Consolidated financial statements

June 30, 2017

Gruppo bancario Iccrea

Iccrea Banca

2017 Consolidated Interim Financial Report
Iccrea Banca S.p.A.

Iccrea Banca S.p.A.
Central Credit Institution of the Mutual Banking Industry
Parent Company of the Iccrea Banking Group
Registered office and Headquarters: Via Lucrezia Romana 41/47 - 00178 Rome
Share capital: €1,151,045,403.55 fully paid up
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CONSOLIDATED REPORT ON OPERATIONS AT JUNE 30, 2017

1. INTRODUCTION

The Consolidated Financial Report at June 30, 2017 consists of the consolidated interim report on operations and the interim consolidated financial statements, comprising the financial statements and the explanatory notes to the financial statements.

In application of Legislative Decree 38 of February 28, 2005, the interim consolidated financial statements at June 30, 2017, have been prepared in accordance with the provisions of the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and approved by the European Commission, as established under Regulation (EC) no. 1606 of 19 July 2002.

More specifically, the interim consolidated financial statements, which undergo a limited audit only, have been prepared in compliance with the provisions of IAS 34, which govern interim financial reporting.

2. ECONOMIC DEVELOPMENTS

The international macroeconomic environment[1]

The international economic cycle is strengthening: the acceleration of investment in most of the economies is driving trade, which has been picking up rapidly since the end of 2016.

The recovery proceeded in the advanced economies. In the United States, after a slowdown in the first quarter, the latest indicators point to stronger growth driven by domestic demand.

World output consolidated the strong growth rates seen at the end of 2016, thanks to the acceleration posted in the advanced economies. Among the latter, especially strong performances were registered by the United States (+2.1% year-on-year, from 1.3%) and Japan (+7.2% from +3.4%).

In the United Kingdom, the purchasing managers' indices (PMI) continued to signal solid economic conditions despite the ongoing uncertainty connected to Brexit. Definitive figures on the United Kingdom's GDP growth in the first quarter of 2017 were released in June. According to the Office for National Statistics, British GDP rose by 0.2% on the previous quarter.

In the emerging countries, the picture remained positive overall. In China, growth strengthened at the beginning of the year thanks to fiscal expansion and a revival in foreign demand; in the upcoming quarters GDP growth is expected to slow gradually, in keeping with the government's policy of reabsorbing the existing economic and financial imbalances.

Consumer price inflation decreased slightly in the main advanced economies; in the United States it returned below 2 per cent in May. The exception is the United Kingdom, where the Bank of England expects inflation to remain above target for some time, also owing to the depreciation of the pound. Core inflation remains very low in the advanced economies and negative in Japan. The emerging economies are also displaying moderate price growth.

The global economic recovery remains shadowed by a number of sources of uncertainty, primarily associated with US economic policy intentions, although in May US economic policy uncertainty declined further, although the year-on-year rate of change continued to show an inertial increase (+28.6% year-on-year, down from +232.6%).

As expected, at its March 15 meeting the US Federal Reserve increased the target range for the federal funds rate by 25 basis points, bringing it to 0.75-1.00%, citing improvement in the labour market and signs of recovery in investment. The forecasts for GDP growth in 2017 were revised upwards (to +2.2% from 2.1%), while unemployment should fall by more than expected (to 4.3% from 4.5%) in 2017. Inflation will continue to be monitored closely. More than half of firms expect the rise in rates to continue.

By contrast, the European Central Bank remained very cautious about any reduction in the current monetary stimulus, especially in view of global uncertainty, which according to President Draghi in recent remarks "remains elevated". The tapering of the quantitative easing program from €60 billion a month will be assessed by the Governing Council in its coming meetings, bearing in mind the downward revision of inflation forecasts (1.2% in 2017, down from 1.4%).

[1] *Source: Economic Bulletin of the Bank of Italy, no. 3/2017 and Punto Macro Internazionale – Federcasse, no. 7/2017*

Macroeconomic conditions in Italy[2]

According to the most recent figures, economic activity appears to be gradually accelerating.

In the second quarter, GDP continued to expand, rising by about 0.4% on the previous period.

Industrial production increased by 1.0% year-on-year in April (from +2.9%, -0.4% month-on-month, compared with +0.4%), while in the second quarter of 2017 capacity utilization rose from 75.7% to 76.5%. Turnover in April showed more rapid growth, although it slowed from the previous period (+4.0% year-on-year, down from +7.2%), while industrial orders decreased (-2.2% from +9.2%, -0.7% month-on-month from -4.3%). In June, the confidence index for manufacturing firms remained above the threshold indicating an expansion, rising to 107.3 from 106.9 points, as did the manufacturing PMI (from 55.1 to 55.2 points).

In the labor market, the unemployment rate started rising again in May (11.5%, up from 11.2% in April). In parallel, preliminary estimates point to a contraction in the number of people in employment (-55 thousand and -0.2% compared with April), with the employment rate slipping to 57.7% (down about 0.1 percentage points). Despite the decrease in the last month, in the three months from March to May, the number of people in employment rose by 65 thousand. The youth unemployment rate (15-24 years) increased to 37% from 35.8% in April. The number of inactive people was essentially unchanged on the previous month.

The most recent data on the balance of payments, for April 2017, show an improvement in the overall current account and capital account balance, after having the deterioration registered in January.

Imports from European Union countries fell to about €18 billion (compared with the €22.4 billion in the previous survey), in step with exports, which returned below €20 billion. Imports from non-EU countries contracted by 15.1% month-on-month, while exports fell more sharply, declining by about 20%.

The trade balance with non-EU countries deteriorated by 38.7%.

Overall, total imports declined to €30.4 billion. The contraction on a monthly basis was 17.8%, while there was virtually no change year-on-year.

The Italian banking system

The expansion in lending to the non-financial private sector continued in the first few months of 2017, buoyed by the demand for loans to households.

The expansion in lending to the non-financial private sector continued until May. The rise in mortgage lending slowed slightly (to 2.5%), while consumer lending strengthened.

Loans to firms stagnated both quarter-on-quarter and year-on-year (0.2 and 0.3%, respectively). While the cost of credit is low and the outlook for growth has gradually improved, the demand for bank credit on the part of firms has been dampened by firms' ample liquidity.

Developments in lending to firms vary considerably by sector of economic activity. Growth has been rapid in services, slightly positive in manufacturing and negative in construction. Lending growth remains stronger for larger firms (0.7%) than for smaller enterprises (-3.1%).

Between February and May, total funding by Italian banks increased. An increase in deposits by residents and greater recourse to refinancing transactions with the Eurosystem more than offset the decline in wholesale funding and bond placements through bank branches.

The default rate returned to pre-crisis levels for exposures to households, while it rose slightly for loans to firms. For all groups classified as significant for supervisory purposes, in the first quarter the percentage of total loans classified as impaired decreased compared with the previous quarter both gross and net of writedowns.

The mutual banks[3]

Lending to customers by the mutual banks amounted to €131.3 billion as at March 2017. The market share of loans was 7.1%, down slightly on December 2016.

Mutual bank lending was diversified by geographical area, with the South posting a small gain in loans to residents (+0.5%), while the North-west saw virtually no change (-0.2%).

Loans to firms amounted to €80.8 billion (-3.9% compared with -1.5% for the banking system as a whole), with a market share of 9.4%.

Broken down by sector of borrower, the mutual banks posted growth of +1.2% in loans to consumer households. By contrast, lending to producer households contracted by -2.3%.

The market shares of the mutual banks by borrower sector were equal to 17.9% in lending to producer households, 8.4% in lending to consumer households and 8.4% in lending to non-financial corporations. The

[2] *Source: Punto macro Italia Federcass,e July 2017*

3 *Source: Circolare statistica Federcasse, March 2017*

market share of lending to the non-profit sector was also very high at 13.3%.

With regard to the geographical distribution of lending, substantial growth was recorded in lending to consumer households in the South (+3.3%) and the North-west (+4.1%).

An analysis of lending by economic sector shows a concentration in "construction and real estate", with the figure for the mutual banks (32.7%) exceeding the average for the banking system as a whole (28.7%). Lending to the agricultural sector also represented a large proportion of the total (10.1% for the mutual banks compared with 5% for the banking system).

At March 2017, total funding by the mutual banks amounted to €195 billion. The aggregate was essentially unchanged (+0.1%, compared with +0.9% for the entire banking industry).

At the same date, funding from mutual bank customers amounted to €155.8 billion, down 1.7% year-on-year, compared with a contraction of 4% for the banking industry as a whole). Mutual bank funding from banks as at March amounted to €39 billion, up significantly both year-on-year and on the first quarter of 2017 (+7.9%, compared with +13.7% for the entire banking system year-on-year).

Of total funding by the mutual banks, 80% was raised from customers and bonds and 20% from interbank funding. The composition differs significantly from the system average, where funding from banks is considerably higher at 30.8% at the end of the first quarter of 2017. Within the customer funding aggregate for the mutual banks, the share of current accounts is significantly larger than the average for the entire banking system.

Total "capital and reserves" (as indicated in monthly statistical reporting) amounted to €19.7 billion (-3%) at March 2017.

The Tier1 ratio and the Total Capital Ratio of the mutual banks were 16.3% and 16.6%, respectively, in March.

Preliminary information on economic developments[4] confirms the tightening of margins already registered at the end of 2016. Net interest income declined, albeit less sharply than in previous quarters: -1.2% year-on-year (-6.5% for the banking industry as a whole), while revenue from trading (item 100) contracted substantially on 2016 (-72%, in line with the system average). Net revenue from services expanded (+3.7%) but did not offset the decline core performance, with gross income contracting by (-12.4%, in line with the banking industry as a whole). On the cost front, no significant rationalization appears to have been undertaken, but preliminary information on developments in the income statement shows virtually no change year-on-year (+0.1%). Reflecting the foregoing, operating income at the end of March amounted to €373 million, a significant dears on the previous year: -33.1% year-on-year (-39.1% for the banking system average).

At the geographical level, margins contracted across the board, with the start of cost rationalization efforts, although these differed by area.

Income statement figures* as at March 2017 show net revenue from services rising by about €14 million on the same period of the previous year. As at March, the aggregate amounted to €360 million (+3.7%, compared with -9.7% for the banking industry as a whole). A positive contribution came from fee and commission income for management, intermediation and consulting services (+25.4% year-on-year) and distribution of third-party services (+10.4% year-on-year).

4 Source: BASTRA B.I. reports

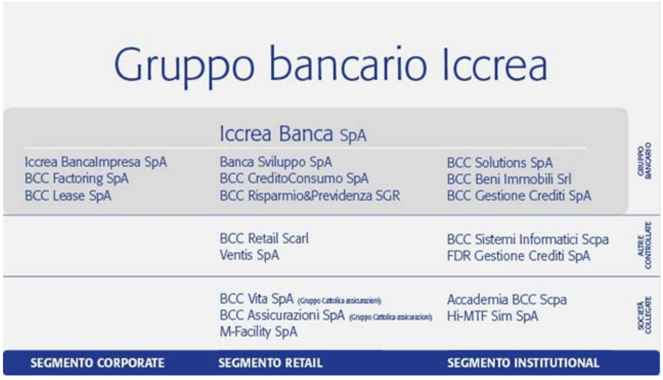
** Income statement data, reported quarterly by the banks, do not include all the cost and revenue items included in the half-year and annual financial statements.*

3. THE ICCREA GROUP'S STRATEGIC LINES OF BUSINESS

The Parent Company, Iccrea Banca, both directly and indirectly through the Group companies, supports the banking operations of the mutual banks, acting on a partnership basis to provide products, services and consulting to enable them to maximize their market performance. The main areas of our operations comprise:

- providing access to domestic and international capital markets;
- trading and order collection services for bond and equity transactions and the associated custodian and settlement activities;
- structuring securitizations of performing and non-performing receivables;
- operational and accounting services with which the mutual banks perform the exchange and settlement of collections and payments on domestic and international clearing systems;
- intermediation of cash flows and management of the collateral of the mutual banks for participation in monetary policy operations and gaining access to interbank capital markets;
- asset management and pension products;
- insurance services;
- credit solutions and services for SMEs, leasing and factoring, corporate finance solutions and support for import/export activities and international expansion;
- consumer credit;
- issuing credit and debit cards and associated processing activities;
- acquiring and associated processing services;
- IT services;
- managing impaired loans.

The companies of the Iccrea Banking Group are controlled by Iccrea Banca, which is in turn owned by the mutual banks and other entities of the mutual banking system.



Business areas

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

The **INSTITUTIONAL** business area consists of those companies that offer products and services targeted directly at the mutual banks. The wide range of solutions available include financial services, payment systems, securities administration, debt collection, web-based services, facility management services, real estate services and IT services. The Group companies that comprise this segment are: Iccrea Banca itself, BCC Gestione Crediti, BCC Beni Immobili, BCC Solutions and BCC Sistemi Informatici.

With regard to **Iccrea Banca's** role as the mutual banking system's finance hub and in managing liquidity, in 2016 the mutual banks continued to participate in collateralized funding activities through transactions with the ECB and with market counterparties.

The liquidity obtained from the ECB by the T-LTRO Group in the fourth auction in di March 2017 amounted to €8.9 billion, as planned. Iccrea Banca had already evaluated the possibility of concentrating participation in the program even further in conjunction with the last auction (demand from the 105 mutual bank applicants out of 144 totaled about €5.2 billion). Following numerous corporate transactions, changes in the composition of the T-LTRO II Group will probably lead to variations in the aggregates. Part of the liquidity drawn could be repaid to the ECB.

Following the last edition of the T-LTRO, total outstanding collateralized loans the pool collateral mechanism went from €17 billion in the first quarter of 2017 to €12 billion in the second.

At June 30, 2017, mutual bank deposits on the settlement account amounted to about €4.5 billion (the average of balances in the first half of the year was more than €5.1 billion), while fixed-term deposits came to €1.7 billion.

The wholesale trading of Italian government securities saw volumes contract by 20% in the first half of 2017 compared with the same period of 2016, to about €48.6 billion, although Iccrea remained one of the leading operators in the sector.

As part of its market making activities, Iccrea Banca maintained quotes for about 600 eurobonds and 100 Italian government securities.

Total volumes at June 30, 2017 amounted to €5.2 billion, of which €3 billion in Italian government securities and €2.2 billion in eurobonds.

On the Hi-MTF platform (order driven) liquidity was ensured for some 1,200 bonds issued by more than 60 mutual banks.

Within its OTC derivatives operations, Iccrea Banca transacted a notional of about €4.7 billion, an increase of 98.6% on the first half of 2016.

In view of market conditions characterized by very low interest rates, Iccrea Banca provided the mutual banks instruments to hedge risks on their assets in a notional amount of about €609 million, in line with the previous year.

Transactions with Iccrea BancaImpresa involved contracts with a notional of about €51 million.

Medium/long-term funding in the first half of the year to meet the financing needs of Group companies, net of maturing liabilities, included 3 bond issues totaling €1.214 billion, with an average maturity at issue of 3.81 years. Of the total amount placed, 50.6% were subscribed by the retail customers of the mutual banks and 49.4% by institutional investors through an EMTN issue.

Total outstanding medium/long-term liabilities issued by the Bank at June 30 amounted to €6.132 billion, with an average residual life of 2.40 years, generating interest expense of €52.56 million.

The Bank's own securities portfolio increased in absolute terms compared with the same period of 2016. The rise was attributable to an increase in securities classified as held to maturity. At the same time, the AFS portfolio decreased at June 30, due to strong trading activity during the period.

These developments reflected:

- macroeconomic intervention by the ECB with the T-LTRO program;
- market volatility in the second quarter in particular, partly attributable to the French presidential elections, the uncertainty about the terms of the United Kingdom's exit from the European Union and the stability of the May Government, the risk of early elections in Italy and expectations for inflation and an increase in interest rates.

The turnover of the portfolio generated a gain for the first half of the year of €16.74 million, 128% of the budget forecast for 2017 as a whole (€13 million).

More specifically, the Italian government securities component of the portfolio at June 30, 2017 amounted to €7.3 billion, compared with €6.7 billion at June 30, 2016, an increase of 18.3%. The average duration of AFS assets remained well below 2 years, in compliance with corporate instructions to limit the exposure to interest rate risk.

Nevertheless, the performance of the portfolio saw net interest income contract compared with the budget projections. The reasons for the divergence were as follows:

- consolidation of a larger part of the portfolio than initially estimated;
- a decrease in the average size of the investment book over the period and a decline in the contribution of eonia funding at negative interest rates;
- a decline in interest rates on government securities over the entire Italian yield curve and a consequent widening of the difference with respect to the rates estimated in the planning phase.

Medium/long-term intercompany assets amounted to €5.9 billion, an increase of 9.8% net of maturing assets and amortization compared with the end of 2016 (€5.37 billion). These assets generated interest income of about €34.77 million.

In February 2017, a new unit was established in the Proprietary Finance and Trading department with the aim of engaging in proprietary trading on the main equity and bond markets.

In the order collection segment, the first half of 2017 saw a reduction of 36.3% in total volumes, from €21.3 billion to €13.6 billion, in line with the downturn in the associated markets. Iccrea Banca nevertheless confirmed its position as the leading intermediary in the mutual banking industry, ranking second in volumes handled for third parties on the Domestic MOT market operated by Borsa Italiana, with a share of 12.9%, and third in the Euro-TLX and Hi-MTF bond markets of Borsa Italiana, with a share of 9%.

Activity on the primary market was essentially unchanged compared with the first half of 2016, with volumes of €1.69 billion.

The Bank also participated in the placement of the eleventh issue of the BTP Italia, which saw considerable participation by the mutual banks, with a total value of €779 million.

In the same period, Iccrea Banca placed three bonds, one with institutional investors and two with the customers of the mutual banks, for a total of €1.25 billion, in response to strong market demand.

Activities involving the payments systems of Iccrea Banca were focused on achieving the following objectives in the interests of the mutual banks served:

- implementing the exchange and settlement of payments/collections with banks in Europe and beyond;
- minimizing the costs that the individual mutual banks would incur to conduct these transactions (connections, technological infrastructure, procedures, etc.), and at the level of regulatory compliance (participation in working groups sponsored by ABI, Bank of Italy CIPA, Target, etc.);
- reducing costs for the banks served and enabling them to provide effective commercial services to their customers;
- leveraging the nature and role of the mutual banking network while expanding the offering with new products.

The world of payment systems is seeing the emergence of new non-bank operators who are very aggressive in their approach to the market and free of legislative or supervisory restrictions.

This environment makes it essential to develop new value-added services for customers to preserve profitability and enhance the loyalty of mutual bank customers. Accordingly, Iccrea Banca is continuing development of products like MyBank and CBill for payments (completion of product range in 2017 on the invoicer/creditor side), electronic invoicing, digital document retention and services connected with the digitization of government and the STS.

As part of its participation in official government and interbank initiatives, Iccrea Banca participates in the main working groups sponsored by ABI, Consorzio CBI, EBA and the Electronic Invoicing and Dematerialization Observatory.

In addition, under the aegis of the European Payments Council (an associative body the European banking industry in charge of managing the SEPA payments scheme and liaising with the European authorities, Iccrea Banca:

- is participating on the top decision-making body (the Board) as part of the Italian representation coordinated by ABI with Unicredit, ISP, and ICBPI, thus giving it the opportunity to participate in strategic decisions at the time of their formation;
- is participating in the working group on the evolution of SEPA mechanisms;
- defined the instant-payment mechanisms as Italian representative;
- has taken advantage of the option granted by the EPC to configure our banks as a group, which has made it possible to achieve significant savings on fees for participation in SEPA.

With regard to the key figures for the first half of 2017, Iccrea Banca handled a total of 139,000,000 transactions in various products, an increase of 4.3% on the same period of 2016.

The fastest growing products included credit transfers (+7%), trade collections and SEPA direct debits (+5%) and the Trade Portfolio (+20%). This was accompanied by a substantial increase in conservation activities, which more than offset the structural decline in the volume of checks (-10%).

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

The most important projects begun in the first half of 2017 concerned areas covered by MiFID II on investment services, which will enter force in January 2018, and concerning compliance with the new Qualified Intermediary Agreement introduced by US authorities for taxation of North American financial instruments.

