimates, such as the average rate of loans for the year in which the loan was first classified as a bad debt, or the restructuring rate.

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

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

Derecognition

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

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

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

In certain cases, during the course of the life of financial assets, in particular loans, the terms of the contract may be modified from those in force at the time of initial recognition. In these circumstances, the modified terms must be analyzed to determine whether the original assets can continue to be recognized or must instead be derecognized, with the consequent recognition of new modified financial assets. In general, modifications of contractual terms lead to the derecognition of the financial asset and the recognition of a new asset when they are considered to be "substantial", with the recognition in profit or loss of any difference in carrying amounts.

In conducting this assessment, qualitative judgments are called for. To this end, the assessment shall consider:

- the reasons for the modifications, distinguishing, for example, between renegotiations carried out for commercial reasons or in response to the counterparty's financial difficulties:
  - transactions carried out with performing counterparties for reasons other than debtor's financial difficulties, and therefore not related to a change in the creditworthiness of the borrower, are considered commercial renegotiations, which have the main objective of adjusting the cost of credit to market conditions. These cases include all renegotiations aimed at maintaining the commercial relationship with the client, and are therefore carried out with the aim of retaining the counterparty, who might otherwise turn to another bank. In this case, these modifications are considered substantial because if they did not occur, the customer could turn to another financial institution, thus causing the bank to lose future revenue;
  - transactions whose objective is to maximize the recoverable amount of the loan are considered renegotiations due to financial difficulties of the counterparty, with the creditor therefore willing to accept a restructuring of the debt on terms potentially favorable to the debtor. In these circumstances, it is generally assumed that there has essentially been no extinguishment of the original cash flows that would therefore require derecognition of the original loan. Consequently, these types of renegotiation represent the majority of cases presented in the financial statements through "modification accounting", in which the difference between the carrying amount and the recalculated value of the financial asset is recognized in profit or loss by discounting the renegotiated or modified cash flows at the original effective interest rate;
- the presence of specific objective elements that substantially modify the characteristics and/or cash flows of the financial instrument, such that they would entail the derecognition of the instrument and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual terms that would cause the asset to fail the SPPI test or a change in the denomination of the currency of the instrument, as the entity would be exposed to a new risk.

Recognition of income components

Interest on financial assets measured at amortized cost is recognized under "Interest and similar income" in the income statement using the effective interest criterion, which takes account of both the amortization of transaction costs and the differential between the initial value and the repayment value.

Gains or losses on the financial assets in question are recognized in profit or loss when the assets are derecognized or have incurred an impairment loss.

More specifically, gains or losses deriving from the sale of an asset are, as previously noted, recognized in the income statement under the item "Gain (loss) on the disposal or repurchase of: a) financial assets measured at amortized cost" on the disposal of the asset.

Writedowns and writebacks for credit risk are recognized under "Net losses/recoveries for credit risk in respect of: a) financial assets measured at amortized cost", with a corresponding adjustment of the relevant provision.

4 - Hedging

The Iccrea Cooperative Banking Group has elected to exercise the option to continue to apply the rules provided for in IAS 39 governing hedge accounting for each type of hedge (the "opt-out" option).

Classification

Risk hedging transactions are intended to neutralize the potential losses recognized on a given element or group of elements attributable to a given risk in the event that risk should actually be realized.

The types of hedges permitted under IAS 39 are as follows:

- fair value hedges, which are intended to hedge the exposure to the risk of changes in the fair value (due to the various types of risk) of assets and liabilities or portions of assets and liabilities, groups of assets and liabilities, irrevocable commitments and portfolios of financial assets and liabilities as permitted under IAS 39 as endorsed by the European Commission;
- cash flow hedges are intended to hedge the exposure to the risk of changes in the future cash flows on recognized assets or liabilities or on highly probable forecast transactions. This type of hedge is essentially used to stabilize interest flows on variable-rate funding to

the degree that the latter finances fixed-rate lending. In some circumstances, analogous transactions are carried out for certain types of variable-rate lending.

Only instruments that involve a non-Group counterparty can be designated as hedging instruments.

The items “hedging derivatives” among assets and liabilities include the positive and negative values of derivatives that establish effective hedging relationships.

Recognition

Hedging derivatives and the hedged financial assets and liabilities are reported in accordance with hedge accounting rules. In particular, derivative instruments with a positive fair value are recognized under “Hedging derivatives” on the asset side of the balance sheet, while derivatives with a negative fair value at the reporting date are recognized under “Hedging derivatives” on the liability side of the balance sheet.

Measurement and recognition of income components

Hedging derivatives are measured at fair value. More specifically:

- in the case of fair value hedges, the change in the fair value due to the risk on the hedged item has a corresponding impact on the income statement, where the change in the fair value of the hedging instrument is recognized. Any difference between the two changes, which represents the partial ineffectiveness of the hedge, represents the net impact in profit or loss;
- in the case of cash flow hedges, changes in the fair value of the derivative are recognized in a specific equity reserve in the amount of the effective portion of the hedge and in profit or loss in the amount of the ineffective or overhedging portion. The reserve is reclassified to profit or loss only when the cash flows on the hedged item whose variability is being hedged manifest themselves or in the event the hedging relationship is discontinued in the manner specified for the circumstance that prompted the interruption of the hedge.

Derivatives designated as a hedging instrument, where there is formal documentation of the relationship between the hedged item and the hedging instrument, are considered effective if at the moment of inception and throughout the life of the hedging relationship any changes in the fair value or the cash flows of the hedged instrument are almost entirely offset by changes in the fair value or cash flows of the hedging derivative.

The effectiveness of a hedge depends on the extent to which changes in the fair value of the hedged item or the associated cash flows are offset by those of the hedging instrument. Accordingly, effectiveness is quantified on the basis of the comparison of those changes, taking account of the intentions of the entity at the time the hedge is established.

A hedge is deemed effective when the changes in fair value (or in cash flows) of the hedging instrument nearly entirely offset (i.e. within a range of 80-125%) changes in the hedged instrument for the risk factor being hedged.

Effectiveness is measured at every reporting date through:

- prospective tests, which justify the use of hedging accounting, as they demonstrate the hedge’s expected effectiveness;
- retrospective tests, which indicate the level of effectiveness of the hedge achieved in the period under review, measuring the difference between actual results and theoretical results (perfect hedges).

If the tests do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the above criteria, the hedging derivative is reclassified as a trading instrument or extinguished early and the hedged financial instrument is measured using the criteria normally adopted for instruments of its category. Subsequent changes in the fair value of the derivative are recognized through profit or loss. For cash flow hedges, when it becomes certain that the hedged transaction will no longer be carried out, the cumulative gain or loss recognized in the equity reserve is reversed through profit or loss.

The changes in the fair value of the hedged instruments and those used to hedge a fair value hedge transaction are recognized in the income statement under “Net gain (loss) on hedging activities”. The ineffective or overhedging portion of the cash flow hedging derivative measured with respect to the hypothetical derivative (hedge ineffectiveness) is also recognized under this item.

5 – Equity investments

Classification

The item includes equity investments in subsidiaries, associates and joint ventures. Immaterial entities[27] are not consolidated. Their exclusion

[27] The scope of consolidation does not include subsidiaries with total assets of less than €10 million, subject to the condition that the total assets of all unconsolidated subsidiaries do not exceed €50 million.

from the scope of consolidation does not have a significant impact on Group equity.

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

Pursuant to IFRS 10 the control requirement is met when an investor simultaneously has:

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

Joint control is the contractually agreed sharing of control of an arrangement.

Associated companies comprise companies in which the Group holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Group exercises a significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control.

Equity interests in subsidiaries, joint ventures and associates held for sale are reported separately in the financial statements as a disposal group and are measured at the lower of the carrying amount and the fair value excluding disposal costs.

Recognition

Equity investments are initially recognized at cost at the settlement date including costs and revenue that are directly attributable to the transaction.

Measurement

Investments in subsidiaries are measured at cost, while investments in associates or joint ventures are measured using the equity method (for more details, see Section 3 – Scope and methods of consolidation in Part A Accounting policies: A.1 – General information). Where there is evidence that the value of an equity investment may be impaired, its recoverable amount is determined, taking account of both its market value and the present value of future cash flows. If this value is lower than the carrying amount, the difference is recognized through profit or loss as an impairment loss.

Impairment testing of equity investments

As required by the accounting standards referred to earlier and by IAS 36, if there is evidence (triggers) of possible impairment, equity investments undergo impairment testing to determine whether there is objective evidence that the carrying amount of such assets is not fully recoverable and to determine the amount of any writedown.

Impairment indicators are essentially divided into two categories:

- qualitative indicators, such as the posting of losses or in any case a significant divergence with respect to budget targets or the objectives set out in the long-term plans announced to investors, the announcement/start of composition with creditors or restructuring plans, and the downgrading of the rating issued by a specialist agency;
- quantitative indicators consisting of a reduction in fair value below the carrying amount of over 30%, or for a period of more than 24 months, or a carrying amount for the equity investment in the separate financial statements greater than the carrying amount in the consolidated financial statements of the company’s net assets and goodwill, or the distribution by the latter of a dividend greater than its comprehensive income.

In the presence of evidence of impairment, the size of any writedown is determined on the basis of the difference between the carrying amount and the recoverable amount, which is equal to the greater of fair value less costs to sell and the value in use.

Derecognition

Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IFRS 9, as provided for financial instruments.

Equity investments are derecognized when the contractual rights to the cash flows from the assets expire or when substantially all the risks and rewards connected with ownership of the equity investment are transferred.

Recognition of income components

Dividends received from equity investments are recognized in the income statement under “Dividends and similar income” when the right to receive payment is established.

Impairment losses on equity investments are recognized in the income statement under the item “Profit (loss) from equity investments”. If the reasons for the impairment loss should be removed following an event occurring after the recognition of the impairment loss, the consequent writebacks are recognized in the income statement (in an amount not exceeding the previous writedowns) under the same item.

The recognition of the income effects in respect of equity investments accounted for using the equity method is discussed in Section 3 – Scope and methods of consolidation in Part A Accounting policies: A.1 – General information.

6 - Property, plant and equipment

Classification

Property, plant and equipment includes land and buildings used in operations and those held for investment purposes, plant, vehicles, furniture, furnishings and equipment of any kind.

According to IAS 16, buildings used in operations are those held for use in the supply of services or for administrative purposes. Pursuant to IAS 40, investment property includes property held to earn rentals or for capital appreciation or both.

The item also includes assets in accordance with IAS 2 - Inventories, which mainly include assets deriving from the enforcement of guarantees or purchase at auction that the Group intends to sell in the near future without carrying out significant restructuring works and which do not meet the conditions for classification in the previous categories (“for use in operations” or “for investment”). This therefore includes assets acquired following the closure of an impaired credit exposure (for example from acceptance of the asset in lieu of the original performance (“datio in solutum”), from the consolidation of companies acquired as a result of loan restructuring/recovery agreements, the non-exercise of the purchase option in a finance lease or the termination of an impaired lease, etc.).

Where the requirements for the application of IFRS 5 to these assets are not met, the Group normally initially classifies the assets as inventories, subsequent measuring them in accordance with the criteria set out in IAS 2, except in rare cases in which the conditions are met for classification as:

- asset held for use in operations (see IAS 16);
- assets held for investment purposes (see IAS 40), insofar as they are held for the purpose of generating income through the receipt of lease payments or for capital appreciation.

Finally, property, plant and equipment also includes the rights of use for assets held under leases (whether finance or operating leases) pursuant to IFRS 16, even though the lessor retains legal ownership of the assets.

Recognition

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

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

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

Property, plant and equipment originally held as collateral for credit and acquired in recovery activities carried out on the basis of specific contracts or legal proceedings is recognized when both of the following conditions are met:

- recovery activities have been completed;
- the Group has acquired ownership of the property.

Normally these exchange transactions lack commercial substance as defined in paragraph 24 of IAS 16 and, consequently, the asset is initially recognized at the carrying amount of the asset given up.

In the rare cases where, in an exception to the general principle mentioned above, the enforcement operation has commercial substance, the asset acquired is initially recognized at fair value.

In the case of recognition of rights of use in respect of leased assets pursuant to IFRS 16, the cost of the right-of-use asset is determined as follows:

- the amount of the initial measurement of the lease liability;

- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Measurement

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

For assets purchased and placed in service during the year, the period of depreciation is calculated on the basis of the actual number of days the assets contributes to the production cycle. For assets transferred and/or disposed of during the year, depreciation is calculated on a daily basis up to the date of transfer or disposal.

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

In accordance with the provisions of paragraph 32a) of IAS 40, investment property as defined in IAS 40 is valued using the cost model and is depreciated, with the exception of properties deriving from the consolidation of real estate investment funds, which are measured at fair value since they are connected with liabilities that produce a return directly linked to the fair value of the investment property.

Assets classified as inventory are measured at the lower of recognition cost and net realizable value and are not depreciated. The net realizable value is equal to the estimated price for sale in the normal course of business, net of the estimated completion costs and those necessary for the sale of the asset.

Following initial recognition, assets acquired through recovery or enforcement of guarantees in debt collection activities carried out by the Group for impaired loans are measured in accordance with the criteria established for the classification adopted (for use in operations, for investment purposes, inventories).

Right-of-use assets determined in compliance with IFRS 16 are subsequently measured using a cost model, less depreciation and impairment losses, in accordance with IAS 16.

Derecognition

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

Recognition of income components

Depreciation of property, plant and equipment measured at cost, with the exception of inventories, is recognized through profit or loss under “Net adjustments of property, plant and equipment”.

In the first year, depreciation is recognized in proportion to the period the asset is effectively available for use. For assets sold or otherwise disposed of during the year, depreciation is calculated on a daily basis up to the date of transfer and/or disposal.

If there is evidence of possible impairment of the asset, the asset’s carrying amount is compared against its recoverable amount, which is equal to the greater of the value in use of the asset, meaning the present value of future cash flows originated by the asset and its fair value, net of any disposal costs. Any negative difference between the carrying amount and the recoverable amount is recognized in the income statement. If the reasons for the impairment should cease to obtain, a writeback is recognized in the income statement. The carrying amount following the writeback shall not exceed the value that the asset would have had, net of depreciation, in the absence of the prior writedowns.

Gains (losses) deriving from changes in the fair value of investments deriving from the consolidation of real estate investment funds are recognized in the income statement under “Net gain (loss) from valuation at fair value of property, plant and equipment and intangible assets”.

Gains and losses deriving from the disposal or decommissioning of property, plant and equipment are determined as the difference between the net sale price and the carrying amount of the asset. They are recognized in profit and loss at the same date on which the assets are derecognized, under the item “Profit (loss) from the disposal of investments”.

7 - Intangible assets

Classification

Intangible assets are recognized as such if they are identifiable and are based on legal or contractual rights. They include application software.

Right-of-use assets have not been recognized in respect of leases involving intangible assets as such recognition is optional under IFRS 16.

Recognition

Intangible assets are recognized at cost, adjusted for any incidental expenses, only if it is probable that the future economic benefits attributable to the asset will be realized and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognized in profit or loss in the period in which it is incurred.

Recognition of intangible assets generated internally, and software in particular, is subject to verification of the above conditions and distinguishing between the research activities and development activities carried out to produce the asset. Costs associated with research cannot be capitalized, as the generation of probable future economic benefits cannot be demonstrated.

Intangible assets can be recognized in respect of goodwill arising from business combinations (purchases of business units). This goodwill is recognized in an amount equal to the positive difference between the purchase price of the business combination (the consideration transferred) and the fair value of the assets and liabilities acquired if that positive difference represents future economic benefits. Goodwill in respect of business combinations carried out prior to the date of transition to the IFRS are measured on a cost basis and represent the same value as that given using Italian GAAP.

Measurement

After initial recognition, intangible assets with a finite useful life are recognized at cost, net of total amortization and accumulated impairment losses. Amortization begins when the asset becomes available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended and ceases when the asset is derecognized. Intangible assets are amortized on a straight-line basis, so as to reflect the long-term use of the asset over its estimated useful life, which for application software does not exceed 5 years.

Goodwill is not amortized and is tested for impairment at the reporting date.

Derecognition

Intangible assets are derecognized upon disposal or when no future economic benefits are expected to be generated by the use or disposal of the asset.

Recognition of income components

Amortization is recognized through profit or loss under “Net adjustments of intangible assets”, as are impairment losses. If the reasons for the impairment of intangible assets other than goodwill should cease to obtain, a writeback is recognized in profit or loss. The value of the asset after the writeback shall not exceed the value that the asset would have had, net of amortization, in the absence of the prior writedowns for impairment.

Writedowns of goodwill are recognized in the income statement under “Writedowns of goodwill”. Goodwill previously written down may not be written back.

Gains and losses from the disposal or other transfer of an intangible asset are determined as the difference between the net sale price and the carrying amount of the asset and recognized in the income statement under the item “Profit (Loss) from disposal of investments”.

8 - Non-current assets and liabilities and disposal groups held for sale

Classification

Non-current assets and disposal groups, including associated liabilities, are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when their sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The Group must be committed to the sale, which must be expected to be completed within one year of classification as held for sale.

Properties obtained through the enforcement of guarantees are classified under this item when the following conditions are met:

- the asset is available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets;
- the sale is highly probable. In particular, the appropriate level of management must be committed to a plan to sell the asset, and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. Finally, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by IFRS 5, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Recognition

Non-current assets and disposal groups held for sale are valued at the lower of their carrying amount and their fair value less costs to sell, with the exception of assets for which IFRS 5 requires measurement in accordance with the applicable IFRSs (e.g. financial assets within the scope of IFRS 9).

Measurement and recognition of income components

Following initial recognition in this category, the assets are measured at the lower of their carrying amount and their fair value less costs to sell, with the exception of assets that IFRS 5 requires be measured using the provisions of the relevant accounting standard (for example, financial assets within the scope of IFRS 9). If the assets held for sale can be depreciated, any such depreciation ceases upon classification to non-current assets held for sale. Non-current assets and disposal groups held for sale, as well as “discontinued operations”, and the associated liabilities are reported under specific items of assets (“Non-current assets and disposal groups held for sale”) and liabilities (“Liabilities associated with disposal groups held for sale”).

The results of the measurement, income, expenses and gains/losses upon disposal (net of any tax effect), of “discontinued operations” are recognized in the income statement under “Profit (loss) after tax of discontinued operations”. Gains and losses associated with individual assets held for sale are recognized under the most appropriate item of the income statement.

Derecognition

Non-current assets and disposal groups held for sale are derecognized upon disposal.

9 - Current and deferred taxation

Classification

Income taxes, which are calculated on the basis of national tax law, are accounted for as a cost on an accruals basis, in line with the recognition of the costs and revenue that gave rise to the tax liability. They therefore represent the balance of current taxes and deferred taxes in respect of income for the year. Current tax assets and liabilities report the net tax positions of the Group companies in respect of Italian and foreign tax authorities. More specifically, they report the net balance between current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax liability for the period, as determined on the basis of applicable tax law, and current tax assets represented by payments on account and other tax receivables for withholding tax incurred or other tax credits for previous years which the Group companies opted to offset against taxes for subsequent years. Current tax assets also report tax receivables for which the Group companies have requested reimbursement from the competent tax authorities.

While taking account of the adoption of the national consolidated taxation mechanism by the companies forming part of the “direct scope” of the Group (the former Iccrea Banking Group), the tax positions of each Group company are managed separately for administrative purposes.

Deferred taxation is determined using the balance sheet liability method, taking account of the tax effect of temporary differences between the carrying amount of assets and liabilities and their value for tax purposes, which will give rise to taxable or deductible amounts in future periods. To that end, “taxable temporary differences” are those that in future periods will give rise to taxable amounts and “deductible temporary differences” are those that in future periods will give rise to deductible amounts. Deferred taxes are recognized on all taxable temporary differences, with the following exceptions: i) deferred tax liabilities arising from the initial recognition of goodwill or ii) an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect either the balance sheet or the tax situation.

Deferred tax assets are recognized against all deductible temporary differences, tax receivables and unused tax losses that can be carried forward, insofar as it is probable that sufficient future taxable income will be available to allow the use of the deductible temporary differences and the tax receivables and losses carried forward, except for cases in which the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect either the balance sheet or the tax situation.

Deferred tax is calculated by applying the tax rates established in applicable tax law, laws already issued or substantially in force at the reporting date that are expected to be applied during the year in which those assets are realized or those assets are extinguished to taxable temporary differences for which it is likely that a tax charge will be incurred and to deductible temporary differences for which it is reasonable certain there were be future taxable income at the time they become deductible (the probability test).

Current tax assets and liabilities and deferred tax assets and liabilities are offset in the financial statements if, and only if, they relate to income taxes applied by the same taxation authority and there is a legally enforceable right to set off current tax assets against current tax liabilities.

Recognition and measurement

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

In cases where the deferred tax assets and liabilities regard transactions that directly impact equity with no effect on profit or loss (such as adjustments on first-time adoption of the IAS/IFRS, measurement of financial instruments measured at fair value through other comprehensive income or cash flow hedge derivatives), they are recognized in equity, under specific reserves where required (i.e. the valuation reserves).

The potential taxation in respect of items on which taxation has been suspended that will be “taxed in the event of any use” is recognized as a reduction in equity. Deferred taxes in respect of revaluations prompted by conversion of amounts to the euro that were directly allocated to a specific reserve under Article 21 of Legislative Decree 213/98 on a tax-suspended basis are recognized as a reduction of that reserve. The potential taxation in respect of items that will be taxed “only in the event of distribution” is not recognized as the amount of available reserves that have already been taxes is sufficient to conclude that no transactions will be carried out that would involve their taxation.

Deferred taxation in respect of companies participating in the consolidated taxation mechanism is recognized in their financial statements on an accruals basis in view of the fact that the consolidated taxation mechanism is limited to settlement of current tax positions.

The potential taxation of components of the equity of the consolidated companies is not recognized where the circumstances that would give rise to their taxation are not considered likely to arise, taking due consideration of the lasting nature of the investment.

The value of deferred tax assets and liabilities is reviewed periodically to take account of any changes in legislation or in tax rates.

Recognition of income components

Income taxes are recognized through profit or loss, with the exception of those debited or credited directly to equity. Current income taxes are calculated based on taxable income for the period.

In determining income taxes, any uncertainties over tax treatments are taken into account, in accordance with the provisions of IFRIC 23.

Current tax payables and receivables are recognized at the value that payment to or recovery from the tax authorities is expected by applying current tax rates and regulations. Deferred income tax assets and liabilities are calculated, using expected tax rates, on the basis of temporary differences between the value attributed to the assets and liabilities in the financial statements and the corresponding values recognized for tax purposes.

Derecognition

Deferred tax assets and deferred tax liabilities are derecognized in the period in which:

- the temporary difference that originated them becomes taxable for deferred tax liabilities or deductible for deferred tax assets;
- the temporary difference that originated them is no longer relevant for tax purposes;
- for deferred tax assets only, the probability test envisaged by IAS 12 indicates that sufficient future taxable income will not be available.

10 - Provisions for risks and charges

Provisions for commitments and guarantees issued

This sub-item reports provisions estimated in respect of the credit risk on commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules for calculating expected losses in accordance with IFRS 9. In principle, these cases use the same methods for allocation to the three risk stages and the calculation of expected losses that are adopted for financial assets measured at amortized cost or at fair value through other comprehensive income.

This sub-item also includes are provisions for other types of commitments and guarantees issued that, on the basis of their characteristics, do not fall within the scope of application of impairment in accordance with IFRS 9.

Other provisions for risks and charges

The other provisions for risks and charges include provisions for legal obligations or related to employment relationships or disputes originating from a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The item also includes long-term employee benefits.

Recognition

A provision shall be recognized if and only if:

- the company has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Measurement and recognition of income components

The amount recognized is the best estimate of the expenditure required to settle the obligation or to transfer it to third parties at the end of the reporting period and reflects the risks and uncertainties that inevitably surround many events and circumstances.

Where the time value of money is material and the payment dates of the obligation can be estimated reliably, the provision shall is discounted at market rates as of the reporting date.

Provisions are reviewed at every reporting date and are adjusted to reflect the best estimate of the charge required to settle the obligations existing at the close of the period. The impact of the time value of money and that of changes in interest rates are reported in profit or loss under net provisions for the period.

Actuarial gains and losses are recognized immediately in profit or loss.

Derecognition

Provisions are only used when the charges for which they were originally established are incurred. When the use of resources to fulfil the obligation is no longer deemed to be probable, the provision is reversed through profit or loss.

11 - Financial liabilities measured at amortized cost

Classification

Financial liabilities measured at amortized cost include amounts due to banks, amounts due to customers and securities issued, comprising all technical forms of interbank and customer funding, repurchase agreements and funding through certificates of deposit, bonds and other funding instruments in circulation, net of any amounts repurchased.

The item also includes liabilities recognized by the lessee in respect of leases (finance or operating) pursuant to IFRS 16).

Recognition

The liabilities are initially recognized at fair value, which is normally equal to the amounts received or the issue price, plus or minus any additional costs or revenue directly attributable to the transaction that are not reimbursed by the creditor. Internal administrative costs are excluded.

Financial liabilities issued on non-market terms are recognized at estimated fair value and the difference with respect to the amount paid or the issue price is taken to the income statement.

Measurement and recognition of income components

Following initial recognition, these liabilities are measured at amortized cost using the effective interest rate method, excluding short-term liabilities, which are recognized in the amount received in keeping with the general principles of materiality and significance. See to the section on assets measured at amortized cost for information on the criteria for determining amortized cost.

Interest expense recognized on financial liabilities is reported under “Interest and similar expense” in the income statement.

In addition to cases of extinguishment and expiration, financial liabilities reported in these items are also derecognized when previously issued securities are repurchased. In this case, the difference between the carrying amount of the liability and the amount paid to repurchase it is recognized in the income statement under “Gain (loss) on the disposal or repurchase of: c) financial liabilities”. If the repurchased security is subsequently placed again on the market, this is treated as a new issue and is recognized at the new placement price, with no impact on the income statement.

Derecognition

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

12 – Financial liabilities held for trading

Classification

The item reports the negative value of trading derivatives that are not part of hedging relationships as well as the negative value of embedded derivatives to be separated from hybrid instruments representing financial liabilities. Liabilities deriving from short positions in by securities trading activities are recognized under “Financial liabilities held for trading”.

Recognition

Debt and equity securities representing financial liabilities are initially recognized at the settlement date, while derivative contracts are recognized at the date they are signed. The financial liabilities are initially recognized at fair value, which generally equals the amount received.

In cases in which the amount paid differs from the fair value, the financial liability is recognized at fair value, and the difference between the amount paid and the fair value is recognized through profit or loss.

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

Measurement

Subsequent to initial recognition, the financial liabilities are recognized at fair value through profit or loss. Please see Part 4 “Fair value disclosures” of these notes to the financial statements for information on determining fair value.

Derecognition

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

Recognition of income components

Gains and losses from the measurement of and transactions in financial liabilities held for trading are recognized through profit or loss.

13 - Financial liabilities designated as at fair value

Classification

This item reports financial liabilities designated as at fair value through profit or loss under the option permitted to entities in IFRS 9 (the “fair value option”). More specifically, financial liabilities may be irrevocably designated as at fair value through profit or loss if it eliminates or

significantly reduces an accounting mismatch due to a measurement inconsistency or where they contain one or more embedded derivatives.

Recognition

Financial liabilities at fair value through profit or loss are initially recognized at the issue date at their fair value, which normally corresponds to the price paid. If the price is different from the fair value, the financial liability is recognized at its fair value and the difference between the price and the fair value is recognized in the income statement.

Measurement and recognition of income components

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

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

Pursuant to IFRS 9, this accounting method shall not be applied if would create or enlarge an accounting mismatch in the income statement. In this case, the gains or losses related to the liability falling under this item shall be recognized through profit or loss.

Derecognition

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

14 - Foreign currency transactions

Classification

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

Recognition

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

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

Measurement

At the reporting date, foreign currency items are measured as follows:

- monetary items are translated at the exchange rate prevailing at the reporting date;
- non-monetary items measured at historic cost are translated at the exchange rate prevailing at the transaction date;
- non-monetary items measured at fair value are translated using the exchange rate prevailing at the reporting date.

Recognition of income components

Exchange rate differences relating to financial assets/liabilities other than those designated as at fair value and those mandatorily measured at fair value through profit or loss are recognized in the income statement under the item "Net gain (loss) on trading activities". Exchange rate differences relating to the two categories referred to above are recognized in under the item "Net gain (loss) of other financial assets and

liabilities measured at fair value through profit or loss". In addition, if the financial asset is measured at fair value through other comprehensive income, exchange rate differences are allocated to the relevant valuation reserve.

Exchange rate differences resulting from the settlement of monetary items or from the translation of monetary items at exchange rates other than the initial translation rate, or translation of the previous financial statements, are recognized through profit or loss in the period in which they emerge.

When gains or losses relating to a non-monetary item are recognized in equity, the exchange rate difference for the item is also recognized in equity. Likewise, when a gain or less is recognized through profit or loss, the corresponding exchange rate difference is also recognized through profit or loss.

15 – Other information

Employee termination benefits

Following the reform of supplementary pension schemes introduced by Legislative Decree 252 of December 5, 2005, changes were made to the way in which employee termination benefits are recognized. The portion of termination benefits accrued through December 31, 2006 is treated as a defined-benefit plan, since the company is required under law to pay the employee an amount determined pursuant to Article 2120 of the Italian Civil Code.

The portion of termination benefits accrued from January 1, 2007 allocated to a supplementary pension scheme or to the treasury fund managed by INPS (Italy's National Social Security Institute) are treated as a defined-contribution plan since the company's obligation towards the employee ceases upon transfer of the amounts to the fund.

Therefore, starting January 1, 2007, the Group:

- continues to recognize the obligation accrued at December 31, 2006 in accordance with the rules for defined-benefit plans, i.e. using the projected unit credit method. This means that it measures the obligation for benefits accrued by employees using actuarial techniques, projecting into the future the amount to pay at the time the employment relationship is termination and discounting the accrued portion. To this end, the projected unit credit method considers each individual service period as the originator of an additional unit of termination benefits to be used in constructing the final obligation by projecting future outflows on the basis of statistical analysis of historical developments and the demographic curve, discounting those flows using a market interest rate. Total actuarial gains and losses are recognized, in line with the provisions of IAS 19, in equity, while the interest cost component of the change in the defined benefit obligation is recognized in profit or loss;
- recognizes the obligation for portions accrued starting January 1, 2007, payable to a supplementary pension scheme or to the treasury fund managed by INPS, on the basis of the contributions owed in each period, as a defined contribution plan for employee service, in profit or loss. More specifically, in the case of termination benefits payable to a supplementary pension scheme that treatment begins at the time of the choice or, if the employee does not exercise any option, as from July 1, 2007.

Recognition of revenue

Revenue is recognized when realized or, in the case of the sale of goods or services, in relation to the extent to which the performance obligation has been satisfied, as specified below.

Specifically:

- interest is recognized on an accruals basis using the contractual interest rate or the effective interest rate where the amortized cost method is applied;
- default interest, if any, is recognized through profit or loss only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;
- commissions for revenue from services are recognized in relation to the effective provision of the services to a customer, as discussed in greater detail below;
- revenue from the placement of funding instruments, calculated on the basis of the difference between transaction price and the fair value of the financial instrument, are recognized in the income statement when the transaction is recognized if the fair value can be determined with reference to parameters or transactions recently observed in the same market in which the instrument is traded. If these amounts cannot be easily determined or the instrument is not highly liquid, the financial instrument is recognized in an amount equal to the transaction price, excluding the commercial margin. The difference between this amount and the fair value is taken to profit or loss over the duration of the transaction through the gradual reduction in the valuation model of the corrective factor reflecting the reduced liquidity of the instrument;

- revenue from the sale of non-financial assets are recognized at the time the performance obligation is satisfied with the transfer of the asset, i.e. when the customer obtains control of the asset.

In application of IFRS 15, the following steps are followed in recognizing revenue from contracts with customers:

- identification and analysis of the contract signed with the customer to identify the type of revenue. In some specific cases, multiple contracts may have to be combined and accounted for as a single contract;
- identification of the specific performance obligations in the contract. If the goods/services to be transferred are distinct, they qualify as performance obligations and are accounted for separately;
- determination of the transaction price, considering all the performance obligations in the contract. This price may be a fixed amount, but may sometimes include variable or non-monetary consideration;
- allocation of the transaction price to the performance obligations. The transaction price is allocated to the various performance obligations on the basis of the selling prices of each distinct good or service provided contractually. If it is impossible to determine the standalone selling price, it is necessary to estimate it. The assessment must be carried out as from the start date of the contract (the inception date);
- recognition of revenue when the performance obligation is satisfied. Revenue is recognized following the satisfaction of the performance obligation to the customer, i.e. when the latter obtains control of the good or service. Some revenue is recognized at a point in time, while other is accrued over time. It is therefore necessary to identify the moment in which the performance obligation is satisfied. In the case of performance obligations satisfied over time, revenue is recognized over the reference period, selecting an appropriate method to measure the progress made towards complete satisfaction of the performance obligation".

Accruals and deferrals

Accruals and deferrals reporting costs and revenue accruing in the period on assets and liabilities are recognized as adjustments to the assets and liabilities to which they refer. In the absence of such assets or liabilities, they are recognized under "Other assets" or "Other liabilities".

Expenditure for leasehold improvements

Expenses for refurbishments of buildings belonging to third parties that do not have an independent function or use are conventionally classified under "Other assets". Amortization is performed over the useful life of the right of use in respect of the buildings and amortization charges are reported under other operating expenses.

Determination of amortized cost

Amortized cost is applied to financial assets and liabilities measured at amortized cost and to the income components of financial assets measured at fair value through other comprehensive income.

The amortized cost of a financial asset or financial liability is the value at which it is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

The effective interest rate is the rate that discounts the contractual flow of future or received payments until the maturity date or the next repricing date to the present value of a financial asset or financial liability.

For instruments bearing a fixed rate or a fixed rate for periods of time, future cash flows are determined on the basis of the specified interest rate over the life of the instrument. For variable-rate financial assets or liabilities, future cash flows are determined on the basis of the last known rate. At each repricing date, the residual amortization and the effective yield over the residual useful life (i.e. until maturity) of the financial instrument are recalculated.

For purchased or originated credit-impaired financial assets ("POCI"), the effective interest rate corrected for credit risk is calculated, discounting estimated future cash flows over the expected life of the financial asset, taking of account all the contractual terms of the asset (e.g. prepayment options, call options, etc.) as well as expected credit losses.

Financial assets and liabilities transacted on market terms are initially recognized at their fair value, which normally corresponds to the amount paid or received including directly attributable transaction costs and fees: internal marginal costs and income not recoverable from customers are considered transaction costs attributable at the time of initial recognition of the instrument.

These ancillary components, which must be attributable to the individual asset or liability, affect the effective return and cause the effective interest rate to differ from the contractual interest rate: therefore, costs and income referable indiscriminately to multiple transactions and related components that they may be recognized during the life of the financial instrument are not included. Furthermore, costs that the Group incurs independently of the transaction, such as administrative, office supplies and communication costs, are not considered in the calculation

of the amortized cost.

Determination of impairment

Financial assets

At each reporting date, the Group determines whether there is objective evidence that a financial asset or group of financial assets has incurred a significant increase in the related credit risk since initial recognition and requires the definition of a methodology for calculating the expected loss (ECL) and the related risk parameters necessary to calculate it, namely: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The staging methodology provides for the allocation each exposure/tranche (loans and securities) to the three distinct stages on the basis of the following:

- stage 1: this includes newly issued instruments/tranches and exposures to counterparties classified as performing that, as at the reporting date, have a PD lower than or equal to a given threshold (qualifying for the low credit risk exemption) or have not experienced a significant increase in credit risk with respect to that measured the date of disbursement/purchase. The 12-month expected loss is measured for these positions;
- stage 2: this includes all performing instruments/tranches that, as at the reporting date, simultaneously:
  - have a higher PD than that specified for the low credit risk exemption;
  - have experienced a significant increase in credit risk with respect to the date of disbursement;

  In general, in the absence of a rating/PD at the reporting date the exposure is allocated in stage 2 (without prejudice to the use of additional criteria specifically adopted for the management of particular types of portfolios/positions not covered by the use of an internal rating model). In this case, the lifetime expected loss is measured;
- stage 3: this includes all instruments/tranches associated with loans/securities in default, for which the loss is calculated as the difference between the contractual cash flows and expected cash flows, discounted at the effective interest rate of the instrument (lifetime expected loss), which is essentially unchanged compared with the previous accounting standard.

A so-called grace period is also granted, under which newly disbursed exposures are conventionally classified in stage 1 for the first 3 months of the relationship, unless they derive from forbearance measures.

Furthermore, in order to reduce the volatility of allocations of exposures to the various stages, the mechanisms for transferring exposures between stages envisage a so-called 3-month probation period (the minimum period for which positions are allocated to a given stage), defined as follows:

- an exposure allocated to stage 2 can be transferred to stage 1 if at the reporting date the conditions for allocation to stage 1 are met and at least 3 continuous months have elapsed since the factors that prompted allocation to stage 2 no longer exist;
- the reclassification as performing of an exposure previously allocated to stage 3 involves direct allocation to stage 2 for at least 3 months following the return to performing status, unless events requiring reallocation to stage 3 should occur.

If at least one of the criteria for classification in stage 2 is activated for a position within the probation period, the probation period recommences from the month in which the criteria that determined the allocation to stage 2 are no longer active.

Performing forborne exposures for which the regulatory probation period of 24 months is already activated are excluded from the application of this criterion.

With regard to the securities portfolio, the functional methodology for staging performing exposures is based solely on quantitative information. Although they consist in comparing the PD/rating class at the origination date and PD/rating class at the reporting date, the approach used makes extensive use of the low credit risk exemption for the purpose of staging exposures, even in the presence of information on credit risk measures at the date of origination. In particular, exposures with a rating better than or equal to investment grade at the reporting date are allocated to stage 1. Exposures associated with securities in default are classified in stage 3.

With regard to expected credit loss, the risk parameters necessary for calculating that value have been distinguished by differentiating between the securities portfolio and the loan portfolio.

With regard to the securities portfolio:

- Probability of Default (PD): the PD at 12 months and multi-period PDs used underwent forward-looking conditioning;
- Loss Given Default (LGD): the unconditioned LGD measures used are the same for both stage 1 and stage 2 exposures. More specifically, and unconditioned LGD metric of 45% is used, which subsequently undergoes forward-looking conditioning;

- Exposure At Default (EAD): for the purposes of quantifying the EAD associated with each securities issue, the gross value of the exposure at the reporting dates is generally used.

With regard to the loan portfolio:

- Probability of Default (PD): the approach defined by the Group envisages:
  - the use of internal rating models to determine the transition matrix based on rating classes, conditioned to incorporate forward-looking macroeconomic scenarios and used to obtain lifetime PDs;
  - where an internal rating model is absent, calculating default rates on an annual basis, conditioned to include forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
- Loss Given Default (LGD): the approach for estimating LGD developed by the Group provides for the determination of historical loss rates on closed impaired positions and the application of the so-called danger rate, conditioned by macroeconomic scenarios;
- Exposure At Default (EAD): the estimation approach for EAD differs by type of portfolio, product and stage to which the exposure has been assigned.

In order to condition the risk parameters for future macroeconomic scenarios, the Group uses multipliers (or macroeconomic conditioning factors) that, updated periodically, make it possible to obtain projections of changes in the riskiness of the portfolio (PD) and losses generated by default of the debtor counterparties (LGD), based on a defined time horizon and certain reference macroeconomic variables.

For the purpose of applying these multipliers, the Group associates the probability of occurrence on a judgmental basis to each scenario. The probability of occurrence of each scenario are used as weights in the calculation of the average multiplier associated with each calendar year.

More specifically, three calendar years are considered subsequent to the estimation date of the satellite models (reference date), while for subsequent years, the multiplier used is equal to the arithmetic mean of the multipliers of the three years.

With regard to exposures classified in stage 3 (credit-impaired assets), even if the definition of “impaired loans” in IAS 39 and IFRS 9 is substantially the same, the inclusion of forward-looking information, such as the consideration of alternative recovery scenarios, incorporated a number of methodological peculiarities. In particular, scenarios for the sale of credit exposures were considered in connection with possible sales of impaired positions, in line with the company’s objectives for reducing non-performing assets, to which a probability of realization was attributed for consideration in the context of the overall assessments. It follows that, for transferrable non-performing loans, in order to determine the overall expected loss of exposures, the “ordinary” scenario assuming a recovery strategy based on the recovery of receivables through legal action, the enforcement of guarantees, etc. , has been accompanied by scenarios that envisage the sale of the loan as a recovery strategy.

Note that in order to factor in the effects of the pandemic in the calculation of impairment, a so-called COVID-19 effect is considered in the determination of impairment, with the aim of considering the effects of the pandemic both on the macroeconomic forecasts that contribute to the determination of the expected credit loss and in the stage allocation process for exposures, with specific treatments of the portfolio subject to economic support measures.

Equity securities and units of collective investment undertakings

Equity securities and units of collective investment undertakings, regardless of the accounting portfolio to which they are allocated, do not undergo impairment testing as they are measured at fair value.

Other non-financial assets

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

As regards real estate, fair value is mainly determined on the basis of an appraisal prepared by an independent expert.

Intangible assets recognized following acquisitions and in application of IFRS 3 at each reporting date undergo impairment testing to determine whether there is objective evidence that the asset may have incurred an impairment loss.

If there is evidence of impairment, intangible assets with a finite life undergo a new valuation to determine the recoverability of the carrying amount. Recoverable amount is determined on the basis of value in use, i.e. present value, as estimated using a rate representing the time value of money, the specific risks of the asset and the margin generated by relationships in place at the valuation date over a time horizon equal to the residual term of those relationships.

Since intangible assets with an indefinite life, represented by goodwill, do not generate autonomous cash flows, they undergo annual testing of their carrying amount for the cash generating unit (CGU) to which the values were allocated in the related business combinations. The

amount of any impairment is determined on the basis of the difference between the carrying amount of the CGU and the recoverable amount of the unit, represented by the greater of its fair value, net of costs of disposal, and its value in use.

The carrying amount of the CGU must be determined in a manner consistent with the criteria used to determine its recoverable amount. From the standpoint of a banking enterprise, it is not possible to determine the cash flows of a CGU without considering the flows generated by financial assets and liabilities, given that the latter represent the core business of the company. In other words, the recoverable amount of the CGUs is impacted by those cash flows and, accordingly, the carrying amount of the CGUs must be determined using the same scope of estimation used for the recoverable amount and, therefore, must include the financial assets/liabilities. To that end, these assets and liabilities must be allocated to the CGUs.

Following this approach, the carrying amount of the CGUs can be determined in terms of their contribution to consolidated shareholders' equity, including non-controlling interests.

The value in use of a CGU is calculated by estimating the present value of the future cash flows that are expected to be generated by the CGU on the basis of criteria and methodological models in line with best market practice and the literature in this field. Those cash flows are determined using the most recent public business plan or, in the absence of such a plan, an internal forecasting plan developed by management.

Normally, the specific forecasting period covers a maximum time horizon of three years. The flow in the final year of the forecasting period is projected forward in perpetuity, using an appropriate growth rate "g" for the purposes of the terminal value.

In calculating value in use, the cash flows must be discounted using a rate that reflects the current time value of money and the specific risks to which the asset is exposed. More specifically, the discount rates adopted incorporate current market values for the risk-free rate and equity premiums observed over a sufficiently long period of time to reflect different market conditions and business cycles.

With specific reference to the rights of use recognized in accordance with IFRS 16, evidence that an asset may have suffered an impairment loss may be associated both with internal factors (deterioration, obsolescence, etc.) and external factors (market value, technological changes, etc.). Failure to exercise a right of use or the subletting of the underlying asset are considered potential indicators of impairment of the right of use.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability between willing and knowledgeable market participants in an orderly transaction. In the definition of fair value, a key assumption is that an entity is fully operational (the assumption that an entity is a going concern) and does not have the intention or the need to liquidate, significantly reduce its operations or undertake transactions on unfavorable terms. In other words, fair value is not the amount an entity would receive or would pay in a forced transaction, an involuntary liquidation or a distress sale. Nevertheless, the fair value reflects the credit quality of the instrument as it incorporates counterparty risk.

Financial instruments

Please see section A.4 Fair value disclosures for more information on the methods used to determine the fair value of financial instruments.

Non-financial assets

Investment property is primarily valued using external appraisals, considering transactions at current prices in an active market for similar properties, in the same location and condition and subject to similar conditions for rentals and other contracts.

Financial guarantees

As part of its ordinary banking operations, the Group grants financial guarantees in the form of letters of credit, acceptances and other guarantees. Commission income earned on guarantees, net of the portion representing the recovery of costs incurred in issuing the guarantee, are recognized on an accruals basis under "Fee and commission income", taking account of the term and residual value of the guarantees.

Following initial recognition, the financial guarantees are measured as the greater of the amount of the provision covering the losses determined in accordance with the rules governing impairment and the initial recognition amount (fair value) less (where appropriate) the cumulative amount of the income that the Group has recognized in accordance with IFRS 15 (deferred income).

Any losses and value adjustments on such guarantees are reported under "Net provisions for risks and charges: a) commitments and guarantees issued" in the income statement. Writedowns due to the impairment of guarantees issued are reported under "Provisions for risk and charges: a) commitments and guarantees issued" in liabilities in the balance sheet.

Guarantees are off-balance-sheet transactions and are reported under "Other information" in Part B of the notes to the financial statements.

Business combinations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

reliable, prudent information that reflects the economic substance of the transaction, such combinations are accounted for preserving the values in the financial statements of the acquiree in those of the acquirer.

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

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

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

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

In execution of shareholders' resolutions passed in December 2018 and following the establishment and launch of the Iccrea Cooperative Banking Group, at the beginning of 2019, 71 mutual banks reconfigured the business model of their financial portfolio, reclassifying about €3.7 billion of securities held under the hold to collect and sell (HTCS) business model to the hold to collect (HTC) business model and reclassifying about €0.3 billion of securities held under the hold to collect (HTC) business model to the hold to collect and sell (HTCS) business model.

No financial assets were reclassified in the years following 2019.

The following table reports the reclassified carrying amount at January 1, 2019 of the reclassified assets at that date and still recognized at the reporting date as they were not sold or otherwise derecognized during the period.

A.3.1 RECLASSIFIED FINANCIAL ASSETS: CHANGE IN BUSINESS MODEL, CARRYING AMOUNT AND INTEREST INCOME

Type of financial instrument	Original portfolio	New portfolio	Reclassification date	Reclassified carrying amount	Interest income recognized in the period (before taxes)
Debt securities	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortized cost	31/12/2019	2,654,003	-

A.4 – FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURES

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

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

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

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

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

Mark to market

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

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

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

The definition of "active market" is broader than that of "regulated market": regulated markets are defined as the markets included in the list provided for by Article 63, paragraph 2, of the Consolidated Finance Act (TUF) and in the special section of the same list (see Article 67, paragraph 1, of the TUF). These markets are managed by companies authorized by Consob that operate in accordance with the provisions of the TUF and under the supervision of Consob itself.

Other markets in addition to regulated markets include organized trading systems (Multilateral Trading Systems and Systematic Internalizers) defined, pursuant to Legislative Decree 58/98, as a "set of rules and structures, including automated structures, which make exchange possible, on an ongoing or periodic basis, in order to collect and transmit orders for transactions in financial instruments and to settle these orders, for the purpose of concluding contracts": although normally the financial instruments listed on these markets fall within the definition of instruments listed on active markets, there may be situations in which officially listed instruments are not liquid due to low trading volumes. In such cases, quoted prices cannot be considered representative of the fair value of an instrument. Generally speaking, multilateral trading facilities (MTF) can be considered active markets if they are characterized by continuous and significant trading and/or by the presence of binding prices provided by the market maker, such as to ensure the formation of prices that actually represent the fair value of the instrument.

Financial instruments are also listed on regulated markets in other countries, and therefore not regulated by Consob, whose prices are available daily. These prices are considered representative of the fair value of the financial instruments insofar as they represent the result of a regular transaction and not only of offers to buy or sell. Finally, other markets, while not regulated, can also be considered active markets (e.g. platforms such as Bloomberg or Markit). Electronic over-the-counter (OTC) trading circuits are considered active markets to the extent that

the quotations provided actually represent the price at which a normal transaction would occur. Similarly, the quotes published by brokers are representative of fair value if they reflect the actual price level of the instrument in a liquid market (that is, they are not indicative prices, but rather binding offers).

Ultimately, in order to consider a market active, the significance of the price observed on the market itself is of particular importance and, for this reason, the following factors are considered:

- bid-ask spreads: the difference between the price at which an intermediary undertakes to sell the securities (ask) and the price at which it undertakes to buy them (bid). The larger the spread, the lower the liquidity of the market and therefore the significance of the price;
- breadth and depth of the trading book: the first concept refers to the presence of offers of large dimensions, while the depth of the book means the existence of both purchase and sell orders for numerous price levels;
- number of contributors: number of market participants providing purchase or sell offers for a specific instrument. The larger the number of active market participants, the greater the significance of the price;
- availability of information on the terms and conditions of transactions;
- price volatility: presence of daily prices of the instrument outside a certain range. The lower the volatility of the prices, the greater the significance of the price.

Comparable approach

As already noted, the fair value of financial instruments classified in Level 2 can be determined using two different approaches: the so-called comparable approach, which presupposes the use of prices quoted on active markets for similar assets or liabilities or the prices of identical assets or liabilities on inactive markets, and the model valuation approach (or mark to model), which uses valuation techniques based on observable inputs concerning the instrument itself or similar instruments.

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

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

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

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

Mark-to-model approach

In the absence of quoted prices for the instrument or for comparable instruments, valuation models are adopted. Valuation models must always maximize the use of market inputs. Accordingly, they must make priority use of observable market inputs (e.g. interest rates and yield curves observable at commonly quoted intervals, volatilities, credit spreads, etc.).

In the absence of directly or indirectly observable inputs or where they are insufficient to determine the fair value of an instrument, inputs that are not observable on the market be used (discretionary estimates and assumptions). With the consequent allocation of the estimate obtained to Level 3 of the fair value hierarchy.

The mark-to-model technique therefore does not give rise to a single classification within the fair value hierarchy. Depending on the observability and materiality of the inputs used in the valuation model, an instrument could be assigned to Level 2 or Level 3.

A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

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

In the absence of quoted prices on active markets, financial instruments are measured as follows:

- bonds are valued using a discounted cash flow model adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer;
- structured bonds are valued using a discounted cash flow model that incorporates valuations from option pricing models, adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer, and volatility and correlation surfaces for the underlying;
- derivatives are valued using discounted cash flow models, within the multi-curve framework based on OIS discounting;
- equity and CIU derivatives are valued using the Black&Scholes models (or models based on it, such as the Rubinstein model for forward starts and the Nengju Ju model for Asian options), which includes an estimate of volatility through interpolation by maturity and strike prices on a volatility matric, as well as the inclusion of discrete dividends through the escrowed dividend model. The inputs used are the price of the underlying equity, the volatility surface and the dividend curve;
- derivatives on exchange rates are valued using a discounted cash flow approach for plain-vanilla contracts or a Garman and Kohlhagen model for European options on exchange rates. The inputs are spot exchange rates and the forward points curve and volatility surfaces for plain-vanilla options;
- equity securities are valued at fair value estimated using models applied in valuation practice or using balance sheet, income or mixed methods or with reference to direct transactions in the same security or similar securities observed over an appropriate span of time with respect to the valuation date. They are measured at cost if their carrying amount is below the materiality thresholds set by the Group both at individual and consolidated level and in cases where the cost represents a reliable estimate of fair value (e.g. because the most recent information to evaluate fair value is not available);
- investments in CIUs other than open-end harmonized funds are generally valued on the basis of the NAVs (adjusted if not fully representative of the fair value) made available by the asset management companies. These investments include private equity funds, real estate investment funds and hedge funds;
- medium/long-term loans to customers are measured on the basis of a mark-to-model process using the discounted cash flow approach for the positions and other models for estimating option components where applicable;
- for medium/long-term liabilities, represented by securities for which the fair value option was chosen, the fair value is determined alternatively by either discounting the residual contractual cash flows using the zero-coupon yield curve, by applying the asset swap method or by using other yield curves deemed representative of the Bank's credit standing.

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

With particular regard to units held in unlisted alternative investment funds (so-called AIFs), in 2020 a specific project was carried out, coordinated by the Parent Company, aimed at determining the "liquidity adjustment" to be applied to the Net Asset Value (NAV) of the unlisted funds held.

The methodological approach adopted provides for the consideration, in line with market best practice, of the following main elements:

- the average holding period of the individual unlisted funds before they can be sold;
- the characteristics of the individual assets held by the fund and their level of volatility in the holding period considered (degree of uncertainty);
- the level of risk aversion reflected in a prudent threshold which, with reference to the distribution of the possible returns/final value of the asset/portfolio considered, makes it possible to measure any divergence from their expected value.

The use of these elements made it possible to estimate a discount with respect to the NAV, calculated as a percentage adjustment of the risk premium linked to the uncertainty concerning potential unfavorable changes in value before their realization while also taking account of the management costs of the funds not incorporated in the NAVs of the individual unlisted funds.

For the purposes of these interim financial statements, the percentage adjustment applied was respectively 3.15% for real estate funds, 9.33% or private debt-non-performing loan funds, 5.18% for private debt – non-performing loans/UTP, 1.5% for private debt- bond funds and 7.56% for private equity funds.

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

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

- estimates and assumptions underlying the models used to measure investments in equity securities and units in CIUs;
- Probability of Default (PD) and Loss Given Default (LGD): the parameters are derived from the impairment model. They are used to measure financial instruments for disclosure purposes only;
- credit spreads: the figure is extrapolated to create sector CDS curves using regression algorithms on the basis of a panel of single-name CDS curves. The figure is used to value financial instruments for disclosure purposes only.

A.4.2 VALUATION PROCESSES AND SENSITIVITY

The Group conducted an 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.

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

The sensitivity analysis of unobservable inputs is conducted through a stress test of all significant unobservable inputs for the different types of 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 (such as the volatility and the correlation of the recovery rates of the clusters for the NPL component of funds and the distribution haircut for the real estate component).

The assessment found that the effects were not material.

A.4.3 FAIR VALUE HIERARCHY

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

- Level 1: unadjusted quoted prices on an active market. Fair value is drawn directly from quoted prices observed on active markets. A financial instrument is considered to be quoted on an active market if prices are readily and regularly available and represent actual market transactions carried out on normal terms on a regulated market or MTF;
- Level 2: inputs other than the quoted prices noted above that are observable on the market either directly (prices) or indirectly (derivatives on prices). Fair value is determined using valuation techniques that provide for: a) the use of market inputs indirectly connected with the instrument being valued and derived from instruments with similar risk characteristics or quoted on inactive markets (the comparable approach); or b) that use observable inputs;
- Level 3: inputs that are not observable on the market. Fair value is determined using valuation techniques that use significant unobservable inputs, such as non-binding quotes provided by infoproviders (Mark to Model approach).

The following are normally considered Level 1:

- shares, debt securities and units of CIUs listed on regulated markets. Units of CIUs include mutual investment funds (UCITS, AIFs and restricted FIAs), SICAVs/SICAFs and ETPs (Exchange Traded Products);
- debt securities listed on Multilateral Trading Facilities (MTF) which meet the “specific requirements for multilateral trading systems” set out in MiFID II;
- debt securities whose fair value is equal to the unadjusted prices provided by brokers/market makers from an active market for an identical instrument and executable at the declared level;
- Units of CIUs whose value (NAV) is provided directly by the market operator;
- listed derivative financial instruments and issued financial liabilities whose fair value at the valuation date corresponds to the price quoted on an active market.

The following are normally considered Level 2:

- debt securities issued by national and international issuers that are not listed on an active market and are measured using approaches that mainly employ observable market inputs;

- debt securities whose fair value is equal to the prices provided by brokers/market makers determined with a valuation model based on observable market inputs;
- OTC financial derivatives entered into with institutional counterparties for which the main inputs are observable market data;
- units of CIUs whose prices are provided by the issuing entity (the so-called “soft NAV”).

Finally, the following are normally considered Level 3:

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

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

A.4.4 OTHER INFORMATION

The circumstances referred to in paragraphs 48, 93 letter (i) and 96 of IFRS 13 do not apply to these interim financial statements as the Group is not managing groups of financial assets and liabilities on the basis of its net exposure to a specific market risk (or risks) or to the credit risk of a specific counterparty and the highest and best use of a non-financial asset does not differ from its current use.

QUANTITATIVE DISCLOSURES

A.4.5 FAIR VALUE HIERARCHY

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

	30/06/2022			31/12/2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss of which	379,763	1,042,305	244,222	421,637	1,051,368	255,760
a) financial assets held for trading	37,641	144,784	3,610	86,466	79,697	2,486
b) financial assets designated as at fair value	262,481	-	1,772	272,555	-	2,913
c) other financial assets mandatorily measured at fair value	79,641	897,520	238,840	62,616	971,671	250,361
2. Financial assets measured at fair value through comprehensive income	8,199,100	428,446	67,719	7,514,842	269,285	66,344
3. Hedging derivatives	704	1,491,130	-	178	42,781	-
4. Property, plant and equipment	-	627	428,144	-	-	444,478
5. Intangible assets	-	-	-	-	-	-
Total	**8,579,567**	**2,962,507**	**740,085**	**7,936,657**	**1,363,435**	**766,581**
1. Financial liabilities held for trading	5,924	144,899	-	49,048	79,918	508
2. Financial liabilities designated as at fair value	-	-	-	133	123	-
3. Hedging derivatives	860	315,561	-	372	494,895	-
Total	**6,784**	**460,460**	**-**	**49,553**	**574,936**	**508**

PART B - INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

	Total 30/06/2022	Total 31/12/2021
a) Cash	669,486	801,630
b) Current accounts and demand deposits with central banks	333,612	365,673
c) Current accounts and demand deposits with banks	519,176	507,265
Total	**1,522,274**	**1,674,568**

The item "Demand deposits with central banks, which decreased slightly compared with the end of the previous year, includes deposits with the Bank of Italy, including €38 million attributable to the Guarantee Scheme operated by Parent Company and the remainder primarily in respect of the instant payments service.

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 20

2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/06/2022			Total 31/12/2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**32,883**	**70**	**761**	**83,969**	**108**	**48**
1.1 structured securities	1,989	33	10	877	15	10
1.2 other debt securities	30,894	37	751	83,092	93	38
2. Equity securities	**2,460**	**-**	**4**	**1,154**	**-**	**3**
3. Units in collective investment undertakings	**1,486**	**735**	**879**	**983**	**1,874**	**152**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	**36,829**	**805**	**1,644**	**86,106**	**1,982**	**203**
B. Derivatives						
1. Financial derivatives	**812**	**143,979**	**1,966**	**360**	**77,715**	**2,283**
1.1 trading	812	143,979	1,966	360	77,715	2,283
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)	**812**	**143,979**	**1,966**	**360**	**77,715**	**2,283**
Total (A+B)	**37,641**	**144,784**	**3,610**	**86,466**	**79,697**	**2,486**

The sub-item A.1 – 1.2 "other debt securities" mainly includes government securities held for trading, in the amount of €26 million, a decrease of about €50 million on the balance at the end of last year.

The sub-item B.1 – 1.1 reports the market value of the derivatives originated by Group operations, which increased on the end of 2021 as a result of developments of market rates during the period.

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

	Total 30/06/2022			Total 31/12/2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**262,481**	**-**	**-**	**272,554**	**-**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	262,481	-	-	272,554	-	-
2. Loans	**-**	**-**	**1,772**	**-**	**-**	**2,913**
2.1 structured	-	-	-	-	-	-
2.2 other	-	-	1,772	-	-	2,913
Total	**262,481**	**-**	**1,772**	**272,554**	**-**	**2,913**

The item 1.2 “other debt securities” reports the balance for securities in which the liquidity from the Guarantee Scheme is invested. The reduction compared with the end of the previous year is attributable to disposals during the period.

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

	Total 30/06/2022			Total 31/12/2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**20,846**	**48,239**	**5,565**	**22,802**	**44,673**	**4,004**
1.1 structured securities	4,386	14,930	953	8,132	13,213	291
1.2 other debt securities	16,460	33,309	4,612	14,670	31,460	3,713
2. Equity securities	**42,768**	**23,474**	**4**	**26,676**	**43,522**	**4**
3. Units in collective investment undertakings	**14,024**	**91,679**	**191,517**	**11,154**	**96,861**	**199,315**
4. Loans	**2,003**	**734,129**	**41,754**	**1,984**	**786,615**	**47,038**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	2,003	734,129	41,754	1,984	786,615	47,038
Total	**79,641**	**897,521**	**238,840**	**62,616**	**971,671**	**250,361**

The item includes financial instruments that under IFRS 9 do not meet the requirements for measurement at amortized cost or at fair value through other comprehensive income (unit in CIUs, insurance policies, postal savings bonds, debt securities and loans failing to pass the SPPI test, the latter including exposures to system funds).

In particular, item 3, Units in collective investment undertakings slightly decreased compared with the end of the previous year by a total of €10 million.

The largest components of loans reported under 4.2 “other” include insurance policies underwritten by the banks of the Group in the amount of about €629 million (a slight increase on the end of 2021) and interest-bearing postal bonds of around €86 million (down from €136 million at the end of 2021).

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – ITEM 30

3.1 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY TYPE

	Total 30/06/2022			Total 31/12/2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**8,176,325**	**19,920**	**183**	**7,508,818**	**15,271**	**56**
1.1 structured securities	104,636	120	-	80,921	146	1
1.2 other debt securities	8,071,689	19,800	183	7,427,897	15,125	55
2. Equity securities	**22,775**	**408,526**	**67,536**	**6,024**	**254,014**	**66,288**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	8,199,100	428,446	67,719	7,514,842	269,285	66,344

The item "Debts securities" mainly includes government securities.

"Equity securities - Level 2" includes the equity investment in the Bank of Italy for a total of €375 million, an increase of €150 million compared with December 31, 2021 reflecting purchases during the period. The remainder of equity securities mainly includes non-controlling interests.

3.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: GROSS VALUE AND TOTAL WRITEOFFS

		Gross amount					Total writeoffs				
		Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Purchased or originated credit-impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired	Total partial writeoffs*
Debt securities		8,052,789	7,898,679	153,452	33	-	(2,463)	(7,383)	-	-	-
Loans		-	-	-	-	-	-	-	-	-	-
Total	30/06/2022	8,052,789	7,898,679	153,452	33	-	(2,463)	(7,383)	-	-	-
Total	31/12/2021	7,351,658	7,158,882	182,993	55	-	(2,303)	(8,259)	-	-	-

** Value to be reported for information purposes*

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

4.1 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN OF LOANS AND RECEIVABLES WITH BANKS

	Total 30/06/2022						Total 31/12/2021					
	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	**1,563,789**	**-**	**-**	**-**	**1,563,773**	**16**	**8,014,335**	**-**	**-**	**-**	**6,710,286**	**1,304,050**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	1,563,773	-	-	X	X	X	8,014,320	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	16	-	-	X	X	X	15	-	-	X	X	X
B. Due from banks	**1,842,335**	**54**	**-**	**725,904**	**214,837**	**858,568**	**2,171,296**	**220**	**-**	**781,170**	**145,993**	**1,471,512**
1. Financing	925,689	54	-	-	112,491	809,893	1,250,800	220	-	-	41,774	1,421,293
1.1 Current accounts and demand deposits	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Fixed-term deposits	24,991	-	-	X	X	X	1	-	-	X	X	X
1.3. Other financing:	900,789	54	-	X	X	X	1,250,800	220	-	X	X	X
- Repurchase agreements	-	-	-	X	X	X	48,519	-	-	X	X	X
- Finance leases	226	-	-	X	X	X	263	-	-	X	X	X
- Other	900,473	54	-	X	X	X	1,202,018	220	-	X	X	X
2. Debts securities	916,645	-	-	725,904	102,346	48,675	920,496	-	-	781,170	104,219	50,219
2.1 Structured securities	95,689	-	-	75,762	13,067	-	88,585	-	-	76,161	13,460	-
2.2 Other debt securities	820,947	-	-	650,142	89,279	48,675	831,911	-	-	705,009	90,759	50,219
Total	**3,406,124**	**54**	**-**	**725,904**	**1,778,610**	**858,584**	**10,185,631**	**220**	**-**	**781,170**	**6,856,279**	**2,775,562**

"Claims on central banks" total €1.6 billion (down from €8 billion at the end of the previous year in reflection of the partial TLTRO repayment during the period) and include:

- the balance of the Group banks' reserve requirement in the amount of €1.1 billion, managed on behalf of the mutual banks by the Parent Company;
- the excess liquidity of the banks held on the reserve requirement account, in the amount of €0.5 billion.

The sub-item "debt securities" comes to €0.9 billion, broadly unchanged on the end of 2021 and includes bank bonds held by the Group.

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

	Total 30/06/2022						Total 31/12/2021					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
1. Loans	**88,052,713**	**1,987,209**	**10,974**	**-**	**247,688**	**86,886,198**	**86,347,290**	**2,399,180**	**11,304**	**6,530**	**552,400**	**97,783,460**
1.1. Current accounts	6,168,237	252,387	25	X	X	X	5,736,543	334,174	143	X	X	X
1.2. Repurchase agreements	271,887	-	-	X	X	X	203,329	-	-	X	X	X
1.3. Medium/long term loans	67,972,643	1,519,501	7,348	X	X	X	66,743,973	1,806,523	7,207	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from wage	2,285,643	23,317	-	X	X	X	2,140,203	27,782	2	X	X	X
1.5. Finance leases	3,792,678	140,769	1,671	X	X	X	3,945,223	156,392	1,689	X	X	X
1.6. Factoring	498,991	11,492	-	X	X	X	546,178	27,873	-	X	X	X
1.7. Other loans	7,062,634	39,743	1,930	X	X	X	7,031,841	46,436	2,263	X	X	X
2. Debt securities	**60,263,111**	**311**	**-**	**55,736,502**	**1,735,430**	**1,668,553**	**60,286,162**	**413**	**-**	**59,179,139**	**1,245,553**	**695,454**
2.1. Structured securities	466,480	48	-	288,520	89,428	187,433	378,055	51	-	345,207	74,191	102,239
2.2. Other debt securities	59,796,631	263	-	55,447,982	1,646,002	1,481,120	59,908,107	362	-	58,833,932	1,171,362	593,215
Total	**148,315,824**	**1,987,520**	**10,974**	**55,736,502**	**1,983,118**	**88,554,751**	**146,633,452**	**2,399,593**	**11,304**	**59,185,670**	**1,797,953**	**98,478,913**

The item “Repurchase agreements” came to €0.3 billion, a slight increase compared with December 2021, and reports amounts connected with transactions with the Clearing & Guarantee Fund.