With regard to ancillary services and finance database management, numerous services were provided to support the mutual banks' activities, including:

- the financial instruments database service (A.T.C.I.) for the accurate recordation of new issues and continuous updating of variable data; the database includes about 80,000 instruments;
- administrative support for activities connected with the management of the "pool collateral" mechanism facilitating access to collateralized financing operations, in particular with the European Central Bank through the treasury desk;
- the listing service for mutual bank issues in the "order driven" segment of the HI-MTF market aimed at complying with Consob liquidity regulations and, more recently, placement and trading procedures for those issues. As of June

2017, there were 59 mutual banks, with a total of 1,125 issues listed;
- the issuers service, which offers administrative support for the issuance activity of 103 mutual banks;
- the management of activities connected with the distribution of investment funds of BCC Risparmio & Previdenza. The results achieved in the first half of 2017 confirmed the positive trend seen in recent years, with a significant increase in volumes in the retail segment, while remaining stable in the institutional segment and achieving assets under administration of about €6.5 billion for retail customers.
- the services concerning compliance with transparency rules and the monitoring of possible market abuse for which, in 2017, 133 mutual banks had subscribed to the Transaction Reporting service and 119 mutual banks to the MAD service, which saw the introduction of a new application to increase service quality;
- support for mutual banks and their customers in complying with EMIR and FACTA obligations, providing ongoing, specialist support in meeting the obligations introduced during the year;
- the event management service – for payment of coupons and redemptions, dividends and corporate operations – was provided for 14,048 events with a total volume of €13.527 billion.

As of the end of June 2017, securities worth about €92.5 billion were held in custody and administration.

The full operational continuity of the IT systems of Iccrea Banca and BCC Sistemi Informatici was assured in the first half of 2017, supporting the implementation of the Banking Group's strategy.

Work on implementing the transition from a single-company focus to a Group ICT service model continued, with the aim of creating an integrated organization the operational models and performance meeting top industrial standards. The major ICT restructuring initiatives included:

- reorganization of the "Operation" function of BCC Sistemi Informatici and Iccrea Banca, which now share an organization, working groups and heads of the unit;
- standardization of the "Information Services" unit and integration of the operating and project management processes of BCC Sistemi Informatici and Iccrea Banca;
- continuation of the consolidation of suppliers;
- a technology refresh of the datacenter in order to implement "best in class" technologies to expand system capacity and eliminate infrastructure limitations;
- the ongoing optimization and integration of the business continuity and disaster recovery process among the Group companies.

In addition, the period saw the continuation of the development of the "Make IT" program, which was launched in July 2015, in order to expand the number of solutions installed, completing its implementation within BCC Sistemi Informatici, to strengthen security measures and to finalize initiatives necessary to comply with the commitments made to the ECB. More specifically, the following initiatives are under way:

- consolidation of the network infrastructure (LAN of the Campus network and Data Center);
- extension to BCC-SI of solutions to secure access to critical infrastructure by "privileged" users (PIM and PAM);
- extension of the antifraud platform to the mutual bank card service;
- extension of monitoring of the SIEM Qradar system (e.g. DB monitoring, cloud security);
- implementation of tools to launch the new testing structure (in particular, data masking solutions).

ICT services were delivered consistently and continuously, with average key platform availability of 99.80% for BCC Sistemi Informatici and 99.90% for Iccrea Banca.

During the first half of 2017 no disruptions occurred that might have had a reputational, regulatory or financial impact on the Banking Group.

In 2017, ICT continued the expansion of the role of the Technology Office (TO) to cover all the companies served, thereby providing ongoing support for base services.

As part of the institutional services provided to the mutual banks, total bad debts managed by BCC Gestione Crediti amounted to €3.4 billion.

The Bank is developing and updating its technology and operational platform to enable the adoption of uniform tools and processes to give the future Banking Group solutions that can provide a consolidated representation of the bad debts held by the mutual banks.

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

In the first half of 2017, new lending to firms by Iccrea BancaImpresa, including outright loans and guarantees, amounted to €758 million. New credit in the leasing segment amounted to about €388 million, ordinary lending to €155 million, corporate finance transactions to €95 million, international lending to €71 million and guarantees issued to €49 million.

With regard to service activities associated with giving the mutual banks access to the guarantee fund for SMEs, operations increased by about 3% in the first half of 2017 compared with the same period of 2016. The number of applications totaled more than 3,550 in the first half of 2017 (of which more than 1,700 were approved), with a total amount of more than €270 million in financing requested. Service activities also increased in the guarantee enforcement area, enabling the mutual banks to recover more than €21 million from the fund on defaulted positions to date, of which more than €3 million in the first half of 2017 alone. For service activities associated with CDP funds, in the first half of 2017 the mutual banks drew resources for loans to customers of €22 million, of which €17 million under the Enterprise fund and €5 million under the Home fund.

These volumes were supplemented by €98.6 million in new small-ticket lease transactions (**BCC Lease**) and turnover of €890.6 billion in the factoring segment (**BCC Factoring**).

The **RETAIL** business area groups those companies that offer products and services to the retail customers of the mutual banks. Its wide range of products and services includes asset management, personal loans, payment cards and insurance products. The Group companies in this business area are: the Parent Company, Iccrea Banca, BCC Risparmio & Previdenza, BCC Vita, BCC Assicurazioni, BCC Credito Consumo, BCC Retail and Banca Sviluppo.

In the electronic money sector, in the first half of 2017 Iccrea Banca continued to register growth in the card segment (issuing), with 3.6 million operational cards and about €9.2 billion in transaction volume and in the POS and ATM segment (acquiring), with more than 170,000 POSs and 4,300 ATMs active and about €10.2 billion in transaction volume.

In the issuing segment, all three components (debit, prepaid and credit) posted gains, which as at the end of June 2017 can be summarized as follows:

- operational debit cards with chip technology exceeded 2.3 million cards, compared with 2.1 million at the end of June 2016, an increase of 6.9%;
- the stock of operating credit cards expanded by 5.9%, rising from 802,000 cards at June 30, 2016 to 850,000 at the end of June 2017;
- operational prepaid cards rose from 427,000 cards at the end of June 2016 to 457,000 at the end of June 2017, an increase of 6.8%.

Analogously, the acquiring segment also posted an increase in volumes: total transaction volume in the first half of 2017 amounted to €10.2 billion, compared with €9.6 billion in the first half of 2016.

The period also saw the completion of a range of projects to enhance operational efficiency, increase volumes handled and develop new business models:

- boosting the efficiency of the credit card issuing process for the Direct Issuing range, with an appreciable improvement in time needed to produce/send cards to the mutual banks/final customers;
- development of the 'push acquiring' project aimed at supporting the mutual banks in placing the Acquiring product through a dedicated network of agents. At June 30, 2017 the new channel enabled the participating mutual banks to increase their acquiring volume by more than €105 million, compared with €43 million acquired in the first half of 2016;
- increasing the efficiency of the dispute management process for the entire issuing portfolio (both Direct Issuing and old products), with a substantial decrease in the time needed to process complaints and respond to final customers;
- completion of the Direct Issuing product range, with the inclusion of the new Mastercard Gold card;
- completion of certification with the JCB and UPI circuits and continuation of the of insourcing of POS acquiring processing;
- development of the Ventis.it marketplace, dedicated to supporting the digitization of the SME customers of the mutual banks. Iccrea Banca involved the mutual banks in the search for/selection of "local excellences": customer firms that stand out for the excellence of their products, to which the mutual banks offer free access to the new marketplace.

In the consumer credit sector, new lending in the first half of 2017 by **BCC CreditoConsumo** amounted to €247 million, generated with about 300 participating mutual banks. The stock of loans at June 30, 2017 amounted to about €1 billion.

In the asset management sector, total assets under management/placement by **BCC Risparmio & Previdenza** amounted to €14.2 billion, with net funding in the first half of 2017 of about €1.4 billion. Assets under management include €1.3 billion in investment funds, €2.6 billion in fixed-income funds, €2.7 billion in retail and institutional portfolio management products, about €500 million in supplementary pension funds and €6.8 billion in third-party SICAVs.

Banca Sviluppo completes the Iccrea presence in the retail segment with loans of €915 million net of lending by branches whose sale had been approved at June 30, 2017 (€321 million), and direct funding of €1.4 billion (net of €519 million in liabilities held for sale).

4. CREATING VALUE FOR THE MUTUAL BANKS

In pursuing its mission of providing ongoing support to the mutual banks in improving their market positions and enhancing their competitiveness, the Iccrea Banking Group contributes to creating value in local communities by offering products and services targeted at various segments of operations and by distributing a significant share of the fees and commissions commensurate with new volumes of business generated.

At June 30, 2017, the total amount of fees and commissions passed through to the mutual banks amounted to about €183.4 million, to which the growth in electronic money accounted for the most significant portion.

€/millions	Dec 15	Jun 16	Dec 16	Jun 17
Asset management	61.0	35.2	74.5	46.6
Insurance investment products	28.8	13.9	26.3	14.0
Corporate loans	5.8	2.8	5.5	2.9
Electronic money	239.8	103.3	220.6	97.3
Consumer loans	20.2	8.5	22.0	9.6
Total fees and commissions passed through	**355.5**	**163.7**	**348.9**	**170.4**
System contributions	5.0	2.7	2.4	1.8
Dividends of Iccrea Banca (*)	13.9	14.2	14.2	11.2
Total	**374.4**	**180.6**	**365.5**	**183.4**

(*) Dividends by year of disbursement.

In addition, in the first half of 2017 financial intervention with the Deposit Guarantee Fund and the Institutional Mutual Bank Guarantee Fund amounted to €1.8 million.

5. DEVELOPMENTS IN GROUP OPERATIONS

The following table shows the composition of **consolidated assets**:

€/thousands	30-Jun-17	31-Dec-16	Change
Cash and cash equivalents	98,895	113,310	(14,415)
Due from banks	21,460,237	21,152,194	308,043
Loans to customers	12,160,844	13,674,256	(1,513,412)
Financial assets:			
- held for trading	450,032	391,281	58,751
- at fair value	15,140	14,559	581
- available for sale	3,198,347	5,247,279	(2,048,932)
- held to maturity	6,511,682	4,738,609	1,773,073
- hedging derivatives	7,373	17,773	(10,400)
- value adj. of hedged assets	(147)	(348)	201
Equity investments	103,907	102,285	1,622
Property and equipment	712,020	701,380	10,640
Intangible assets	41,892	38,870	3,022
Tax assets	334,855	343,170	(8,315)
Other assets	320,811	320,181	630
Non-current assets and disposal groups held for sale	321,033	-	321,033
Total assets	**45,736,919**	**46,854,799**	**(1,117,880)**

Consolidated assets at June 30, 2017 totaled €45.7 billion, a decrease of €1.1 billion (-2.44%) from December 31, 2016. The change with respect to the previous year is mainly attributable to:

- an increase in **amounts due from banks** (+€308 million, +1.4%) associated with loans to mutual banks in pool collateral transactions the increase in the reserve requirement with the central bank;
- a decrease in **loans to customers** (-€1.5 billion, -11%), mainly reflecting the decline in repurchase transactions and security deposits for financial market transactions (-€1 billion) as well as reclassifications to non-current assets held for sale in respect of Banca Sviluppo disposals (-€0.3 billion);
- a reduction in **AFS financial assets** (-€2 billion, -39%), due mainly to the disposal (posting a gain) of government securities held by the Bank;
- an increase in **HTM financial assets**, primarily reflecting the purchase of government securities (about €3.5 billion), partly offset by the redemption of government securities (about €1.7 billion).

At June 30, 2017, financing granted to the mutual banks under the pool collateral mechanism, such as advances received from the ECB with refinanceable securities as collateral, came to €19 billion (of which €9.2 billion in respect of financing provided through T-LTRO II) in exchange for collateral securities with a total fair value, net of the haircut, of €22.1 billion.

As regards credit quality, **net impaired assets with customers** amounted to €1.37 billion (€1.42 billion at December 31, 2016) in line with the previous year), equal to 10.98% of total lending (10.39% at the end of December 2016). The ratio of net bad debts to loans was 3.98% (3.67% at December 31, 2016), while the ratio of net positions unlikely to be repaid to loans was 6.37% (6.19% at December 31, 2016). The increase in risk indicators reflects the contraction in lending to customers (due to the decline in exposures with the Clearing and Guarantee Fund). The loans held for sale of Banca Sviluppo were also included in the calculation of those indicators.

Gross impaired assets amounted to €2.53 billion, a decrease of €34 million on the previous year (€2.57 billion). The ratio of gross impaired assets to loans was 18.4% (17.2% at December 31, 2016).

The **coverage ratio for impaired assets** was 46%, an increase of 2.9% on the 44.7% registered at December 31, 2016. The **coverage ratio for bad debts** amounted to 61.3%, an increase of 1.4% on the 59.9% posted at December 31, 2016, while that for positions unlikely to be repaid was 31.8%, an increase on the previous year (31.5%).

The portfolio of **financial assets held for trading** mainly includes derivatives hedging interest rate risk and indexes with a positive fair value, entered into for trading purposes.

The portfolio of **financial assets available for sale** mainly includes government securities and non-controlling interests.

The portfolio of **financial assets held to maturity** contains listed government securities that the Company has the intention and ability to hold to maturity since they are financed by specific initiatives of like maturity.

Equity investments not classified as AFS comprise interests in associated companies and amounted to €103.9 million (€102.3 million at December 31, 2016), with the increase mainly reflecting a capital payment to BCC Vita, dividends received and the pro-rata share of the net income of associated companies.

Property and equipment primarily includes properties owned used by the Company and the buildings transferred to the real estate funds, which, in accordance with international accounting standards, are consolidated in the financial statements (Securfondo and the Securis Real Estate real estate funds).

Intangible assets include €22.6 million in goodwill paid for the purchase of a number of controlling interests (mainly BCC Risparmio & Previdenza, Banca Sviluppo and BCC Sistemi Informatici), unchanged on December 31, 2016.

Tax assets include current and deferred tax assets and amounted to €334 million (of which €172 million under Law 214/2011), a decrease of €8 million on December 31, 2016, the net effect of payment of the balance for 2016 and payments on account for 2017, the transformation of the deferred tax assets in respect of the regional business tax (IRAP) into tax credits and the estimated tax liability for the period.

Other assets amounted to €320.8 million, an increase of €0.8 million on December 31, 2016 (€320 million), mainly reflecting a number of temporary items settled in the first few days of the following month.

Non-current assets held for sale amounted to €321 million (none at December 31, 2016) and regard the branches of Banca Sviluppo slated for disposal, the sale of which is considered highly likely.

Like loans, funding also decreased compared with December 31, 2016, as shown in the following table:

€/thousands	30-Jun-17	31-Dec-16	Change
Due to banks	21,323,113	12,722,738	8,600,375
Due to customers	15,917,600	26,829,330	(10,911,730)
Financial liabilities:			
- securities issued	5,114,857	4,466,854	648,003
- held for trading	500,001	409,617	90,384
- measured at fair value	581	21,389	(20,808)
- hedging derivatives	55,734	63,318	(7,584)
Tax liabilities	2,898	3,946	(1,048)
Liabilities associated with assets held for sale	493,700	-	493,700
Provisions for risks and termination benefits	100,359	106,288	(5,929)
Other liabilities	580,266	575,550	4,716
Shareholders' equity	1,647,810	1,655,769	(7,959)
Total liabilities and equity	**45,736,919**	**46,854,799**	**(1,117,880)**

Amounts due to banks (excluding bonds) amounted to €21.3 billion, up 67.6% on December 31, 2016 (€12.7 billion), mainly reflecting funding with the ECB under the T-LTRO II program.

Amounts due to customers amounted to €15.9 billion, down 40.7% on the previous year, the effect of the reduction in repurchase transactions with the Clearing and Guarantee Fund.

Securities issued amounted to €5.1 billion, up €648 million on December 31, 2016 (€4.4 billion) due to new issues in the period.

Financial liabilities designated as at fair value through profit or loss (fair value option), represented by structured bonds issued by Iccrea Banca, decreased as a result of redemptions during the year.

Non-current liabilities held for sale totaled €420.3 million (none at December 31, 2016) and regard the branches of Banca Sviluppo slated for disposal, the sale of which is considered highly likely.

The composition of **consolidated shareholders' equity** is as follows:

€/thousands	30-Jun-17	31-Dec-16	Change
Share capital	1,151,045	1,151,045	-
Share premium reserve	4,747	4,747	-
Valuation reserves	67,928	73,848	(5,920)
Reserves	353,482	389,976	(36,494)
Profit (loss) for the period (+/-)	9,180	(24,067)	33,247
Equity pertaining to shareholders of the Parent Company	1,586,382	1,595,549	(9,167)
Equity pertaining to non-controlling interests (+/-)	61,428	60,220	1,208
Total shareholders' equity	**1,647,810**	**1,655,769**	**(7,959)**

Shareholders' equity pertaining to shareholders of the Parent Company came to €1.6 billion, essentially unchanged on December 31, 2016. The reduction of €8 million mainly reflected the combined effect of:

- the distribution of dividends;
- the reduction in valuation reserves, specifically the AFS reserve following the disposal of securities;
- net profit for the period.

With regard to the **income statement**, the situation at June 30, 2017 is presented below with comparative figures for the previous year:

€/thousands	30-Jun-17	30-Jun-16	Change
Net interest income	156,445	178,323	(21,878)
Net fees and commissions	100,264	91,017	9,247
Net gain (loss) on trading activities	9,311	2,526	6,785
Net gain (loss) on disposals	24,788	63,047	(38,259)
Result of FVO, dividends and hedging	2,369	3,970	(1,601)
Gross income	**293,177**	**338,883**	**(45,706)**
Net impairment adjustments	(71,703)	(80,770)	9,067
Net income (loss) from financial operations	**221,474**	**258,113**	**(36,639)**
- personnel expenses	(94,181)	(97,441)	3,260
- other administrative expenses	(142,715)	(120,627)	(22,088)
Depreciation, amortization and provisions	(14,497)	(14,255)	(242)
Other expenses/income	48,650	46,906	1,744
Operating expenses	**(202,743)**	**(185,417)**	**(17,326)**
Operating result	**18,731**	**72,696**	**(53,965)**
Fair value measurement of property and equipment	(9,758)	(10,930)	1,172
Profit (loss) from equity investments	2,769	799	1,970
Profit (loss) from disposal of investments	0	(26)	26
Profit (loss) before tax on continuing operations	**11,742**	**62,539**	**(50,797)**
Income taxes	(158)	(12,734)	12,576
Net profit pertaining to non-controlling interests	2,404	1,251	1,153
Net profit pertaining to the Iccrea Group	**9,180**	**48,554**	**(39,374)**

Developments in performance, as reflected in a comparison of the main profit and loss aggregates with the figures for the year-earlier period, reflect the presence of a number of **non-recurring events** that adversely affected the result of the Group, which amounted to a profit of €9.2 million [GLC1](a profit of €48.6 million in the first half of 2016). These included:

- the contribution to the National Resolution Fund (BRRD) totaling €23.2 million, comprising the contribution due for all of 2017 (compared with €11.6 million recognized at June 30, 2016 pertaining to the first half of that year);
- impairment of €22.5 million recognized on the units of the Fondo Atlante (equal to a decrease of about 80% in nominal value) following the writeoff of the value of the interests held in the Veneto banks as a result of their placement in compulsory liquidation, leaving unchanged the value of the investment in Fondo Atlante 2;
- gains on the disposal of the equity investments in Visa and Cattolica (for a total of €9 million at June 30, 2017, compared with a gain of €42.8 million at

June 30, 2016 from the disposal of Visa Europe).

Gross income reflected the following developments:

- net interest income amounted to €156.4 million, down €21.8 million (-12%) on the year-earlier period (€178.3 million), mainly reflecting the decrease in the volume of assets and developments in market interest rates, with a consequent impact on the margin on the securities portfolio;
- net fee and commission income amounted to €100.2 million, up €9.2 million (+10%) on the year-earlier period (€91 million), thanks to the contribution of electronic money operations and asset management as well as the effects of the acquisition of Crediveneto;
- dividends and the net gain on trading activities amounted to €11.2 million, an increase on the year-earlier period (€4 million) reflecting an increase in operations in securities and the charges on derivatives used to hedge Brexit risk recognized in the year-earlier period;
- gains from disposals amounted to €24.7 million, reflecting:
  - the sale of shares of Visa and Cattolica, with a total capital gain of €9.5 million (in 2016, a gain of €42.8 million was posted following the Visa Inc. operation);
  - gains on the disposal of AFS securities (€15.2 million);
  - losses on the repurchase of previously issued securities (€1.1 million);
  - losses on the disposal of loans (€7.9 million);
- the result of exercising the fair value option (FVO), a positive €0.6 million, mainly reflects the accounting effect on the structured liabilities of Iccrea Banca of developments in credit spreads.

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

- personnel expenses amounted to €94.2 million, a decrease of about €3.2 million compared with the year-earlier period, mainly due to savings connected with rationalization measures at the Group level (a reduction in costs associated with early termination incentives and a reduction in bonuses for executives and in overtime hours);
- other administrative expenses amounted to €142.7 million, up €22 million on the year-earlier period, reflecting the full provisioning in the first half of the year of the contributions to the National Resolution Fund (BRRD) for the full year (+€11.6 million compared with June 2016), the acquisition of Crediveneto (about €3.9 million) and various Group projects (the new information system of Credito Consumo, IT development and implementation at Iccrea Banca etc.).

The cost/income ratio at June 30, 2017, adjusted for the increased costs for BRRD compliance and gains on the disposal of equity investments, was 67% (a normalized 63% at June 30, 2016), mainly due to the decline in net interest income.

The **net loss on the impairment of loans and other assets** amounted to €81.5 million, a decrease on the previous year (€92 million), mainly reflecting the improvement in loan quality. At June 30, 2017, writedowns on the AFS portfolio amounted to €22.5 million (for the impairment of Fondo Atlante), while writedowns of units in real estate collective investment undertakings totaled €9.8 million (due to the impairment of the funds' assets).

As reported earlier, coverage of bad debts and positions unlikely to be repaid increased compared with December 31, 2016.

CONSOLIDATED OWN FUNDS AND CAPITAL RATIOS AT JUNE 30, 2017

The following table reports the composition of **own funds** at June 30, 2017:

Capital and capital ratios - €/thousands	30-Jun-17	31-Dec-16	Change
- Share capital	1,151,045	1,151,045	-
- Share premium reserve	4,747	4,747	-
- Treasury shares	(30,590)	(30,590)	-
- Earnings reserves	380,451	380,816	(365)
- Other comprehensive income	68,039	74,027	(5,988)
- Goodwill	(17,715)	(17,346)	(369)
- Deductions – deferred tax assets	(27,253)	(33,229)	5,976
- Intangible assets	(7,809)	(7,107)	(702)
- Prudential filters, deductions and other temporary items	(1,510)	1,048	(2,558)
- Non-controlling interests	28,797	31,928	(3,131)
Common Equity Tier 1 (CET1 ratio)	**1,548,152**	**1,555,339**	**(7,187)**
Additional Tier 1 (AT1)	5,773	5,837	(64)
Tier 1 (T1)	**1,553,925**	**1,561,176**	**(7,251)**
- Eligible subordinated loans and eligible AFS reserves	138,350	141,599	(3,249)
Tier 2 (T2)	**138,350**	**141,599**	**(3,249)**
Total own funds	**1,692,275**	**1,702,775**	**(10,500)**

Common Equity Tier 1 ("CET1") at June 30, 2017 amounted to €1,548 million, down €7 million on December 2016, mainly as a result of:

- a reduction of €6 million in reserves in other comprehensive income following the disposal of securities;
- a reduction of €5.9 million in deductions of deferred tax assets (on tax losses) due to the transformation carried out during the period;
- an increase in filters and other deductions in respect of specific items (prudent valuation, IAS 19, own credit risk, etc.) and other temporary CRR items, for a total of -€2.6 million;
- a decrease of about €3 million in eligible non-controlling interests (mainly in respect of Banca Sviluppo), reflecting use at the consolidated level.

Tier 1 capital (T1) at June 30, 2017 includes part of the share capital of Banca Sviluppo subscribed by the mutual banks (minority interests) under the regulatory requirements referred to in Article 86 of the CRR.

Total **own funds** amounted to €1,692 million (€1,702 million at December 31, 2016), a decrease of €10 million attributable to the decrease in CET 1 noted above and to the amortization of a T2 instrument issued by the subsidiary Iccrea BancaImpresa that matured in the first quarter of 2017.

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

RISKS

The Iccrea Banking Group conducts its business in accordance with the principles of prudence and risk containment, based on the need for stability associated with banking activity and the primary responsibilities of supporting and serving the mutual banks and their customers. Consistent with these principles, the Group pursues its growth objectives in accordance with the needs of the mutual banking system, ensuring, through balanced risk management, reliable and sustainable generation of value over time.

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

The internal control system monitors risk management process to ensure that it is comprehensive, suitable and functional (by being effective and efficient) and that they are consistent with the risk appetite framework.

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

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

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

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

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

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

  (i) Risk on the trading book position, i.e. the risk arising from fluctuations in the price of securities;

  (ii) Credit spread risk, namely the risk arising from changes in the market value of debt instruments due to fluctuations in the relative credit spread.
- **Operational risk**: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational risk includes legal risk, IT risk, compliance risk and reputational risk, i.e. types of risk that cannot be measured/quantified for which the level of the suitability/compliance of the relative management processes has been assessed;
- **Interest rate risk on the banking book:** risk arising from changes in market interest rates that reduce the profitability and the economic value of non-trading book assets;
- **Concentration risk**: risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or engaged in the same activity or dealing in the same goods, as well as from the application of credit risk mitigation techniques, including in particular risks associated with indirect credit exposures such as a single issuer of guarantees;
- **Strategic risk**: the current or prospective risk of a decline in earnings or capital arising from changes in the operating environment, adverse business

decisions, improper implementation of decisions, or lack of responsiveness to industry changes;

- **Sovereign risk**: risk of loss arising from a sovereign state counterparty defaulting on is contractual obligations or a decline in the sovereign counterparty's credit rating;
- **Real estate risk**: risk of losses arising from a change in the prices of real estate held in the bank's portfolio (investments in real estate investment funds, other properties not used in operations;
- **Equity risk**: risk of loss arising from a change in the value of equity instruments in the banking book;
- **Liquidity risk**: risk that the bank could default on its payment obligations due to its inability to secure funding or only being able to secure it at above-market costs (funding liquidity risk) or to the existence of restrictions on the sale of assets (market liquidity risk) resulting in capital losses;
- **Residual risk**: risk for which the recognized credit risk mitigation techniques used by the Bank prove less effective than expected.

UNCERTAINTIES

Uncertainty is defined as a possible event whose potential impact, ascribable to one of the categories above, is not at the moment determinable and therefore not quantifiable. The current macroeconomic and sectoral environment show:

- that the financial markets are repositioning towards "normalized" risk-return conditions;
- the high percentage of capital allocated to low-return credit operations;
- a regulatory and legislative system that is besieging the banking system, requiring greater protections and continually raising capital requirements.

These elements are all factors that must be given due attention.

These are accompanied by two major discontinuities that directly affect the Iccrea Banking Group: on the one hand, the need over the medium term to bring the percentage of NPLs back down to "less significant" levels, with the consequent actions and impact on the financial statements, consistent with developments in the Italian banking system, and on the other, the reform of the mutual banking system, which requires "significant" planning beyond the Group's already complex and detailed operations.

With specific regard to NPLs, in September 2016 the ECB issued "Guidance to banks on non-performing loans", the result of extensive work on NPLs conducted by supervisory experts. The guidance contains a summary of the best practices found and represents supervisory expectations for the future.

The guidance is aimed at all significant institutions subject to the direct supervision of the ECB, including their national and international subsidiaries. To the extent possible, however, banks are required to promote the rapid convergence of the regulatory and accounting views.

In order to develop and implement a suitable strategy for managing NPLs, banks must:

- regularly assess and review the operational environment, including internal capabilities, external conditions (macroeconomic, market, investor, servicing, regulatory, tax conditions, etc.);
- analyze and make projections about the capital implications;
- consider/analyze all the strategic options available, including in combination with one another, including a hold/forbearance strategy, active portfolio reductions, including through sales, enforcement of collateral and legal options including out-of-court solutions;
- establish portfolio targets (including foreclosed assets), determining levels of NPLs sustainable in the short and medium term;
- prepare an operational plan containing investments (e.g. IT and information flows), staffing requirements, organization, etc.;
- provide to the ECB an annual report on NPL management strategy and targets and the relative operational plan;
- periodically review the strategy and underlying assumptions;
- implement reporting flows on NPL targets and on operational effectiveness;
- align the management strategy with the associated incentive systems;
- integrate the strategy into the business plan, in projections and in the risk management system.

The main regulatory changes that will impact the Group include:

- the elimination of the prudential filter on changes in the reserve for European government securities in the AFS portfolio;
- the gradual introduction of the MREL, i.e. the minimum amount of liabilities comprised of positions subject to bail-in, starting in 2017, with the consequent potential impact on the structure of liabilities and the cost of funding;

- introduction as of January 1, 2018 of IFRS 9, the new accounting standard for financial instruments, which upon first-time adoption will affect equity through increased impairment – deriving mainly from the new methods for measuring performing loans – and a greater impact on impairment looking forward once fully implemented.

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

7. INTERNAL CAPITAL AND LIQUIDITY ASSESSMENT PROCESS

For more on this section, please see the consolidated annual report for 2016.

8. INTERNAL CONTROL SYSTEM

For more on this section, please see the consolidated annual report for 2016.

9. SIGNIFICANT EVENTS IN THE FIRST HALF OF 2017

ECB inspection of the credit process and thematic review of the management of non-performing loans

In 2016 the ECB conducted an inspection and assessment of the Group's lending process and problem loans. Specifically, from March 31 to July 22, 2016 the ECB conducted an on-site inspection to assess the Groups credit risk management system. In addition, the Group took part in the activities of the task force on NPLs. In that regard, the ECB's activities, carried out in accordance with its guidance to significant banks on NPLs, were specifically targeted at assessing the Iccrea Banking Group's ability to manage NPLs.

The results of the on-site inspection were communicated on March 30, 2017, while those of the thematic review were released on April 10. In both cases the Parent Company was asked to develop a specific action plan to remedy the issues identified.

Neither inspection revealed issues having an impact of a quantitative nature. The suggestions and recommendations were examined by the board of directors. The plan of actions to be taken to resolve the problems noted was submitted to the ECB and the Iccrea Banking Group expects to complete them by the end of 2017.

Some of the compliance measures were initiated while the inspection and thematic review were in progress.

T-LTRO II

On March 10, 2016 the Governing Council of the European Central Bank (ECB) approved a new series of targeted longer-term refinancing operations (T-LTRO II) to be carried out through four quarterly tenders starting June 30, 2016.

As with the first operation (T-LTRO I) Iccrea Banca (as lead institution) formed the T-LTRO II Group, composed of 158 banks (reduced to 143 following the reverse merger) and the Iccrea Banking Group banks. In 2016 a total of €5.5 billion in funding were requested, a portion of which was used to repay the amounts due under the previous operation.

In the final tender held in March 2017 the Group used its remaining borrowing allowance of €8.9 billion, thereby utilizing its maximum allowance of €14.4 billion.

Of this, around €10 billion was requested by and made available to the mutual banks and other banks participating in T-LTRO II.

The ECB has also allowed banks that took part in T-LTRO I, which has ended, to repay amounts borrowed with TLTRO II funds. Therefore, at the first maturity date of June 29, 2016 the Group settled in advance the amount borrowed under T-LTRO I totaling €6.6 billion.

The Mutual Banking Group Project

In March 2016 the plan for the establishment of the Mutual Banking Group (MBG) was submitted to the ECB. After the ECB responded, the Parent Company established the new general model for the highest operational level of the MBG, which was then presented to the mutual banks over the course of 13 local meetings attended by 243 mutual banks.

It also outlined the approach and the timetable for determining the salient aspects of the model and for implementing them.

In parallel to this an exchange of information with the supervisory authorities began, sharing the underlying ideas on how the MBG would operate and the timetable for the production of a detailed model and its implementation.

On January 18, 2017, in response to a request from the Bank of Italy of January 4, 2017, Iccrea notified the authorities that it intended to take on the role of Parent Company of the Mutual Banking Group.

On February 8, 2017 the MBG was launched with an event, attended by the mutual banks that have decided to participate in the planning process, during which the procedures, contents and timetable for activity were explained. Presentation of the request to the competent authorities is set for the end of 2017 and the MBG is scheduled to begin operation in the second half of 2018.

In these last few months, the formation of the Mutual Banking Group has continued in accordance with the guidelines set out in the reform law. Planning has continued, with theme-based projects supported by working groups in which all the mutual banks that will belong to the Group are represented.

Following the shareholders' meetings called to approve the financial statements for 2016, at which intentions to participate were announced, the scope of the Mutual Banking Group comprises the Parent

Company, 154 mutual banks (reflecting mergers in the first half of 2017) and other banks, financial companies and ancillary companies directly or indirectly controlled by the Parent Company.

Discussions with the supervisory authorities revealed a need for the banking groups to undergo a comprehensive assessment, which as in 2014 will be based on a review of asset quality and a stress test. The exercise, which is currently scheduled to take place in the first half of next year, will have unique features as it will regard groups that are still being formed.

In this regard, the planning activities for the Mutual Banking Group provide for the establishment of joint working groups with the mutual banks to prepare e analysis of the asset quality of the banks.

The ECB is monitoring our progress and has initiated a targeted dialogue by creating a schedule of meetings and issuing documents to be used in making a preliminary assessment of the most important areas to be considered in preparing the request.

The Iccrea Group has begun close consultations with the supervisory authorities, who will be called upon to approve the main contractual elements (articles of association, cohesion agreements, cross-guarantee arrangements) and the organizational arrangements are being revised in order to strengthen internal decision-making mechanisms in line with market best practice.

Extraordinary contributions to the National Resolution Fund (BRRD)

As reported in the annual report at December 31, 2016, an appeal was filed with the Regional Administrative Court concerning the criteria for the calculation of contributions requested for 2015 and 2016. Following the hearing of a request for the Regional Administrative Court to order a stay, it was determined that jurisdiction lay with the European Court of Justice, not the Italian courts. Consequently, on July 28, 2017, an appeal was lodged with the Court against the Single Resolution Board and the European Commission, both headquartered in Brussels.

Fondo Atlante

With a press release issued on July 27, 2017, the Board of Directors of Quaestio Capital Management SGR S.p.A. announced that it had determined the value of units in Fondo Atlante and Fondo Atlante II at June 30, 2017. The value of a unit in Fondo Atlante was calculated to be €78,100.986, reflecting the writeoff of the value of the Veneto banks in which an interest was held. It represents a decrease of about 80% in their nominal value.

The residual value of the fund was represented exclusively by the investment in Fondo Atlante II. The value of a unit in Fondo Atlante II was determined to be €352,175.666, reflecting the cost value of the investments made to date.

In consideration of the foregoing, the asset management company is assessing the possibility of liquidating Fondo Atlante, which will be analyzed and discussed with the representatives of the investors.

Accordingly, the Iccrea Group has valued the 40 units subscribed in Fondo Atlante to reflect their fair value at June 30, 2017.

Ratings

On January 19, 2017, Fitch Ratings confirmed the medium/long-term debt rating of "BBB-" with an "evolving" outlook.

With regard to relations with the other rating agencies, the ratings reported in the 2016 annual report have been confirmed:

- Fitch Ratings: a long-term debt rating to "BBB-" and an "evolving" outlook (January 26, 2016);
- Standard & Poor's: a medium/long-term debt rating of "BB", with a "stable" outlook (December 16, 2016);

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

The control activities and processes relating to the generation of the information required for the preparation of the financial reports (annual and interim financial statements) are an integral part of the Bank's general control system for managing risks.

While noting that no internal control system can entirely eliminate the risks of error or fraud, but can only measure those risks and lessen the likelihood of occurrence and mitigate the effects, these features seek to provide a reasonable guarantee of the veracity, accuracy, reliability and timeliness of financial reporting.

The control system is based upon two primary guidelines.

- information is entered into the accounting system automatically, semi-automatically and manually by a large number of units within the bank, whose transactions are handled by different subsystems. The line control processes are therefore incorporated either into IT and management procedures for transactions or assigned to specially-formed units. Organizational procedures assign the duties of verifying the accounting records to the heads of the organizational units. Second-level controls are performed by the organizational unit responsible for managing the general accounts and preparing the annual and interim reports. Controls are performed daily, weekly or monthly depending upon the type and frequency of the transactions processed.

- the valuation components that have the greatest impact on the financial statements are delegated to specialized structures. The data relating to the fair value of balance sheet items, in addition to those for hedging relationships and the related effectiveness tests, are supplied by specialized structures equipped with appropriate calculation tools. The data are then re-examined by the Risk Management unit and the Administration unit of the Bank. Data concerning the classification and measurement of non-performing loans are provided by highly specialized, appropriately separated structures that operate on the basis of detailed procedures approved by the Board of Directors.

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

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

Transactions with related parties

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

In order to rationalize the procedures put in place to guard against potential conflicts of interest, the Board of Directors of Iccrea Banca at its meeting of December 21, 2016 approved – in accordance with the Bank of Italy's instructions on risk activities and conflicts of interests with associated persons for banks and banking groups (Bank of Italy Circular no. 263 of December 27, 2006), Art. 136 of the Consolidated Law on Banking and Art. 2391 of the Italian Civil Code – the new "Policy for handling transactions with related parties and rules on conflicts of interest", available on the Iccrea Banca website.

Accordingly, in the first half of 2017, transactions with related parties were conducted in a manner and following standards in line with those applied in normal banking transactions with bank and corporate customers. Such transactions were undertaken on the basis of their specific financial benefit.

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

In the section "Transactions with related parties" of the explanatory notes, a summary table reports related party transactions.

Specifically, it reports the fees paid to directors, members of the Board of Auditors, the General Manager and key management personnel and any loans or guarantees granted to them, in accordance with Art. 136 of Legislative Decree 385 of September 1, 1993.

It also reports investments in the Bank and in the companies controlled by the Bank held by directors, members of the Board of Auditors, the General Manager and key management personnel either directly or indirectly through subsidiaries, trust companies or other intermediaries, including those held by spouses who are not legally separated or by minor children.

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

Information on human resource management and industrial relations

With regard to human resource management and development, a great deal of focus was placed on managing internal processes for communicating the five Group Values (Cooperation, Excellence, Openness, Merit and Courage) serving as a point of reference for all employees.

In 2017 the Group continued a comprehensive training program that, after receiving input from the professional families on their needs, provided all employees with a training plan covering all the relevant areas (conduct, technical and specialized skills, mandatory regulatory compliance, IT, foreign languages, etc.).

Under the umbrella of the IBG Academy, the Group continued to carry out the series of advanced training meetings for Directors on the European Banking Union's regulatory framework.

Research and development

In the first half of 2017 the Group did not conduct any research and development activities.

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

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

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

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

Financial indicators:

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

Management indicators:

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

Other indicators

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

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

Treasury shares

The Ordinary Shareholders Meeting of June 23, 2017 authorized the establishment of a non-distributable reserve of up to €31 million for own shares held by the Bank and Bank shares held by the subsidiary Banca Sviluppo.

10. SUBSEQUENT EVENTS AND OUTLOOK

On July 27, 2017 the general audit begun by the Finance Police of the Parent Company on May 8 was completed. The audit report found no substantive violations, only formal errors that could give rise to penalties and interest estimated at no more than about €17 thousand if the Revenue Agency should decide to pursue the case.

Looking forward, the 2017-2019 Business Plan, approved in early 2017, rests on two priority objectives:

- a more efficient allocation and an improvement in return on equity. To that end the Group has determined the appropriate actions and expected results for each business unit. The actions have been grouped in categories based on scope:
  - business development (growth);
  - collaboration between business units (cross-selling);
  - search for external partnerships in sectors in which it would like to achieve significant economies of scale;
  - improve margins on new business in the lending sector;
  - operational efficiency;
  - normalization of the cost of risk;
  - more efficient utilization of capital;
  - contraction or abandonment of business (deleveraging) in operating areas no longer deemed essential following the formation of the Mutual Banking Group.
- The development of digital strategies centered on the following pillars:
  - the centrality of the customer by integrating and reinforcing the points of contact with the final customer;
  - opening architectures to provide opportunities for integration and partnership;
  - offering mutual banks a purely digital business solution;
  - development of a single IBG/MB CRM system on which a multi-channel distribution model will be built.