Medium/long-term loans amounted to €69.5 billion, an increase of about €1 billion on the end of 2021, and are mainly granted to households and non-financial companies.

“Debt securities” classified here came to €60.3 billion, broadly unchanged from the end of the previous year, and include about €58 billion of government securities, mainly Italian government securities.

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

	Gross amount					Total writeoffs				Total and partial writeoffs
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	purchased or originated credit-impaired	Stage 1	Stage 2	Stage 3	purchased or originated credit-impaired	
Debts securities	60,627,059	58,046,122	659,930	1,480	-	(18,132)	(89,101)	(1,169)	-	-
Loans	81,980,514	54,984	9,648,851	5,541,126	21,657	(546,671)	(540,502)	(3,553,863)	(10,683)	(273,621)
Total 30/06/2022	**142,607,573**	**58,101,106**	**10,308,781**	**5,542,606**	**21,657**	**(564,803)**	**(629,603)**	**(3,555,032)**	**(10,683)**	**(273,621)**
Total 31/12/2021	**145,767,633**	**58,014,901**	**12,296,235**	**6,429,451**	**24,070**	**(508,293)**	**(736,491)**	**(4,029,638)**	**(12,766)**	**(283,071)**

** Value to be reported for information purposes*

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

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

	FV 30/06/2022			NV 30/06/2022	FV 31/12/2021			NV 31/12/2021
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives								
1. Fair value	704	1,489,658	-	13,129,099	178	39,143	-	3,426,730
2. Cash flows	-	1,472	-	122,000	-	3,639	-	325,350
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**704**	**1,491,130**	**-**	**13,251,099**	**178**	**42,782**	**-**	**3,752,080**

Key
NV=notional value
FV=fair value

The increase in the balances essentially reflects the rise in market rates during the period, to be assessed in relation to the nature of the hedged items, which are mainly long-term loans and fixed-rate securities.

SECTION 6 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY – ITEM 60

6.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	Total 30/06/2022	Total 31/12/2021
1. Positive adjustments	**6,265**	**113,087**
1.1 of specific portfolios:	6,265	113,087
a) financial assets measured at amortized cost	6,265	113,087
b) financial assets measured at fair value through comprehensive income	-	-
1.2 comprehensive	-	-
2. Negative adjustments	**(642,148)**	**(49,427)**
2.1 of specific portfolios:	(642,148)	(49,427)
a) financial assets measured at amortized cost	(641,155)	(48,820)
b) financial assets measured at fair value through comprehensive income	(993)	(607)
2.2 comprehensive	-	-
Total	**(635,883)**	**63,660**

The negative balance for macro-hedged financial assets is a reflection of the positive balance for hedging derivatives described above.

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.	30.0	30.0
2. BCC Assicurazioni S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	30.0	30.0
3. Pitagora S.p.A.	Turin	Turin	Significant influence	Iccrea Banca S.p.A.	9.9	9.9
4. Hi-Mtf S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	20.0	20.0
5. Polo Verde S.r.l.	Cremona	Cremona	Significant influence	Credito Padano Banca di Credito Cooperativo S.C.	25.0	25.0
6. Foro Annonario Gest S.r.l.	Cesena	Cesena	Significant influence	Credito Cooperativo Romagnolo BCC di Cesena e Gatteo S.C.	25.0	25.0
7. Solaria S.r.l.	Grosseto	Grosseto	Significant influence	Banca TEMA - Terre Etrusche di Valdichiana e di Maremma S.C.	40.0	40.0
8. HBenchmark S.r.l.	Altavilla Vicentina	Altavilla Vicentina	Significant influence	Iccrea Banca S.p.A.	10.0	10.0
9. Real Estate Roma Olgiata S.r.l.	Rome	Rome	Significant influence	Iccrea Banca S.p.A.	10.0	10.0
10. BDP Assicura S.r.l.	Calcinaia	Calcinaia	Significant influence	BCC Pisa e Fornacette	10.0	10.0

7.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

	Carrying amount	Fair value	Dividends received
A. Joint ventures			
B. Companies subject to significant influence			
1. BCC Vita S.p.A.	38,346	-	-
2. BCC Assicurazioni S.p.A.	5,201	-	-
3. Pitagora S.p.A.	10,575	-	577

7.6 ASSESSMENTS AND SIGNIFICANT ASSUMPTIONS FOR ESTABLISHING THE EXISTENCE OF JOINT CONTROL OR SIGNIFICANT INFLUENCE

“Part A – Accounting Policies, Section 3 – Scope and methods of consolidation” of the notes to the financial statements sets out the general criteria for the assessment and significant assumptions made in establishing whether or not we exercise joint control or significant influence over an investee company or another entity.

SECTION 9 – PROPERTY, PLANT AND EQUIPMENT – ITEM 90

9.1 OPERATING PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

	Total 30/06/2022	Total 31/12/2021
1. Owned assets	**1,726,858**	**1,757,816**
a) land	314,201	301,738
b) buildings	1,192,724	1,232,239
c) movables	56,068	56,054
d) electronic systems	84,461	87,788
e) other	79,404	79,997
2. Assets acquired under finance leases	**244,966**	**238,343**
a) land	1,853	1,860
b) buildings	220,181	221,554
c) movables	76	112
d) electronic systems	15,559	7,248
e) other	7,297	7,569
Total	**1,971,824**	**1,996,159**
of which: obtained through enforcement of guarantees received	1,042	1,421

The rights of use acquired under leases for buildings are attributable almost entirely to the leases of properties used as branches and spaces used to host ATMs or offices.

9.2 INVESTMENT PROPERTY: COMPOSITION OF ASSETS CARRIED AT COST

	Total 30/06/2022				Total 31/12/2021			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Owned assets	**141,834**	**-**	**1,361**	**150,714**	**137,851**	**-**	**1,361**	**148,799**
a) land	28,919	-	408	28,492	28,174	-	408	27,385
b) buildings	112,915	-	953	122,222	109,677	-	953	121,414
2. Right-of-use assets acquired under leases	**7,540**	**-**	**-**	**7,540**	**7,540**	**-**	**-**	**7,540**
a) land	-	-	-	-	-	-	-	-
b) buildings	7,540	-	-	7,540	7,540	-	-	7,540
Total	**149,374**	**-**	**1,361**	**158,254**	**145,391**	**-**	**1,361**	**156,339**
of which: obtained through enforcement of guarantees received	37,518	-	-	35,039	34,819	-	-	35,237

9.4 INVESTMENT PROPERTY: COMPOSITION OF ASSETS AT FAIR VALUE

	Total 30/06/2022			Total 31/12/2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Owned assets	**-**	**627**	**428,144**	**-**	**-**	**444,478**
a) land	-	-	1,258	-	-	996
b) buildings	-	627	426,886	-	-	443,482
2. Right-of-use assets acquired under leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**627**	**428,144**	**-**	**-**	**444,478**
of which: obtained through enforcement of guarantees received	-	-	-	-	-	-

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

	Total 30/06/2022	Total 31/12/2021
1. Inventories of property, plant and equipment obtained through enforcement of guarantees received	**40,634**	**46,038**
a) land	16,502	16,702
b) buildings	17,481	21,261
c) movables	-	-
d) electronic systems	-	-
e) other	6,651	8,075
2. Other inventories of property, plant and equipment	**15,372**	**14,391**
Total	56,006	60,429
of which: measured at fair value net of selling costs	-	33

SECTION 10 – INTANGIBLE ASSETS – ITEM 100

10.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 30/06/2022		Total 31/12/2021	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**21,212**	**X**	**21,212**
A.1.1 pertaining to the Group	X	21,212	X	21,212
A.1.2 pertaining to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**141,488**	**5**	**152,910**	**5**
of which Software	126,050	-	129,707	-
A.2.1 Assets carried at cost	141,488	5	152,910	5
a) internally generated intangible assets	5,315	-	5,537	-
b) other assets	136,173	5	147,373	5
A.2.2 Assets designated at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	141,488	21,217	152,910	21,217

Item A.1.1 includes goodwill paid in the acquisition of bank branches by the Group banks (€5.6 million) and goodwill recognized upon first-time consolidation of certain controlling interests (€15.6 million) prior to the formation of the Mutual Banking Group.

Other intangible assets mainly comprise software and licenses.

10.3 OTHER INFORMATION

Testing goodwill for impairment

IAS 36 requires that certain types of asset, including goodwill, undergo impairment testing at least annually (in the case of the Iccrea Cooperative Banking Group and the main Italian banking groups, at the end of the calendar year) in order to verify the recoverability of their value.[28]

The standard also establishes that the annual detailed calculation can be considered valid for the purposes of subsequent assessments as long as the probability that the recoverable value of the assets is less than the carrying amount is considered remote. This judgment is essentially based on an analysis of events that have occurred and any circumstances that may have changed since the date of the most recent annual impairment test.

Specifically, IAS 36 requires the performance of certain qualitative and quantitative analyses in the preparation of the interim financial statements in order to identify the possible existence of impairment indicators ("internal" and "external") and consequently whether the conditions have been met for performing impairment tests more frequently than the ordinary annual testing.

In consideration of the foregoing, analyses were performed to verify the presence or absence, compared with the date of approval of the impairment test performed in the preparation of the consolidated financial statements at December 31, 2021, of indicators/events of either an external or internal nature (so-called trigger events) such as to give rise to the need to perform impairment testing for the interim financial report at June 30, 2022.

More specifically, in consideration of the above, the following external factors were analyzed:

- the evolution of the macroeconomic scenario and the forecasts of the banking sector for the medium term with respect to the assumptions underlying the projections considered in the impairment testing at December 31, 2021;
- the components of the discount rate compared between the situation prevailing at the time of the impairment testing exercise and the current situation;

as well as the following internal factors:

- a comparison of the preliminary data at June 30, 2022 and the expected profit forecasts in the 2022 budget for investee companies undergoing assessment.

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

[28] In the financial statements at December 31, 2021, which readers are invited to consult for more information, impairment tests were conducted to assess the carrying amount of the goodwill recognized by the affiliated banks (€7.4 million gross of impairment of €1.8 milioni recognized at the end of the year) and the goodwill recognized in the consolidated financial statements following the acquisition of control over the investees (€15.6 million).

In order to perform impairment testing of the goodwill recognized by the banks, the Group has adopted common criteria and methodological models, in line with best market and theoretical practice, to determine the value in use of the assets. Consistent with the provisions of IAS 36 and taking account of the general principles of reasonableness and demonstrability of the estimates to be used, two distinct approaches have been adopted within the Group (based on the use of a CGU represented, respectively, by the entire company or the branches that originally led to the recognition of goodwill). In the case of the "entire company CGU", the dividend discount model (DDM) - excess capital variant – has been applied. It estimates the value of a company (in this case, the affiliated mutual bank) on the basis of future dividends distributable to shareholders. This method is widely used in accepted valuation practice and supported by the best scholarly work on corporate valuation techniques, with particular regard to companies operating in the financial sector. Affiliates that adopt the "branches acquired CGU" use the discounted cash flow ("DCF") – levered variant. It estimates the value of the economic capital of a company ("equity value") as the sum of the present value of the cash flows distributable to shareholders that it will generate over a specified explicit period for planning projected economic/financial data and of the residual value at the end of that period ("TV"), discounted at a rate equal to the cost of capital ("Ke").

In the measurement of the goodwill recognized in the consolidated financial statements following the acquisition of control over the investee, the CGU is represented by each of these investees. The market multiples method was used to measure the companies, which is based on the assumption that the value of a company can be determined by drawing information from the stock exchange market for companies operating in the same sector of the company being valued ("comparable companies").

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

11.1 DEFERRED TAX ASSETS: COMPOSITION

	30/06/2022		Total	31/12/2021		Total
	IRES	IRAP		IRES	IRAP	
1) Recognized in income statement:	**1,203,338**	**135,431**	**1,338,768**	**1,261,170**	**144,704**	**1,405,874**
a) DTAs pursuant to Law 214/2011	**929,090**	**98,264**	**1,027,354**	**981,903**	**105,801**	**1,087,703**
Writedowns of loans to customers	815,567	93,235	908,802	878,324	100,537	978,861
Goodwill and other intangible assets at December 31, 2014	348	63	411	375	68	443
Tax losses/negative value of production pursuant to Law 214/2011	113,175	4,966	118,141	103,203	5,196	108,399
b) Other	**274,247**	**37,167**	**311,414**	**279,268**	**38,903**	**318,171**
Writedowns of amounts due from banks	2,773	52	2,825	3,044	-	3,044
Writedowns of loans to customers	45,426	15,221	60,647	54,305	17,623	71,928
Goodwill and other intangible assets	4,839	963	5,802	5,258	1,046	6,304
Tax losses	20,755	-	20,755	26,069	-	26,069
Writedowns of financial instruments	587	333	920	555	426	981
Writedowns from impairment of guarantees issued recognized under liabilities	53,277	21	53,298	53,614	25	53,639
Provisions for risks and charges	82,137	10,665	92,801	78,085	10,111	88,196
Costs of predominantly administrative nature	1,586	311	1,897	1,782	5	1,787
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	29,688	4,835	34,523	29,910	4,890	34,800
Other	33,179	4,766	37,945	26,646	4,777	31,423
2) Recognized in shareholders' equity:	**113,554**	**21,931**	**135,486**	**23,900**	**3,785**	**27,685**
a) Valuation reserves	**91,596**	**18,105**	**109,701**	**10,349**	**2,030**	**12,379**
Capital losses on financial assets measured through OCI	91,596	18,105	109,701	10,349	2,030	12,379
b) Other:	**21,958**	**3,826**	**25,785**	**13,552**	**1,755**	**15,306**
Actuarial gains/losses on provisions for employees	2,527	16	2,544	4,165	31	4,196
Other	19,431	3,810	23,241	9,386	1,724	11,110
A. Total deferred tax assets	**1,316,892**	**157,362**	**1,474,254**	**1,285,070**	**148,489**	**1,433,559**
B. Offsetting with deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets - Total item 110 b)	**1,316,892**	**157,362**	**1,474,254**	**1,285,070**	**148,489**	**1,433,559**

The DTAs referred to in Law 214/2011, equal to a total of nearly €1 billion, are mainly represented by prepaid taxes attributable to writedowns of loans to customers accounted for up to 2015 and not yet deducted, which can be converted into tax credits in the event of a net loss for the year and/or a tax loss. The DTAs referred to in Law 214/2011 on tax losses are generated by the reversal of writedowns of loans to customer and can be transformed into tax credits at the time tax returns are filed.

DTAs recognized in the income statement other than those referred to in Law 214/2011 amount to a total of €311.4 million. The sub-item "Provisions for risks and charges", which amounts to €92.8 million, represents the prepaid taxes recognized in respect of provisions for risks and charges that are expected to be deducted in future years. The sub-item "Writedowns of loans to customers", equal to €60.6 million, includes the deferred tax assets that can be recognized in respect of the nine-tenths of writedowns on loans to customers recognized at first-time adoption of IFRS 9, which under Law 145 of December 30, 2018 are deducted in tenths.

The increase in deferred tax assets recognized in equity is attributable to the increase in the negative reserve for securities measured at fair value with an impact on comprehensive income recognized during the period.

11.2 DEFERRED TAX LIABILITIES: COMPOSITION

	30/06/2022		Total	31/12/2021		Total
	IRES	IRAP		IRES	IRAP	
1) Deferred tax liabilities recognized in income statement	**10,227**	**418**	**10,645**	**7,816**	**435**	**8,251**
Writedowns of loans to customers deducted in tax return	-	-	-	-	-	-
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	1,456	275	1,731	1,504	285	1,789
Other	8,771	143	8,914	6,312	150	6,462
2) Deferred tax liabilities recognized in shareholders' equity	**12,464**	**2,402**	**14,866**	**23,276**	**4,522**	**27,798**
Valuation reserves						
Capital gains on financial assets measured through OCI	11,014	2,209	13,223	21,495	4,282	25,777
Revaluation of property	504	86	590	504	86	590
Other	946	107	1,053	1,277	154	1,431
A. Total deferred tax liabilities	**22,691**	**2,820**	**25,511**	**31,092**	**4,957**	**36,049**
B. Offsetting with deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax liabilities	**22,691**	**2,820**	**25,511**	**31,092**	**4,957**	**36,049**

SECTION 12 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES - ITEM 120 OF ASSETS AND ITEM 70 OF LIABILITIES

12.1 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY TYPE

	30/06/2022	31/12/2021
A. Assets held for sale		
A.1 Financial assets	601	645
A.2 Equity investments	-	-
A.3 Property, plant and equipment	8,273	12,742
of which obtained through enforcement of guarantees received	7,187	10,287
A.4 Intangible assets	2,197	2,709
A.5 Other non-current assets	325,467	203,467
Total A	**336,538**	**219,563**
of which carried at cost	334,746	219,563
of which measured at fair value level 1	-	-
of which measured at fair value level 2	1,792	-
of which measured at fair value level 3	-	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated as at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortized cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which carried at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
C. Liabilities associated with assets held for sale		
C.1 Debt	169,337	115,644
C.2 Securities	-	-
C.3 Other liabilities	128,369	66,454
Total C	**297,706**	**182,098**
of which carried at cost	297,706	182,098
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortized cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated as at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total D	**-**	**-**

At June 30, 2022 the Group presents assets and liabilities relating to e-money operations under non-current assets held for sale and associated liabilities. Please see to the description of the operation in the Report on Operations.

SECTION 13 - OTHER ASSETS – ITEM 130

13.1 OTHER ASSETS: COMPOSITION

	Total 30/06/2022	Total 31/12/2021
- Shortfalls, embezzlement and robberies	1,378	1,661
- Trade receivables	75,821	40,548
- Stamp duty and other valuables	2,050	1,443
- Gold, silver and other precious metals	2,417	2,481
- Receivables for future premiums on derivatives	7,556	8,111
- Fees and commissions and interest to be received	25,125	13,106
- Tax receivables due from central govt. tax authorities and other tax agencies	408,253	445,845
- Receivables from social security institutions	5,103	4,929
- Tax receivables	2,300,606	1,301,994
- Receivables from employees	5,590	4,858
- Non-recurring transactions (acquisitions)	14,798	14,441
- Items in transit between branches and items being processed	969,121	308,162
- Accrued income not attributable to separate line item	21,667	14,796
- Prepaid expenses not attributable to separate line item	101,508	37,069
- Leasehold improvements	36,950	38,792
- Other (security deposits, assets not attributable to other items)	289,046	352,604
- Consolidation adjustments	562,552	733,384
Total	**4,829,541**	**3,324,225**

"Tax receivables" reports tax credits connected with the Revival Decree acquired by Group banks following assignment by the direct beneficiaries (the so-called Superbonus 110% program) in the amount of €2.2 billion.

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

LIABILITIES

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

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

	Total 30/06/2022				Total 31/12/2021			
	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	**28,767,056**	X	X	X	**33,158,972**	X	X	X
2. Due to banks	**1,934,432**	X	X	X	**1,426,389**	X	X	X
2.1 Current accounts and demand deposits	1,540,427	X	X	X	217,542	X	X	X
2.2 Fixed term deposits	47,013	X	X	X	92,858	X	X	X
2.3 Loans	147,277	X	X	X	1,065,857	X	X	X
2.3.1 Repurchase agreements	84,120	X	X	X	999,073	X	X	X
2.3.2 Other	63,157	X	X	X	66,784	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	3,198	X	X	X	3,269	X	X	X
2.6 Other payables	196,517	X	X	X	46,863	X	X	X
Total	**30,701,488**	**-**	**17,545,980**	**12,866,997**	**34,585,361**	**-**	**22,358,609**	**12,805,149**

"Due to central banks" mainly represents financing from the ECB (TLTROs) falling due between June 2023 and December 2024, down €4.4 billion compared with December 2021, reflecting the deleveraging operations carried out during the period (partial repayment of TLTRO financing).

The increase in the item "Due to banks" mainly reflects an increase of €1.3 billion of current account and demand deposits, partially offset by a decrease in repurchase transactions entered into by Group banks (-€0.9 billion).

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

	Total 30/06/2022				Total 31/12/2021			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and demand deposits	104,888,325	X	X	X	104,311,902	X	X	X
2. Fixed-term deposits	4,252,539	X	X	X	4,865,989	X	X	X
3. Loans	6,392,925	X	X	X	6,808,999	X	X	X
3.1 Repurchase agreements	5,116,043	X	X	X	5,635,000	X	X	X
3.2 Other	1,276,882	X	X	X	1,173,999	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	249,550	X	X	X	236,867	X	X	X
6. Other payables	1,108,754	X	X	X	1,212,291	X	X	X
Total	**116,892,093**	**2,135**	**4,536,806**	**112,320,166**	**117,436,048**	**2,591**	**5,130,975**	**111,073,205**

Amounts due to customers decreased by €0.5 billion compared with December 2021, mainly reflecting the equal decrease in "Repurchase agreements", mainly composed of transactions with the Clearing & Guarantee Fund. Funding from current accounts and deposits with ordinary customers was broadly unchanged.

The sub-item "Loans-other" comprises €0.6 billion in respect of loans from CDP.

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

	Total 30/06/2022				Total 31/12/2021			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	5,931,855	3,355,457	2,247,094	-	6,617,687	3,587,834	3,039,067	-
1.1 structured	4,794	-	4,794	-	4,930	-	4,930	-
1.2 other	5,927,061	3,355,457	2,242,300	-	6,612,757	3,587,834	3,034,137	-
2. Other securities	4,017,771	-	4,019,495	13,513	4,688,793	-	4,215,411	542,992
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	4,017,771	-	4,019,494	13,513	4,688,793	-	4,215,411	542,992
Total	**9,949,626**	**3,355,457**	**6,266,589**	**13,513**	**11,306,480**	**3,587,834**	**7,254,478**	**542,992**

Bond issues amounted to €5.9 billion, a decrease of about €0.7 billion compared with December 2021, which reflected securities maturing during the period.

“Other securities – other” include certificates of deposit issued by Group banks.

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/06/2022					Total 31/12/2021				
	NV	Fair value			Fair value *	NV	Fair value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	3,579	3,153	1	-	3,154	48,692	48,507	198	-	48,705
2. Due to customers	2,508	1,905	-	-	1,905	330	195	1	-	194
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3. Other	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**6,087**	**5,058**	**1**	**-**	**5,059**	**49,022**	**48,702**	**199**	**-**	**48,899**
B. Derivatives										
1. Financial derivatives	X	866	144,898	-	X	X	347	79,719	508	X
1.1 Trading	X	866	144,898	-	X	X	347	79,719	-	X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	508	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**866**	**144,898**	**-**	**X**	**X**	**347**	**79,719**	**508**	**X**
Total (A+B)	**X**	**5,924**	**144,899**	**-**	**X**	**X**	**49,049**	**79,918**	**508**	**X**

Key:
NV=nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3
* Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

The sub-item A.1 “Due to banks” reports technical overdrafts connected with Parent Company operations.

The sub-item B.1.1 “Financial derivatives – trading” includes the negative value of trading derivatives entered into almost entirely by the Parent Company.

SECTION 4 - HEDGING DERIVATIVES – ITEM 40

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

	Fair value 30/06/2022			NV	Fair value 31/12/2021			VN
	L1	L2	L3	30/06/2022	L1	L2	L3	31/12/2021
A) Financial derivatives	**860**	**315,561**	**-**	**6,030,591**	**372**	**494,896**	**-**	**10,894,543**
1) Fair value	860	221,900	-	2,495,762	372	461,917	-	10,522,914
2) Cash flows	-	93,661	-	3,534,829	-	32,979	-	371,629
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**860**	**315,561**	**-**	**6,030,591**	**372**	**494,896**	**-**	**10,894,543**

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

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

5.1 VALUE ADJUSTMENTS OF HEDGED FINANCIAL LIABILITIES

	Total 30/06/2022	Total 31/12/2021
1. Positive adjustment of financial liabilities	-	-
2. Negative adjustment of financial liabilities	457	187
Total	**457**	**187**

SECTION 6 – TAX LIABILITIES – ITEM 60

See section 11 under assets.

SECTION 8 - OTHER LIABILITIES – ITEM 80

8.1 OTHER LIABILITIES: COMPOSITION

	Total 30/06/2022	Total 31/12/2021
Amounts due to social security institutions and State	133,216	107,658
Trade payables	157,814	155,606
Securities to be settled	2,696	6,893
Amounts available to customers	1,100,553	846,730
Non-recurring transactions (acquisitions)	888	1,085
Liabilities for future premiums on derivatives	2,376	2,848
Tax payables due to tax authorities	702,792	467,541
Payables due to employees	228,180	183,624
Financial liabilities in respect of loans granted for a specific transaction	3,920	3,916
Guarantees issued and credit derivatives	5,141	5,199
Accrued expenses not attributable to separate line item	38,003	8,562
Deferred income not attributable to separate line item	25,794	18,062
Items in transit and items being processed	467,135	657,483
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)	519,003	342,099
Balance of illiquid portfolio items	2,834,936	507,923
Dividends to be paid	62	109
Total	6,222,509	3,315,338

The item “Amounts available to customers” mainly regards pension and wage payments from other banks awaiting payment to customers by mutual banks acting as intermediaries.

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

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

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

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	Total 30/06/2022	Total 31/12/2021
A. Opening balance	**277,528**	**295,178**
B. Increases	**3,791**	**15,543**
B.1 Provisions for the period	1,890	6,995
B.2 Other increases	1,901	8,548
C. Decreases	**44,915**	**33,193**
C.1 Benefit payments	10,775	21,787
C.2 Other decreases	34,140	11,406
D. Closing balance	**236,404**	**277,528**
Total	236,404	277,528

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

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

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	Total 30/06/2022	Total 31/12/2021
1. Provisions for credit risk in respect of commitments and financial guarantees issued	302,161	293,183
2. Provisions for other commitments and guarantees issued	-	-
3. Company pension plans	-	-
4. Other provisions for risks and charges	240,268	225,458
4.1 legal disputes	90,189	82,503
4.2 personnel expense	63,590	66,042
4.3 other	86,488	76,913
Total	542,429	518,641

Item 1. “Provisions for credit risk in respect of commitments and financial guarantees issued” includes provisions for credit risk in respect of commitments to disburse funds and financial guarantees issued that are subject to the impairment rules of IFRS 9,

The sub-item 4.1 “legal disputes” mainly includes provisions for disputes over interest, compound interest, contract terms and banking and investment services, as well as provisions for labor disputes and legal costs for debt collection.

The main provisions recognized under sub-item 4.2 “personnel expenses” include that for the employee loyalty bonus.

The increase in the amount under sub-item 4.3 “Other” reflects provisions for charitable donations made in the allocation of profit for the previous year.

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

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

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

As at the reporting date, share capital was represented by 27,125,759 ordinary shares with a par value of €51.65 each, for a total of €1,401,045,452.

As at the reporting date, share capital of the mutual banks belonging to the Iccrea Cooperative Banking Group amounted to €1,009,497,094 (€894,197,187 net of shares issued pursuant to Article 150-ter of the Consolidated Banking Act by nine mutual banks and subscribed by the Parent Company). In accordance with the bylaws of the mutual banks, their share capital is variable as it is composed of shares that in principle can be issued without limit.

13.2 SHARE CAPITAL – NUMBER OF SHARES OF THE PARENT COMPANY: CHANGE FOR THE PERIOD

	Ordinary	Other
A. Shares at the start of the period	27,125,759	-
- fully paid	27,125,759	-
- partially paid	-	-
A.1 Treasury shares (-)	(24,193,784)	-
A.2 Shares in circulation: opening balance	**2,931,975**	-
B. Increases	**-**	-
B.1 new issues	-	-
- for consideration:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sales of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**(1,354,215)**	-
C.1 Cancellation	-	-
C.2 Purchase of own shares	(1,354,215)	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**1,577,760**	-
D.1 Treasury shares(+)	25,547,999	-
D.2 Shares at the end of the period	27,125,759	-
- fully paid	27,125,759	-
- partially paid	-	-

13.3 SHARE CAPITAL: OTHER INFORMATION

The Group share capital of €2,295,242,639 is represented by ordinary shares only (subscribed share capital, fully paid up).

13.4 EARNINGS RESERVES: OTHER INFORMATION

Group reserves amount to a total €9.2 billion.

In particular, earning reserves amount to €9.2 billion and include, among the largest, the legal reserve in the amount of €10.8 billion as well as a negative IFRS 9 reserve of €1.6 billion.

13.5 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

The item amounts to €30 million and is represented by six Additional Tier 1 bonds issued by the mutual banks between 2016 and 2018. No new bond issues were carried out during the year.

SECTION 14 - NON-CONTROLLING INTERESTS – ITEM 190

14.1 BREAKDOWN OF ITEM 190 “NON-CONTROLLING INTERESTS”

	30/06/2022	31/12/2021
Equity investments in consolidated companies with significant non-controlling interests		
1. Banca Mediocredito del F.V.G. S.p.A.	44,671	41,534
2. Coopersystem Società Cooperativa	27,012	23,725
Other investments	927	942
Total	**72,610**	**66,201**

NON-CONTROLLING INTERESTS: COMPOSITION

	30/06/2022	31/12/2021
1. Share capital	58,867	58,820
2. Share premium reserve	3,999	3,999
3. Reserves	2,390	(1,209)
4. Treasury shares	-	-
5. Valuation reserves	112	785
6. Equity instruments	-	-
7. Gain (loss) pertaining to non-controlling interests	7,242	3,806
Total	**72,610**	**66,201**

14.2 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

The consolidated capital of the Iccrea Cooperative Banking Group does not include equity instruments issued by Group companies that are not wholly owned.

PART C - INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

SECTION 1 - INTEREST -ITEMS 10 AND 20

1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

	Debt securities	Loans	Other transactions	Total 30/06/2022	Total 30/06/2021
1. Financial assets measured at fair value through profit or loss	**5,738**	**814**	**-**	**6,552**	**6,133**
1.1 Financial assets held for trading	336	-	-	336	938
1.2 Financial assets designated at fair value	974	29	-	1,003	1,212
1.3 Other financial assets mandatorily at fair value	4,428	785	-	5,213	3,983
2. Financial assets measured at fair value through other comprehensive income	**52,662**	**-**	**X**	**52,662**	**23,820**
3. Financial assets measured at amortized cost	**776,358**	**1,103,637**	**-**	**1,879,995**	**1,462,551**
3.1 Due from banks	7,963	4,327	X	12,290	9,049
3.2 Loans to customers	768,395	1,099,310	X	1,867,705	1,453,502
4. Hedging derivatives	**X**	**X**	**(315,116)**	**(315,116)**	**(105,633)**
5. Other assets	**X**	**X**	**38,291**	**38,291**	**2,128**
6. Financial liabilities	**X**	**X**	**X**	**196,472**	**185,363**
Total	834,758	1,104,451	(276,825)	1,858,856	1,574,362
of which: interest income on impaired financial assets	-	73,801	-	73,801	92,398
of which: interest income on finance leases	X	57,083	X	57,083	67,911

Interest on loans to customers include interest income in respect of loans to customers of €1.1 billion (broadly in line with the balance for the corresponding period of 2021), mainly on loans to households and non-financial companies.

Interest income on debt securities came to €834.8 million. The item mainly includes interest on securities issued by government entities and increased from the €370.4 million posted at June 30, 2021, reflecting an increase in the portfolio of securities and, primarily, the stronger performance of BTPi holdings as a result of the rise in inflation.

“Hedging derivatives” include differences on hedging derivatives adjusting interest income on the hedged financial instruments.

The amount reported under “Other assets” regards interest income on tax credits associated with government tax incentive programs established in response to the COVID-19 pandemic (the “ecobonus” building renovation program).

The item “Financial liabilities” includes interest on funding operations at negative interest rates (TLTRO).

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 30/06/2022	Total 30/06/2021
1. Financial liabilities measured at amortized cost	**(79,267)**	**(80,806)**	**X**	**(160,073)**	**(185,522)**
1.1 Due to central banks	(752)	X	X	(752)	(246)
1.2 Due to banks	(4,210)	X	X	(4,210)	(3,966)
1.3 Due to customers	(74,305)	X	X	(74,305)	(93,580)
1.4 Securities issued	X	(80,806)	X	(80,806)	(87,730)
2. Financial liabilities held for trading	**-**	**-**	**(52)**	**(52)**	**(86)**
3. Financial liabilities designated at fair value	**-**	**(1)**	**-**	**(1)**	**(47)**
4. Other liabilities and provisions	**X**	**X**	**(720)**	**(720)**	**(762)**
5. Hedging derivatives	**X**	**X**	**1,168**	**1,168**	**1,169**
6. Financial assets	**X**	**X**	**X**	**(29,395)**	**(20,651)**
Total	(79,267)	(80,807)	396	(189,073)	(205,899)
of which: interest expense on finance leases	(4,695)	X	X	(4,695)	(4,334)

The item 1.4 “Securities issued” regards interest expense accrued in the period on bonds and certificates of deposit measured at amortized cost. The slight decrease on the same period of the previous year is connected with the decline in funding with such instruments.

The item 6. “Financial assets” includes interest on investment transactions at negative interest rates.

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
a) Financial instruments	42,237	34,345
1. Securities placement	13,027	12,398
1.1 With underwriting and/or with irrevocable commitment	-	-
1.2 Without irrevocable commitment	13,027	12,398
2. Order receipt and transmission and order execution for customers	12,538	10,422
2.1 Order receipt and transmission for one or more financial instruments	11,037	9,141
2.2 Order execution for customers	1,501	1,281
3. Other fees and commissions connected with financial instruments	16,672	11,525
of which: trading on own account	405	58
of which: individual portfolio management	16,267	11,467
b) Corporate finance	572	392
1. Merger and acquisition advisory services	-	-
2. Treasury services	-	-
3. Other fees and commissions connected with corporate finance services	572	392
c) Investment advisory services	1,245	1,532
d) Clearing and settlement	-	-
e) Collective portfolio management	26,857	29,797
f) Custody and administration	3,432	4,358
1. Depository bank	-	-
2. Other fees and commissions connected with custody and administration services	3,432	4,358
g) Central administrative services for collective portfolio management	-	-
h) Trustee services	-	-
i) Payment services	487,119	474,969
1. Current accounts	267,674	250,229
2. Credit cards	1,530	1,002
3. Debit cards and other payment cards	119,622	128,885
4. Credit transfers and other payment orders	77,736	66,403
5. Other fees and commissions connected with payment services	20,557	28,450
j) Distribution of third-party services	131,647	110,823
1. Collective portfolio management	101	86
2. Insurance products	61,098	53,138
3. Other products	70,448	57,599
of which: individual portfolio management	2,448	2,888
k) Structured finance	-	-
l) Securitization servicing	756	1,019
m) Commitments to disburse funds	-	-
n) Financial guarantees issued	12,467	12,200
of which: credit derivatives	-	-
o) Lending transactions	7,889	18,336
of which: for factoring transactions	2,614	2,094
p) Currency trading	2,820	2,738
q) Goods	-	-
r) Other fee and commission income	38,511	30,863
of which: for management of multilateral trading facilities	-	-
of which: for management of organized trading facilities	-	-
Total	755,552	721,372

The table has been prepared in application of the 7th update of Circular 262. The comparative figures have been restated to ensure comparability.

The composition of fee and commission income, which increased overall compared with June 30, 2021, as a result of the general economic recovery that following the end of lockdown restrictions at the start of last year, reflects the operations of the Group's mutual banks, which are typically composed of customer current accounts (€267.7 million), other payment services (€219.4 million), distribution of third-party products and services (€131.6 million, including insurance products for €61.1 million) and securities placement (€13 million).

Fees and commissions concerning item e) collective portfolio management came to €26.9 million and regard asset management activities, which are exclusively performed by the Group asset management company. This was accompanied by fees and commissions from individual portfolio management activities in the amount of €16.3 million

2.2 FEE AND COMMISSION EXPENSE: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
a) Financial instruments	(2,239)	(2,242)
of which: trading in financial instruments	(303)	(276)
of which: placement of financial instruments	(48)	(40)
of which: individual portfolio management	(1,888)	(1,926)
- Own	(1,646)	(1,764)
- Delegated to third parties	(242)	(162)
b) Clearing and settlement	(987)	(646)
c) Collection portfolio management	-	-
1. Own	-	-
2. Delegated to third parties	-	-
d) Custody and administration	(2,930)	(2,812)
e) Collection and payment services	(78,846)	(50,045)
of which: credit cards, debit cards and other payment cards	(72,352)	(44,843)
f) Securitization servicing	(850)	(885)
g) Commitments to receive funds	-	-
h) Financial guarantees received	(810)	(527)
of which: credit derivatives	-	-
i) Off-premises marketing of financial instruments, products and services	-	-
l) Currency trading	(327)	(235)
m) Other fee and commission expense	(9,631)	(7,709)
Total	(96,620)	(65,101)

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 30/06/2022		Total 30/06/2021	
	Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading	175	-	41	-
B. Other financial assets mandatorily measured at fair value	922	203	1,136	327
C. Financial assets measured at fair value through other comprehensive income	18,611	62	10,094	181
D. Equity investments	206	-	282	-
Total	19,914	265	11,553	508

The main components of this item include dividends received on the interest held in the Bank of Italy in the amount of €17.4 million, classified under financial assets measured at fair value through other comprehensive income.

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net gain (loss) (A+B) – (C+D)
1. Financial assets held for trading	**179**	**20,212**	**(1,279)**	**(19,078)**	**34**
1.1 Debt securities	138	7,760	(496)	(3,023)	4,379
1.2 Equity securities	16	432	(566)	(382)	(500)
1.3 Units in collective investment undertakings	25	184	(211)	(146)	(148)
1.4 Loans	-	-	(6)	-	(6)
1.5 Other	-	11,836	-	(15,527)	(3,691)
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**	**(70,512)**
4. Derivatives	**103,100**	**41,511**	**(47,331)**	**(86,428)**	**90,506**
4.1 Financial derivatives:	103,100	41,511	(47,331)	(86,428)	90,506
- on debt securities and interest rates	101,127	41,492	(46,773)	(85,130)	10,716
- on equity securities and equity indices	1,973	19	(557)	(1,298)	137
- on foreign currencies and gold	X	X	X	X	79,653
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	**103,279**	**61,723**	**(48,610)**	**(105,506)**	**20,028**

The net gain/(loss) on “Financial assets and liabilities: foreign exchange differences” reports the balance of changes in the value of financial assets and liabilities denominated in foreign currencies, regardless of the accounting portfolio in which they are recognized, which correlate with the amount reported under “Financial derivatives on foreign currencies and gold”.

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

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
A. Gain on:		
A.1 Fair value hedges	1,978,504	211,655
A.2 Hedged financial assets (fair value)	12,178	40,272
A.3 Hedged financial liabilities (fair value)	4,370	5,272
A.4 Cash flow hedges	30	738
A.5 Assets and liabilities in foreign currencies	-	294
Total income on hedging activities (A)	**1,995,082**	**258,231**
B. Loss on:		
B.1 Fair value hedges	(37,554)	(65,752)
B.2 Hedged financial assets (fair value)	(1,946,514)	(185,646)
B.3 Hedged financial liabilities (fair value)	(60)	(285)
B.4 Cash flow hedges	(372)	-
B.5 Assets and liabilities in foreign currencies	-	(875)
Total expense on hedging activities (B)	**(1,984,500)**	**(252,558)**
C. Net gain (loss) on hedging activities (A - B)	**10,582**	**5,673**
of which: net gain (loss) of hedges of net positions	(1,157)	-

As indicated in Part A “Accounting policies” of these notes to the financial statements, for the purposes of accounting for the results of hedging, the Group has exercised the option provided for in paragraph 7.2.21 of IFRS 9 to continue applying the provisions on hedge accounting envisaged by IAS 39.

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

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	Total 30/06/2022			Total 30/06/2021		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortized cost	191,598	(53,804)	137,794	272,131	(33,598)	238,533
1.1 Due from banks	740	(37)	703	1,730	(105)	1,625
1.2 Loans to customers	190,858	(53,766)	137,092	270,401	(33,493)	236,908
2. Financial assets measured at fair value through other comprehensive income	24,642	(21,673)	2,969	56,458	(7,904)	48,554
2.1 Debt securities	24,642	(21,673)	2,969	56,458	(7,904)	48,554
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**216,240**	**(75,477)**	**140,763**	**328,589**	**(41,502)**	**287,087**
Financial liabilities measured at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	368	(75)	293	385	(599)	(214)
Total liabilities (B)	**368**	**(75)**	**293**	**385**	**(599)**	**(214)**

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

The gain (loss) on disposal amounts to about €141 million and is mainly attributable to the disposal of debt securities measured at amortized cost and assets measured at FV through other comprehensive income (€135 million) and, to a lesser extent, the disposal of loans as part of the Group's de-risking operations (€5.7 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	**1,496**	**21**	**(11,576)**	**(23)**	**(10,082)**
1.1 Debt securities	1,335	21	(11,164)	(23)	(9,831)
1.2 Loans	161	-	(411)	-	(251)
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**
2.1 Securities issued	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**1,496**	**21**	**(11,576)**	**(23)**	**(10,082)**

The net gain for the item includes €9.8 million in respect of securities in which the liquidity of the Guarantee Scheme is invested.

7.2 NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) - (C+D)]
1. Financial assets	**6,767**	**2,624**	**(45,656)**	**(1,960)**	**(38,225)**
1.1 Debt securities	1,051	3	(6,877)	(297)	(6,120)
1.2 Equity securities	2,808	1,481	(21,369)	(722)	(17,802)
1.3 Units in collective investment undertakings	1,441	1,121	(12,990)	(897)	(11,325)
1.4 Loans	1,467	19	(4,420)	(44)	(2,978)
2. Financial assets: foreign exchange rate differences	**X**	**X**	**X**	**X**	**136**
Total	**6,767**	**2,624**	**(45,656)**	**(1,960)**	**(38,089)**

Item 1.2 Equity securities includes the capital losses realized on a number of equity securities, including Nexi in the amount of €10.5 million.

SECTION 8 - NET LOSSES/RECOVERIES FOR CREDIT RISK – ITEM 130

8.1 NET LOSSES/RECOVERIES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST: COMPOSITION

	Losses (1)						Recoveries (2)				Total 30/06/2022	Total 30/06/2021
	Stage 1	Stage 2	Stage 3		Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		
			Writeoffs	Other	Writeoffs	Other						
A. Due from banks	**(2,218)**	**(746)**	**-**	**(169)**	**-**	**-**	**1,898**	**3,018**	**-**	**-**	**1,783**	**2,836**
- loans	(724)	(463)	-	(169)	-	-	1,656	1,257	-	-	1,557	3,973
- debt securities	(1,494)	(283)	-	-	-	-	242	1,761	-	-	226	(1,137)
B. Loans to customers	**(222,390)**	**(116,853)**	**(47,917)**	**(617,369)**	**-**	**(1,401)**	**225,846**	**159,925**	**436,869**	**561**	**(182,729)**	**(391,103)**
- loans	(218,884)	(111,445)	(47,917)	(617,369)	-	(1,401)	223,282	157,477	436,853	561	(178,843)	(382,552)
- debt securities	(3,506)	(5,408)	-	-	-	-	2,564	2,448	16	-	(3,886)	(8,551)
Total	**(224,608)**	**(117,599)**	**(47,917)**	**(617,538)**	**-**	**(1,401)**	**227,744**	**162,943**	**436,869**	**561**	**(180,946)**	**(388,267)**

The value adjustments reported in the “Stage 1” and “Stage 2” columns regard collective writedowns on performing loans.

The value adjustments in the “Stage 3 - Other” column regard analytical writedowns of impaired past-due loans and those classified as unlikely to pay and bad loans, while those reported in the “Stage 3 - Writeoffs” column reflect extinguishing events, with the losses recognized following the definitive derecognition of the financial instruments.

Compared with the corresponding period of the previous year, net losses for credit risk in respect of loans to customers decreased to €178.8 million, partly reflecting the Group’s close monitoring of impaired position since its formation, with a coverage ratio of 64.1%.

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

	Losses (1)						Recoveries (2)					
	Stage 1	Stage 2	Stage 3		Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired	Total 30/06/2022	Total 30/06/2021
			Writeoffs	Other	Writeoffs	Other						
A. Debt securities	(1,681)	(926)	-	-	-	-	390	1,553	-	-	(664)	(1,528)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(1,681)**	**(926)**	**-**	**-**	**-**	**-**	**390**	**1,553**	**-**	**-**	**(664)**	**(1,528)**

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

9.1 GAINS (LOSSES) FROM CONTRACT MODIFICATIONS: COMPOSITION

The item, a negative €0.9 million (unchanged from June 30, 2021 includes the impact of modifications of medium/long-term loan contracts with customers that, in compliance with IFRS 9, do not produce the derecognition of the assets but rather involve the recognition in profit or loss of the changes in the contractual cash flows.

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

SECTION 12 - ADMINISTRATIVE EXPENSES – ITEM 190

12.1 PERSONNEL EXPENSES: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
1) Employees	(820,346)	(821,167)
a) wages and salaries	(579,324)	(571,725)
b) social security contributions	(140,779)	(141,654)
c) termination benefits	(15,803)	(19,333)
d) pension expenditure	(499)	(242)
e) allocation to employee termination benefit provision	(6,696)	(3,906)
f) allocation to provision for post-employment benefits and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	(40,242)	(38,077)
- defined contribution	(40,167)	(37,972)
- defined benefit	(75)	(105)
h) costs from share-based payment plans	-	-
i) other employee benefits	(37,003)	(46,229)
2) Other personnel	(8,576)	(7,483)
3) Board of Directors and members of Board of Auditors	(25,598)	(25,028)
4) Retired personnel	-	-
Total	**(854,520)**	**(853,678)**

Group personnel expenses are essentially unchanged on the same period of the previous year.

12.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
Information technology	(89,761)	(102,745)
Property and movables	(43,489)	(43,092)
- rental and fees	(6,321)	(6,151)
- ordinary maintenance	(32,716)	(32,314)
- security	(4,452)	(4,627)
Goods and services	(95,578)	(82,390)
- telephone and data transmission	(32,404)	(32,723)
- postal	(10,744)	(12,581)
- asset transport and counting	(9,183)	(8,897)
- electricity, heating and water	(27,999)	(16,473)
- transportation and travel	(6,847)	(5,053)
- office supplies and printed materials	(6,961)	(5,317)
- subscriptions, magazines and newspapers	(1,440)	(1,346)
Professional services	(83,190)	(82,169)
- professional fees (other than audit fees)	(37,148)	(33,503)
- audit fees	(3,505)	(2,780)
- legal and notary costs	(25,291)	(28,347)
- court costs, information and title searches	(17,246)	(17,539)
Administrative services	(17,833)	(36,555)
Insurance	(12,720)	(12,716)
Promotional, advertising and entertainment expenses	(18,079)	(14,668)
Association dues	(14,857)	(13,966)
Donations	(2,301)	(1,584)
Other	(21,841)	(31,109)
Indirect taxes and duties	(271,048)	(272,132)
Total	**(670,697)**	**(693,126)**

Other administrative expenses totaled €670.7 million, slightly down compared with the corresponding period of the previous year, mainly reflecting:

- the reclassification to item 320 “Profit (loss) after tax on discontinued operations” of e-money operations held for sale, equal to €31.6 million (including €9.5 million in IT expenses and €7 million in administrative services);
- a general decrease in spending on administrative services delivered within the Group and in IT spending.

Indirect taxes and duties include, among other things, the contribution to the Single Resolution Fund (BRRD), the contribution to the National Resolution Fund for bank crises and the contribution to the Deposit Guarantee Fund for €150 million overall.

SECTION 13 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 200

This section provides details of the provisions and write-backs relating to the following categories of provisions for risks and charges:

- provisions for credit risk in respect of commitments to disburse funds and financial guarantees issued falling within the scope of IFRS 9;
- other provisions for risks and charges.

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

	30/06/2022		
	Provisions	Reversals	Total
Commitments to disburse funds Stage 1	(32,714)	31,233	(1,481)
Commitments to disburse funds Stage 2	(21,177)	16,350	(4,827)
Commitments to disburse funds Stage 3	(11,875)	9,903	(1,972)
Financial guarantees issued Stage 1	(8,069)	9,167	1,098
Financial guarantees issued Stage 2	(9,381)	5,528	(3,853)
Financial guarantees issued Stage 3	(9,200)	11,823	2,623
Total	**(92,416)**	**84,004**	**(8,412)**

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

13.3 NET PROVISIONS FOR OTHER RISKS AND CHARGES: COMPOSITION

	30/06/2022		
	Provisions	Reversals	Total
Legal disputes	(11,899)	5,333	(6,566)
Other	(6,521)	1,910	(4,611)
Total	**(18,420)**	**7,243**	**(11,177)**

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

14.1 NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT: COMPOSITION

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Property, plant and equipment				
A.1 Operating assets	(89,248)	-	-	(89,248)
- Owned	(60,699)	-	-	(60,699)
- Right-of-use assets in respect of leases	(28,549)	-	-	(28,549)
A.2 Investment property	(1,790)	(1,975)	-	(3,765)
- Owned	(1,790)	(1,975)	-	(3,765)
- Right-of-use assets in respect of leases	-	-	-	-
A.3 Inventories	X	(1,510)	-	(1,510)
B. Assets held for sale	**X**	**-**	**-**	**-**
Total	**(91,038)**	**(3,485)**	**-**	**(94,523)**

SECTION 15 - NET ADJUSTMENTS OF INTANGIBLE ASSETS - ITEM 220

15.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Intangible assets				
of which: software	(17,363)	-	-	(17,363)
A.1 Owned	(21,608)	-	-	(21,608)
- generated internally by the Bank	(802)	-	-	(802)
- other	(20,806)	-	-	(20,806)
A.2 Acquired under finance leases	-	-	-	-
B. Assets held for sale	X	-	-	-
Total	**(21,608)**	**-**	**-**	**(21,608)**

SECTION 16 - OTHER OPERATING EXPENSES/INCOME - ITEM 230

16.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
Charges connected with lease services (consultants, insurance, taxes and duties, capital losses)	(12,088)	(13,924)
Reductions in assets and prior-year expenses not attributable to separate line item	(15,075)	(6,708)
Costs of outsourced services	(18)	(21)
Settlement of disputes and claims	(226)	(1,138)
Amortization of expenditure for leasehold improvements	(5,126)	(5,069)
Other expenses	(11,570)	(6,695)
Total	**(44,103)**	**(33,555)**

16.2 OTHER OPERATING INCOME: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
A) Cost recovery	**125,841**	**133,336**
Recovery of taxes	102,381	105,401
Recovery of sundry charges	8,683	10,821
Insurance premiums	782	987
Recovery of costs from customers	4,807	5,189
Recovery of costs on bad loans	9,188	10,938
B) Other income	**70,846**	**57,506**
Insourcing revenues	5,558	1,240
Property rental income	2,165	1,743
Reductions in liabilities and prior-year income not attributable to separate line item	19,158	11,202
Other income from finance leases	10,826	7,964
Other income	24,145	29,409
Accelerated processing fees	5,425	4,943
Consolidation adjustments	3,569	1,005
Total	**196,687**	**190,842**

The recovery of taxes and duties (stamp duty and tax in lieu), totaling €102.4 million, mainly regard current accounts, credit cards, savings passbooks and certificates of deposit.

SECTION 17 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 250

17.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
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	443	20,475
1. Revaluations	443	6,284
2. Gains on disposals	-	14,191
3. Writebacks	-	-
4. Other income	-	-
B. Losses	(1,010)	-
1. Writedowns	(770)	-
2. Impairment	(240)	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net profit (loss)	**(567)**	**20,475**
Total	**(567)**	**20,475**

The item reports the financial impact of the equity measurement of investments in associates. At June 30, 2021 this included the gains on the disposal of the holding in Satispay.

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

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

	Revaluations (a)	Writedowns (b)	Exchange rate differences		Net result (a-b+c-d)
			Positive (c)	Negative (d)	
A. Property, plant and equipment	**-**	**(6,092)**	**-**	**-**	**(6,092)**
A.1 Operating assets:	-	-	-	-	-
- Owned	-	-	-	-	-
- Acquired under finance leases	-	-	-	-	-
A.2 Investment property:	-	(6,092)	-	-	(6,092)
- Owned	-	(6,092)	-	-	(6,092)
- Acquired under finance leases	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
- Internally generated	-	-	-	-	-
- Other	-	-	-	-	-
B.2 Acquired under finance leases	-	-	-	-	-
Total	**-**	**(6,092)**	**-**	**-**	**(6,092)**

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

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

20.1 GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
A. Property	(346)	(128)
- Gains on disposal	123	522
- Losses on disposal	(469)	(650)
B. Other assets	(211)	183
- Gains on disposal	173	397
- Losses on disposal	(384)	(214)
Net gain (loss)	**(557)**	**55**

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

21.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
1. Current taxes (-)	(61,346)	(41,306)
2. Change in current taxes from previous period (+/-)	629	(2,266)
3. Reduction of current taxes for the period (+)	-	14,157
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	19,125	7,753
4. Change in deferred tax assets (+/-)	(64,107)	(65,212)
5. Change in deferred tax liabilities (+/-)	(2,524)	42,809
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(108,223)**	**(44,065)**

The change with respect to the corresponding period of the previous year is attributable an increase in current taxes for the period as well as the impact of the recognition in 2021 of extraordinary income relating to deferred tax liabilities following the realignment of tax-reported values to the higher carrying amounts of property, plant and equipment and intangible assets.

SECTION 22 - PROFIT (LOSS) AFTER TAXES ON DISCONTINUED OPERATIONS - ITEM 320

22.1 PROFIT (LOSS) AFTER TAXES ON DISCONTINUED OPERATIONS: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
1. Revenue	231,697	-
2. Expense	(206,762)	-
3. Result of measurement of groups of assets and associated liabilities	-	-
4. Gain (loss) on realization	-	-
5. Taxes and duties	(7,760)	-
Profit (loss)	**17,175**	**-**

The item reports the net profit of e-money operations, which have been reclassified as held for sale.

22.2 BREAKDOWN OF INCOME TAXES OF DISCONTINUED OPERATIONS

	Total 30/06/2022	Total 30/06/2021
1. Current taxes (-)	(4,986)	-
2. Change in deferred tax assets (+/-)	-	-
3. Change in deferred tax liabilities (-/+)	-	-
4. Income taxes for the period (-1+/-2+/-3)	**(4,986)**	**-**

SECTION 23 - PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS – ITEM 340

23.1 BREAKDOWN OF ITEM 340 “PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS”

	30/06/2022	30/06/2021
Consolidated equity investments with significant non-controlling interests		
Banca Mediocredito del F.V.G. S.p.A.	2,745	(181)
Coopersystem Società Cooperativa	4,511	4,872
Other equity investments	(14)	(9)
Total	**7,242**	**4,682**

PART D - CONSOLIDATED COMPREHENSIVE INCOME

DETAILED BREAKDOWN OF CONSOLIDATED COMPREHENSIVE INCOME

		30/06/2022	30/06/2021
10.	**Net profit (loss) for the period**	**683,303**	**404,985**
	Other comprehensive income not recyclable to profit or loss	**25,208**	**8,930**
20.	Equity securities designated as at fair value through other comprehensive income:	(2,022)	7,273
	a) fair value changes	(1,948)	7,270
	b) transfers to other elements of shareholders' equity	(74)	3
30.	Financial liabilities measured at fair value through profit or loss (change in credit risk):	-	-
	a) fair value changes	-	-
	b) transfers to other elements of shareholders' equity	-	-
40.	Hedges of equity securities designated as at fair value through other comprehensive income:	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50.	Property, plant and equipment	-	(107)
60.	Intangible assets	-	-
70.	Defined-benefit plans	29,315	4,490
80	Non-current assets held for sale	-	-
90.	Valuation reserves of equity investments accounted for with equity method	-	-
100.	Income taxes on other comprehensive income not recyclable to profit or loss	(2,085)	(2,726)
	Other comprehensive income recyclable to profit or loss	**(303,688)**	**(16,206)**
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:	(46,834)	28,503
	a) fair value changes	(41,500)	11,968
	b) reversal to income statement	(2,421)	14,167
	c) other changes	(2,913)	2,368
	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:	(320,232)	(53,649)
	a) fair value changes	(310,502)	(11,310)
	b) reversal to income statement	(8,146)	(41,235)
	- adjustments for credit risk	447	1,076
	- gain/loss on realization	(8,593)	(42,312)
	c) other changes	(1,584)	(1,103)
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:	(53,114)	1,369
	a) fair value changes	(53,114)	1,369
	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	116,492	7,571
190.	**Total other comprehensive income**	**(278,480)**	**(7,276)**
200.	**Comprehensive income (item 10+190)**	**404,823**	**397,709**
210.	Consolidated comprehensive income pertaining to non-controlling interests	6,568	4,643
220.	**Consolidated comprehensive income pertaining to shareholders of the Parent Company**	**398,255**	**393,066**

PART E - RISK AND RISK MANAGEMENT POLICIES

INTRODUCTION

The Iccrea Cooperative Banking Group (ICBG) conducts its business in accordance with the principles of prudence and risk containment, based on the need for stability associated with banking activity and the main characteristics of the mutual banks and their customers. Consistent with these principles, the Group pursues its growth objectives in accordance with the needs of the mutual banking system, ensuring, through balanced risk management, reliable and sustainable generation of value over time.

The risk governance policies represent the reference model in organizational and process development and in the systematic execution of all the operational and business activities performed by Group companies and are an integral part of the risk management process (RMP) adopted by the Group, ensuring sound and prudent management and supporting sustainable implementation of the overall risk strategy. The internal control system (ICS) governs the RMP, ensuring the completeness, appropriateness, functionality (in terms of effectiveness and efficiency) and reliability of the policies in a context of strict consistency with the governance framework defined at Group level.

The Risk Management function operates within the internal control system.

THE RISK MANAGEMENT FUNCTION

The Chief Risk Officer area is responsible at the Group level for the key elements of the overall Risk Management Framework: identification, measurement, monitoring and mitigation of corporate risks. It is responsible for the governance and execution of second-level controls connected with risk management, consistent with the internal control system adopted by the Group. It is the contact for the corporate bodies of the Parent Company for matters within its scope of responsibility, providing an integrated and composite vision of both the first and second pillar risks assumed and managed by the individual entities and by the Group as a whole.

Current organizational arrangements provide for:

- a "*Risk Governance & Strategy*" unit that represents a "competency center" overseeing all risk governance and risk strategy issues for the Group, including the management of the EWS and stress testing framework for the purposes of the Guarantee Scheme at both the consolidated and individual levels. The unit performs activities connected with the preparation of the area's annual activity plan and the institutional reporting document submitted to the corporate bodies and the supervisory authorities, supporting the Chief Risk Officer in its areas of responsibility. The unit also coordinates and monitors strategic projects for the CRO area, as well as overseeing activities pertaining to the CRO area concerning risks and ESG issues, with a special focus on climate risks. This unit is sub-divided into the following organizational units:
    - "*EWS & Stress Test SDG*", which performs all activities connected with the EWS and the Guarantee Scheme. More specifically, the Early Warning System (EWS) regulates the governance mechanisms between the corporate bodies of the banks and the corporate bodies of the Parent Company and is the tool used to monitor the organization and the financial position and performance of the affiliated Banks, in the interest of their stability and their sound and prudent management. The EWS defines internal operating rules and areas of assessment that, using specific indicators and coded evaluation processes, make it possible to classify the affiliated banks in relation to their riskiness. Each affiliated bank is classified into one of seven risk levels attributable to three overall risk situations ("ordinary", "strain", "critical"), which are associated with specific responses of the Parent Company that are graduated in relation to the management constraints associated with the measures ("ordinary", "coordinated" and "controlled" management). The intervention measures associated with the EWS indicators therefore form an integral part of the strategic/operational plans defined on an individual basis and are implemented by the affiliates involved when preparing the individual RAS, in particular with regard to the definition of the levels of risk propensity/target (risk appetite) and the maximum tolerated and permitted exposure (risk tolerance and risk capacity, respectively). Together with the other structures of the Risk Management function, the unit also contributes (i) to the performance of stress testing connected with the assessment of the vulnerability of each affiliated bank and used in (ii) the definition of the early warning levels and (iii) the determination of the amount of Readily Available Funds to support the Guarantee Scheme;
    - *BCC Risk Governance"*, which, in close collaboration with the Mutual Bank Risk Management units (Northern Area, Central Area, Southern Area) and in concert with the other competent units of the Risk Management function, (i) develops the Risk Appetite proposal for the affiliated banks with the related limits and triggers broken down into risk categories by operational and business segment; (ii) supports the Group Risk Governance & RM SPD unit in the definition and maintenance of the methodological framework of the Group Risk Governance processes (RAF/RAS, analysis and assessments connected with capital adequacy, stress testing, OMR and incentive system), as well as in the definition of the guidelines to support the preparation of the annual plans and the respective institutional reports of the activities of the Risk Management function broken down by individual mutual bank and, in close collaboration with the Mutual Bank Risk Management units, the efficient and effective operational implementation within the affiliated banks, (iii) supports the Group Risk Management unit in the definition and maintenance of the methodological framework for specific risks, as well as in the related assessment and monitoring activity, in order to enable efficient and effective operational implementation within the affiliated banks and identify any risk mitigation measures required. The unit also has Risk Management specialists who provide support to the Mutual Bank RM units (Northern Area, Central Area, Southern Area) and to the risk managers of the affiliated banks for the implementation and application of the risk management framework and the correct

and uniform performance of the related risk management activities in compliance with the qualitative and quantitative standards dictated by the Parent Company;

- a "*Group Risk Governance & Direct Scope RM*" unit, which defines and maintains the methodological framework of the Group's Risk Governance processes (RAF/RAS, ICAAP, Recovery Plan, stress testing, OMR, incentive system). The unit covers the Group and the companies within the direct scope, in close collaboration with the Planning & Management Control unit and in concert with the other competent units of the Parent Company's Risk Management function and, with regard to the affiliated banks, in collaboration with the Mutual Bank Risk Governance unit. It also represents the top management structure for the Risk Management departments of the companies within the direct scope, whose centralization within the Parent Company under outsourcing arrangements was completed during the first quarter of the year. It ensures the coordination of the risk managers of the individual companies;

- a "*Group Risk Management*" unit, which *(i)* supervises and coordinates the organizational units dedicated to the individual risk categories, which within their areas of responsibility are involved in the development and maintenance of the methodological framework for the assumption and management of specific risks, as well as the assessment and monitoring of those risks, the identification of any risk mitigation measures, *(ii)* establishes the operational guidelines for the specialized units of the Risk Management function in their interactions with the Risk Management units of the affiliated banks and the direct scope companies;
- a "*Mutual Bank Risk Management*" unit, which represents the "control center" for the risk profile of the individual affiliated banks, representing the top management structure for the local Risk Management units. Local risk managers report to the unit through the Mutual Bank RM units (Northern Area, Central Area, Southern Area). It coordinates communication with the other specialized units of the Risk Management function. The Mutual Bank RM units have organizational responsibility for the overall execution of the Risk Management activities outsourced for the macro-area and represent the top management structure for the Risk Management controls of the area, which is responsible for the execution the outsourced second-level control activities for risk management, ensuring coordination of the managers in charge of the Risk Management functions of the affiliated banks;
- a "Validation" unit: reporting directly to the CRO, this unit validates models developed internally to quantify the risks to which the Group is exposed.

The main duties performed by the Group Risk Management function are the following:

- defining and developing the framework for the assumption and management of risks pertaining to the Group, which is composed of *(i)* organizational structures and corporate processes (operating, administrative and business), including line controls; *(ii)* risk governance policies (policies, limits, responsibilities); and *(iii)* methodologies and risk measurement and assessment criteria. In this area, the Risk Management function ensures that the framework for the assumption and management of risks is compliant with applicable regulations, in line with market best practice, functional in respect of internal operational conditions and consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) of the Group;
- developing the Risk Appetite Framework and its operational implementation (the Risk Appetite Statement) at the consolidated level and, with the support of the affiliated banks and Group companies, at the individual level, consistent with capital adequacy objectives (ICAAP) and the adequacy of the liquidity profile (ILAAP) of the Group;
- monitoring the risk profile of the individual affiliated banks and the companies in the direct scope for which risk management activities are performed on a centralized basis under an outsourcing arrangement governed by specific service agreements. This control center operates through the local risk management units and, for the affilicated banks only, using the mechanisms of the Early Warning System and the Guarantee Scheme. In this area, the Risk Management function:
  - handles the development and updating of the methodological framework and develops tools for managing the Guarantee Mechanism, as well as assessing, classifying and monitoring the affiliated banks within the scope of EWS management processes;
  - is responsible, through the action of its local units as well, for the determination and adoption by each affiliated bank of strategies, policies and principles for the assessment and measurement of the risks identified at the Group level.
- monitoring developments in the risk profile and the various types of risk to which the Group as a whole and its individual members are exposed, verifying the ongoing consistency between the actual risk assumed and the specified risk objectives. In this context, the Risk Management function:
  - develops methodologies and models for measuring and assessing risks, validating those models, periodically checking their operation, predictive capacity and performance, and their consistency over time with operational practices and regulatory requirements;
  - performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible, identifying any needs for fine tuning/corrective or evolutionary maintenance and providing support – within the scope of its duties – in implementing the associated actions;
  - identifies any risk developments exceeding the limits set out in the Risk Appetite Statement, in the Risk Governance Policies or in external regulations and, in general, potentially harmful or unfavorable situations in order to assess possible mitigation initiatives to implement;

- within the RAF/RAS and EWS frameworks, examines the results of the process of determining the capital requirements, analyzing the dynamics involved to verify the overall consistency with the risk profile in the different analytical dimensions considered;
- analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement;
- assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (ICAAP) and the appropriateness of the Group's liquidity profile (ILAAP);
- assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to be implemented for the restructuring plan and within resolution procedures;
- reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining and implementing strategic policy and risk policy and the associated implementation of those policies;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The Group devotes special attention to managing, assessing and understanding risk. All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Parent Company. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies, updating risk measurement and estimation approaches to ensure consistency with sector best practices;
- the specification of risk limits;
- the periodic monitoring of exposures and compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the Group companies in the long term, systematic and independent Internal Auditing units, etc.).

THE GROUP RISK GOVERNANCE FRAMEWORK

The overall Risk Governance framework developed and adopted by the Group reflects the specific features of the ICBG, whose participatory mechanisms are based on a Cohesion Contract, signed by the banks, that provides for internal stability mechanisms characterized by intercompany mutual support agreements regulated specifically by applicable external legislation.