ATTACHMENT: RECONCILIATION OF NET PROFIT AND SHAREHOLDERS' EQUITY OF THE PARENT COMPANY AND GROUP PROFIT AND EQUITY

	SHARE CAPITAL	RESERVES	VALUATION RESERVES	PROFIT FOR THE PERIOD	SHAREHOLDERS' EQUITY AT JUNE 30, 2017
Iccrea Banca S.p.A. financial statements	**1,151,045**	**375,873**	**61,367**	**1,078**	**1,589,364**
Results of consolidated companies	0	-73,864	-32	34,814	-39,082
Elimination of dividends received from Group companies	0	30,001	0	-30,001	0
Results of companies accounted for with equity method	0	-27,771	7,232	2,768	-17,771
Increase in property values	0	21,784	0	0	21,784
Amortization of increase in property values	0	-8,099	0	-325	-8,424
Goodwill	0	22,582	0	0	22,582
Adjustment of intercompany writedowns/(writebacks)	0	22,329	-631	222	21,920
Reversal of internal hedges	0	-5,364	0	604	-4,760
Other consolidation adjustments	0	766	-5	16	777
Pertaining to non-controlling interests	51,878	6,978	168	2,405	61,429
Consolidated shareholders' equity	**1,202,924**	**365,214**	**68,097**	**11,582**	**1,647,817**
Non-controlling interests	**51,878**	**6,978**	**168**	**2,405**	**61,429**
Shareholders' equity of the Iccrea Group	**1,151,045**	**358,237**	**67,930**	**9,177**	**1,586,389**

Interim Consolidated Financial Statements

June 30, 2017

CONSOLIDATED BALANCE SHEET

	Assets	30 06 2017	31 12 2016
10.	Cash and cash equivalents	98,895	113,310
20.	Financial assets held for trading	450,032	391,281
30.	Financial assets at fair value through profit or loss	15,140	14,559
40.	Financial assets available for sale	3,198,347	5,247,279
50.	Financial assets held to maturity	6,511,682	4,738,609
60.	Due from banks	21,460,237	21,152,194
70.	Loans to customers	12,160,844	13,674,256
80.	Hedging derivatives	7,373	17,773
90.	Value adjustments of financial assets hedged generically (+/-)	(147)	(348)
100.	Equity investments	103,907	102,285
120.	Property and equipment	712,020	701,380
130.	Intangible assets	41,892	38,870
	of which:		
	- goodwill	*22,593*	*22,593*
140.	Tax assets	334,855	343,170
	a) current	113,403	109,697
	b) deferred	221,452	233,473
	of which pursuant to Law 214/2011	*172,652*	*181,105*
150.	Non-current assets and disposal groups held for sale	321,033	-
160.	Other assets	320,811	320,181
	Total assets	**45,736,921**	**46,854,799**

CONSOLIDATED BALANCE SHEET

	Liabilities and shareholders' equity	30 06 2017	31 12 2016
10.	Due to banks	21,323,115	12,722,738
20.	Due to customers	15,917,600	26,829,330
30.	Securities issued	5,114,857	4,466,854
40.	Financial liabilities held for trading	500,001	409,617
50.	Financial liabilities at fair value through profit or loss	581	21,389
60.	Hedging derivatives	55,734	63,318
80.	Tax liabilities	2,898	3,946
	a) current	919	175
	b) deferred	1,979	3,771
90.	Liabilities associated with assets held for sale	493,700	-
100.	Other liabilities	580,266	575,550
110.	Employee termination benefits	26,928	29,612
120.	Provisions for risks and charges	73,431	76,676
	a) post-employment benefits	1,879	1,907
	b) other provisions	71,552	74,769
140.	Valuation reserves	67,928	73,848
170.	Reserves	384,072	420,566
180.	Share premium reserve	4,747	4,747
190.	Share capital	1,151,045	1,151,045
200.	Treasury shares (-)	(30,590)	(30,590)
210.	Non-controlling interests (+/-)	61,428	60,220
220.	Net profit (loss) for the period (+/-)	9,180	(24,067)
	Total liabilities and shareholders' equity	**45,736,921**	**46,854,799**

CONSOLIDATED INCOME STATEMENT

		30 06 2017	30 06 2016
10.	Interest and similar income	250,195	284,109
20.	Interest and similar expense	(93,750)	(105,786)
30.	**Net interest income**	**156,445**	**178,323**
40.	Fee and commission income	263,702	243,179
50.	Fee and commission expense	(163,438)	(152,162)
60.	**Net fee and commission income (expense)**	**100,264**	**91,017**
70.	Dividends and similar income	1,876	1,572
80.	Net gain (loss) on trading activities	9,312	2,526
90.	Net gain (loss) on hedging activities	(198)	264
100.	Net gain (loss) on the disposal or repurchase of:	24,788	63,047
	a) loans	14	(39)
	b) financial assets available for sale	25,832	65,449
	d) financial liabilities	(1,058)	(2,363)
110.	Net gain (loss) on financial assets and liabilities at fair value through profit and loss	691	2,134
120.	**Gross income**	**293,177**	**338,883**
130.	Net losses/recoveries on impairment:	(71,702)	(80,770)
	a) loans	(46,755)	(79,492)
	b) financial assets available for sale	(22,548)	0
	d) other financial transactions	(2,399)	(1,278)
140.	**Net income (loss) from financial operations**	**221,475**	**258,113**
180.	Administrative expenses:	(236,896)	(218,068)
	a) personnel expense	(94,181)	(97,441)
	b) other administrative expenses	(142,715)	(120,627)
190.	Net provisions for risks and charges	(158)	(65)
200.	Net adjustments of property and equipment	(8,859)	(8,297)
210.	Net adjustments of intangible assets	(5,480)	(5,893)
220.	Other operating expenses/income	48,651	46,906
230.	**Operating expenses**	**(202,743)**	**(185,417)**
240.	Profit (loss) from equity investments	2,769	799
250.	Net gain (loss) from valuation at fair value of property and equipment and intangible assets	(9,758)	(10,930)
270.	Gains (losses) from disposal of investments	-	(26)
280.	**Profit (loss) before tax on continuing operations**	**11,742**	**62,539**
290.	Income tax expense from continuing operations	**(158)**	(12,734)
320.	**Profit (loss) for the period**	**11,584**	**49,805**
330.	Profit (loss) pertaining to non-controlling interests	2,403	1,251
340.	**Profit (loss) pertaining to shareholders of the Parent Company**	**9,180**	**48,554**

STATEMENT OF COMPREHENSIVE INCOME

		30 06 2017	30 06 2016
10.	**Net profit (loss) for the period**	**11,584**	**49,805**
	Other comprehensive income net of taxes not recyclable to profit or loss		
40.	Defined-benefit plans	855	(1,737)
	Other comprehensive income net of taxes recyclable to profit or loss		
90.	Cash flow hedges	434	1,996
100.	Financial assets available for sale	(6,433)	(20,324)
120.	Share of valuation reserves of equity investments accounted for with equity method	(611)	233
130.	**Total other comprehensive income net of taxes**	**(5,755)**	**(19,832)**
140.	**Comprehensive income (item 10+130)**	**5,829**	**29,973**
150.	Consolidated comprehensive income pertaining to non-controlling interests	2,569	1,197
160.	**Consolidated comprehensive income pertaining to shareholders of the Parent Company**	**3,260**	**28,776**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY FIRST HALF 2017

				Allocation of net profit of previous year		Changes in the period											
							Equity transactions							Comprehensive income			
	As at 31/12/16	Change in opening balance	As at 1/1/17	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	First half of 2017	Shareholders' equity at 30/06/2017	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests
Share capital:																	
a) ordinary shares	1,201,940		1,201,940												1,201,940	1,151,045	50,893
b) other shares	985		985												985		985
Share premium reserve	5,252		5,252												5,252	4,747	505
Reserves:																	
a) earnings	426,272		426,272	(21,693)	(14,049)								259		390,789	384,072	6,717
b) other	-		-														
Valuation reserves:	73,850		73,850											(5,755)	68,095	67,928	167
Equity instruments																	
Treasury shares	(30,835)		(30,835)												(30,835)	(30,590)	(245)
Net profit (loss) for the period	(21,693)		(21,693)	21,693										11,584	11,584	9,180	2,404
Shareholders' equity	**1,655,771**		**1,655,771**	**-**	**(14,049)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**259**	**5,829**	**1,647,809**	**1,586,383**	**61,428**
Shareholders' equity pertaining to shareholders of Parent Company	**1,595,550**		**1,595,550**	**-**	**(11,676)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(751)**	**3,260**	**1,586,383**		
Non-controlling interests	**60,220**		**60,220**	**-**	**(2,373)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,010**	**2,569**	**61,428**		

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY FIRST HALF 2016

	As at 31/12/15	Change in opening balance	As at 1/1/16	Allocation of net profit of previous year		Changes in the period									Shareholders' equity at 30/06/2016	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests
							Equity transactions							Comprehensive income			
				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	First half of 2016			
Share capital:																	
a) ordinary shares	1,167,170		1,167,170				-						(6,530)		1,160,639	1,151,045	9,594
b) other shares	985		985												985	-	985
															-	-	-
Share premium reserve	5,159		5,159				-						40		5,199	4,748	451
Reserves:																	
a) earnings	397,611		397,611	27,567									(1,620)		423,558	418,670	4,888
b) other	3,374		3,374												3,374	3,374	0
Valuation reserves:	108,112		108,112											(19,832)	88,280	88,348	(68)
Equity instruments																-	
Treasury shares	(8,087)		(8,087)					1,331							(6,755)	(6,690)	(66)
Net profit (loss) for the period	45,477		45,477	(27,567)	(17,910)									49,805	49,805	48,554	1,251
Shareholders' equity	**1,719,801**		**1,719,801**	**-**	**(17,910)**	**-**	**-**	**1,331**	**-**	**-**	**-**		**(8,111)**	**29,973**	**1,725,085**	**1,708,050**	**17,036**
Shareholders' equity pertaining to shareholders of Parent Company	**1,692,912**		**1,692,912**	**-**	**(14,407)**	**-**	**-**	**1,315**	**-**	**-**	**-**		**(548)**	**28,777**	**1,708,050**		
Non-controlling interests	**26,889**		**26,889**	**-**	**(3,502)**	**-**		**17**	**-**	**-**	**-**		**(7,563)**	**1,196**	**17,036**		

STATEMENT OF CONSOLIDATED CASH FLOWS: INDIRECT METHOD

A. OPERATING ACTIVITIES	Amount	
	30 06 2017	31 12 2016
1. Operation	**110,794**	**226,420**
- net profit (loss) for the period (+/-)	11,584	(21,693)
- gain (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	48,957	11,433
- gain (losses) on hedging activities (-/+)	199	(992)
- net losses/recoveries on impairment (+/-)	71,882	180,012
- net adjustments of property and equipment and intangible assets (+/-)	14,339	30,520
- net provisions for risks and charges and other costs/revenues (+/-)	(1,541)	37,085
- taxes and tax credits to be settled (+)	3,987	4,140
- other adjustments (+/-)	(38,612)	(14,084)
2. Net cash flows from/used in financial assets	**2,797,680**	**2,106,926**
- financial assets held for trading	(108,561)	(10,268)
- financial assets at fair value through profit or loss	-	(1,006)
- financial assets available for sale	2,042,198	1,586,066
- due from banks: repayable on demand	(23,862)	(1,313)
- due from banks: other	(311,796)	(938,799)
- loans to customers	1,513,412	(385,872)
- other assets	(313,710)	1,858,117
3. Net cash flows from/used in financial liabilities	**(1,094,318)**	**(1,710,825)**
- due to banks: repayable on demand	495,670	(209,163)
- due to banks: other	8,104,707	(431,990)
- due to customers	(10,883,612)	(789,353)
- securities issued	648,004	59,959
- financial liabilities held for trading	92,020	(54,064)
- financial liabilities at fair value through profit or loss	(15,176)	(410,638)
- other liabilities	464,070	124,425
Net cash flows from/used in operating activities	**1,814,156**	**622,521**
B. INVESTING ACTIVITIES		
1. Cash flows from	**839,194**	**34,625**
- dividends received from equity investments	1,876	20,843
- sales of financial assets held to maturity	837,318	-
- sales of property and equipment	-	13,791
2. Cash flows used in	**(2,653,716)**	**(660,876)**
- purchases of equity investments	-	-
- purchases of property and equipment	(30,321)	(21,025)
- purchases of intangible assets	(13,004)	(7,783)
- purchases of financial assets held to maturity	(2,610,391)	(632,068)
Net cash flows from/used in investment activities	**(1,814,522)**	**(626,251)**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	-	30,270
- dividend distribution and allocations	(14,049)	(17,797)
Net cash flows from/used in financing activities	**(14,049)**	**12,473**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(14,415)**	**8,743**

KEY
(+) generated **(-) used in**

RECONCILIATION

	Amount	
	30 06 2017	31 12 2016
Cash and cash equivalents at beginning of period	113,310	104,567
Net increase/decrease in cash and cash equivalents	(14,415)	8,743
Cash and cash equivalents at end of period	98,895	113,310

Notes to the financial statements

PART A

Accounting policies

A.1 - GENERAL INFORMATION

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

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

These interim financial statements have been prepared in accordance with IAS 34 and have been drafting using the main tables set out in Circular no. 262 of December 22, 2005 on the format and rules for preparation of bank financial statements – 4th update of December15, 2015 – issued by the Bank of Italy in the exercise of the powers established by Article 9 of Legislative Decree 38/2005. These instructions contain binding formats for the financial statements and the procedures for completing the schedules, as well as the content of the notes to the financial statements.

The IASs/IFRSs applied in preparing the interim consolidated financial statements were those in force at June 30, 2017as endorsed by the European Commission (including the interpretations issued by the SIC and the IFRIC).

The following table sets out the new international accounting standards and amendments to existing accounting standards, with the related endorsement regulations of the European Commission, that took effect that took effect, either on a mandatory basis or with the option of early adoption, as from January 1, 2017:

Endorsement regulation	IAS/IFRS and short description	Entry into force
1905/2016	IFRS 15 Revenue from contracts with customers. The standard replaces IAS 18, IAS 11 and the associated interpretations concerning revenue recognition IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. The new standard specifies two approaches to revenue recognition: the first provides for recognition "at a point in time", while the second provides for recognition "over time". The standard introduces a method for analyzing transactions and define both the timing of recognition and the amount to be recognized. IFRS 15 also includes requirements for accounting for certain costs directly connected with a contract.	Annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted.
2067/2016	IFRS 9 Financial instruments The standard establishes criteria for the presentation of financial assets and liabilities, replacing IAS 39, with a view to improving the materiality and utility of the disclosures. The new standard establishes, first and foremost, an approach for the classification and measurement of financial assets based on the characteristics of the cash flows and the business model under which the assets are held. It also introduces a single, forward-looking model of impairment that requires recognition of expected losses over the entire life of a financial instrument. Finally, hedge accounting was modified.	Annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted.

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

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
To be determined	IFRS 16 Leases The new standard, which will replace IAS 17, establishes that lessees shall recognize assets and liabilities for a lease.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	IFRS 17 Insurance contracts The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers.	Annual reporting periods beginning on or after January 1, 2021.

In accordance with the instructions of the European Securities and Markets Authority (ESMA), the following section provides disclosures on the implementation within the Iccrea Banking Group of IFRS 9 – Financial instruments, endorsed with Regulation (EU) 2067/2016. The other regulations do not affect the Bank's financial position and performance.

The Iccrea Banking Group began work on the IFRS 9 project in September 2016, following a preliminary assessment conducted in 2014 to obtain an initial estimate of the potential impacts of the introduction of the standard.

The IFRS 9 implementation project for the Group is structured along the three lines in which the standard is organized: Classification and Measurement (C&M), Impairment and Hedge Accounting.

For each of these lines, also called macro-areas, the project has been broken down into the phases of: assessment, solution design (methodological, organizational and technological), implementation and testing.

The assessment and design phases for the Group have been completed and the implementation of the identified solutions is now under way.

The main activities in the Classification and Measurement area have been as follows:

- the business models for each Iccrea Banking Group company have been defined;
- the functional requirements for SPPI testing have been developed and agreed within the Group, and a run of tests was conducted with a sample

portfolio of securities and loans. More specifically, a qualitative analysis of the Group's securities and loans was completed for the purposes of SPPI testing, while the elements and characteristics of the contractual flows that enable classification as SPPI compliant or not were analyzed and defined (e.g. Cap/Floor, Leverage, Prepayment Option, Term Extension, Additional Tier 1, Exchanged, etc.);
- the definition of operating scenarios has been completed for the purposes of identifying that main organizational, process and technology impacts in order to begin implementation of the C&M project;
- clustering of the main financial instruments is under way;
- the project results were incorporated into specific policy documents and processes aimed at governing the transition to the new standard. Obviously, fine tuning is also under way in order to enable decision-making in line with the decisions that will be made at the level of the national and international banking industries;
- with specific regard to organizational measures concerning the establishment of policies and upgrading of internal processes, the necessary amendments of documentation required to ensure compliance with the standard are being finalized;
- software selection has been completed and implementation activities for calculating the SPPI test and the associated benchmark testing have been initiated.

With regard to the Impairment area:
- the impairment calculation solutions were defined on the basis of the specific features of each Group company, with specific reference to stage allocation and estimation of risk parameters (PD, LGD and EAD). Fine tuning is under way;
- the findings of the first impact simulation for the Group's loan and securities portfolio were assessed and shared;
- the project results were incorporated into specific policy documents and processes aimed at governing the transition to the new standard. Obviously, fine tuning is also under way in order to enable decision-making in lie with the decisions that will be made at the level of the national and international banking industries;
- with specific regard to organizational measures concerning the establishment of policies and upgrading of internal processes, the necessary amendments of documentation required to ensure compliance with the standard are being finalized;
- work was completed on software selection and implementation was initiated for calculating the IFRS 9 risk parameters, staging and impairment.

With regard to the Hedge Accounting area, an impact analysis was conducted of the IFRS 9 requirements with regard to both the Group's existing hedge relationships and to serve the effectiveness testing provided to participating mutual banks. An analysis was also conducted of the pros and cons of adopting the general IFRS 9 hedge accounting model. In the light of the findings of that analysis, the Iccrea Banking Group decided to postpone adoption of the new IFRS 9 hedge accounting model until after January 1, 2018.

Finally, the Iccrea Banking Group, like all European groups, underwent inspection (a "thematic review") by the European Central Bank with regard to the IFRS 9 project. We were asked to complete a template and provide documentation demonstrating the analysis/assessments conducted by the Group concerning IFRS 9 macro-areas.

In general terms, the IFRS 9 project is proceeding on schedule.

Section 2: General preparation principles

The interim consolidated financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows, and the notes to the financial statements, along with the report on operations and the performance and consolidated financial position.

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

The financial statements were prepared by applying the general principles set out in IAS 1 and the specific accounting policies endorsed by the European Commission and described in Part A.2 of these explanatory notes, as well as the general Framework for the Preparation and Presentation of Financial Statements issued by the IASB.

No exceptions have been made in applying the IASs/IFRSs.

The financial statements and the accompanying explanatory notes set out the figures for the present period as well as comparative figures at December 31, 2016 for the balance sheet and June 30, 2016 for the income statement. The comparative figures are drawn from the consolidated financial statements of the Parent Company Iccrea Holding S.p.A., which was merged into Iccrea Banca S.p.A. as from October 1, 2016.

Any reclassifications made to improve the representation of events are disclosed in the comments on the items.

The financial statements and the explanatory notes have been prepared in accordance with the provisions of Circular no. 262/2005 of the Bank of Italy as subsequently amended to reflect regulatory changes in the IAS/IFRS and to rationalize a number of tables in the notes to the financial statements with a view to standardizing disclosures more closely with those provided for in the tables harmonized at the European level.

RISKS AND UNCERTAINTIES ASSOCIATED WITH THE USE OF ESTIMATES

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

Estimation processes were used to support the value of some of the largest items recognized in the interim consolidated financial statements at June 30, 2017, as provided for by the accounting standards and applicable legislation referred to earlier.

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

The estimation process supported the carrying amounts recognized at June 30, 2017. The valuation exercise proved to be especially complex in view of the persistent adverse macroeconomic and market conditions, characterized by volatility in key financial parameters used in the valuation and by the deterioration of credit quality.

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

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

Content of the financial statements

BALANCE SHEET AND INCOME STATEMENT

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

STATEMENT OF COMPREHENSIVE INCOME

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

STATEMENT OF CHANGES IN EQUITY

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

STATEMENT OF CASH FLOWS

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

Contents of the notes to the financial statements

The explanatory notes to the financial statements include the information required by international accounting standards and the Bank of Italy Circular no. 262/2005 – 4th update of December 15, 2015.

Section 3 – Scope and methods of consolidation

As a result of the merger of Iccrea Holding S.p.A. into Iccrea Banca S.p.A. with effect from October 1, 2016, Iccrea Banca S.p.A. is the new Parent Company of the Iccrea Banking Group. The consolidated financial statements include the financial statements of Iccrea S.p.A. and the financial statements of its direct and indirect subsidiary companies. The scope of consolidation is defined on the basis of the provisions of IFRS 10, 11 and 12 and IAS 31.

Subsidiaries

The scope of consolidation is established in accordance with the provisions contained in IFRS 10 “Consolidated financial statements”. Under the standard, the requirement of control is the basis for the consolidation for all types of entities and is met when an investor simultaneously has:

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

IFRS 10 establishes that, in order to have control, the investor must have the ability to direct the relevant activities of the entity, by virtue of a legal right or a mere state of fact, and must also be exposed to the variability of the returns deriving from that power.

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

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

Costs and revenues of a subsidiary are included in consolidation from the date on which control is acquired. Costs and revenues from a subsidiary disposed of are included in the consolidated income statement up to the date of disposal, which is to say up to the point at which control over the subsidiary is lost. The difference between the payment received on disposal of the subsidiary and the carrying amount of its net assets at the same date is recognized in profit or loss under item 270 “Gain/(loss) from the disposal of investments”.

The share pertaining to non-controlling interests is presented on the balance sheet under item 210. "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 330 "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.

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

Associated companies

Associates are companies over which the Company exercises a significant influence and that is neither a subsidiary nor a joint venture. Significant influence is assumed to exist when the parent company:

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

Associates are accounted for using the equity method. Equity in the associated company includes goodwill (net of any impairment loss) paid for the acquisition. Shares of the profits and losses after acquisition of the associated company are recognized in profit or loss under item 240 "Profit/(loss) from equity investments". Any distribution of dividends is indicated as a decrease in the carrying amount of the equity investment.

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

Unrealized profits on transactions between the Group and its associated companies are eliminated at the same percentage of the Group’s interest in the profits of the associates. Unrealized losses are also eliminated, unless the transactions carried out show evidence of an impairment loss on the assets involved.

Valuation reserves for associated companies are recognized separately in the statement of comprehensive income.

Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties exercise joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Under IFRS 11 joint arrangements are classified as either joint operations or joint ventures based upon the contractual rights and obligations held by the Group. A joint operation is a joint arrangement whereby the parties have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. At June 30, 2017 the Group had no interest in joint arrangements.

The table below reports the companies that fall within the scope of consolidation on a line-by-line basis.

1. *EQUITY INVESTMENTS IN SUBSIDIARIES*

		Registered office	Type of relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
A.	**Consolidated on a line-byline basis**					
1.	BCC Risparmio & Previdenza SGrpA	Milan	1	Iccrea Banca SpA	75	75
2.	Iccrea BancaImpresa SpA	Rome	1	Iccrea Banca SpA	99.33	99.33
3.	BCC Factoring SpA	Rome	1	Iccrea BancaImpresa SpA	100	100
4.	BCC Gestione Crediti SpA	Rome	1	Iccrea Banca SpA	55	55
5.	BCC Solutions SpA	Rome	1	Iccrea Banca SpA	100	100
6.	BCC Beni Immobili Srl	Rome	1	Iccrea Banca SpA	100	100
7.	BCC Lease SpA	Rome	1	Iccrea BancaImpresa SpA	100	100
8.	BCC Credito Consumo SpA	Rome	1	Iccrea Banca SpA	96	96
9.	Banca Sviluppo SpA	Rome	1	Iccrea Banca SpA	68.07	68.07
10.	BCC Retail Scarl	Milan	1	Iccrea Banca SpA	39.30	39.30
				Iccrea BancaImpresa SpA	5.21	5.21
				BCC Risparmio&Previdenza	12.81	12.81
				BCC Credito Consumo SpA	3	3
				Banca Sviluppo SpA	3.13	3.13
11.	BCC Sistemi Informatici SpA	Milan	1	Iccrea Banca SpA	99.99	99.99
				Iccrea BancaImpresa SpA	0.003	0.003
				Banca Sviluppo SpA	0.003	0.003
12.	Iccrea Sme Cart 2016 Srl	Treviso	4	Iccrea BancaImpresa SpA	0	0
13.	FDR Gestione Crediti SpA	Rome	1	BCC Gestione Crediti SpA	100	100
14.	Fondo Securis Real Estate	Rome	4	Iccrea Banca SpA	62	62
				Iccrea BancaImpresa SpA	14	14
15.	Fondo Securis Real Estate II	Rome	4	Iccrea Banca SpA	85	85
16.	Fondo Securis Real Estate III	Rome	4	Iccrea BancaImpresa SpA	20	20
				Iccrea Banca SpA	67	67
17.	Securfondo	Rome	4	Iccrea Banca SpA	54.39	54.39
		Rome	4	Banca Sviluppo SpA	0.14	0.14
18.	Ventis Srl	Rome	1	Iccrea Banca SpA	95	95

Key:
A) Type of relationship: 1 = majority of voting rights in ordinary shareholders' meeting; 4 = other forms of control.
B) Votes available in ordinary shareholders' meeting. The SPV Iccrea Sme Cart 2016 S.r.l. is consolidated owing to the substantive control of the cash flows associated with securitization transactions carried out by Iccrea BancaImpresa SpA.

2. *ASSESSMENT AND SIGNIFICANT ASSUMPTIONS IN DETERMINING THE SCOPE OF CONSOLIDATION*

Subsidiaries are entities in which the Group holds direct or indirect control. Control over an entity is demonstrated by the Group's ability to exercise the power to influence the variable returns to which the Group is exposed by virtue of such relationship.

In order to verify whether control exists, the Group considers the following factors:

- the purpose and the structure of the investee, in order to identify the entity's objectives, the activities that give rise to its returns and such activities are governed;
- power, in order to determine whether the Group has contractual rights to direct the relevant activities;
- the exposure with respect to the investee, in order to determine whether the Group has an involvement with the investee whose returns vary depending on the performance of the investee.

Where the relevant activities are directed through voting rights, the following factors provide evidence of control:

- it holds, directly or indirectly through its subsidiaries, more than half of the voting rights in an entity, unless it can be clearly demonstrated that such ownership does not constitute control;
- it holds less than half, or a smaller share, of the voting rights exercisable in the shareholders' meeting and has the practical ability to direct the relevant activities unilaterally:
    - it controls more than half of the voting rights by virtue of an agreement with other investors;
    - it has the power to determine the financial and operating policies of the entity under a provision of the bylaws or a contract;
    - it has the power to appoint or remove the majority of the members of the board of directors or equivalent governing body, and that board or body manages the entity;

- the power to cast the majority of the voting rights at meetings of the board of directors or equivalent governing body, and that board or body manages the entity.

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

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

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

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

Structured entities – Real estate investment funds

In the real estate investment funds, a control relationship has been deemed to exist in the following cases:

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

The consolidated real estate investment funds are:

- Securfondo;
- Fondo Securis Real Estate;
- Fondo Securis Real Estate II;
- Fondo Securis Real Estate III.

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

Structure entities – special purpose securitization vehicles

In the SPVs, a control relationship has been deemed to exist in the following cases:

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

The consolidated special purpose securitization vehicles is Iccrea SME Cart 2016 S.r.l. The association transaction was originated by Iccrea BancaImpresa S.p.A.

3. *INVESTMENTS IN SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS*

3.1 Non-controlling interests, voting rights of non-controlling interests and dividends distributed to non-controlling interests

Subsidiary	Non-controlling interest	Dividends distributed to non-controlling interests
BCC Gestione Crediti SpA	45%	-
BCC Risparmio & Previdenza SGrpA	25%	1,998
BCC Retail Scarl	36.55%	-

3.2 Investments in subsidiaries with significant non-controlling interests: accounting information

	Total assets	Cash and cash equivalents	Financial assets	Property and equipment and intangible assets	Financial liabilities	Shareholders' equity	Net interest income	Gross income	Operating expenses	Profit (loss) before tax on continuing operations	Profit (loss) after tax on continuing operations	Profit (loss) after tax on disposal groups	Profit (loss) for the period (1)	Other comprehensive income after tax (2)	Comprehensive income (3) = (1)+(2)
1. BCC Gestione Crediti SpA	10,493	-	4,090	119	561	4,479	(8)	5,065	(3,873)	1,228	854	-	854	19	873
2. BCC Risparmio & Previdenza SGrpA	66,008	-	57,850	5,129	26,316	32,147	-	17,650	(8,526)	9,124	6,354	-	6,354	73	6,427
3. BCC Retail Scarl	3,751	1	2,231	174	-	977	3	3	11	15	4	-	4	8	12

4. SIGNIFICANT RESTRICTIONS

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

5. OTHER INFORMATION

The financial statements used for line-by-line consolidation are those at June 30, 2017, as approved by the competent bodies of the consolidated companies, adjusted where necessary to adapt them to the uniform Group accounting policies.

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

Section 4: Events subsequent to the reporting date

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

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

Section 5: Other information

Consolidated tax mechanism option

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

Other issues

On August 3, 2017, the Board of Directors approved the interim consolidated financial statements of the Iccrea Group at June 30, 2017, which have undergone a limited review by EY S.p.A.

A.2 – THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

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

During 2008, as envisaged under Regulation (EC) no. 1004/2008 approved by the European Commission on October 15, 2008 containing amendments to IAS 39 and IFRS 7 on the reclassification of financial assets, the Iccrea Group availed itself of the option to reclassify to the "available-for-sale" category financial instruments initially recognized among "financial assets held for trading". The impact on performance and the financial position for the current period of that previous reclassification are reported in the individual sections of the explanatory notes.

1 – Financial assets held for trading

CLASSIFICATION

This category includes financial assets, regardless of their technical form, held for short-term trading purposes. It includes derivatives with a positive value, including those resulting from the separation of embedded derivatives, that are not deemed to be effective for hedging purposes.

Reclassification to other categories of financial asset is not permitted except in the event of unusual circumstances that are unlikely to recur in the short term.

In these cases, debt and equity securities no longer held for trading may be reclassified to other categories envisaged by IAS 39 where the requirements for such recognition have been met (financial assets held to maturity, financial assets available for sale, loans and receivables). The transfer value is given by the fair value at the time of the reclassification. The presence of any embedded derivatives to be separated is assessed at the time of the reclassification.

Recognition

Debt and equity securities are initially recognized at the settlement date, while derivative contracts are recognized at the date they are signed.

Financial assets held for trading are initially recognized at fair value, which is usually the amount paid or received. Where the price is different from the fair value, the financial asset is recognized at its fair value and the difference between the two amounts is recognized through profit or loss.

Derivative contracts embedded in other financial instruments or contracts that have financial and risk characteristics that are not correlated with the host instrument or which meet the requirements to be classified independently as derivative contracts are recognized separately among financial assets held for trading, except in cases where the compound host instrument is measured at fair value through profit or loss. After separating the embedded derivative, the host contract is then treated in accordance with the accounting rules for its category.

MEASUREMENT

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

For financial instruments listed on active markets, the fair value of financial assets or liabilities is determined on the basis of the official prices. For financial instruments that are not listed on active markets, fair value is determined using commonly adopted estimation methods and valuation techniques that take account of all the risk factors associated with the instruments and are based on market-observable 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, etc. For equity securities, units in collective investment undertakings and derivative instruments with equities as underlyings not listed on an active market, if the fair value obtained using such valuation techniques cannot be reliably determined, the financial instruments are measured at cost.

DERECOGNITION

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

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

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

RECOGNITION OF INCOME COMPONENTS

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

2 – Financial assets available for sale

CLASSIFICATION

This category includes financial assets, other than derivatives, that are not classified in the balance sheet as "financial assets held for trading", "financial assets at fair value through profit or loss", "financial assets held to maturity", "due from banks" or "loans to customers".

Specifically, the item includes: shareholdings not held for trading and not qualifying as a subsidiary, associate or joint venture, units in investment funds that are unlisted or traded infrequently, specific bonds, identified on a case-by-case basis with respect to the purpose for which they are purchased/held.

In cases permitted by the applicable accounting standards, financial assets available for sale may only be reclassified to "financial assets held to maturity" except in the event of unusual circumstances that are unlikely to recur in the short term. Debt securities may be reclassified to other categories envisaged by IAS 39 (financial assets held to maturity, loans and receivables) where the requirements for such recognition have been met.

The transfer value is given by the fair value at the time of the reclassification.

RECOGNITION

Available-for-sale financial assets are initially recognized at the settlement date for debt or equity securities and at the disbursement date for loans.

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

Where, in the cases permitted by the applicable accounting standards, the assets are recognized following reclassification from financial assets held to maturity or, in the event of unusual circumstances, from financial assets held for trading, the value at which they are recognized shall be their fair value at the time of the transfer.

MEASUREMENT

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

Fair value is determined using the criteria adopted for financial assets held for trading.

Equity securities included in this category, the units of collective investment undertakings and derivatives on equity securities whose fair value cannot be determined reliably (they are not quoted on an active market) are carried at cost.

Available-for-sale financial assets are subject to impairment testing to determine whether there is objective evidence of impairment.

Where impairment is found, the amount of this loss is measured as the difference between the carrying value and the fair value.

Where the reasons for the impairment should cease to obtain subsequent to the recognition of the impairment loss, writebacks are recognized in the income statement for loans or debt securities and in an equity reserve in the case of equity instruments. The value of the asset after the writeback shall not in any event exceed the amortized cost that the instrument would have had in the absence of the prior writedown.

DERECOGNITION

Available-for-sale financial assets are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

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

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

3 – Financial assets held to maturity

CLASSIFICATION

This category comprises listed debt instruments with fixed or determinable payments and a fixed maturity for which the Bank has the positive intention and ability to hold until maturity.

In the circumstances permitted by the applicable accounting standards, such assets may only be reclassified as financial assets available for sale. If more than an insignificant amount of such instruments should be sold or reclassified during the year before their maturity, the remaining financial assets held to maturity would be reclassified as financial assets available for sale and it would not be permitted to classify instruments in this category for the subsequent two years, unless the sales or reclassifications:

– are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

– occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

– are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

RECOGNITION

Financial assets held to maturity are recognized at the settlement date.

Such financial assets are initially recognized at fair value, including any directly attributable costs and income.

If the financial assets are recognized in this category as a result of reclassification from financial assets available for sale or, in the case of unusual events, from financial assets held for trading, the fair value of the assets at the reclassification date is deemed to be the new amortized cost of the assets.

MEASUREMENT

Subsequent to initial recognition, financial assets held to maturity are measured at amortized cost, using the effective interest rate method.

Gains or losses in respect of financial assets held to maturity are recognized through profit or loss at the time the assets are derecognized or impaired and through the amortization of the difference between the carrying amount and the amount repayable at maturity.

Assets held to maturity are evaluated for objective evidence of impairment.

If such evidence is found, the amount of the loss is measured as the difference between the carrying amount of the assets and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the loss is recognized in profit or loss.

If the reasons for the impairment loss should no longer obtain following an event occurring after the impairment was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount that exceeds what the amortized cost would have been in the absence of the previously recognized impairment losses.

DERECOGNITION

The financial assets are derecognized only when a disposal transfers substantially all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the assets continue to be recognized even if legal title has been transferred.

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

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

4 – Loans and receivables

CLASSIFICATION

Amounts "due from banks" and "loans to customers" include loans, whether disbursed directly or acquired from third parties, with fixed or determinable payments, that are not listed on an active market and that are not classified as: "Financial assets held for trading"; "Financial assets at fair value through profit or loss"; or "Financial assets available for sale". This category includes any securities with characteristics similar to loans and receivables.

It also includes operating loans, repurchase transactions and receivables recognized by the lessor in respect of finance leasing transactions.

Loans and receivables include assets acquired through non-recourse factoring contracts, for which the risks and rewards relating to the asset have been transferred,

Reclassification to the other categories of financial assets envisaged by IAS 39 is not permitted.

In accordance with the 7th update of Bank of Italy Circular 272/2008, the new definitions of impaired credit exposures have been incorporated in the accounting policies (three categories: bad debts, positions unlikely to be repaid and past-due exposures), as well as exposures granted forbearance measures, which apply to all assets (impaired and performing).

Forborne exposures comprise debt contracts for which concessions have been granted to debtors who are unable to discharge their financial obligations ("financial difficulties").

In order to determine whether a position qualifies as a forborne exposure, the Group determines whether any contractual modifications in favor of the customer (usually extensions of due dates, suspension of payments or refinancing) were granted in response to a situation of financial difficulty represented by the actual or potential (in the absence of concessions) accumulation of more than 30 days of arrears.

RECOGNITION

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

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

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

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

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

MEASUREMENT

Following initial recognition, loans are measured at amortized cost.

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

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

The loan portfolio undergoes testing for impairment at the close of each reporting period. Impaired positions include bad debts, positions unlikely to be repaid and loans past due, in accordance with the Bank of Italy's current rules, in line with the provisions of the IAS/IFRS.

Impairment loss is recognized only when, subsequent to initial recognition, events have occurred that give rise to objective evidence of impairment such as to cause a change in the reliably estimated cash flows.

Loans for which there is objective evidence of impairment are measured individually. The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows, calculated by applying the original effective interest rate. Measurement takes account of the "maximum recoverable" amount, which corresponds to the greatest estimate of expected future cash flows in respect of principal and interest payments. Also taken into consideration is the realizable value of any guarantees excluding recovery costs, recovery times estimated based on contractual maturities, if any, and on reasonable estimates in the absence of contractual provisions, and the discount rate, which is the original effective interest rate. For impaired positions at the transition date, where determining this figure would be excessively burdensome, the Bank has adopted reasonable estimates, such as the average rate of loans for the year in which the loan was first classified as a bad debt, or the restructuring rate.

In measuring loans individually, cash flows from loans for which short-term recovery is expected are not discounted. The original effective interest rate of each loan remains unchanged unless the position undergoes a restructuring that involves a change in the contractual interest rate, including when it becomes an interest-free loan.

Loans for which no objective evidence of impairment has been found undergo collective impairment testing, with the creation of groups of positions with uniform credit risk profiles. The writedown is determined based on historic loss rates for each group. In determining the time series, individually measured positions are removed from the group of loans being measured. Writedowns determined collectively are taken to the income statement.

Guarantees also undergo impairment testing in a manner analogous to collective impairment testing.

Any writedowns are recognized through profit or loss.

DERECOGNITION

Loans are derecognized when they fall due or are transferred. Loans transferred are derecognized only when substantially all the risks and rewards of ownership of the loans are transferred. If a significant portion of the risks and rewards of ownership of a transferred loan has been retained, the loan continues to be recognized even though legal title to the loan has been transferred.

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

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

IFRS 1 established a specific exemption to the application of derecognition rules for transfers of financial assets, including securitization operations, occurring prior to January 1, 2004. By virtue of this exemption, for securitizations carried out before that date, the company may elect to continue to apply the previous accounting rules or to adopt the provisions of IAS 39 retrospectively, starting from a date selected by the entity, provided that the information required to apply IAS 39 to assets previously derecognized was available at the time of initial recognition of the these operations. Therefore, the Group has decided to apply the current accounting rules for securitization operations carried out before January 1, 2004.

RECOGNITION OF INCOME COMPONENTS

Following initial recognition, loans are measured at amortized cost, which equals the amount at which the assets are measured at initial recognition decreased by principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount (usually attributable to costs and revenues directly attributable to the individual position) and plus or minus any writedowns/writebacks. The effective interest rate is the rate that exactly discounts the estimated future cash flows generated by the loan in respect of principal and interest to the amount disbursed including costs and revenues attributable to the loan. This accounting treatment makes it possible to distribute the economic impact of costs and revenues over the expected remaining life of the loan.

The amortized cost method is not used for short-term loans where the impact of discounting can be considered negligible. Short-term loans are valued at cost. The same approach is adopted for loans without a specified maturity or those subject to revocation.

Impairment losses, as defined in the preceding sub-section on measuring loans, are recognized in the income statement. If the reasons for the impairment should cease to obtain subsequent to the recognition of the impairment loss, a writeback is taken to the income statement. The value of the asset after the writeback shall not in any event exceed the amortized cost that the instrument would have had in the absence of the prior writedown.

Writebacks connected with the passage of time, corresponding to interest accrued during the period based on the original effective interest rate previously used to calculate impairment losses, are recognized among writebacks for impairment.

5 – Financial assets at fair value through profit or loss

CLASSIFICATION

The item "Financial assets at fair value through profit or loss" includes financial assets that have been designated as at fair value through profit or loss as from their initial recognition, in accordance with the requirements for the classification of that item, regardless of their technical form.

No reclassifications to other categories of financial assets are permitted.

RECOGNITION

Financial assets at fair value through profit or loss are initially recognized at the settlement date for debt and equity instruments. Initial recognition of financial assets is at fair value, which normally corresponds to the price paid. If the price is different from the fair value, the financial asset is recognized at its fair value and the difference between the price and the fair value is recognized in the income statement.

MEASUREMENT

After initial recognition, financial assets reported under this item are measured at fair value through profit or loss. In order to determine fair value, the criteria previously noted in the section on financial assets held for trading are applied. For equity securities and associated derivatives, if valuation techniques cannot be used to reliably determine the fair value of the financial instruments, they shall be measured at cost and adjusted for any impairment.

DERECOGNITION

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

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

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

RECOGNITION OF INCOME COMPONENTS

The result of the measurement is recognized in the income statement.