On the basis of the provisions of the Cohesion Contract between the affiliated banks and the Parent Company, the latter constantly monitors the organization and the operating conditions, financial position and performance of the affiliated banks through the Early Warning System (EWS), which is designed to promptly identify any signs of management difficulty and/or failure to comply with the obligations assumed under the Cohesion Contract, recommending or arranging, depending on the specific features of any given case and on the basis of the principle of proportionality, the appropriate intervention measures. The overall framework of the Group's risk governance system is completed by the Risk Appetite Framework (RAF), which is implemented operationally through policies addressing the individual risks to which the Group is exposed and transversal systems involved in the internal assessment the capital adequacy and liquidity profile (ICAAP/ILAAP) and the overall assessment of the recovery capacity in particularly adverse conditions (the Recovery Framework).

The RAF defines - in line with the maximum assumable risk (Risk Capacity), the business model and the Group strategy, the Operational Plan and the company incentive system - the risk objectives or risk appetite (Risk Appetite) and Risk Tolerance thresholds, taking due account of possible adverse scenarios. Starting on the basis of the RAF, consistent operating limits are defined within the overall risk governance policies. The latter in turn represent the internal regulatory expression of the "rules" for the assumption and management of risks and are an integral part of the Risk Management Process (RMP).

The overall architecture of the Risk Appetite Framework, defined in terms of key elements, scope of coverage/application and underlying operating models, is closely interconnected with ICBG's key risk governance process, i.e. the Early Warning System. The RAF is implemented individually with regard to the affiliated banks and shares qualitative and quantitative indicators with the EWS, ensuring consistency between the different calibration approaches and the purposes of the two frameworks.

In other words, the RAF is intended to explicate the medium/long-term vision of the desired risk profile for the Group as a whole and for each Group company, defining the risk area within which the management functions must operate in pursuit of corporate strategies. Compared with

the RAF, the capital adequacy and liquidity assessment (ICAAP and ILAAP) represents an occasion to verify the stability of the risk appetite choices in terms of their consistency with the capital and liquidity resources available, guding any subsequent modification of the choices and the resulting overall strategy decisions.

SECTION 1 – RISKS WITHIN SCOPE OF ACCOUNTING CONSOLIDATION

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

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

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

	Bad loans	Unlikely to be repaid	Impaired past due exposures	Performing past due positions	Other performing positions	Total
1. Financial assets measured at amortized cost	424,591	1,233,171	335,875	1,171,736	150,555,122	153,720,496
2. Financial assets measured at fair value through other comprehensive income	33	-	-	-	8,196,396	8,196,429
3. Financial assets designated as at fair value	-	-	-	-	264,253	264,253
4. Other financial assets mandatorily measured at fair value	25	-	-	82	852,430	852,537
5. Financial assets held for sale	-	-	-	-	601	601
Total 30/06/2022	**424,649**	**1,233,171**	**335,875**	**1,171,819**	**159,868,802**	**163,034,316**
Total 31/12/2021	**600,231**	**1,472,866**	**332,699**	**1,727,692**	**163,804,085**	**167,937,570**

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

	Impaired assets				Performing assets			Total (net exposure)
	Gross exposure	Total adjustments	Net exposure	Total partial writeoffs	Gross exposure	Total adjustments	Net exposure	
1. Financial assets measured at amortized cost	5,559,131	3,565,493	1,993,638	273,304	152,921,489	1,194,630	151,726,859	153,720,496
2. Financial assets measured at fair value through other comprehensive income	33	-	33	-	8,206,242	9,846	8,196,396	8,196,429
3. Financial assets designated as at fair value	-	-	-	-	X	X	264,253	264,253
4. Other financial assets mandatorily measured at fair value	25	-	25	-	X	X	852,512	852,537
5. Financial assets held for sale	-	-	-	-	601	-	601	601
Total 30/06/2022	**5,559,189**	**3,565,493**	**1,993,695**	**273,304**	**161,128,332**	**1,204,476**	**161,040,621**	**163,034,316**
Total 31/12/2021	**6,447,965**	**4,042,170**	**2,405,795**	**282,901**	**165,604,663**	**1,255,454**	**165,531,775**	**167,937,570**

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	39	180,432
2. Hedging derivatives	-	-	1,491,834
Total 30/06/2022	**-**	**39**	**1,672,266**
Total 31/12/2021	**-**	**101**	**207,342**

* Values to be reported for information purposes

SECTION 2 – RISKS WITHIN SCOPE OF PRUDENTIAL CONSOLIDATION

1.1 CREDIT RISK

QUALITATIVE DISCLOSURES

1. GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca determines credit risk management policies at the Group level, setting guidelines and coordinating their implementation within the individual entities. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the subsidiaries, in agreement with the Parent Company;
- the Risk Management function supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the credit risk exposure of the Parent Company and all the Group companies.

This model also relies on the current governance structure, which provides for organizational separation between the units responsible for the operational management of lending (the Chief Lending Officer area, hereinafter also the CLO area) and control units (under the Risk Management function).

With regard to management of lending, the mechanisms for interaction between the Parent Company and the Group companies - defined on the basis of the Cohesion Contract – comprise specific credit governance rules, which on the one hand govern the related responsibilities and on the other ensure the compliance of the credit risk framework with the applicable regulatory framework to which the Parent Company is subject.

With regard to the management and coordination role, the Parent Company assumes responsibility for the following areas: lending rules (principles, policies and processes), credit strategies and credit risk limits, management of large exposures, guidelines for the main credit product categories by customer segment, the monitoring and reporting of portfolio credit risk.

In line with these credit governance rules, the Group companies must request the opinion of the CLO area ("credit opinion") before approving new credit lines or significant modifications to existing positions with individual counterparties/groups of connected clients if those facilities exceed predetermined amount thresholds both in absolute value considering the overall risk exposure of the Iccrea Cooperative Banking Group and with regard to compliance with credit risk concentration limits relation to the own funds of the individual Group bank.

The mapping of groups of connected clients, which seeks to identify and assess legal and financial connections between clients is conducted in accordance with principles and rules valid for the entire Banking Group and with the most recent regulatory guidelines in this field (EBA guidelines on connected clients, EBA/GL/2017/15).

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

Credit risk represents the preponderant component of the overall risks to which the Group is exposed, considering that credit exposures account for a dominant share of assets.

In light of this circumstance and in compliance with the applicable provisions concerning the internal control system (see Bank of Italy Circular No. 285/2013, Part One, Title IV, Chapter 3), the Group has adopted a governance structure and operational arrangements to ensure the adequate monitoring of credit risk in the various phases of the process.

Moreover, in relation to the application of the provisions of IFRS 9 and the related initiatives to ensure their implementation, especially as regards the classification and measurement of credit exposures, the Group further strengthened its risk management arrangements, with particular regard to the definition of credit classification and measurement policies, as well as the development of a structured framework of second-level controls of credit exposures, with particular regard to impaired positions.

The entire credit management and control process is governed by internal rules that also define risk control, management and mitigation activities, developing a structured system involving the various organizational units.

The Parent Company, in exercising the powers of strategic management and coordination granted to it under provisions of the Cohesion

Contract, defines the strategies, policies and principles for assessing and measuring risks and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level. With regard to the lending process, the Parent Company defines the credit approval process and the management of the associated risk (management of guarantees, including real estate, monitoring of exposures, classification of risk positions, management and measurement of impaired exposures).

From an organizational point of view, the CLO area assumes responsibility on behalf of the Parent Company and the companies in the direct scope of consolidation (directly owned by the Parent Company) for the supervision of all phases of the lending process from loan approval to the management of non-performing positions.

The main activities of the lending process performed by the CLO area are:

- issuing guidelines for the definition of the loan management model, issuing guidelines for the loan approval and disbursement process, and finalizing and defining/developing the lending authority model for the decision-making bodies;
- approving the general and specific exceptions for Group companies with respect to Group guidelines on customer segments/credit products;
- monitoring the Group's performing portfolio by analyzing and monitoring existing exposures and by issuing opinions (credit opinions) on credit exposures that exceed specified limits;
- defining the framework for assessing the creditworthiness of corporate, retail and banking counterparties;
- assessing the creditworthiness of banks and financial institutions to which the Parent Company and the companies in the direct scope of consolidation have granted credit;
- performing activities connected with the operational management of the rating models, carrying out rating overrides and providing assistance to Group companies in relation to the general principles and the reasons for the ratings assigned to individual counterparties.

With regard to credit monitoring, in addition to the definition of guidelines at Group level and the minimal set of early warning indicators for the interception and management of positions to be "monitored", the CLO area monitors the positions of the Parent Company and the companies within the direct scope that present an increase in credit risk, as well as examining the correct execution of the process implemented by the affiliated banks. Furthermore, the CLO area monitors the "most relevant" positions.

As part of the second-level controls, the Risk Management function has defined the overall methodological and operational framework in this area. It is applicable to the entire Group. The framework, which is governed with a specific body of regulatory and process documentation, covers all the activities and controls aimed at verifying, on a periodic basis, the appropriateness of the classifications of exposures, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

More generally, the Risk Management function oversees the risk management of the individual entities from a consolidated and individual perspective:

- overseeing the measurement of credit risk from a current and forward-looking perspective, considering both conditions of normal operations and stress scenarios;
- monitoring the capacity of the risk limits, including those defined within the RAF/RAS with regard to the associated credit risk metrics;
- defining and updating the methods and measurement models for credit risk, including those used in the performance of credit stress tests, ensuring their ongoing compliance with regulatory developments and market best practice.

2.2 MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

IDENTIFICATION OF RISKS

As noted in the previous section, in compliance with the provisions of Circular no. 285/2013 of the Bank of Italy as updated, the Parent Company determines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level, thus exercising the powers of strategic management and coordination aimed at ensuring the unity of the Group's strategic management and control system, as governed by the Cohesion Contract.

With particular regard to the lending process, the Parent Company governs lending and the management of the related risk. This also comprises the management of guarantees, including real estate, exposure monitoring, the classification of risk positions, and the management and valuation of impaired exposures.

In all of these phases, the Group uses qualitative and quantitative methods for assessing counterparty creditworthiness, supported by IT procedures that undergo periodic verification and maintenance.

With specific reference to the loan approval phase, the Group rules establish the key principles underpinning all phases of the process of approving/renewing loans, together with the roles and associated responsibilities of the various actors involved, specifying the procedures through which the Group intends to assume credit risk in respect of its customers, i.e. by identifying eligible counterparties and the admissible technical forms of credit for each customer segment.

In this specific context, a direct assessment is carried out to ascertain the needs and requirements of the applicant and therefore the purposes of the credit line and to accurately assess the credit risk profile: granting a loan requires an in-depth analysis of the risk associated with (i) the counterparty as well as the economic context in which it operates, (ii) the purpose and characteristics of the transaction to be financed, (iii) the guarantees available and (iv) other forms of credit risk mitigation.

The analysis of the counterparty is conducted so as to assess the overall profitability of the relationship using the associated valuation tools/models. The assessment of creditworthiness focuses, in turn, on an analysis of the borrower's ability to repay, without prejudice to the principle that credit can only be granted if it is clear how it will be repaid.

Without prejudice to the prudential limits set by applicable regulations, which are commensurate with own funds with regard to both the magnitude of the exposure to the individual counterparty and the total amount of larger exposures, the credit strategies provide for risk limitations on the basis of specific elements, such as, for example, the nature of the transaction (e.g. transactions intended to finance real estate whose repayment will be financed by sale or lease), the situation of the specific real estate market (type of asset, economic sector, geographical area, market demand, etc.), a current and forward-looking evaluation of the asset, the accurate quantification of timing and costs of carrying out the initiative.

Following the establishment of the Iccrea Cooperative Banking Group, Group policies were issued for all phases of the lending process and, therefore, the granting and disbursement of credit, management of guarantees, loan monitoring, loan classification, assessment of impaired positions, management of substandard positions and NPLs.

As noted earlier, the central moment of the preliminary phase of the lending process is that linked to the assessment and measurement of the credit risk of the transaction in question. The assessment is based on qualitative/quantitative information and is typically supported by the use of automated rating/scoring models designed to measure the creditworthiness of the counterparty and/or the possibility of proceeding with the transaction.

Ratings plays a key role lending, as they represent an essential element of the assessments made during the loan approval, review and renewal processes. The rating assignment involves an analysis of all the quantitative and qualitative information available to support the application approval process in order to accurately assess the risk profile of the transaction and to monitor the creditworthiness of existing counterparties over time.

For the companies in the direct scope of consolidation, the rating and scoring systems are already fully integrated into credit processes. Lending policies already provide indications concerning the minimum level of the decision-approval bodies - based on the technical form of financing, the guarantees securing the loan and the counterparty rating - and the related mechanisms for exceptions, which are granted and monitored by the Parent Company. Affiliated mutual banks have rating systems to support the loan approval/management process.

The evaluation models in use take into consideration:

- the specific features of the different types of counterparties, with particular reference to the Corporate segment (companies/producer households), Retail (consumers) and Institutional (bank counterparties);
- the specific features of the product involved, distinguishing between short, medium and long-term types of credit, or specialized technical forms (leases, factoring, consumer credit).

In general, the evaluation models use all the available updated information on the counterparty/transaction, drawn both from external sources (e.g. the Bank of Italy Central Credit Register and similar association databases, credit bureaus, financial statements, registry events) and internal sources (internal performance information).

The Group adopts a counterparty approach in assigning ratings except in specific cases in which the counterparty assessment is supplemented by a product-perspective evaluation, in consideration of any special features of a business. Using rating/scoring models, the Group assigns the counterparty a representative credit rating, adopting an on-line processing procedure, which is typically accessed through the electronic application processing system but also in batch mode, with the latter being adopted for periodic updating of ratings for all Bank customers (the loan position performance rating).

In compliance with the supervisory provisions governing the correct identification of the risk assumed, or to be assumed, in respect of a "group of connected clients", any legal or economic connections between clients are detected and evaluated by those responsible for analyzing creditworthiness during the application assessment phase of the lending process.

These objectives are achieved through an analysis that involves the acquisition of all available information such as financial statements, where available at Group level, or aggregated financial statements of the main entities involved, for subsequent processing, ad hoc information on intercompany items of a financial and operating nature that may not be reported in the financial statements, or on operating flows between Group companies, on the presence of centralized treasury operations and, more generally, on the activities, the market and the competitors of the Group and all entities connected with it.

The monitoring process envisaged by the model is independent with respect to classification status (for example, a position on which payments are being made regularly but has been classified as unlikely to pay due to another non-performing exposure in the system). It is based on the following:

- the use of early warning indicators that permit timely detection of risk signals;
- the definition and attribution of responsibilities in the monitoring process;
- the definition and execution of risk mitigation actions;
- the generation of appropriate information flows between the bank and the Parent Company.

More specifically, within the process we distinguish:

- a phase in which early warning signals are identified, using risk indicators to detect exposures affected by an appreciable increase in credit risk in order to analyze their risk profile and take appropriate management actions;
- a management phase, aimed at examining the identified positions and taking, where necessary, specific management actions in order to promptly mitigate the risk of a deterioration in the position.

The identification of the positions under observation, using IT support procedures, can be carried out manually (i.e. based on the "manual" acquisition of information about, for example, significant changes in the corporate group to which the counterparty belongs, failure to comply with covenants, voluntary declarations of difficulties made by the counterparty, news reports, etc.), or using automated processes, i.e. procedures based on a set of indicators (from external or internal sources, regarding the relationship between the bank and the counterparty, or the capital structure and financial resources of the latter) that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship.

Automated identification must be based on a set of indicators that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship (directly related to the client's relationship with the Bank or the client's financial structure, based on data from external or internal sources). These indicators are differentiated on two levels (1 and 2) that indicate an increasing degree of risk, In the case of level 2 indicators, the position undergoes an analysis of counterparty creditworthiness, which may involve a re-examination of the borrower, in order to verify the capacity of the client to honor its commitments through to full repayment.

The process of managing "watch list" exposures therefore enables the analysis of the risk profile of "watch list" counterparties and the definition of appropriate management actions in the context of the monitoring processes with a view to returning the position to normal status or mitigating the risk connected with the exposure.

RISK MEASUREMENT AND ASSESSMENT

For the purpose of calculating prudential requirements for credit risk, the Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The adoption of the standardized approach to determine the capital requirement against credit risk involves the subdivision of exposures into portfolios and the application of differentiated prudential treatments to each, possibly using assessments of creditworthiness (external ratings) issued by external agencies (ECAI) or by export credit agencies (ECA) recognized for prudential purposes on the basis of the provisions of Regulation (EU) No. 575/2013.

Depending on the type of counterparty and the sector in which it operates, the Group's operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral).

For the purposes of determining internal capital for concentration risk for individual counterparties or groups of connected clients, the Group uses the regulatory granularity adjustment (GA) algorithm, based on the Herfindahl index. In accordance with regulatory provisions, the reference portfolio consists of on-balance-sheet and off-balance sheet exposures (the latter considered at their credit equivalent amount) falling within the regulatory portfolios "corporates and other borrowers", "short-term exposures to corporates" and exposures to corporates included in the asset classes "in default", "secured by real estate", "equity exposures" and "other exposures".

Furthermore, for the purpose of quantifying geo-sectorial concentration risk, the Group adopts the methodology developed by the "Geo-Sectoral Concentration Risk Laboratory" of the Italian Banking Association (ABI), which sets geographical and product categories against a national asset allocation benchmark.

The Group periodically performs stress tests for credit and concentration risks in order to assess - in terms of potential losses - the impact of expected risk developments on the financial profile of the Group and the individual entities under both normal and adverse operating conditions.

The stress test methods are based on regulatory practices and are applied in various management and risk governance processes, starting with the capital adequacy assessment process (ICAAP), as well as in the performance of supervisory exercises.

The methodological and calculation structure of credit stress tests is based on the use of internal risk models and parameters and incorporates a credit risk projection approach (transitions between stages/risk states) and determination of related losses over the scenario years (12-month

or lifetime expected credit loss) based on the measurement of IFRS 9 impairment.

The projections of the estimates for the scenario years are performed considering the macroeconomic scenario assumptions in the adopted scenarios (in baseline or adverse conditions), using internally developed models (“satellite” models), which estimate the relationship between risk factors and developments in macroeconomic variables.

RISK MONITORING AND CONTROL

In accordance with supervisory regulations (Bank of Italy Circular no. 285/2013), the Risk Management function performs - at both the consolidated and individual legal entity levels – second-level control activities to verify the adequacy, effectiveness and consistency over time of policies and limits, processes and delegated powers with regard to the credit risk management process, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management function through analysis of developments in the exposure to credit risk of the Group as a whole and of the individual entities.

The Internal Audit unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

The locus of the strategic and operational management of credit risk is the Group’s Risk Appetite Statement, through a comprehensive system of risk objectives and limits (appetite, tolerance and capacity) at both the consolidated and individual entity levels, with compliance ensured by the monitoring and control activities of the function.

Monitoring and reporting on the credit risk profile is characterized by activities that involve both the business functions and the control functions, in accordance with their respective responsibilities. In particular, monitoring is ensured both by aggregate portfolio performance analyzes and by analyzes carried out on individual positions.

The Risk Management function monitors the credit risk profile – at both the consolidated and individual affiliated bank and Group company level, using an analytical framework and related reporting based on a system of key risk indicators. It is designed to monitor the loan portfolio, at both the time exposures are taken on and during their lifetime, the outcomes of which are reported regularly to top management. In this context, the analytical methods and the related reporting undergo constant fine-tuning in order to represent the drivers underlying developments in credit risks in an ever more effective manner, reflecting changes in the regulatory environment as well as management requirements and to support decision-making.

As noted earlier, Risk Management developed the Group second-level control framework, which comprises control activities aimed at ascertaining, on a periodic basis, the consistency of exposure classifications, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

The control methods envisaged by the framework undergo constant refinement and evolution, with a view to directing second-level controls ever more effectively in response to developments in the credit risks of the Group.

The evolution of the “285 Controls” system was continued with the definition of a risk control process that is even more effective in the central guidance of the activities performed by the risk management units operating at the banks, with preliminary application to reporting for the first half of 2022.

In this regard, the evolution of the “285 Controls” system has envisaged:

- the concentration - from a “risk-driven” perspective- of single file checks on accurate classification and appropriate credit assessment, representing a significant effect of credit risk management by adopting a sampling criterion based on the level of potential impairment;
- the identification of any segments of the Group loan portfolio requiring single file controls, in addition to those provided for under the ordinary system (“contingency sampling”. For the first control cycle of 2022, these additions involved: (i) positions involved in an expired moratorium, in view of the persistence of the effects of the pandemic on the borrowers concerned and the ongoing attention dedicated by the supervisory authorities to this issue; (ii) the positions with potential direct and/or indirect impacts deriving from the Russia-Ukraine conflict.

2.3 METHODS FOR MEASURING EXPECTED CREDIT LOSSES

The Group has adopted a framework for determining impairment based on risk assessment models and the corresponding parameters used in operational and management practices by the Parent Company and individual Group entities. In accordance with the provisions of IFRS 9, the methods for measuring expected losses on impaired exposures are based on the following elements:

- a 3-stage (stage allocation) approach, based on changes in credit quality, defined on a model of 12-month expected loss or lifetime expected loss if a significant increase in credit risk is detected. The standard provides for three different categories that reflect the deterioration in credit quality since initial recognition:

  - stage 1: financial assets originated and/or purchased that do not exhibit objective evidence of impairment at the date of initial recognition or that have not experienced a significant deterioration in their credit quality since the date of initial recognition or which have low credit risk (low credit risk exemption);
  - stage 2: financial assets whose credit quality has deteriorated significantly since the date of initial recognition;
  - stage 3: financial assets that exhibit objective evidence of loss at the reporting date. The population of these exposures is consistent with those considered "impaired" under IAS 39.
- application of "point-in-time" formulations of the parameters for measuring credit risk for the purpose of calculating impairment;
- calculation of lifetime expected credit loss for exposures not classified in Stage 1, using lifetime parameters;
- inclusion of forward-looking conditioning in the calculation of ECL, considering the average loss from each scenario and the associated probability-weighted likelihood of each outcome;
- staging and transfers of financial assets between the stages.

In accordance with the standard, the Iccrea Group allocates each asset/tranche to one of the following three stages:

- stage 1, which includes all newly issued exposures and all exposures in respect of counterparties classified as performing that, as at the reporting date, meet the condition for the low credit risk exemption, or that do not show a significant increase in credit risk with respect to the level measured at the date of disbursement or purchase;
- stage 2, which includes all performing positions/tranches that at the time of assessment simultaneously meet the following two conditions: (i) they have a PD greater than the threshold, (ii) they have experienced a significant increase in credit risk with respect to the level measured at the origination date. In the absence of a rating/PD at the reporting date, exposures are generally allocated to stage 2 (without prejudice to the additional considerations and practices addressed below);
- stage 3, which includes all exposures that, as at the evaluation date, are classified as non-performing under the default definition adopted and governed by specific internal rules in conformity with supervisory regulations.

The staging method of the Group was developed on the basis of the following drivers.

The method developed for the loan portfolio envisages:

- the use of the low credit risk (LCR) criterion, under which credit risk is deemed to have not increased significantly if the exposure shows a low level of credit risk at the reporting date, essentially defined as a PD threshold at the reporting date equal to the investment grade threshold;
- the use of quantitative criteria based on rating/scoring systems, involving the analysis and comparison of the PD/rating at origination with the PD/rating at the reporting date. This identifies, on the basis of thresholds of significance defined in terms of the number of notches that a rating has changed, any significant increase in credit risk on the position.
- the use of qualitative staging criteria to identify the riskiest positions in the performing portfolio. These criteria have been defined independently of the use (or not) of the quantitative criteria referred to in the previous point and are based on the identification of objective evidence of impairment, such as the presence of forbearance measures, positions more than 30 days past due or positions under observation (watch list).

The staging methodology developed for the securities portfolio is applicable to the entire portfolio of debt securities outstanding at the reporting date for the various Group entities. Not included in the calculation of impairment, and therefore not subject to the staging mechanism, are shares, equity investments, units of collective investment undertakings, securities classified as held-for-trading and debt securities that do not pass the benchmark test and the SPPI test.

The approach adopted for the securities portfolio provides for the use of the principle of the low credit risk exemption, which allocates exposures with a conditional 12-month PD below the investment grade threshold to stage 1. Positions with a conditional 12-month PD above that threshold are allocated to stage 2.

Group entities with a securities portfolio use the external ratings of an ECAI at the tranche level. For the purpose of assigning a rating to securities exposures at the reporting date, only ECAIs with which a valid information-use agreement is in place are used.

Starting from the allocation of exposures in the different stages, the calculation of expected losses (ECL) is carried out, at the level of each position, on the basis of the estimated risk parameters (EAD, PD, LGD) using internal management models, performed in compliance with the requirements of the applicable accounting standard.

In particular, for the purposes of determining the probability of default (PD), the approach adopted for both the loan portfolio and the securities portfolio envisages:

- the transformation of the "through-the-cycle" PD into (or calculation of) the "point-in-time" (PIT) PD on the time horizon for the most recent historical observations;

- the inclusion of forward-looking scenarios through the application of multipliers generated by internal "satellite" models to the PIT PD and the definition of a series of possible scenarios and the associated probability of occurrence that incorporate future macroeconomic conditions in the estimates;
- the transformation of the 12-month PD into a lifetime PD in order to estimate the PD term structure over the entire residual life of the loans.

Loss Given Default (LGD) is determined using an approach based, in general, on the observation of historical loss rates on non-performing positions and on the application of the danger rate matrices, corresponding to the probability of a counterparty being classified as non-performing, regardless of the intermediate default states. For the securities portfolio, the unconditioned LGD measures are the same for both stage 1 and stage 2 exposures. In particular, an unconditioned LGD of 45% is used, subsequently subjected to forward-looking conditioning, consistent with the scenarios and the probabilities of occurrence used for conditioning the PD, as discussed below.

Exposure at Default (EAD) is calculated on the basis of the amortized cost schedules of the individual relationships for both loans and debt securities. For exposures relating to margins, EAD is determined by applying a specific Credit Conversion Factor (CCF) to the nominal value of the position.

For the purposes of calculating ECL under IFRS 9, the risk parameters are estimated from a forward-looking perspective through conditioning to macroeconomic scenarios. The approach adopted consists in the use of specific multipliers for each forecast year,[29] to be applied to the parameters estimated on the basis of the scenarios and forecast values for the exogenous macroeconomic variables. In order to reflect the different forward-looking riskiness of the positions assessed in the ECL estimates, these multipliers are differentiated, for example the PD, by type of counterparty, sector of economic activity and geographical area. To determine the macroeconomic conditioning measures to be applied in the calculation, two types of scenarios are used, the first relating to an ordinary economic situation (or "baseline"), the other to an adverse situation ("worst plausible scenario"), which is associated, using judgment, with the corresponding probability of occurrence, also taking account of the greater alignment of the baseline scenario with typical market conditions.

Finally, in line with the treatment of the Group's performing portfolios, in 2022 Iccrea Banca has provided full technical support in managing the impact of the Asset Quality Review (AQR) performed in 2021. The broader range of interventions implemented include the application of the more prudent measures incorporated in the IFRS 9 ECL framework for performing portfolios, both in the determination of risk measures conditioned for macroeconomic scenarios and within the framework of staging performing exposures.

IMPACT OF COVID-19

The reporting for first half of 2022 reflects the continuation of the technical measures envisaged for the 2021 annual financial statements as part of the comprehensive set of initiatives launched by the Group for the purposes of managing the COVID-19 emergency on a structural basis, where the work connected with the review of the credit risk forecasting metrics was of particular importance, factoring the new analytical determinants associated with this new context into the ordinary measurement processes, and in particular within the IFRS 9 impairment framework for the purposes of estimating expected losses on performing loans (expected credit losses, ECL). [30]

The sharp discontinuity in market conditions generated by the effects of COVID-19 had already required the application of a series of extraordinary methodological and implementive measures to the 2021 financial statements in order to incorporate the potential impacts of the pandemic into the impairment model. The introduction of measures to support the economy and customers, with particular reference to the initiatives undertaken by the Group under the provisions of the relevant decree laws, the measures agreed with industry associations and the private initiatives implemented by individual entities led to the introduction of additional methodological changes in the IFRS 9 impairment framework in order to reflect its impact in the calculation of expected credit losses.[31]

The following sections set out the measures taken to adjust the impairment framework in connection with the COVID-19 pandemic, which impacted the calculation of expected credit losses at the reporting date.

Determining the presence of a significant increase in credit risk (SICR)

The measures implemented in response to the pandemic, with specific regard to determining whether a significant increase in credit risk has occurred, concerned the inclusion of the loan repayment moratoriums for households and micro, small and medium-sized enterprises contained in Decree Law 18/2020 (the "Cure Italy Decree"), as ratified with Law 27/2020. The management of the impact of these support measures included the adaptation of automatic staging mechanisms in order to ensure that the stage allocation criteria were consistent with the methods and purposes of the support measures, while still using an appropriate degree of prudence in assessing such positions.

In this context, specific measures have been envisaged for the 2022 half-year closure concerning the mechanisms for managing the temporary measures to support the liquidity of companies contained in Decree Law 23/2020 (the "Liquidity Decree"), as ratified with Law 40/2020. In

[29] Applied specifically to each reference period in the first three years of the projection. For subsequent years it is calculated as an average of the multipliers for the first three years.

[30] Starting with the closure of the 2020 interim financial statements, the Stage 3 impairment add-on was applied so that the reduction in recoveries in the new market conditions engendered by the COVID-19 crisis would be reflected within the analytical process envisaged by the credit assessment policy.

[31] Including the probation period for exposures involved in moratoriums that had previously been allocated to stage 2.

particular, the freeze on classification to stage 2 of positions subject to the Liquidity Decree was eliminated, with the obvious purpose of management prudence consistent with the end of the pandemic emergency. Accordingly, the staging of these positions is determined consistently with the stage allocation triggers envisaged by the model.

Measurement of expected losses

The contingent circumstances associated with the COVID-19 emergency made it necessary to take additional specific steps to adjust estimates of expected credit losses and consequently to modify the quantification of IFRS 9 impairment losses to take account of the pandemic. More specifically, in addition to the measures taken to assess the impact of the moratoriums described above, the measures introduced to reflect COVID-19 impacts involved the use of macroeconomic forecast scenarios updated in response to the evolution of the pandemic and market conditions. In particular, in order to enable the adaptation of the IFRS 9 methodological framework to the pandemic, the difficulty of modeling its peculiar characteristics using ordinary tools (satellite models) prompted the use of forward-looking projection metrics to be applied to the risk parameters (PD, LGD) estimated on the basis of the forecast values of the exogenous macroeconomic variables provided by an external provider. These measures were differentiated by type of counterparty, sector of economic activity and geographical area in order to reflect differences in the potential impacts of the pandemic at the sectoral and territorial levels more precisely in the estimate of provisions. The exercise used two different scenarios are considered, a baseline scenario and an alternative scenario. The weights of the individual scenarios used for calculating expected credit losses were 90% for the baseline scenario and 10% for the worst plausible scenario.

A sample of the main macroeconomic variables used to apply the forward-looking conditioning factors includes: Italian real GDP growth, the general consumer price index for Italy, the Italian unemployment rate, 3-month Euribor, the 3-year swap rate, the 10-year BTP rate, etc. In particular, the process of updating the scenarios at the 2022 half-year closure involved the incorporation of new conditioning factors built on updated projections for the main macroeconomic variables that incorporate the repercussions of the Russia-Ukraine conflict.

2.4 CREDIT RISK MITIGATION TECHNIQUES

As required by Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms (CRR), the Group is strongly committed to compliance with all the requirements for the appropriate application of credit risk mitigation (CRM) techniques in accordance with the standardized approach for the calculation of capital requirements both for internal management and regulatory purposes.

Specific guidelines issued by the Parent Company are currently in force for the Group. They define common rules and principles for the direction, governance and standardized management of risk mitigation techniques, best practices and regulatory requirements in this field.

Specifically, under the current credit policy, the CRM techniques recognized for all capital requirement calculation methods are divided into two general categories:

- funded credit protection, consisting of:
  - collateral, represented by cash deposits, financial instruments that meet certain requirements, and gold. These guarantees can be provided through pledge agreements, transfer of ownership with a guarantee function, repurchase agreements or securities lending arrangements. The Group has implemented systems to a) verify the acceptability of these guarantees and value the assets at the time of acceptance and, where applicable, determine the haircuts to be applied to the collateral; and b) ensure the continuing compliance of the guarantees with eligibility requirements through continuous monitoring, governed and supported appropriately by internal procedures;
  - master netting agreements that involve repurchase agreements, securities lending arrangements, loans with margins as well as OTC derivatives;
  - on-balance-sheet netting;
  - real estate mortgages and property lease transactions involving properties that have the characteristics required by law;
- unfunded credit protection, consisting of unsecured guarantees and credit derivatives.

Unsecured guarantees eligible for CRM purposes consist of all forms of credit protection provided by the entities (providers) specified in Article 201 of the CRR (central governments, central banks, international organizations, public sector entities, regional governments and local authorities, multilateral development banks, supervised intermediaries). Accordingly, guarantees issued by natural persons or legal entities not included in the list indicated in the legislation do not fall within the risk mitigation techniques for calculating capital requirements, but are not excluded from the Group's catalog of guarantees, which comprises not only the guarantees eligible for CRM purposes, but also guarantees not eligible for CRM purposes, as mentioned above.

Credit risk mitigation techniques may include guarantees provided by collective loan guarantee consortia in accordance with applicable regulations in the presence of suitable counter-guarantees (for example the Central Guarantee Fund for SMEs) for the portion they secure.

The different CRM techniques, whether funded or unfunded, are subject to both general and specific eligibility requirements that must be met

at the time the guarantee is established and for the entire duration of the guarantee.

The general requirements, which are intended to ensure legal certainty and the effectiveness of the guarantees, mainly concern:

- the binding nature of the legal commitment between the parties and its enforceability in court;
- the technique used to provide the credit protection together with the actions and steps taken and procedures and policies implemented by the lending institution shall be such as to result in credit protection arrangements which are legally effective and enforceable in all relevant jurisdictions. The lending institution shall provide, upon request of the competent authority, the most recent version of the independent, written and reasoned legal opinion or opinions that it used to establish whether its credit protection arrangement or arrangements meet the condition laid down in the first subparagraph" (see Article 194 of the CRR);
- the lending institution shall take all appropriate steps to ensure the effectiveness of the credit protection arrangement and to address the risks related to that arrangement;
- the timeliness with which the guarantee may be liquidated in the event of default;
- the formalization of techniques and operating procedures adequate to ensure continuing compliance over time with the general and specific requirements required for CRM techniques. These procedures must be valid and applied by all Group companies in order to avoid possible inconsistencies in the assessment. Checks shall be carried out in relation to the current legal value of the documentation submitted, the impact of any changes in the regulatory framework and the consequent initiatives to be taken. Risks related to the ineffectiveness, reduction or termination of the protection ("residual risks") as well as valuation and potential concentration risks in respect of specific counterparties shall also be controlled and managed.

Specific requirements are established for the individual CRM techniques in relation to their features and are intended to ensure a high level of effectiveness of the credit protection.

3. IMPAIRED CREDIT EXPOSURES

3.1 MANAGEMENT STRATEGIES AND POLICIES

According to the EBA definition, non-performing exposures satisfy either or both of the following criteria:

- material exposures which are more than 90 days past-due;
- the debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Impaired exposures are classified by increasing degree of severity in the following three categories:

- impaired past due and or overlimit exposures: exposures continuously past due or overlimit by more than 90 days in an amount exceeding the materiality thresholds (a relative materiality threshold equal to 1% of the entire exposure and an absolute materiality threshold of €100 or €500 for retail or corporate counterparties respectively;
- unlikely to pay (UTP) exposures: on- and off-balance sheet exposures for which the institution considers that the obligor is unlikely, without recourse to actions such as realizing security, to pay its credit obligations (principal and/or interest);
- default: on- and off-balance sheet exposures to an obligor in a state of insolvency (even if not declared by a court) or a substantially comparable situation, regardless of any expected loss.

The regulations also require that individual exposures, regardless of the classification of the counterparty, be identified as forborne exposures when they have been granted forbearance measures that meet the regulatory definition of such measures.

Such forborne exposures are in turned distinguished into:

- performing forborne, if the counterparty is classified as performing at the time the forbearance measures are granted and such measures do not require that the counterparty be classified differently;
- non-performing forborne, if the counterparty is already classified in one of the categories of non-performing at the time the forbearance measures are granted and such measures require that the counterparty be classified as non-performing.

Any other types of customer segmentation adopted by the affiliated banks and companies within the direct scope of consolidation for internal management purposes only (for example "watch list exposures") in order to assess of specific situations, whether performed using automated system or manually, are mapped to the above categories, ensuring that the mapping method is immediately understandable and transparent.

In identifying forborne exposures, the regulations require a transaction-by-transaction approach, regardless of their classification (impaired past due and/or overlimit exposures, unlikely to pay exposures or defaults): although the state of financial difficulty must be ascertained at level of the debtor, only the exposures referred to the latter that have actually been granted forbearance measures must be classified as

forborne.

These classification rules are further supplemented by that established in IFRS 9, according to which credit exposures must be allocated to three stages (for more details, see the previous discussion). Among impaired exposures, allocation to stage “3” is underscored, which occurs when the customer’s status changes to “non-performing”.

In organizational terms, the Group has governance and operational structures to enable the efficient and sustainable management of impaired loans. Specifically, the individual Group companies will implement their policies for the management and recovery of anomalous positions and NPLs by drafting of internal rules customized to reflect the characteristics of the territory in which they operate, the scale of operations, their business model and related organizational structure, always in compliance with the provisions of Group policy.

For the purposes of identifying non-performing exposures, the Group:

- applies a unified and harmonized definition of NPLs in all Group companies, consistent with the applicable regulatory provisions;
- considers legal and financial connections between counterparties and adopts a group perspective in identifying the exposure of a debtor as impaired (default propagation).

The Parent Company defines the strategy for managing non-performing exposures, which is approved and monitored by its Board of Directors. Specifically, the Parent Company defines the objectives in terms of reducing expected NPE levels at Group level and establishes, with the support of the Group companies, the objectives for the individual companies and the related management strategies to ensure a common commitment and a consistent approach to achieving the objectives. The implementation of the strategy is supported by the Parent Company through the delivery of specialized support services, the provision of tools to facilitate the uniform management of impaired positions and a Group operational plan, which is also approved by the Parent Company’s Board of Directors.

Furthermore, in order to enhance the commitment of the resources dedicated to the management of non-performing exposures in order to achieve the defined objectives, all Group companies have developed a system for measuring the performance of senior management and the organizational structures dedicated to management of non-performing exposures, which promotes, based on specific indicators, the commitment to managing such exposures.

In accordance with the principle of proportionality, the individual Group companies define their own performance evaluation and monitoring systems in line with Group policy. Specifically, it is considered necessary for Group companies to adopt performance indicators that take account of a set of quantitative and qualitative factors, including for example:

- developments in the stock of gross and net non-performing exposures, in line with the Group’s Strategic Plan;
- methods for applying forbearance measures;
- the total amount recovered on the loan portfolio with a focus on collections, liquidations and asset sales;
- the aging of positions by recovery management phases;
- the regular performance of agreed restructuring plans;
- the application of writeoffs;
- the reduction of arrears and the improvement of portfolio quality.

3.2 WRITEOFFS

Writeoff means the derecognition from the financial statements of a loan, or part of a loan, and the consequent recognition of a loss ascertainment that the exposure cannot be collected or it is uneconomic to continue any associated recovery activities under way. It may occur before the legal action to recover the financial assets are completed and does not necessarily entail waiver of the bank’s right to the asset. A writeoff may be total, and therefore regard the entire amount of a financial, or partial (in all those cases in which the claim recognized is smaller than the carrying amount, for example in insolvency proceedings). The amount of the writeoff must always take account of any expenses, including legal costs, accrued and not yet invoiced at the time of analysis.

A writeoff involves:

- the reversal of total writedowns against the gross value of the financial asset;
- for any part exceeding total writedowns, the impairment loss on the financial asset is recognized directly in profit or loss.

Any recoveries from collection after the recognition of the writeoff are recognized in profit or loss as writebacks.

Writeoffs recognized for unrecoverability refer to cases in which the Bank is in possession of documentation certifying the significant probability that the loan may not be recovered, in whole or in part. Specifically, the irrecoverable status of the loan must be attested to by certain and specific circumstances, such as for example:

- the obligor, co-obligors and/or connected guarantors are untraceable or destitute;
- there has been no recovery from enforcement of guarantees or collateral and seizures;
- the period of limitations has passed;
- insolvency proceedings have been closed with incomplete restitution for the bank, in the absence of further guarantees that could be enforced;
- it is impossible to take further action in consideration of the overall financial position and income situation of the obligors and co-obligors (guarantors included);
- all legal or out-of-court actions have, following a careful examination of updated documentation (by way of partial example, commercial information, title searches, searches, etc.), already been carried out or are deemed inappropriate.

Writeoffs recognized because further action would be uneconomic occur when it is recognized, and can be demonstrated, that the costs related to the continuation of loan recovery actions (for example: legal, administrative and other costs) would exceed the value of the financial asset that is expected to be recovered.

3.3 FINANCIAL ASSETS PURCHASED OR ORIGINATED CREDIT-IMPAIRED

Financial assets purchase or originated credit impaired ("POCI") are credit exposures that are impaired upon initial recognition.

Such exposures may arise both from the purchase of impaired credit exposures from third parties or from the restructuring of impaired exposures that involved the grant of new financing that is significant in absolute or relative terms in proportion to the amount of the original exposure.

These exposures are subject to management, measurement and control in accordance with the principles discussed in the previous section of the consolidated notes to the financial statements. In particular, the expected credit losses recorded at initial recognition in the carrying amount of the instrument are reviewed periodically based on the processes described in the preceding sections.

The expected loss for these exposures is always calculated over their lifetime and the exposures are conventionally reported under stage 3, or stage 2 if, following an improvement in the credit quality of the counterparty since initial recognition, the assets are performing.

Such assets are never classified under stage 1 since the expected credit loss must be calculated on a lifetime basis.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONS AND EXPOSURES GRANTED FORBEARANCE MEASURES

Renegotiations of financial instruments that result in a change in the contractual conditions may be associated with:

- commercial initiatives that may be defined specifically for each customer or applied to categories of customer, perhaps as a result of dedicated initiatives promoted by public bodies or banking associations;
- the renegotiation of financial instruments prompted by the debtor's financial difficulties (forbearance).

The key objective of granting forbearance measures is to pave the way for non-performing borrowers to exit their non-performing status, or to prevent performing borrowers from reaching a non-performing status. Forbearance measures should always aim to return the exposure to a situation of sustainable repayment.

The status of forborne must be associated with the individual exposure. Accordingly, a forborne exposure can be classified as performing forborne or non-performing forborne depending on the status of the counterparty to which these exposures are attributable.

In order to classify new concessions granted to a customer as forbearance measures, the following must occur:

- compliance of the measures with the notion of "forbearance" provided for in Regulation (EU) 227/2015;
- the borrower must currently or prospectively be in a situation of financial difficulty at the date of the measure is approved.

The applicable regulations define the following concessions to be potentially identifiable as forbearance*:*

- contract modifications granted by a bank in favor of a debtor solely in consideration of the debtor's financial difficulties;
- the grant of total or partial refinancing by a bank to a debtor in financial difficulties in order to enable the debtor to repay an existing obligation to the bank; this case also includes additional finance operations aimed at the completion-optimization of an existing obligation to the bank;

- contract modifications that can be requested by a debtor under the terms of a contract already agreed by the Bank in the knowledge that the debtor is experiencing financial difficulties (embedded forbearance clauses).

Concessions qualifying as forbearance measures, regardless of the form adopted (renegotiation or refinancing) must therefore give the borrower more favorable treatment compared with to the contractual terms originally agreed with the Group company or compared with the terms conditions that would be granted to other borrowers with the same risk profile. Furthermore, they must be exclusively intended to enable the borrower to honor the new commitments and deadlines.

Contract modifications and renegotiations granted solely for commercial reasons/practice do not qualify as forbearance measures since, even though the modification may be a concession measure, the debtor is not experiencing financial difficulties. Debtors can always request modifications to the contractual terms of their loans without experiencing difficulty in meeting their financial obligations.

Loan moratoriums (payment holidays) granted without discrimination between type of obligation or debtor in order to support areas hit by natural disasters also do not qualify as forbearance measures.

Finally, the forbearance measures must always be financially sustainable for the debtor and not increase costs (main and ancillary), as this might qualify the transaction as usury (Article 644, third paragraph, of the Criminal Code).

Forbearance measures may be short- or long-term depending on the temporary or permanent nature of the financial difficulty. In particular, Short-term forbearance measures are defined as restructured repayment conditions of a temporary nature that do not address the resolution of outstanding arrears and generally do not exceed two years.

An assessment of the financial situation of the debtor should not be limited to exposures with apparent signs of financial difficulties. An assessment of financial difficulties should also be conducted for exposures where the debtor does not have apparent financial difficulties, but where market conditions have changed significantly in a way that could impact the ability to repay.

The assessment of any financial difficulties on the part of a debtor should be based on the situation of the debtor only, disregarding collateral or any guarantees provided by third parties. Furthermore, the notion of "debtor" should include all the natural and legal persons belonging to the debtor's group: the assessment must comprise such persons in order to determine whether situations of difficulty at the group level could compromise the capacity of the debtor to fulfill its obligations to the Group lender.

For a description of the impact of the economic support measures implemented by the government and trade associations on the SICR assessment process and on the measurement of expected credit losses, please see section 2.3 Methods for measuring expected credit losses.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 - IMPAIRED AND PERFORMING CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR

A.1.4 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS AND NET VALUES

	Gross exposure					Total writedowns and total provisions					Net exposure	Total partial writeoffs *
		Stage 1	Stage 2	Stage 3	Purchased or originated credit		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
A. On-balance-sheet exposures												
A.1 Demand	**855,993**	**565,203**	**290,789**	**-**	**-**	**3,205**	**1,551**	**1,654**	**-**	**-**	**852,788**	**-**
a) Impaired	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	855,993	565,203	290,789	X	-	3,205	1,551	1,654	X	-	852,788	-
A.2 Other	**3,715,411**	**3,138,031**	**490,827**	**1,294**	**-**	**12,718**	**2,246**	**9,232**	**1,240**	**-**	**3,702,693**	**-**
a) Bad loans	16	X	-	-	-	-	X	-	-	-	16	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely to be repaid	1,294	X	-	1,294	-	1,240	X	-	1,240	-	54	-
- of which: forborne exposures	520	X	-	520	-	520	X	-	520	-	-	-
c) Impaired past due exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past due exposures	7	-	7	X	-	-	-	-	X	-	7	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing assets	3,714,094	3,138,031	490,820	X	-	11,478	2,246	9,232	X	-	3,702,616	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
Total (A)	**4,571,404**	**3,703,234**	**781,616**	**1,294**	**-**	**15,923**	**3,797**	**10,886**	**1,240**	**-**	**4,555,481**	**-**
B. Off-balance-sheet exposures												
a) Impaired	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	2,315,825	527,502	61,392	X	-	78,831	73,990	4,841	X	-	2,236,994	-
Total (B)	**2,315,825**	**527,502**	**61,392**	**-**	**-**	**78,831**	**73,990**	**4,841**	**-**	**-**	**2,236,994**	**-**
Total (A+B)	**6,887,229**	**4,230,736**	**843,009**	**1,294**	**-**	**94,754**	**77,787**	**15,727**	**1,240**	**-**	**6,792,475**	**-**

* Values to be reported for information purposes

A.1.5 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS AND NET VALUES

	Gross exposure					Total writedowns and total provisions					Net exposure	Total partial writeoffs *
		Stage 1	Stage 2	Stage 3	Purchased or originated credit		Stage 1	Stage 2	Stage 3	Purchased or originated credit		
A. On-balance-sheet exposures												
a) Bad loans	2,231,428	X	-	2,228,909	2,511	1,806,795	X	-	1,804,957	1,838	424,633	265,863
- of which: forborne exposures	453,159	X	-	452,046	1,113	331,316	X	-	330,208	1,108	121,843	36,996
b) Unlikely to be repaid	2,893,379	X	-	2,886,685	4,663	1,660,262	X	-	1,657,196	3,065	1,233,117	7,441
- of which: forborne exposures	1,685,968	X	-	1,680,713	3,224	966,129	X	-	964,342	1,787	719,839	5,885
c) Impaired past due exposures	433,075	X	-	433,075	-	97,200	X	-	97,200	-	335,875	-
- of which: forborne exposures	70,022	X	-	70,022	-	14,562	X	-	14,562	-	55,460	-
d) Performing past due exposures	1,232,047	585,796	646,017	X	113	60,196	7,069	53,124	X	3	1,171,851	-
- of which: forborne exposures	159,625	69	159,443	X	113	16,508	2	16,504	X	3	143,117	-
e) Other performing assets	157,332,664	146,939,430	9,327,358	X	752	1,132,803	557,963	574,790	X	43	156,199,861	317
- of which: forborne exposures	2,233,099	2,825	2,230,022	X	210	142,340	31	142,299	X	8	2,090,759	195
Total (A)	**164,122,593**	**147,525,226**	**9,973,375**	**5,548,669**	**8,039**	**4,757,255**	**565,032**	**627,913**	**3,559,353**	**4,949**	**159,365,338**	**273,621**
B. Off-balance-sheet exposures												
a) Impaired	257,540	X	-	257,540	-	84,279	X	-	84,279	-	173,261	-
b) Performing	23,872,180	21,515,440	2,096,783	X	-	139,103	73,942	65,109	X	-	23,733,077	-
Total (B)	**24,129,720**	**21,515,440**	**2,096,783**	**257,540**	**-**	**223,382**	**73,942**	**65,109**	**84,279**	**-**	**23,906,338**	**-**
Total (A+B)	**188,252,313**	**169,040,666**	**12,070,158**	**5,806,209**	**8,039**	**4,980,637**	**638,974**	**693,022**	**3,643,632**	**4,949**	**183,271,676**	**273,621**

* Values to be reported for information purposes

1.2 MARKET RISKS

1.2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS

The term supervisory trading book refers to the portfolio consisting of positions intentionally held for subsequent short-term disposal and/or taken on to benefit from short-term differences between purchase and sales prices, or other changes in prices or interest rates. In general, the supervisory trading book is represented by the positions held under an "other" business model, namely "held for sale", i.e. the portfolio including debt and equity securities, units in collective investment undertakings and derivatives held for trading purposes.

B. MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of market risk management within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

As provided for under the Cohesion Contract, the Parent Company defines market risk management policies, in accordance with the strategic planning and definition of the RAF.

This role is performed through the issue of specific policies and directives and the definition and application of specific governance mechanisms that govern the various stages (definition, approval, monitoring and reporting) that characterize the management of market risks.

RISK MANAGEMENT PROCESSES

Identification of risks

Operations in financial market, especially positions in the trading book, expose the Bank to market risks and other subcategories of risk. The identification of risks is mainly carried out in the process of specifying and updating risk models and metrics for market risks, and involves the following activities:

- the specification and updating of risk metrics, i.e. the evolution by the Risk Management department of measurement and monitoring methods on the basis of developments in markets, regulations and best practice;
- the approval process, conducted before the start of operations in a new financial instrument and the associated definition of the procedures for measuring fair value and risks.

Risk measurement and assessment

Risk Management is the main actor in the processes for development and using measurement models and metrics for market risk.

Updates of the models and metrics are identified by Risk Management in the performance of its duties, including analysis of regulatory requirements, market best practices and input from the business units involved (Finance in particular).

For the purpose of calculating capital requirements for market risks, the ICBG uses the standardized approach, in compliance with the relevant supervisory measures.

At the operational level, internal models are used for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- probabilistic metrics:
  - Value at Risk (VaR) approach, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- deterministic metrics:

- level metrics (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
- analysis of sensitivity and Greeks, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
- stress testing and scenario analysis, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
- loss, which represents the negative financial performance in a specified period of time of both closed and open positions.

Probabilistic metrics

Value at Risk (VaR)

An approach based on historical simulations is used to calculate VaR, (with a sample period of 3 years, confidence level of 99% and holding period of 1 day). The model currently covers the following risk factors:

- interest rates;
- inflation rates;
- exchange rates;
- stocks and stock indices;
- interest rate volatility;
- stock price volatility.

The current model can calculate VaR both for more detailed portfolios and for larger aggregates, permitting considerable granularity in the analysis, control and management of risk profiles and the effects of diversification. The possibility for calculating VaR at multiple levels of synthesis (consistent with the operating strategies of the portfolios and the organizational hierarchy of Finance) and the ability of the model to decompose VaR into different risk determinants make it possible to create an effective system of comparable cross-risk and cross-business limits.

Deterministic metrics

Sensitivity and Greeks of options

Sensitivity measures the risk associated with changes in the theoretical value of a financial position in response to changes in a defined amount of the associated risk factors. It captures the breadth and direction of the change in the form of multiples or monetary changes in the theoretical value without explicit assumptions about the holding period or correlations between risk factors. The main sensitivity indicators currently used are:

- PV01: the change in market value in response to a change of 1 basis point in the zero-coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- IL01 (sensitivity to inflation): the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- Vega sensitivity to inflation: a change of 1 percentage point in implied volatilities on forward inflation rates;
- CR01: a change of 1 basis point in credit spreads;
- Delta: the ratio between the expected change in the price of options and a small change in the prices of the underlying financial assets;
- Delta1%: the change in market value in response to a change of 1% in equity prices;
- Delta Cash Equivalent: the product of the value of the underlying financial asset and the delta;
- Vega1%: the change in market value in response to a change of 1% in the implied volatility of equity prices/indices;
- Correlation sensitivity: the change in the market value in response to a 10% change in implied correlations.

Level metrics

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile.

The nominal position (or equivalent) is determined through the identification of:

- the notional value;
- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);
- the FX open position.

The approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements. These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures.

Stress testing and scenarios

Stress tests measure the change in the value of instruments or portfolios in response to unexpected (i.e. extreme) changes in the intensity or correlation of risk factors. Scenario analyses measure the change in the value of instruments or portfolios in response to changes in risk factors in circumstances that reflect actual past situations or expectations of future developments in market variables.

Stress tests and scenario analysis are carried out by measuring the change in the theoretical value of positions in response to changes in the risk factors. The change can be calculated both through the use of linear sensitivity relationships (e.g. deltas) and through the revaluation of positions by applying the specified variations to the risk factors.

Loss

Loss is a risk metric representing the negative financial performance achieved on closed and open positions over a specified period of time.

Loss is determined by identifying, with the specified time interval:

- the component of realized profits and losses;
- the component of latent (unrealized) profits and losses calculated using the mark-to-market/mark-to-model value of open positions.

Loss is equal to the algebraic sum of the two components indicated above, if negative.

In determining loss, foreign currency positions still open are measured at the ECB end-of-day exchange rate.

The metric makes it possible to measure losses connected with the general risk profile of outstanding positions and the management of the portfolio, identifying any deterioration in the profitability of financial operations.

It is helpful in monitoring the performance of the portfolio, given the risk profile assumed, when:

- more sophisticated measurement systems are not present;
- it is impossible to capture all risk factors;
- timely control and management of limits is required.

RISK PREVENTION AND ATTENUATION

Risk Management conducts backtesting of operational measurement models on an ongoing basis. The effectiveness of the calculation model is monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. This approach makes it possible to:

- strengthen the effectiveness of the dialogue between Risk Management and the front office;
- enhance awareness of the actual performance dynamics of the portfolios;
- break down and interpret the sources and causes of daily changes in P&L;
- identify and monitor any risk factors that are not fully captured by the calculation models adopted.

In addition to the backtesting noted earlier, the effective management of market risks is ensured using a comprehensive system of limits, which is a key tool for the management, control and attenuation of risks. The development of this system, which is a key element of the Risk Management Framework, took account of the nature, objectives and operational complexity of the Group.

The overall system of market risk indicators comprises indicators included in and governed by the RAS and more strictly operational indicators set out in the risk governance policies.

The controls established to manage market risks break down into:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the market risk profile and ensure the correct activation of escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

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

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

MONITORING AND REPORTING

The second-level controls, carried out by the Market & Counterparty Monitoring & Control unit, are aimed at monitoring the Bank's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators and represents a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds.

These activities therefore perform an "ex post" control function in relation to the continuous monitoring of all indicators that signal breaches of assigned risk levels, but they also serve an "ex ante" function in signaling the approach of risk profiles towards the threshold/limit/risk propensity levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/risk limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The market risk control and monitoring activities are governed within a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.

At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In particular, Risk Management performs codified and formalized monitoring and reporting activities within the Risk Appetite Framework and the Risk Policies, with the preparation of periodic reporting to provide appropriate disclosure to the management functions, senior management and the Board of Directors.

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of the health emergency.

QUANTITATIVE DISCLOSURES

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

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. SUPERVISORY TRADING BOOK: DISTRIBUTION OF EXPOSURES IN EQUITY SECURITIES AND EQUITY INDICES BY MAIN COUNTRIES OF LISTING

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

3. SUPERVISORY TRADING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

With regard to market risks on the trading book, which are managed at the Group level by Iccrea Banca, a risk tolerance of €15 million in 1-day VaR with a 99% confidence level has been established. In the first half of 2022, the risk profile of all trading operations never breached the RAS limit.

The average VaR of the trading book was €0.57 million, with a minimum of €0.33 million and a maximum of €0.93 million (registered on May 5, 2022).

At June 30, 2022 the VaR was €0.52 million.

Daily VaR Trading Book	Notional (in €/millions)	VaR	
	at 30/06/2022	Limit	Risk Profile
GBCI	10,130	15	0.52

The following table reports sensitivities by risk factor at June 30, 2022, which correspond to the change in the market value of the trading book as the risk factors change (see section “Deterministic Metrics, Sensitivity and Greeks of Options”).

	Sensitivity Value (in €)	Note
Interest rates	25,587	Sensitivity calculated in relation to 1 bp change
Inflation rates	5,393	
Credit spread	19,295	
Equity	32,048	Sensitivity calculated in relation to 1% change in the share/stock index

1.2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of interest rate risk management for the banking book within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

As provided for under the Cohesion Contract, the Parent Company defines interest rate risk management policies for the banking book, in accordance with the strategic planning and definition of the RAF.

This role is performed through the issue of specific policies and directives and the definition and application of specific governance mechanisms that govern the various stages (definition, approval, monitoring and reporting) that characterize the management of interest rate risk on the banking book.

RISK MANAGEMENT PROCESSES

Identification of risks

The interest rate risk on the banking book is the risk originated by differences in the maturities and in the timing of the repricing of interest rates on the assets and liabilities in the banking book. In the presence of these differences, fluctuations in interest rates giver rise to both a short-term change in expected profit, through the impact on net interest income, and a long-term impact on the economic value of shareholders' equity, through the change in the market value of assets and liabilities.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, the Group identifies sources of interest rate risk to which it is exposed, classifying them in the following risk sub-categories: the risk deriving from mismatches in maturities (for fixed-rate positions) and repricing dates (for variable-rate positions), or changes in the slope or shape of the yield curve (yield curve risk), basis risk, option risk and credit spread risk on banking book (CSRBB).

Risk measurement and assessment

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- economic value approach: this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book (economic value of equity), construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis. Under this perspective, the analysis is conducted using a static "gone concern" approach, in which we assume the run-off of positions at maturity, without any replacement or renewal, or using a dynamic approach, developing projections for new operations that are consistent with the assumptions defined during strategic planning.
- earnings approach: this seeks to assess the potential effects of adverse interest rate variations on the profitability of the banking book, i.e. net interest income, and on fair value changes recognized through profit or loss or OCI. In this perspective, the analysis is conducted using a dynamic "going-concern" approach, with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged, or a "dynamic balance sheet" view, developing projections for new business that are consistent with the hypotheses defined in strategic planning.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.

The metrics adopted in the economic value approach to measure the sensitivity of the economic value of the banking book (ΔEVE – EVE

sensitivity) are based on a full evaluation approach. The change in the expected value of the banking book is calculated using an approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time ("bucket sensitivity").

In determining EVE, equity must be excluded from the calculation in order to measure the potential change in value of free capital following changes in the yield curves.

The metrics used in the current earnings approach to measures the sensitivity of the net interest income of the banking book (∆NII – NII sensitivity) are:

- Full Evaluation: the potential impact on net interest income of potential changes in risk-free rates is calculated using a method that provides for the comparison, for a selected time horizon, between expected net interest income in the case of a change in interest rates and expected net interest income in a baseline scenario with no such changes. This methodology is also adopted in stress tests to quantify the impacts on net interest income of possible changes in credit spreads (CSRBB);
- Earnings at Risk: a metric aimed at measuring the loss of profitability due to changes in interest rates, considering, in addition to the impact on net interest income, the effects on changes in the fair value of the instruments recognized (depending on their accounting treatment) in profit or loss or directly in equity;
- Repricing gap: this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The weighting of the exposure for each time bucket for the time between the repricing date and the selected time horizon and the subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income.

The measurement scenarios applied to interest rates are intended to monitor the risk categories to which the Bank may be exposed. Each can be associated with internally developed or regulatory scenarios.

- gap risk: in order to monitor this category of risk, parallel and non-parallel shocks of the risk-free yield curves are used in order to assess the impact on economic value and net interest income; in particular; in order to monitor this risk category, parallel and non-parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged for regulatory purposes, in the standard outlier test, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
- basis risk: the analysis provides for the segmentation of the banking book based on the market parameters to which the items involved are indexed and the analysis of the time series of basis spreads with respect to the pivot rate (3-month Euribor) for the purpose of determining the size of the shocks to be applied to each;
- option risk: the analysis includes a preliminary identification of the automatic/behavioral option components in the assets and liabilities of the Bank's banking book and the subsequent:
  - historical analysis of the observed changes in volatility, to determine the magnitude of the shocks to be applied for the purpose of quantifying the automatic option risk;
  - verification of the impact of interest rate shocks on the behavioral model parameters, for the purpose of quantifying the behavioral option risk.
- CSRBB: internally defined scenarios are used based on prudential assessments and historical analyses of the observed changes in credit spreads.

In order to monitor risk limits, parallel and non-parallel shock scenarios are adopted. To monitor the additional metrics subject to reporting requirements, scenarios involving shocks to the yield curves are also envisaged in addition to those adopted as a reference for the determination of risk limits. As part of stress testing, further scenarios are used on periodic basis to signal potential areas of weakness in the presence of particular market conditions.

Risk prevention and attenuation

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework, taking account of the nature, objectives and complexity of Group operations.

The system of limits (EWS, RAS and Risk Limits) is defined by the Parent Company in accordance with its management and coordination role and implemented through a cascading process with the subsidiaries (where applicable), in line with the risk management model adopted.

In addition to the above system of limits, a comprehensive system of arrangements and controls contributes to defining the overall control model set out and formalized in the associated policy.

The controls established to manage interest rate risk on the banking book break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the interest rate risk profile and activate escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

The controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to interest rate risk in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the operating units involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators provided for by the risk governance framework. The effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk limits established;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The interest rate risk control and monitoring activities are performed within the framework of a set of internal regulations. At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

More specifically, the Risk Management function performs monitoring and reporting activities that are codified and formalized within the Risk Appetite Framework and the risk policies, preparing periodic reports and providing appropriate disclosure to the operating units, top management and the Board of Directors.

Stress test framework

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The scenarios used in measuring the exposure to the different sources of risk and in analyzing stress tests are based on both regulatory shocks and, where the regulatory scenarios are not considered fully representative of especially averse conditions, shocks defined internally.

In accordance with regulatory provisions, the Group develops scenarios characterized by larger movements in yield curves than the shocks applied for the continuous monitoring of the IRRBB in order to test the vulnerabilities of the banking book in the presence of stress conditions.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses where appropriate:

- sensitivity analysis: analysis of the exposure to the IRRBB and the CSRBB with respect to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result;
- scenario analysis: analysis consisting in the assessment of the Group's ability to cope with a potential increase in its exposure to IRRBB and CSRBB based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

For each of the risk categories identified it is possible to define the associated risk factor(s), understood as an exogenous variable whose shock can have a negative impact on the economic value of the banking book and/or on the associated net interest income, in terms of smaller-than-expected loss or profit. In this perspective, the identification of risk factors is a preliminary phase in the definition of the shocks associated with stress scenarios.

All the stress scenarios adopted are generally calibrated using the historical simulation approach, based on prudential percentiles of the empirical distributions associated with the various risk parameters, using expert-based adjustments where appropriate in order to integrate forward-looking elements that are not present in the available historical data. To these scenarios, we add "purely" historical scenarios (e.g. without calculating a percentile of the historical empirical distribution), scenarios defined on a judgmental basis and scenarios provided by external sources (e.g. EBA Stress Test scenario).

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of the health emergency.

QUANTITATIVE DISCLOSURES

1. BANKING BOOK: DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY (REPRICING DATE)

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. BANKING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

The interest rate risk on the banking book used for management purposes with regard to sensitivity indicators for economic value and net interest income at June 30, 2022 is reported below.

€/millions	Scenario	
	-100 bp	+100 bp
Impact on economic value	+ 258	+ 292
Impact on net interest income	- 332	+ 484

1.2.3 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF EXCHANGE RATE RISK

The exchange rate risk management strategy (the FX risk factor) is based on the analysis of market developments and the different currencies in which operations are denominated. The strategy is differentiated in accordance with the type of operations:

- for major currencies (hard currencies), operators, based on the analysis of economic, macroeconomic and money management data, manage operations both to optimize existing positions and generate a profit;
- for minor currencies (local currencies), exchange rate risk is managed with a view to the total minimization of risks, except in unusual macroeconomic situations, by reducing exposures exceeding the thresholds defined with market operations of the opposite sign.

Trading is carried out on the foreign exchange and foreign exchange derivatives markets both through spot trading and through the management of short/medium-term forward positions (outright operations). The strategy of the desk is therefore aimed at intraday/multiday transactions in order to generate profit from movements in the spot foreign exchange market. Forex swaps are used to engage in forward operations, based on expectations for interest rates and exchange rates, so as to generate a profit from maintaining open short/medium-term positions in foreign currency. Based on its own analyzes, the desk also seeks to improve its profitability by taking positions in options on exchange rates.

All operations are based on techniques and methods defined and agreed at the desk level, based on operating limits assigned to the managers and operational staff that are consistent with the provisions of the risk policies.

B. HEDGING EXCHANGE RATE RISK

Operations are mainly concentrated in major currencies. The Bank adopts a system of daily operating limits on the overall foreign exchange exposure, as well as the net foreign exchange positions in respect of individual currencies. The overall limit is segmented into partial ceilings on the basis of the importance of the various currencies.

1.3 DERIVATIVES AND HEDGING POLICIES

1.3.2 HEDGE ACCOUNTING

QUALITATIVE DISCLOSURES

For the purposes of hedge accounting, the Group applies the provisions contained in IAS 39 since at the time of initial application of IFRS 9 it elected the option provided for in paragraph 7.2.21 of that standard to continue to apply in full the rules of IAS 39 for all types of hedging (micro and macro).

The hedge contracts are transacted on the basis of the provisions of specific company policies and mainly used to manage interest rate risk on the banking book arising from the normal business operations of the individual banks and the Parent Company, pursuing the objective of reducing the risk profile within the limits of the Risk Appetite Framework as defined and quantified by their respective competent bodies. These limits concern the exposure of the Group both in terms of net interest income sensitivity and economic value sensitivity.

In particular, all the hedges established by the affiliated banks with the Parent Company with respect to which the latter enters into an identical and opposite position in derivatives with the market are represented in the same way at the consolidated level: hedges originally established by the affiliated banks regard portfolios of loans to customers, securities holdings and, to a marginal extent, bonds in issue. On the other hand, transactions involving the hedging of loans to customers or securities of a minor nature (mainly by notional amount) between the affiliated banks and the Parent Company, provide for the latter to manage the consequent risk position on a “synthetic” basis, which is reported in the consolidated financial statements through the designation of generic fair value hedges established in respect of interest rate risk. The life cycle of a hedge accounting relationship starts with the so-called “designation” phase. With the designation of the hedging relationship, the company identifies the instruments through which it intends to implement the hedging strategy, as defined by the manager of the risk being hedged and in compliance with the principles established in the Group Hedging Policy, which defines the methods of measuring effectiveness by type of hedge.

Once a hedging relationship has been designated, it must be demonstrated that the hedge is highly effective in offsetting fair value changes attributable to the hedged risk or stabilizing the cash flows attributable to the hedged risk during the period for which the hedge is designated.

The effectiveness of the hedge is demonstrated at the inception date and measured at the periodic reporting dates (March 31, June 30, September 30 and December 31).

The effectiveness of the hedge is measured by conducting so-called effectiveness tests (prospective and retrospective) based on both qualitative and quantitative methods, complying with the criterion of continuity. A hedging relationship is considered effective if at each measurement date both tests (prospective and retrospective) are passed. The failure of the effectiveness test(s) should result in the discontinuance of the hedging relationship, i.e. the termination of hedge accounting.

A. FAIR VALUE HEDGING

Fair value hedging is used to immunize changes in the fair value, attributable to the different risk factors, of financial assets and liabilities or portions of them, of groups of assets/liabilities, of irrevocable commitments and portfolios of financial assets and liabilities.

The Group adopts both specific hedges (micro fair value hedges) and generic hedges (macro fair value hedges). These hedges therefore apply both to well-identified financial instruments (government securities – both fixed rate and indexed to European and Italian inflation – deposits, bond issues, loans and other financing) and to portfolios of fixed-rate and variable-rate financial instruments (government securities, loans).

Within the scope of micro fair value hedging, hedges are mainly used for securities holdings and bonds issued, while macro hedging is applied to portfolios of fixed-rate loans, variable-rate loans and a single portfolio of debt securities classified as FVOCI under the HTCS business model.

The main types of derivatives used are represented by plain or structured interest rate swaps (IRS), and asset and yield swaps (ASW) entered into with third parties to ensure compliance with the requirement to externalize risk, which is necessary to qualify for hedge accounting at the consolidated level, in compliance with the provisions of paragraph 73 of IAS 39. These derivatives are not listed on regulated markets, but are traded on OTC markets.

The effects of designating the hedging relationship begin at the inception of the hedge with the identification of the portion and the type of hedged risk, the hedging strategy and the hedging instrument in accordance with the principles the Group has established concerning the methodology used to assess the effectiveness of the hedging relationship.

B. CASH FLOW HEDGING

Cash flow hedging seeks to hedge the exposure to the variability of future cash flows attributable to particular risks associated with balance sheet items or highly probable forecast transactions or to hedge exchange rate risk.

The Group adopts specific hedges of assets (micro cash flow hedge) represented by fixed-rate, variable rate (CCTs) and euro inflation-linked government securities.

C. HEDGING OF INVESTMENTS IN FOREIGN OPERATIONS

In the first half of 2022, the Group did not undertake hedging of exchange rate risk on foreign currency transactions.

D. HEDGING INSTRUMENTS

Designated hedging transactions, with formal documentation identifying the relationship between the hedged instrument and the hedging instrument, are considered effective if at inception and for the entire duration of the hedging relationship changes in the fair value or the cash flows of the hedged instrument are almost completely offset by changes in the fair value or cash flows of the hedging derivative. The effectiveness of the hedge depends on the extent to which the changes in the fair value of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is quantified by comparing the aforementioned changes, taking account of the intent pursued by the company at the time the hedge was established.

A hedge is effective when the changes in the fair value (or cash flows) of the hedging instrument almost entirely, i.e. within the specified limits, offset the changes in the hedged instrument for the risk being hedged.

Effectiveness is assessed at each annual or interim reporting date using:

- prospective tests aimed at demonstrating that changes in the fair value or cash flows of the hedging instrument attributable to the hedged risk will be such as to offset changes in the fair value or cash flows of the hedged item. They are performed adopting both qualitative (Critical Term Match) and quantitative methods (“cumulative scenario method” or “linear regression method with curve simulation”);
- retrospective tests aimed at measuring the actual effectiveness of the hedging relationship between the date of designation and the test date, determining the deviation of hedging relationships from the result that would be achieved with a perfect hedge. These tests are performed using quantitative methods, i.e. the dollar offset method and the volatility risk reduction method.

The main causes of ineffectiveness are attributable to the following:

- a misalignment between the notional of the derivative and the nominal of the hedged instrument at the time of the initial designation or generated subsequently, as in the case of partial repayments or full extinguishment of loans or the repurchase of bonds;
- the approach of the expiry of the transaction.

The ineffectiveness of the hedge is recognized promptly for the purposes of:

- determining the impact on profit or loss;
- assessing the possibility of continuing to apply hedge accounting rules.

If the assessments do not confirm the effectiveness of the hedge, the relationship considered terminated as of the last date from which the relationship was shown to be effective. This date coincides with the beginning of the period in which the effectiveness test was failed. However, if the event or the circumstances that led to the hedging relationship no longer meeting the criteria for effectiveness are identified and it is shown that the hedge was effective before the event or change in the circumstances occurred, hedge accounting is discontinued from the date of the event or change in those circumstances. The hedging derivative, if not extinguished, may be designated as a hedging instrument in another relationship that meets the relevant or be reclassified as a trading instrument.

The Group does not use dynamic hedges, as defined in IFRS 7, paragraph 23C.

E. HEDGED ITEMS

At the Group level, hedged items designated as being in a hedge accounting relationship using micro and macro hedges are mainly government securities, bond issues of the Parent Company and loans to customers in the form of residential mortgages and leases as well as a loan to a company within the direct scope of consolidation.

These hedges are both total and partial and the hedged risk is mainly interest rate risk.

Debt securities held

These are hedged using micro fair value hedges and macro fair value hedges involving IRSs, ASWs and bond options as hedging instruments (for the latter, only as cash flow hedges) as hedging instruments. In fair value hedges, interest rate and inflation risk are hedged for the duration of the obligation, while in cash flow hedges, as discussed above, the risk of changes in the sale price of the underlying instrument is hedged. The effectiveness tests are carried out using the dollar offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

Debt securities issued

The Group currently has active micro fair value hedging relationships for fixed-rate, using IRSs as hedging instruments. Interest rate risk is hedged for the duration of the obligation.

Fixed-rate loans

The Group has designated micro fair value hedges and macro fair value hedges for fixed-rate loans to customers and secured loans to banks, mainly using amortizing IRS as hedging instruments. The interest rate risk is hedged for the entire term of the hedged item. For micro-type hedges, the effectiveness tests are carried out using the dollar-offset method for retrospective assessment and the cumulative scenario method for prospective assessment. For macro hedges of loans, the capacity of the portfolio subject to designation is verified with respect to the notional amount outstanding at the reporting date of the corresponding hedging derivative. Having passed this first test, effectiveness is quantified both retrospectively and prospectively by applying the dollar offset method. For macro hedges of leases, the criterion of the lower between the nominal value of the hedged item and the notional of the hedging derivative is adopted for the purpose of measuring the change in the fair value of the hedged item, performing the retrospective effectiveness test by applying volatility risk reduction method.

Variable-rate loans

The Group has designated micro fair value hedges and macro fair value hedges for variable-rate loans to customers, using caps, floors or collars with an amortizing notional as hedging instruments. The hedged risk is the risk of a rise (decrease) in rates above (below) the strike of the implicit caps (floors) as well as the probability that the benchmark rate is greater (lower) or approaches the strike rate itself. The hedged rate is the contractually determined strike rate for the individual loans granted by the Bank. The identity of the individual loans making up the hedged portfolio in terms of strike rate level compared with Euribor flat (net of the spread), indexing parameter, date of observation of the indexing parameter, frequency of the individual caplet (frequency of repayments of the amortization plan) is a necessary condition. For micro hedges, the effectiveness tests are carried out using the dollar offsetting method for the retrospective profile and the cumulative scenario for the prospective profile. For macro hedges of loans, the capacity of the designated portfolio is checked first of all with respect to the notional value, at the reporting date, of the corresponding hedge derivative and therefore, after passing this first test, effectiveness is quantified retrospectively and prospectively by applying the dollar offsetting method.

1.4 LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of liquidity risk management within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

In exercising this role, the Parent Company determines the governance model and mechanisms that govern the various stages involved in the management of liquidity and oversight of the associated risks, as well as interactions between business and control units in order to ensure an appropriate level of liquidity at the consolidated and individual levels at the intraday, short and medium/long-term time horizons.

As provided for by the Cohesion Contract, the Parent Company also defines liquidity risk management policies, in accordance with the strategic planning and definition of the RAF.

RISK MANAGEMENT PROCESSES

Liquidity risk is identified and monitored at the consolidated and individual levels using the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Group and market conditions.

Identification of risks

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- operational liquidity – divided into two complementary levels:
  - intraday and very short-term liquidity*:* monitored on a daily basis in order to identify sources of risk that impact the Bank's ability to promptly balance very short-term cash inflows and outflows and maintain a volume of liquidity sufficient to ensure compliance with the liquidity coverage ratio (LCR) requirement;
  - short-term liquidity: identification of sources of risk that impact the Bank's ability to meet its expected and unexpected payment obligations over a short-term horizon (up to 12 months);
- structural liquidity - identification of structural mismatches between assets and liabilities maturing at more than 1 year and integration with short-term liquidity management as well as planning of actions and preventing the future creation of short-term liquidity shortfalls.

The Group's liquidity profile, and therefore its exposure to liquidity risk, is closely related to the business model adopted, the composition of the balance sheet - in terms of assets, liabilities and off-balance sheet items - as well as the related maturity profile.

The process of identifying and classifying the risk factors connected with the operational and structural liquidity profiles seeks to define the elements that, in terms of risk exposure, could trigger a deterioration in the Group's liquidity position when endogenous and/or exogenous stress events occur.

Liquidity risk can be generated by various factors both internal and external to the Bank. The sources of liquidity risk can therefore be divided into the following macro-categories:

- endogenous: represented by adverse events specific to the Bank (e.g. a deterioration in the Bank's credit standing and loss of confidence by creditors);
- exogenous: when the origin of the risk is attributable to adverse events that cannot be directly controlled by the Bank (political crises, financial crises, catastrophic events, etc.) that give rise to liquidity tensions in the markets;
- combinations of the previous factors.

Measurement of risks

Measuring liquidity risk involves the activities performed to observe and quantify on a comprehensive, accurate and timely basis the exposure to such risk over the selected observation horizon.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder, in order to:

- monitor the risk profile in “business as usual” conditions, overseeing the overall system of indicators that characterize the Liquidity Risk Framework;
- execute stress testing, which involves the determination of the liquidity position in severe but plausible adverse scenarios, assessing the impact at the consolidated and individual levels.

The risk position is measured with the use of models, specific indicators and additional metrics developed either internally or established in regulations.

The analysis of the maturity profiles depends substantially on assumptions about the future cash flows associated with the various assets and liabilities, both on-balance-sheet and off-balance-sheet, which take account of the economic maturities of the balance sheet elements rather than contractual dates, without neglecting the application of reasonable prudence criteria.

The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, the Group develops two maturity curves: operational and structural.

The operational maturity ladder is used to monitor the short-term liquidity position and is determined both in a business-as-usual scenario and in a stress scenario by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines.

The intraday liquidity position is measured with metrics aimed at monitoring the maximum use of liquidity on an intraday basis, the reserves available at the beginning of each business day to meet liquidity requirements, gross payments sent and received and “time-specific” obligations.

The treasury position is measured on a daily basis by quantifying the liquidity reserves (i.e. counterbalancing capacity, or CBC) and using them to cover any possible negative liquidity balance over the reference time horizon.

This system for monitoring Group operational liquidity makes it possible to monitor:

- management of access to the payments system (operational liquidity management);
- management of the liquidity outflow profile;
- the size and degree of use of liquidity reserves (analysis and active management of the maturity ladder);
- the active management of collateral (cash-collateral management, e.g. refinanceable securities and bank loans);
- the integration of short-term liquidity management actions with structural liquidity requirements.

The structural maturity ladder is used to monitor the overall liquidity position at the consolidated and individual levels at medium/long-term. It is determined by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines. The projection of cash inflows and outflows at the various time bands in the ladder is carried out using two distinct approaches in relation to the purpose of the analysis.

The first approach identifies cash flows based on the contractual maturities of the items considered.

The second approach is based on the adoption of behavioral assumptions, with specific regard to the modeling of demand items and margins on the credit lines granted in both a business-as-usual scenario and in a stress scenario.

This tool is essential for obtaining a view of Group funding requirements and an understanding of the liquidity risk associated with execution of the funding plan, thereby preventing the emergence of future liquidity strains. In addition, the structural maturity ladder makes it possible to control:

- the management of maturity transformation in accordance with the guidelines established by management;
- support for the funding decisions in the funding plan.

Risk prevention and attenuation

Liquidity risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the Liquidity Risk Framework. The definition of this system took account of the nature, objectives and complexity of operations.

The system of limits (EWS, RAS, risk limits and contingencies) is defined by the Parent Company consistent with its policy-setting and coordination role and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the liquidity risk management model adopted.

The system of limits is also accompanied by a comprehensive system of systems and controls that contribute to defining the overall control model set out and formalized in the associated policy.

The controls established to manage liquidity risk break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the liquidity profile and activate escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

Second-level controls, which are performed by Risk Management, are intended to monitor the exposure to liquidity risk in order to prepare reports for transmission to the competent units and to initiate the escalation mechanisms, in collaboration with the management functions, should the specified limits be exceeded. Control activities is based on the assessment and measurement of the positioning of the risk indicators established by the Risk Governance framework. The effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the established risk limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the “magnitude” of the over-limit position.

Liquidity risk control and monitoring activities are carried out within the internal self-regulatory framework. At an operational level, communication between the management functions and Risk Management takes place daily through in-depth discussions on risk developments that increase awareness of the profiles of the risks assumed (in accordance with the specified profitability objectives), thus facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In particular, Risk Management performs codified and formalized monitoring and reporting activities within the Risk Appetite Framework and the Risk Policies, with the preparation of periodic reporting to provide appropriate disclosure to the management functions, senior management and the Board of Directors.

Stress test framework

The Group’s liquidity position is monitored in the normal course of business and under stress conditions. For the latter, a stress test framework has been defined on the basis of the indicators that characterize the Liquidity Risk Framework.

The stress test analyses are used to measure the degree to which the liquidity position can deteriorate in the event of especially adverse market conditions, thereby enabling verification of its robustness.

Accordingly, the objectives of the stress testing are:

- to verify the capacity to cope with unexpected liquidity crises in the first period in which they occur, before activating initiatives to modify the structure of assets or liabilities;
- to assess vulnerabilities in the liquidity profile, evaluating possible connections between the various risk categories as part of the periodic monitoring process;
- to calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits enables the maintenance of a level of liquidity that ensures that any coverage actions do not compromise the Group’s business strategies;
- to identify, in preparing the recovery plan, scenarios that would compromise the survival of the Group if appropriate recovery actions were not taken;
- to test the effectiveness of mitigation actions taken within the Contingency Funding & Recovery Plan and recovery actions provided for in the “near-default” scenarios to be taken in adverse situations in order to limit the Group’s exposure to liquidity risk;
- to verify the feasibility of the funding plan, taking due account of the findings of the stress analysis.

In accordance with regulatory provisions, the Bank develops scenarios characterized by stress scenarios associated with the occurrence of systemic or idiosyncratic events in order to test potential liquidity vulnerabilities.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses:

- sensitivity analysis: analysis of liquidity position to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- scenario analysis: analysis consisting in the assessment of the Bank's ability to cope with a potential deterioration in its liquidity profile based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

The types of stress test that characterize the framework provide for the occurrence of sever but plausible events (scenarios) that can be classified into three categories:

- stress scenarios caused by a systemic event, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy and therefore for the Iccrea Cooperative Banking Group;
- stress scenarios caused by specific events (idiosyncratic), i.e. an event (or combination of events) whose occurrence generates/involves highly adverse consequences for the Iccrea Cooperative Banking Group. In defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Group;
- stress scenarios generated by a combination of specific and systemic events, i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimated inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Group to cope with any liquidity strains.

For each scenario, the Group has incorporated shocks generated by the main risk variables, which have been identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of asset to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of

the health emergency.

1.5 OPERATIONAL RISKS

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISKS

Operational risk means the risk of losses caused by the inadequacy or malfunction of procedures, human resources and internal systems or the occurrence of external events. For example, such losses include those caused by fraud, human error, operational interruptions, system unavailability, breach of contract and natural disasters.

In view of the operations that characterize the Iccrea Cooperative Banking Group, it is exposed to operational risks across the entire organization, including IT risks.

Within the regulatory framework, the deregulation and the globalization of financial and payment services, together with the progressive refinement of the financial technology supporting transactions, are making the activities of the entities belonging to the Group, and thus the associated operational risk engendered by ordinary operations, increasingly complex. The increased complexity of the Group with the arrival of the affiliated banks as well as the growing use of highly automated technology under way in the Group can, in the absence of modifications of the control system, transform the risk of manual errors and data processing errors into the risk of significant system malfunctions, given the increasing recourse to integrated IT infrastructure and applications.

In addition, the growing use of electronic money and electronic or on-line payments generates other potential risks (for example, internal and external fraud, system security, customer data processing and IT and cyber risks) whose comprehensive mastery and mitigation, both upstream and in terms of response and containment, represents a strategic and enabling factor in the development of the business and a prerequisite for ensuring compliance with regulatory and payment-circuit requirements.

In addition, the presence of banks and financial companies in the Group, delivering services on a mass scale (both within the Group and to firms and the public) makes it necessary to ensure an appropriate structure and constant evolution of the system of internal controls and constant attention to preventing the risk of rules violations, incurring administrative penalties, etc.

The various types of operational risk to which the Iccrea Group is structurally exposed include IT risk and reputational risk. This is associated with the banking activities carried out with the public and financial and institutional counterparties, as well as the numerous national and international regulations to which the Group is subject.

GOVERNANCE AND ORGANIZATIONAL MODEL

The organizational model of the Risk Management function, adopted since the launch of the Iccrea Cooperative Banking Group, has undergone development and progressive evolution since 2018. The organizational model has progressively been refined with a view – among other things – to optimizing the dissemination of risk management directives to the affiliated banks and overseeing the performance of the Risk Management function’s activities at the Parent Group, the Operational & IT Risk Management unit has been established and charged with centralized responsibility for policy-making and coordinating the operational risks for the Iccrea Cooperative Banking Group as a whole. This unit operates as a specialist hub for operational and IT risks, supporting the risk management functions of the companies within the direct scope and the affiliated banks.

With regard to current Group governance arrangements for the internal control system, the Risk Committee of the Board of Directors of the Parent Company provides support to that Board with regard to risks and the internal control system, including aspects concerning the frameworks for the management of operational risk and IT risk.

In particular, the Board Risk Committee:

- supports activities to verify the correct implementation of Group strategies, compliance with policies for the governance and management of operational risk and IT risk, requesting any appropriate technical analyses and acquiring the necessary documentation for the evaluation of management and mitigation actions for the risks involved;
- conducts a preliminary review of the annual activity programs and reports of the Operational & IT Risk Management unit submitted to the Board of Directors;
- expresses its assessment, prior to approval by the Board of Directors, of Group policies on operational and IT risks.

OPERATIONAL RISK MANAGEMENT POLICIES

Consistent with the risk management process, the Operational & IT Risk Management framework is structured into the following phases:

- identification of risks (knowledge): a set of activities directed at identifying operational and IT risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (e.g. operational loss and incident data) and potential risk (assessed through the collection of business expert opinion).
- evaluation/measurement of identified risks (awareness): a set of activities for assessing/measuring Group operational and IT risks.
- risk prevention and attenuation (strategy): a set of activities for the ex-ante identification of the possible ways of preventing and mitigating unfavorable developments in the dynamics of operational and IT risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational and IT risks, and the implementation of measures to ensure that possible risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.
- monitoring and reporting (tracking and control): a set of activities to monitor the Group's risk profile and deliver comprehensive reporting to provide timely, accurate and appropriate support to the decision-making process underlying "Risk Prevention and Mitigation" and "Risk Management and Mitigation".
- risk management and mitigation (reaction and proactivity): a set of activities and actions to support the management of operational and IT risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational and IT risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments (operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

The operational risk assessment framework outlined above also includes legal risk and is integrated with that for assessing IT risk (IT Risk Management Framework), in line with the relevant regulations.

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. The Risk Management function prepares the necessary reporting in this area, bringing it to the attention of the various internal users (Board bodies, senior management, operating units).

IDENTIFICATION, MEASUREMENT AND ASSESSMENT OF RISKS

For the purpose of calculating capital requirements for operational risk, the Iccrea Cooperative Banking Group mainly uses the Basic Indicator Approach (BIA),[32] which provides for the application of a fixed percentage (15%) to the average of the last three observations of the "relevant indicator" determined in accordance with the provisions of the CRR.

Following the creation of the Iccrea Cooperative Banking Group, and the consequent affiliation of the mutual banks, the components of the operational and IT risk management framework already adopted by the companies of the former Iccrea Banking Group were revised and gradual adoption by the affiliated banks is under way.

The methodological aspects underlying the management framework and the related procedures for application to the Group companies were formalized and approved at the end of 2019 as part of specific Group Policies (Operational Risk Management Framework, IT Risk Management Framework, Loss Data Collection, Operational Risk Self-Assessment – OR-SA - and IT Risk Self-Assessment – IR-SA), which are currently being adopted by all Group companies. In the first half of 2022, activities leading up to the development of the application system to support operational and IT risk management activities continued.

The loss data collection process has currently been adopted by all the Group companies that contribute, with a specified frequency, to the collection of historical events and losses through the Group application solution, which is available to both the companies within the direct scope of the Group and the affiliated banks.

As regards the assessment processes for operational risks (OR-SA) and IT risk (IR-SA), the identification and assessment of prospective risks have been initiated and conducted for certain companies within the direct scope and continued in the first half of 2022 with regard to application of the process to the affiliated banks. IT risk management activities included the completion, in March 2022, of the annual information risk profile assessment, which involved Iccrea Banca and BCC Sistemi Informatici.

In the first half of 2022, the development of the related application system continued in support of risk assessment processes. With specific regard to IT risk, the application component supporting IR-SA activities has been rolled out and was used to assess the IT risk profile of Iccrea Banca, BCC Sistemi Informatici and the affiliated banks.

In addition, in the first half of 2022 and consistent with the work performed the previous year, in step with the evolution of the management framework and the release of applications, the informational and training effort for the Operational Risk Management framework continued,

[32] One affiliated bank adopts the Traditional Standardized Approach (TSA).

with specific attention being paid to operating approaches and support applications. The Risk Management function also supported the collection of operational loss events at the Group level for QIS and COREP regulatory reporting purposes and contributed in its areas of responsibility to the performance of the stress tests envisaged as part of the ICAAP.

RISK PREVENTION AND ATTENUATION

The units involved in operations perform first-level controls to assess and report any irregularities associated with operational issues.

Second-level control units oversee the appropriateness and effectiveness of the organizational and management arrangements taken to address operational and IT risk within the Group's internal control systems. These include the Operational Risks, Compliance and Anti-Money-Laundering units of the Parent Company, the individual subsidiaries and the affiliated banks. These units are active in planning the system and, above all, in verifying its ongoing operation, assessing its adequacy and effectiveness in managing internal and external risks.

Third-level controls are performed by Internal Audit, which assesses the control system's overall appropriateness and efficiency, as well as its regular operation.

The locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a system of monitoring thresholds and limits (tolerance and capacity), with compliance ensured by the monitoring and control activities of the competent units.

The Group RAS sets out, at the level of the individual legal entities, the main indicators of operational risk, namely:

- maximum operational loss (a monitoring indicator measured at the consolidated level and for the affiliated banks);
- minimum acceptable level in respect of the findings of controls of individual relationships with regard to operational and IT risks (an indicator specified for the entire scope of application of the RAF);
- number and financial impact of significant incidents (measured at the consolidated level);
- number and financial impact of major and significant incidents (an indicator measured by BCC Sistemi Informatici).

Monitoring and reporting

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. In particular, these activities are governed by the unified management framework described earlier and defined within the applicable policies.

In this area, the Risk Management function prepares the necessary periodic reporting, bringing it to the attention of the various internal structures involved (Board of Directors, senior management, operating units).

Risk management and mitigation

Operational and IT risk management and mitigation activities are governed by a set of codified and formalized rules that include:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in the risks assumed;
- the adoption of a set of measures for managing the problems found as part of the risk assessment framework;
- the actions to be taken in the event of breaches of monitoring thresholds or risk tolerances and the risk limits set out in the Risk Appetite Statement;
- the actions to be taken in the event of breaches of the limits defined in risk policies.

QUANTITATIVE DISCLOSURES

As provided for in Circular 285/2013 of the Bank of Italy as updated, for reporting purposes the Group calculates operational risks using the Basic Indicator Approach.

Under the Basic Indicator Approach, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the volume of business, which in the case of Iccrea is the relevant indicator.

In particular, the Group capital requirement, equal to 15% of the average of the last three observations of the relevant indicator at the end of the previous year, amounted to €631 million.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2021	T	4,458,790
- at December 31, 2020	T-1	4,145,171
- at December 31, 2019	T-2	4,027,636
Relevant indicator average		**4,210,532**
Regulatory coefficient		**15%**
Capital requirement		**631,580**

PART F - INFORMATION ON CONSOLIDATED CAPITAL

SECTION 1 - CONSOLIDATED CAPITAL

A. QUALITATIVE DISCLOSURES

The Group's strategic priorities include monitoring the amount and dynamics of its capital. Capital constitutes the first bulwark against the risks associated with operations and the main reference parameter for assessments of the Group's solvency by supervisory authorities and investors. It contributes positively to the formation of operating income, funds the Group's technical and financial fixed assets and supports dimensional growth, representing a decisive element in the development phases.

Managing capital adequacy at the consolidated and individual levels involves defining the scale and optimal combination of different capital instruments, in compliance with regulatory constraints and consistent with the risk profile assumed by the Group.

The notion of capital adopted by the Group in its assessments is the "own funds" aggregate as established with Regulation (EU) No. 575/2013 (CRR), broken down into the three components of Common Equity Tier 1 (CET 1), Tier 1 and Tier 2. The capital thus defined, the main resource for supporting corporate risks according to prudential supervisory regulations, is the best foundation for the effective management of risk, both from a strategic and operational standpoint, as it a financial resource capable of absorbing the possible losses produced by the Group's exposure to all the risks it has assumed.

Current and forward-looking capital adequacy is therefore monitored in two spheres:

- regulatory capital to cover Pillar I risks;
- total internal capital to cover Pillar II risks, for ICAAP purposes.

In the evolutionary sizing of the Group's own funds, the specific policies for allocating the net profit of the affiliated banks play an important role, seeking to support the constant strengthening of reserves. In compliance with the specific sector regulations, these banks allocate a large majority of their net profits to indivisible reserves. Capital adequacy compliance is pursued not only through careful policies for the distribution of the available component of profits but also through the prudent management of investments, in particular loans, in line with risk represented by counterparties and the related capital requirements, and with plans for strengthening capitalization based on the expansion of the shareholder base and the issue by the Parent Company of subordinated liabilities or additional equity instruments eligible for inclusion in the relevant own funds aggregates.

More specifically, in order to constant maintain its capital adequacy, the Group has deployed processes and tools to determine the level of internal capital adequate to face any type of risk assumed, as part of an assessment of the current, prospective and "stressed" exposure that takes account of corporate strategies, growth objectives and developments in the reference context.

A careful assessment of the compatibility of projections is carried out annually as part of the process of setting budget targets. Depending on the expected developments in balance sheet and income statement aggregates, any necessary initiatives are taken at this stage to ensure financial balance and the availability of financial resources consistent with the strategic and development objectives of the individual entity and the Group as a whole.

Compliance with supervisory requirements and the consequent adequacy of capital is verified on a quarterly basis. The aspects subject to verification are mainly the ratios connected with the Group's financial structure (loans, impaired exposures, non-current assets, total assets) and the degree of risk coverage.

Additional specific analyzes for the purpose of the preventive assessment of capital adequacy are carried out when necessary prior to extraordinary operations such as mergers and acquisitions, or the sale of assets.

The minimum capital requirements are those established by applicable supervisory regulations (Article 92 of the CRR), according to which the Common Equity Tier 1 ratio must be at least 4.5% of total risk weighted assets ("CET1 capital ratio"), Tier 1 capital must represent at least 6% of total risk weighted assets ("Tier 1 capital ratio") and total own funds must be at least 8% of total weighted assets ("Total capital ratio").

In addition, the competent supervisory authorities periodically issue a specific decision regarding the capital requirements that the Group must comply with following the prudential review and evaluation process ("SREP") conducted pursuant to Article 97 et seq. of Directive 2013/36/EU (CRD IV).

In particular, Article 97 of the CRD IV establishes that the competent authorities shall periodically review the arrangements, strategies, processes and mechanisms that groups and supervised banks implement to face the risks to which they are exposed. With the SREP, the competent authorities therefore review and evaluate the process of determining capital adequacy conducted internally by the Group, analyze its risk profile individually and from an aggregate perspective, including under stress conditions, and assess its contribution to systemic risk; assess the corporate governance system, the operation of corporate bodies, the organizational structure and the internal control system; and verifies compliance with all prudential rules.

With regard to the outcome of the Supervisory Review and Evaluation Process (SREP), January 24, 2022 the supervisory authorities notified Iccrea Banca of results of the SREP decision, which establishes the prudential requirements to be respected at the consolidated level with effect from March 1, 2022 (broken down into own funds requirements and qualitative requirements).

With this decision, the supervisory authorities established consolidated own funds requirements for 2022:

- an additional Pillar 2 requirement (P2R) of 2.83% (of which 8 bps for the NPE P2R in reflection of calendar provisioning, which could be lowered by the end of the year subject to certain conditions), of which a minimum of 56.25% to be held in the form of Common Equity Tier 1, CET1) and 75% in the form of Tier 1 capital;
- a recommendation for Pillar 2 Guidance (P2G) of 1.75%, which should consist entirely of Common Equity Tier 1 capital and held in addition to the Overall Capital Requirement (OCR).

Given the above, in 2022 the Iccrea Cooperative Banking Group is therefore required to meet:

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

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

B. QUANTITATIVE DISCLOSURES

B.1 CONSOLIDATED EQUITY: BREAKDOWN BY TYPE OF ENTITY

The table reports the components of shareholders' equity at carrying amount, adding the Group's equity to that pertaining to non-controlling interests, broken down by the type of consolidated entity. More specifically:

- the column, "Prudential consolidation" reports the amount resulting from consolidation of the companies belonging to the banking group, gross of the financial effects of any transactions that may have been performed with other companies included within the scope of consolidation; fully-consolidated subsidiaries, other than those in the "Banking Group", are measured using the equity method here;
- the column "Other entities" reports the amounts resulting from consolidation, including financial effects deriving from transactions carried out with companies that are part of the banking group;
- the column "Consolidation eliminations and adjustments" shows the adjustments necessary to obtain the figures reported in the financial statements.

	Prudential consolidation	Insurance undertakings	Other entities	Consolidation eliminations and adjustments	Total
1. Share capital	2,354,110	-	-	-	2,354,110
2. Share premium reserve	153,343	-	-	-	153,343
3. Reserves	9,147,903	-	-	-	9,147,903
4. Equity instruments	30,139	-	-	-	30,139
5. (Treasury shares)	(1,333,096)	-	-	-	(1,333,096)
6. Valuation reserves:	(58,358)	-	-	-	(58,358)
- Equity securities designated as at fair value through other comprehensive income	9,531	-	-	-	9,531
- Hedges of equity securities designated as at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	(196,391)	-	-	-	(196,391)
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedging of investments in foreign operations	-	-	-	-	-
- Cash flow hedges	(39,174)	-	-	-	(39,174)
- 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	(36,984)	-	-	-	(36,984)
- Share of valuation reserves of equity investments accounted for using equity method	(50,620)	-	-	-	(50,620)
- Special revaluation laws	255,280	-	-	-	255,280
7. Net profit (loss) for the period (+/-)	683,303	-	-	-	683,303
Shareholders' equity	**10,977,344**	**-**	**-**	**-**	**10,977,344**

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	**22,260**	**6,776**	**-**
2. Increases	**15,558**	**12,576**	**-**
2.1 Fair value gains	7,914	9,371	-
2.2 Writedowns for credit risk	1,310	X	-
2.3 Reversal to income statement of negative reserves: from realization	2,862	X	-
2.4 Transfers to other components of shareholders' equity (equity securities)	-	6	-
2.5 Other changes	3,472	3,199	-
3. Decreases	**234,209**	**9,821**	**-**
3.1 Fair value losses	220,656	10,011	-
3.2 Writebacks for credit risk	965	-	-
3.3 Reversal to income statement of positive reserves: from realization	8,666	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	-	79	-
3.5 Other changes	3,922	(269)	-
4. Closing balance	**(196,391)**	**9,531**	**-**

B.4 VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

Valuation reserves for defined-benefit plans were a negative €37 million, down €26 million compared with the end of 2021.

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

See the disclosures on own funds and capital adequacy in the Third Pillar disclosures.

PART G - BUSINESS COMBINATIONS

SECTION 1 - TRANSACTIONS CARRIED OUT DURING THE YEAR

During the period no business combinations involving the acquisition of control pursuant to IFRS 3 were carried out.

For corporate reorganization purposes, the following mergers of mutual banks were carried out that had no impact on the consolidated financial statements. In compliance with the accounting practices for such transactions, these operations were accounted for on an unchanged values basis and regarded:

- the merger of Cerea Banca 1897 Credito Cooperativo S.C. into BCC Verona e Vicenza - Credito Cooperativo S.C. with effect from January 1, 2022;
- the merger of BCC di Massafra S.C. into Banca di Taranto – Banca di Credito Cooperativo S.C. with effect from January 1, 2022;
- the merger of BCC di Spinazzola S.C. into BCC di Oppido Lucano S.C. with effect from April 1, 2022, la BCC Appulo Lucana S.C.;
- the merger of BCC di Gangi into BCC di S. Giuseppe Madonie, renamed BCC delle Madonie S.C. with effect from April 1, 2022;
- the merger between BCC del Vibonese S.C., BCC di Cittanova S.C. BCC del Crotonese S.C. and BCC Catanzarese S.C. leading to the creation of BCC della Calabria Ulteriore, with effect from April 1, 2022;
- the merger of BCC Bergamo e Valli S.C. into BCC di Milano S.C. with effect from June 1, 2022.

SECTION 2 – TRANSACTIONS AFTER THE CLOSE OF THE PERIOD

On August 29, 2022 the ECB authorized the merger of BCC San Michele di Caltanissetta e Pietraperzia into BCC G. Toniolo di San Cataldo, leading to the creation of BCC G. Toniolo e San Michele di San Cataldo (Caltanissetta), with effect from October 1, 2022.

Finally, the full, non-proportionate demerger of VivalBanca was approved, with the merger of two separate asset groups into Banca Alta Toscana and Banca Centro, with effect from October 1, 2022.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

The section has not been completed because there were no such positions as of the reporting date.

PART H - TRANSACTIONS WITH RELATED PARTIES

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table provides information on the remuneration paid in the first half of the year to key management personnel as required by IAS 24. Key management personnel are managers who have the power and responsibility, directly or indirectly, for the planning, management and control of the Group's activities, including the directors and members of the supervisory bodies.

	Total 30/06/2022				
	Short term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
Key management personnel	3,892	140	-	-	-

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

For the purposes of the preparation of these disclosures, pursuant to IAS 24 a related party is a person or entity who is related to the entity preparing the financial statements.

In application of that standard, the related parties of the Group include:

- unconsolidated subsidiaries;
- associated companies and their subsidiaries;
- key management personnel of the Group;
- members of the immediate family of key management personnel and companies controlled, alone or jointly, by key management personnel or members of their immediate family;
- post-employment benefit plans for Group employees.

The Iccrea Cooperative Banking Group has adopted a document governing the principles and rules applicable to related party transactions in compliance with supervisory regulations contained in Circular no. 263/2006 of the Bank of Italy.

Transactions between the Iccrea Cooperative Banking Group and corporate officers regard normal Group operations and were carried out, where applicable, applying the terms reserved for all employees. Transactions with subsidiaries not consolidated on a line-by-line basis and transactions with associated companies regarded ordinary operations within a multi-functional banking organization.

In compliance with supervisory regulations, all transactions carried out by Group companies with their related parties were carried out in compliance with the principles of substantive and procedural fairness, on terms analogous to those applied to transactions with independent non-Group counterparties. No unusual or atypical transactions were carried out by Group companies with related parties, nor were any such transactions carried out with other counterparties.

The following tables summarize balance sheet positions and their financial effects carried out in the first half of the year with the related parties of the Group other than fully consolidated intercompany transactions.

	Total 30/06/2022			
	Unconsolidated subsidiaries	Associated companies	Key management personnel	Other related parties
Financial assets	107,486	136,701	1,475	4,050
Total other assets	490	7,463	-	-
Financial liabilities	15,526	20,597	1,676	12,169
Total other liabilities	65	2,424	-	4
Commitments and financial guarantees issued	2,474	3,599	71	369
Commitments and financial guarantees received	5,940	-	840	5,741
Provisions for doubtful accounts	-	2,840	-	-

	Total 30/06/2022			
	Unconsolidated subsidiaries	Associated companies	Key management personnel	Other related parties
Interest income	288	85	9	126
Interest expense	-	-	(3)	(13)
Dividends	-	-	-	-
Fee and commission income	872	21,954	2	18
Fee and commission expense	(571)	(38)	(319)	(950)
Net gain (loss) on trading activities	-	-	-	-
Net gain (loss) on hedging activities	-	-	-	-
Other operating expenses/income	(666)	(79)	(36)	(19)
Writedowns/writebacks of impaired financial assets	-	-	-	-

PART I - SHARE-BASED PAYMENTS

The Iccrea Cooperative Banking Group has no payment agreements based on its own equity instruments in place.

PART L - OPERATING SEGMENTS

A. PRIMARY REPORTING BASIS

The companies within the Group mainly operate exclusively in the following segments:

- Institutional: business conducted with institutional counterparties (mutual banks, other banks and public institutions), such as payment services, financial intermediation (trading and capital markets), and foreign activities, as well as additional support services for affiliated banks. The segment includes the operations of the Parent Company Iccrea Banca, BCC Sistemi Informatici, BCC Gestione Crediti, BCC Solutions, BCC Beni Immobili, Sinergia, BCC Pay, Sigest and Coopersystem;
- Corporate: business focused mainly on financing small and medium-sized companies that are customers of the mutual banks. The segment includes the operations of Iccrea BancaImpresa, BCC Lease, BCC Factoring and Banca Mediocredito del F.V.G.;
- Retail: mainly asset management activities on an individual and collective basis for retail customers (BCC Risparmio&Previdenza), consumer credit (BCC CreditoConsumo) and the traditional banking activities of Banca Sviluppo;
- Mutual banks: includes all of the mutual banks that have joined the Group and the associated Guarantee Scheme.

The following reports a summary income statement and key financial aggregates by business segment. The column reporting inter-segment transactions includes intercompany eliminations between the companies included in different segments.

The breakdown by segment has not change compared with that reported in the annual report at December 31, 2021.

A.1 DISTRIBUTION BY BUSINESS SEGMENT: INCOME STATEMENT

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Net interest income	67,117	114,848	26,280	1,461,713	(175)	1,669,783
Net fee and commission income	5,185	52,072	30,287	593,712	(22,324)	658,931
Other financial expense and income	977	24,082	875	106,883	10,859	143,675
Gross income	**73,278**	**191,002**	**57,441**	**2,162,308**	**(11,640)**	**2,472,389**
Net value adjustments	23,506	3,654	(4,101)	(205,459)	(69)	(182,469)
Net gains (losses) on financial operations	**96,784**	**194,656**	**53,340**	**1,956,849**	**(11,709)**	**2,289,920**
Operating expenses	(39,256)	(207,309)	(24,247)	(1,247,820)	10,279	(1,508,353)
Other costs and revenues	-	13,193	-	(2,050)	(1,184)	9,959
Profit/(loss) from continuing operations before tax	**57,528**	**540**	**29,093**	**706,979**	**(2,613)**	**791,526**
Income tax for the period on continuing operations	(16,681)	8,598	(9,418)	(91,146)	423	(108,223)
Profit/(loss) for the period	**40,847**	**9,138**	**19,675**	**615,833**	**(2,190)**	**683,303**
Profit/(loss) for the period pertaining to non-controlling interests	**2,745**	**4,511**	**(14)**	**-**	**-**	**7,242**
Profit/(loss) for the period pertaining to shareholders of the Parent Company	**38,102**	**4,627**	**19,690**	**615,833**	**(2,190)**	**676,061**

A.2 DISTRIBUTION BY BUSINESS SEGMENT: BALANCE SHEET

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Financial assets	392,245	14,264,481	64,817	62,618,216	(4,306,302)	73,033,457
Due from banks	92,482	24,883,323	22,415	11,482,947	(33,991,635)	2,489,533
Loans to customers	5,062,419	6,428,206	1,376,333	79,493,097	(2,309,159)	90,050,896
Funding from banks	4,804,782	33,862,575	1,440,480	30,356,724	(39,763,073)	30,701,488
Funding from customers	441,308	7,267,061	114,886	109,261,628	(192,789)	116,892,094
Securities and other financial liabilities	58,780	5,416,764	2,367	7,861,200	(2,922,242)	10,416,869

B. SECONDARY REPORTING BASIS

As regards the secondary reporting basis, please note that the Group operates almost exclusively in Italy.

PART M - LEASE DISCLOSURES

SECTION 1 – LESSEE

QUALITATIVE DISCLOSURES

At the reporting date, the Group had 3,070 lease/rental contracts falling within the scope of IFRS 16 as they refer to operating leases involving property, plant and equipment in the following classes of assets:

- capital equipment (printers and other office equipment, personal computers, servers, smartphones/tablets, cars and company vehicles, advanced ATMs, etc.);
- real estate, in particular the premises in which the branches operate and spaces for ATMs.

These assets are mainly intended for use in the normal operations of the company and for this reason they are mainly classified under assets held for use in operations. For more details on the recognition and measurement criteria involved, please see Part A “Accounting Policies” of these notes to the financial statements.

The rental contracts entered into by the Group normally provide for fixed payments for a specified period of time and, with the exception of property leases, do not envisage an extension option. Based on the foregoing, the effective term of the individual leases is taken into account for the purpose of accounting for the rights of use, while in cases in which an extension option is envisaged and its exercise is considered highly probable, the Group considers the contractual term inclusive of the extension period, unless factors or specific situations envisaged within the contract suggest a different assessment. This is because the properties in question are functional to the performance of the activities of the Group companies and non-exercise of the extension option is only considered in cases where impediments have arisen independently on the intentions of the companies themselves, i.e. the decision not to extend the lease was prompted by initially unforeseeable circumstances (e.g. changes of location, increase in lease payments, etc.).

If provided for by the lease agreement, the Group also does not consider early termination options unless factors or specific circumstances make it highly probable that the option will be exercised before the expiry of the lease (such as, for example, the impediments or the specific needs mentioned above).

QUANTITATIVE DISCLOSURES

For further quantitative information concerning the assets acquired by the Group through leases, please see the disclosures provided in the tables in the sections of the notes to the financial statements indicated below:

- part B, assets, section 9, as regards rights of use in respect of leased assets held at the reporting date;
- part B, liabilities, section 1, as regards lease liabilities outstanding at the reporting date;
- part C, section 1, as regards interest expense on leasing liabilities accrued during the period;
- part C, section 14, as regards depreciation of rights of use recognized during the period.

Note that in determining the depreciation rates to be applied to the rights of use in respect of assets acquired under leases, reference has been made to the contractual term of the underlying leases, also taking account any extension/termination options where the probability that they will be exercised is considered high, depending on the nature of the transaction (finance/operating lease) and the type of asset.

SECTION 2 – LESSOR

QUALITATIVE DISCLOSURES

Lease transactions undertaken by Group mutual banks as a lessor are negligible.

Leases in which the Group is the lessor mainly regard the lease of commercial and residential properties.

The Group mainly enters into finance leases with customers and is active in the real estate, residential, equipment, vehicle and marine lease sectors.

Lease payments for the period are recognized in profit or loss under operating income.

For more details on the recognition and measurement criteria involved, please see Part A “Accounting Policies” of these notes to the financial statements.

QUANTITATIVE DISCLOSURES

1. INFORMATION IN THE BALANCE SHEET AND INCOME STATEMENT

For additional quantitative information on lease transactions undertaken by the Group, please see the disclosures provided in the tables in the sections of the notes to the financial statements indicated below:

- part B, Assets, section 4, as regards lease financing granted by the Group in relation to finance leases;
- part C, section 1, as regards interest income on the above lease financing accrued during the period;
- part C, section 16, as regards other income connected with the lease operations undertaken the Group as a lessor.

2. FINANCE LEASES

2.1 CLASSIFICATION BY MATURITY OF PAYMENTS TO BE RECEIVED AND RECONCILIATION WITH LEASE FINANCING RECOGNIZED UNDER ASSETS

	Total 30/06/2022	Total 31/12/2021
	Payment to be received for leases	Payment to be received for leases
Up to 1 year	893,210	901,773
From more than 1 year up to 2 years	713,037	721,466
From more than 2 years up to 3 years	566,466	570,796
From more than 3 years up to 4 years	437,726	437,389
From more than 4 years up to 5 years	312,143	324,831
From more than 5 years	1,471,641	1,600,778
Total payments to be received for leases	**4,394,224**	**4,557,034**
Reconciliation with financing	**1,167,304**	**1,243,213**
Financial income not accrued (-)	531,812	581,704
Unguaranteed residual value (-)	635,492	661,509
Lease financing	**3,226,920**	**3,313,820**

The balance of lease financing does not include past due principal and interest, exposures to terminated leases or writedowns on outstanding financing at the reporting date.

2.2 OTHER INFORMATION

No other information to report.

3. OPERATING LEASES

3.1 CLASSIFICATION BY MATURITY OF PAYMENTS TO BE RECEIVED

	Total 30/06/2022	Total 31/12/2021
	Lease payments to receive	Lease payments to receive
Up to 1 year	2,725	3,235
From more than 1 year up to 2 years	2,482	2,954
From more than 2 years up to 3 years	1,550	2,195
From more than 3 years up to 4 years	1,248	1,468
From more than 4 years up to 5 years	988	1,127
From more than 5 years	937	1,170
Total	**9,929**	**12,148**

3.2 OTHER INFORMATION

No other information to report.

REPORT OF THE AUDIT FIRM

Iccrea Banca S.p.A.

Auditor's review report on interim consolidated financial statements

(Translation of the original report issued in Italian)

Interim consolidated financial statements as at 30 June 2022

ORMB/NSDN/vbrb – R2022/00978

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Review report on the interim consolidated financial statements

(Translation of the original report issued in Italian)

To the shareholders of Iccrea Banca S.p.A.

Introduction

We have reviewed the attached interim consolidated financial statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholder's equity, the statement of cash flows, and the related explanatory notes of Gruppo Bancario Cooperativo Iccrea as at June 30, 2022. The directors are responsible for the preparation of the interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim consolidated financial statement consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the attached interim consolidated financial statements of Gruppo Bancario Cooperativo Iccrea, as at June 30, 2022, have not been prepared, in all significant aspects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Rome, October 6, 2022

Olivier Rombaut
Partner – Registered auditor

(signed on the original)

This report has been translated into English from the Italian original solely for the convenience of international readers.

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REPORT AND SEPARATE FINANCIAL STATEMENTS OF THE PARENT COMPANY ICCREA BANCA S.P.A.

REPORT ON OPERATIONS OF THE PARENT COMPANY

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

The following provides a summary description of the main items of the Parent Company's balance sheet and income statement at June 30, 2022. In order to permit a more immediate assessment of the items, the balance sheet and income statement schedules shown below are presented in a more summary format than those provided for by Circular 262/05 of the Bank of Italy.

BALANCE SHEET

Assets

€/thousands	30/06/2022	31/12/2021	Change	% change
Financial assets measured at amortized cost – *Due from banks – Loans and securities*	26,103,642	32,171,399	(6,067,757)	(18.9)
Financial assets measured at amortized cost –*Due from customers – Loans*	6,468,673	5,984,049	484,625	8.1
Financial assets measured at amortized cost – *Due from customers – Securities*	9,913,913	10,816,923	(903,010)	(8.3)
Financial assets measured at fair value through profit or loss	2,118,403	1,287,573	830,830	64.5
Financial assets measured at fair value through other comprehensive income	912,360	510,674	401,687	78.7
Equity investments	1,048,656	998,822	49,834	5.0
Other assets	633,182	681,328	(48,146)	(7.1)
Total interest-bearing assets	**47,198,830**	**52,450,768**	**(5,251,938)**	**(10.0)**
Other non-interest-bearing assets	1,657,272	1,327,841	329,430	24.8
Total assets	**48,856,101**	**53,778,609**	**(4,922,508)**	**(9.2)**

At June 30, 2022, total assets amounted to €48.9 billion, a decrease from the €53.8 billion posted at the end of December 2021, mainly reflecting the following developments:

- a decrease in loans measured at amortized cost of €6.5 billion compared with the end of 2021. More specifically:
  - the decline in amounts due from banks takes the form of a decrease in the reserve requirement maintained on behalf of the mutual banks (-€5.1 billion) and in time deposits and loans (-€0.9 billion), also reflecting the deleveraging performed in the second quarter, with a similar impact on "Financial liabilities measured at amortized cost";
  - the reduction in loans to customers is largely attributable to a decrease in investments in debt securities (-€0.9 billion, mainly Italian government securities), only partly offset by an increase in other financing (+€0.4 billion, of which about +€0.2 billion represented by margins with the Clearing & Guarantee Fund and €0.2 billion by exposures to Group companies);
- an increase of €0.8 billion in financial assets measured at FVTPL (to €2.1 billion), attributable to the net effect of the following developments: (i) an increase in assets held for trading, mainly reflecting an increase in the value of trading derivatives (+€908.4 million; an analogous change is recorded under trading derivatives in liabilities), partially offset by a decrease in purchases of government debt securities (-€49.5 million); (ii) a reduction in assets originally designated as at fair value (-€11.4 million), represented by the assets included in the Guarantee Scheme, in reflection of a decline in the value of the investment portfolio; and (iii) a decrease in other financial assets mandatorily measured at fair value (-€17.3 million), mainly reflecting a decrease in the value of units in CIUs (-€17 million) and equity securities (-€4.7 million), partially offset by an increase in purchases of debt securities (+€4.5 million);

€/thousands	Financial assets held for trading	Financial assets designated as at FV	Other financial assets mandatorily measured at FV	Total
Debt securities	19,513	283,839	58,920	362,272
Equity securities	1,752	-	41,570	43,322
Units of CIUs	634	-	412,678	413,312
Derivatives	1,299,497	-	-	1,299,497
Total 30/06/2022	**1,321,396**	**283,839**	**513,168**	**2,118,403**
Total 31/12/2021	**461,902**	**295,250**	**530,421**	**1,287,573**
Change	**859,494**	**(11,411)**	**(17,253)**	**830,830**

- an increase of €401.7 million in financial assets measured at fair value through comprehensive income, which are held under the HTCS business model, reflecting the purchase of debt securities (primarily government issues) in the amount of €253 million and equity securities of banks in the amount of €148.7 million (mainly Bank of Italy shares);
- an increase in equity investments (+€49.8 million), mainly due to the subscription of the capital increase of BCC Pay S.p.A. (+€20.6 million) and shares acquired under Article 150 ter of the Consolidated Banking Act subscribed as the manager of the Guarantee Scheme in Banca di Pisa e Fornacette (+€20.9 million) and Banca Centropadana (+€6.9 million).

The following table provides a breakdown of amounts due from banks, largely represented by loans to the mutual banks (€19.6 billion, broadly unchanged on 2021). These loans, disbursed against pool collateral, include about €14.7 billion in operations with the ECB (TLTRO III), with the remainder being other forms of collateralized financing.

€/thousands	30/06/2022	31/12/2021	Change	% change
Mutual banks	19,634,267	20,103,869	(469,602)	(2.3)
Other credit institutions	6,469,375	12,067,530	(5,598,155)	(46.4)
Due from banks	**26,103,642**	**32,171,399**	**(6,067,757)**	**(18.9)**

Amounts due from other credit institutions (including debt securities) include €43.8 billion in intercompany lending (about €3.5 billion to Iccrea BancaImpresa) and deposits with third parties for the remainder.

Loans to ordinary customers amounted to €6.5 billion, a small rise on the €6.0 billion posted at the end of December 2021. Of the total, €2.3 billion regard intercompany loans. The change in the item is largely attributable to an increase in other transactions (+€0.4 billion) and in repurchase transactions with the Clearing & Guarantee Fund (+€0.1 billion).

€/thousands	30/06/2022	31/12/2021	Change	% change
Current accounts	239,663	234,053	5,610	2.4
Medium/long-term loans	2,568,293	2,566,541	1,752	0.1
Repurchase transactions	218,892	143,286	75,606	52.8
Other transactions	3,390,887	2,977,544	413,344	13.9
Impaired assets	50,938	62,625	(11,687)	(18.7)
Loans to customers	**6,468,673**	**5,984,049**	**484,625**	**8.1**

The following table provides a breakdown of impaired positions:

€/thousands	Gross exposure	Impairment losses	Net exposure	% coverage
Bad loans	70,246	57,451	12,795	81.8
Unlikely to pay	141,591	106,702	34,889	75.4
Impaired past-due	3,873	619	3,254	16.0
Total 30/06/2022	**215,710**	**164,772**	**50,938**	**76.4**
Total 31/12/2021	**269,745**	**207,120**	**62,625**	**76.8**
Change	**(54,035)**	**(42,348)**	**(11,687)**	**(0.4)**

Liabilities and equity

€/thousands	30/06/2022	31/12/2021	Change	% change
Financial liabilities measured at amortized cost – *Due to banks*	33,848,298	39,337,080	(5,488,782)	(14.0)
Financial liabilities measured at amortized cost – *Due to customers*	7,265,330	7,510,089	(244,760)	(3.3)
Financial liabilities measured at amortized cost – *Securities issued*	3,594,740	3,748,638	(153,899)	(4.1)
Financial liabilities held for trading	1,293,811	430,857	862,954	200.3
Financial liabilities designated as at fair value	357,636	335,392	22,245	6.6
Other liabilities	614,409	418,410	195,999	46.8
Total interest-bearing liabilities	**46,974,224**	**51,780,466**	**(4,806,242)**	**(9.3)**
Other non-interest-bearing liabilities	224,945	309,029	(84,084)	(27.2)
Shareholders' equity	1,671,474	1,635,936	35,539	2.2
Profit for the period	(14,542)	53,178	(67,720)	(127.3)
Total liabilities and equity	**48,856,101**	**53,778,609**	**(4,922,508)**	**(9.2)**

The decrease in liabilities recorded in the period compared to the figure registered at the end of 2021 is entirely attributable to a €4.8 billion decrease in interest-bearing funding, which was the net effect of the following developments:

- a decrease of €5.5 billion in amounts due to banks to €33.8 billion, reflecting a reduction in intercompany time deposits (-€2.3 billion), repurchase transactions (-€0.4 billion) and funding with the ECB (-€3.3 billion), attributable to the deleveraging discussed earlier, all partially offset by an increase in current accounts and demand deposits (+€0.5 billion);
- a reduction of €0.4 billion in amounts due to customers and securities issued, which declined to €10.9 billion, due to: (i) a decrease in repurchase agreements with the Clearing & Guarantee Fund (-€0.5 billion); (ii) an increase in funding through current accounts (+€0.2 billion); iii) a decrease in securities issued due almost entirely to the redemption of maturing securities (-€0.4 billion), only partially offset by new issues (+€0.2 billion);
- an increase in liabilities held for trading, attributable mainly to a rise in the value of trading derivatives (+€0.9 billion, connected with the analogous development in the corresponding asset item).

Amounts due to banks, which include €5.1 billion in deposits of the affiliated banks to meet reserve requirements, include:

- €14.3 billion in positions with the affiliated banks mainly in respect of time deposits (€11.1 billion) and amounts held on the daily settlement account (€2.9 billion);
- €19.5 billion in amounts due to other credit institutions, largely related to financing from the ECB under TLTRO III (€17.8 billion).

€/thousands	30/06/2022	31/12/2021	Change	% change
Mutual banks	14,307,230	17,459,981	(3,152,751)	(18.1)
Other credit institutions	19,541,069	21,877,100	(2,336,031)	(10.7)
Due to banks	**33,848,298**	**39,337,080**	**(5,488,782)**	**(14.0)**

Funding with customers amounted to €7.3 billion, slightly down (-€0.2 billion) on December 31, 2021. The contraction reflects a decline in repurchase transactions (-€0.5 billion), partially offset by an increase in current account funding (+€0.2 billion).

€/thousands	30/06/2022	31/12/2021	Change	% change
Current accounts and deposits	1,069,046	829,417	239,629	28.9
Financing	5,670,411	6,094,575	(424,164)	(7.0)
Other payables	525,873	586,097	(60,224)	(10.3)
Due to customers	**7,265,330**	**7,510,089**	**(244,760)**	**(3.3)**

Equity

€/thousands	30/06/2022	31/12/2021	Change	% change
1. Capital	1,401,045	1,401,045	-	-
2. Share premium reserve	6,081	6,081	-	-
3. Reserves	236,509	183,456	53,053	28.9
4. Equity instruments	-	-	-	-
5. (Treasury shares)	-	-	-	-
6. Valuation reserves:	27,839	45,354	(17,515)	(38.6)
Total	**1,671,474**	**1,635,936**	**35,539**	**2.2**

At June 30, 2022, the share capital of Iccrea Banca, represented by 27,125,759 ordinary shares with a par value of €51.65 each, was equal to €1.4 billion, unchanged from 2021. Shareholders' equity, excluding profit for the period, amounted to €1.7 billion, an increase of €35.5 million compared with December 31, 2021. The main changes reflect the allocation of 2021 profit (€53.2 million, of which €5.3 million to the legal reserve and €47.9 million to cover prior-period losses) and a decrease in valuation reserves (€17.5 million), mainly due to changes in the cash flow hedge reserve as a result of new hedges during the period and, to a lesser extent, a decrease in valuations of securities in the FVOCI portfolio.

Income statement

€/thousands	30/06/2022	30/06/2021	Change	% change
Net interest income	**116,008**	**88,245**	**27,763**	**31.5**
Other gains/losses on financial transactions	6,612	61,639	(55,027)	(89.3)
Dividends	11,902	27,865	(15,963)	(57.3)
Net fee and commission income	**46,529**	**44,349**	**2,180**	**4.9**
Other operating expenses/income	**181,050**	**222,097**	**(41,047)**	**(18.5)**
Gross income	(99,539)	(98,482)	(1,058)	1.1
Personnel expenses	(126,653)	(129,198)	2,545	(2.0)
Other administrative expenses	(1,176)	(1,291)	115	(8.9)
Net adjustments of property, plant and equipment and intangible assets	4,719	87,840	(83,121)	(94.6)
Total operating expenses	**(222,649)**	**(141,131)**	**(81,518)**	**57.8**
Gross operating profit	**(41,599)**	**80,966**	**(122,565)**	**(151.4)**
Net provisions for risks and charges	2,771	8,541	(5,770)	(67.6)
Net losses/recoveries on impairment of loans and other financial transactions	3,654	(18,177)	21,832	(120.1)
Total provisions and adjustments	**6,425**	**(9,637)**	**16,062**	**(166.7)**
Profit/(loss) from equity investments	(240)	12,011	(12,251)	(102.0)
Profit/(loss) before tax	**(35,414)**	**83,340**	**(118,754)**	**(142.5)**
Income tax expense	13,617	(13,214)	26,831	(203.0)
Profit/(loss) after tax on discontinued operations	7,255	11,040	(3,785)	(34.3)
Profit/(loss) for the period	**(14,542)**	**81,166**	**(95,709)**	**(117.9)**

The loss for the first half of 2022 amounted to €14.5 million, compared with a profit of €81.2 million in the first half of 2021.

The main factors driving the result were the following:

- a decrease of €41 million in gross income to €185.8 million, reflecting:
  - an increase in net interest income (+€27.8 million) attributable to: (i) an increase in the yields on securities (+€12.5 million, almost all of which are Italian inflation-linked government securities); (ii) the restructuring of the mix of funding instruments through the issue of bonds to finance the mutual banks (including for MREL purposes) and time deposits, with a consequent reduction in interest expense (+€8.5 million and +€4.1 million respectively); and (iii) the recognition of interest income on tax credits (+€3.2 million), an item that was not present in the first half of 2021;
  - a contraction in other income/(loss) from financial operations, which amounted to €6.6 million (-€55.0 million on the year-earlier period; see following table), reflecting a decrease in sales volumes compared with the first half of 2021 (-€29.0 million on June 2021). Also decreasing was the value of the HTCS portfolio (-€21.8 million on the first half of 2021), main reflecting a decrease in the value of equity securities (-€17.4 million) and debt securities (-€3.9 million). Trading in securities and derivatives also showed a loss (-€2.0 million), as did hedging activities (-€2.2 million);

€/thousands	30/06/2022	30/06/2021	Change	% change
Net gain (loss) on trading activities	8,012	10,003	(1,991)	(19.9)
Net gain (loss) on hedging activities	(1,988)	210	(2,199)	(1.045.9)
Net gain (loss) on the disposal or repurchase of:	25,672	54,682	(29,010)	(53.1)
a) financial assets measured at amortized cost	30,636	53,080	(22,445)	(42.3)
b) financial assets measured at fair value through other comprehensive income	(4,965)	1,657	(6,622)	(399.6)
c) financial liabilities	1	(56)	57	(101.8)
Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss	(25,084)	(3,256)	(21,828)	70.3
a) financial assets and liabilities measured at fair value	(2,889)	(1,477)	(1,412)	95.6
b) other financial assets mandatorily measured at fair value	(22,194)	(1,779)	(20,415)	1.147.3
Total "Other income/(loss) from financial operations"	**6,612**	**61,639**	**(55,027)**	**(89.3)**

- a decrease in dividend income, which amounted to €11.9 million, a decline of €16.0 million on the same period of 2021. The decrease reflected the decision to not distribution dividends of the companies in the direct scope, partially offset by dividends from the interest in the Bank of Italy (+€6.8 million);

- an increase of €81.5 million in operating expenses, which rose to €222.6 million, reflecting the net impact of the following developments:
  - a decrease in other operating expenses/income (-€83.1 million), mainly attributable to the recognition of one-off charges (€90 million) connected with long-term exclusive distribution contracts and agreements for the products and services of BCC Pay between Iccrea Banca and the Group mutual banks. Excluding this component, revenues from services rendered to ICBG companies increased;
  - an increase in personnel expenses (+€1.1 million) as a result of an increase in provisions for variable components of remuneration (lump-sum bonus, performance bonus, MBO bonus*)*;
  - a decrease in administrative expenses (-€2.5 million), mainly reflecting the decrease in the Resolution Fund (BRRD) contribution (-€5 million), partially offset by an increase in other expenses;
- a decrease in the cost of risk (see following table) with the recognition of writebacks on on-balance-sheet and off-balance-sheet exposures of €6.4 million, the net effect of writebacks on stage 1 and 2 exposures (+€9.1 million) and impairment losses on non-performing stage 3 exposures (-€2.7 million).

€/thousands	30/06/2022	30/06/2021	Change	% change
A. On-balance-sheet exposures				
Stage 1 and 2	6,166	11,961	(5,795)	(48.4)
Stage 3	(2,513)	(30,139)	27,626	(91.7)
B. Off-balance-sheet exposures bilancio				
Stage 1 and 2	2,979	6,133	(3,154)	(51.4)
Stage 3	(200)	2,660	(2,860)	(107.5)
Total	**6,432**	**(9,385)**	**15,817**	**(168.5)**

- a reduction in gains recognized on controlling interests (-€12.3 million). The figure for the first half of 2021 was heavily impacted by the capital gain of €12 million registered on the sale of the interest in Satispay.

The item "profit (loss) after tax on discontinued operations" reports the net profit of the assets and liabilities transferred during the period to BCC Pay as part of the spin-off of e-money operations. For more details on developments associated with that transaction, please see the next section, bearing in mind that the transfer took place during the period and BCC Pay began full operations.