6 – Hedging

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 hedges used are as follows:

- fair value hedges, which are intended to hedge the exposure to changes in the fair value (due to the various types of risk) of assets and liabilities or portions of assets and liabilities, groups of assets and liabilities, irrevocable commitments and portfolios of financial assets and liabilities as permitted under IAS 39 as endorsed by the European Commission;
- cash flow hedges are intended to hedge the exposure to changes in the future cash flows attributable to specific risks associated with items. This type of hedge is essentially used to stabilize interest flows on variable-rate funding to the degree that the latter finances fixed-rate lending. In some circumstances, analogous transactions are carried out for certain types of variable-rate lending.

Only instruments that involve a non-Group counterparty can be designated as hedging instruments.

The items “hedging derivatives” among assets and liabilities include the positive and negative values of derivatives that are part of effective hedging relationships.

RECOGNITION

Hedging derivatives and the hedged financial assets and liabilities are reported in accordance with hedge accounting rules.

Where there is formal documentation of the relationship between the hedged item and the hedging instrument, a hedge is considered effective if, at inception and throughout its life, the changes in the fair value of the hedged item or the related expected cash flows are almost entirely offset by those of the hedging instrument.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Hedging derivatives are measured at fair value.
More specifically:

- in the case of fair value hedges, the change in the fair value of the hedged item is offset with the change in the fair value of the hedging instrument: this offsetting is effected by recognizing the changes in value through profit or loss, both for the hedged item (as regards changes produced by the underlying risk factor) and for the hedging instrument; any difference between the two changes, which represents the partial ineffectiveness of the hedge, represents the net impact in profit or loss;
- in the case of cash flow hedges, changes in the fair value of the derivative are recognized through equity in the amount of the effective portion of the hedge. They are recognized through profit or loss only when the change in cash flows in respect of the hedge item actually occurs or if the hedge is ineffective.

The derivative is designated as a hedging instrument where there is formal documentation of the relationship between the hedged item and the hedging instrument and if it the hedge is effective at the moment of inception and throughout its life.

The effectiveness of a hedge depends on the extent to which changes in the fair value of the hedged item or the associated cash flows are offset by those of the hedging instrument. Accordingly, effectiveness is determined taking account of those changes, taking account of the intentions of the entity at the time the hedge is established.

A hedge is deemed effective when the changes in fair value (or in cash flows) of the hedging instrument nearly entirely offset (i.e. within a range of 80-125%) changes in the hedged instrument for the risk factor being hedged.

Effectiveness is measured at every reporting date through:

- prospective tests, which justify the use of hedging accounting, as they demonstrate the hedge's expected effectiveness;
- retrospective tests, which indicate the level of effectiveness of the hedge achieved in the period under review, measuring the difference between actual results and theoretical results (perfect hedges).

If the tests do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the above criteria, the hedging derivative is reclassified as a trading instrument and the hedged financial instrument is measured using the criteria normally adopted for instruments of its category.

DERECOGNITION

If the tests carried out do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the criteria set out in this section, the accounting policies envisaged for the category to which the derivative belongs are applied, and the derivative is reclassified as a trading instrument. Subsequent changes in fair value are recognized in the income statement. For cash flow hedges, if the hedged transaction is no longer expected to be carried out, the cumulative gain or loss recognized in the equity reserve is reversed to the income statement.

7 – Equity investments

CLASSIFICATION

The item includes equity investments in subsidiaries, associates and joint ventures.

Associated companies, i.e. entities under significant influence, 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 associated companies 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 revenues that are directly attributable to the transaction.

MEASUREMENT

After initial recognition, the carrying amount of the interest is increased or decreased to recognized the percentage pertaining to the Group of the gains or losses that the investee realized after the acquisition date.

The percentage of the investee's results for the period in question pertaining to the Group is recognized in profit or loss. Dividends received from an investee company reduce the carrying amount of the equity investment. Adjustments to the carrying amount may also be necessary after changes occur in the Group's percentage interest in the associated company, deriving from changes in the investee's shareholders' equity that were not recognized in profit or loss. These changes include, by way of example, changes due to the valuation at market value of the investee's financial assets available for sale or to the redetermination of the value of plant, property and equipment. The portion of such changes pertaining to the Group is recognized outside the Group's profit or loss under item 140 "Valuation Reserves".

The valuation process uses the financial statements of the investees prepared, where material, on the basis of the IAS/IFRS used by the Group.

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 in the income statement as an impairment loss.

If the reasons for the impairment loss cease to obtain following an event occurring after recognition of the impairment, the reversal is recognized in profit or loss.

DERECOGNITION

Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IAS 39, as provided for financial instruments.

Equity investments are derecognized when the contractual rights to the cash flows from the assets expire or when substantially all the risks and rewards connected with ownership of the equity investment are transferred.

8 – Property and equipment

Classification

Property and equipment includes land, buildings used in operations, investment property, technical plant, furniture and equipment. This item includes assets that are used in providing goods and services, rented to third parties, or used for administrative purposes for a period of more than one year. The item also includes assets held under finance leases, although legal ownership remains with the lessor.

Recognition

Property and equipment is recognized at cost, which in includes all incidental expenses directly attributable to purchasing and placing the asset in service.

Expenses subsequently incurred increase the carrying amount of the asset or are recognized as separate assets if it is likely that the future economic benefits will exceed initial estimates and the costs can be reliability calculated.

All other subsequent expenses (e.g. ordinary maintenance costs) are recognized in the income statement in the year incurred.

This item also includes assets held under finance leases for which substantially all the risks and rewards of ownership have been assumed. These assets are initially recognized at a value equal to the lesser of the fair value and the present value of the minimum payments provided for under finance lease. This amount is subsequently subject to depreciation.

Measurement

Property and equipment, used in operations is measured at cost less depreciation and impairment. Depreciation is determined systematically over the remaining useful life of the asset.

The depreciable value is represented by the cost of the assets since the residual value at the end of the depreciation process is considered negligible. Buildings are depreciated at a rate of 3% per year, deemed to appropriately represent the deterioration of the assets over time from their use, taking into account extraordinary maintenance costs, which increase the value of the asset. Land, whether purchased individually or incorporated into the value of a building, is not depreciated.

Investment property under IAS 40, refers to real estate (owned or held through a finance lease) for the purposes of receiving rental income and/or for the appreciation of the invested capital. The fair value model is used for such assets.

Derecognition

Property and equipment is derecognized when disposed of or when permanently withdrawn from use and no future benefits are expected from its disposal.

Recognition of income components

Depreciation is recognized through profit or loss. If there is evidence of possible impairment of the asset, the asset's carrying amount is compared against its recoverable value, which is equal to the greater of the value in use of the asset, meaning the present value of future cash flows originated by the asset and its fair value, net of any disposal costs. Any negative difference between the carrying amount and the recoverable value is recognized in the income statement. If the reasons for the impairment should cease to obtain, a writeback is recognized in the income statement. The carrying amount following the writeback shall not exceed the value that the asset would have had, net of depreciation, in the absence of the prior writedowns.

9 – 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.

The costs of improving leased property with no independent function and use are conventionally classified among other assets, as provided for by Bank of Italy Circular no. 262. The related amortization, which is carried out over a period that does not exceed the length of the lease, is reported among other operating expenses.

Recognition

Intangible assets are recognized at cost, adjusted for any incidental expenses, only if it is probable that the future economic benefits attributable to the asset will be realized and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognized in the income statement in the period in which it is incurred.

Intangible assets may be recognized in respect of goodwill arising from business combinations (purchases of business units). The goodwill recognized in business combinations that have occurred subsequent to January 1, 2004, is recognized in an amount equal to the positive difference between the fair value of the assets and liabilities acquired and the purchase price of the business combination, including ancillary costs, if that positive difference represents future economic benefits. The difference between the purchase price of the business combination and the fair value of the assets and liabilities acquired is recognized through profit or loss if it is negative or if it does not represent future economic benefits. Goodwill in respect of business combinations carried out prior to the date of transition to the IFRS are measured on a cost basis and represent the same value as that given using Italian GAAP.

MEASUREMENT

Intangible assets recognized at cost are amortized on a straight-line basis over the estimated remaining useful life of the asset, which for applications software does not exceed 5 years. Goodwill is not amortized and is tested for impairment at the balance-sheet 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 and, for goodwill, at each reporting date, the asset is tested for impairment and any negative 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.

10 – Non-current assets held for sale

CLASSIFICATION

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the their sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The Group must be committed to the sale, which must be expected to be completed within one year of classification as held for sale.

RECOGNITION

Non-current assets and disposal groups held for sale are valued at the lower of their carrying amount and their fair value less costs to sell.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Following initial recognition in this category, the assets are measured at the lower of their carrying amount and their fair value less costs to sell. 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.

11 – 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 revenues that gave rise to the tax liability. They therefore represent the balance of current taxes and deferred taxes in respect of income for the year. Current tax assets and liabilities report the net tax positions of the Group companies in respect of Italian and foreign tax authorities. More specifically, they report the net balance between current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax liability for the period, as determined on the basis of applicable tax law, and current tax assets represented by payments on account and other tax receivables for withholding tax incurred or other tax credits for previous years which the Group companies opted to offset against taxes for subsequent years.

Current tax assets also report tax receivables for which the Group companies have requested reimbursement from the competent tax authorities.

Taking account of the adoption of the national consolidated taxation mechanism by the Group, the tax positions of Iccrea Banca SpA and those of other Group companies are managed separately for administrative purposes.

Deferred taxation is determined using the balance sheet liability method, taking account of the tax effect of temporary differences between the carrying amount of assets and liabilities and their value for tax purposes, which will give rise to taxable or deductible amounts in future periods. To that end, "taxable temporary differences" are those that in future periods will give rise to taxable amounts and "deductible temporary differences" are those that in future periods will give rise to deductible amounts.

Deferred tax is calculated by applying the tax rates established in applicable tax law to taxable temporary differences for which it is likely that a tax charge will be incurred and to deductible temporary differences for which it is reasonable certain there were be future taxable income at the time they become deductible (the probability test). Deferred tax assets and liabilities in respect of the same tax and reversing in the same period are offset.

RECOGNITION AND MEASUREMENT

Where the deferred tax assets and liabilities regard items that impact profit or loss, that effect is recognized under income taxes.

In cases where the deferred tax assets and liabilities regard transactions that directly impact equity with no effect on profit or loss (such as adjustments on first-time adoption of the IAS/IFRS, measurement of financial instruments available for sale or cash flow hedge derivatives), they are recognized in equity, under specific reserves where required (i.e. the valuation reserves).

The potential taxation in respect of items on which taxation has been suspended that will be "taxed in the event of any use" is recognized as a reduction in equity. Deferred taxes in respect of revaluations prompted by conversion of amounts to the euro that were directly allocated to a specific reserve under Article 21 of Legislative Decree 213/98 on a tax-suspended basis are recognized as a reduction of that reserve. The potential taxation in respect of items that will be taxed "only in the event of distribution" is not recognized as the amount of available reserves that have already been taxes is sufficient to conclude that no transactions will be carried out that would involve their taxation.

Deferred taxation in respect of companies participating in the consolidated taxation mechanism is recognized in their financial statements on an accruals basis in view of the fact that the consolidated taxation mechanism is limited to settlement of current tax positions.

The potential taxation of components of the equity of the consolidated companies is not recognized where the circumstances that would give rise to their taxation are not considered likely to arise, taking due consideration of the lasting nature of the investment.

The value of deferred tax assets and liabilities is reviewed periodically to take account of any changes in legislation or in tax rates.

RECOGNITION OF INCOME COMPONENTS

Income taxes are recognized through profit or loss, with the exception of those debited or credited directly to equity. Current income taxes are calculated based on taxable income for the period. Current tax payables and receivables are recognized at the value that payment to or recovery from the tax authorities is expected by applying current tax rates and regulations. Deferred income tax assets and liabilities are calculated, using expected tax rates, on the basis of temporary differences between the value attributed to the assets and liabilities in the financial statements and the corresponding values recognized for tax purposes.

12 – Provisions for risks and charges

RECOGNITION AND CLASSIFICATION

Provisions for risks and charges are recognized in the income statement and reported under liabilities on the balance sheet in relation to a present legal or constructive obligation resulting from a past event for which performance of the obligation is likely to be onerous and the loss associated with the liability can be reliably estimated.

The amount recognized is the best estimate of the amount required to discharge the obligation or to transfer it to third parties as of the close of the period.

When the financial impact of the passage of time is significant and the dates of payment of the obligation can be estimated reliably, the provision is discounted at market rates as of the reporting date.

Measurement and recognition of income components

The amounts recognized are reviewed at every balance sheet date and are adjusted to reflect the best estimate of the expense required to fulfil the obligations existing at the close of the period. The impact of the passage of time and that of changes in interest rates are reported in the income statement under net provisions for the period.

Derecognition

Provisions are only used when the charges for which they were originally established are incurred. When the use of resources to fulfil the obligation is no longer deemed to be probable, the provision is reversed through profit or loss.

13 – Debt and securities issued

Classification

Debt and securities issued includes financial liabilities not held for trading in the short term, comprising all technical forms of interbank and customer funding and funding through certificates of deposit and outstanding bond issues, excluding any amounts repurchased.

Debt also includes payables recognized by the lessee in respect of finance lease transactions.

Financial liabilities in respect of transferors for non-recourse purchases of receivables in factoring transactions are also recognized under debt.

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 revenues 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. Refer to the section on loans and receivables for information on the criteria for determining amortized cost.

Derecognition

In addition to cases of extinguishment and expiration, financial liabilities are derecognized when previously issued securities are repurchased. In this case, the difference between the carrying amount of the liability and the amount paid to repurchase it is recognized in the income statement. If the repurchased security is subsequently placed again on the market, this is treated as a new issue and is recognized at the new placement price, with no impact on the income statement.

14 – 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 derivatives embedded in compound contracts. Liabilities deriving from short positions in by securities trading activities are recognized under “Financial liabilities held for trading”.

Recognition

Debt and equity securities representing financial liabilities are initially recognized at the settlement date, while derivative contracts are recognized at the date they are signed. The financial liabilities are initially recognized at fair value, which generally equals the amount received.

In cases in which the amount paid differs from the fair value, the financial liability is recognized at fair value, and the difference between the amount paid and the fair value is recognized through profit or loss.

Derivative contracts embedded in other financial instruments or contracts and which have financial and risk characteristics that are not correlated with the host instrument or which meet the requirements to be classified themselves as derivative contracts, are recognized separately among financial liabilities held for trading if their value is negative. This is not done in cases in which the compound instrument containing the derivative is measured at fair value through profit or loss.

Measurement

Subsequent to initial recognition, the financial liabilities are recognized at fair value. Refer to the section on measuring financial assets held for trading for information on determining the fair value.

DERECOGNITION

Financial liabilities held for trading are eliminated upon being extinguished or upon maturity.

RECOGNITION OF INCOME COMPONENTS

Gains and losses from the measurement of financial liabilities held for trading are recognized through the income statement.

15 – Financial liabilities designated as at fair value

CLASSIFICATION

The item "Financial liabilities at fair value through profit or loss" includes financial liabilities that have been designated as at fair value through profit or loss as from their initial recognition, regardless of their technical form.

RECOGNITION

Financial liabilities at fair value through profit or loss are initially recognized at the settlement date for debt and equity instruments. Initial recognition of financial liabilities is at 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 through profit or loss. In order to determine fair value, the criteria previously noted in the section on financial liabilities held for trading are applied. For equity securities and associated derivatives, if valuation techniques cannot be used to reliably determine the fair value of the financial instruments, they shall be measured at cost and adjusted for any impairment.

DERECOGNITION

Financial liabilities at fair value are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party.

RECOGNITION OF INCOME COMPONENTS

The result of the measurement is recognized in the income statement.

16 – Foreign currency transactions

RECOGNITION

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

RECOGNITION OF INCOME COMPONENTS

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.

Exchange rate differences resulting from the settlement of monetary items or from the translation of monetary items at exchange rates other than the initial translation rate, or the translation of previous financial statements, are recognized in the income statement 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 in the income statement, the corresponding exchange rate difference is also recognized in the income statement.

17 – Other information

BUSINESS COMBINATIONS

A business combination is the merger of separate entities or business operations into a single entity that is required to prepare financial statements.

A business combination may involve a parent company (purchaser) acquiring an interest in a subsidiary (purchased company). A business combination may also involve the acquisition of the net assets of another company, including any goodwill, or the acquisition of the capital of another company (mergers and contributions of assets).

Based on the provisions of IFRS 3, business combinations must be accounted for using the acquisition method, which involves the following steps:

- identification of the acquirer;
- determination of the cost of the business combination;
- allocation, as at the acquisition date, of the cost of the business combination to the assets acquired and the liabilities and contingent liabilities assumed.

In particular, the cost of a business combination is determined as the sum of the fair value as at the date of the transfer of the transferred assets, the liabilities incurred or assumed, and the equity instruments issued, in exchange for control of the acquiree, plus any other cost directly attributable to the business combination.

The acquisition date is the date in which control over the acquiree is effectively obtained. When the acquisition takes place in a single transaction, the date of the transaction generally coincides with the acquisition date.
When the business combination occurs through more than one transaction:

- the cost of the combination is the total cost of all the individual transactions
- the exchange date is the date of each transaction (that is, the date on which each investment is recognized in the acquirer's accounts), while the acquisition date is that on which control over the acquiree is obtained..

The cost of a business combination is allocated by recognizing the identifiable assets, liabilities and contingent liabilities at fair value at the acquisition date.
The identifiable assets, liabilities identifiable contingent liabilities are recognized separately as at the acquisition date only if, at that date, they satisfy the following criteria:

- in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer and it is possible to measure its fair value reliably;
- in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and it is possible to measure their fair value reliably;
- in the case of an intangible asset or contingent liability, it must be possible to measure the fair value reliably.

Any positive difference between the cost of the business combination and the acquirer's equity interest at the net fair value of the identifiable assets, liabilities and contingent liabilities shall be recognized as goodwill.

After initial recognition, the goodwill acquired in a business combination is measured at cost and undergoes impairment testing at least once a year.

In the case of a negative difference, a new measurement is carried out. If confirmed, this negative difference shall immediately be recognized as revenue in profit or loss.

TREASURY SHARES

Any treasury shares held are deducted from shareholders' equity. Similarly, the original cost of the shares and any gains or losses from their subsequent sale are recognized as changes in shareholders' equity.

ACCRUALS AND DEFERRALS

Accruals and deferrals reporting costs and revenues accruing in the period on assets and liabilities are recognized as adjustments to the assets and liabilities to which they refer.

EXPENDITURE FOR LEASEHOLD IMPROVEMENTS

Expenses for refurbishing buildings belonging to third parties are capitalized in consideration of the fact that for the duration of the lease contract the company using the premises has control over the assets and can obtain future economic benefits from them. Such costs, classified under "Other assets" in accordance with Bank of Italy instructions, are amortized over a period no greater than the term of the lease.

EMPLOYEE TERMINATION BENEFITS

Following the reform of supplementary pension schemes introduced by Legislative Decree 252 of December 5, 2005, changes were made to the way in which employee termination benefits are recognized. The portion of termination benefits accrued through December 31, 2006 is treated as a defined-benefit plan, since the company is required under law to pay the employee an amount determined pursuant to Article 2120 of the Italian Civil Code. The change with respect to the situation prior to December 31, 2006 relates to the actuarial assumptions of the model, which must incorporate the rate of salary increases provided for by Article 2120 of the Civil Code (application of a rate equal to 1.5% plus 75% of the change in the ISTAT inflation index) and not that estimated by the company. As a result, the termination benefit provision at December 31, 2006 was measured using the new model, which no longer takes account of a number of variables such as the average annual rate of salary increases, pay grades based on seniority, and the percentage increase in salary due to promotion.

The portion of termination benefits accrued from January 1, 2007 allocated to a supplementary pension scheme or to the treasury fund managed by INPS (Italy's National Social Security Institute) are treated as a defined-contribution plan since the company's obligation towards the employee ceases upon transfer of the portions accrued to the fund.

Therefore, starting January 1, 2007, the Bank:

- continues to recognize the obligation accrued at December 31, 2006 in accordance with the rules for defined-benefit plans. It shall measure the obligation for benefits accrued by employees using actuarial techniques and shall calculate the total amount of actuarial gains and losses and the portion of these to be recognized in accordance with IAS 19 Revised.

- recognizes the obligation for portions accrued starting January 1, 2007, payable to a supplementary pension scheme or to the treasury fund managed by INPS, on the basis of the contributions owed in each period, as a defined contribution plan. More specifically, in the case of termination benefits payable to a supplementary pension scheme that treatment begins at the time of the choice or, if the employee does not exercise any option, as from July 1, 2007.

FINANCE LEASES

Lease agreements qualify as finance leases if they transfer substantially all the risks and rewards of ownership of the leased asset.