2. PRO FORMA FIGURES INCLUDING ELECTRONIC MONEY BUSINESS UNIT

During the first half of 2022, the strategic operation to leverage the e-money business, approved by the Board of Directors on November 29, 2018, was completed. On January 29, 2022 the Bank signed an agreement for a strategic partnership with FSI SGR S.p.A. (Fondo Strategico Italiano, hereinafter "FSI") aimed at developing the e-money business. As part of this operation, on March 17, 2022, the sale of the "e-money" business unit to BCC Pay was officially completed. The latter is the company selected to develop the business. It was authorized to issue electronic money and provide payment services pursuant to Article 1, paragraph 2, letter h-septies. 1) of the Consolidated Banking Act with a measure issued by the Bank of Italy on October 5, 2021 and is entered in the Register of Electronic Money Institutions with effect from October 12, 2021. The business unit transferred comprised the assets and liabilities relating to the e-money business including, among others, the associated human resources, assets and related legal relationships. Specifically, "Acquiring" e-money operations were transferred with from April 1, 2022 and "Issuing" operations were transferred with effect from May 1, 2022. On August 3, 2022, Iccrea Banca and FSI finalized the strategic partnership agreed in January 2022 to further develop BCC Pay as a fintech operator, which after the transfer of assets and liabilities manages some 4 million payment cards, more than 200 thousand POS terminals and about €50 billion in transactions a year. The operation was concluded following receipt of authorization from all the competent authorities and provided for the investment of FSI in BCC Pay through the acquisition - through the vehicle PAY Holding S.p.A. – of 60% of the company's share capital, while Iccrea Banca - again through PAY Holding S.p.A. - holds the remaining 40%. In addition to providing for payment at closing, the investment agreement with FSI also contains a number of adjustment mechanisms tied to achievement of plan targets. In addition, contracts and exclusive long-term distribution agreements were signed for the products and services of BCC Pay for Iccrea Banca and the Group's mutual banks. Specifically, the operating model defined in the partnership provides for a promotion and placement agreement between BCC Pay and Iccrea Banca and a promotion and placement agreement between Iccrea Banca and the mutual banks. Iccrea Banca thus maintains its role as coordinator of commercial activities, providing support to the mutual banks in the form of commercial planning, management and coordination of the internal and external commercial network, branding and marketing strategies, the management of innovation needs and the definition of training plans.

In order to provide appropriate disclosure on a management-reporting basis and to facilitate the comparison of information, the following reclassified income statement reports data at June 30 in which the data for the e-money sector has been "normalized". These figures take into consideration not only the performance of the Bank with the allocation of the costs and revenues associated with e-money operations to specific items as recorded up to the date of transfer, but also the performance registered by BCC Pay in the period. The result for the period thus determined was also sterilized of the one-off effect connected with the exclusive contract - referred to above – between Iccrea Banca and the affilicated mutual banks, which amounted to a charge of €90 million.

€/thousands	30/06/2022	30/06/2021	Change	% change
Net interest income	**115,755**	**88,245**	**27,510**	**31.2**
Other income/(loss) from financial operations	6,612	61,639	(55,027)	(89.3)
Dividends	11,902	27,865	(15,963)	(57.3)
Net fee and commission income	**98,644**	**88,749**	**9,894**	**11.1**
Gross income	**232,912**	**266,498**	**(33,586)**	**(12.6)**
Personnel expenses	(103,033)	(101,546)	(1,487)	1.5
Other administrative expenses	(157,591)	(161,452)	3,862	(2.4)
Net adjustments of property, plant and equipment and intangible assets	(1,706)	(1,755)	49	(2.8)
Other operating expenses/income	102,561	95,063	7,498	7.9
Total operating costs	**(159,769)**	**(169,690)**	**9,921**	**(5.8)**
Gross operating profit	**73,143**	**96,807**	**(23,664)**	**(24.4)**
Net provisions for risks and charges	2,964	8,284	(5,319)	(64.2)
- of which provisions for commitments and guarantees issued	2,778	8,794	(6,016)	(68.4)
Net writedowns(writebacks for impairment of loans and other transactions	3,654	(18,177)	21,831	(120.1)
Total provisions and adjustments	**6,619**	**(9,893)**	**16,512**	**(166.9)**
Profit (loss) from equity investments	(240)	12,011	(12,251)	(102.0)
Profit (loss) before tax on continuing operations	**79,522**	**98,926**	**(19,404)**	**(19.6)**

The operating result for the period before taxes thus determined amounts to a profit of €79.5 million, down €19.4 million compared with the same period of 2021 (+98.9 million).

The above data shows that net fee and commission income increased by €9.9 million, mainly reflecting the improved performance of e-money operations, which also gains in comparison with the previous period, although performance in that period was affected COVID-19 restrictions.

Net of the one-off charges of €90 million related to the exclusive contract, other operating expenses charges and income show an increase in revenues from services provided to ICBG companies (+€7.5 million).

3. REFERRALS TO OTHER PARTS OF THE FINANCIAL STATEMENTS

This separate Report on Operations only includes comments on developments in Parent Company operations. For all other information required under the provisions of law and regulations, reference should be made - in the context of the discussion of the specific issues – to the notes to these individual interim financial statements or to the consolidated interim financial statements and the related Report on Operations.

In particular, please see to the notes to these separate financial statements with regard to:

- information on the Bank's transactions with related parties, which are reported in Part H;
- information on financial and operational risks, which are discussed in Part E;
- information on capital, which is reported in Part F.

Readers should instead consult the Report on Operations in the consolidated financial statements with regard to:

- information on the main risks and uncertainties;
- events subsequent to the balance sheet date and the outlook for operations.

Finally, please consult the Report on Operations in the consolidated financial statements for more information on the main characteristics of the risk management and internal control systems with regard to the financial reporting process (Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Financial Intermediation.

SEPARATE FINANCIAL STATEMENTS

BALANCE SHEET

Assets		30/06/2022	31/12/2021
10.	Cash and cash equivalents	1,108,903,105	1,214,581,917
20.	Financial assets measured at fair value through profit or loss	2,118,403,128	1,287,573,138
	a) financial assets held for trading	1,321,390,935	461,893,796
	b) financial assets designated as at fair value	283,838,609	295,250,168
	c) other financial assets mandatorily measured at fair value	513,173,583	530,429,174
30.	Financial assets measured at fair value through other comprehensive income	912,360,480	510,673,621
40.	Financial assets measured at amortized cost	42,486,228,138	48,971,725,459
	a) due from banks	26,103,641,992	32,171,398,850
	b) loans to customers	16,382,586,146	16,800,326,609
50.	Hedging derivatives	473,905,130	37,112,184
60.	Value adjustments of financial assets hedged generically (+/-)	(992,946)	(607,133)
70.	Equity investments	1,027,556,052	998,822,259
80.	Property, plant and equipment	3,424,976	4,251,443
90.	Intangible assets	682,460	822,062
100.	Tax assets	71,348,805	68,924,159
	a) current	47,895,759	53,916,033
	b) deferred	23,453,046	15,008,126
110.	Non-current assets and disposal groups held for sale	21,100,000	206,868,648
120.	Other assets	633,181,989	477,861,409
	Total assets	**48,856,101,316**	**53,778,609,166**

Liabilities and shareholders' equity		30/06/2022	31/12/2021
10.	Financial liabilities measured at amortized cost	44,708,367,662	50,480,116,372
	a) due to banks	33,848,298,193	39,337,080,204
	b) due to customers	7,265,329,758	7,394,397,770
	c) securities issued	3,594,739,711	3,748,638,398
20.	Financial liabilities held for trading	1,293,811,349	430,857,148
30.	Financial liabilities designated as at fair value	357,636,266	335,391,646
40.	Hedging derivatives	170,119,150	247,018,407
60.	Tax liabilities	2,532,055	1,649,779
	b) deferred	2,532,055	1,649,779
70.	Liabilities associated with assets held for sale	-	182,098,339
80.	Other liabilities	614,408,994	354,895,626
90.	Employee termination benefits	13,204,865	15,347,312
100.	Provisions for risks and charges:	39,088,896	42,121,031
	a) commitments and guarantees granted	29,168,401	31,971,538
	c) other provisions for risks and charges	9,920,495	10,149,493
110.	Valuation reserves	27,838,299	45,353,084
140.	Reserves	236,509,246	183,455,648
150.	Share premium reserve	6,081,405	6,081,405
160.	Share capital	1,401,045,452	1,401,045,452
180.	Net profit (loss) for the period (+/-)	(14,542,323)	53,177,917
	Total liabilities and shareholders' equity	**48,856,101,316**	**53,778,609,166**

INCOME STATEMENT

		30/06/2022	30/06/2021
10.	Interest and similar income	277,554,434	237,045,171
	of which: interest income calculated using effective interest rate method	307,745,527	162,662,381
20.	Interest and similar expense	(161,546,747)	(148,800,432)
30.	**Net interest income**	**116,007,686**	**88,244,739**
40.	Fee and commission income	57,305,245	53,197,697
50.	Fee and commission expense	(10,776,111)	(8,849,054)
60.	**Net fee and commission income (expense)**	**46,529,134**	**44,348,643**
70.	Dividends and similar income	11,901,793	27,864,755
80.	Net gain (loss) on trading activities	8,012,229	10,003,338
90.	Net gain (loss) on hedging activities	(1,988,331)	210,197
100.	Net gain (loss) on the disposal or repurchase of:	25,671,575	54,681,620
	a) financial assets measured at amortized cost	30,635,599	53,080,154
	b) financial assets measured at fair value through other comprehensive income	(4,965,038)	1,657,207
	c) financial liabilities	1,014	(55,741)
110.	Net gain (loss) on financial assets and liabilities measured at fair value through profit or loss	(25,083,927)	(3,256,415)
	a) financial assets and liabilities designated as at fair value	(2,889,429)	(1,477,003)
	b) other financial assets mandatorily measured at fair value	(22,194,498)	(1,779,411)
120.	**Gross income**	**181,050,160**	**222,096,877**
130.	Net losses/recoveries for credit risk in respect of:	3,654,394	(18,177,287)
	a) financial assets measured at amortized cost	3,763,737	(18,708,988)
	b) financial assets measured at fair value through other comprehensive income	(109,343)	531,702
150.	**Net income (loss) from financial operations**	**184,704,554**	**203,919,590**
160.	Administrative expenses:	(226,192,268)	(227,679,911)
	a) personnel expenses	(99,539,451)	(98,481,670)
	b) other administrative expenses	(126,652,817)	(129,198,241)
170.	Net provisions for risks and charges	2,770,866	8,540,748
	a) commitments and guarantees granted	2,778,484	8,794,058
	b) net provisions for other risk and charges	(7,617)	(253,309)
180.	Net adjustments of property plant and equipment	(1,036,550)	(1,054,218)
190.	Net adjustments of intangible assets	(139,602)	(237,136)
200.	Other operating expenses/income	4,719,268	87,839,923
210.	**Operating expenses**	**(219,878,286)**	**(132,590,593)**
220.	Profit (loss) from equity investments	(240,000)	12,011,467
260.	**Profit (loss) before tax on continuing operations**	**(35,413,731)**	**83,340,464**
270.	Income tax expense from continuing operations	13,616,663	(13,213,928)
280.	**Profit (loss) on continuing operations after tax**	**(21,797,069)**	**70,126,536**
290	Profit (loss) on discontinued operations after tax	7,254,746	11,039,909
300.	**Profit (loss) for the period**	**(14,542,323)**	**81,166,445**

STATEMENT OF COMPREHENSIVE INCOME

		30/06/2022	30/06/2021
10.	**Net profit (loss) for the period**	**(14,542,323)**	**81,166,445**
	Other comprehensive income net of taxes not recyclable to profit or loss	**486,347**	**3,925,812**
20.	Equity securities designated as at fair value through other comprehensive income	(848,617)	3,928,933
70.	Defined benefit plans	1,334,965	(3,121)
	Other comprehensive income net of taxes recyclable to profit or loss	**(18,001,132)**	**5,829,568**
120.	Cash flow hedges	(12,390,156)	6,973,977
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(5,610,976)	(1,144,409)
170.	**Total other comprehensive income net of taxes**	**(17,514,785)**	**9,755,380**
180.	**Comprehensive income (item 10+170)**	**(32,057,107)**	**90,921,825**

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

				Allocation of net profit of previous year		Change in the period									
							Equity transactions								
	As at 31/12/2021	Change in opening balance	As at 1/1/2022	Reserves	Dividends and other destinations	Change in reserves	Issue of new shares	Purchase of treasury shares	Interim dividends	Extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock options	Comprehensive income at 30.6.2022	Shareholders' equity 30.6.2022
Share capital:															
a) ordinary shares	1,401,045,452	X	1,401,045,452	-	X	X	-	-	X	X	X	X	X	X	1,401,045,452
b) other shares	-	X	-	-	X	X	-	-	X	X	X	X	X	X	-
Share premium reserve	6,081,405	X	6,081,405	-	X	-	-	X	X	X	X	X	X	X	6,081,405
Reserves:															
a) earnings	183,455,648	-	183,455,648	53,177,917	X	(124,319)	-	-	X	-	X	X	X	X	236,509,246
b) other	-	-	-	-	X	-	-	X	X	-	X	-	-	X	-
Valuation reserves	45,353,084	-	45,353,084	-	X	-	X	X	X	X	X	X	X	(17,514,785)	27,838,299
Equity instruments	-	X	-	X	X	X	X	X	X	X	-	X	X	X	-
Treasury shares	-	X	-	X	X	X	-	-	X	X	X	X	X	X	-
Net profit (loss) for the period	53,177,917	-	53,177,917	(53,177,917)	-	X	X	X	X	X	X	X	X	(14,542,323)	(14,542,323)
Total shareholders' equity	**1,689,113,506**	**-**	**1,689,113,506**	**-**	**-**	**(124,319)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(32,057,107)**	**1,656,932,080**

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

				Allocation of net profit of previous year		Change in the period									
							Equity transactions								
	As at 31/12/2020	Change in opening balance	As at 1/1/2021	Reserves	Dividends and other destinations	Change in reserves	Issue of new shares	Purchase of treasury shares	Interim dividends	Extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock options	Comprehensive income at 30.6.2021	Shareholders' equity 30.6.2021
Share capital:															
a) ordinary shares	1,401,045,452	X	1,401,045,452	-	X	X	-	-	X	X	X	X	X	X	1,401,045,452
b) other shares	-	X	-	-	X	X	-	-	X	X	X	X	X	X	-
Share premium reserve	6,081,405	X	6,081,405	-	X	-	-	X	X	X	X	X	X	X	6,081,405
Reserves:															
a) earnings	252,485,541	-	252,485,541	(66,795,259)	X	(880,619)	-	-	X	-	X	X	X	X	184,809,663
b) other	-	-	-	-	X	-	-	X	X	-	X	-	-	X	-
Valuation reserves	38,050,326	-	38,050,326	-	X	-	X	X	X	X	X	X	X	9,755,380	47,805,706
Equity instruments	-	X	-	X	X	X	X	X	X	X	-	X	X	X	-
Treasury shares	-	X	-	X	X	X	-	-	X	X	X	X	X	X	-
Net profit (loss) for the period	(66,795,259)	-	(66,795,259)	66,795,259	-	X	X	X	X	X	X	X	X	81,166,445	81,166,445
Total shareholders' equity	**1,630,867,465**	**-**	**1,630,867,465**	**-**	**-**	**(880,619)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**90,921,825**	**1,720,908,671**

STATEMENT OF CASH FLOWS: INDIRECT METHOD

	30/06/2022	30/06/2021
A. OPERATING ACTIVITIES		
1. Operations	**(108,108,574)**	**(14,600,596)**
- net profit (loss) for the period (+/-)	(14,542,323)	81,166,445
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	39,572,644	17,362,371
- gains (losses) on hedging activities (-/+)	1,988,331	(210,197)
- net losses/recoveries on impairment (+/-)	(3,894,394)	18,177,287
- net adjustments of property plant and equipment and intangible assets (+/-)	1,176,152	1,291,354
- net provisions for risks and charges and other costs/revenues (+/-)	(1,150,031)	(25,100,171)
- taxes, duties and tax credits to be settled (+/-)	(13,349,500)	(14,548,969)
- net adjustments of disposal groups held for sale net of tax effects (+/-)	(117,909,453)	(92,738,716)
- other adjustments (+/-)	**5,008,309,016**	**(425,121,328)**
2. Net cash flows from/used in financial assets	(873,491,807)	85,344,959
- financial assets held for trading	247,266	26,359,520
- financial assets designated as at fair value	(5,641,656)	(134,872,885)
- other assets mandatorily measured at fair value	(406,744,999)	(137,702,014)
- financial assets measured at fair through other comprehensive income	5,822,273,837	(226,594,117)
- financial assets measured at amortized cost	471,666,375	(37,656,791)
- other assets	**(4,977,712,524)**	**561,583,803**
3. Net cash flows from/used in financial liabilities	(5,774,270,882)	509,067,790
- financial liabilities measured at amortized cost	862,981,514	(110,001,538)
- financial liabilities held for trading	30,521,766	(4,222,480)
- financial liabilities designated as at fair value	(96,944,923)	166,740,031
- other liabilities	**(77,512,083)**	**121,861,879**
Net cash flows from/used in operating activities (A)		
B. INVESTING ACTIVITIES	**809,870**	**24,401,186**
- dividends on equity investments	777,148	23,404,091
- sale of property plant and equipment	32,722	-
- sale of intangible assets	-	997,096
2. Cash flows used in	**(28,976,599)**	**(118,298,047)**
- purchases of equity investments	(28,733,794)	(117,292,325)
- purchases of property plant and equipment	(242,805)	(1,005,722)
Net cash flows from/used in investing activities (B)	**(28,166,729)**	**(93,896,861)**
C. FINANCING ACTIVITIES		
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C	**(105,678,812)**	**27,965,019**

RECONCILIATION

	30/06/2022	30/06/2021
Cash and cash equivalents at beginning of period (E)	1,214,581,917	209,427,984
Net increase/decrease in cash and cash equivalents (D)	(105,678,812)	27,965,019
Cash and cash equivalents: effect of exchange rate changes (F)	-	-
Cash and cash equivalents at end of period (G)=E+/-D+/-F	**1,108,903,105**	**237,393,003**

Key
(+) generated
(-) used in

NOTES TO THE FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

SECTION 1 – DECLARATION OF CONFORMITY WITH INTERNATIONAL ACCOUNTING STANDARDS

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, the separate interim financial statements of Iccrea Banca have been prepared in condensed form and in accordance with the recognition and measurement criteria of the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRS-IC), endorsed by the European Commission and in force as of the reporting date.

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

These interim financial statements have been prepared using the format and main schedules provided for in Circular no. 262 of December 22, 2005 – 7th update of October 29, 2021 - issued by the Bank of Italy in the exercise of the powers established by Article 43 of Legislative Decree 136/2015, as well as with the Communication of the Bank of Italy of December 15, 2020 – Supplement to the provisions of Circular no. 262 "Bank financial statements: formats and rules of preparation" concerning the impact of COVID-19 and the measures to support the economy and amendments of the IAS/IFRS - as updated with the Communication of the Bank of Italy of December 21, 2021.[33]

These interim financial statements were prepared using the same accounting standards used to prepare the consolidated financial statements at December 31, 2021.

The following table sets out the new international accounting standards and amendments to existing accounting standards, with the related endorsement regulations of the European Commission, that took effect that took effect, either on a mandatory basis or with the option of early adoption, as from January 1, 2022:

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

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

[33] See "Aggiornamento delle integrazioni alle disposizioni della Circolare n. 262 - Il bilancio bancario: schemi e regole di compilazione" concerning the impact of COVID-19 and economic support measures.

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
2036/2021	**IFRS 17 Insurance contracts** The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers. On June 25, 2020, the IASB published the following amendments to IFRS 17: – a reduction in costs with the simplification of certain requirements of the accounting standards; – the simplification of statements of financial performance; – the deferral of the effective date until 2023.	Annual reporting periods beginning on or after January 1, 2023.
357/2022	**Amendments to IAS 1 Presentation of Financial Statements – Disclosure of Accounting Policies** The amendments to IAS 1 are intended to improve disclosure of accounting policies and require companies to disclose material accounting policy information for their financial statements	Annual reporting periods beginning on or after January 1, 2023. Early application is permitted.
357/2022	**Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of accounting estimates** The amendments to IAS 8 clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.	Annual reporting periods beginning on or after January 1, 2023. Early application is permitted.
1392/2022	**Amendments to IAS 12 (Income Taxes)** The amendments to IAS 12 are intended to specify how to account for deferred tax on transactions such as leases and decommissioning obligations.	Annual reporting periods beginning on or after January 1, 2023. Early application is permitted.
1491/2022	**Amendment of transition requirements of IFRS 17** The amendment of the transition requirements of IFRS 17 allows entities to eliminate one-off classification differences in comparative information for the previous period at the date of initial application of IFRS 17 and IFRS 9 Financial Instruments.	Annual reporting periods beginning on or after January 1, 2023.
To be determined	**Amendments to IAS 1 – Presentation of Financial Statements: classification of liabilities as current or non-current** The amendments seek to clarify one of the criteria of IAS 1 for the classification of a liability as non-current, i.e. the requirement that an entity must have the right to defer the settlement of the liability for at least 12 months after the end of the reporting period. The changes: – specify that the right to defer settlement must exist at the end of the reporting period; – clarify that the classification is unaffected by management's intentions or expectations regarding the possibility of exercising the right to defer settlement; – clarify how the terms of a liability impact its classification; and – clarify the requirements for the classification of liabilities that an entity intends to settle or could settle with the issue of equity instruments.	Annual reporting periods beginning on or after January 1, 2023.

SECTION 2 - GENERAL PREPARATION PRINCIPLES

The financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows, and the notes to the financial statements and the associated comparative disclosures, along with the Report on Operations and the performance and financial position.

The accounts presented in the financial statements correspond to those in the company accounts.

In compliance with Article 5 of Legislative Decree 38/2005, the financial statements use the euro as the reporting currency. More specifically, the schedules for the balance sheet and income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows are drawn up in euros, while the explanatory notes, unless otherwise indicated, are drawn up in thousands of euros. For comparative purposes, the financial statements and, where required, the tables in the explanatory notes also report data for the corresponding period of the previous year.

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

Reference is also made to the documents issued by European Securities and Markets Authority (ESMA) regarding the application of specific provisions of the IFRS, with particular regard to the methods of accounting for the effects of the COVID-19 pandemic (ESMA statements of March 25, 2020, May 20, 2020, October 28, 2020 and October 29, 2021).

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

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

These interim financial statements have been prepared in accordance with the format and rules for the preparation of bank financial statements set out in Circular no. 262 of December 22, 2005 – 7th update of October 29, 2021, as well as with the Communication of the Bank of Italy of December 15, 2021 – Supplement to the provisions of Circular no. 262 "Bank financial statements: formats and rules of preparation" concerning the impact of COVID-19 and the measures to support the economy and amendments of the IAS/IFRS, as updated by the Communication of the Bank of Italy of December 21, 2021 "Update of the Supplement to the provisions of Circular no. 262 "Bank financial statements: formats and rules of preparation".

The comparative figures at June 30, 2021, have been restated, where necessary, to reflect the update of Circular 262. The main changes concern: *(i)* the reclassification of demand deposits and current accounts with banks and central banks from "financial assets at amortized cost" to "cash and cash equivalents", *(ii)* the specific and separate indication of the financial assets purchased or originated impaired in the tables of the explanatory notes for financial assets, *(iii)* an indication in the tables reporting COVID-19 support measures of loans involved in ongoing moratoriums no longer compliant with guidelines and not classified as subject to forbearance measures, and (iv) a revision of the tables concerning fees and commissions.

For the purposes of preparing the financial statements, the guidelines, documents and warning notices issued by ESMA, EBA, ECB, CONSOB and the IASB HAVE also been considered, as more fully discussed in the Report on Operations accompanying the consolidated financial statements, for the consistent application of international accounting standards, in particular IFRS 9, in the countries of the European Union with reference to the exceptional measures taken in response to the COVID-19 pandemic.

In accordance with the provisions of IAS 1, these interim financial statements have been drawn up on a going-concern basis.

In this regard, management is not aware of any significant uncertainties, events or conditions that could lead to the emergence of serious doubts about the Bank's ability to continue operating as a going concern in operation in the foreseeable future, taking into particular account the cross guarantee scheme on which the Iccrea Cooperative Banking Group is based, a discussion of which is provided in the Report on Operations. The uncertainties surrounding the current economic environment, even if they have generated/are likely to generate impacts on the financial statements, do not undermine the going-concern assumption.

In light of this information and assessments, and with regard to the information provided in Document 2 of February 6, 2009 and Document 4 of March 3, 2010, issued jointly by the Bank of Italy, CONSOB and ISVAP, as updated, the Bank has a reasonable expectation of continuing to operate as a going concern in the foreseeable future and has therefore prepared the financial statements at December 31, 2021 on basis of the going-concern assumption.

Content of the financial statements and the notes to the financial statements

Balance sheet and income statement

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

Statement of comprehensive income

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

Statement of changes in equity

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

Statement of cash flows

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

Content of the notes to the financial statements

The notes to the financial statements contain the disclosures required under the international financial reporting standards, in particular the provisions of IAS 34 Interim Financial Reporting, and that main tables set out in Circular no. 262/2005 – 7th update of October 29, 2021.

SECTION 3 – EVENTS SUBSEQUENT TO THE REPORTING DATE

In the period between the reporting date of the financial statements and their approval by the Board of Directors, no events occurred that would entail a modification of the financial data approved at that meeting.

SECTION 4 – OTHER MATTERS

Consolidated tax mechanism option

Iccrea Banca S.p.A. and the Group subsidiaries belonging to the so-called "direct scope" have adopted the "consolidated tax mechanism", governed by Articles 117-129 of the Uniform Income Tax Code ("TUIR"), introduced with Legislative Decree 344/2003. It consists of an optional tax regime under which total net income or the tax losses of each subsidiary taking part in the tax consolidation –along with withholdings, deductions and tax credits – are transferred to the parent company. Only one taxable income or tax loss that can be carried forward (the algebraic sum of the parent company's and its participating subsidiaries' income/losses resulting in a single tax payable/receivable) is calculated and attributed to the parent company. Under this option, the Group companies that participate in the consolidated tax mechanism calculate their tax liabilities and the corresponding taxable income, which is transferred to the parent company. If one or more subsidiaries reports negative taxable income, the tax losses are transferred to the parent company when there is consolidated income for the period or a high probability of future taxable income.

Risks and uncertainties associated with the use of estimates

In conformity with the IAS/IFRS, management is required to formulate accounting estimates that can impact the values of the assets, liabilities, costs and revenues recognized in the separate financial statements. The formulation of these estimates is based on prior experience, available information, the adoption of assumptions and subjective judgements.

Estimation processes were used to support the carrying amount of some of the largest items recognized in the consolidated financial statements, such as:

- the verification of compliance with the requirements for classifying financial assets in the accounting portfolios that adopt the amortized cost criterion (SPPI test), with particular regard to the performance of the benchmark test;
- the quantification of impairment losses on loans and, more generally, other financial assets;
- the assessment of the appropriateness of the value of equity investments and other non-financial assets;
- the use of valuation techniques in the recognition of the fair value of financial assets not listed on active markets;
- the estimation and assumptions concerning the recoverability of deferred tax assets;
- the determination of discount rates for lease liabilities;
- the quantification of provisions for personnel and provisions for legal and tax risks and charges.

The description of the accounting policies applied to the main financial statement aggregates provides the information necessary to identify the main assumptions and subjective assessments used in the preparation of the financial statements.

In particular:

- for allocation to the three stages of credit risk provided for under IFRS 9 of loans and debt securities classified under financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income and the associated calculation of expected losses, the main estimates regard the determination of the parameters representing a significant increase in credit risk, the inclusion of forward-looking factors in determining PD, EAD and LGD and the determination of future cash flows from impaired loans;
- for the quantification of provisions for risks and charges, the estimation of the amount of outlays necessary to discharge liabilities, taking account of the effective probability of having to employ resources to do so.

For further information concerning the composition and associated carrying amounts of the items affected by these estimates, please see the specific sections in the notes to the financial statements.

By their nature, estimates may vary from year to year and, therefore, it cannot be ruled out that in subsequent years the current values recorded in the financial statements may differ significantly as a result of changes in the subjective assessments employed.

In line with the ESMA statements published in March and May 2020 as well as with the IOSCO document of April 2020, CONSOB published several warning notices, in April and July 2020 and February and March 2021, that emphasized the importance of providing updated disclosures on the risks associated with COVID-19 that may have an impact on performance, financial position or cash flows, on any actions taken or planned to mitigate said risks, on the potential impacts relevant to the estimation of future developments. The attention of management

was also drawn to the need to carefully assess the present and future impact of COVID-19 on strategic planning and plan targets, on financial performance, on the financial position and on cash flows, as well as on the going-concern assumption

The main subjective judgments made by management in assessing the impact of the COVID-19 pandemic are summarized below.

The quantification of impairment losses on loans

A key element of the comprehensive set of actions implemented by the Group for the structural management of the COVID-19 emergency was the effort to revise the credit risk forecasting metrics to factor the conditions associated with the emergency into ordinary valuation processes and, in particular, within the IFRS 9 impairment framework in order to calculate the expected credit loss (ECL) on performing loans.

The great discontinuities in market conditions brought about COVID-19 have prompted a number of exceptional changes in methodology and implementation that have made it possible to incorporate the potential impact of the pandemic into the impairment model, taking consideration in particular of recent developments in the pandemic. At the same time, the introduction of measures to support customers and the economy, with a particular emphasis on actions taken by the Group in relation to applicable legislative measures enacted in Italy, the measures agreed with industry association and the initiatives undertaken by individual organization led to the introduction of further methodological changes to the IFRS 9 impairment framework in order to take account of the impact of the emergency in calculating expected credit losses.[34]

More specifically, the measures to adapt the impairment framework to incorporate the effects of the COVID-19 pandemic in the calculation of expected credit losses included:

- the use of forecast scenarios updated in response to developments in macroeconomic conditions. In particular, in order to enable the adaptation of the IFRS 9 methodological framework to the pandemic, the difficulty of modeling its peculiar characteristics using ordinary tools (satellite models) prompted the use of forward-looking projection metrics (implicit multipliers) to be applied to the risk parameters (PD, LGD) estimated on the basis of the forecast values of the exogenous macroeconomic variables provided by our external provider (Prometeia), differentiated by type of counterparty, sector of economic activity and geographical area;
- the management of the impacts related to the implementation of customer support measures, with particular regard to loan payment moratoriums and measures to support the liquidity of companies. More specifically, loan moratoriums were managed by adapting automatic staging mechanisms (e.g. halting the count of days past due) in order to make the stage allocation criteria consistent with application of the support measures, considering at the same time an appropriate degree of prudence in the assessment of these positions in the light of the evolution of market conditions and the expectations of the supervisory authorities in this regard. The handling of measures to support liquidity called for the application of coverage levels set to take account of the mitigating effects on credit risk of the specific guarantees to support operations in this area.

These exceptional changes to the IFRS 9 impairment framework in response to COVID-19 were introduced in concert with the ordinary maintenance of the estimation models planned prior to the pandemic, thereby lending continuity to the updating and fine-tuning of the risk parameters (PD and LGD) used to calculate ECL within the IFRS 9 framework, in line with applicable financial reporting standards. These updates over the course of the year led to the development of a version of the models and measurements of the related parameters that are more stable and more accurate in measuring the characteristics of risk typical of the loan portfolios.

Impact of the Comprehensive Assessment

Following the Comprehensive Assessment conducted in 2020 by the European Central Bank, which included an Asset Quality Review (AQR), the Group was asked to further strengthen risk safeguards with a conservative provisioning policy for, among other things, the performing loan portfolio.

In 2021, our response to the findings of the AQR was implemented in full, involving specific measures impacting the Group's performing and non-performing portfolios, which raised the level of prudence adopted in position classification and valuation, producing a generalized increase in the coverage of the portfolios in question. These measures can be categorized as refinements of our models and involved, among other modifications, changes to the parameters used in estimating ECLs.

The broader range of measures taken include the incorporation of greater prudence into the ECL IFRS 9 framework for performing portfolios, with the increase in provisioning being implemented with the introduction of distinct elements of prudence, both in the determination of risk metrics conditional on macroeconomic scenarios and in the staging of performing exposures. As regards the determination of conditional risk metrics, more conservative approaches have been implemented in the parameter conditioning models for measuring credit risk and specific conservation buffers in quantifying the probability of cure. With regard to the stage allocation logic for performing exposures, additional criteria were considered for determining the allocation to Stage 2 for positions associated with customers operating in high-risk sectors who had been granted debt service relief/rescheduling (suspension of payments, etc.) not strictly connected with specific financial difficulties of the individual borrower.

[34] Ivi inclusa la revisione del *probation period* per le esposizioni in moratoria precedentemente allocate in Stage 2.

Disposal scenarios

Taking into account our NPE reduction strategies, which among other options provide for the reduction of the stock of impaired credit exposures through disposals, for the purpose of valuing bad loans and UTP positions that could potentially be involved in sale, the Group identified a pool of exposures to which a probabilistic disposal scenario has been applied. This assessment is connected with the provisions of IFRS 9 that require companies to consider all forward-looking information available at the time of preparation of the financial statements, including the methods the Group companies plan to use to recover the loans, which in addition to initiatives to recover against debtors or the guarantees they have pledged to secure their debt also include the sale of loans to third parties.

For more information on the criteria used to identify and measures positions, please see the disclosures in the notes to the financial statements at December 31, 2021.

Securities obtained against assets transferred in non-cash transactions

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

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

Impairment testing of equity investments

In compliance with IAS 36, at each reporting date, the Bank verifies that there is no objective evidence that the carrying amounts of equity investments is not recoverable.

In the financial statements at June 30, 2022, the valuation techniques adopted to determine recoverable value were applied on the basis of the data and results of the corporate 2021-2023 strategic plan approved following the new planning cycle begun in the last quarter of 2020, which were developed consistently with the strategic guidelines and industrial measures set out in the Strategic Plan and the Group Transformation Plan,[35] but does not consider the effects of the Comprehensive Assessment, whose findings will be incorporated during the 2022-2024 planning cycle.

Probability testing of DTAs

The recovery of the DTAs pursuant to Law 214/2011 is certain under the provisions of the law and does not take account of the profit generating capacity of the Bank.

DTAs other than those referred to in Law 214/2011 are recognized to the extent that their recovery is probable.

The probability testing conducted to verify the conditions for continuing to recognize existing and new deferred tax assets in the 2022 interim financial statements was performed on the basis of the criteria and methods defined by the Parent Company, estimating the profit or tax loss (IRES/IRAP) over a forecast period deemed reasonable and verifying that this would be sufficient to ensure recovery of the total amount of DTAs requiring testing. As the total taxable income estimated for the period of analysis was equal to or greater than the taxable income associated with the deferred tax assets undergoing testing, the test was passed.

The estimates and assumptions concerning the recoverability of tax assets in respect of prepaid taxes were formulated on the basis of the most recent approved strategic plan, which incorporates the forecasts in the macroeconomic scenario provided to all the companies in scope, developing the commercial dynamics and the associated developments in performance and financial position.

Rights of use in leases

Similarly to the treatment of assets owned outright, IFRS 16 specifies that the right-of-use assets acquired through leases must undergo testing to ascertain if there is evidence that they have incurred an impairment loss. If so, the carrying amount of the asset is compared against its recoverable amount, which is equal to the greater of the fair value and the value in use - the latter understood as the present value of future

[35] This three-year plan takes account of the new macroeconomic and market context that has emerged in the wake of the COVID-19 pandemic, as well as the initiatives in support of the real economy implemented by the national government, European institutions and the central bank. The effects of changes in the associated regulatory framework are also incorporated (in particular, CRR2, target level of the MREL, new definition of default, calendar provisioning).

cash flows originating from the asset. Any adjustments are recognized through profit or loss.

In assessing whether there is any indication that an asset may be impaired, IAS 36 requires an entity to consider the following:

- internal sources of information, such as signs of obsolescence or physical damage of an asset, restructuring plans and closures of branches;
- external sources of information, such as the increase in interest rates or other market rates of return on investments that could cause a significant decrease in the recoverable amount of the asset.

As at June 30, 2022, the Bank had checked:

- developments in the rates used to discount lease payments;
- the presence of unused leased properties.

At the reporting date, there was no evidence of a deterioration in the recoverable value of the right-of-use assets recognized in respect of leases.

Targeted Longer-Term Refinancing Operations (TLTRO) with the ECB

Loans under TLTRO III program are variable rate loans, indexed to ECB rates, with a reward mechanism for determining the final rate applicable to each operation based on the achievement of certain performance objectives for eligible loans. Interest is settled in arrears.

The financial terms applicable to loans under the TLTRO III program have been modified by the ECB on several occasions, as discussed in in the reports on operations accompanying these and the previous financial statements, which readers are invited to consult for further information.

The characteristics of the TLTRO-III transactions do not allow for immediate classification under cases specifically dealt with by the IAS/IFRS. We believe we can refer by analogy to "IFRS 9 - Financial Instruments" for the purposes of the accounting treatment of the following situations:

- change in the estimates of achievement of the objectives;
- recognition of financial effects, "special interest";
- management of early repayments.

The Group has elected to refer to the provisions of IFRS 9 in accounting for the operations, believing that the funding conditions to which the banks have access through the TLTRO operations promoted by the ECB are on market terms and conditions. These rates can be considered "market rates" since it is the ECB itself that establishes the level, determining this level in line with the lending objectives to be achieved (monetary policy operations). Furthermore, the ECB has the power to change the TLTRO III interest rate at any time. This right of modification by the ECB, however, must be assessed on the basis of paragraph B5.4.5 of IFRS 9 (floating-rate loans), resulting in a change in the internal rate of return (IRR) of the loan to reflect changes in the benchmark rate. A different situation arises when the loan rate changes due to the modification of the forecasts for achieving the benchmark net lending target. In this case, with the same IRR, the modification of future cash flows can only lead to the measurement of the amount of the loan at amortized cost.

Furthermore, the conditions under which interest is to be calculated are a function of the probability of achieving the net lending target.[36]

The operation essentially has the following financial structure:

- it is a floating-rate transaction indexed to the rate on main refinancing operations (MRO), which is the base rate for the main refinancing operations of the ECB;
- in its basic structure it has a spread of -50 bps in the so-called "special interest rate period" from June 24, 2020 to June 23, 2021 and an "additional special interest rate period" from June 24, 2021 to June 23, 2022;
- in the event of achievement of the target for the "special reference period" (from March 1, 2020 to March 31, 2021) and the "additional special interest rate period" (from October 1, 2020 to December 31, 2021), the structure of the transaction changes as follows:
    - the benchmark rate becomes the rate on the ECB's deposit facility (DF), which was -50 bps until July 26, 2022, and can be modified by the ECB during the term of the respective loans;
    - for the "special interest rate period" and the "additional special interest rate period" a cap of -1.00% is applied to the final rate (deposit facility rate – 50 bps).
- in the event the target for the "special reference period" is not achieved, three different mechanisms will be applied depending on achievement of the secondary objective (growth of 1.15% between April 1, 2019 and March 31, 2021):

[36] This accounting choice is consistent with the Public Statement issued by ESMA on January 6, 2021 regarding the "… the third series of the ECB's Targeted Longer-Term Refinancing Operations (TLTRO III)".

- in the event the target for the “additional special reference period” is not achieved:
    - for the first 7 auctions from June 23, 2021, the rate provided for the three different levels of growth in eligible lending in the period between April 1, 2019 and March 31, 2021 will be applied;
    - for the subsequent 3 auctions, the average MRO rate will be applied for the entire term of the loan, with the exception of the additional special interest rate period (June 24, 2021 – June 23, 2022), during which the average MRO rate less 50 basis points will be applied.

The final rate applicable to each transaction is therefore influenced by three factors:

- the average rate applicable to the ECB’s main refinancing operations, currently equal to 0.0% or in case of positive performance, the average deposit facility rate, currently equal to – 0.50%, which can be modified by the ECB during the term of the respective loans;
- a fixed spread, in favor of Iccrea Banca, equal to 4.5 bps, which can be reset to zero under certain conditions;
- the possible performance of the TLTRO Group as a whole and the individual performance of each mutual bank.

On September 10, 2021, the Bank of Italy confirmed that the Iccrea Group had fully achieved the target set for the two-year period March 2019-March 2021 and for the first special period. The application of the most favorable rate, equal to -1% (DF rate + spread – 0.5%) is definitive. The rates for the additional special interest rate period were announced by the Bank of Italy on June 10, 2022, confirming full achievement of the target for that period as well.

On the basis of the performance monitoring exercise at October 31, 2021, net lending was reasonably higher than the net lending benchmark. Consequently the conditions for recognizing in profit or loss - for the period June-December 2021 - the incentivized rates granted in recognition of the achievement of the specific performance target, i.e. the greater negative interest rate of 0.50% potentially applicable in the special additional special interest rate period, were met.

Purchase of tax credits

Among the urgent measures deployed in response to the COVID 19 pandemic and to support the real economy, Decree Law 18/2020 (the “Cure Italy Decree”) and Decree Law 34/2020 (the “Revival Decree”) introduced specific tax incentives into Italian law in the form of tax credits. The right to the credit held by the beneficiary can be monetized through a discount granted by a supplier directly in the invoice issued to the beneficiary, with the supplier either receiving a corresponding tax credit or transferring the original credit to third parties.

The tax credits can be used in compensation by the assignee on the basis of the residual installments of the credit not used by the original beneficiary, with no annual limit on the amount. The assignees of the tax credits must use them specifically, having regard to the individual installments of the tax credit that would have been due each year to the original beneficiary of the tax credit, offsetting them again the tax liability they report in their income tax return.

If the assignee cannot can offset the entire installment of the tax credit for the year, it can be transferred to third parties (or recorded as a loss equal to the part not offset).

With regard to the transferability of tax credits, the current regulatory framework provides that the beneficiary of the credit (or the company that applied a discount in the invoice) can transfer the credit to anyone (including financial intermediaries). The latter, however, can in turn assign the tax credit only to supervised intermediaries (including banks), who can assign it only one more time, always to a supervised intermediary. Furthermore, banks are always allowed to assign the tax credit to their customers (other than consumers), who, however, cannot further assign the credit.

In view of the economic substance of these transactions, their accounting treatment is based - by analogy and where applicable - on the provisions of IFRS 9 on financial instruments. For more information, please see the disclosures in the notes to the financial statements at December 31, 2021.

Covered bonds

In 2021, the Group conducted an issue of covered bonds (guaranteed bank bonds), a multi-originator transaction in which a number of Group banks sold high credit quality assets to a vehicle. The assets were of a quality such as to serve as collateral for the guarantee issued by the vehicle to the subscribers of the covered bonds issued under the program. At the same time, the banks granted the vehicle a subordinated loan (the CB Loan) to fund the purchase of those assets, the repayment of which is linked to the performance of the asset portfolio transferred to the vehicle. Following the sale, the Parent Company issued the covered bonds backed by the aforementioned guarantee. Subsequently, the Parent Company granted a loan with conditions and characteristics consistent with those of the covered bonds issued to the affiliated banks that contributed the assets to be sold.

For more information on the structure of the transaction, please see the disclosures in the notes to the financial statements at December 31, 2022.

Other issues

The separate interim financial statements have undergone a limited audit by Mazars Italia S.p.A., which was engaged for this purpose for the period 2021-2029 in execution of the shareholders' resolution of May 28, 2021.

A.2 – THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

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

Classification of financial assets

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

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

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

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

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

The business model

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

- "Hold to collect": this includes financial assets held with the objective of collecting contractual cash flows, retaining the financial instrument to maturity, with the exception of sales permitted under Group policies in line with IFRS 9;
- "Hold to collect and sell": this includes financial assets held with the aim of both collecting contractual cash flows over the life of the assets and the proceeds from the sale of those assets;
- "Other": this is a residual business model that includes financial instruments that cannot be classified in the previous categories, mainly represented by financial assets held for the purpose of generating cash flows through sale.

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

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

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

With specific reference to the "hold to collect" model, according to IFRS 9, the sale of a debt instrument or a loan does not itself determine the business model. In fact, an HTC business model does not necessarily imply that an instrument will be held to maturity and the standard itself offers examples of sales deemed admissible within this model. Accordingly, the Iccrea Group's policies govern the types of sale considered consistent with this model, as in the case of sales made in response to an increase in the credit risk of the counterparty.

Specifically, sales that have occurred as a result of the following circumstances are considered consistent with this business model:

- in the case of an increase in credit risk and, more specifically:
  - on the basis of developments in CDS spreads with regard to the securities portfolio, taking due account of all reasonable and supportable information concerning forecasts, approved/authorized as appropriate;
  - on the basis of the staging indicator for the loan portfolio;
- in the case of sales that occur near the maturity date, i.e. when they approximate the cash flows that would be generated obtained by not selling the security;
- to manage structural liquidity in order to respond to extreme liquidity situations;
- when the sales are frequent but not material in value terms or are occasional even if material in value terms. Frequency and materiality thresholds have been specified to determine those aggregates:
  - frequency is defined as the number of trading days considered in the period considered;
  - materiality is defined as the percentage ratio between the nominal value of sales and the total nominal value of the instruments held in the portfolio during the period considered.

In cases where both frequency and materiality thresholds are exceeded, an assessment must be conducted to determine compliance with the requirements of the business model identified.

The SPPI test

In order to determine whether a financial asset can be measured at amortized cost or at fair value through other comprehensive income, it is important to determine whether the contractual cash flows of the asset are represented by solely payments of principal and interest on the principal amount outstanding. Such contractual flows are compatible with a basic lending arrangement, where the consideration for the time value of money and credit risk are typically the most significant elements of interest. However, interest may also include consideration for other risks, such as liquidity risk, and the costs associated with holding the financial asset. Furthermore, interest may also include a profit margin that is compatible with a basic lending arrangement. The principal amount is represented by the fair value of the financial asset at recognition. Contractual terms introducing exposure to risks or volatility in contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to inverse changes in interest rates, in equity prices or in commodity prices, do not give rise to contractual cash flows that are solely payments principal and interest on the principal amount outstanding. As determined by analysis conducted by the Group, such types of instrument cannot be considered SPPI-compliant and must therefore be measured at fair value through profit or loss.

In some cases, the time value of money element may be modified. That would be the case if a financial asset’s interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate (for example, the interest rate resets every month to a one-year rate). When assessing a modified time value of money element, the objective is to determine how different the contractual cash flows could be from the cash flows that would arise if the time value of money element was not modified In these cases, IFRS 9 requires the performance of a “benchmark test”, an exercise that involves comparing the interest on the actual instrument, calculated at the contractually specified interest rate, and the interest on the benchmark instrument, calculated using the interest rate that does not contain the change in the time value of money, all other contractual clauses being equal. The benchmark test therefore consists of a comparison between the sum of the undiscounted expected cash flows of the actual instrument and the sum of those for the benchmark instrument. In doing so, we consider only reasonably possible scenarios, therefore excluding stress test scenarios.

Furthermore, for the purposes of the SPPI test, any contractual term that could change the timing or amount of the contractual cash flows (for example, the case of a prepayment option, subordinated instruments or an option to extend the term for payment of principal and/or interest) shall also be considered.

Finally, a contractual cash flow characteristic does not affect the classification of the financial asset if it could only have a de minimis effect on the cash flows. At the same time, if a contractual cash flow characteristic is “not genuine”, it does not affect the classification of the financial asset. A cash flow characteristic is not genuine if it affects the instrument’s contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur. To make a determination of the de minimis effect, an entity must consider the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial instrument.

From an operational standpoint, the Group has established guidelines for conducting the SPPI test, which represent the methodology adopted by the Group and reflected in its internal rules, so as to be able to represent the benchmark instrument for the performance of the testing by all the functions involved. In this context, with specific reference to the loan portfolio, these guidelines have been implemented in a tool within the Group’s application systems that enables the benchmark test to be performed. With specific reference to the securities portfolio, on the other hand, the outcome of the test is provided by a leading sector info-provider, based on the guidelines and methods defined by the Group.

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

Classification

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

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

The category therefore includes:

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

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

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

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

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

Recognition

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

Measurement

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

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

With specific regard to equity instruments not listed on an active market, cost is used as an estimate for fair value only in rare cases in a limited

number of circumstances, i.e. where cost represents the best estimate of fair value among a wide range of fair values, making cost the most significant value, or in cases in which the valuation techniques referred to above are not applicable.

Derecognition

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

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

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

Recognition of income components

The results of the measurement of financial assets held for trading are recognized through profit or loss under item 80 “Net gain (loss) on trading activities”. The results of the measurement of financial assets designated as at fair value and of those mandatorily measured at fair value are instead recognized under item 110 “Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss”, respectively under sub-items “a) financial assets and liabilities designated as at fair value” and “b) other financial assets mandatorily measured at fair value. Dividends from equity instruments held for trading are recognized through profit or loss under item 70 “Dividends and similar income” when the right to receive payment is established.

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

Classification

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

The category also includes capital instruments not held for trading for which the option was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income with no recycling to profit or loss of any gains or losses on disposal.

Specifically, the item includes:

- loans and debt securities held with a “hold to collect and sell” business model that pass the SPPI test;
- equity interests - that do not represent an interest in subsidiaries, associates or joint arrangements – not held for trading for which the option was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income. This includes equity investments intended to strengthen the Group’s commercial presence and extend its reach into business areas in which it is not present. Similarly, this option is exercised for equity instruments that have been acquired for strategic and institutional purposes and are therefore held with no intention of selling them in the short term, representing instead a medium/long-term investment.

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

Recognition

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

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

Measurement

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

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

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

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

Derecognition

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

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

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

Recognition of income components

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

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

3 – Financial assets measured at amortized cost

Classification

This category comprises financial assets such as loans and debt securities held within a business model whose objective is achieved by collecting contractual cash flows on a financial asset ("hold to collect" business model) that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

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

Recognition

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

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

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

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

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

Measurement

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

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

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

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

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

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

- at the time of initial recognition in an amount equal to 12-month expected credit losses;

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

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

Non-performing loans, unlikely-to-pay positions, restructured exposures and past-due or over-limit exposures are considered impaired in accordance with the applicable rules of the Bank of Italy, consistent with the IAS/IFRS and European supervisory regulations (stage 3).

Measurement of the financial assets takes account of the best estimate of expected future cash flows in respect of principal and interest payments. Also taken into consideration is the realizable value of any guarantees excluding recovery costs, recovery times estimated based on contractual maturities, if any, and on reasonable estimates in the absence of contractual provisions, and the discount rate, which is the original effective interest rate. For impaired positions at the transition date, where determining this figure would be excessively burdensome, the Bank has adopted reasonable estimates, such as the average rate of loans for the year in which the loan was first classified as a bad debt, or the restructuring rate.

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

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

Derecognition

Financial assets measured at fair value through other comprehensive income are derecognized when the contractual rights to the cash flows expire, are extinguished or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred. Where it is not possible to determine whether substantially all the risks and rewards have been transferred, the financial assets are derecognized if no form of control over it is retained. Conversely, where even a portion of control is retained, the asset continues to be recognized to the extent of the continuing involvement in the asset, measured by the exposure to changes in value of the transferred assets and changes in their cash flows.

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

In certain cases, during the course of the life of financial assets, in particular loans, the terms of the contract may be modified from those in force at the time of initial recognition. In these circumstances, the modified terms must be analyzed to determine whether the original assets can continue to be recognized or must instead be derecognized, with the consequent recognition of new modified financial assets. In general, modifications of contractual terms lead to the derecognition of the financial asset and the recognition of a new asset when they are considered to be "substantial", with the recognition in profit or loss of any difference in carrying amounts. In conducting this assessment, qualitative judgments are called for. To this end, the assessment shall consider:

- the reasons for the modifications, distinguishing, for example, between renegotiations carried out for commercial reasons or in response to the counterparty's financial difficulties:
    - transactions carried out with performing counterparties for reasons other than debtor's financial difficulties, and therefore not related to a change in the creditworthiness of the borrower, are considered commercial renegotiations, which have the main objective of

adjusting the cost of credit to market conditions. These cases include all renegotiations aimed at maintaining the commercial relationship with the client, and are therefore carried out with the aim of retaining the counterparty, who might otherwise turn to another bank. In this case, these modifications are considered substantial because if they did not occur, the customer could turn to another financial institution, thus causing the bank to lose future revenue;

- transactions whose objective is to maximize the recoverable value of the loan are considered renegotiations due to financial difficulties of the counterparty, with the creditor therefore willing to accept a restructuring of the debt on terms potentially favorable to the debtor. In these circumstances, it is generally assumed that there has essentially been no extinguishment of the original cash flows that would therefore require derecognition of the original loan. Consequently, these types of renegotiation represent the majority of cases presented in the financial statements through "modification accounting", in which the difference between the carrying amount and the recalculated value of the financial asset is recognized in profit or loss by discounting the renegotiated or modified cash flows at the original effective interest rate;

- the presence of specific objective elements that substantially modify the characteristics and/or cash flows of the financial instrument, such that they would entail the derecognition of the instrument and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual terms that would cause the asset to fail the SPPI test or a change in the denomination of the currency of the instrument, as the entity would be exposed to a new risk.

Recognition of income components

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

Interest calculated on debt instruments using the effective interest method, which takes account of both the amortization of transaction costs and the differential between the initial value and the repayment value, are recognized under item 10 "Interest and similar income".

Writedowns and writebacks for credit risk and the recognition of an impairment loss are recognized under item 130 "Net losses/recoveries for credit risk in respect of financial assets measured at fair value through other comprehensive income", with a corresponding adjustment of the relevant valuation reserve in equity.

Cumulative gains and losses recognized in other comprehensive income are recognized through profit or loss under item 100 "Gain (loss) on disposal of financial assets measured at fair value through other comprehensive income" on the disposal of the asset.

Dividends on an equity instrument are recognized through profit or loss under item 70 "Dividends and similar income" when the right to receive payment is established.

4 - Hedging

The Iccrea Cooperative Banking Group has elected to exercise the option to continue to apply the rules provided for in IAS 39 governing hedge accounting (the "opt-out" option).

Classification

Risk hedging transactions are intended to neutralize the potential losses recognized on a given element or group of elements attributable to a given risk in the event that risk should actually be realized.

The types of hedges used are as follows:

- fair value hedges, which are intended to hedge the exposure to changes in the fair value (due to the various types of risk) of assets and liabilities or portions of assets and liabilities, groups of assets and liabilities, irrevocable commitments and portfolios of financial assets and liabilities as permitted under IAS 39 as endorsed by the European Commission;
- cash flow hedges are intended to hedge the exposure to changes in the future cash flows attributable to specific risks associated with items. This type of hedge is essentially used to stabilize interest flows on variable-rate funding to the degree that the latter finances fixed-rate lending. In some circumstances, analogous transactions are carried out for certain types of variable-rate lending.

Only instruments that involve a non-Group counterparty can be designated as hedging instruments.

The items "hedging derivatives" among assets and liabilities include the positive and negative values of derivatives that are part of effective hedging relationships.

Recognition

Hedging derivatives and the hedged financial assets and liabilities are reported in accordance with hedge accounting rules. Where there is formal documentation of the relationship between the hedged item and the hedging instrument, a hedge is considered effective if, at inception and throughout its life, the changes in the fair value of the hedged item or the related expected cash flows are almost entirely offset by those of the hedging instrument.

Measurement and recognition of income components

Hedging derivatives are measured at fair value.

More specifically:

- in the case of fair value hedges, the change in the fair value connected with the hedged risk on the hedged item is offset in profit or loss with the change in the fair value of the hedging instrument, which is also recognized through profit or loss. Any difference between the two changes, which represents the partial ineffectiveness of the hedge, represents the net impact in profit or loss;
- in the case of cash flow hedges, changes in the fair value of the derivative are recognized through equity in the amount of the effective portion of the hedge. They are recognized through profit or loss only when the change in cash flows in respect of the hedge item actually occurs or if the hedge is ineffective.

The derivative is designated as a hedging instrument where there is formal documentation of the relationship between the hedged item and the hedging instrument and if it the hedge is effective at the moment of inception and throughout its life.

The effectiveness of a hedge depends on the extent to which changes in the fair value of the hedged item or the associated cash flows are offset by those of the hedging instrument. Accordingly, effectiveness is determined taking account of those changes, taking account of the intentions of the entity at the time the hedge is established.

A hedge is deemed effective when the changes in fair value (or in cash flows) of the hedging instrument nearly entirely offset (i.e. within a range of 80-125%) changes in the hedged instrument for the risk factor being hedged.

Effectiveness is measured at every reporting date through:

- prospective tests, which justify the use of hedging accounting, as they demonstrate the hedge's expected effectiveness;
- retrospective tests, which indicate the level of effectiveness of the hedge achieved in the period under review, measuring the difference between actual results and theoretical results (perfect hedges).

If the tests do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the above criteria, the hedging derivative is reclassified as a trading instrument and the hedged financial instrument is measured using the criteria normally adopted for instruments of its category. Subsequent changes in the fair value of the derivative are recognized through profit or loss. For cash flow hedges, if the hedged transaction is no longer expected to be carried out, the cumulative gain or loss recognized in the equity reserve is reversed through profit or loss.

In the case of generic fair value hedges ("macro hedges"), the changes in fair value associated with the interest rate risk of the hedged assets or liabilities are recognized, respectively, under item 60 "Value adjustments of financial assets hedged generically" or 50. "Value adjustments of financial assets hedged generically" against item 90 of the income statement "Net gain (loss) on hedging activities".

5 – Equity investments

Classification

The item includes equity investments in subsidiaries, associates and joint ventures.

Subsidiaries are entities for which the investor has the ability to direct the relevant activities of the entity, by virtue of a legal right or a mere state of fact, and is also be exposed to the variability of the returns deriving from that power.

Under IFRS 10, the requirement of control is met when an investor simultaneously has:

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

Associates comprise companies in which an entity holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Group exercises a significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control.

Joint control is the contractually agreed sharing of control of an arrangement.

Equity interests in subsidiaries, joint ventures and associates held for sale are reported separately in the financial statements as a disposal group and are measured at the lower of the carrying amount and the fair value excluding disposal costs.

Recognition

Equity investments are initially recognized at cost at the settlement date including costs and revenue that are directly attributable to the transaction.

Measurement

Investments in subsidiaries and associates are measured at cost. Where there is evidence that the value of an equity investment may be impaired, its recoverable value is determined, taking account of both its market value and the present value of future cash flows. If this value is lower than the carrying amount, the difference is recognized through profit or loss as an impairment loss.

Impairment testing of equity investments

As required by the IFRS, if there is evidence (triggers) of possible impairment, equity investments undergo impairment testing to determine whether there is objective evidence that the carrying amount of such assets is not fully recoverable and to determine the amount of any writedown.

Impairment indicators are essentially divided into two categories:

- qualitative indicators, such as the posting of losses or in any case a significant divergence with respect to budget targets or the objectives set out in the long-term plans announced to investors, the announcement/start of composition with creditors or restructuring plans, and the downgrading by more than two grades of the rating issued by a specialist agency;
- quantitative indicators consisting of a reduction in fair value below the carrying amount of over 30%, or for a period of more than 24 months, or a carrying amount for the equity investment in the separate financial statements greater than the carrying amount in the consolidated financial statements of the company's net assets and goodwill, or the distribution by the latter of a dividend greater than its comprehensive income. In the presence of evidence of impairment, the size of any writedown is determined on the basis of the difference between the carrying amount and the recoverable value, which is equal to the greater of fair value less costs to sell and the value in use.

Derecognition

Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IFRS 9, as provided for financial instruments.

Equity investments are derecognized when the contractual rights to the cash flows from the assets expire or when substantially all the risks and rewards connected with ownership of the equity investment are transferred.

Recognition of income components

Dividends received from equity investments are recognized in the income statement under item 70 "Dividends and similar income" when the right to receive payment is established.

Impairment losses on subsidiaries, associates and joint ventures are recognized at cost in the income statement under item 220 "Profit (loss) from equity investments". If the reasons for the impairment loss should be removed following an event occurring after the recognition of the impairment loss, the consequent writebacks are recognized in the income statement (in an amount not exceeding the previous writedowns) under item 220.

6 – Property, plant and equipment

Classification

Property, plant and equipment includes land, buildings used in operations, investment property, technical plant, furniture and equipment. This item includes assets that are used in providing goods and services, rented to third parties, or used for administrative purposes for a period of

more than one year. The item also includes assets held under finance leases, although legal ownership remains with the lessor.

Recognition

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

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

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

In the case of recognition of rights of use in respect of leased assets pursuant to IFRS 16, the cost of the right-of-use asset is determined as follows:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

A right-of-use asset shall be recognized at the time in which the leased asset effectively becomes available for use.

Measurement

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

For assets purchased and placed in service during the year, the period of depreciation is calculated on the basis of the actual number of days the assets contributes to the production cycle. For assets transferred and/or disposed of during the year, depreciation is calculated on a daily basis up to the date of transfer or disposal.

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

In accordance with the provisions of paragraph 32a) of IAS 40, investment property as defined in IAS 40 is valued using the cost model and is depreciated.

Assets classified as inventory are measured at the lower of recognition cost and net realizable value and are not depreciated. The net realizable value is equal to the estimated price for sale in the normal course of business, net of the estimated completion costs and those necessary for the sale of the asset.

Following initial recognition, assets acquired through recovery or enforcement of guarantees in debt collection activities carried out by the Bank for impaired loans are measured in accordance with the criteria established for the classification adopted (for use in operations, for investment purposes, inventories).

For a right-of-use asset determined in compliance with IFRS 16, after the initial recognition of the asset, a lessee shall measure the right-of-use asset applying a cost model in accordance with IAS 16.

Derecognition

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

Recognition of income components

Depreciation of property, plant and equipment measured at cost, with the exception of inventories, is recognized through profit or loss under item 180 “Net adjustments of property, plant and equipment”.

In the first year, depreciation is recognized in proportion to the period the asset is effectively available for use. For assets sold or otherwise disposed of during the year, depreciation is calculated on a daily basis up to the date of transfer and/or disposal.

If there is evidence of possible impairment of the asset, the asset's carrying amount is compared against its recoverable 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.

Gains and losses deriving from the disposal or decommissioning of property, plant and equipment are determined as the difference between the net sale price and the carrying amount of the asset. They are recognized in profit and loss at the same date on which the assets are derecognized, under item 250 “Profit (loss) from the disposal of investments”.

7 – Intangible assets

Classification

Intangible assets are recognized as such if they are identifiable and are based on legal or contractual rights. They include application software.

Right-of-use assets have not been recognized in respect of leases involving intangible assets as such recognition is optional under IFRS 16.

Recognition

Intangible assets are recognized at cost, adjusted for any incidental expenses, only if it is probable that the future economic benefits attributable to the asset will be realized and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognized in the income statement in the period in which it is incurred.

Recognition of intangible assets generated internally, and software in particular, is subject to verification of the above conditions and distinguishing between the research activities and development activities carried out to produce the asset. Costs associated with research cannot be capitalized, as the generation of probable future economic benefits cannot be demonstrated.

Intangible assets may be recognized in respect of goodwill arising from business combinations (purchases of business units). The goodwill recognized in business combinations carried out following January 1, 2004 is recognized in an amount equal to the positive difference between the purchase price of the business combination including transaction costs and the fair value of the assets and liabilities acquired if that positive difference represents future economic benefits. Goodwill in respect of business combinations carried out prior to the date of transition to the IFRS are measured on a cost basis and represent the same value as that given using Italian GAAP.

Measurement

After initial recognition, intangible assets with a finite useful life are recognized at cost, net of total amortization and accumulated impairment losses. Amortization begins when the asset becomes available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended and ceases when the asset is derecognized. Intangible assets are amortized on a straight-line basis, so as to reflect the long-term use of the asset over its estimated useful life, which for application software does not exceed 5 years.

Goodwill is not amortized and is tested for impairment at each annual or interim reporting date.

Derecognition

Intangible assets are derecognized upon disposal or when no future economic benefits are expected to be generated by the use or disposal of the asset.

Recognition of income components

Amortization is recognized through profit or loss. 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.

Writedowns of goodwill are recognized in the income statement under item 240 “Writedowns of goodwill”. Goodwill previously written down may not be written back.

Gains and losses from the disposal or other transfer of an intangible asset are determined as the difference between the net sale price and the carrying amount of the asset and recognized in the income statement under the item 250 “Profit (Loss) from disposal of investments.

8 – Non-current assets and liabilities and disposal groups held for sale

Classification

Non-current assets and disposal groups and associated liabilities are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when their sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The Bank must be committed to the sale, which must be expected to be completed within one year of classification as held for sale.

Properties obtained through the enforcement of guarantees are classified under this item when the following conditions are met:

- the asset is available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets;
- the sale is highly probable. In particular, the appropriate level of management must be committed to a plan to sell the asset, and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. Finally, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by IFRS 5, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Recognition

Non-current assets and disposal groups held for sale are valued at the lower of their carrying amount and their fair value less costs to sell, with the exception of assets for which IFRS 5 requires measurement in accordance with the applicable IFRSs (e.g. financial assets within the scope of IFRS 9).

Measurement and recognition of income components

Following initial recognition in this category, the assets are measured at the lower of their carrying amount and their fair value less costs to sell, with the exception of assets that IFRS 5 requires be measured using the provisions of the relevant accounting standard (for example, financial assets within the scope of IFRS 9). If the assets held for sale can be depreciated, any such depreciation ceases upon classification to non-current assets held for sale. Non-current assets and disposal groups held for sale, as well as “discontinued operations”, and the associated liabilities are reported under specific items of assets (“Non-current assets and disposal groups held for sale”) and liabilities (“Liabilities associated with disposal groups held for sale”).

The results of the measurement, income, expenses and gains/losses upon disposal (net of any tax effect), of “discontinued operations” are reported in the income statement under “Profit (loss) after tax of disposal groups held for sale”.

Derecognition

Non-current assets and disposal groups held for sale are derecognized upon disposal.

9 – Current and deferred taxation

Classification

Income taxes, which are calculated on the basis of national tax law, are accounted for as a cost on an accruals basis, in line with the recognition of the costs and revenue that gave rise to the tax liability. They therefore represent the balance of current taxes and deferred taxes in respect of income for the year. Current tax assets and liabilities report the net tax positions of the companies of the Group in respect of Italian and foreign tax authorities. More specifically, they report the net balance between current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax liability for the period, as determined on the basis of applicable tax law, and current tax assets represented by payments on account and other tax receivables for withholding tax incurred or other tax credits for previous years which the Group companies opted to offset against taxes for subsequent years. Current tax assets also report tax receivables for which the Group companies have requested reimbursement from the competent tax authorities.

While taking account of the adoption of the national consolidated taxation mechanism by the companies forming part of the “direct scope” of the Group, the tax positions of each Group company are managed separately for administrative purposes.

Deferred taxation is determined using the balance sheet liability method, taking account of the tax effect of temporary differences between the carrying amount of assets and liabilities and their value for tax purposes, which will give rise to taxable or deductible amounts in future periods. To that end, “taxable temporary differences” are those that in future periods will give rise to taxable amounts and “deductible temporary differences” are those that in future periods will give rise to deductible amounts. Deferred taxes are recognized on all taxable temporary

differences, with the following exceptions: i) deferred tax liabilities arising from the initial recognition of goodwill or ii) an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect either the balance sheet or the tax situation.

Deferred tax assets are recognized against all deductible temporary differences, tax receivables and unused tax losses that can be carried forward, insofar as it is probable that sufficient future taxable income will be available to allow the use of the deductible temporary differences and the tax receivables and losses carried forward, except for cases in which the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect either the balance sheet or the tax situation.

Deferred tax is calculated by applying the tax rates established in applicable tax law, laws already issued or substantially in force at the reporting date that are expected to be applied during the year in which those assets are realized or those assets are extinguished to taxable temporary differences for which it is likely that a tax charge will be incurred and to deductible temporary differences for which it is reasonable certain there were be future taxable income at the time they become deductible (the probability test).

Current tax assets and liabilities and deferred tax assets and liabilities are offset in the financial statements if, and only if, they relate to income taxes applied by the same taxation authority and there is a legally enforceable right to set off current tax assets against current tax liabilities.

Recognition and measurement

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

In cases where the deferred tax assets and liabilities regard transactions that directly impact equity with no effect on profit or loss (such as adjustments on first-time adoption of the IAS/IFRS, measurement of financial instruments measured at fair value through other comprehensive income or cash flow hedge derivatives), they are recognized in equity, under specific reserves where required (i.e. the valuation reserves).

The potential taxation in respect of items on which taxation has been suspended that will be “taxed in the event of any use” is recognized as a reduction in equity. Deferred taxes in respect of revaluations prompted by conversion of amounts to the euro that were directly allocated to a specific reserve under Article 21 of Legislative Decree 213/98 on a tax-suspended basis are recognized as a reduction of that reserve. The potential taxation in respect of items that will be taxed “only in the event of distribution” is not recognized as the amount of available reserves that have already been taxes is sufficient to conclude that no transactions will be carried out that would involve their taxation.

Deferred taxation in respect of companies participating in the consolidated taxation mechanism is recognized in their financial statements on an accruals basis in view of the fact that the consolidated taxation mechanism is limited to settlement of current tax positions.

The potential taxation of components of the equity of the consolidated companies is not recognized where the circumstances that would give rise to their taxation are not considered likely to arise, taking due consideration of the lasting nature of the investment.

The value of deferred tax assets and liabilities is reviewed periodically to take account of any changes in legislation or in tax rates.

Recognition of income components

Income taxes are recognized through profit or loss, with the exception of those debited or credited directly to equity. Current income taxes are calculated based on taxable income for the period.

In determining income taxes, any uncertainties over tax treatments are taken into account, in accordance with the provisions of IFRIC 23.

Current tax payables and receivables are recognized at the value that payment to or recovery from the tax authorities is expected by applying current tax rates and regulations. Deferred income tax assets and liabilities are calculated, using expected tax rates, on the basis of temporary differences between the value attributed to the assets and liabilities in the financial statements and the corresponding values recognized for tax purposes.

10 – Provisions for risks and charges

Provisions for commitments and guarantees issued

This sub-item reports provisions estimated in respect of the credit risk on commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules for calculating expected losses in accordance with IFRS 9. In principle, these cases use the same methods for allocation to the three risk stages and the calculation of expected losses that are adopted for financial assets measured at amortized cost or at fair value through other comprehensive income.

This sub-item also includes are provisions for other types of commitments and guarantees issued that, on the basis of their characteristics, do not fall within the scope of application of impairment in accordance with IFRS 9.

Other provisions for risks and charges

The other provisions for risks and charges include provisions for legal obligations or related to employment relationships or disputes originating from a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The item also includes long-term employee benefits.

Recognition

A provision shall be recognized if and only if:

- the company has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Measurement and recognition of income components

The amount recognized is the best estimate of the expenditure required to settle the obligation or to transfer it to third parties at the end of the reporting period and reflects the risks and uncertainties that inevitably surround many events and circumstances.

Where the time value of money is material and the payment dates of the obligation can be estimated reliably, the provision shall is discounted at market rates as of the reporting date.

Provisions are reviewed at every reporting date and are adjusted to reflect the best estimate of the charge required to settle the obligations existing at the close of the period. The impact of the time value of money and that of changes in interest rates are reported in profit or loss under net provisions for the period.

Actuarial gains and losses are recognized immediately in profit or loss.

Derecognition

Provisions are only used when the charges for which they were originally established are incurred. When the use of resources to fulfil the obligation is no longer deemed to be probable, the provision is reversed through profit or loss.

11 – Financial liabilities measured at amortized cost

Classification

Financial liabilities measured at amortized cost include amounts due to banks and customers and securities issued not held for trading in the short term, comprising all technical forms of interbank and customer funding, repurchase agreements and funding through certificates of deposit, bonds and other funding instruments in circulation, net of any amounts repurchased.

The item also includes liabilities recognized by the lessee in respect of leases (finance or operating) pursuant to IFRS 16).

Recognition

The liabilities are initially recognized at fair value, which is normally equal to the amounts received or the issue price, plus or minus any additional costs or revenue directly attributable to the transaction that are not reimbursed by the creditor. Internal administrative costs are excluded.

Financial liabilities issued on non-market terms are recognized at estimated fair value and the difference with respect to the amount paid or the issue price is taken to the income statement.

Measurement and recognition of income components

Following initial recognition, these liabilities are measured at amortized cost using the effective interest rate method, excluding short-term liabilities, which are recognized in the amount received in keeping with the general principles of materiality and significance. See to the section on assets measured at amortized cost for information on the criteria for determining amortized cost.

Interest expense recognized on financial liabilities is reported under item 20 “Interest and similar expense” in the income statement.

Lease liabilities are restated in the event of a lease modification (e.g. a modification of the scope of the lease) that is not accounted for/considered as a separate contract.

In addition to cases of extinguishment and expiration, financial liabilities reported in these items are also derecognized when previously issued securities are repurchased. In this case, the difference between the carrying amount of the liability and the amount paid to repurchase it is recognized in the income statement under item 100 “Gain (loss) on the disposal or repurchase of: c) financial liabilities”. If the repurchased security is subsequently placed again on the market, this is treated as a new issue and is recognized at the new placement price, with no impact on the income statement.

Derecognition

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

12 – Financial liabilities held for trading

Classification

The item reports the negative value of trading derivatives that are not part of hedging relationships as well as the negative value of embedded derivatives to be separated from hybrid instruments. Liabilities deriving from short positions in by securities trading activities are recognized under “Financial liabilities held for trading”.

Recognition

Debt and equity securities representing financial liabilities are initially recognized at the settlement date, while derivative contracts are recognized at the date they are signed. The financial liabilities are initially recognized at fair value, which generally equals the amount received.

In cases in which the amount paid differs from the fair value, the financial liability is recognized at fair value, and the difference between the amount paid and the fair value is recognized through profit or loss.

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

Measurement

Subsequent to initial recognition, the financial liabilities are recognized at fair value through profit or loss. Please see Part 4 “Fair value disclosures” of these notes to the financial statements for information on determining fair value.

Derecognition

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

Recognition of income components

Gains and losses from the measurement of and transactions in financial liabilities held for trading are recognized through profit or loss under item 80 “Net gain (loss) on trading activities”.

13 – Financial liabilities designated as at fair value

Classification

This item reports financial liabilities designated as at fair value through profit or loss under the option permitted to entities in IFRS 9 (the "fair value option"). More specifically, financial liabilities may be irrevocably designated as at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch due to a measurement inconsistency or where they contain one or more embedded derivatives.

Recognition

Financial liabilities at fair value through profit or loss are initially recognized at the issue date at their fair value, which normally corresponds to the price paid. If the price is different from the fair value, the financial liability is recognized at its fair value and the difference between the price and the fair value is recognized in the income statement.

Measurement

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

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

Pursuant to IFRS 9, this accounting method shall not be applied if would create or enlarge an accounting mismatch in the income statement. In this case, the gains or losses related to the liability falling under this item shall be recognized through profit or loss. With regard to the criteria for determining fair value, please see section 16. "Other information" and Part A.4 "Fair value disclosures" of these notes to the financial statements.

Derecognition

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

Recognition of income components

The result of measurement is recognized through profit or loss.

14 – Foreign currency transactions

Classification

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

Recognition

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

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

Measurement

At the reporting date, foreign currency items are measured as follows:

- monetary items are translated at the exchange rate prevailing at the reporting date;
- non-monetary items measured at historic cost are translated at the exchange rate prevailing at the transaction date;
- non-monetary items measured at fair value are translated using the exchange rate prevailing at the reporting date.

Recognition of income components

Exchange rate differences in respect of monetary and non-monetary items measured at fair value are recognized through profit or loss under item 80 “Net gain (loss) on trading activities”. If the asset is measured at fair value through other comprehensive income with no recycling to profit or loss of any gain or loss realized on disposal, exchange rate differences are allocated to valuation reserves.

Exchange rate differences resulting from the settlement of monetary items or from the translation of monetary items at exchange rates other than the initial translation rate are recognized through profit or loss in the period in which they emerge.

When gains or losses relating to a non-monetary item are recognized in equity, the exchange rate difference for the item is also recognized in equity. Likewise, when a gain or less is recognized through profit or loss, the corresponding exchange rate difference is also recognized through profit or loss.

15 – Other information

Employee termination benefits

Following the reform of supplementary pension schemes introduced by Legislative Decree 252 of December 5, 2005, changes were made to the way in which employee termination benefits are recognized. The portion of termination benefits accrued through December 31, 2006 is treated as a defined-benefit plan, since the company is required under law to pay the employee an amount determined pursuant to Article 2120 of the Italian Civil Code.

The portion of termination benefits accruing from January 1, 2007 allocated to a supplementary pension scheme or to the treasury fund managed by INPS (Italy’s National Social Security Institute) are treated as a defined-contribution plan since the company’s obligation towards the employee ceases upon transfer of the accruing amounts to the fund.

Therefore, starting January 1, 2007, the Group:

- continues to recognize the obligation accrued at December 31, 2006 in accordance with the rules for defined-benefit plans, i.e. using the projected unit credit method. This means that it measures the obligation for benefits accrued by employees using actuarial techniques, projecting into the future the amount to pay at the time the employment relationship is termination and discounting the accrued portion. To this end, the projected unit credit method considers each individual service period as the originator of an additional unit of termination benefits to be used in constructing the final obligation by projecting future outflows on the basis of statistical analysis of historical developments and the demographic curve, discounting those flows using a market interest rate. Total actuarial gains and losses are recognized, in line with the provisions of IAS 19, in equity, while the interest cost component of the change in the defined benefit obligation is recognized in profit or loss;
- recognizes the obligation for portions accrued starting January 1, 2007, payable to a supplementary pension scheme or to the treasury fund managed by INPS, on the basis of the contributions owed in each period, as a defined contribution plan for employee service, in profit or loss. More specifically, in the case of termination benefits payable to a supplementary pension scheme that treatment begins at the time of the choice or, if the employee does not exercise any option, as from July 1, 2007.

Recognition of revenue

Revenue is recognized when realized or, in the case of the sale of goods or services, in relation to the extent to which the performance obligation has been satisfied, as specified below.

Specifically:

- interest is recognized on an accruals basis using the contractual interest rate or the effective interest rate where the amortized cost method is applied;
- default interest, if any, is recognized through profit or loss only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;

- commissions for revenue from services are recognized in relation to the effective provision of the services to a customer, as discussed in greater detail below;
- revenue from the placement of funding instruments, calculated on the basis of the difference between transaction price and the fair value of the financial instrument, are recognized in the income statement when the transaction is recognized if the fair value can be determined with reference to parameters or transactions recently observed in the same market in which the instrument is traded. If these amounts cannot be easily determined or the instrument is not highly liquid, the financial instrument is recognized in an amount equal to the transaction price, excluding the commercial margin. The difference between this amount and the fair value is taken to profit or loss over the duration of the transaction through the gradual reduction in the valuation model of the corrective factor reflecting the reduced liquidity of the instrument;
- revenue from the sale of non-financial assets are recognized at the time the performance obligation is satisfied with the transfer of the asset, i.e. when the customer obtains control of the asset.

In application of IFRS 15, which was adopted as from 2018, the following steps are followed in recognizing revenue from contracts with customers:

- identification and analysis of the contract signed with the customer to identify the type of revenue. In some specific cases, multiple contracts may have to be combined and accounted for as a single contract;
- identification of the specific performance obligations in the contract. If the goods/services to be transferred are distinct, they qualify as performance obligations and are accounted for separately;
- determination of the transaction price, considering all the performance obligations in the contract. This price may be a fixed amount, but may sometimes include variable or non-monetary consideration;
- allocation of the transaction price to the performance obligations. The transaction price is allocated to the various performance obligations on the basis of the selling prices of each distinct good or service provided contractually. If it is impossible to determine the standalone selling price, it is necessary to estimate it. The assessment must be carried out as from the start date of the contract (the inception date);
- recognition of revenue when the performance obligation is satisfied. Revenue is recognized following the satisfaction of the performance obligation to the customer, i.e. when the latter obtains control of the good or service. Some revenue is recognized at a point in time, while other is accrued over time. It is therefore necessary to identify the moment in which the performance obligation is satisfied. In the case of performance obligations satisfied over time, revenue is recognized over the reference period, selecting an appropriate method to measure the progress made towards complete satisfaction of the performance obligation.

Accruals and deferrals

Accruals and deferrals reporting costs and revenue accruing in the period on assets and liabilities are recognized as adjustments to the assets and liabilities to which they refer. In the absence of such assets or liabilities, they are recognized under "Other assets" (item 120 of assets) or "Other liabilities" (item 80 of liabilities).

Expenditure for leasehold improvements

Expenses for refurbishments of buildings belonging to third parties that do not have an independent function or use are conventionally classified under "Other assets". Amortization is performed a period that does not exceed the term of the lease and amortization charges are reported under other operating expenses.

Determination of impairment

Financial assets

At each reporting date, the Bank determines whether there is objective evidence that a financial asset or group of financial assets has incurred a significant increase in the related credit risk since initial recognition and requires the definition of a methodology for calculating the expected loss (ECL) and the related risk parameters necessary to calculate it, namely: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The staging methodology provides for the allocation each exposure/tranche (loans and securities) to the three distinct stages on the basis of the following:

- stage 1: this includes newly issued instruments/tranches and exposures to counterparties classified as performing that, as at the reporting date, have a PD lower than or equal to a given threshold (qualifying for the low credit risk exemption) or have not experienced a significant increase in credit risk with respect to that measured the date of disbursement/purchase. The 12-month expected loss is measured for these positions;
- stage 2: this includes all performing instruments/tranches that, as at the reporting date, simultaneously:
  - have a higher PD than the threshold specified for the low credit risk exemption;
  - have experienced a significant increase in credit risk with respect to the date of disbursement;
  - In general, in the absence of a rating/PD at the reporting date the exposure is allocated in stage 2 (without prejudice to the use of additional criteria specifically adopted for the management of particular types of portfolios/positions not covered by the use of an internal rating model). In this case, the lifetime expected loss is measured;
- stage 3: this includes all instruments/tranches associated with loans/securities in default, for which the loss is calculated as the difference between the contractual cash flows and expected cash flows, discounted at the effective interest rate of the instrument (lifetime expected loss), which is essentially unchanged compared with the previous accounting standard.

A so-called grace period is also granted, under which newly disbursed exposures are conventionally classified in stage 1 for the first 3 months of the relationship, unless they derive from forbearance measures.

Furthermore, in order to reduce the volatility of allocations of exposures to the various stages, the mechanisms for transferring exposures between stages envisage a so-called 3-month probation period (the minimum period for which positions are allocated to a given stage), defined as follows:

- an exposure allocated to stage 2 can be transferred to stage 1 if at the reporting date the conditions for allocation to stage 1 are met and at least 3 continuous months have elapsed since the factors that prompted allocation to stage 2 no longer exist;
- the reclassification as performing of an exposure previously allocated to stage 3 involves direct allocation to stage 2 for at least 3 months following the return to performing status, unless events requiring reallocation to stage 3 should occur.

If at least one of the criteria for classification in stage 2 is activated for a position within the probation period, the probation period recommences from the month in which the criteria that determined the allocation to stage 2 are no longer active.

Performing forborne exposures for which the regulatory probation period of 24 months is already activated are excluded from the application of this criterion.

With regard to the securities portfolio, the functional methodology for staging performing exposures is based solely on quantitative information. Although they consist in comparing the PD/rating class at the origination date and PD/rating class at the reporting date, the approach used makes extensive use of the low credit risk exemption for the purpose of staging exposures, even in the presence of information on credit risk measures at the date of origination. In particular, exposures with a rating better than or equal to investment grade at the reporting date are allocated to stage 1. Exposures associated with securities in default are classified in stage 3.

With regard to expected credit loss, the risk parameters necessary for calculating that value have been distinguished by differentiating between the securities portfolio and the loan portfolio.

With regard to the securities portfolio:

- Probability of Default (PD): the PD at 12 months and multi-period PDs used underwent forward-looking conditioning;
- Loss Given Default (LGD): the unconditioned LGD measures used are the same for both stage 1 and stage 2 exposures. More specifically, and unconditioned LGD metric of 45% is used, which subsequently undergoes forward-looking conditioning;
- Exposure At Default (EAD): for the purposes of quantifying the EAD associated with each securities issue, the gross value of the exposure at the reporting dates is generally used.

With regard to the loan portfolio:

- Probability of Default (PD): the approach defined by the Group envisages:
  - the use of internal rating models to determine the transition matrix based on rating classes, conditioned to incorporate forward-looking macroeconomic scenarios and used to obtain lifetime PDs;
  - where an internal rating model is absent, calculating default rates on an annual basis, conditioned to include forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
- Loss Given Default (LGD): the approach for estimating LGD developed by the Group provides for the determination of historical loss rates on closed impaired positions and the application of the so-called danger rate, conditioned by macroeconomic scenarios;

- Exposure At Default (EAD): the estimation approach for EAD differs by type of portfolio, product and stage to which the exposure has been assigned.

In order to condition the risk parameters for future macroeconomic scenarios, the Group uses multipliers (or macroeconomic conditioning factors) that, updated periodically, make it possible to obtain projections of changes in the riskiness of the portfolio (PD) and losses generated by default of the debtor counterparties (LGD), based on a defined time horizon and certain reference macroeconomic variables.

For the purpose of applying these multipliers, the Group associates the probability of occurrence on a judgmental basis to each scenario. The probability of occurrence of each scenario are used as weights in the calculation of the average multiplier associated with each calendar year.

From January 1, 2021, new regulatory provisions concerning the definition of default (New DoD) will apply, on the basis of which the Group has adjusted its lending and risk management processes, as well as any affected reporting processes. From the entry into force of the new regulations, a “past-due engine” designed to identify impaired past-due and over-limit exposures on the basis of the new criteria for counting days past due has been activated.

The IFRS 9 framework underwent updates to ensure regulatory compliance with these new provisions, applied for the first time for the purposes of calculating impairment losses on loans starting from the closing date at March 31, 2021. Measures to implement the New DoD by the Group include the updating and recalibration of the models for the measurement of credit risk (PD, LGD), designed to incorporate the impacts of the new past-due classification rules and the effect of the mandatory Group-wide propagation of default status for joint customers. In particular, the probabilities of default have been adapted to the new regulatory framework in order to take account of the impact on the probability of occurrence of the “default” event connected with the changes in the process of determining the default itself. LGD parameters underwent recalibration to take account of the impact of the New DoD both in terms of new default flows generated by the adoption of the new definition and the consequent new composition of the impaired portfolio.

With regard to exposures classified in stage 3 (credit-impaired assets), even if the definition of “impaired loans” in IAS 39 and IFRS 9 is substantially the same, the inclusion of forward-looking information, such as the consideration of alternative recovery scenarios, incorporated a number of methodological peculiarities. In particular, scenarios for the sale of credit exposures were considered in connection with possible sales of impaired positions, in line with the company’s objectives for reducing non-performing assets, to which a probability of realization was attributed for consideration in the context of the overall assessments. It follows that, for transferrable non-performing loans, in order to determine the overall expected loss of exposures, the “ordinary” scenario assuming a recovery strategy based on the recovery of receivables through legal action, the enforcement of guarantees, etc. , has been accompanied by scenarios that envisage the sale of the loan as a recovery strategy.

Equity securities and units in CIUs

Equity securities and units of collective investment undertakings, regardless of the accounting portfolio to which they are allocated, do not undergo impairment testing as they are measured at fair value.

Other non-financial assets

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

As regards real estate, fair value is mainly determined on the basis of an appraisal prepared by an independent expert.

Intangible assets recognized following acquisitions and in application of IFRS 3 at each reporting date undergo impairment testing to determine whether there is objective evidence that the asset may have incurred an impairment loss.

If there is evidence of impairment, intangible assets with a finite life undergo a new valuation to determine the recoverability of the carrying amount. Recoverable value is determined on the basis of value in use, i.e. present value, as estimated using a rate representing the time value of money, the specific risks of the asset and the margin generated by relationships in place at the valuation date over a time horizon equal to the residual term of those relationships.

Since intangible assets with an indefinite life, represented by goodwill, do not generate autonomous cash flows, they undergo annual testing of their carrying amount for the cash generating unit (CGU) to which the values were allocated in the related business combinations. The amount of any impairment is determined on the basis of the difference between the carrying amount of the CGU and the recoverable amount of the unit, represented by the greater of its fair value, net of costs of disposal, and its value in use.

The carrying amount of the CGU must be determined in a manner consistent with the criteria used to determine its recoverable amount. From the standpoint of a banking enterprise, it is not possible to determine the cash flows of a CGU without considering the flows generated by financial assets and liabilities, given that the latter represent the core business of the company. In other words, the recoverable amount of the

CGUs is impacted by those cash flows and, accordingly, the carrying amount of the CGUs must be determined using the same scope of estimation used for the recoverable amount and, therefore, must include the financial assets/liabilities. To that end, these assets and liabilities must be allocated to the CGUs.

Following this approach, the carrying amount of the CGUs can be determined in terms of their contribution to consolidated shareholders' equity, including non-controlling interests.

The value in use of a CGU is calculated by estimating the present value of the future cash flows that are expected to be generated by the CGU. Those cash flows are determined using the most recent public business plan or, in the absence of such a plan, an internal forecasting plan developed by management.

Normally, the specific forecasting period covers a maximum time horizon of three years. The flow in the final year of the forecasting period is projected forward in perpetuity, using an appropriate growth rate "g" for the purposes of the terminal value.

In calculating value in use, the cash flows must be discounted using a rate that reflects the current time value of money and the specific risks to which the asset is exposed. More specifically, the discount rates adopted incorporate current market values for the risk-free rate and equity premiums observed over a sufficiently long period of time to reflect different market conditions and business cycles. In addition, different betas are used for each CGU in consideration of the different risk levels in their respective operational environments.

With specific reference to the rights of use recognized in accordance with IFRS 16, evidence that an asset may have suffered an impairment loss may be associated both with internal factors (deterioration, obsolescence, etc.) and external factors (market value, technological changes, etc.). Failure to exercise a right of use or the subletting of the underlying asset are considered potential indicators of impairment of the right of use.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability between willing and knowledgeable market participants in an orderly transaction. In the definition of fair value, a key assumption is that an entity is fully operational (the assumption that an entity is a going concern) and does not have the intention or the need to liquidate, significantly reduce its operations or undertake transactions on unfavorable terms. In other words, fair value is not the amount an entity would receive or would pay in a forced transaction, an involuntary liquidation or a distress sale. Nevertheless, the fair value reflects the credit quality of the instrument as it incorporates counterparty risk.

Financial instruments

With regard to the methods for determining the fair value of financial instruments, please see the information in section A.4 - Fair value disclosures.

Non-financial assets

Investment property is primarily valued using external appraisals, considering transactions at current prices in an active market for similar properties, in the same location and condition and subject to similar conditions for rentals and other contracts.

Financial guarantees

As part of its ordinary banking operations, the Bank grants financial guarantees in the form of letters of credit, acceptances and other guarantees. Commission income earned on guarantees, net of the portion representing the recovery of costs incurred in issuing the guarantee, are recognized on an accruals basis under "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 adoption of IFRS 9, the Bank has not changed the business model it uses to manage its financial assets and, accordingly, no financial assets have been transferred between portfolios.

A.4 – FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURES

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

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

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

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

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

Mark to market

Classification in Level 1 of the fair value hierarchy represents the mark-to-market approach. For an instrument to be classified in Level 1 of the fair value hierarchy, its value must be based solely on quoted prices in an active market to which the Bank has access at the time of valuation (Level 1 inputs).
A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value. The concept of active market is a key concept in allocating a financial instrument to Level 1. An active market is a market (or dealer, broker, industrial group, pricing service or regulatory agency) in which transactions for the asset or liability take place with sufficient frequency and sufficient volumes are traded to provide pricing information on an ongoing basis. Thus, the definition implies that the concept of active market is associated with the individual financial instrument and not the market itself, and it is therefore necessary to conduct materiality tests. The Group Fair Value Policy specified the criteria to be used in identifying an active market and the consequent use of the mark-to-market approach.

The definition of "active market" is broader than that of "regulated market": regulated markets are defined as the markets included in the list provided for by Article 63, paragraph 2, of the Consolidated Finance Act (TUF) and in the special section of the same list (see Article 67, paragraph 1, of the TUF). These markets are managed by companies authorized by Consob that operate in accordance with the provisions of the TUF and under the supervision of Consob itself.

Other markets in addition to regulated markets include organized trading systems (Multilateral Trading Systems and Systematic Internalizers) defined, pursuant to Legislative Decree 58/98, as a "set of rules and structures, including automated structures, which make exchange possible, on an ongoing or periodic basis, in order to collect and transmit orders for transactions in financial instruments and to settle these orders, for the purpose of concluding contracts": although normally the financial instruments listed on these markets fall within the definition of instruments listed on active markets, there may be situations in which officially listed instruments are not liquid due to low trading volumes. In such cases, quoted prices cannot be considered representative of the fair value of an instrument. Generally speaking, multilateral trading facilities (MTF) can be considered active markets if they are characterized by continuous and significant trading and/or by the presence of binding prices provided by the market maker, such as to ensure the formation of prices that actually represent the fair value of the instrument.

Financial instruments are also listed on regulated markets in other countries, and therefore not regulated by Consob, whose prices are available daily. These prices are considered representative of the fair value of the financial instruments insofar as they represent the result of a regular transaction and not only of offers to buy or sell. Finally, other markets, while not regulated, can also be considered active markets (e.g. platforms such as Bloomberg or Markit). Electronic over-the-counter (OTC) trading circuits are considered active markets to the extent that

the quotations provided actually represent the price at which a normal transaction would occur. Similarly, the quotes published by brokers are representative of fair value if they reflect the actual price level of the instrument in a liquid market (that is, they are not indicative prices, but rather binding offers).

Ultimately, in order to consider a market active, the significance of the price observed on the market itself is of particular importance and, for this reason, the following factors are considered:

- bid-ask spreads: the difference between the price at which an intermediary undertakes to sell the securities (ask) and the price at which it undertakes to buy them (bid). The larger the spread, the lower the liquidity of the market and therefore the significance of the price;
- breadth and depth of the trading book: the first concept refers to the presence of offers of large dimensions, while the depth of the book means the existence of both purchase and sell orders for numerous price levels;
- number of contributors: number of market participants providing purchase or sell offers for a specific instrument. The larger the number of active market participants, the greater the significance of the price;
- availability of information on the terms and conditions of transactions;
- price volatility: presence of daily prices of the instrument outside a certain range. The lower the volatility of the prices, the greater the significance of the price.

Comparable approach

As already noted, the fair value of financial instruments classified in Level 2 can be determined using two different approaches: the so-called comparable approach, which presupposes the use of prices quoted on active markets for similar assets or liabilities or the prices of identical assets or liabilities on inactive markets, and the model valuation approach (or mark to model), which uses valuation techniques based on observable inputs concerning the instrument itself or similar instruments.

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

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

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

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

Mark to model approach

In the absence of quoted prices for the instrument or for comparable instruments, valuation models are adopted. Valuation models must always maximize the use of market inputs. Accordingly, they must make priority use of observable market inputs (e.g. interest rates and yield curves observable at commonly quoted intervals, volatilities, credit spreads, etc.).

In the absence of directly or indirectly observable inputs or where they are insufficient to determine the fair value of an instrument, inputs that are not observable on the market be used (discretionary estimates and assumptions). With the consequent allocation of the estimate obtained to Level 3 of the fair value hierarchy.

The mark-to-model technique therefore does not give rise to a single classification within the fair value hierarchy. Depending on the observability and materiality of the inputs used in the valuation model, an instrument could be assigned to Level 2 or Level 3.

A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

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

In the absence of quoted prices on active markets, financial instruments are measured as follows:

- bonds are valued using a discounted cash flow model adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer;
- structured bonds are valued using a discounted cash flow model that incorporates valuations from option pricing models, adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer, and volatility and correlation surfaces for the underlying;
- derivatives on interest rates such as the various forms of IRS (IRS plain vanilla, forward starting, amortizing, etc.) are measured using a discounted cash flow model within a multi-curve valuation framework based on OIS/BC discounting;
- interest rate options, such as cap/floors and European swaptions, are measured using the Bachelier model whose market input parameters are the volatility matric for those instruments and interest rates.
- 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;
- derivatives on inflation, such as zero-coupon indexed inflation swaps and CPI swaps, are measured using discounted cash flow models measured on the basis of the forward inflation curve within a multi-curve valuation framework based on OIS/BC discounting;
- equity securities are measured at fair value estimated using models applied in valuation practice or using balance sheet, income or mixed methods, the market multiples method or with reference to direct transactions in the same security or similar securities observed over an appropriate span of time with respect to the valuation date. They are measured at cost if their carrying amount is below the materiality thresholds set by the Group both at individual and consolidated level and in cases where the cost represents a reliable estimate of fair value (e.g. because the most recent information to evaluate fair value is not available);
- investments in CIUs other than open-end harmonized funds are generally valued on the basis of the NAVs (adjusted if not fully representative of the fair value) made available by the asset management companies. These investments include private equity funds, real estate investment funds and hedge funds;
- medium/long-term loans to customers are measured on the basis of a mark-to-model process using the discounted cash flow approach for the positions and other models for estimating option components where applicable;
- for medium/long-term liabilities, represented by securities for which the fair value option was chosen, the fair value is determined alternatively by either discounting the residual contractual cash flows using the zero-coupon yield curve, by applying the asset swap method or by using other yield curves deemed representative of the Bank’s credit standing.

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

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

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

- estimates and assumptions underlying the models used to measure investments in equity securities and units in CIUs;
- Probability of Default (PD) and Loss Given Default (LGD): the parameters are derived from the impairment model. They are used to measure financial instruments for disclosure purposes only;
- credit spreads: the figure is extrapolated to create sector CDS curves using regression algorithms on the basis of a panel of single-name CDS curves. The figure is used to value financial instruments for disclosure purposes only.

A.4.2 VALUATION PROCESSES AND SENSITIVITY

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

A.4.3 FAIR VALUE HEIRARCHY

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

- Level 1: unadjusted quoted prices on an active market. Fair value is drawn directly from quoted prices observed on active markets. A financial instrument is considered to be quoted on an active market if prices are readily and regularly available and represent actual market transactions carried out on normal terms on a regulated market or MTF;
- Level 2: inputs other than the quoted prices noted above that are observable on the market either directly (prices) or indirectly (derivatives on prices). Fair value is determined using valuation techniques that provide for: a) the use of market inputs indirectly connected with the instrument being valued and derived from instruments with similar risk characteristics or quoted on inactive markets (the comparable approach); or b) that use observable inputs;
- Level 3: inputs that are not observable on the market. Fair value is determined using valuation techniques that use significant unobservable inputs, such as non-binding quotes provided by infoproviders (Mark to Model approach).

The following are normally considered Level 1:

- shares, debt securities and units of CIUs listed on regulated markets. Units of CIUs include mutual investment funds (UCITS, AIFs and restricted FIAs), SICAVs/SICAFs and ETPs (Exchange Traded Products);
- debt securities listed on Multilateral Trading Facilities (MTF) which meet the “specific requirements for multilateral trading systems” set out in MiFID II;
- debt securities whose fair value is equal to the unadjusted prices provided by brokers/market makers from an active market for an identical instrument and executable at the declared level;
- Units of CIUs whose value (NAV) is provided directly by the market operator;
- listed derivative financial instruments and issued financial liabilities whose fair value at the valuation date corresponds to the price quoted on an active market.

The following are normally considered Level 2:

- debt securities issued by national and international issuers that are not listed on an active market and are measured using approaches that mainly employ observable market inputs;
- debt securities whose fair value is equal to the prices provided by brokers/market makers determined with a valuation model based on observable market inputs;
- OTC financial derivatives entered into with institutional counterparties for which the main inputs are observable market data;
- units of CIUs whose prices are provided by the issuing entity (the so-called “soft NAV”) or whose fair value is adjusted using pricing models based on observable market inputs;
- insurance policies and interest-bearing postal bonds whose fair value is approximated, respectively, by the surrender and redemption value, which under applicable regulations represent the exit prices for those instruments.
- Finally, the following are normally considered Level 3:
- debt securities not listed on an active market and measured using approaches that mainly employ unobservable inputs;
- debt securities whose fair value is equal to the prices provided by brokers/market makers determined with a valuation model based on unobservable inputs;
- equity securities and issued financial liabilities for which there are no prices quoted on active markets at the valuation date and which are mainly valued using techniques based on unobservable market data;
- OTC financial derivatives entered into with institutional counterparties and measured using pricing models similar to those used for Level 2 valuations but from which they differ in the degree of observability of the inputs used in the pricing techniques;
- financial derivatives entered into with customers for which the fair value adjustment taking account of default risk is significant with respect to the total value of the financial instrument;

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

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

A.4.4 OTHER INFORMATION

The circumstances referred to in paragraphs 51, 93 letter (i) and 96 of IFRS 13 do not apply to these financial statements as the Bank is not managing groups of financial assets and liabilities on the basis of its net exposure to a specific market risk (or risks) or to the credit risk of a specific counterparty and the highest and best use of a non-financial asset does not differ from its current use.

QUANTITATIVE DISCLOSURES

A.4.5 FAIR VALUE HIERARCHY

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

	30/06/2022			31/12/2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss of which	326,345	1,383,162	408,896	370,684	486,690	430,200
a) financial assets held for trading	21,722	1,298,975	693	71,096	390,794	3
b) financial assets designated as at fair value	262,481	21,358	-	272,555	22,695	-
c) other financial assets mandatorily measured at fair value	42,142	62,829	408,203	27,033	73,200	430,196
2. Financial assets measured at fair value through comprehensive income	621,688	281,218	9,454	368,242	134,005	8,426
3. Hedging derivatives	-	473,905	-	-	37,112	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	948,034	2,138,285	418,350	738,926	657,807	438,626
1. Financial liabilities held for trading	5,717	1,288,095	-	48,985	381,872	-
2. Financial liabilities designated as at fair value	-	357,636	-	-	335,392	-
3. Hedging derivatives	-	170,119	-	-	247,018	-
Total	5,717	1,815,850	-	48,985	964,282	-

Paragraph 93 letter c) of IFRS 13 requires that, in addition to reporting the fair value hierarchy, entities shall disclose information on significant transfers between Level 1 and Level 2 and the reasons for the transfer. Please note that there were no such transfers during the period.

In addition, with regard to the quantitative impact on the determination of the fair value of financial derivative instruments, the Credit Value Adjustment (for default risk of counterparties) involved a decrease of about €4.7 thousand, while the Debt Value Adjustment (for default risk of the Bank) involved no changes.

A.5 – DISCLOSURE ON "DAY ONE PROFIT/LOSS"

There were no differences in the period between the fair value at initial recognition and the value calculated at the same date using valuation techniques, in accordance with IFRS 9 (paragraphs B.5.1.2 A letter b).

PART B - INFORMATION ON THE BALANCE SHEET

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

		Total 30/06/2022	Total 31/12/2021
a) Cash		103,020	164,614
b) Current account and demand deposits with central banks		333,609	356,665
c) Current account and demand deposits with banks		672,274	693,303
	Total	1,108,903	1,214,582

Sub-item b) includes amounts deposited on the PM account with the Bank of Italy, which is used to manage the liquidity of the Guarantee Scheme, in the amount of about €38.4 million and about €295.2 million in respect of instant payments.

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 20

2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/06/2022			Total 31/12/2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**18,822**	**1**	**690**	**69,568**	**31**	**-**
1.1 structured securities	1,653	-	-	494	-	-
1.2 other debt securities	17,169	1	690	69,074	31	-
2. Equity securities	**1,748**	**-**	**4**	**730**	**-**	**3**
3. Units in collective investment undertakings	**341**	**293**	**-**	**438**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	**20,910**	**294**	**693**	**70,736**	**31**	**3**
B. Derivatives						
1. Financial derivatives	**812**	**1,298,682**	**-**	**359**	**390,764**	**-**
1.1 trading	812	1,298,682	-	359	390,764	-
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)	**812**	**1,298,682**	**-**	**359**	**390,764**	**-**
Total (A+B)	**21,722**	**1,298,975**	**693**	**71,096**	**390,794**	**3**

2.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/06/2022			Total 31/12/2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**262,481**	**21,358**	**-**	**272,555**	**22,695**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	262,481	21,358	-	272,555	22,695	-
2. Loans	**-**	**-**	**-**	**-**	**-**	**-**
2.1 structured securities	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-
Total	**262,481**	**21,358**	**-**	**272,555**	**22,695**	**-**

The amount is entirely attributable to financial instruments subscribed by the Parent Company in accordance with the investment policy for the Ex Ante Quota of the Readily Available Funds connected with the Guarantee Scheme.

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

	Total 30/06/2022			Total 31/12/2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**19,277**	**39,064**	**579**	**18,740**	**35,205**	**505**
1.1 structured securities	4,386	6,734	307	7,827	5,155	291
1.2 other debt securities	14,891	32,330	273	10,913	30,050	215
2. Equity securities	**22,865**	**18,701**	**4**	**8,292**	**37,995**	**4**
3. Units in collective investment undertakings	**-**	**5,063**	**407,615**	**-**	**-**	**429,683**
4. Loans	**-**	**-**	**5**	**-**	**-**	**5**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	5	-	-	5
Total	**42,142**	**62,829**	**408,203**	**27,033**	**73,200**	**430,196**

“Units in collective investment undertakings” includes, among others, the units of the closed-end investment funds “Securis Real Estate” managed by Investire SGR S.p.A.:

- Securis Real Estate III, in the amount of € 92.8 million;
- Securis Real Estate II, in the amount of € 102.6 million;
- Securis Real Estate I, in the amount of € 177.2 million.

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – ITEM 30

3.1 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY TYPE

	Total 30/06/2022			Total 31/12/2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**621,688**	**4,276**	**-**	**368,242**	**4,725**	**-**
1.1 structured securities	29,453	-	-	18,439	-	-
1.2 other debt securities	592,235	4,276	-	349,803	4,725	-
2. Equity securities	**-**	**276,942**	**9,454**	**-**	**129,280**	**8,426**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**621,688**	**281,218**	**9,454**	**368,242**	**134,005**	**8,426**

3.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: GROSS VALUE AND TOTAL WRITEOFFS

		Gross amount					Total writeoffs				
		Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Purchased or originated credit-impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired	Total partial writeoffs *
Debt securities		609,126	584,234	17,498	-	-	(243)	(417)	-	-	-
Loans		-	-	-	-	-	-	-	-	-	-
Total	**30/06/2022**	**609,126**	**584,234**	**17,498**	**-**	**-**	**(243)**	**(417)**	**-**	**-**	**-**
Total	**31/12/2021**	**357,091**	**320,406**	**16,427**	**-**	**-**	**(166)**	**(384)**	**-**	**-**	**-**

* Value to be reported for information purposes

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

4.1 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN OF LOANS AND RECEIVABLES WITH BANKS

	Total 30/06/2022						Total 31/12/2021					
	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	**1,563,773**	**-**	**-**	**-**	**1,563,773**	**-**	**6,710,286**	**-**	**-**	**-**	**6,710,286**	**-**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	1,563,773	-	-	X	X	X	6,710,286	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**24,539,869**	54	**-**	**107,350**	**22,940,485**	**822,119**	**25,461,113**	**-**	**-**	**121,890**	**24,022,736**	**1,249,137**
1. Financing	23,319,550	54	-	-	21,966,913	773,445	24,249,808	-	-	-	22,981,695	1,198,918
1.1. Current accounts and demand deposits	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Fixed-term deposits	57,049	-	-	X	X	X	386,712	-	-	X	X	X
1.3. Other financing:	23,262,501	54	-	X	X	X	23,863,096	-	-	X	X	X
- Repurchase agreements	-	-	-	X	X	X	48,519	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	23,262,501	54	-	X	X	X	23,814,578	-	-	X	X	X
2. Debt securities	1,220,319	-	-	107,350	973,572	48,675	1,211,306	-	-	121,890	1,041,041	50,219
2.1 Structured securities	64,825	-	-	6,155	57,743	-	63,538	-	-	6,957	56,963	-
2.2 Other debt securities	1,155,494	-	-	101,195	915,829	48,675	1,147,768	-	-	114,933	984,077	50,219
Total	**26,103,642**	**54**	**-**	**107,350**	**24,504,258**	**822,119**	**32,171,399**	**-**	**-**	**121,890**	**30,733,021**	**1,249,137**

Loans connected with pool collateral operations amount to €18,458 million of which €17,961 million financed by the European Central Bank (TLTRO) and included under letter "B", item "Other financing– Other". Securities pledged as collateral amount to €22.4 billion net of the haircut applied to the various types of securities.

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

	Total 30/06/2022						Total 31/12/2021					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
1. Loans	**6,417,735**	**50,938**	**-**	**-**	**2,437,735**	**3,954,513**	**5,920,779**	**62,625**	**-**	**-**	**2,611,714**	**3,378,790**
1.1. Current accounts	239,663	11,002	-	X	X	X	234,053	17,568	-	X	X	X
1.2. Repurchase agreements	218,892	-	-	X	X	X	143,286	-	-	X	X	X
1.3. Medium/long term loans	2,568,293	38,432	-	X	X	X	2,566,541	43,432	-	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from pensions/wages	-	-	-	X	X	X	-	-	-	X	X	X
1.5. Finance leases	34	-	-	X	X	X	37	-	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other loans	3,390,853	1,504	-	X	X	X	2,976,861	1,626	-	X	X	X
2. Debt securities	**9,913,858**	**54**	**-**	**8,462,337**	**1,519,126**	**169,747**	**10,816,771**	**152**	**-**	**10,493,390**	**291,276**	**148,589**
2.1 Structured securities	138,828	-	-	4,352	35,974	98,065	145,399	-	-	69,584	7,583	102,239
2.2 Other debt securities	9,775,031	54	-	8,457,986	1,483,153	71,682	10,671,372	152	-	10,423,806	283,693	46,350
Total	**16,331,594**	**50,992**	**-**	**8,462,337**	**3,956,862**	**4,124,260**	**16,737,550**	**62,777**	**-**	**10,493,390**	**2,902,990**	**3,527,379**

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

		Gross amount					Total writeoffs				
		Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Purchased or originated credit-impaired	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired	Total partial writeoffs *
Debt securities		11,055,821	8,646,710	90,586	217	-	(3,049)	(9,181)	(163)	-	-
Loans		30,531,651	43,749	840,379	215,710	-	(22,532)	(48,439)	(164,772)	-	(24,308)
Total	**30/06/2022**	**41,587,471**	**8,690,459**	**930,965**	**215,927**	**-**	**(25,581)**	**(57,620)**	**(164,935)**	**-**	**(24,308)**
Total	**31/12/2021**	**47,787,863**	**10,764,296**	**1,210,782**	**269,962**	**-**	**(23,165)**	**(66,532)**	**(207,185)**	**-**	**(24,681)**

* Value to be reported for information purposes

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

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

	FV 30/06/2022			NV 30/06/2022	FV 31/12/2021			NV 31/12/2021
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair value	-	473,905	-	4,677,261	-	37,029	-	3,303,997
2. Cash flows	-	-	-	-	-	84	-	80,000
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**473,905**	**-**	**4,677,261**	**-**	**37,112**	**-**	**3,383,997**

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

SECTION 6 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY – ITEM 60

6.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	Total 30/06/2022	Total 31/12/2021
1. Positive adjustments	**-**	**-**
1.1 of specific portfolios:	-	-
a) financial assets measured at amortized cost	-	-
b) financial assets measured at fair value through comprehensive income	-	-
1.2 comprehensive	-	-
2. Negative adjustments	**(993)**	**(607)**
2.1 of specific portfolios:	(993)	(607)
a) financial assets measured at amortized cost	-	-
b) financial assets measured at fair value through comprehensive income	(993)	(607)
2.2 comprehensive	-	-
Total	**(993)**	**(607)**

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	% holding	% votes
A. Subsidiaries				
Iccrea BancaImpresa S.p.A.	Rome	Rome	100.0	100.0
BCC Beni Immobili S.r.l.	Milan	Rome	100.0	100.0
BCC Factoring S.p.A.	Rome	Milan	100.0	100.0
BCC Sistemi Informatici S.p.A.	Milan	Milan	100.0	100.0
BCC Risparmio e Previdenza SGrpA	Milan	Milan	100.0	100.0
BCC Gestione Crediti S.p.A.	Rome	Rome	100.0	100.0
BCC Solutions S.p.A.	Rome	Rome	100.0	100.0
BCC CreditoConsumo S.p.A.	Rome	Udine	100.0	100.0
BCC Accademia S.c.p.A.	Rome	Rome	100.0	100.0
Sinergia S.p.A.	Milan	Treviglio	100.0	100.0
BCC Servizi Assicurativi S.r.l.	Milan	Milan	100.0	100.0
Banca Sviluppo S.p.A.	Rome	Rome	99.3	99.3
Iccrea Covered Bond S.r.l.	Rome	Rome	90.0	90.0
Banca Mediocredito FVG S.p.A.	Udine	Udine	52.0	52.0
Bit - Servizi per L'Investimento sul Territorio S.p.A.	Parma	Parma	82.8	82.8
*Banca Centropadana Credito Cooperativo S.C.	Lodi	Lodi	34.3	97.7
*Banca TEMA - Terre Etrusche di Valdichiana e di Maremma S.C.	Chiusi	Chiusi	57.8	98.6
*Vival Banca – BCC di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	Pistoia	Pistoia	53.6	98.9
*Banca di Taranto e Massafra	Taranto	Taranto	13.8	91.4
*Banca di Pisa e Fornacette S.C:	Pisa	Pisa	41.5	96.7
*Bcc della Calabria Ulteriore	Crotone	Crotone	36.5	92.3
B. Joint ventures				
C. Companies subject to significant influence				
Hbenchmark S.r.l.	Vicenza	Vicenza	10.0	10.0
Real Estate Roma Olgiata S.r.l.	Rome	Rome	10.0	10.0
PITAGORA S.p.A.	Turin	Turin	9.9	9.9
Hi-Mtf S.p.A.	Milan	Milan	20.0	20.0
BCC Vita S.p.A.	Milan	Milan	30.3	30.3
BCC Assicurazioni S.p.A.	Milan	Milan	30.3	30.3

* The investments held in the above mutual banks consist of shares issued pursuant to Article 150-ter of the Consolidated Banking Act and subscribed pursuant to Article 6 of the Cohesion Contract concerning the Cross Guarantee Scheme, part of which were subscribed directly by the Parent Company.

7.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

The disclosures reported in this table are not provided in the separate financial statements pursuant to Circular 262 of December 22, 2005, 7th update of October 29, 2021.

SECTION 8 – PROPERTY, PLANT AND EQUIPMENT – ITEM 80

8.1 OPERATING PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

	Total 30/06/2022	Total 31/12/2021
1. Owned assets	**212**	**226**
a) land	-	-
b) building	-	-
c) movables	194	187
d) electrical plant	7	11
e) other	11	28
2. Right-of-use assets acquired under finance leases	**3,213**	**4,025**
a) land	-	-
b) building	414	526
c) movables	-	-
d) electrical plant	-	-
e) other	2,800	3,499
Total	3,425	4,251
of which: obtained through enforcement of guarantees received	-	-

The item “Right-of-use assets acquired under finance leases” includes the right of use connected with leased assets (leased buildings and automobiles) in line with the provisions of the new IFRS 16.

SECTION 9 – INTANGIBLE ASSETS – ITEM 90

9.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 30/06/2022		Total 31/12/2021	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**-**	**X**	**-**
A.2 Other intangible assets	**682**	**-**	**822**	**-**
of which Software	682	-	822	-
A.2.1 Assets carried at cost	682	-	822	-
a) internally generated intangible assets	-	-	-	-
b) other assets	682	-	822	-
A.2.2 Assets designated at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	682	-	822	-

SECTION 10 - TAX ASSETS AND LIABILITIES – ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

10.1 DEFERRED TAX ASSETS: COMPOSITION

	30/06/2022		Total	31/12/2021		Total
	IRES	IRAP		IRES	IRAP	
1) Recognized in income statement	**9,310**	**22**	**9,331**	**10,977**	**23**	**11,001**
a) DTA pursuant to Law 214/2011	**1,945**	**22**	**1,967**	**1,945**	**23**	**1,969**
Total	1,817	22	1,839	1,945	23	1,969
Goodwill and other intangible assets recognized at 31.12.2014	-	-	-	-	-	-
Tax losses/negative value of production as per Law 214/2011	128	-	128	-	-	-
b) Other	**7,364**	**-**	**7,364**	**9,032**	**-**	**9,032**
Writedowns of amounts due from banks	1,280	-	1,280	1,629	-	1,629
Writedowns of loans to customers	89	-	89	96	-	96
Goodwill and other intangible assets	-	-	-	-	-	-
Tax losses	-	-	-	-	-	-
Writedowns of financial assets held for trading and financial assets measured at fair value	-	-	-	-	-	-
Writedowns of securities in circulation	-	-	-	-	-	-
Writedowns of financial liabilities held for trading and financial liabilities measured at fair value	-	-	-	-	-	-
Writedowns of impairment of guarantees issued recognized under liabilities	3,674	-	3,674	4,341	-	4,341
Provisions for risks and charges	2,257	-	2,257	2,903	-	2,903
Costs of predominantly administrative nature	-	-	-	-	-	-
Difference between tax value and carrying amount of property, plant and equipment and intangible assets	-	-	-	-	-	-
Other	64	-	64	64	-	64
- Recognized in shareholders' equity	**11,773**	**2,348**	**14,122**	**3,386**	**622**	**4,007**
a) Valuation reserves:	**4,412**	**894**	**5,306**	**979**	**198**	**1,178**
Capital losses on financial assets measured through OCI	4,412	894	5,306	979	198	1,178
b) Other:	**7,361**	**1,454**	**8,816**	**2,406**	**423**	**2,830**
Actuarial gains/losses on provisions for employees	180	-	180	316	-	316
Other	7,181	1,454	8,635	2,090	423	2,513
A. Total deferred tax assets	**21,083**	**2,370**	**23,453**	**14,363**	**645**	**15,008**
B. Offsetting with deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets - Total 100 b)	**21,083**	**2,370**	**23,453**	**14,363**	**645**	**15,008**

10.2 DEFERRED TAX LIABILITIES: COMPOSITION

	30/06/2022		Total	31/12/2021		Total
	IRES	IRAP		IRES	IRAP	
1) Deferred tax liabilities recognized in income statement:	**-**	**-**	**-**	**-**	**-**	**-**
Writedowns of loans to customers deducted in separate section of tax return (not recognized in income statement)	-	-	-	-	-	-
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	-	-	-	-	-	-
Other	-	-	-	-	-	-
2) Deferred tax liabilities recognized in shareholders' equity:	**2,106**	**426**	**2,532**	**1,372**	**278**	**1,650**
Valuation reserves:						
Capital gains on financial assets measured through OCI	2,106	426	2,532	1,372	278	1,650
Revaluation of property	-	-	-	-	-	-
Other	-	-	-	-	-	-
A. Total deferred tax liabilities	**2,106**	**426**	**2,532**	**1,372**	**278**	**1,650**
B. Offsetting with deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets -Total sub-item 60 b)	**2,106**	**426**	**2,532**	**1,372**	**278**	**1,650**

10.7 OTHER INFORMATION

As regards the Bank's tax position:

- for the financial years 2016, 2017, 2018, 2019 and 2020 (for which the tax assessment time limit has not expired), no formal notice of assessment has yet been received;
- in November 2014, the Bank received a notice of liquidation from the Revenue Agency, Provincial Directorate of Brescia for the year 2013 concerning the registration fees of €104,770.00 for an order assigning amounts for seizure by third parties. Following adverse rulings in the first two levels of adjudication, the Bank has appealed to the Court of Cassation.

At the reporting date, the Bank conducted a probability test in order to verify whether the conditions existed for maintaining the registration of existing and newly recognized deferred tax assets. The test did not consider deferred tax assets associated with Law 214/2011, as they can be transformed into a tax credit, and those which are likely to be reversed in periods subsequent to those adopted as the time horizon used. In any case, even those deferred tax assets would be recoverable in the period covered by the test.

With regard to the probability test conducted:

- the tax income or loss (IRES/IRAP) was estimated over a five-year forecast period (from 2022-2026);
- and the sufficiency of the estimated taxable income to absorb the temporary deductible differences that will be reversed in the reference period was verified and gave rise to the recognition of DTAs.

As the total taxable income estimated for the period of analysis was equal to or greater than the taxable income associated with the deferred tax assets undergoing testing, the test was passed.

In addition, with regard to DTAs reversing subsequent to the aforementioned time horizon, a further assessment was carried out that demonstrated their recoverability within the forecast period of the plan.

The estimations and assumptions concerning the recoverability of deferred tax assets were made on the basis of the latest approved strategic plan, which incorporates the forecasts contained in the macroeconomic scenario provided to all the companies in scope, developing its commercial dynamics and the associated evolution in performance and financial position.

SECTION 11 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 110 OF ASSETS AND ITEM 70 OF LIABILITIES

11.1 CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY TYPE

	30/06/2022	31/12/2021
A. Assets held for sale		
A.1 Financial assets	-	645
A.2 Equity investments	21,100	-
A.3 Property, plant and equipment	-	48
of which: obtained through enforcement of guarantees received	-	-
A.4 Intangible assets	-	2,709
A.5 Other non-current assets	-	203,467
Total A	**21,100**	**206,869**
of which carried at cost	21,100	206,869
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated as at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortized cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which carried at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
C. Liabilities associated with assets held for sale		
C.1 Debt	-	115,644
C.2 Securities	-	-
C.3 Other liabilities	-	66,454
Total C	**-**	**182,098**
of which carried at cost	-	182,098
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortized cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated as at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total D	**-**	**-**
of which carried at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-

During the period, the Bank classified the investment in BCC Pay S.p.A. under “non-current assets and disposal groups held for sale and associated liabilities”.

SECTION 12 - OTHER ASSETS – ITEM 120

12.1 OTHER ASSETS: COMPOSITION

		Total 30/06/2022	Total 31/12/2021
- Receivables for future premiums on derivatives		8,504	9,243
- Fees and commissions and interest to be received		5,810	5,224
- Tax receivables due from central govt. tax authorities and other tax agencies (including VAT credits)		15,972	32,582
- Tax credits		223,005	203,498
- Items in transit between branches and items being processed		154,230	40,071
- Financial assets in respect of loans granted for a specific transaction		77,705	70,504
- Accrued income not attributable to separate line item		497	60
- Prepaid expenses not attributable to separate line item		39,698	5,602
- Subsidiaries – Group VAT		8,423	10,187
- Tax consolidation mechanism		10,975	20,121
- Other (security deposits, assets not attributable to other items)		88,362	80,769
	Total	633,182	477,861

The item “Financial assets in respect of loans granted for a specific transaction” regards the Parent Company’s contribution to the Guarantee Scheme.

The item “Tax credits” reports tax credits generated under the superbonus home upgrade incentive plan, assigned primarily by mutual banks, as provided for in Decree Law 18/2020 and Decree Law 34/20202.

LIABILITIES

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

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

	Total 30/06/2022				Total 31/12/2021			
	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	**17,750,470**	X	X	X	**21,049,571**	X	X	X
2. Due to banks	**16,097,828**	X	X	X	**18,287,509**	X	X	X
2.1 Current accounts and demand deposits	4,440,931	X	X	X	3,896,383	X	X	X
2.2 Fixed term deposits	11,252,307	X	X	X	13,531,501	X	X	X
2.3 Loans	213,367	X	X	X	687,050	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	448,517	X	X	X
2.3.2 Other	213,367	X	X	X	238,533	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-	X	X	X	-	X	X	X
2.6 Other payables	191,224	X	X	X	172,575	X	X	X
Total	33,848,298	-	32,150,498	1,675,462	39,337,080	-	39,772,252	506,468

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

The item “Due to banks” mainly represents intercompany transactions.

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

	Total 30/06/2022				Total 31/12/2021			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and demand deposits	1,069,046	X	X	X	829,417	X	X	X
2. Fixed-term deposits	-	X	X	X	-	X	X	X
3. Loans	5,670,411	X	X	X	6,094,575	X	X	X
3.1 Repurchase agreements	5,070,411	X	X	X	5,594,575	X	X	X
3.2 Other	600,000	X	X	X	500,000	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	3,322	X	X	X	4,203	X	X	X
6. Other liabilities	522,551	X	X	X	466,202	X	X	X
Total	7,265,330	-	4,651,659	2,619,207	7,394,398	-	5,141,479	1,187,410

The sub-item “Repurchase agreements” is composed entirely of transactions with the Clearing and Guarantee Fund.
The sub-item “Lease liabilities” regards the liability represented by future payments to lessors until the end of the term of the lease agreement, in accordance with IFRS 16.
The item “Other liabilities” comprises bankers’ drafts issued but not yet presented for settlement and sundry other payables.

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

	Total 30/06/2022				Total 31/12/2021			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	3,594,740	2,396,626	944,412	-	3,748,638	2,674,293	1,131,152	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	3,594,740	2,396,626	944,412	-	3,748,638	2,674,293	1,131,152	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	**3,594,740**	**2,396,626**	**944,412**	**-**	**3,748,638**	**2,674,293**	**1,131,152**	**-**

The item comprises bonds issued by the Bank and hedged against interest rate risk using derivatives, the amount of which is adjusted by changes in fair value attributable to the hedged risk accrued as of the reporting date, as well as unhedged bonds issued measured at amortized cost. The fair value of securities issued is calculated by discounting future cash flows using the swap yield curve as at the reporting date.

The sub-item “1.2 Bonds - other” includes subordinated securities amounting to €716 million.

1.4 BREAKDOWN OF SUBORDINATED DEBT/SECURITIES

	30/06/2022	31/12/2021
A.1 Subordinated debt	**-**	**-**
- banks	-	-
- customers	-	-
B.1 Subordinated securities	**715,617**	**700,364**
- banks	715,617	700,364
- customers	-	-
Total	**715,617**	**700,364**

The item includes subordinated loans with the following features:

- issue date November 28, 2019, Maturity date November 28, 2029, residual nominal value at June 30, 2022: €397 million, interest rate 4.125%, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.
- issue date October 18, 2021, Maturity date January 18, 2032, residual nominal value at June 30, 2022: €299 million, interest rate 4.75%, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.

1.5 BREAKDOWN OF STRUCTURED DEBT

As at the reporting date the Bank did not hold structured securities.

1.6 LIABILITIES IN RESPECT OF FINANCE LEASES

Right of use	Falling due within 5 years	Falling due after 5 years
Land	-	-
Buildings	394	-
Movables	-	-
Electrical plant	-	-
Other	2,929	-

Lease liabilities regard property leases and automobile rentals, in accordance with the provisions of IFRS16.

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/06/2022					Total 31/12/2021				
	NV	Fair value			Fair value *	NV	Fair value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	3,579	3,153	1	-	3,154	48,692	48,507	198	-	48,705
2. Due to customers	2,508	1,905	-	-	1,905	330	193	1	-	194
3. Debt securities	-	-	-	-		-	-	-	-	X
3.1 Bonds	-	-	-	-		-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3. Other	-	-	-	-		-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**6,087**	**5,059**	**1**	**-**	**5,060**	**49,022**	**48,701**	**199**	**-**	**48,899**
B. Derivatives										
1. Financial derivatives		658	1,288,094	-		X	284	381,674	-	X
1.1 Trading	X	658	1,288,094	-	X	X	284	381,674	-	X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives		-	-	-		X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**658**	**1,288,094**	**-**	**X**	**X**	**284**	**381,674**	**-**	**X**
Total (A+B)	**X**	**5,717**	**1,288,095**	**-**	**X**	**X**	**48,985**	**381,872**	**-**	**X**

Key:
NV= nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3
Fair value*= Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

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

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

	Total 30/06/2022					Total 31/12/2021				
	NV	Fair value			Fair value*	NV	Fair value			Fair value*
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**365,913**	**-**	**357,636**	**-**	**357,636**	**335,958**	**-**	**335,392**	**-**	**335,392**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	365,913	-	357,636	-	X	335,958	-	335,392	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees issued	-	X	X	X	X	X	X	X	X	X
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees issued	-	X	X	X	X	X	X	X	X	X
3. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
Total	**365,913**	**-**	**357,636**	**-**	**357,636**	**335,958**	**-**	**335,392**	**-**	**335,392**

Key:
NV= Nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3
Fair value*= Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

The entire amount is represented by the affiliated banks' Ex Ante Quota of the contribution to the Guarantee Scheme, adjusted to take account of net interest and commissions on the loan.

SECTION 4 - HEDGING DERIVATIVES – ITEM 40

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

	Fair value 30/06/2022			NV	Fair value 31/12/2021			NV
	L1	L2	L3	30/06/2022	L1	L2	L3	31/12/2021
A) Financial derivatives	**-**	**170,119**	**-**	**2,776,794**	**-**	**247,018**	**-**	**3,176,949**
1) Fair value	-	113,776	-	1,500,366	-	223,341	-	2,917,320
2) Cash flows	-	56,343	-	1,276,429	-	23,677	-	259,629
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**170,119**	**-**	**2,776,794**	**-**	**247,018**	**-**	**3,176,949**

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

SECTION 6 – TAX LIABILITIES– ITEM 60

See section 10 under assets.

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

See section 11 under assets.

SECTION 8 - OTHER LIABILITIES – ITEM 80

8.1 OTHER LIABILITIES: COMPOSITION

	Total 30/06/2022	Total 31/12/2021
Amounts due to social security institutions and State	17,931	21,488
Amounts available to customers	26,871	27,495
Liabilities for future premiums on derivatives	2,374	2,850
Tax payables due to tax authorities	15,478	36,891
Payables due to employees	38,736	28,924
Financial liabilities in respect of loans granted for a specific transaction	77,780	70,504
Accrued expenses not attributable to separate line item	196	113
Deferred income not attributable to separate line item	5,402	2,354
Items in transit and items being processed	265,455	94,421
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)	141,973	20,694
Subsidiaries – Group VAT	562	743
Consolidated taxation mechanism	21,650	48,419
Total	**614,409**	**354,896**

The sub-item “Financial liabilities in respect of loans granted for a specific transaction” regards the Parent Company’s contribution to the Guarantee Scheme.

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	Total 30/06/2022	Total 31/12/2021
A. Opening balance	**15,347**	**16,179**
B. Increases	**-**	**3,282**
B.1 Provisions for the period	-	1,209
B.2 Other increases	-	2,073
C. Decreases	**2,142**	**4,114**
C.1 Benefit payments	630	2,821
C.2 Other decreases	1,512	1,293
D. Closing balance	**13,205**	**15,347**
Total	13,205	15,347

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	Total 30/06/2022	Total 31/12/2021
1. Provisions for credit risk in respect of commitments and financial guarantees issued	29,168	31,972
2. Provisions for other commitments and guarantees issued	-	-
3. Company pension plans	-	-
4. Other provisions for risks and charges	9,920	10,149
4.1 legal disputes	3,159	3,189
4.2 personnel expense	3,061	3,200
4.3 other	3,700	3,761
Total	39,089	42,121

SECTION 12 - SHAREHOLDERS' EQUITY - ITEMS 110, 130, 140, 150, 160, 170 AND 180

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

	Total 30/06/2022	Total 31/12/2021
A. Share capital		
A.1 Ordinary shares	1,401,045	1,401,045
A.2 Savings shares	-	-
A.3 Preference shares	-	-
A.4 Other shares	-	-
B. Treasury shares		
B.1 Ordinary shares	-	-
B.2 Savings shares	-	-
B.3 Preference shares	-	-
B.4 Other shares	-	-

12.2 SHARE CAPITAL – NUMBER OF SHARES OF THE PARENT COMPANY: CHANGE FOR THE PERIOD

	Ordinary	Other
A. Shares at the start of the year	**27,125,759**	**-**
- fully paid	27,125,759	-
- partially paid	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares in circulation: opening balance	**27,125,759**	**-**
B. Increases	**-**	**-**
B.1 new issues	-	-
- for consideration:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sales of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**27,125,759**	**-**
D.1 Treasury shares(+)	-	-
D.2 Shares at the end of the year	27,125,759	-
- fully paid	27,125,759	-
- partially paid	-	-

PART C - INFORMATION ON THE INCOME STATEMENT

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

	Debt securities	Loans	Other transactions	Total 30/06/2022	Total 30/06/2021
1. Financial assets measured at fair value through profit or loss	**2,499**	**-**	**-**	**2,499**	**3,033**
1.1 Financial assets held for trading	248	-	-	248	899
1.2 Financial assets designated at fair value	1,198	-	-	1,198	1,550
1.3 Other financial assets mandatorily at fair value	1,053	-	-	1,053	584
2. Financial assets measured at fair value through other comprehensive income	**1,908**	**-**	**X**	**1,908**	**763**
3. Financial assets measured at amortized cost	**252,442**	**53,395**	**-**	**305,837**	**161,999**
3.1 Due from banks	21,835	11,183	X	33,018	16,542
3.2 Loans to customers	230,607	42,212	X	272,819	145,457
4. Hedging derivatives	**X**	**X**	**(176,154)**	**(176,154)**	**(58,074)**
5. Other assets	**X**	**X**	**3,193**	**3,193**	**49**
6. Financial liabilities	**X**	**X**	**X**	**140,270**	**129,274**
Total	256,850	53,395	(172,961)	277,554	237,045
of which: interest income on impaired financial assets	-	2,045	-	2,045	2,903
of which: interest income from finance leases	X	-	X	-	-

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 30/06/2022	Total 30/06/2021
1. Financial liabilities measured at amortized cost	**(18,648)**	**(41,415)**	**X**	**(60,063)**	**(55,219)**
1.1 Due to central banks	-	X	X	-	(141)
1.2 Due to banks	(17,068)	X	X	(17,068)	(19,364)
1.3 Due to customers	(1,580)	X	X	(1,580)	(2,163)
1.4 Securities issued	X	(41,415)	X	(41,415)	(33,552)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	**X**	**X**	**-**	**-**	**(41)**
5. Hedging derivatives	**X**	**X**	**413**	**413**	**583**
6. Financial assets	**X**	**X**	**X**	**(101,896)**	**(94,123)**
Total	(18,648)	(41,415)	413	(161,547)	(148,800)
of which: interest expense on lease liabilities	(26)	X	X	(26)	(32)

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
a) Financial instruments	10,348	5,974
1. Securities placement	7,570	2,509
1.1 With underwriting and/or with irrevocable commitment	-	-
1.2 Without irrevocable commitment	7,570	2,509
2. Order receipt and transmission and order execution for customers	2,778	3,465
2.1 Order receipt and transmission for one or more financial instruments	550	-
2.2 Order execution for customers	2,229	-
3. Other fees and commission connected with financial instruments	-	-
of which: trading on own account	-	-
of which: individual portfolio management	-	-
b) Corporate finance	1,629	346
1. Merger and acquisition advisory services	-	-
2. Treasury services	-	-
3. Other fees and commissions connected with corporate finance services	1,629	346
c) Investment advisory services	-	-
d) Clearing and settlement	-	-
e) Custody and administration	3,128	3,064
1. Depository bank	-	-
2. Other fees and commissions connected with custody and administration services	3,128	3,064
f) Central administrative services for collective portfolio management	-	-
g) Trustee services	-	-
h) Payment services	23,035	21,264
1. Current accounts	119	143
2. Credit cards	-	-
3. Debit cards and other payment cards	-	-
4. Credit transfers and other payment orders	902	940
5. Other fees and commissions connected with payment services	22,014	20,181
i) Distribution of third-party services	-	-
1. Collective portfolio management	-	-
2. Insurance products	-	-
3. Other products	-	-
of which: individual portfolio management	-	-
j) Structured finance	-	-
k) Securitization servicing	-	-
l) Commitments to disburse funds	-	-
m) Financial guarantees issued	1,580	1,247
of which: credit derivatives	-	-
n) Lending transactions	8,667	12,463
of which: for factoring transactions	-	-
o) Currency trading	58	23
p) Goods	-	-
q) Other fee and commission income	8,859	8,816
of which: for management of multilateral trading facilities	-	-
of which: for management of organized trading facilities	-	-
Total	**57,305**	**53,198**

2.3 FEE AND COMMISSION EXPENSE: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
a) Financial instruments	(3,298)	(2,416)
of which: trading in financial instruments	(131)	(76)
of which: placement of financial instruments	(3,167)	(2,340)
of which: individual portfolio management	-	-
- Own	-	-
- Delegated to third parties	-	-
b) Clearing and settlement	(987)	(646)
c) Custody and administration	(2,565)	(2,931)
d) Collection and payment services	(1,319)	(1,274)
of which: credit cards, debit cards and other payment cards	-	-
e) Securitization servicing	-	-
f) Commitments to receive funds	-	-
g) Financial guarantees received	(314)	(281)
of which: credit derivatives	-	-
h) Off-premises marketing of financial instruments, products and services	-	-
i) Currency trading	(55)	(14)
j) Other fee and commission expense	(2,238)	(1,288)
Total	**(10,776)**	**(8,849)**

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 30/06/2022		Total 30/06/2021	
	Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading	149	-	17	-
B. Other financial assets mandatorily measured at fair value	144	-	369	-
C. Financial assets measured at fair value through other comprehensive income	10,832	-	4,074	-
D. Equity investments	777	-	23,404	-
Total	**11,902**	**-**	**27,865**	**-**

Sub-item C “Financial assets measured at fair value through other comprehensive income” primarily reports dividends received on the investment held in the Bank of Italy.