Ownership of the assets is not necessarily transferred to the lessee at the conclusion of the leasing contract.

The essential substantive and financial characteristic of these contracts is that the lessee acquires the economic benefits associated with the use of the leased asset for the majority of its economic life, in exchange for paying a sum that approximates the fair value of the asset and its associated finance costs. Hence, it is recognized in the financial statements of the lessor as follows:

- among assets, the value of the receivable disbursed, net of the principal of the leasing instalments accrued and paid by the lessee;
- in profit and loss, interest income.

FACTORING

Receivables acquired as part of factoring activities are recognized and carried in the accounts in the amount of sums disbursed to the assignor as an advance for the payment for the portfolio transferred with recourse. Receivables acquired without recourse are recognized as such after it is ascertained there are no contractual clauses that would vitiate the substantive transfer of all risks and rewards.

REPURCHASE AGREEMENTS

Securities received as part of a transaction which contractually requires subsequent resale and securities transferred as part of a transaction which contractually requires repurchase are not recognized and/or derecognized. Accordingly, in the case of securities acquired with a resale agreement, the amount paid is recognized as an amount due from customers or banks or as a financial asset held for trading. In the case of securities transferred with a repurchase agreement, the liability is recognized as an amount due to banks or customers, or as a financial liability held for trading. Revenues from these investments, consisting of the accrued interest on the securities and the spread between the spot price and forward price of the securities, are recognized as interest in profit or loss on an accruals basis.

The two types of operation are offset if and only if they are carried out with the same counterparty and if such netting is provided for in the contract.

GUARANTEES ISSUED AND SIMILAR CREDIT DERIVATIVES

Guarantees issued are initially recognized at fair value, which normally corresponds to the amount received at the time the guarantee was issued.

Guarantees issued and similar credit derivatives pursuant to IAS 39 (i.e. contracts in which it is stated that the issuer shall make specified payments in order to indemnify the insured party for an effective loss incurred for default by a specified debtor of the amount due at maturity of a debt instrument) are recognized under item 100 "Other liabilities".

After initial recognition, guarantees issued are recognized at the higher of the amount initially recognized net of any amortization and the estimate of the amount required to settle such obligations.

The effects of the valuation, which are correlated with any impairment of the underlying asset, are recognized under item 130.d of the income statement “Net losses/recoveries on impairment of other financial transactions” in profit or loss.

Income statement

Recognition of revenues

Revenues are recognized when realized or, in the case of the sale of goods or products, when it is probable that future benefits will be received and these future benefits can be reliably determined, and in the case of services, when the services are performed.

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 in the income statement only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;
- commissions for revenues from services are recognized in the period in which the service is rendered;
- revenues 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;

- revenues from the sale of non-financial assets are recognized upon completion of the sale, unless the Bank has retained most of the risks and rewards connected with the asset.

Contributions to the National Resolution Fund

Legislative Decrees 180 and 181 of November 16, 2015 transposed Directive 2014/59/EU (the Banking Resolution and Recovery Directive, "BRRD") into Italian law. The directive establishes a framework for the recovery and resolution of crises at credit institutions and investment firms and provides for the establishment of resolution funds.

In first half of 2017, the banks of the Iccrea Banking Group were required to pay ordinary contributions to the National Resolution Fund as part of their participation in the system.

These amounts were recognized under item 150 b) "Other administrative expenses" as specified in the Bank of Italy notice of January 19, 2016.

Determination of fair value

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.

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

The fair value of financial instruments is determined on the basis of prices on financial markets in the case of instruments quoted on active markets and through the use of the comparable approach or model valuation approach for other financial instruments. For listed instruments, an active market is a market (or dealer, broker, industrial group, pricing service or regulatory agency) in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

In the case of instruments quoted on an active market, the fair value for an asset held or a liability to be issued is the current price offered by the purchaser (bid), while for an asset to be purchased or a liability held it is the current price requested by the seller (ask). Nevertheless, in certain special cases it is possible to measure the instruments at the mid-market price. In the absence of a quoted price on an active market or a regularly functioning market, i.e. when the market does not have a sufficient and continuous number of transactions, bid-ask spreads and volatility are not sufficiently low, the fair value of financial instruments is mainly determined using valuation techniques that seek to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Valuation techniques consider:

- prices in recent market transactions in similar instruments, if available, corrected appropriately to reflect changes in market conditions and technical differences between the instrument being valued and the similar instrument (the 'comparable approach');
- valuation models commonly used by market participants that have been demonstrated to provide reliable estimates over time of prices obtained in current market conditions.

Financial instruments are assigned to one of three levels that reflect the characteristics and significance of the inputs used in determining fair value:

- Level 1: unadjusted prices on an active market for the assets and liabilities involved. In this case the fair value of the financial instruments is exactly equal to the quoted price;
- Level 2: inputs other than the above quoted prices that are observable directly (prices) or indirectly (derived from prices) on the market. Fair value is determined using valuation techniques that provide for: a) the use of market values indirectly linked to the instrument being valued, drawn from instruments with similar risk characteristics (comparable approach); and b) valuation models that use observable inputs;

- Level 3: inputs that are not based on observable date. Fair value is determined on the basis of valuation models that use significant unobservable inputs in the calculation.

The choice between these methods is not optional, as they must be applied in accordance with the fair value hierarchy: where a quoted price on an active market is available, no other valuation technique may be used. In addition, the valuation techniques used must maximize the use of observable market parameters, employing subjective parameters as little as possible.

In the absence of active markets, financial assets and liabilities are measured with valuation techniques using the directly observable prices of similar instruments (comparable approach – Level 2) or, in the absence of such inputs, fair value is calculated on the basis of valuation techniques that are more discretionary in nature (mark-to-model approach – Level 2 and Level 3).

The following are considered to be quoted on an active market (**Level 1**).

- listed shares;
- government securities quoted on a regulated market;
- bonds with significant contributed prices;
- listed funds or funds whose net asset value is calculated on a daily basis;
- derivatives contracts for which prices on an active market are available (listed derivatives).

The price used for financial instruments quoted on active markets is the current price offered for financial assets (bid) and the current price requested (ask) for financial liabilities, on the main trading market, at the close of the reporting period. Nevertheless, in certain special cases, such as the case of financial instruments for which the bid-ask spread is not significant or for financial assets and liabilities whose characteristics give rise to offsetting positions in market risk, a mid-market price is used (once again as at the last day of the reporting period) rather than the bid or ask price.

In the absence of prices observable on active markets, the fair value of financial instruments is determined through two approaches:

- the comparable approach (Level 2), which assumes the presence of quoted market prices on inactive markets for identical or similar instruments in terms of risk-return, maturity and other trading conditions. In particular, when the current market prices of other highly comparable instruments (on the basis of the country or sector to which they belong, the rating, the maturity or the seniority of the securities) are available, the Level 2 value of the instrument corresponds to the quoted price of the similar instrument, adjusted if necessary for factors observable on the market;
- the model valuation approach (Level 2 or Level 3) is based on the use of valuation models that maximize the use of observable market variables. The most common valuation techniques used are:
- discounted cash flow models
- option pricing models.

For derivatives, in view of their variety and complexity, a systematic reference framework has been developed that represents the common elements (calculation algorithms, valuation models, market data used, underlying assumptions of the model) on which the valuation of each category of derivative is based.

Derivatives on interest rates, exchange rates, equities, inflation and commodities not traded on regulated markets are over-the-counter instruments. In other words, they are negotiated bilaterally with market counterparties and their fair value is determined with specific pricing models that use inputs (such as yield curves, exchange rates and volatility) observed on the market.

For structured credit products and ABSs, if reliable prices are not available, valuation techniques using market-derived parameters are employed.

To determine the fair value of certain types of financial instrument for which observable market inputs are not available and for which market activity is limited or absent, it is necessary to use valuation techniques that employ inputs that are not directly observable in the market and therefore require estimates and assumptions on the part of the person measuring the instrument (Level 3). More specifically, the mark-to-model approach is applied to all financial instruments not quoted on an active market when:

- even if observable inputs are available, it is necessary to make significant adjustments to such inputs that are based on unobservable inputs;
- the estimation is based on assumptions specific to the Group concerning future cash flows and the adjustment for the discount rate risk.

In any event, the goal is to obtain a value for the instrument that is consistent with the assumptions that market participants would use in forming a price. Such assumptions also regard the risk associated with a given valuation technique and/or the inputs employed. IFRS 13 requires to adopt reasonable assumptions without having to undertake exhaustive searches to find such information.

The valuation technique used for a financial instrument is adopted consistently over time and is modified only in response to material changes in market conditions or the condition of the issuer of the financial instrument.

For the purpose of reporting for financial instruments at fair value, the above hierarchy adopted in determining fair value is used consistently for the allocation of the portfolio to the fair value input levels.

Additional information on the modeling used by the Group in determining fair value is provided in section E of these notes.

The entire system of rules and responsibilities for the valuation of the Bank's financial instruments is set out in the Fair Value Policy, which specifies the main components of the entire methodological framework in terms of:

- definition of the roles and responsibilities of the company bodies and functions involved;;
- classification of the financial instruments;
- the rules for classification of financial instruments within the fair value hierarchy provided for under IFRS 7 and IFRS 13;
- the valuation techniques and methods used for financial instruments;
- processes for the management and control of the valuation of financial instruments;
- the hedging policy for financial instruments;
- reporting flows.

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.

DETERMINATION OF AMORTIZED COST

The amortized cost of a financial asset or liability is the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or the next repricing date. In calculating the present value, the effective interest rate is applied to the future cash receipts or payments over the entire life of the financial asset or liability or to a shorter period in the presence of certain conditions (for example, a change in market rates).

Subsequent to initial recognition, amortized cost makes it possible to allocate income and expense on the instrument over its entire expected life through the amortization process. The determination of amortized cost differs depending on whether the financial assets/liabilities being measured are fixed or floating rate instruments and, in the latter case, on whether the variability of the rate is known or not a priori. For fixed-rate instruments or instruments whose rate is fixed over specified time periods, future cash flows are quantified on the basis of the known interest rate (single or variable) over the life of the instrument. For floating-rate financial assets/liabilities for which the variability of the interest rate is not known a priori (e.g. because it is linked to an index)), cash flows are calculated on the basis of the last known rate. At each repricing date, the amortization schedule and the effective interest rate are recalculated for the entire useful life of the instrument, i.e. until the maturity date.

The adjustment is recognized as an expense or income through profit or loss.

Measurement at amortized cost is used for loans, financial asset held to maturity and available for sale and for debt and securities issued.

Financial assets and liabilities traded on market terms and conditions are initially measured at fair value, which is normally equal to the amount disbursed or paid including, for instruments measured at amortized cost, directly attributable transaction costs, fees and commissions.

Transaction costs include internal or external marginal costs and revenues attributable to the issue, the acquisition or the disposal of a financial instrument which are not debited to the customer. Such commissions, which must be directly attributable to the individual financial asset or liability, modify the original effective yield. Accordingly, the effective interest rate associated with the transaction differs from the contractual interest rate. Transaction costs do not include costs/revenues regarding more than one transaction and components related to events which may occur during the life of the financial instrument but which are not certain at the time of the initial agreement, such as, for example: commissions for retrocession, for non-use or for early repayment. Furthermore, the calculation of amortized cost does not include costs that would be incurred independently of the transaction (e.g. administrative costs, office supplies or communication expenses), costs that, while directly attributable to the transaction, are part of standard practice for the management of the financing (e.g. activities related to the loan granting process), as well as fees and commissions for services collected in respect of structured finance activities which would in any case have been received independently of the subsequent financing of the transaction (e.g. facility and arrangement fees) and, finally, intercompany costs and revenues.

With specific reference to loans and receivables, costs considered directly attributable to the financial instrument include fees paid to distribution networks, fees paid for advisory/assistance services for the origination and/or participation in syndicated loans and up-front commissions in respect of loans granted at rates exceeding market rates. Revenues considered in the calculation of amortized cost include up-front commissions in respect of loans granted at rates below market rates, revenues from participation in syndicated loans and brokerage fees received.

As regards securities not classified among assets held for trading, fees for contracts with brokers operating on Italian equity markets, and fees paid to intermediaries operating on foreign equity and bond markets defined on the basis of commission tables, are considered transaction costs. Stamp duties are not included in the amortized cost calculation because they are insignificant.

For securities issued, the calculation of amortized cost considers placement commissions on bond issues paid to third parties, amounts paid to exchanges and fees paid to audit firms for the activities performed for each single issue. The calculation of amortized cost does not consider commissions paid to rating agencies, legal and advisory/audit expenses for the annual update of prospectuses, the costs for the use of indices and commissions which originate during the life of the bond issue.

Amortized cost is also applied in measuring impairment losses on the financial instruments listed above as well as for the recognition of instruments issued or purchased at an amount other than fair value. Instead of using the amount received or paid, the latter are measured at fair value by discounting expected future cash flows at a rate equal to the effective interest rate of similar instruments (in terms of credit rating, contractual expiry, currency, etc.), with the simultaneous registration in profit or loss of financial expense or income; subsequent to initial recognition, these are measured at amortized cost with the registration of higher or lower effective interest with respect to nominal interest. Lastly, structured assets and liabilities which are not recognized at fair value through profit or loss for which the embedded derivative has been separated from the financial instrument are measured at amortized cost.

Amortized cost is not applied to hedged financial assets/liabilities for which fair value changes related to the risk hedged are recognized through profit or loss. However, the financial instrument is again measured at amortized cost when the hedge terminates. From that moment, fair value changes recognized previously are amortized, calculating a new effective interest rate which considers the value of the loan adjusted by the fair value of the hedged portion until the natural expiry of the hedge. Furthermore, as already mentioned in the section on measurement criteria for loans and debts and securities issued, measurement at amortized cost is not applied to short-term assets/liabilities for which the time value is deemed to be immaterial and to loans without a specified maturity or which are revocable.

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 "prolonged" reduction in value.

In particular, a financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

Impairment is assessed on an individual basis for financial assets that show specific evidence of having incurred an impairment loss and collectively for financial assets for which individual valuation is not required or for which individual valuation did not give rise to recognition of impairment. The collective valuation is based on the specification of uniform risk classes for the financial assets, taking account of the characteristics of the debtor/issuer, the economic sector involved, the geographical area, the presence of any guarantees and other relevant factors.

Accordingly, in the case of a prolonged reduction in value, the following procedures are adopted:

- for financial assets carried at amortized cost (loans & receivables and held-to-maturity investments), if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.
- when a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset has incurred a "significant or prolonged" loss of value, the cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in profit or loss even though the financial asset has not been derecognized.

Any writebacks are recognized as follows:

- for financial assets classified as held to maturity investments and loans & receivables, in profit or loss;
- for financial assets classified as available for sale, in equity for equity instruments and in profit or loss for debt instruments.

The price of impaired financial instruments is determined as follows:

- for financial assets classified as held to maturity investments and loans & receivables, it is the present value of the expected cash flows (not considering future losses that have not yet occurred) discounted at the original internal rate of return of the instrument;
- for financial assets classified as available for sale, it is the fair value of the instrument.

Financial assets subject to impairment testing are debt securities and equity securities classified in the following IAS categories:

- Held to Maturity (HTM),
- Loans and Receivables (L&R),
- Available for Sale (AFS).

For the purposes of individual impairment testing, it is necessary to take account of the following factors:

- general market conditions;
- the correlation between the impairment loss on the individual financial instrument and a general decline in market indices (comparable analysis);

as well as the following indicators, which can be broken down into two categories:

- indicators drawn from internal, qualitative information concerning the company being valued, such as posting a loss or in any event diverging significantly from budget targets or objectives set out in long-term business plans announced to investors, the announcement or start of bankruptcy proceedings or reorganization plans, a reduction in the rating assigned by a specialized rating company of more than two steps;
- indicators drawn from external quantitative information (for equity securities) on the company, such as a "significant or prolonged" reduction in the fair value below its value at initial recognition.

DEBT SECURITIES

For debt securities, it is essential to assess the relevance of a deterioration in the conditions of the issuer on the basis of a careful and prompt evaluation of market information.

To this end, it is appropriate to consider specialized sources of information (such as, for example, investment advice from specialized financial institutions, rating reports, etc.) or from information providers (Bloomberg, Reuters, etc.).

In order to identify objective evidence of impairment giving rise to an impairment loss on the financial instrument, it is necessary to monitor developments. Indicators of possible impairment include, for example:

- default of the financial asset;
- significant financial difficulty of the issuer;
- default or delinquency in interest or principal payments;
- the possibility that borrower will enter bankruptcy or other financial reorganization;

- the disappearance of an active market for the asset.

EQUITY SECURITIES

IAS 39 calls for impairment testing in the event of the joint presence of two circumstances:

- the occurrence of one or more adverse events after initial recognition of the financial asset;
- the fact that such event has an adverse impact on expected future cash flows.

In addition to these circumstances, objective evidence of impairment of equity securities classified as available for sale includes a "significant" or "prolonged" reduction in fair value below its cost, determined as follows: a decrease of more than 30% in the fair value of equity securities below their carrying amount or a continuous decrease for a period of over 18 months.

The amount of the impairment loss is determined with reference to the fair value of the financial asset.

For more on the methods used to determine fair value, please see the discussion in the associated section of the notes.

EQUITY INVESTMENTS

At each reporting date the equity investments in associates undergo impairment testing to determine whether there is objective evidence that the carrying amount of such assets is not fully recoverable.

The identification of any impairment involves the verification of the presence of evidence of possible impairment and the determination 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; and quantitative indicators consisting of a reduction in fair value below the carrying amount of over 30%, or a market capitalization lower than the company's book equity for more than 24 months, for securities listed quoted on active markets, 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.

The presence of evidence of impairment results in the recognition of a writedown to the extent that the recoverable value is lower than the carrying amount.

The recoverable value is the greater of fair value less costs to sell and the value in use.

For an illustration of the valuation techniques used to determine fair value, please see the relevant section above.

Value in use is the present value of expected future cash flows from the asset. It reflects estimated expected future cash flows from the asset, the estimate of possible changes in the amount and/or timing of cash flows, the time value of money, the risk premium on the asset and other factors that could affect the assessment by market participants of expected future cash flows from the asset.

Value in use is determined by discounting future cash flows.

OTHER NON-FINANCIAL ASSETS

Property and equipment and intangible assets with a finite useful life undergo impairment testing if there is evidence that the carrying amount of the asset cannot be recovered. The recoverable value is determined on the basis of the fair value of the item of property and equipment or the intangible asset net of costs of disposal or the value in use, if that can be determined and it is greater than the fair value.

As regards real estate, fair value is mainly determined on the basis of an appraisal prepared by an independent expert.

For other property and equipment and intangible assets (other than those recognized following a business combination) it is assumed that the carrying amount normally corresponds to the value in use, as determined by a normal process of depreciation or amortization estimated on the basis of the actual contribution of the asset to the production process and having determined that the determination of fair value would be highly uncertain. The two values differ, giving rise to an impairment loss, in the case of damage, exit from the production process or other similar non-recurring circumstances.

Intangible assets recognized following acquisitions and in application of IFRS 3 at each balance-sheet date undergo impairment testing to determine whether there is objective evidence that the asset may have incurred an impairment loss.

If there is evidence of impairment, intangible assets with a finite life undergo a new valuation to determine the recoverability of the carrying amount. Recoverable value is determined on the basis of value in use, i.e. present value, as estimated using a rate representing the time value of money, the specific risks of the asset and the margin generated by relationships in place at the valuation date over a time horizon equal to the residual term of those relationships.

Since intangible assets with an indefinite life, represented by goodwill, do not generate autonomous cash flows, they undergo annual testing of their carrying amount for the cash generating unit (CGU) to which the values were allocated in the related business combinations. The amount of any impairment is determined on the basis of the difference between the carrying amount of the CGU and the recoverable value of the unit, represented by the greater of its fair value, net of costs of disposal, and its value in use.

The carrying amount of the CGU must be determined in a manner consistent with the criteria used to determine its recoverable value. From the standpoint of a banking enterprise, it is not possible to determine the cash flows of a CGU without considering the flows generated by financial assets and liabilities, given that the latter represent the core business of the company. In other words, the recoverable value of the CGUs is impacted by those cash flows and, accordingly, the carrying amount of the CGUs must be determined using the same scope of estimation used for the recoverable value and, therefore, must include the financial assets/liabilities. To that end, these assets and liabilities must be allocated to the CGUs.

Following this approach, the carrying amount of the CGUs of Iccrea can be determined in terms of their contribution to consolidated shareholders' equity, including non-controlling interests.

The value in use of a CGU is calculated by estimating the present value of the future cash flows that are expected to be generated by the CGU. Those cash flows are determined using the most recent public business plan or, in the absence of such a plan, an internal forecasting plan developed by management.