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net gain (loss) (A+B) – (C+D)
1. Financial assets held for trading	**154**	**7,400**	**(800)**	**(3,388)**	**3,366**
1.1 Debt securities	137	7,017	(416)	(2,930)	3,808
1.2 Equity securities	1	213	(339)	(356)	(480)
1.3 Units in collective investment undertakings	16	169	(44)	(102)	38
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**(64,281)**
4. Derivatives	**1,348,690**	**70,377**	**(1,345,959)**	**(69,282)**	**68,927**
4.1 Financial derivatives:	1,348,690	70,377	(1,345,959)	(69,282)	68,927
- on debt securities and interest rates	1,346,717	70,358	(1,345,402)	(67,984)	3,688
- on equity securities and equity indices	1,973	19	(557)	(1,298)	137
- on foreign currencies and gold	X	X	X	X	65,102
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	**1,348,843**	**77,777**	**(1,346,759)**	**(72,669)**	**8,012**

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

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
A. Gain on:		
A.1 Fair value hedges	679,408	99,140
A.2 Hedged financial assets (fair value)	2,699	22,270
A.3 Hedged financial liabilities (fair value)	2,031	644
A.4 Cash flow hedges	30	738
A.5 Assets and liabilities in foreign currencies	-	294
Total income on hedging activities (A)	**684,169**	**123,086**
B. Loss on:		
B.1 Fair value hedges	(11,342)	(44,795)
B.2 Hedged financial assets (fair value)	(674,383)	(77,104)
B.3 Hedged financial liabilities (fair value)	(60)	(102)
B.4 Cash flow hedges	(372)	-
B.5 Assets and liabilities in foreign currencies	-	(875)
Total expense on hedging activities (B)	**(686,157)**	**(122,876)**
C. Net gain (loss) on hedging activities (A - B)	**(1,988)**	**210**
of which: net gain (loss) of hedges of net positions	-	-

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

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	Total 30/06/2022			Total 30/06/2021		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortized cost	32,809	(2,173)	30,636	79,047	(25,966)	53,080
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	32,809	(2,173)	30,636	79,047	(25,966)	53,080
2. Financial assets measured at fair value through other comprehensive income	296	(5,261)	(4,965)	2,444	(787)	1,657
2.1 Debt securities	296	(5,261)	(4,965)	2,444	(787)	1,657
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**33,104**	**(7,434)**	**25,671**	**81,491**	**(26,753)**	**54,737**
Financial liabilities measured at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	1	-	1	12	(68)	(56)
Total liabilities (B)	**1**	**-**	**1**	**12**	**(68)**	**(56)**

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	**-**	**21**	**(11,164)**	**(23)**	**(11,167)**
1.1 Debt securities	-	21	(11,164)	(23)	(11,167)
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**8,277**	**-**	**-**	**-**	**8,277**
2.1 Securities issued	-	-	-	-	-
2.2 Due to banks	8,277	-	-	-	8,277
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**8,277**	**21**	**(11,164)**	**(23)**	**(2,889)**

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	**516**	**868**	**(23,237)**	**(342)**	**(22,194)**
1.1 Debt securities	167	-	(5,307)	(291)	(5,432)
1.2 Equity securities	343	326	(11,486)	(51)	(10,867)
1.3 Units in collective investment undertakings	2	542	(6,444)	-	(5,900)
1.4 Loans	5	-	-	-	5
2. Financial assets: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**516**	**868**	**(23,237)**	**(342)**	**(22,194)**

SECTION 8 - NET LOSSES/RECOVERIES FOR CREDIT RISK – ITEM 130

8.1 NET LOSSES/RECOVERIES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST: COMPOSITION

	Losses (1)						Recoveries (2)				Total 30/06/2022	Total 30/06/2021
	Stage 1	Stage 2	Stage 3		Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		
			Writeoffs	Other	Writeoffs	Other						
A. Due from banks	**(414)**	**-**	**-**	**-**	**-**	**-**	**512**	**1,195**	**-**	**-**	**1,293**	**3,596**
- loans	(255)	-	-	-	-	-	430	750	-	-	924	3,033
- debt securities	(158)	-	-	-	-	-	82	446	-	-	370	563
B. Loans to customers	**(6,371)**	**(14,229)**	**(26,139)**	**(19,085)**	**-**	**-**	**13,876**	**11,707**	**42,711**	**-**	**2,470**	**(22,305)**
- loans	(6,197)	(12,961)	(26,139)	(19,085)	-	-	13,655	11,585	42,711	-	3,569	(18,476)
- debt securities	(174)	(1,268)	-	-	-	-	221	122	-	-	(1,098)	(3,829)
Total	**(6,785)**	**(14,229)**	**(26,139)**	**(19,085)**	**-**	**-**	**14,388**	**12,902**	**42,711**	**-**	**3,764**	**(18,709)**

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

	Losses (1)						Recoveries (2)				Total 30/06/2022	Total 30/06/2021
	Stage 1	Stage 2	Stage 3		Purchased or originated credit-impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired		
			Writeoffs	Other	Writeoffs	Other						
A. Debt securities	(187)	(84)	-	-	-	-	93	68	-	-	(109)	532
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(187)**	**(84)**	**-**	**-**	**-**	**-**	**93**	**68**	**-**	**-**	**(109)**	**532**

SECTION 10 - ADMINISTRATIVE EXPENSES – ITEM 160

10.1 PERSONNEL EXPENSES: COMPOSITION

		Total 30/06/2022	Total 30/06/2021
1) Employees		(101,204)	(99,600)
a) wages and salaries		(73,631)	(72,655)
b) social security contributions		(15,542)	(16,060)
c) termination benefits		(1,146)	(1,164)
d) pension expenses		-	-
e) allocation to employee termination benefit provision		(70)	(24)
f) allocation to provision for post-employment benefits and similar obligations:		-	-
- defined contribution		-	-
- defined benefit		-	-
g) payments to external pension funds:		(5,592)	(5,557)
- defined contribution		(5,592)	(5,557)
- defined benefit		-	-
h) costs in respect of agreements to make payments in own equity instruments		-	-
i) other employee benefits		(5,222)	(4,139)
2) Other personnel		(295)	(159)
3) Board of Directors and members of Board of Auditors		(1,578)	(1,575)
4) Retired personnel		-	-
5) Recovery of expenses for employees seconded to other companies		3,897	3,278
6) Reimbursement of expenses for third-party employees seconded to the Company		(359)	(426)
	Total	**(99,539)**	**(98,482)**

10.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

		Total 30/06/2022	Total 30/06/2021
Information technology		(59,059)	(58,581)
Property and movables		(10)	(21)
- rental and fees		(4)	(21)
Goods and services		(5)	-
- asset transport and counting		(3,790)	(2,501)
- transportation and travel		(1,706)	(752)
- office supplies and printed materials		(136)	-
Professional services		(321)	(407)
- audit fees		(1,412)	(1,184)
Administrative services		(45)	(48)
Insurance		(170)	(111)
Promotional, advertising and entertainment expenses		(15,129)	(14,620)
Association dues		(12,292)	(12,468)
Donations		(336)	(254)
Other		(2,500)	(1,898)
- stamp duty		(7,205)	(8,256)
- long-term loan tax - Pres. Decree 601/73		(1,363)	(1,171)
- municipal property tax		(1,333)	(583)
- financial transaction tax		(1,639)	(615)
Information technology		(11,145)	(12,160)
Property and movables		(25,979)	(30,690)
	Total	**(126,653)**	**(129,198)**

SECTION 11 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 170

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

	30/06/2022		
	Provisions	Reversals	Total
Commitments to disburse funds Stage 1	(2,802)	4,141	1,339
Commitments to disburse funds Stage 2	(4,134)	5,902	1,769
Commitments to disburse funds Stage 3	(2,080)	1,669	(411)
Financial guarantees issued Stage 1	(196)	-	(196)
Financial guarantees issued Stage 2	-	67	67
Financial guarantees issued Stage 3	-	211	211
Total	**(9,212)**	**11,991**	**2,778**

Provisions and reversals also include the effect of the passage of time (discounting effect). For further details on the impairment model adopted by the Bank and used to determine the net provisions shown in the table, see Part A "Accounting Policies" of the notes to the financial statements.

11.3 NET PROVISIONS FOR OTHER RISKS AND CHARGES: COMPOSITION

	30/06/2022		
	Provisions	Reallocation of excesses	Total
Legal disputes	(322)	270	(52)
Other	-	45	45
Total	**(322)**	**314**	**(8)**

SECTION 12 - NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT - ITEM 180

12.1. NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT: COMPOSITION

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Property, plant and equipment				
A.1 Operating assets	(1,037)	-	-	(1,037)
- owned	(15)	-	-	(15)
- right-of-use assets acquired under leases	(1,022)	-	-	(1,022)
A.2 Investment property	-	-	-	-
- owned	-	-	-	-
- right-of-use assets acquired under leases	-	-	-	-
A.3 Inventories	X	-	-	-
Total	**(1,037)**	**-**	**-**	**(1,037)**

SECTION 13 - NET ADJUSTMENTS OF INTANGIBLE ASSETS - ITEM 190

13.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Intangible assets				
of which: software	(140)	-	-	(140)
A.1 Owned	(140)	-	-	(140)
- generated internally by the Bank	-	-	-	-
- other	(140)	-	-	(140)
A.2 Right-of-use assets acquired under leases	-	-	-	-
B. Assets held for sale	X	-	-	-
Total	**(140)**	**-**	**-**	**(140)**

SECTION 14 - OTHER OPERATING EXPENSES - ITEM 200

14.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
Reductions in assets and prior-year expenses not attributable to separate line item	(254)	(998)
Other charges	(92,144)	(634)
Total	**(92,398)**	**(1,632)**

The increase in other operating expenses is entirely attributable to costs of €90 million for the exclusive contract for the placement of BCC Pay products with the mutual banks.

14.2 OTHER OPERATING INCOME: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
A) Recoveries	**15,291**	**15,122**
Recovery of taxes	223	98
Recovery of sundry charges	15,068	15,008
B) Other income	**81,826**	**74,350**
Insourcing revenues	57,696	57,729
Reductions in liabilities and prior-year income not attributable to separate line item	742	74
Other income	23,389	16,547
Total	**97,117**	**89,472**

The increase in other operating income was attributable to an increase in revenues from services rendered to the affiliated mutual banks.

SECTION 15 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 220

15.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
A. Income	**-**	**12,011**
1. Revaluations	-	-
2. Gains on disposal	-	12,011
3. Writebacks	-	-
4. Other income	-	-
B. Expenses	**(240)**	**-**
1. Writedowns	-	-
2. Impairment losses	(240)	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	**(240)**	**12,011**

SECTION 19 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS – ITEM 270

19.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
1. Current taxes(-)	15,553	(6,747)
2. Change in current taxes from previous period (+/-)	(267)	1
3. Reduction of current taxes for the period (+)	-	4,546
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	-	92
4. Change in deferred tax assets (+/-)	(1,669)	(11,105)
5. Change in deferred tax liabilities (+/-)	-	-
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**13,617**	**(13,214)**

SECTION 20 - PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX - ITEM 290

20.1 PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX: COMPOSITION

	Total 30/06/2022	Total 30/06/2021
1. Revenue	122,538	185,993
2. Expense	(112,509)	(170,408)
3. Result of measurement of groups of assets and associated liabilities	-	1
4. Gain (loss) on realization	-	-
5. Taxes and duties	(2,775)	(4,546)
Profit (loss)	**7,255**	**11,040**

The figures at June 30, 2022 indicate the balance of costs and revenues from the e-money activities transferred to BCC Pay S.p.A., with the Acquiring segment being transferred with effect from April 1, 2022 and the Issuing segment being transferred with effect from May 1, 2022.

PART D - COMPREHENSIVE INCOME

BREAKDOWN OF COMPREHENSIVE INCOME

		30/06/2022	30/06/2021
10.	**Net profit (loss) for the period**	**(14,542)**	**81,166**
	Other comprehensive income not recyclable to profit or loss	**486**	**3,926**
20.	Equity securities designated as at fair value through other comprehensive income:	(1,268)	5,870
	a) fair value changes	(1,268)	5,467
	b) transfers to other elements of shareholders' equity	-	403
30.	Financial liabilities measured at fair value through profit or loss (change in credit risk):	-	0
	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)	-	0
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	1,558	(4)
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	197	(1,940)
	Other comprehensive income recyclable to profit or loss	**(18,001)**	**5,830**
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:	(18,512)	10,420
	a) fair value changes	(18,854)	10,522
	b) reversal to income statement	342	(102)
	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:	(8,437)	(1,447)
	a) fair value changes	(10,501)	84
	b) reversal to income statement	2,063	(1,532)
	- adjustments for credit risk	109	(532)
	- gain/loss on realization	1,954	(1,000)
	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	8,948	(3,143)
190.	**Total other comprehensive income**	**(17,515)**	**9,755**
200.	**Comprehensive income (item 10+190)**	**(32,057)**	**90,922**

PART E - RISK AND RISK MANAGEMENT POLICIES

INTRODUCTION

The Iccrea Cooperative Banking Group (ICBG) conducts its business in accordance with the principles of prudence and risk containment, based on the need for stability associated with banking activity and the main characteristics of the mutual banks and their customers. Consistent with these principles, the Group pursues its growth objectives in accordance with the needs of the mutual banking system, ensuring, through balanced risk management, reliable and sustainable generation of value over time.

The risk governance policies represent the reference model in organizational and process development and in the systematic execution of all the operational and business activities performed by Group companies and are an integral part of the risk management process (RMP) adopted by the Group, ensuring sound and prudent management and supporting sustainable implementation of the overall risk strategy. The internal control system (ICS) governs the RMP, ensuring the completeness, appropriateness, functionality (in terms of effectiveness and efficiency) and reliability of the policies in a context of strict consistency with the governance framework defined at Group level.

The Risk Management function operates within the internal control system.

THE RISK MANAGEMENT FUNCTION

The Chief Risk Officer area is responsible at the Group level for the key elements of the overall Risk Management Framework: identification, measurement, monitoring and mitigation of corporate risks. It is responsible for the governance and execution of second-level controls connected with risk management, consistent with the internal control system adopted by the Group. It is the contact for the corporate bodies of the Parent Company for matters within its scope of responsibility, providing an integrated and composite vision of both the first and second pillar risks assumed and managed by the individual entities and by the Group as a whole.

Current organizational arrangements provide for:

- a "*Risk Governance & Strategy*" unit that represents a "competency center" overseeing all risk governance and risk strategy issues for the Group, including the management of the EWS and stress testing framework for the purposes of the Guarantee Scheme at both the consolidated and individual levels. The unit performs activities connected with the preparation of the area's annual activity plan and the institutional reporting document submitted to the corporate bodies and the supervisory authorities, supporting the Chief Risk Officer in its areas of responsibility. The unit also coordinates and monitors strategic projects for the CRO area, as well as overseeing activities pertaining to the CRO area concerning risks and ESG issues, with a special focus on climate risks. This unit is sub-divided into the following organizational units:
    - *"EWS & Stress Test SDG"*, which performs all activities connected with the EWS and the Guarantee Scheme. More specifically, the Early Warning System (EWS) regulates the governance mechanisms between the corporate bodies of the banks and the corporate bodies of the Parent Company and is the tool used to monitor the organization and the financial position and performance of the affiliated Banks, in the interest of their stability and their sound and prudent management. The EWS defines internal operating rules and areas of assessment that, using specific indicators and coded evaluation processes, make it possible to classify the affiliated banks in relation to their riskiness. Each affiliated bank is classified into one of seven risk levels attributable to three overall risk situations ("ordinary", "strain", "critical"), which are associated with specific responses of the Parent Company that are graduated in relation to the management constraints associated with the measures ("ordinary", "coordinated" and "controlled" management). The intervention measures associated with the EWS indicators therefore form an integral part of the strategic/operational plans defined on an individual basis and are implemented by the affiliates involved when preparing the individual RAS, in particular with regard to the definition of the levels of risk propensity/target (risk appetite) and the maximum tolerated and permitted exposure (risk tolerance and risk capacity, respectively). Together with the other structures of the Risk Management function, the unit also contributes to the performance of stress testing connected with the assessment of the vulnerability of each affiliated bank and used in (i) the definition of the early warning levels and (ii) the determination of the amount of Readily Available Funds to support the Guarantee Scheme;
    - *"BCC Risk Governance"*, which, in close collaboration with the Mutual Bank Risk Management units (Northern Area, Central Area, Southern Area) and in concert with the other competent units of the Risk Management function, (i) develops the Risk Appetite proposal for the affiliated banks with the related limits and triggers broken down into risk categories by operational and business segment, (ii) supports the Group Risk Governance & RM SPD unit in the definition and maintenance of the methodological framework of the Group Risk Governance processes (RAF/RAS, analysis and assessments connected with capital adequacy, stress testing, OMR and incentive system), as well as in the definition of the guidelines to support the preparation of the annual plans and the respective institutional reports of the activities of the Risk Management functions of the individual mutual banks and, in close collaboration with the Mutual Bank Risk Management units, the efficient and effective operational implementation within the affiliated banks, (iii) supports the Group Risk Management unit in the definition and maintenance of the methodological framework for specific risks, as well as in the related assessment and monitoring activity, in order to enable efficient and effective operational implementation within the affiliated banks and identify any risk mitigation measures required. The unit also has Risk Management Specialists who provide support to the Mutual Bank RM units (Northern Area, Central Area, Southern Area) and to the risk managers of the affiliated banks for the implementation and application of the risk management framework and the correct

and uniform performance of the related risk management activities in compliance with the qualitative and quantitative standards dictated by the Parent Company.

- a "*Group Risk Governance & Direct Scope RM*" unit, which defines and maintains the methodological framework of the Group's Risk Governance processes (RAF/RAS, ICAAP, Recovery Plan, stress testing, OMR, incentive system). The unit covers the Group and the companies within the direct scope, in close collaboration with the Planning & Management Control unit and in concert with the other competent units of the Parent Company's Risk Management function and, with regard to the affiliated banks, in collaboration with the Mutual Bank Risk Governance unit. It also represents the top management structure for the Risk Management departments of the companies within the direct scope, whose centralization within the Parent Company under outsourcing arrangements was completed during the first quarter of the year. It ensures the coordination of the risk managers of the individual companies;

- a "*Group Risk Management*" unit, which (i) supervises and coordinates the organizational units dedicated to the individual risk categories, which within their areas of responsibility are involved in the development and maintenance of the methodological framework for the assumption and management of specific risks, as well as the assessment and monitoring of those risks, the identification of any risk mitigation measures, *(ii)* establishes the operational guidelines for the specialized units of the Risk Management function in their interactions with the Risk Management units of the affiliated banks and the direct scope companies;
- a "*Mutual Bank Risk Management*" unit, which represents the "control center" for the risk profile of the individual affiliated banks, representing the top management structure for the local Risk Management units. Local risk managers report to the unit through the Mutual Bank RM units (Northern Area, Central Area, Southern Area). It coordinates communication with the other specialized units of the Risk Management function. The Mutual Bank RM units have organizational responsibility for the overall execution of the Risk Management activities outsourced for the macro-area, and therefore represent the top management structure for the Risk Management controls of the area, which is responsible for the execution the outsourced second-level control activities for risk management, coordinating the managers in charge of the Risk Management functions of the affiliated banks;
- a "Validation" unit, reporting directly to the CRO, this unit validates models developed internally to quantify the risks to which the Group is exposed.

The main duties performed by the Risk Management function are the following:

- defining and developing the framework for the assumption and management of risks pertaining to the Group, which is composed of (i) organizational structures and corporate processes (operating, administrative and business), including line controls; (ii) risk governance policies (policies, limits, responsibilities); and (iii) methodologies and risk measurement and assessment criteria. In this area, the Risk Management function ensures that the framework for the assumption and management of risks is compliant with applicable regulations, in line with market best practice, functional in respect of internal operational conditions and consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) of the Group;
- developing the Risk Appetite Framework and its operational implementation (the Risk Appetite Statement) at the consolidated level and, with the support of the affiliated banks and Group companies, at the individual level, consistent with capital adequacy objectives (ICAAP) and the adequacy of the liquidity profile (ILAAP) of the Group;
- monitoring the risk profile of the individual affiliated banks and the companies in the direct scope for which risk management activities are performed on a centralized basis under an outsourcing arrangement governed by specific service agreements. This control center operates through the local risk management units and, for the affilicated banks only, using the mechanisms of the Early Warning System and the Guarantee Scheme. In this area, the Risk Management function:
  - handles the development and updating of the methodological framework and develops tools for managing the Guarantee Scheme, as well as assessing, classifying and monitoring the affiliated banks within the scope of EWS management processes and proposes the classification of the risk profile;
  - is responsible, through the action of its local units as well, for the determination and adoption by each affiliated bank of strategies, policies and principles for the assessment and measurement of the risks identified at the Group level.
- monitoring developments in the risk profile and the various types of risk to which the Group as a whole and its individual members are exposed, verifying the ongoing consistency between the actual risk assumed and the specified risk objectives. In this context, the Risk Management function:
  - develops methodologies and models for measuring and assessing risks, validating those models, periodically checking their operation, predictive capacity and performance, and their consistency over time with operational practices and regulatory requirements;
  - performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible, identifying any needs for fine tuning/corrective or evolutionary maintenance and providing support – within the scope of its duties – in implementing the associated actions;

- identifies any risk developments exceeding the limits set out in the Risk Appetite Statement, in the Risk Governance Policies or in external regulations and, in general, potentially harmful or unfavorable situations in order to assess possible mitigation initiatives to implement;
- within the RAF/RAS and EWS frameworks, examines the results of the process of determining the capital requirements, analyzing the dynamics involved to verify the overall consistency with the risk profile in the different analytical dimensions considered;
- analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement and Group policies in this area;
- assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (ICAAP) and the appropriateness of the Group's liquidity profile (ILAAP);
- assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to be implemented for the restructuring plan and within resolution procedures;
- reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining and implementing strategic policy and risk policy and the associated implementation of those policies;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The Group devotes special attention to managing, assessing and understanding risk. All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Parent Company. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies;
- the specification of risk limits;
- the periodic monitoring of exposures (aggregate and others) with verification of compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the Group companies in the long term, systematic and independent Internal Auditing units, etc.).

THE GROUP RISK GOVERNANCE FRAMEWORK

The overall Risk Governance framework developed by Iccrea Banca and adopted by the Group reflects the specific features of the Iccrea Cooperative Banking Group as a group whose participatory mechanisms are based on a Cohesion Contract, signed by the banks, that provides for internal stability mechanisms characterized by intercompany mutual support agreements regulated specifically by applicable external legislation.

On the basis of the provisions of the Cohesion Contract between the affiliated banks and the Parent Company, the latter constantly monitors the organization and the operating conditions, financial position and performance of the affiliated banks through the Early Warning System (EWS), which is designed to promptly identify any signs of management difficulty and/or failure to comply with the obligations assumed under the Cohesion Contract, recommending or arranging, depending on the specific features of any given case and on the basis of the principle of proportionality, the appropriate intervention measures. The overall framework of the Group's risk governance system is completed by the Risk Appetite Framework (RAF), which is implemented operationally through policies addressing the individual risks to which the Group is exposed and transversal systems involved in the internal assessment the capital adequacy and liquidity profile (ICAAP/ILAAP) and the overall assessment of the recovery capacity in particularly adverse conditions (the Recovery Framework).

The RAF defines - in line with the maximum assumable risk (Risk Capacity), the business model and the Group strategy, the Operational Plan and the company incentive system - the risk objectives or risk appetite (Risk Appetite) and Risk Tolerance thresholds, taking due account of possible adverse scenarios. Starting on the basis of the RAF, consistent operating limits are defined within the overall risk governance policies. The latter in turn represent the internal regulatory expression of the "rules" for the assumption and management of risks and are an integral part of the Risk Management Process (RMP).

The overall architecture of the Risk Appetite Framework, defined in terms of key elements, scope of coverage/application and underlying operating models, is closely interconnected with ICBG's key risk governance process, i.e. the Early Warning System. The RAF is implemented

individually with regard to the affiliated banks and shares qualitative and quantitative indicators with the EWS, ensuring consistency between the different calibration approaches and the purposes of the two frameworks.

In other words, the RAF is intended to explicate the medium/long-term vision of the desired risk profile for the Group as a whole and for each Group company, defining the risk area within which the management functions must operate in pursuit of corporate strategies. Compared with the RAF, the capital adequacy and liquidity assessment (ICAAP and ILAAP) represents an occasion to verify the stability of the risk appetite choices in terms of their consistency with the capital and liquidity resources available, guding any subsequent modification of the choices and the resulting overall strategy decisions.

SECTION 1 – CREDIT RISK

QUALITATIVE DISCLOSURES

1. GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Cooperative Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca coordinates and directs the credit risk assumption policies of the individual companies and affiliated banks. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the individual entities, in agreement with the Parent Company;
- the Risk Management function supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the credit risk exposure of the Parent Company and all the Group companies.

This model also relies on the current governance structure, which provides for organizational separation between the units responsible for the operational management of lending (the Chief Lending Officer area, hereinafter also the CLO area) and control units (under the Risk Management function).

With regard to management of lending, the mechanisms for interaction between the Parent Company and the Group companies - defined on the basis of the Cohesion Contract – comprise specific credit governance rules, which on the one hand govern the related responsibilities and on the other ensure the compliance of the credit risk framework with the applicable regulatory framework to which the Parent Company is subject.

With regard to the management and coordination role, which is also being implemented in accordance with the principles envisaged in the Cohesion Contract, the Parent Company assumes responsibility for the following areas: lending rules (principles, policies and processes), credit strategies and credit risk limits, management of large exposures, guidelines for the main credit product categories by customer segment, the monitoring and reporting of portfolio credit risk.

In line with these credit governance rules, the Group companies must request the opinion of the CLO area ("credit opinion") before approving new credit lines or significant modifications to existing positions with individual counterparties/groups of connected clients if those facilities exceed predetermined amount thresholds both in absolute value considering the overall risk exposure of the Group and with regard to compliance with credit risk concentration limits relation to the own funds of the individual Group bank.

The mapping of groups of connected clients, which seeks to identify and assess legal and financial connections between clients is conducted in accordance with principles and rules valid for the entire Banking Group and with the most recent regulatory guidelines in this field (EBA guidelines on connected clients, EBA/GL/2017/15).

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

Credit risk represents the preponderant component of the overall risks to which the Group is exposed, considering that credit exposures account for a dominant share of assets.

In light of this circumstance and in compliance with the applicable provisions concerning the internal control system (see Circular No. 285/2013, Part One, Title IV, Chapter 3), Iccrea Banca has adopted a governance structure and operational arrangements to ensure the adequate monitoring of credit risk at the Group level in the various phases of the process.

Moreover, in relation to the application of the provisions of IFRS 9 and the related initiatives to ensure their implementation, especially as regards the classification and measurement of credit exposures, the Group further strengthened its risk management arrangements, with particular regard to the definition of credit classification and measurement policies, as well as the development of a structured framework of second-level controls of credit exposures, with particular regard to impaired positions.

The entire credit management and control process is governed by internal rules that also define risk control, management and mitigation activities, developing a structured system involving the various organizational units.

The Parent Company, in exercising the powers of strategic management and coordination granted to it under provisions of the Cohesion Contract, defines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level. With particular regard

to the lending process, the Parent Company defines guidelines for the credit approval process and the management of the associated risk (management of guarantees, including real estate, monitoring of exposures, classification of risk positions, management and measurement of impaired exposures).

From an organizational point of view, the CLO area assumes responsibility on behalf of the Parent Company and the companies in the direct scope of consolidation (directly owned by the Parent Company) for the supervision of all phases of the lending process - from loan approval to the management of non-performing positions – and for the performance of management and coordination activities with respect to the affiliated banks. It is also responsible for overseeing credit quality, defining lending policies and verifying their application.

The main activities of the lending process performed by the CLO area are:

- issuing guidelines for the definition of the loan management model, issuing guidelines for the loan approval and disbursement process, and finalizing and defining/developing the lending authority model for the decision-making bodies;
- approving the general and specific exceptions for Group companies with respect to Group guidelines on customer segments/credit products;
- monitoring the Group’s performing portfolio by analyzing and monitoring existing exposures and by issuing opinions (credit opinions) on credit exposures that exceed specified limits;
- defining the framework for assessing the creditworthiness of corporate, retail and banking counterparties;
- assessing the creditworthiness of banks and financial institutions to which the Parent Company and the companies in the direct scope of consolidation have granted credit;
- performing activities connected with the operational management of the rating models, carrying out rating overrides and providing assistance to Group companies in relation to the general principles and the reasons for the ratings assigned to individual counterparties.

With regard to credit monitoring, in addition to the definition of guidelines at Group level and the minimal set of early warning indicators for the interception and management of positions to be “monitored”, the CLO area monitors the positions of the Parent Company and the companies within the direct scope of consolidation that present an increase in credit risk, as well as examining the correct execution of the process implemented by the affiliated banks. Furthermore, the CLO area monitors the “most relevant” positions.

As part of the second-level controls, the Risk Management function has defined the overall methodological and operational framework in this area. It is applicable to the entire Group. The framework, which is governed with a specific body of regulatory and process documentation, covers all the activities and controls aimed at verifying, on a periodic basis, the appropriateness of the classifications of exposures, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

More generally, the Risk Management function oversees the risk management of the individual entities from a consolidated and individual perspective:

- overseeing the measurement of credit risk from a current and forward-looking perspective, considering both conditions of normal operations and stress scenarios;
- monitoring the capacity of the risk limits, including those defined within the RAF/RAS with regard to the associated credit risk metrics;
- defining and updating the methods and measurement models for credit risk, including those used in the performance of credit stress tests, ensuring their ongoing compliance with regulatory developments and market best practice.

2.2 MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

IDENTIFICATION OF RISKS

As noted in the previous section, in compliance with the provisions of Circular no. 285/2013 of the Bank of Italy as updated, the Parent Company determines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level, thus exercising the powers of strategic management and coordination aimed at ensuring the unity of the Group’s strategic management and control system, as governed by the Cohesion Contract.

With particular regard to the lending process, the Parent Company governs lending and the management of the related risk. This also comprises the management of guarantees, including real estate, exposure monitoring, the classification of risk positions, and the management and valuation of impaired exposures.

In all of these phases, the Group uses qualitative and quantitative methods for assessing counterparty creditworthiness, supported by IT procedures that undergo periodic verification and maintenance.

With specific reference to the loan approval phase, the Group rules establish the key principles underpinning all phases of the process of approving/renewing loans, together with the roles and associated responsibilities of the various actors involved, specifying the procedures through which the Group intends to assume credit risk in respect of its customers, i.e. by identifying eligible counterparties and the admissible technical forms of credit for each customer segment.

In this specific context, a direct assessment is carried out to ascertain the needs and requirements of the applicant and therefore the purposes of the credit line and to accurately assess the credit risk profile: granting a loan requires an in-depth analysis of the risk associated:

- with the counterparty as well as the economic context in which it operates;
- with the purpose and characteristics of the transaction to be financed;
- with the guarantees available;
- with other forms of credit risk mitigation.

The analysis of the counterparty is conducted by each bank so as to assess the overall profitability of the relationship using the associated valuation tools/models. The assessment of creditworthiness focuses, in turn, on an analysis of the borrower's ability to repay, without prejudice to the principle that credit can only be granted if it is clear how it will be repaid.

Without prejudice to the prudential limits set by applicable regulations, which are commensurate with own funds with regard to both the magnitude of the exposure to the individual counterparty and the total amount of larger exposures, the credit strategies provide for risk limitations on the basis of specific elements, such as, for example, the nature of the transaction (e.g. transactions intended to finance real estate whose repayment will be financed by sale or lease), the situation of the specific real estate market (type of asset, economic sector, geographical area, market demand, etc.), a current and forward-looking evaluation of the asset, the accurate quantification of timing and costs of carrying out the initiative.

In general, given the recent establishment of the Iccrea Cooperative Banking Group, the management, measurement and control systems at the individual affiliated mutual banks are being developed to adapt them to the new consolidated context and evolve them in accordance with industry best practice. In this direction, Group policies were issued for all phases of the lending process and, therefore, the granting and disbursement of credit, management of guarantees, loan monitoring, loan classification, assessment of impaired positions, management of substandard positions and NPLs.

As noted earlier, the central moment of the preliminary phase of the lending process is that linked to the assessment and measurement of the credit risk of the transaction in question. The assessment is based on qualitative/quantitative information and is typically supported by the use of automated rating/scoring models designed to measure the creditworthiness of the counterparty and/or the possibility of proceeding with the transaction.

Ratings plays a key role lending, as they represent an essential element of the assessments made during the loan approval, review and renewal processes. The rating assignment involves an analysis of all the quantitative and qualitative information available to support the application approval process in order to accurately assess the risk profile of the transaction and to monitor the creditworthiness of existing counterparties over time.

For the companies in the direct scope of consolidation, the rating and scoring systems are already fully integrated into credit processes. Lending policies already provide indications concerning the minimum level of the decision-approval bodies - based on the technical form of financing, the guarantees securing the loan and the counterparty rating - and the related mechanisms for exceptions, which are granted and monitored by the Parent Company. Affiliated mutual banks have rating systems to support the loan approval/management process. In view of the recent establishment of the Group and the different information systems used by the mutual banks, a number of activities are being completed to integrate ratings in all the processes of the Group companies.

The evaluation models in use take into consideration:

- the specific features of the different types of counterparties, with particular reference to the Corporate segment (companies/producer households), Retail (consumers) and Institutional (bank counterparties);
- the specific features of the product involved, distinguishing between short, medium and long-term types of credit, or specialized technical forms (leases, factoring, consumer credit).

In general, the evaluation models use all the available updated information on the counterparty/transaction, drawn both from external sources (e.g. the Bank of Italy Central Credit Register and similar association databases, credit bureaus, financial statements, registry events) and internal sources (internal performance information).

The Group adopts a counterparty approach in assigning ratings except in specific cases in which the counterparty assessment is supplemented by a product-perspective evaluation, in consideration of any special features of a business. Using rating/scoring models, the Group assigns the counterparty a representative credit rating, adopting an on-line processing procedure, which is typically accessed through the electronic application processing system but also in batch mode, with the latter being adopted for periodic updating of ratings for all Bank customers (the loan position performance rating).

In compliance with the supervisory provisions governing the correct identification of the risk assumed, or to be assumed, in respect of a "group

of connected clients", any legal or economic connections between clients are detected and evaluated by those responsible for analyzing creditworthiness during the application assessment phase of the lending process.

These objectives are achieved through an analysis that involves the acquisition of all available information such as financial statements, where available at Group level, or aggregated financial statements of the main entities involved, for subsequent processing, ad hoc information on intercompany items of a financial and operating nature that may not be reported in the financial statements, or on operating flows between Group companies, on the presence of centralized treasury operations and, more generally, on the activities, the market and the competitors of the Group and all entities connected with it.

The monitoring process envisaged by the model is independent with respect to classification status (for example, a position on which payments are being made regularly but has been classified as unlikely to pay due to another non-performing exposure in the system). It is based on the following:

- the use of early warning indicators that permit timely detection of risk signals;
- the definition and attribution of responsibilities in the monitoring process;
- the definition and execution of risk mitigation actions;
- the generation of appropriate information flows between the bank and the Parent Company.

More specifically, within the process we distinguish:

- a phase in which early warning signals are identified, using risk indicators to detect exposures affected by an appreciable increase in credit risk in order to analyze their risk profile and take appropriate management actions;
- a management phase, aimed at examining the identified positions and taking, where necessary, specific management actions in order to promptly mitigate the risk of a deterioration in the position.

The identification of the positions under observation, using IT support procedures, can be carried out manually (i.e. based on the "manual" acquisition of information about, for example, significant changes in the corporate group to which the counterparty belongs, failure to comply with covenants, voluntary declarations of difficulties made by the counterparty, news reports, etc.), or using automated processes, i.e. procedures based on a set of indicators (from external or internal sources, regarding the relationship between the bank and the counterparty, or the capital structure and financial resources of the latter) that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship.

Automated identification must be based on a set of indicators that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship (directly related to the client's relationship with the Bank or the client's financial structure, based on data from external or internal sources). These indicators are differentiated on two levels (1 and 2) that indicate an increasing degree of risk, In the case of level 2 indicators, the position undergoes an analysis of counterparty creditworthiness, which may involve a re-examination of the borrower, in order to verify the capacity of the client to honor its commitments through to full repayment.

The process of managing "watchlist" exposures therefore enables the analysis of the risk profile of "watchlist" counterparties and the definition of appropriate management actions in the context of the monitoring processes with a view to returning the position to normal status or mitigating the risk connected with the exposure.

RISK MEASUREMENT AND ASSESSMENT

For the purpose of calculating prudential requirements for credit risk, the Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The adoption of the standardized approach to determine the capital requirement against credit risk involves the subdivision of exposures into portfolios and the application of differentiated prudential treatments to each, possibly using assessments of creditworthiness (external ratings) issued by external agencies (ECAI) or by export credit agencies (ECA) recognized for prudential purposes on the basis of the provisions of Regulation (EU) 575/2013.

Depending on the type of counterparty and the sector in which it operates, the Group's operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral).

For the purposes of determining internal capital for concentration risk for individual counterparties or groups of connected clients, the Group uses the regulatory granularity adjustment (GA) algorithm, based on the Herfindahl index. In accordance with regulatory provisions, the reference portfolio consists of on-balance-sheet and off-balance sheet exposures (the latter considered at their credit equivalent amount) falling within the regulatory portfolios "corporates and other borrowers", "short-term exposures to corporates" and exposures to corporates included in the asset classes "in default", "secured by real estate", "equity exposures" and "other exposures".

Furthermore, for the purpose of quantifying geo-sectorial concentration risk, the Group adopts the methodology developed by the "Geo-Sectoral Concentration Risk Laboratory" of the Italian Banking Association (ABI), which sets geographical and product categories against a

national asset allocation benchmark.

The Group periodically performs stress tests for credit and concentration risks in order to assess - in terms of potential losses - the impact of expected risk developments on the financial profile of the Group and the individual entities under both normal and adverse operating conditions.

The stress test methods are based on regulatory practices and are applied in various management and risk governance processes, starting with the capital adequacy assessment process (ICAAP), as well as in the performance of supervisory exercises.

The methodological and calculation structure of credit stress tests is based on the use of internal risk models and parameters and incorporates a credit risk projection approach (transitions between stages/risk states) and determination of related losses over the scenario years (12-month or lifetime expected credit loss) based on the measurement of IFRS 9 impairment.

The projections of the estimates for the scenario years are performed considering the macroeconomic scenario assumptions in the adopted scenarios (in baseline or adverse conditions), using internally developed models ("satellite" models), which estimate the relationship between risk factors and developments in macroeconomic variables.

With regard to stress testing of single-name concentration risk, the granularity adjustment approach is applied using the PD determined in the adverse scenario, while for the purpose of quantifying the geo-sectorial concentration risk in stress conditions, the calculation provides for an increase in the exposure to the sector (ATECO classification) with the greatest concentration, in addition to the corresponding level of risk tolerance defined in the RAS framework.

RISK MONITORING AND CONTROL

In accordance with supervisory regulations (Bank of Italy Circular no. 285/2013), the Risk Management function performs - at both the consolidated and individual legal entity levels – second-level control activities to verify the adequacy, effectiveness and consistency over time of policies and limits, processes and delegated powers with regard to the credit risk management process, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management function through analysis of developments in the exposure to credit risk of the Group as a whole and of the individual entities.

The Internal Audit unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

The locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives and limits (appetite, tolerance and capacity) at both the consolidated and individual entity levels, with compliance ensured by the monitoring and control activities of the function.

Monitoring and reporting on the credit risk profile is characterized by activities that involve both the business functions and the control functions, in accordance with their respective responsibilities. In particular, monitoring is ensured both by aggregate portfolio performance analyzes and by analyzes carried out on individual positions.

The Risk Management function monitors the credit risk profile – at both the consolidated and individual affiliated bank and Group company level, using an analytical framework and related reporting based on a system of key risk indicators. It is designed to monitor the loan portfolio, at both the time exposures are taken on and during their lifetime, the outcomes of which are reported regularly to top management. In this context, the analytical methods and the related reporting undergo constant fine-tuning in order to represent the drivers underlying developments in credit risks in an ever more effective manner, reflecting changes in the regulatory environment as well as management requirements and to support decision-making.

As noted earlier, Risk Management developed the Group second-level control framework, which comprises control activities aimed at ascertaining, on a periodic basis, the consistency of exposure classifications, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

The control methods envisaged by the framework, the first operational application of which was launched at the end of the first half of the year for the entire Group, undergo constant refinement and evolution, with a view to directing second-level controls ever more effectively in response to developments in the credit risks of the Group.

The evolution of the "285 Controls" system was continued with the definition of a risk control process that is even more effective in the central guidance of the activities performed by the risk management units operating at the banks, with preliminary application to reporting for the first half of 2022.

In this regard, the evolution of the "285 Controls" system has envisaged:

- the concentration - from a "risk-driven" perspective- of single file checks on accurate classification and appropriate credit assessment, representing a significant effect of credit risk management by adopting a sampling criterion based on the level of potential impairment;
- the identification of any segments of the Group loan portfolio requiring single file controls, in addition to those provided for under the ordinary system ("contingency sampling". For the first control cycle of 2022, these additions involved: (i) positions involved in an expired moratorium, in view of the persistence of the effects of the pandemic on the borrowers concerned and the ongoing attention dedicated

by the supervisory authorities to this issue; (ii) the positions with potential direct and/or indirect impacts deriving from the Russia-Ukraine conflict.

2.3 METHODS FOR MEASURING EXPECTED LOSSES

Iccrea Banca has adopted a framework for determining impairment based on risk assessment models and the corresponding parameters used in operational and management practices by the Parent Company and individual Group entities. In accordance with the provisions of IFRS 9, the methods for measuring expected losses on impaired exposures are based on the following elements:

- a 3-stage (stage allocation) approach, based on changes in credit quality, defined on a model of 12-month expected loss or lifetime expected loss if a significant increase in credit risk is detected. The standard provides for three different categories that reflect the deterioration in credit quality since initial recognition:
  - Stage 1: financial assets originated and/or purchased that do not exhibit objective evidence of impairment at the date of initial recognition or that have not experienced a significant deterioration in their credit quality since the date of initial recognition or which have low credit risk (low credit risk exemption);
  - Stage 2: financial assets whose credit quality has deteriorated significantly since the date of initial recognition;
  - Stage 3: financial assets that exhibit objective evidence of loss at the reporting date. The population of these exposures is consistent with those considered "impaired" under IAS 39.
- application of "point-in-time" formulations of the parameters for measuring credit risk for the purpose of calculating impairment;
- calculation of lifetime expected credit loss for exposures not classified in Stage 1, using lifetime parameters;
- inclusion of forward-looking conditioning in the calculation of ECL, considering the average loss from each scenario and the associated probability-weighted likelihood of each outcome.

In accordance with the standard, the Iccrea Group allocates each asset/tranche to one of the following three stages:

- stage 1, which includes all performing positions/tranches that at the reporting date meet the condition for the low credit risk exemption or that do not show a significant increase in credit risk with respect to the level measured at the date of disbursement or purchase;
- stage 2, which includes all performing positions/tranches that at the time of assessment simultaneously meet the following two conditions: (i) they have a PD greater than the threshold for the low credit risk exemption; (ii) they have experienced a significant increase in credit risk with respect to the level measured at the origination date; in the absence of a rating/PD at the reporting date, exposures are generally allocated to stage 2 (without prejudice to the additional considerations and practices addressed below);
- stage 3, which includes all exposures that, as at the evaluation date, are classified as non-performing under the default definition adopted. They are governed by specific internal rules in conformity with supervisory regulations.

The staging method was developed on the basis of the following drivers.

The method developed for the loan portfolio envisages:

- the use of the low credit risk (LCR) criterion, under which credit risk is deemed to have not increased significantly if the exposure shows a low level of credit risk at the reporting date, essentially defined as a PD threshold of 0.30% at the reporting date;
- the use of quantitative criteria based on rating/scoring systems, involving the analysis and comparison of the PD/rating at origination with the PD/rating at the reporting date. This identifies, on the basis of thresholds of significance defined in terms of the number of notches that a rating has changed, any significant increase in credit risk on the position;
- the use of qualitative staging criteria to identify the riskiest positions in the performing portfolio. These criteria have been defined independently of the use (or not) of the quantitative criteria referred to in the previous point and are based on the identification of objective evidence of impairment, such as the presence of forbearance measures or positions more than 30 days continuously past due.

The staging methodology developed for the securities portfolio is applicable to the entire portfolio of debt securities outstanding at the reporting date for the various Group entities. Not included in the calculation of impairment, and therefore not subject to the staging mechanism, are shares, equity investments, units of collective investment undertakings, securities classified as held-for-trading and debt securities that do not pass the benchmark test and the SPPI test.

The approach adopted for the securities portfolio provides for the use of the principle of the low credit risk exemption, which allocates to stage 1 exposures with a conditional 12-month PD below the investment grade threshold. Exposures with a conditional 12-month PD above that threshold are allocated to stage 2.

Group entities with a securities portfolio use the external ratings of an ECAI at the tranche level. For the purpose of assigning a rating to

securities exposures at the reporting date, only ECAIs with which a valid information-use agreement is in place are used.

Starting from the allocation of exposures in the different stages, the calculation of expected losses (ECL) is carried out, at the level of each position, on the basis of the estimated risk parameters (EAD, PD, LGD) using internal management models, performed in compliance with the requirements of the applicable accounting standard.

In particular, for the purposes of determining the probability of default (PD), the approach adopted for both the loan portfolio and the securities portfolio envisages:

- the transformation of the "through-the-cycle" PD into (or calculation of) the "point-in-time" (PIT) PD on the time horizon for the most recent historical observations;
- the inclusion of forward-looking scenarios through the application of multipliers generated by internal "satellite" models to the PIT PD and the definition of a series of possible scenarios and the associated probability of occurrence that incorporate future macroeconomic conditions in the estimates;
- the transformation of the 12-month PD into a lifetime PD in order to estimate the PD term structure over the entire residual life of the loans.

Loss Given Default (LGD) is determined using an approach based, in general, on the observation of historical loss rates on non-performing positions and on the application of the danger rate matrices, corresponding to the probability that a default becomes a bad loan conditional on the occurrence of the default status event.

For the securities portfolio, the unconditioned LGD measures are the same for both stage 1 and stage 2 exposures. In particular, an unconditioned LGD of 45% is used, subsequently subjected to forward-looking conditioning, consistent with the scenarios and the probabilities of occurrence used for conditioning the PD, as discussed below.

Exposure at Default (EAD) is calculated on the basis of the amortized cost schedules of the individual relationships for both loans and debt securities. For exposures relating to margins, EAD is determined by applying a specific Credit Conversion Factor (CCF) to the nominal value of the position.

For the purposes of calculating ECL under IFRS 9, the risk parameters are estimated from a forward-looking perspective through conditioning to macroeconomic scenarios. The approach adopted consists in the use of specific multipliers for each forecast year,[37] to be applied to the parameters estimated on the basis of the scenarios and forecast values for the exogenous macroeconomic variables. In order to reflect the different forward-looking riskiness of the positions assessed in the ECL estimates, these multipliers are differentiated, for example the PD, by type of counterparty, sector of economic activity and geographical area. To determine the macroeconomic conditioning measures to be applied in the calculation, two types of scenarios are used, the first relating to an ordinary economic situation (or "baseline"), the other to an adverse situation ("worst plausible scenario"), which is associated, using judgment, with the corresponding probability of occurrence.

Finally, in line with the treatment of the Group's performing portfolios, in 2022 Iccrea Banca has provided full technical support in managing the impact of the Asset Quality Review (AQR) performed in 2021. The broader range of interventions implemented include the application of the more prudent measures incorporated in the IFRS 9 ECL framework for performing portfolios, both in the determination of risk measures conditioned for macroeconomic scenarios and within the framework of staging performing exposures.

MODIFICATIONS DUE TO COVID-19

The reporting for first half of 2022 reflects the continuation of the technical measures envisaged for the 2021 annual financial statements as part of the comprehensive set of initiatives launched by the Group for the purposes of managing the COVID-19 emergency on a structural basis, where the work connected with the review of the credit risk forecasting metrics was of particular importance, factoring the new analytical determinants associated with this new context into the ordinary measurement processes, and in particular within the IFRS 9 impairment framework for the purposes of estimating expected losses on performing loans (expected credit losses, ECL).[38]

The sharp discontinuity in market conditions generated by the effects of COVID-19 had already required the application of a series of extraordinary methodological and implementive measures to the 2021 financial statements in order to incorporate the potential impacts of the pandemic into the impairment model. The introduction of measures to support the economy and customers, with particular reference to the initiatives undertaken by the Group under the provisions of the relevant decree laws, the measures agreed with industry associations and the private initiatives implemented by individual entities led to the introduction of additional methodological changes in the IFRS 9 impairment framework in order to reflect its impact in the calculation of expected credit losses.[39]

[37] Applied specifically to each reference period in the first three years of the projection. For subsequent years it is calculated as an average of the multipliers for the first three years.

[38] Starting with the closure of the 2020 half-year financial statements, the Stage 3 impairment add-on was applied so that the reduction in recoveries in the new market conditions engendered by the COVID-19 crisis would be reflected within the analytical process envisaged by the credit assessment policy.

[39] Ivi inclusa la revisione del probation period per le esposizioni in moratoria precedentemente allocate in Stage 2.

Determining the presence of a significant increase in credit risk (SICR)

The measures implemented in response to the pandemic, with specific regard to determining whether a significant increase in credit risk has occurred, concerned the inclusion of the loan repayment moratoriums for households and micro, small and medium-sized enterprises contained in Decree Law 18/2020 (the "Cure Italy Decree"), as ratified with Law 27/2020. The management of the impact of these support measures included the adaptation of automatic staging mechanisms in order to ensure that the stage allocation criteria were consistent with the methods and purposes of the support measures, while still using an appropriate degree of prudence in assessing such positions.

In this context, specific measures have been envisaged for the 2022 half-year closure concerning the mechanisms for managing the temporary measures to support the liquidity of companies contained in Decree Law 23/2020 (the "Liquidity Decree"), as ratified with Law 40/2020. In particular, the freeze on classification to stage 2 of positions subject to the Liquidity Decree was eliminated, with the obvious purpose of management prudence consistent with the end of the pandemic emergency. Accordingly, the staging of these positions is determined consistently with the stage allocation triggers envisaged by the model.

2.4 CREDIT RISK MITIGATION TECHNIQUES

As required by Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms (CRR), the Group is strongly committed to compliance with all the requirements for the appropriate application of credit risk mitigation (CRM) techniques in accordance with the standardized approach for the calculation of capital requirements both for internal management and regulatory purposes.

Specific guidelines issued by the Parent Company are currently in force for the Group. They define common rules and principles for the direction, governance and standardized management of risk mitigation techniques, best practices and regulatory requirements in this field.

Specifically, under the current credit policy, the CRM techniques recognized for all capital requirement calculation methods are divided into two general categories:

- funded credit protection, consisting of:
  - collateral, represented by cash deposits, financial instruments that meet certain requirements, and gold. These guarantees can be provided through pledge agreements, transfer of ownership with a guarantee function, repurchase agreements or securities lending arrangements. The Group has implemented systems to a) verify the acceptability of these guarantees and value the assets at the time of acceptance and, where applicable, determine the haircuts to be applied to the collateral; and b) ensure the continuing compliance of the guarantees with eligibility requirements through continuous monitoring, governed and supported appropriately by internal procedures;
  - master netting agreements that involve repurchase agreements, securities lending arrangements, loans with margins as well as OTC derivatives;
  - on-balance-sheet netting;
  - real estate mortgages and property lease transactions involving properties that have the characteristics required by law;
- unfunded credit protection, consisting of: *(i)* unsecured guarantees; *(ii)* credit derivatives.

Unsecured guarantees eligible for CRM purposes consist of all forms of credit protection provided by the entities (providers) specified in Article 201 of the CRR (central governments, central banks, international organizations, public sector entities, regional governments and local authorities, multilateral development banks, supervised intermediaries). Accordingly, guarantees issued by natural persons or legal entities not included in the list indicated in the legislation do not fall within the risk mitigation techniques for calculating capital requirements, but are not excluded from the Group's catalog of guarantees, which comprises not only the guarantees eligible for CRM purposes, but also guarantees not eligible for CRM purposes, as mentioned above.

Credit risk mitigation techniques may include guarantees provided by collective loan guarantee consortia in accordance with applicable regulations in the presence of suitable counter-guarantees (for example the Central Guarantee Fund for SMEs) for the portion they secure.

The different CRM techniques, whether funded or unfunded, are subject to both general and specific eligibility requirements that must be met at the time the guarantee is established and for the entire duration of the guarantee.

The general requirements, which are intended to ensure legal certainty and the effectiveness of the guarantees, mainly concern:

- the binding nature of the legal commitment between the parties and its enforceability in court;
- the technique used to provide the credit protection together with the actions and steps taken and procedures and policies implemented by the lending institution shall be such as to result in credit protection arrangements which are legally effective and enforceable in all relevant jurisdictions. The lending institution shall provide, upon request of the competent authority, the most recent version of the independent, written and reasoned legal opinion or opinions that it used to establish whether its credit protection arrangement or arrangements meet the condition laid down in the first subparagraph" (see Article 194 of the CRR);

- the lending institution shall take all appropriate steps to ensure the effectiveness of the credit protection arrangement and to address the risks related to that arrangement;
- the timeliness with which the guarantee may be liquidated in the event of default;
- the formalization of techniques and operating procedures adequate to ensure continuing compliance over time with the general and specific requirements required for CRM techniques. These procedures must be valid and applied by all Group companies in order to avoid possible inconsistencies in the assessment. Checks shall be carried out in relation to the current legal value of the documentation submitted, the impact of any changes in the regulatory framework and the consequent initiatives to be taken. Risks related to the ineffectiveness, reduction or termination of the protection ("residual risks") as well as valuation and potential concentration risks in respect of specific counterparties shall also be controlled and managed.

Specific requirements are established for the individual CRM techniques in relation to their features and are intended to ensure a high level of effectiveness of the credit protection.

3. IMPAIRED CREDIT EXPOSURES

3.1 MANAGEMENT STRATEGIES AND POLICIES

According to the EBA definition, non-performing exposures satisfy either or both of the following criteria:

- material exposures which are more than 90 days past-due;
- the debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Impaired exposures are classified by increasing degree of severity in the following three categories:

- impaired past due and or overlimit exposures: exposures continuously past due or overlimit by more than 90 days in an amount exceeding the materiality thresholds (a relative materiality threshold equal to 1% of the entire exposure and an absolute materiality threshold of €100 or €500 for retail or corporate counterparties respectively;
- unlikely to pay (UTP) exposures: on- and off-balance sheet exposures for which the institution considers that the obligor is unlikely, without recourse to actions such as realizing security, to pay its credit obligations (principal and/or interest);
- default: on- and off-balance sheet exposures to an obligor in a state of insolvency (even if not declared by a court) or a substantially comparable situation, regardless of any expected loss.

The regulations also require that individual exposures, regardless of the classification of the counterparty, be identified as forborne exposures when they have been granted forbearance measures that meet the regulatory definition of such measures.

Such forborne exposures are in turned distinguished into:

- performing forborne, if the counterparty is classified as performing at the time the forbearance measures are granted and such measures do not require that the counterparty be classified differently;
- non-performing forborne, if the counterparty is already classified in one of the categories of non-performing at the time the forbearance measures are granted and such measures require that the counterparty be classified as non-performing.

Any other types of customer segmentation adopted by the affiliated banks and companies within the direct scope of consolidation for internal management purposes only (for example "watch list exposures") in order to assess of specific situations, whether performed using automated system or manually, are mapped to the above categories, ensuring that the mapping method is immediately understandable and transparent.

In identifying forborne exposures, the regulations require a transaction-by-transaction approach, regardless of their classification (impaired past due and/or overlimit exposures, unlikely to pay exposures or defaults): although the state of financial difficulty must be ascertained at level of the debtor, only the exposures referred to the latter that have actually been granted forbearance measures must be classified as forborne.

These classification rules are further supplemented by that established in IFRS 9, according to which credit exposures must be allocated to three stages (for more details, see the previous discussion). Among impaired exposures, allocation to stage "3" is underscored, which occurs when the customer's status changes to "non-performing".

In organizational terms, the Group has governance and operational structures to enable the efficient and sustainable management of impaired loans. Specifically, the individual Group companies will implement their policies for the management and recovery of anomalous positions and NPLs by drafting of internal rules customized to reflect the characteristics of the territory in which they operate, the scale of operations, their business model and related organizational structure, always in compliance with the provisions of Group policy.

For the purposes of identifying non-performing exposures, the Group:

- applies a unified and harmonized definition of NPLs in all Group companies, consistent with the applicable regulatory provisions;
- considers legal and financial connections between counterparties and adopts a group perspective in identifying the exposure of a debtor as impaired (default propagation).

The Parent Company defines the strategy for managing non-performing exposures, which is approved and monitored by its Board of Directors. Specifically, the Parent Company defines the objectives in terms of reducing expected NPE levels at Group level and establishes, with the support of the Group companies, the objectives for the individual companies and the related management strategies to ensure a common commitment and a consistent approach to achieving the objectives. The implementation of the strategy is supported by the Parent Company through the delivery of specialized support services, the provision of tools to facilitate the uniform management of impaired positions and a Group operational plan, which is also approved by the Parent Company's Board of Directors.

Furthermore, in order to enhance the commitment of the resources dedicated to the management of non-performing exposures in order to achieve the defined objectives, all Group companies have developed a system for measuring the performance of senior management and the organizational structures dedicated to management of non-performing exposures, which promotes, based on specific indicators, the commitment to managing such exposures.

In accordance with the principle of proportionality, the individual Group companies define their own performance evaluation and monitoring systems in line with Group policy. Specifically, it is considered necessary for Group companies to adopt performance indicators that take account of a set of quantitative and qualitative factors, including for example:

- developments in the stock of gross and net non-performing exposures, in line with the Group's Strategic Plan;
- methods for applying forbearance measures;
- the total amount recovered on the loan portfolio with a focus on collections, liquidations and asset sales;
- the aging of positions by recovery management phases;
- the regular performance of agreed restructuring plans;
- the application of writeoffs;
- the reduction of arrears and the improvement of portfolio quality.

3.2 WRITEOFFS

Writeoff means the derecognition from the bank's financial statements of a loan, or part of a loan, and the consequent recognition of a loss ascertainment that the exposure cannot be collected or it is uneconomic to continue any associated recovery activities under way. It may occur before the legal action to recover the financial assets are completed and does not necessarily entail waiver of the bank's right to the asset. A writeoff may be total, and therefore regard the entire amount of a financial, or partial (in all those cases in which the claim recognized is smaller than the carrying amount, for example in insolvency proceedings). The amount of the writeoff must always take account of any expenses, including legal costs, accrued and not yet invoiced at the time of analysis.

A writeoff involves:

- the reversal of total writedowns against the gross value of the financial asset;
- for any part exceeding total writedowns, the impairment loss on the financial asset is recognized directly in profit or loss.

Any recoveries from collection after the recognition of the writeoff are recognized in profit or loss as writebacks.

Writeoffs recognized for unrecoverability refer to cases in which the Bank is in possession of documentation certifying the significant probability that the loan may not be recovered, in whole or in part. Specifically, the irrecoverable status of the loan must be attested to by certain and specific circumstances, such as for example:

- the obligor, co-obligors and/or connected guarantors are untraceable or destitute;
- there has been no recovery from enforcement of guarantees or collateral and seizures;
- the period of limitations has passed;
- insolvency proceedings have been closed with incomplete restitution for the bank, in the absence of further guarantees that could be enforced;
- it is impossible to take further action in consideration of the overall financial position and income situation of the obligors and co-obligors (guarantors included);

- all legal or out-of-court actions have, following a careful examination of updated documentation (by way of partial example, commercial information, title searches, searches, etc.), already been carried out or are deemed inappropriate.

Writeoffs recognized because further action would be uneconomic occur when it is recognized, and can be demonstrated, that the costs related to the continuation of loan recovery actions (for example: legal, administrative and other costs) would exceed the value of the financial asset that is expected to be recovered.

3.3 FINANCIAL ASSETS PURCHASED OR ORIGINATED CREDIT-IMPAIRED

Financial assets purchase or originated credit impaired ("POCI") are credit exposures that are impaired upon initial recognition.

Such exposures may arise both from the purchase of impaired credit exposures from third parties or from the restructuring of impaired exposures that involved the grant of new financing that is significant in absolute or relative terms in proportion to the amount of the original exposure.

These exposures are managed, measured and monitored in accordance with the principles discussed in previous sections. In particular, the expected credit losses recorded at initial recognition in the carrying amount of the instrument are reviewed periodically based on the processes described in the preceding sections.

The expected loss for these exposures is always calculated over their lifetime and the exposures are conventionally reported under stage 3, or stage 2 if, following an improvement in the credit quality of the counterparty since initial recognition, the assets are performing.

Such assets are never classified under stage 1 since the expected credit loss must be calculated on a lifetime basis.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONS AND EXPOSURES GRANTED FORBEARANCE MEASURES

The definition regards exposures subject to renegotiation and/or refinancing - forbearance measures – in respect of performing borrowers or classified as non-performing loans. In a broad sense, the category includes all new forbearance measures and modifications of the original contractual terms aimed at avoiding default by a customer in financial distress. It therefore includes both credit exposures subject to management restructuring (not only statutory restructuring measures) and normal renegotiation of counterparty payments.

A customer is in "objective" financial distress when one or more of the following states exists:

- the customer is classified as "non-performing";
- a payment instalment on at least one of any exposures to the customer is past due by more than 30 days in the three months prior to the opening of the forbearance procedure;
- notification by the customer of its financial distress.

Other circumstances that would represent a state of financial distress that the position manager must assess in order to classify any action as "forbearance" can include:

- an increase in the probability of default (PD) of the rating class over a time horizon defined by the opening of the forbearance procedure;
- the assignment of the counterparty to one of the worst rating classes;
- the assignment of the exposure to the watchlist category during the three months prior to the opening of the forbearance procedure.

In the absence of the above requirements, the position manager or the decision-making body may still classify the action as forbearance they find evidence that the borrower is in situation of financial distress.

As indicated in the ECB publication "Guidance to banks on non-performing loans", the following list outlines general supervisory guidance for the categorization of viable forbearance:

- a solution comprising short-term forbearance measures. it should be considered economically sustainable where:
  - the bank can demonstrate (based on reasonable documented financial information) that the borrower can afford the forbearance solution;
  - short-term measures are truly applied temporarily and the bank has satisfied itself and is able to attest, based on reasonable financial information, that the borrower demonstrates the ability to repay the original or agreed modified amount on a full principal and interest basis commencing from the end of the short-term temporary arrangement expiry date;
  - the solution does not result in multiple consecutive forbearance measures having been granted to the same exposure (even if these regard separate contracts if the loan was refinanced in a previous forbearance solution).

- a forbearance solution including long-term forbearance measures should only be considered viable where:
  - the bank can demonstrate (based on reasonable documented financial information) that the borrower can realistically afford the forbearance solution;
  - the resolution of outstanding arrears is fully addressed and a significant reduction in the borrower's balance in the medium to long term is expected;
  - in cases where there have been previous forbearance solutions granted in respect of an exposure, including any previous long-term forbearance measures, the bank should ensure that additional internal controls are implemented to ensure this subsequent forbearance treatment meets the viability criteria. These controls should include, at a minimum, that such cases should receive explicit approval of the relevant senior decision-making body.

Any assessment of viability should be based on the financial characteristics of the debtor and the forbearance measure to be granted at that time.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 IMPAIRED AND PERFORMING CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR

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

	Bad loans	Unlikely to be repaid	Impaired past due exposures	Unimpaired past due positions	Other performing positions	Total
1. Financial assets measured at amortized cost	12,795	34,943	3,254	28,187	42,407,049	42,486,228
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	625,964	625,964
3. Financial assets designated as at fair value	-	-	-	-	283,839	283,839
4. Other financial assets mandatorily measured at fair value	-	-	-	-	58,926	58,926
5. Financial assets held for sale	-	-	-	-	-	-
Total 30/06/2022	**12,795**	**34,943**	**3,254**	**28,187**	**43,375,778**	**43,454,957**
Total 31/12/2021	**22,024**	**38,302**	**2,452**	**35,497**	**49,596,768**	**49,695,043**

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

	Impaired				Unimpaired			Total (net exposure)
	Gross exposure	Total writedowns	Net exposure	Total partial writeoffs *	Gross exposure	Total writedowns	Net exposure	
1. Financial assets measured at amortized cost	215,927	164,935	50,992	24,308	42,518,437	83,201	42,435,236	42,486,228
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	626,624	660	625,964	625,964
3. Financial assets designated as at fair value	-	-	-	-	X	X	283,839	283,839
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	58,926	58,926
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 30/06/2022	**215,927**	**164,935**	**50,992**	**24,308**	**43,145,061**	**83,861**	**43,403,964**	**43,454,957**
Total 31/12/2021	**269,963**	**207,185**	**62,779**	**24,681**	**49,372,810**	**90,250**	**49,632,265**	**49,695,043**

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	1,319,006
2. Hedging derivatives	-	-	473,905
Total 30/06/2022	**-**	**-**	**1,792,911**
Total 31/12/2021	**-**	**-**	**497,835**

A.1.6 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS AND NET VALUES

	Gross exposure					Total writedowns and total provisions					Net exposure	Total partial writeoffs *
		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
A. On-balance-sheet exposures												
A.1 Demand	**1,006,910**	**989,094**	**17,817**	**-**	**-**	**1,027**	**892**	**135**	**-**	**-**	**1,005,883**	**-**
a) Impaired	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	1,006,910	989,094	17,817	X	-	1,027	892	135	X	-	1,005,883	-
A.2 Other	**26,240,014**	**25,941,461**	**201,248**	**-**	**-**	**2,972**	**561**	**2,411**	**-**	**-**	**26,237,042**	**-**
a) Bad loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely to be repaid	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
c) Impaired past due exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Unimpaired past due exposures	-	-	-	X	-	-	-	-	X	-	-	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other unimpaired assets	26,240,014	25,941,461	201,248	X	-	2,972	561	2,411	X	-	26,237,042	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
Total (A)	**27,246,924**	**26,930,555**	**219,064**	**-**	**-**	**3,999**	**1,453**	**2,546**	**-**	**-**	**27,242,925**	**-**
B. Off-balance-sheet exposures												
a) Impaired	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	8,198,086	6,313,209	18,594	X	-	32	28	5	X	-	8,198,054	-
Total (B)	**8,198,086**	**6,313,209**	**18,594**	**-**	**-**	**32**	**28**	**5**	**-**	**-**	**8,198,054**	**-**
Total (A+B)	**35,445,011**	**33,243,764**	**237,658**	**-**	**-**	**4,031**	**1,480**	**2,551**	**-**	**-**	**35,440,980**	**-**

* *Values to be reported for information purposes*

A.1.7 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS AND NET VALUES

	Gross exposure					Total writedowns and total provisions					Net exposure	Total partial writeoffs *
		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired		
A. On-balance-sheet exposures												
a) Bad loans	70,246	X	-	70,246	-	57,451	X	-	57,451	-	12,795	24,308
- of which: forborne exposures	28,563	X	-	28,563	-	20,818	X	-	20,818	-	7,745	-
b) Unlikely to be repaid	141,808	X	-	141,808	-	106,865	X	-	106,865	-	34,943	-
- of which: forborne exposures	94,050	X	-	94,050	-	74,718	X	-	74,718	-	19,331	-
c) Impaired past due exposures	3,873	X	-	3,873	-	619	X	-	619	-	3,254	-
- of which: forborne exposures	515	X	-	515	-	120	X	-	120	-	395	-
d) Unimpaired past due exposures	29,009	15,044	13,965	X	-	822	220	603	X	-	28,187	-
- of which: forborne exposures	8,764	-	8,764	X	-	179	-	179	X	-	8,585	-
e) Other unimpaired assets	17,238,314	16,240,092	733,251	X	-	80,067	25,043	55,024	X	-	17,158,248	-
- of which: forborne exposures	131,655	226	131,429	X	-	9,861	1	9,860	X	-	121,794	-
Total (A)	**17,483,251**	**16,255,136**	**747,216**	**215,927**	**-**	**245,823**	**25,263**	**55,626**	**164,935**	**-**	**17,237,427**	**24,308**
B. Off-balance-sheet exposures												
a) Impaired	11,885	X	-	11,885	-	9,982	X	-	9,982	-	1,903	-
b) Unimpaired	2,067,399	1,677,080	136,859	X	-	19,203	8,642	10,512	X	-	2,048,197	-
Total (B)	**2,079,285**	**1,677,080**	**136,859**	**11,885**	**-**	**29,185**	**8,642**	**10,512**	**9,982**	**-**	**2,050,100**	**-**
Total (A+B)	**19,562,535**	**17,932,216**	**884,075**	**227,812**	**-**	**275,009**	**33,904**	**66,138**	**174,917**	**-**	**19,287,527**	**24,308**

* Values to be reported for information purposes

SECTION 2 MARKET RISKS

2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS

The term trading book refers to the portfolio consisting of positions intentionally held for subsequent short-term disposal and/or taken on to benefit from short-term differences between purchase and sales prices, or other changes in prices or interest rates. In general, the supervisory trading book is represented by the positions held under an "other" business model, namely "held for sale", i.e. the portfolio including debt and equity securities, units in collective investment undertakings and derivatives held for trading purposes.

B. MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of market risk management within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

This role is performed through the issue of specific policies and directives and the definition and application of specific governance mechanisms that govern the various stages (definition, approval, monitoring and reporting) that characterize the management of market risks.

As provided for under the Cohesion Contract, the Parent Company defines market risk management policies, in accordance with the strategic planning and definition of the RAF.

RISK MANAGEMENT PROCESSES

Identification of risks

Operations in financial market, especially positions in the trading book, expose the Bank to market risks and other subcategories of risk. The identification of risks is mainly carried out in the process of specifying and updating risk models and metrics for market risks, and involves the following activities:

- the specification and updating of risk metrics, i.e. the evolution by the Risk Management department of measurement and monitoring methods on the basis of developments in markets, regulations and best practice;
- the approval process, conducted before the start of operations in a new financial instrument and the associated definition of the procedures for measuring fair value and risks.

Risk measurement and assessment

Risk Management is the main actor in the processes for development and using measurement models and metrics for market risk.

Updates of the models and metrics are identified by Risk Management in the performance of its duties, including analysis of regulatory requirements, market best practices and input from the business units involved (Finance in particular).

The measurement activities performed by the Risk Management unit involve:

- verification and validation of the market and price parameters used as inputs in the front office and market risk management applications;
- verification of the quality of the identifying information of the financial instruments;
- validation of the fair value of the financial instruments held by the Group;
- oversight and validation of the production of all risk metrics.

For the purpose of calculating capital requirements for market risks, the ICBG uses the standardized approach, in compliance with the relevant supervisory measures.

At the operational level, internal models are used for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- probabilistic metrics:
  - Value at Risk (VaR) approach, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- deterministic metrics:
  - level metrics (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
  - analysis of sensitivity and Greeks, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
  - stress testing and scenario analysis, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
  - loss, which represents the negative financial performance in a specified period of time of both closed and open positions.

Probabilistic metrics

Value at Risk (VaR)

An approach based on historical simulations is used to calculate VaR, (with a sample period of 3 years, confidence level of 99% and holding period of 1 day). The model currently covers the following risk factors:

- interest rates;
- inflation rates;
- exchange rates;
- stocks and stock indices;
- interest rate volatility;
- stock price volatility.

The current model can calculate VaR both for more detailed portfolios and for larger aggregates, permitting considerable granularity in the analysis, control and management of risk profiles and the effects of diversification. The possibility for calculating VaR at multiple levels of synthesis (consistent with the operating strategies of the portfolios and the organizational hierarchy of Finance) and the ability of the model to decompose VaR into different risk determinants make it possible to create an effective system of comparable cross-risk and cross-business limits.

Deterministic metrics

Sensitivity and Greeks of options

Sensitivity measures the risk associated with changes in the theoretical value of a financial position in response to changes in a defined amount of the associated risk factors. It captures the breadth and direction of the change in the form of multiples or monetary changes in the theoretical value without explicit assumptions about the holding period or correlations between risk factors. The main sensitivity indicators currently used are:

- PV01: the change in market value in response to a change of 1 basis point in the zero-coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- IL01 (sensitivity to inflation): the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- Vega sensitivity to inflation: a change of 1 percentage point in implied volatilities on forward inflation rates;
- CR01: a change of 1 basis point in credit spreads;
- Delta: the ratio between the expected change in the price of options and a small change in the prices of the underlying financial assets;
- Delta1%: the change in market value in response to a change of 1% in equity prices;
- Delta Cash Equivalent: the product of the value of the underlying financial asset and the delta;

- Vega1%: the change in market value in response to a change of 1% in the implied volatility of equity prices/indices;
- Correlation sensitivity: the change in the market value in response to a 10% change in implied correlations.

Level metrics

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile.

The nominal position (or equivalent) is determined through the identification of:

- the notional value;
- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);
- the FX open position.

The approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements. These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures

Stress testing and scenarios

Stress tests measure the change in the value of instruments or portfolios in response to unexpected (i.e. extreme) changes in the intensity or correlation of risk factors. Scenario analyses measure the change in the value of instruments or portfolios in response to changes in risk factors in circumstances that reflect actual past situations or expectations of future developments in market variables.

Stress tests and scenario analysis are carried out by measuring the change in the theoretical value of positions in response to changes in the risk factors. The change can be calculated both through the use of linear sensitivity relationships (e.g. deltas) and through the revaluation of positions by applying the specified variations to the risk factors.

Loss

Loss is a risk metric representing the negative financial performance achieved on closed and open positions over a specified period of time.

Loss is determined by identifying, with the specified time interval:

- the component of realized profits and losses;
- the component of latent (unrealized) profits and losses calculated using the mark-to-market/mark-to-model value of open positions.

Loss is equal to the algebraic sum of the two components indicated above, if negative.

In determining loss, foreign currency positions still open are measured at the ECB end-of-day exchange rate.

The metric makes it possible to measure losses connected with the general risk profile of outstanding positions and the management of the portfolio, identifying any deterioration in the profitability of financial operations.

It is helpful in monitoring the performance of the portfolio, given the risk profile assumed, when:

- more sophisticated measurement systems are not present;
- it is impossible to capture all risk factors;
- timely control and management of limits is required.

RISK PREVENTION AND ATTENUATION

Risk Management conducts backtesting of operational measurement models on an ongoing basis. The effectiveness of the calculation model is monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. This approach makes it possible to:

- strengthen the effectiveness of the dialogue between Risk Management and the front office;
- enhance awareness of the actual performance dynamics of the portfolios;

- break down and interpret the sources and causes of daily changes in P&L;
- identify and monitor any risk factors that are not fully captured by the calculation models adopted.

In addition to the backtesting noted earlier, the effective management of market risks is ensured using a comprehensive system of limits, which is a key tool for the management, control and attenuation of risks. The development of this system, which is a key element of the Risk Management Framework, took account of the nature, objectives and operational complexity of the Group.

The overall system of market risk indicators comprises indicators included in and governed by the RAS and more strictly operational indicators set out in the risk governance policies.

The controls established to manage market risks break down into:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the market risk profile and ensure the correct activation of escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

MONITORING AND REPORTING

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators and represents a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds.

These activities therefore perform an "ex post" control function in relation to the continuous monitoring of all indicators that signal breaches of assigned risk levels, but they also serve an "ex ante" function in signaling the approach of risk profiles towards the threshold/limit/risk propensity levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/risk limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The market risk control and monitoring activities are governed within a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.

At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In this area, Risk Management is responsible for preparing periodic reporting on the various risk factors, providing appropriate disclosure to the operating lines, senior management and the Board of Directors.

RISK MANAGEMENT AND MITIGATION

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

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

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of the health emergency.

QUANTITATIVE DISCLOSURES

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

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. SUPERVISORY TRADING BOOK: DISTRIBUTION OF EXPOSURES IN EQUITY SECURITIES AND EQUITY INDICES BY MAIN COUNTRIES OF LISTING

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

3. SUPERVISORY TRADING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

With regard to market risks on the trading book, a 1-day VaR limit of €2.2 million has been established, calculated with a confidence level of 99%. The Market Risk Policy also specifies VaR limits for the different portfolios, measured using the same method. In the first half of 2022, the indicator never breached the limits at either the full book or individual portfolio level.

The average VaR of the trading book was equal to €0.61 million, with a minimum of €0.38 million and a maximum of €0.83 million (on February 4, 2022).

At June 30, 2022, the VaR was equal to €0.48 million.

	Sensitivity Value (in €)	Note
Interest Rates	(12,228)	Sensitivity calculated in relation to 1 bp change
Inflation Rates	6,817	
Credit spread	21,072	
Equity	13,707	Sensitivity calculated in relation to 1% change in share/equity index

2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of interest rate risk management for the banking book within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

This role is performed through the issue of specific policies and directives and the definition and application of specific governance mechanisms that govern the various stages (definition, approval, monitoring and reporting) that characterize the management of interest rate risk on the banking book.

As provided for under the Cohesion Contract, the Parent Company defines interest rate risk management policies, in accordance with the strategic planning and definition of the RAF.

RISK MANAGEMENT PROCESSES

Identification of risks

The interest rate risk on the banking book is the risk originated by differences in the maturities and in the timing of the repricing of interest rates on the assets and liabilities in the banking book. In the presence of these differences, fluctuations in interest rates giver rise to both a short-term change in expected profit, through the impact on net interest income, and a long-term impact on the economic value of shareholders' equity, through the change in the market value of assets and liabilities.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, the Group identifies sources of interest rate risk to which it is exposed, classifying them in the following risk sub-categories: the risk deriving from mismatches in maturities (for fixed-rate positions) and repricing dates (for variable-rate positions), or changes in the slope or shape of the yield curve (yield curve risk), basis risk, option risk and credit spread risk on banking book (CSRBB – Credit Spread Risk on Banking Book).

Risk measurement and assessment

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- 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 adopted in the economic value approach to measure the sensitivity of the economic value of the banking book (∆EVE – EVE sensitivity) are based on a full evaluation approach. The change in the expected value of the banking book is calculated using an approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time ("bucket sensitivity").

In determining EVE, equity must be excluded from the calculation in order to measure the potential change in value of free capital following changes in the yield curves.

The metrics used in the current earnings approach to measures the sensitivity of the net interest income of the banking book (∆NII – NII sensitivity) are:

- Full Evaluation: the potential impact on net interest income of potential changes in risk-free rates is calculated using a method that provides for the comparison, for a selected time horizon, between expected net interest income in the case of a change in interest rates and expected net interest income in a baseline scenario with no such changes. This methodology is also adopted in stress tests to quantify the impacts on net interest income of possible changes in credit spreads (CSRBB);
- Earnings at Risk: a metric aimed at measuring the loss of profitability due to changes in interest rates, considering, in addition to the impact on net interest income, the effects on changes in the fair value of the instruments recognized (depending on their accounting treatment) in profit or loss or directly in equity;
- Repricing gap: this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The weighting of the exposure for each time bucket for the time between the repricing date and the selected time horizon and the subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income.

The measurement scenarios applied to interest rates are intended to monitor the risk categories to which the Bank may be exposed. Each can be associated with internally developed or regulatory scenarios.

- gap risk: in order to monitor this category of risk, parallel and non-parallel shocks of the risk-free yield curves are used in order to assess the impact on economic value and net interest income; in particular; in order to monitor this risk category, parallel and non-parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged for regulatory purposes, in the standard outlier test, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
- basis risk: the analysis provides for the segmentation of the banking book based on the market parameters to which the items involved are indexed and the analysis of the time series of basis spreads with respect to the pivot rate (3-month Euribor) for the purpose of determining the size of the shocks to be applied to each;
- option risk: the analysis includes a preliminary identification of the automatic/behavioral option components in the assets and liabilities of the Bank's banking book and the subsequent:
  - historical analysis of the observed changes in volatility, to determine the magnitude of the shocks to be applied for the purpose of quantifying the automatic option risk;
  - verification of the impact of interest rate shocks on the behavioral model parameters, for the purpose of quantifying the behavioral option risk.
- CSRBB: internally defined scenarios are used based on prudential assessments and historical analyses of the observed changes in credit spreads.

In order to monitor risk limits, parallel and non-parallel shock scenarios are adopted. To monitor the additional metrics subject to reporting requirements, scenarios involving shocks to the yield curves are also envisaged in addition to those adopted as a reference for the determination of risk limits. As part of stress testing, further scenarios are used on periodic basis to signal potential areas of weakness in the presence of particular market conditions.

Risk prevention and attenuation

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework, taking account of the nature, objectives and complexity of Group operations.

The system provides for setting risk limits for exposures in terms of the sensitivity of economic value and net interest income at both the consolidated and individual levels, as well as at the level of the individual business lines responsible for managing interest rate risk on the banking book.

In addition to the above system of limits, a comprehensive system of arrangements and controls contributes to defining the overall control model set out and formalized in the associated policy.

The controls established to manage interest rate risk on the banking book break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the interest rate risk profile and activate escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to interest rate risk in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the operating units involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators provided for by the risk governance framework. The effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk limits established;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The interest rate risk control and monitoring activities are performed within the framework of a set of internal regulations. At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

More specifically, the Risk Management function performs monitoring and reporting activities that are codified and formalized within the Risk Appetite Framework and the risk policies, preparing periodic reports and providing appropriate disclosure to the operating units, top management and the Board of Directors.

Stress test framework

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The scenarios used in measuring the exposure to the different sources of risk and in analyzing stress tests are based on both regulatory shocks and, where the regulatory scenarios are not considered fully representative of especially averse conditions, shocks defined internally.

In accordance with regulatory provisions, the Group develops scenarios characterized by larger movements in yield curves than the shocks applied for the continuous monitoring of the IRRBB in order to test the vulnerabilities of the banking book in the presence of stress conditions.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses:

- sensitivity analysis: analysis of the exposure to the IRRBB and the CSRBB with respect to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result;
- scenario analysis: analysis consisting in the assessment of the Group's ability to cope with a potential increase in its exposure to IRRBB and CSRBB based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

The identification of risk categories is a starting point and a linkage among the main strategic processes to manage risk management (Risk Appetite Framework, Internal Capital Equity Assessment Process, Contingency & Recovery Plan) and is aimed at limiting the set of risk factors/parameters for which stress scenarios are developed.

For each of the risk categories identified it is possible to define the associated risk factor(s), understood as an exogenous variable whose shock can have a negative impact on the economic value of the banking book and/or on the associated net interest income, in terms of smaller-than-expected loss or profit. In this perspective, the identification of risk factors is a preliminary phase in the definition of the shocks associated with stress scenarios.

All the stress scenarios adopted are generally calibrated using the historical simulation approach, based on prudential percentiles of the empirical distributions associated with the various risk parameters, using expert-based adjustments where appropriate in order to integrate forward-looking elements that are not present in the available historical data. To these scenarios, we add “purely” historical scenarios (i.e. without calculating a percentile of the historical empirical distribution), scenarios defined on a judgmental basis and scenarios provided by external sources (e.g. EBA Stress Test scenario).

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of the health emergency.

QUANTITATIVE DISCLOSURES

1. BANKING BOOK: DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY (REPRICING DATE) (EURO)

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. BANKING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

The interest rate risk on the banking book used for management purposes with regard to sensitivity indicators for economic value and net interest income at June 30, 2022 is reported below.

€/millions	Scenario	
	-100 bp	+100 bp
Impact on economic value	+ 54	- 38
Impact on net interest income	+ 33	- 30

2.3 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF EXCHANGE RATE RISK

The exchange rate risk management strategy (the FX risk factor) is based on the analysis of market developments and the different currencies in which operations are denominated.

The strategy is differentiated in accordance with the type of operations:

- for major currencies (hard currencies), operators, based on the analysis of economic, macroeconomic and money management data, manage operations both to optimize existing positions and generate a profit;
- for minor currencies (local currencies), exchange rate risk is managed with a view to the total minimization of risks, except in unusual macroeconomic situations, by reducing exposures exceeding the thresholds defined with market operations of the opposite sign.

Trading is carried out on the foreign exchange and foreign exchange derivatives markets both through spot trading and through the management of short/medium-term forward positions (outright operations). The strategy of the desk is therefore aimed at intraday/multiday transactions in order to generate profit from movements in the spot foreign exchange market. Forex swaps are used to engage in forward operations, based on expectations for interest rates and exchange rates, so as to generate a profit from maintaining open short/medium-term positions in foreign currency. Based on its own analyzes, the desk also seeks to improve its profitability by taking positions in options on exchange rates.

All operations are based on techniques and methods defined and agreed at the desk level, based on operating limits assigned to the managers and operational staff that are consistent with the provisions of the risk policies.

B. HEDGING EXCHANGE RATE RISK

Operations are mainly concentrated in major currencies. The Bank adopts a system of daily operating limits on the overall foreign exchange exposure, as well as the net foreign exchange positions in respect of individual currencies. The overall limit is segmented into partial ceilings on the basis of the importance of the various currencies.

SECTION 3 DERIVATIVES AND HEDGING POLICIES

3.2 HEDGE ACCOUNTING

QUALITATIVE DISCLOSURES

For the purposes of hedge accounting, Iccrea Banca, Parent Company of the ICBG, applies the provisions contained in IAS 39 since at the time of initial application of IFRS 9 it elected the option provided for in paragraph 7.2.21 of that standard to continue to apply in full the rules of IAS 39 for all types of hedging (micro and macro).

The hedge contracts are transacted on the basis of the provisions of specific company policies and mainly used to manage interest rate risk on the banking book arising from the normal business operations of the individual banks and the Parent Company, pursuing the objective of reducing the risk profile within the limits of the Risk Appetite Framework as defined and quantified by the competent bodies. These limits concern the exposure of the Bank both in terms of net interest income sensitivity and economic value sensitivity.

The life cycle of a hedge accounting relationship starts with the so-called “designation” phase. With the designation of the hedging relationship, the company declares the methods and the instruments through which it intends to implement the hedging strategy, as defined by the manager of the risk being hedged, as well as the methods of measuring the effectiveness of the hedge. This phase is the responsibility of the manager of the risk being hedged, who draws on the technical functions involved in the hedge accounting process defined in the associated policy.

Once a hedging relationship has been designated, it must be demonstrated that the hedge is highly effective in offsetting fair value changes or stabilizing the cash flows attributable to the hedged risk during the period for which the hedge is designated.

The effectiveness of the hedge is demonstrated at the inception date and measured at the periodic reporting dates (March 31, June 30, September 30 and December 31), as well as on a monthly basis for internal transaction monitoring purposes.

The effectiveness of the hedge is measured by conducting so-called effectiveness tests (prospective and retrospective) based on both qualitative and quantitative methods, complying with the criterion of continuity. A hedging relationship is considered effective if at each measurement date both tests (prospective and retrospective) are passed. The failure of the effectiveness test(s) should result in the discontinuance of the hedging relationship, i.e. the termination of hedge accounting.

A. FAIR VALUE HEDGING

Fair value hedging is used to immunize changes in the fair value, attributable to the different risk factors, of assets and liabilities or portions of them, of groups of assets/liabilities, of irrevocable commitments and portfolios of financial assets and liabilities.

Iccrea Banca adopts both specific hedges (micro fair value hedges) and generic hedges (macro fair value hedges). These hedges therefore apply both to well-identified financial instruments (government securities – both fixed rate and indexed to European and Italian inflation, deposits, bond issues, loans and other financing) and to portfolios of fixed-rate financial instruments (securities holdings).

Within the scope of micro fair value hedging, hedges are mainly used for securities holdings, bonds issued and one hedge of a loan granted to a subsidiary, while macro hedging is applied to a portfolio of corporate securities.

The main types of derivatives used are represented by plain or structured interest rate swaps (IRS), asset and yield swaps (ASW) and overnight index swaps (OIS). These derivatives are not listed on regulated markets, but are traded on OTC markets.

The effects of designating the hedging relationship begin at the inception of the hedge with the identification of the portion and the type of hedged risk, the hedging strategy and the hedging instrument in accordance with the principles the Group has established concerning the methodology used to assess the effectiveness of the hedging relationship.

B. CASH FLOW HEDGING

Cash flow hedging seeks to hedge the exposure to the variability of future cash flows attributable to particular risks associated with balance sheet items or highly probable forecast transactions or to hedge exchange rate risk .

We also have micro CFHs in place as at June 30, 2022:

- inflation-linked BTPs;
- CCTs

The derivatives used are interest rate swaps (IRS) not listed on regulated markets, transacted with third party counterparties on OTC markets.

C. HEDGING OF INVESTMENTS IN FOREIGN OPERATIONS

In the period under review, there were no hedges of exchange rate risk on foreign currency transactions.

D. HEDGING INSTRUMENTS

Designated hedging transactions, with formal documentation identifying the relationship between the hedged instrument and the hedging instrument, are considered effective if at inception and for the entire duration of the hedging relationship changes in the fair value or the cash flows of the hedged instrument are almost completely offset by changes in the fair value or cash flows of the hedging derivative. The effectiveness of the hedge depends on the extent to which the changes in the fair value of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is quantified by comparing the aforementioned changes, taking account of the intent pursued by the company at the time the hedge was established.

A hedge is effective when the changes in the fair value (or cash flows) of the hedging instrument almost entirely, i.e. within the specified limits, offset the changes in the hedged instrument for the risk being hedged.

Effectiveness is assessed at each annual or interim reporting date using:

- prospective tests aimed at demonstrating that changes in the fair value or cash flows of the hedging instrument attributable to the hedged risk will be such as to offset changes in the fair value or cash flows of the hedged item. They are performed adopting both qualitative (Critical Term Match) and quantitative methods ("cumulative scenario method" or "linear regression method with curve simulation");
- retrospective tests aimed at measuring the actual effectiveness of the hedging relationship between the date of designation and the test date, determining the deviation of hedging relationships from the result that would be achieved with a perfect hedge. These tests are performed using quantitative methods, i.e. the dollar offset method and the volatility risk reduction method.

The main causes of ineffectiveness are attributable to the following:

- a misalignment between the notional of the derivative and the nominal of the hedged instrument at the time of the initial designation or generated subsequently, as in the case of the repurchase of bonds;
- the approach of the expiry of the transaction.

The ineffectiveness of the hedge is recognized promptly for the purposes of:

- determining the impact on profit or loss;
- assessing the possibility of continuing to apply hedge accounting rules.

If the assessments do not confirm the effectiveness of the hedge, the relationship considered terminated as of the last date from which the relationship was shown to be effective. This date coincides with the beginning of the period in which the effectiveness test was failed. However, if the event or the circumstances that led to the hedging relationship no longer meeting the criteria for effectiveness are identified and it is shown that the hedge was effective before the event or change in the circumstances occurred, hedge accounting is discontinued from the date of the event or change in those circumstances. The hedging derivative, if not extinguished, may be designated as a hedging instrument in another relationship that meets the relevant or be reclassified as a trading instrument.

The Bank does not use dynamic hedges, as defined in IFRS 7, paragraph 23C.

E. HEDGED ITEMS

Hedged items designated as being in a hedge accounting relationship using micro and macro hedges are mainly government securities, corporate securities, bond issues and a loan to a company within the direct scope of consolidation.

These hedges are both total and partial and the hedged risk is mainly interest rate risk.

Debt securities held

These are hedged using micro fair value hedges and macro fair value hedges involving IRSs, ASWs and OISs as hedging instruments. Where present, interest rate and inflation risk are hedged for the duration of the obligation. The effectiveness tests are carried out using the dollar offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

Debt securities issued

Iccrea Banca currently has active micro fair value hedging relationships for fixed-rate or structured funding and micro cash flow hedges for funding denominated in foreign currency, using IRSs and CCSs, respectively, as hedging instruments. Interest rate risk, and exchange rate risk for foreign currency funding, is hedged for the duration of the obligation. The effectiveness tests are carried out using hypothetical derivative approach within the dollar offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

Fixed-rate loans

Iccrea Banca has designated a micro fair value hedge of a fixed-rate loan to a company within the direct scope of consolidation and a deposit with banks, mainly using IRSs and OISs as hedging instruments. The interest rate risk is hedged for the entire term of the hedged item. For micro-type hedges, the effectiveness tests are carried out using the dollar-offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

IFRS 7 DISCLOSURES ON THE INTEREST RATE BENCHMARK REFORM

Following up on the regulatory framework defined by Regulation (EU) 2016/1011 of the European Parliament and of the Council of June 8, 2016 (the Benchmarks Regulation, BMR), the European Commission issued Regulation (EU) 2020/34 amending IFRS 9, IAS 39 and IFRS 7. These changes introduce provisions aimed at taking account of and underscoring the consequences of the reform of interest rate benchmarks for financial reporting. They also seek to enable allowing companies to continue with the correct application of hedge accounting rules, assuming that the benchmark indices for determining existing interest rates are not changed as a result of the reform of interbank rates.

These disclosures must be provided in particular in the period preceding the replacement of an interest rate benchmark with an alternative reference rate.

The information required by paragraph 24 H of IFRS 7 is provided below:

a) the significant interest rate benchmarks to which the entity’s hedging relationships are exposed:

Hedge type	Benchmark
Hedge of loans to customers	EURIB1M
Hedge of securities holdings	EURIB6M-EUR3M
Hedge of bonds issued	EURIB6M-EUR3M

b) he extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform:

Hedge type	Nominal amount of hedging derivatives (thousands of euros)
Hedge of loans to customers	9,061
Hedge of securities holdings	6,949,437
Hedge of bonds issued	85,000
Total	**7,043,497**

c) for more on how the Parent Company is managing the transition project, please see the disclosures in Part A “Accounting policies”;

d) for more on the Parent Company’s direct management of the transition project and the compliance activities planned or under way concerning transactions on OTC derivatives connected with the services provided by the affiliated banks, please see the disclosures in Part A “Accounting policies”;

e) the nominal amount of the hedging instruments in those hedging relationships is as follows:

Hedge type	Nominal amount of hedging derivatives (thousands of euros)
Hedge of loans to customers	9,061
Hedge of securities holdings	6,949,437
Hedge of bonds issued	85,000
Total	**7,043,497**

SECTION 4 - LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

Iccrea Banca, in its capacity as the Parent Company of the ICBG, is responsible for the management, coordination and control of liquidity risk management within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

In exercising this role, the Parent Company determines the governance model and mechanisms that govern the various stages involved in the management of liquidity and oversight of the associated risks, as well as interactions between business and control units in order to ensure an appropriate level of liquidity at the consolidated and individual levels at the intraday, short and medium/long-term time horizons.

As provided for under the Cohesion Contract, the Parent Company defines liquidity risk management policies, in accordance with the strategic planning and definition of the RAF.

RISK MANAGEMENT PROCESSES

Liquidity risk is identified and monitored using the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Bank and market conditions.

Identification of risks

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- operational liquidity – divided into two complementary levels:
  - intraday and very short-term liquidity*:* monitored on a daily basis in order to identify sources of risk that impact the Bank’s ability to promptly balance very short-term cash inflows and outflows and maintain a volume of liquidity sufficient to ensure compliance with the liquidity coverage ratio (LCR) requirement;
  - short-term liquidity: identification of sources of risk that impact the Bank’s ability to meet its expected and unexpected payment obligations over a short-term horizon (up to 12 months);
- structural liquidity - identification of structural mismatches between assets and liabilities maturing at more than 1 year and integration with short-term liquidity management as well as planning of actions and preventing the future creation of short-term liquidity shortfalls.

The Bank’s liquidity profile, and therefore its exposure to liquidity risk, is closely related to the business model adopted, the composition of the balance sheet - in terms of assets, liabilities and off-balance sheet items - as well as the related maturity profile.

The process of identifying and classifying the risk factors connected with the operational and structural liquidity profiles seeks to define the elements that, in terms of risk exposure, could trigger a deterioration in the liquidity position when endogenous and/or exogenous stress events occur.

Liquidity risk can be generated by various factors both internal and external to the Bank. The sources of liquidity risk can therefore be divided into the following macro-categories:

- endogenous: represented by adverse events specific to the Bank (e.g. a deterioration in the Bank’s credit standing and loss of confidence by creditors);
- exogenous: when the origin of the risk is attributable to adverse events that cannot be directly controlled by the Bank (political crises, financial crises, catastrophic events, etc.) that give rise to liquidity tensions in the markets;
- combinations of the previous factors.

Measurement of risks

Measuring liquidity risk involves the activities performed to observe and quantify on a comprehensive, accurate and timely basis the exposure to such risk over the selected observation horizon.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder in order to:

- monitor the risk profile in "business as usual" conditions, overseeing the overall system of indicators that characterize the Liquidity Risk Framework;
- execute stress testing, which involves the determination of the liquidity position in severe but plausible adverse scenarios, assessing the impact at the consolidated and individual levels.

The risk position is measured with the use of models, specific indicators and additional metrics developed either internally or established in regulations.

The analysis of the maturity profiles depends substantially on assumptions about the future cash flows associated with the various assets and liabilities, both on-balance-sheet and off-balance-sheet, which take account of the economic maturities of the balance sheet elements rather than contractual dates, without neglecting the application of reasonable prudence criteria.

The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, two maturity curves are developed: operational and structural.

The operational maturity ladder is used to monitor the short-term liquidity position and is determined both in a business-as-usual scenario and in a stress scenario by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines.

The intraday liquidity position is measured with metrics aimed at monitoring the maximum use of liquidity on an intraday basis, the reserves available at the beginning of each business day to meet liquidity requirements, gross payments sent and received and "time-specific" obligations.

The treasury position is measured on a daily basis by quantifying the liquidity reserves (i.e. counterbalancing capacity, or CBC) and using them to cover any possible negative liquidity balance over the reference time horizon.

This system for monitoring operational liquidity makes it possible to monitor:

- management of access to the payments system (operational liquidity management);
- management of the liquidity outflow profile;
- the size and degree of use of liquidity reserves (analysis and active management of the maturity ladder);
- the active management of collateral (cash-collateral management, i.e. refinanceable securities and bank loans);
- the integration of short-term liquidity management actions with structural liquidity requirements.

The structural maturity ladder is used to monitor the overall liquidity position, both at short and medium/long-term. It is determined by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines. The projection of cash inflows and outflows at the various time bands in the ladder is carried out using two distinct approaches in relation to the purpose of the analysis.

The first approach identifies cash flows based on the contractual maturities of the items considered;

The second approach is based on the adoption of behavioral assumptions, with specific regard to the modeling of demand items and margins on the credit lines granted in both a business-as-usual scenario and in a stress scenario.

This tool is essential for obtaining a view of funding requirements and an understanding of the liquidity risk associated with execution of the funding plan, thereby preventing the emergence of future liquidity strains. In addition, the structural maturity ladder makes it possible to control:

- the management of maturity transformation in accordance with the guidelines established by management;
- support for the funding decisions in the funding plan.

Risk prevention and attenuation

Liquidity risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the Liquidity Risk Framework. The definition of this system took account of the nature, objectives and complexity of operations.

The system of limits (RAS, risk limits and contingencies) is defined by the Parent Company consistent with its policy-setting and coordination role and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the liquidity risk management model adopted.

The system of limits is also accompanied by a comprehensive system of systems and controls that contribute to defining the overall control model set out and formalized in the associated policy.

The controls established to manage liquidity risk break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the liquidity profile and activate escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

Control activities are carried out by the Risk Management function and are intended to monitor the exposure to liquidity risk in order to prepare reports for transmission to the competent units and to initiate the escalation mechanisms should the specified limits be exceeded. Control activities is based on the assessment and measurement of the risk profile with respect to the risk indicators established by the Risk Governance framework and are an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/risk limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

Liquidity risk control and monitoring activities are carried out within the internal self-regulatory framework. At an operational level, communication between the management functions and Risk Management takes place daily through in-depth discussions on risk developments that increase awareness of the profiles of the risks assumed (in accordance with the specified profitability objectives), thus facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In particular, Risk Management performs codified and formalized monitoring and reporting activities within the Risk Appetite Framework and the Risk Policies, with the preparation of periodic reporting to provide appropriate disclosure to the management functions, senior management and the Board of Directors.

Stress test framework

The liquidity position is monitored in the normal course of business and under stress conditions. For the latter, a stress test framework has been defined on the basis of the indicators that characterize the Liquidity Risk Framework.

The stress test analyses are used to measure the degree to which the liquidity position can deteriorate in the event of especially adverse market conditions, thereby enabling verification of its robustness.

Accordingly, the objectives of the stress testing are:

- to verify the capacity to cope with unexpected liquidity crises in the first period in which they occur, before activating initiatives to modify the structure of assets or liabilities;
- to assess vulnerabilities in the liquidity profile, evaluating possible connections between the various risk categories as part of the periodic monitoring process;
- to calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits enables the maintenance of a level of liquidity that ensures that any coverage actions do not compromise business strategies;
- to identify, in preparing the recovery plan, scenarios that would compromise the survival of the Bank if appropriate recovery actions were not taken;
- to test the effectiveness of mitigation actions taken within the Contingency Funding & Recovery Plan and recovery actions provided for in the "near-default" scenarios to be taken in adverse situations in order to limit the exposure to liquidity risk;

- verify the feasibility of the funding plan, taking due account of the findings of the stress analysis.

In accordance with regulatory provisions, the Bank develops scenarios characterized by stress scenarios associated with the occurrence of systemic or idiosyncratic events in order to test potential liquidity vulnerabilities.

In line with the applicable regulatory guidelines, various types of mutually complementary analyses have been adopted:

- sensitivity analysis: analysis of liquidity position to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- scenario analysis: analysis consisting in the assessment of the Bank's ability to cope with a potential deterioration in its liquidity profile based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

The types of stress test that characterize the framework provide for the occurrence of sever but plausible events (scenarios) that can be classified into three categories:

- stress scenarios caused by a systemic event, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy and therefore for the Bank;
- stress scenarios caused by specific events (idiosyncratic), i.e. an event (or combination of events) whose occurrence generates/involves highly adverse consequences for the Bank. In defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Bank;
- stress scenarios generated by a combination of specific and systemic events, i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimated inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Bank to cope with any liquidity strains.

Shocks generated by the main risk variables have been incorporated for each scenario, identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

The stress scenarios do not take account of the effects of exchanges rates on currencies, as exchange rate risk is assumed to be negligible and/or essentially offset.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of asset to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of the health emergency.

SECTION 5 - OPERATIONAL RISKS

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISKS

Operational risk means the risk of losses caused by the inadequacy or malfunction of procedures, human resources and internal systems or the occurrence of external events. For example, such losses include those caused by fraud, human error, operational interruptions, system unavailability, breach of contract and natural disasters.

The various types of operational risk to which the Bank is structurally exposed therefore include IT risk and reputational risk. This is associated with the banking activities carried out with the public and financial and institutional counterparties, as well as the numerous national and international regulations to which the Bank is subject.

The organizational model adopted by the Bank within the Group to manage and monitor operational risks is structured into two levels:

- at the Parent Company, the Operational & IT Risk Management unit has been established, reporting to Group Risk Management within the CRO area, which is responsible for operational and IT risks and is charged with:
  - responsibility for policy-making and coordinating risk management activities for the Iccrea Cooperative Banking Group concerning operational and IT risks. This unit operates as a specialist hub for this area;
  - responsibility for supporting the Risk Management functions of the direct scope subsidiaries and, through the Mutual Bank Risk Management Coordination unit, the risk management functions of the affiliated banks;
- at the affiliated banks and direct scope subsidiaries, the Risk Management units report to their boards of directors and are responsible, among other duties, for monitoring and managing developments in the exposure to operational and IT risks.

The methodological aspects underlying the management framework and the related methods of application to the Group companies were formalized and approved at the end of 2019 as part of specific Group policies (Operational Risk Management Framework, IT Risk Management Framework, Loss Data Collection, Operational Risk Self-Assessment and IT Risk Self-Assessment).

This framework has been developed in accordance with the typical phases of the operational risk management process, namely:

- identification of risks (knowledge): a set of activities directed at identifying operational and IT risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (i.e. operational loss data) and potential risk (assessed through the collection of business expert opinion).
- evaluation/measurement of identified risks (awareness): a set of activities for assessing/measuring Group operational and IT risks.
- risk prevention and attenuation (strategy): a set of activities for the ex-ante identification of the possible ways of preventing and mitigating unfavorable developments in the dynamics of operational and IT risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational and IT risks, and the implementation of measures to ensure that possible risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.
- monitoring and reporting (tracking and control): a set of activities to monitor the Group’s risk profile and deliver comprehensive reporting to provide timely, accurate and appropriate support to the decision-making process underlying “Risk Prevention and Mitigation” and “Risk Management and Mitigation”.
- risk management and mitigation (reaction and proactivity): a set of activities and actions to support the management of operational and IT risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to operational risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments (operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

The loss data collection process has currently been adopted by Iccrea Banca and all the Group companies that contribute, with a specified frequency, to the collection of historical events and losses through the Group application solution, which is available to both the companies within the direct scope of the Group and the affiliated banks.

As regards the assessment processes for operational risks (OR-SA) and IT risk (IR-SA), the identification and assessment of prospective risks have been initiated and conducted for certain companies within the direct scope, including Iccrea Banca and other mutual banks. In 2020, the development of the related application system also continued.

With specific reference to IT risk, March 2022 saw the finalization of the annual IT risk profile assessment of Iccrea Banca and BCC Sistemi Informatici, the latter of which is the prime supplier of ICT services to the Bank.

In addition, in line with the previous year, during the first half of 2022 specific training was provided on the Operational Risk Management framework, with specific attention being paid to operating approaches and support applications.

The Parent Company's Operational Risk Management function also supported the collection of operational loss events at the Group level for management reporting use and for QIS and COREP regulatory reporting purposes, and contributed in its areas of responsibility to the performance of the stress tests envisaged as part of the ICAAP.

With regard to the monitoring activities of the Incident Management Process, significant incidents were monitored continuously, from the time of their occurrence until closure of the incident, with the performance of assessment activities in the event of incidents with specific characteristics or for which particular risk factors were identified. Specific periodic reporting is prepared for these activities.

QUANTITATIVE DISCLOSURES

As provided for in Circular no. 285/2013 of the Bank of Italy as updated, for reporting purposes the Bank calculates operational risks using the Basic Indicator Approach. Under the Basic Indicator Approach, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the volume of business, which in the case of the Bank is "gross income". In particular, the Bank's capital requirement, equal to 15% of the average of the last three observations of gross income at the end of the previous year (December 31, 2021), amounted to €65,978 thousand.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2021	T	608,648
- at December 31, 2020	T-1	328,873
- at December 31, 2019	T-2	382,036
Relevant indicator average		**439,852**
Regulatory coefficient		**15%**
Capital requirement		**65,978**

PART F - INFORMATION ON CAPITAL

SECTION 1 – COMPANY CAPITAL

A. QUALITATIVE DISCLOSURES

Shareholders' equity (share capital, share premium reserve, reserves, equity instruments, own shares, valuation reserves, redeemable shares, profit/loss for the period) represents the Bank's capital, i.e. the sum of financial resources used for achieving the corporate purpose and dealing with the risks of business. Therefore, equity represents the main safeguard against the risks of the banking business and, as such, the amount of capital must be sufficient to ensure an appropriate degree of independence in development and growth and guarantee the soundness and stability of the company on an ongoing basis.

B. QUANTITATIVE DISCLOSURES

B.1 COMPANY CAPITAL: COMPOSITION

	30/06/2022	31/12/2021
1. Share capital	1,401,045	1,401,045
2. Share premium reserve	6,081	6,081
3. Reserves	236,509	183,456
- earnings	236,509	183,456
a) legal	56,102	50,785
b) established in bylaws	205	205
c) treasury shares	-	-
d) other	180,202	132,466
- other	-	-
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves:	27,838	45,353
- Equity securities designated as at fair value through other comprehensive income	1,604	2,452
- Hedges of equity securities designated as at fair value through other comprehensive income	-	-
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	(6,558)	(947)
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedging of investments in foreign operations	-	-
- Cash flow hedges	(17,477)	(5,087)
- 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	(1,792)	(3,127)
- Share of valuation reserves of equity investments accounted for using equity method	-	-
- Special revaluation laws	52,062	52,062
7. Net profit (loss) for the period	(14,542)	53,178
Total	**1,656,932**	**1,689,114**

B.2 - VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Total 30/06/2022		Total 31/12/2021	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,262	7,820	343	1,290
2. Equity securities	3,919	2,315	3,381	929
3. Loans	-	-	-	-
Total	**5,181**	**10,135**	**3,725**	**2,219**

SECTION 2 - OWN FUNDS AND CAPITAL RATIOS

See the disclosures on own funds and capital adequacy in the Third Pillar disclosures.

PART G - BUSINESS COMBINATIONS

No business combinations were carried out in the first half of the year.

PART H - TRANSACTIONS WITH RELATED PARTIES

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table provides information on the remuneration paid in the first half of 2022 to key management personnel as required by IAS 24. Key management personnel are managers who have the power and responsibility, directly or indirectly, for the planning, management and control of the Bank's activities, including the directors and members of the supervisory bodies.

	Total 30/06/2022				
	Short term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
Key management personnel	6,214	236	-	-	-

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

For the purposes of the preparation of these disclosures, pursuant to IAS 24 a related party is a person or entity who is related to the reporting entity;

a) a person or close family member of that person is related to a reporting entity if that person:

  i. has control or joint control of the reporting entity;

  ii. has a significant influence over the reporting entity;

  iii. or is one of the key management personnel of the reporting entity or one of its parent companies.

b) an entity is related to a reporting entity if any of the following conditions apply:

  i. the entity and the reporting entity are part of the same group (which means that each parent, subsidiary and group company is related to the others);

  ii. an entity is an associated or joint venture of the other entity (or an associate or joint venture belonging to the group to which the other entity belongs);

  iii. both entities are joint ventures of the same third party;

  iv. an entity is a joint venture of a third-party entity and the other entity is an associate of the third-party entity;

  v. the entity is represented by a post-employment benefit plan for the employees of the reporting entity or an entity related to it. If the reporting entity is itself a plan of this type, the employers who sponsor it are also related to the reporting entity;

  vi. the entity is controlled or jointly controlled by a person identified in point (a);

  vii. a person identified in point (a)(i) has a significant influence over the entity or is one of the key management personnel of the entity (or its parent);

  viii. the entity, or any member of a group to which it belongs, provides management services with strategic responsibilities to the reporting entity or to the parent company of the reporting entity.

In December 2011, the Bank of Italy issued the rules governing related party transactions contained in Circular 263/2006, with which it sought to strengthen the arrangements for managing the risk that the proximity of certain persons to a bank's decision-makers could compromise the impartiality and objectivity of decisions concerning the granting of loans and other transactions with them, with possible distortions of the resource allocation process, the exposure of the bank to risks that are not adequately measured or monitored, and potential losses for depositors and shareholders.

Iccrea Banca has adopted a document governing the principles and rules applicable to related party transactions in compliance with regulations of the supervisory authorities.

In compliance with supervisory regulations, all transactions carried out by the Bank with its related parties were carried out in compliance with the principles of substantive and procedural fairness, on terms analogous to those applied to transactions with independent counterparties. No unusual or atypical transactions were carried out with related parties, nor were any such transactions carried out with other counterparties.

The following table summarizes the financial effects of transactions with the related parties of the Bank.

	at 30/06/2022			
	Subsidiaries	Associated companies	Key management personnel	Other related parties
Financial assets	27,609,589	109,721	-	-
Total other assets	116,567	-	-	-
Financial liabilities	16,449,428	20,236	-	-
Total other liabilities	139,140	-	-	-
Commitments and financial guarantees issued	7,041,197	-	-	-
Commitments and financial guarantees received	21,110	-	-	-
Provisions for doubtful loans	-	-	-	-

	at 30/06/2022			
	Subsidiaries	Associated companies	Key management personnel	Other related parties
Interest income	46,925	44	-	-
Interest expense	(103,333)	-	-	-
Dividends	-	-	-	-
Fee and commission income	34,968	156	-	-
Fee and commission expense	(4,284)	(5)	-	-
Other operating expenses/income	(86,665)	-	-	-
Net gain (loss) on trading activities	(1,150,107)	-	-	-
Net gain (loss) on hedging activities	-	-	-	-
Writedowns/writebacks of impaired financial assets	-	-	-	-

PART I - SHARE-BASED PAYMENTS

Iccrea Banca S.p.A. does not have any share-based payment agreements.

PART L - OPERATING SEGMENTS

Exercising the option granted by IFRS 8, Iccrea Banca S.p.A., the Parent Company of the Iccrea Cooperative Banking Group, presents segment information in Part L of the notes to the consolidated interim financial statements.

PART M - LEASE DISCLOSURES

SECTION 1 – LESSEE

QUALITATIVE DISCLOSURES

Iccrea Banca's leases essentially regard property and car leases.

At June 30, 2022, the Bank held 335 leases, of which 28 relating to property and 307 relating to cars for total right-of-use assets of €3,213 thousand.

The properties are mostly used for banking and general management activities. Based on historical experience, the Bank includes the first lease extension in computing the lease term, in addition to the non-cancellable period, if renewal depends exclusively on the lessee. Therefore, both at the date of FTA and upon initial recognition of a contract under IFRS 16, the first reasonably certain lease extension has been considered, unless there is effective evidence of relevant facts and circumstances that would counsel a different assessment. Therefore, in the case of a lease for property with a term of 6 years and a tacit renewal option at the end of the first six-year period, the term considered in determining the useful life of the right of use is 12 years, unless there are facts or circumstances that suggest a different assessment.

Car leases regard contracts for cars assigned to employees for business use. These contracts usually come in the form of "long-term rentals" and are therefore have a multi-year term and usually do not include a final purchase option.

As already indicated in the accounting policies, the Group has elected to exercise the exemptions permitted by IFRS 16 for short-term leases (term of less than or equal to 12 months) and low-value leases (where the value of the asset is less than or equal to €5,000).

QUANTITATIVE DISCLOSURES

Part B of the notes to the financial statements reports right-of-use assets acquired with leases in the amount of €3,213 thousand (Table 8.1 – Operating property, plant and equipment: composition of assets carried at cost); with leases liabilities of €3,322 thousand reported in Table 1.2 - Financial liabilities measured at amortized cost: composition of amounts due to customers.

Part C Income statement reports interest in respect of lease liabilities of about €26 thousand (Table 1.3 Interest and similar expense, Financial liabilities measured at amortized cost: amounts due to customers).

The following table breaks down depreciation charges (reported in Table 12.1 on the income statement) for right-of-use assets into the various categories.

The right of use relating to leased assets (rental of properties and cars) has been recognized under the sub-item "Assets acquired under finance leases" as required by IFRS 16.

	Property	Automobiles	Total 30/06/2022	Total 31/12/2021
a) Initial value	534	3,538	4,072	3,223
b) Purchases	123	75	198	2,995
c) Sales	-	(25)	(25)	(1)
d) Depreciation	(244)	(789)	(1,032)	(2,144)
- of which sale	(6)	(5)	(10)	(39)
Value of assets held for sale	-	-	-	(48)
e) Assets acquired under finance leases	413	2,799	3,212	4,025

SECTION 2 – LESSOR

The section has not been completed because there were no such positions as of the reporting date.

ATTACHMENTS - ACCOUNTS OF THE GUARANTEE SCHEME

DOCUMENT OBJECTIVE

Under the provisions of the Guarantee Scheme, which is governed by legislation and the Cohesion Contract, each bank participating in the Iccrea Cooperative Banking Group (ICBG) pays in a guarantee contribution - commensurate with its risk-weighted exposures and limited to capital in excess of the mandatory requirements at the individual level - in order to enable the Parent Company to undertake financial support interventions to ensure the solvency and liquidity of the individual affiliated banks.

In order to guarantee that the Parent Company has ready access to the financial resources necessary to implement guarantee interventions, in April 2019 the participating banks established the readily available funds (RAFs), represented by an Ex Ante Quota pre-established at the Parent Company and an Ex Post Quota that can be called up by the Parent Company in case of need, making contributions in the technical forms provided for in the Cohesion Contract.

At least annually, the Board of Directors of the Parent Company, in application of the provisions of Annex 3 of the Cohesion Contract and the Group Policy on the Guarantee Scheme, approves: i) the results of the stress testing conducted for the participating banks for the purposes of determining the RAFs; ii) the quotas pertaining to the banks themselves.

The stress testing produced the following allocation of the RAFs at the Group level of 2022:

- Aggregate Ex Ante Quota: €338 million (an estimated €385 million for 2021);
- Aggregate Ex Post Quota: €313 million (an estimated €797 million for 2021).

Interventions of the Guarantee Scheme

The following table summarizes the support interventions implemented through the Cross-Guarantee Scheme.

ISIN/Internal code	Instrument[1]	Beneficiary mutual bank	Subscription date	Nominal amount	Details
IT0005397010	T2 sub. loan	Vival Banca	30/12/2019	8,000,000	- Term 10 years - rate 4.25%
IT0005395634	T2 sub. loan	Banca Centropadana	16/12/2019	5,000,000	- Term 7 years - fixed rate 3%
IT0005395626	T2 sub. loan	Banca Centropadana	16/12/2019	10,000,000	- Term 10 years - fixed rate 3%
BVALDICH8489	Art. 150-ter shares	Banca Valdichiana	26/05/2021	35,000,000	- PV share = 25.00 - no. shares 1,400,000
BCENTROP8324	Art. 150-ter shares	Banca Centropadana	23/06/2021 27/04/2022	20,199,993	- PV share = 25.82 - no. shares 782,339
BPISAFOR8562	Art. 150-ter shares	Banca di Pisa e Fornacette	29/09/2021 15/03/2022	39,999,995	- PV share = 69.65 - no. shares 574,300
VIVALBAN8003	Art. 150-ter shares	Vival Banca	29/09/2021	15,999,999	- PV share = 25.80 - no. shares 620,155
MASSAFRA7094	Art. 150-ter shares	BCC di Massafra	02/11/2021	1,300,000	- PV share = 50.00 - no. shares 26,000
Total				**135,499,987**	

All of the interventions were funded solely with available resources from the Ex Ante Quota of the RAFs, pursuant to Article 6.1 of the Cohesion Contract.

Capital support interventions are attributed on a pro-rated basis to each mutual bank, in accordance with the "Accounting and prudential model for the Cross-Guarantee Scheme". The share of each affiliated bank in the intervention is:

- recognized in the accounts as indirect financing in a subordinated debt included in the own funds of the issuer;
- deducted, for prudential purposes, from the component of own funds of each participating bank consistent with the type of intervention carried out at the beneficiary bank.

[1] On the basis of the "mark to model" valuations, in accordance with the method envisaged in the Parent Company's fair value policy, the prices at June 30, 2022 of the subordinated securities "T2 subordinated loans", are reported below:

ISIN	Issue	Mark to model prices
IT0005397010	Vival Banca	94.476
IT0005395634	Banca Centropadana	91.884
IT0005395626	Banca Centropadana	91.884

At June 30, 2022, no change in value was registered for the shares issued under Article 150-ter of the Consolidated Banking Act as part of the quarterly estimation of the interventions funded by the Guarantee Scheme.

Value of the transaction at June 30, 2022

On a quarterly basis, the Parent Company determines the overall fair value of the investments made with the funding dedicated to the Guarantee Agreement defined in Article 6 of the Cohesion Contract as the result of overall performance and periodically notifies the individual mutual banks of the value of their contribution to the specific transaction, equal to their pro-rated share of the total.

Pursuant to Article 4.1 of the Loan Agreement, the revenues of the transaction consist of the investment yields[2] and the returns deriving from the implementation of the interventions. Costs are made up of management costs and possible losses deriving from the transaction and investments.

The following table provides a breakdown of the fair value notified on a quarterly basis to the participating banks in the first half of 2022 and the associated changes with respect to the fair value of the transaction as at January 1, 2022 (in concomitance with the adjustment of the Ex Ante Quota of the participating banks):

Reference date	Fair value	Change in fair value since January 1, 2022[3]
01/01/2022	445,411,137	-
31/03/2022	440,902,793	(4,508,344)
30/06/2022	435,341,137	(10,070,065)

The quarterly change in the fair value of the transaction was attributed on a pro-rated basis to each affiliated bank and the Parent Company on the basis of their participation in the Ex Ante quota of the Guarantee Scheme in accordance with the model used by the Parent Company for the managing the separate accounts of the loan.

The following table shows all the components that determined the change in the overall fair value of the investments at June 30, 2022 compared with the amount paid by the affiliated mutual banks and the Parent Company at the time of the adjustment of the transaction value for 2022 (recognized as at January 1, 2022):

	30/06/2022
Interest income on securities	1,197,764
Interest expense	(88,142)
Fee and commission expense	(13,114)
Gain/loss on securities at fair value[4]	(2,280)
Plus/minus on securities at fair value [5]	(11,164,293)
Total	**(10,070,065)**

See the following section for a breakdown of the individual items.

ACCOUNTS OF THE LOAN FOR A SPECIFIC TRANSACTION

The rules governing the loan for a specific transaction require the adoption of dedicated/separate accounts that ensure the segregation and the separation of income and all other amounts generated by the investment of the liquidity of the loan from the resources of the Parent Company and the companies of the Group.

The model used by the Parent Company to manage the separate accounts of the loan provides for all financial components that affect the financial statements of Iccrea Banca in relation to the management of the funds relating to the transaction, whether generated by valuation or income and charges connected to the management of the funds to be offset in profit or loss by an item of the opposite sign in order to provide the providers of the financing with the net proceeds of the overall management of the funds during the period in question.

[2] See Article 5 of the Loan Agreement.

[3] With a reference date of 31/03/2021 the notice was transmitted to the affiliated banks on April 14, 2022 with Guidance and Coordination Notice Prot. ICR-OUT-000359-2022-DG "Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 31/03/2021".

With a reference date of 30/06/2022 the notice was transmitted to the affiliated banks on July 8, 2022 with Guidance and Coordination Notice Prot. ICR-OUT-000815-2022-DG "Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 30/06/2022".

[4] The item reports gains actually realized on securities.

[5] The item reports the increase recognized on the basis of the application of the valuation model.

Balance sheet – Assets

The following tables are stated in euros.

Assets	30/06/2022	31/12/2021
10. Cash and cash equivalents	39,002,381	25,972,294
20. Financial assets measured at fair value through profit or loss	283,838,609	295,250,168
b) financial assets designated as at fair value	283,838,609	295,250,168
70. Equity investments	112,499,987	84,500,042
120. Other assets	96	173,311
Total assets	**435,341,073**	**405,895,815**

Cash and cash equivalents

The amounts regard resources not invested in securities and held on the account of the Guarantee Scheme at the Bank of Italy.

Financial assets measured at fair value

Assets measured at fair value regard financial instruments subscribed by the Parent Company in accordance with the Investment Policy for the Ex Ante Quota of the readily available funds.

The following table provides a breakdown of the financial instruments subscribed:

Country	30/06/2022	31/12/2021
Austria	1,067,866	1,124,569
Belgium	9,700,192	10,039,376
Finland	1,293,587	1,360,153
France	41,106,939	42,715,533
Germany	30,734,672	32,406,417
Ireland	7,948,989	7,978,260
Italy	43,411,005	79,817,264
Netherlands	2,189,274	2,293,150
Supranational	32,752,944	33,303,107
Spain	73,883,352	42,783,573
Covered Bond	18,391,932	18,733,363
Subordinated bonds subscribed as part of interventions:	21,357,856	22,695,403
- Centropadana	*13,799,768*	*14,628,949*
- VivalBanca	*7,558,088*	*8,066,454*
Total	**283,838,609**	**295,250,168**

Financial assets measured at amortized cost – due from banks

The item includes cash and cash equivalents held on an account with Euroclear Bank SA.

Equity investments

The amount regard shares subscribed by the Parent Company for capital support interventions in 2021 and in the first half of 2022:

Equity investment	30/06/2022	31/12/2021
Article 150-ter shares subscribed in interventions:		
- Valdichiana	35,000,000	35,000,000
- Centropadana	20,199,993	13,200,010
- Pisa e Fornacette	39,999,995	19,000,032
- VivalBanca	15,999,999	15,999,999
- Massafra	1,300,000	1,300,000
Total	**112,499,987**	**84,500,042**

Other assets

The item includes the interest accrued with a value date of June 30, 2022. As it was collected after June 30, 2022, the interest will be recognized under “cash and cash equivalents” (item 10) after the close of the year.

Balance sheet – liabilities

The following tables are stated in euros.

Liabilities	30/06/2022	31/12/2021
30. Financial liabilities designated as at fair value	357,636,268	335,391,646
80. Other liabilities	77,704,805	70,504,169
Total liabilities	**435,341,073**	**405,895,815**

Financial liabilities designated as at fair value

The item includes the Ex Ante Quota of the affiliated banks (€254.71 million), adjusted to account for the performance of the dedicated loan at June 30, 2022, and the fair value of the indirect financing in subordinated debt securities issued by Banca Centropadana and VivalBanca and equity securities issued by Banca Valdichiana, Banca Centropadana, BCC di Pisa e Fornacette, VivalBanca e BCC Massafra (totaling €111.19 million). The decrease (-€8.28 million) mainly reflects the decrease in fair value of financial instruments held (-€7.17 million) and the decrease in fair value of the indirect financing in financial instruments (-€1.1 million).

Other liabilities

The item includes the Ex Ante Quota of the Parent Company (€55.52 million), adjusted to account for the performance of the dedicated loan at June 30, 2022 and the fair value of the indirect financing in subordinated debt securities issued by Banca Centropadana and VivalBanca and equity securities issued by Banca Valdichiana, Banca Centropadana, BCC di Pisa e Fornacette, VivalBanca and BCC Massafra (totaling €23.98 million). The decrease (-€1.79 million) mainly reflects the change in fair value of financial instruments held (-€1.56 million) and the increase in fair value of the indirect financing in financial instruments (-€0.23 million).

Income statement

	30/06/2022	30/06/2021
10. Interest and similar income	1,197,764	1,550,245
20. Interest and similar expense	(88,142)	(150,969)
30. Net interest income	**1,109,622**	**1,399,276**
50. Fee and commission expense	(13,114)	(19,089)
60. Net fee and commission income (expense)	**(13,114)**	**(19,089)**
110.a Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss	(11,166,574)	(1,922,359)
of which gain/loss on debt securities	*(2,280)*	*(8,117)*
of which minus/plus on debt securities	*(11,164,293)*	*(1,914,243)*
Performance of GS	**(10,070,065)**	**(542,172)**
110.a Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss of which portion allocated to affiliated banks	8,277,144[6]	445,355
210. Other operating expenses/income – of which Ex Ante Quota pertaining to Parent Company	1,792,921[7]	96,817
300. Net profit (loss) for the period	-	-

The model provides for all the income components affecting the Iccrea Banca financial statements in relation to the management of the funds connected with the transaction, whether they derive from valuation or from income and charges connected with the management of the funds, to be offset through the recognition of an item of the opposite sign that allocates to the lenders the performance achieved on managing the loan funds during the relevant period. This is the reason the profit/loss for the period is zero.

Interest and similar income

Interest income includes interest accrued on financial instruments held.

Interest and similar expense

Interest expense includes interest paid on the Euroclear account (amounting to €2,780) and the PM account held at the Bank of Italy (€85,392).

Fee and commission expense

The item includes custody fees and expenses paid to Euroclear Bank SA (€10,191) and account fees paid to the Bank of Italy (for a total of €2,923).

[6] In Iccrea's income statement, item 110.a. Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss is reported net of the share re-allocated to the affiliated banks (equal to -€2,889,429). The item beaks down as follows:

110.a	Net gain (loss) on financial assets and liabilities designated as at fair value	(2,889,429)
	of which: financial assets and liabilities designated as at fair value	(11,166,574)
	of which gain/loss on debt securities	(2,280)
	of which minus/plus on debt securities	(11,164,293)
	of which: change in value of financial liabilities designated as at fair value (share attributed to mutual banks)	8,277,144

[7] In the income statement, the change in the Ex Ante Quota pertaining to the Parent Company is reported under item 210. Other operating expenses/income

Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss - a) financial assets and liabilities designated as at fair value

The item includes the increase in the fair value of the financial instruments subscribed in accordance with the Investment Policy for the EX Ante Quotas of the RAFs, less the amount reattributed on a pro rata basis to the affiliated banks, in accordance with the accounting model established for the dedicated loan.

110.a		Net gain (loss) on financial assets and liabilities designated as at fair value	(2,889,429)
	-	of which: financial assets and liabilities designated as at fair value	(11,166,574)
	-	of which: change in value of financial liabilities designated as at fair value (share attributed to mutual banks)	8,277,144

Other operating expenses

The items refers to the change in the value of the Ex Ante Quota pertaining to the Parent Company, in reflection of the performance of the dedicated loan as at June 30, 2022.

REPORT OF THE AUDIT FIRM

Iccrea Banca S.p.A.

Auditor's review report on interim financial statements

(Translation of the original report issued in Italian)

Interim financial statements as at 30 June 2022

ORMB/NSDN/vbrb – R2022/00977

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Review report on the interim financial statements

(Translation of the original report issued in Italian)

To the shareholders of Iccrea Banca S.p.A.

Introduction

We have reviewed the attached interim financial statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholder's equity, the statement of cash flows and the related explanatory notes of Iccrea Banca S.p.A. as at June 30, 2022. The directors are responsible for the preparation of the interim financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the attached interim financial statements of Iccrea Banca S.p.A. as at June 30, 2022, have not been prepared, in all significant aspects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Rome, October 6, 2022

Olivier Rombaut
Partner – Registered auditor

(signed on the original)

This report has been translated into English from the Italian original solely for the convenience of international readers.

Mazars Italia S.p.A.

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