Normally, the specific forecasting period covers a maximum time horizon of three years. The flow in the final year of the forecasting period is projected forward in perpetuity, using an appropriate growth rate "g" for the purposes of the terminal value.

In calculating value in use, the cash flows must be discounted using a rate that reflects the current time value of money and the specific risks to which the asset is exposed. More specifically, the discount rates adopted incorporate current market values for the risk-free rate and equity premiums observed over a sufficiently long period of time to reflect different market conditions and business cycles. In addition, in view of the different risks in each CGU's area of operations, different betas are also adopted.

Business combinations

The subject of business combinations is addressed in IFRS 3.

The transfer of control of a business (or a group of integrated activities and assets, conducted or managed individually) constitutes a business combination.

Control is the power to direct the financial and operating policies of an entity or business activity so as to obtain benefits from its activities. It is assumed that one entity has obtained control of another entity when it acquires more than half of the voting rights of that other entity, unless it can be demonstrated that such ownership does not constitute control. Even when one of the entities does not acquire more than half of the voting rights of the other entity, it is possible that the first entity has obtained control over the other if, following the business combination, it acquires:

- the power over more than half of the voting rights of the other entity by virtue of an agreement with other investors; or
- the power to direct the operating and financial policies of the other entity under a statute or an agreement; or
- the power to appoint or replace the majority of the members of the board of directors or equivalent governing body of the other entity; or
- the power to cast the majority of the votes during meetings of the board of director or equivalent governing body of the other entity.

IFRS 3 requires that an acquirer be identified for all business combinations. The acquirer is the party obtaining control over another entity or group of assets. Should it not be possible to identify a controlling entity, in accordance with the above definition of control, such as, for example, in the case of transactions exchanging equity investments, the acquirer must be identified using other factors, namely: the entity whose fair value is significantly greater, the entity that pays a cash price, or the entity that issues the new shares.

The acquisition and, therefore, the initial consolidation of the entity acquired, must be recognized on the date on which the acquirer obtains effective control over the business or assets acquired. When the operation occurs in a single transaction, the date of the transfer generally coincides with the date of acquisition. However, the existence of any agreements between the parties that may involve a transfer of control prior to the actual date of exchange must always be verified.

The price paid in a business combination is determined as the sum of the fair value, as of the transfer date, of the assets transferred, the liabilities incurred or assumed and the equity instruments issued by the acquirer in the change of control.

In transactions involving a cash payment (or when payment is envisaged by means of cash-equivalent financial instruments), the price is as agreed, discounting if necessary where payment will be made in instalments over a period greater than the short term. Should payment be made using a non-cash instrument, thus through the issue of an instrument representing equity, the price is equal to the fair value of the means of payment, net of costs directly assigned to the equity-issuing transactions. For the methods of determining the fair value of financial instruments, please refer to the specific section of these notes, noting that, where shares are listed on active markets, the fair value is represented by the stock exchange price on the date of acquisition or, if this is not available, the last quotation available.

The price of the business combination includes, as of the date of acquisition, any adjustments contingent on future events, if envisaged by agreements and only when such adjustments are likely, can be determined in a reliable manner and realized within twelve months of the date on which control is acquired. Indemnities for impairment of assets used are not considered because they are already considered in either the fair value of the equity instruments or as a reduction of the premium or increase of the discount on the initial issue in the case of an issue of debt instruments.

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

The acquirer must recognized the costs related to the acquisition as expenses in the periods in which these costs are incurred and the services received, except for the costs of issuing equity or debt securities, which must be recognized in accordance with the provisions of IAS 32 and IAS 39.

Business combinations are recognized in accordance with the "acquisition method" on the basis of which the identifiable assets acquired (including any intangible assets previously not recognized by the acquired business) and liabilities assumed (including contingent liabilities) are recognized at their respective fair values on the acquisition date. Furthermore, for each business combination, any non-controlling interests in the acquiree may be recognized at fair value (with consequent increase of the price paid) or proportionally to the non-controlling share of the identifiable net assets of the acquiree. The amount by which the price paid, thus determined, exceeds the fair value of the identifiable assets and liabilities is recognized as goodwill and allocated to the Cash Generating Units identified within the Group. If the price paid is lower that the fair value, the difference is recognized in profit or loss.

Identification of the fair value of the assets, liabilities and contingent liabilities of the acquired entity should take place on a provisional basis by the end of the year in which the business combination is performed. It must be completed within twelve months of acquisition.

If control is obtained through subsequent acquisitions, the acquirer must recalculate the equity interest it held previously in the company acquired at the respective fair value on the acquisition date, and recognized any difference compared with the previous carrying value in profit or loss. At the time of acquisition of control, total goodwill is therefore recalculated on the basis of the fair value on the acquisition date of the identifiable assets and liabilities of the company acquired.

Further equity interests in companies already controlled are recognized in accordance with the "economic entity theory", as provided for under IFRS 10, according to which the consolidated financial statements represent all available resources of the business, understood as an entity that is financially independent of the person controlling it. Therefore, considering the group as a whole, the differences between acquisition costs and the carrying amount of the non-controlling interest acquired are recognized in the Group's shareholders' equity. Analogously, sales of non-controlling interests without loss of control do not generate gains/losses in profit or loss, but rather changes in the Group's shareholders' equity.

Operations launched with the aim of gaining control over one or more entities that do not constitute a business unit, or transitory control, are not classed as business combinations. The same applies if the business combination is carried out for the purpose of reorganization, and therefore between two or more companies or business units previously part of the Group, and does not entail any change in the control structure regardless of the percentage of third party rights before and after the operation (so-called common-control transactions). These transactions are considered to be without economic substance. As such, where there are no specific indications provided by the IASs/IFRSs and in compliance with the assumptions of IAS 8 that require that – where there is no specific standard – the company must use its own judgement in applying an accounting policy requiring material disclosure that is reliable, prudent and reflects the economic substance of the operation, these are recognized safeguarding the continuity of values of the acquiree in the acquirer's financial statements.

Mergers fall under the scope of business combinations, representing the most complete form of aggregation, insofar as they entail the legal and economic unification of the parties concerned.

Business combinations, whether mergers, i.e. with the formation of a new legal entity, or acquisitions, with one company being taken over by an existing company, are treated in accordance with the criteria described above. More specifically:

- if the transaction involves the transfer of control over a company, it is treated as a business combination in accordance with IFRS 3;

- if the transaction does not entail the transfer of control, it is recognized in continuity with the values recognized by the acquiree.

Criteria for preparing segment reporting

For the purposes of the operating segment reporting required by IFRS 8, and taking into account the organizational/management and geographical structure of the Parent Company and its subsidiaries, the main segment breakdown is by business segment, while no division by geographical area has been made as all Group activities are carried out in Italy.

The Group's operating segments are as follows:

- *Institutional:* activities performed with institutional counterparts (mutual banks, other banks, and public institutions), in the context of payment services, financial intermediation (trading and capital markets), and foreign activities, as well as additional support services for member banks;
- *Corporate:* activities mainly aimed at loans to small and mid-sized companies that are customers of the mutual banks;
- *Retail*: mainly asset management activities on an individual, collective, and insurance basis and consumer credit products aimed at retail customers;
- *Corporate Center:* for internal Group activities of an administrative and support nature, as well as all intercompany transactions.

Allocation of income statement and balance sheet components to the individual segments is carried out on the basis of the segment to which they belong in accordance with the customer segmentation management model adopted.

The aim of the revenue and cost allocation rules is to attribute all the profit or loss components that pertain to a business structure to than structure, either directly or using appropriate pass-through criteria, reducing the unattributed portion charged to the Corporate Center to a minimum.

Specific contractual agreements between Group entities regulate the application of transfer prices for other income components relating to transactions that call for the division of gains/losses between service units/product producers and customers/public entities. Direct costs, and for the relevant portion, the operating costs of central bodies other than those of the holding company units, have been attributed to each segment. Hence, for services carried out by central bodies for operational business units, the pass through was carried out on the basis of the services effectively rendered, leaving costs relating to management and control activities allocated to the Corporate Center. The business units' profits are reported net of taxes.

Operating segments are presented gross of transactions between different segments.

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. The value of guarantees at the time of initial recognition is equal to the commission received. 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 "Other liabilities".

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

A.3.1 Reclassified financial assets: carrying amount, fair value and impact on comprehensive income

During 2016 the financial assets that had been reclassified using the option provided for under Regulation (EC) no. 1004/2008 were sold.

A.3.2 Reclassified financial assets: impact on comprehensive income before transfer

The table has not been completed because there were no such positions as of the balance sheet date as no transfers of financial assets were carried out.

A.3.3 Transfers of financial assets held for trading

The table has not been completed because there were no such positions as of the balance sheet date as no transfers of financial assets were carried out.

A.3.4 Effective interest rate and expected cash flows of reclassified assets

During 2016 the financial assets that had been reclassified using the option provided for under Regulation (EC) no. 1004/2008 were sold.

A.4 – FAIR VALUE DISCLOSURE

Qualitative disclosures

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

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

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

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

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

significant unobservable input) in the fair value hierarchy.

Mark to Market approach

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

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

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

Comparable approach

In the case of the comparable approach, measurement is based on the prices of substantively comparable instruments in terms of risk-return, maturity and other trading conditions. The following Level 2 inputs are necessary for use of the comparable approach:

- quoted prices on active markets for similar assets or liabilities;
- quoted prices for the instrument involved or for similar instruments on inactive markets, i.e. markets in which transactions are infrequent, prices are not current, change significantly over time or among the various market makers or on which little information is made public.

If there are quoted instruments that meet all of the comparability criteria indicated here, the value of the Level 2 instrument is considered to correspond to the quoted price of the comparable instrument, adjusted if necessary for factors observable on the market.

However, if the conditions for using the comparable approach directly do not apply, the approach may still be used as an input in Level 2 mark-to-model valuations.

Mark to Model approach

In the absence of quoted prices for the instrument or for comparable instruments, valuation models are adopted. Valuation models must always maximize the use of market inputs. Accordingly, they must make priority use of observable market inputs (e.g. interest rates and yield curves observable at commonly quoted intervals, volatilities, credit spreads, etc.) and only in their absence or where they are insufficient to determine the fair value of an instrument may inputs that are not observable on the market be used (discretionary estimates and assumptions). The technique does not give rise to a single classification within the fair value hierarchy. Depending on the observability and materiality of the inputs used in the valuation model, an instrument could be assigned to Level 2 or Level 3.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The 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.

With this in mind, a new framework for valuing derivatives was adopted, the so-called OIS Discounting approach, which basically uses:

1. a yield curve based on the values indicated by the OIS-Eonia curve, from which we derive (through bootstrapping) the yield curve of the zero-coupon rates to be used to discount the future cash flows of the derivatives;
2. a differentiated set of yield curves based upon the values indicated by the various Libor curves (e.g. 1-month Euribor, 3-month Euribor, six-month Euribor, etc.), from which we derive (through individual bootstrapping procedures) the respective yield curves of the forward rates: these rates are used to value the future cash flows of the derivatives. Clearly, the individual bootstrapping procedures must be calibrated so as to be consistent with the zero-coupon yield curve derived from the procedure indicated in point 1 so as to reproduce a result consistent with the values in observable markets.

The reason for the this new approach to valuing derivatives lies in the financial crisis that began in the second half of 2007, which led – among various consequences – to a review of the methodologies for pricing derivatives. Indeed, the classic approach – which assumes no arbitrage (which developed in the 1970s) and therefore the existence of a single, risk-free yield curve for lending and/or funding – has become inadequate as a result of the emergence of significant counterparty risk, necessitating the employment of mitigation techniques. More specifically, the use of collateral-backed derivatives – to mitigate that risk exposure – has become best practice in the market and this technique means that the valuation of derivatives much take account of the remuneration procedures for the collateral itself.

The new valuation framework incorporates the use of collateral in pricing derivatives.

In the absence of quoted prices on active markets, financial instruments are measured as follows:

- bonds are valued using a discounted cash flow model adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer;
- structured bonds are valued using a discounted cash flow model that incorporates valuations from option pricing models, adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer, and volatility and correlation surfaces for the underlying;
- plain vanilla interest-rate derivatives are mainly valued using a discounted cash flow model. Interest-rate options and financial instruments with convexity adjustments are valued using a Log-normal Forward Model, while exotic options are values using the One Factor Trinomial Hull-White approach. The inputs used are yield curves and credit spreads, and volatility and correlation surfaces;
- plain vanilla inflation derivatives are valued using the CPI Swap valuation model, while structured options use the Inflation Market Model. The inputs used are inflation swap curves and premiums on plain-vanilla options;
- equity and CIU derivatives are valued using the Black&Scholes models (or models based on it, such as the Rubinstein model for forward starts and the Nengju Ju model for Asian options), which includes an estimate of volatility through interpolation by maturity and strike prices on a volatility matric, as well as the inclusion of discrete dividends through the escrowed dividend model. The inputs used are the price of the underlying equity, the volatility surface and the dividend curve;
- derivatives on exchange rates are valued using a discounted cash flow approach for plain-vanilla contracts or a Garman and Kohlhagen model for European options on exchange rates. The inputs are spot exchange rates and the forward points curve and volatility surfaces for plain-vanilla options;
- equity securities are valued on the basis of direct transactions in the same security or similar securities observed over an appropriate span of time with respect to the valuation date, the market multiples approach for comparable companies and, subordinately, financial and income valuation techniques;
- investments in CIUs other than open-end harmonized funds are generally valued on the basis of the NAVs (adjusted if not fully representative of the fair value) made available by the asset management companies. These investments include private equity funds, real estate investment funds and hedge funds.

The Fair Value Policy also provides for the possibility of applying valuation adjustments to the prices of financial instruments when the valuation technique used does not capture factors that market participants would use in estimating fair value.

Valuation adjustments are intended to:

- ensure that the fair value reflects the value of a transaction that could actually be carried out in a market;
- incorporate the future expected costs directly connected with the transaction;
- reduce the risk of distorting fair values, with consequent errors in profit or loss.

The factors impacting the need for an adjustment are:

- the complexity of the financial instrument;
- the credit standing of the counterparty;
- any collateral agreements;
- market liquidity.

In particular, the Group has developed a method for calculating the CVA/DVA (Credit Value Adjustments/Debt Value Adjustments) in order to adjust the calculation of the fair value of uncollateralized derivatives in order to take account of counterparty risk (non-performance risk).

A simplified building-block approach is used to estimate the CVA/DVA, which is obtained as the product of the estimated exposure at default (EAD), weighted for expected loss (LGD), and the probability of default occurring (PD).

The EAD is based on the mark-to-market approach, reduced by the value of any guarantees at the date the valuation is made without any add-on. The weighted average life of the portfolio is used for each counterparty to determine the probability of default (PD). No estimate of the wrong-way risk is made.

In order to estimate the PD and LGD for financial counterparties, we have adopted an implied market approach, namely they are derived from the listed prices for credit sensitive instruments, such as single-name or sector credit curves.

For transactions in derivatives, the Group has also continued to develop its use of Credit Support Annexes (CSA) to mitigate risks.

Significant unobservable inputs used in valuing instruments in Level 3 mainly include:

- estimates and assumptions underlying the models used to measure investments in equity securities and units in CIUs. No quantitative analysis of the sensitivity of the fair value of those investments to changes in unobservable inputs has been performed. The fair value was taken from third-party sources with no adjustments;
- Probability of Default: the parameter is extrapolated either from multi-period transition matrices or from single-name or sector credit curves. The figure is used to value financial instruments for disclosure purposes only;
- credit spreads: the figure is extrapolated to create sector CDS curves using regression algorithms on the basis of a panel of single-name CDS curves. The figure is used to value financial instruments for disclosure purposes only;
- LGD: the figure is derived from a historical analysis of movements in the portfolio. The figure is used to value financial instruments for disclosure purposes only.

A.4.2 Valuation processes and sensitivity

The sensitivity analysis of unobservable inputs is conducted through a stress test of all significant unobservable inputs for the different types of financial instrument. The tests are used to determine the potential changes in the fair value by category of instrument caused by realistic variations in the unobservable inputs (taking account of correlations between inputs).

The Group conducted an assessment of the potential sensitivity of the valuations of instruments classified in Level 3 and measured at fair value on a recurring basis to changes in the unobservable market parameters. The assessment found that the effects were not material.

A.4.3 Fair value hierarchy

Under the provisions of IFRS 13, all fair value valuations must be classified within the three levels that delineate the valuation process on the basis of the characteristics and significance of the inputs used:

- Level 1: unadjusted quoted prices on an active market. Fair value is drawn directly from quoted prices observed on active markets;
- Level 2: inputs other than the quoted prices noted above that are observable on the market either directly (prices) or indirectly (derivatives on prices). Fair value is determined using valuation techniques that provide for: a) the use of market inputs indirectly connected with the instrument being valued and derived from instruments with similar risk characteristics or listed on non-active markets (the comparable approach); or b) that use observable inputs;
- Level 3: inputs that are not observable on the market. Fair value is determined using valuation techniques that use significant unobservable inputs.

In general, transfers of financial instruments between Level 1 and Level 2 in the fair value hierarchy only occur in the event of changes in the market in the period considered. For example, if a market previously considered active no longer meets the minimum requirements for being considered active, the instrument will be reclassified to a lower level; in the opposite case, it will be raised to a higher level.

As required under paragraph 97 of IFRS 13 and, previously, under IFRS 7, certain fair value disclosures are required for financial instruments measured at fair value for disclosure purposes only (instruments which are measured at amortized cost in the balance sheet). The Group has specified the following approaches for measuring fair value in these cases:

- cash and cash equivalents: book value approximates fair value;
- loans with a contractually specified maturity (classified under L3): the discounted cash flow model with adjustments reflecting the cost of credit risk, the cost of funding, the cost of capital and any operating costs;
- bad debts and positions unlikely to be repaid valued on an individual basis: book value approximates fair value;
- securities issued:
  - classified L1: price in relevant market;
  - classified L2: mark-to-model valuation discounting cash flows using a set of yield curves distinguished by level of seniority, type of customer and currency of issue;
- financial liabilities discounted cash flow model with adjustment based on the issuer risk of the Iccrea Group.

A.4.4 Other information

The circumstances referred to in paragraphs 51, 93 letter (i) and 96 of IFRS 13 do not apply to the Group's financial statements.

Quantitative disclosures

A.4.5 Fair value hierarchy

A.4.5.1 Financial assets and liabilities measured at fair value on a recurring basis: breakdown by fair value input level one

	Total 2017			Total 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	15,982	428,783	5,267	86,943	302,127	2,211
2. Financial assets designated as at fair value	-	15,140	-	-	14,559	-
3. Financial assets available for sale	2,876,354	271,578	50,415	4,880,515	298,213	68,551
4. Hedging derivatives	-	7,373	-	-	17,773	-
5. Property and equipment	18,175	467,518	-	39,770	441,561	-
6. Intangible assets	-	-	-	-	-	-
Total	**2,910,511**	**1,190,392**	**55,682**	**5,007,228**	**1,074,233**	**70,762**
1. Financial liabilities held for trading	2,095	497,905	-	98,454	311,162	-
2. Financial liabilities designated as at fair value	581	-	-	19,469	1,920	-
3. Hedging derivatives	-	55,734	-	-	63,318	-
Total	**2,677**	**553,639**	**-**	**117,923**	**376,401**	**-**

As required under IFRS 13, we report that there were no transfers of financial instruments between Level 1 and Level 2 during the year.

A.4.5.3 Change for the period in financial liabilities designated as at fair value on a recurring basis (Level 3)

The table has not been completed because there were no such positions as of the balance sheet date.

A.4.5.4 Financial assets and liabilities not measured at fair value or measured at fair value a non-recurring basis: breakdown by fair value input level

	Total 2017				Total 2016			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets held to maturity	6,511,682	6,538,544	-	-	4,738,609	4,750,952	-	-
2. Due from banks	21,460,237	-	3,870	21,346,175	21,152,194	-	10,230	21,097,427
3. Loans to customers	12,160,844	-	33,260	12,456,105	13,674,256	-	35,894	14,807,139
4. Investment property	12,158	-	-	4,158	12,158	-	-	12,158
5. Non-current assets and disposal groups held for sale	321,033	-	-	-	-	-	-	-
Total	**40,465,954**	**6,538,544**	**37,130**	**33,806,438**	**39,577,217**	**4,750,952**	**46,124**	**35,916,724**
1. Due to banks	21,323,115	-	1,008	20,662,874	12,722,738	88,821	1,899	12,693,072
2. Due to customers	15,917,600	-	10,737	15,891,092	26,829,330	-	3,138	26,811,388
3. Securities issued	5,114,857	4,411,353	585,942	148,954	4,466,854	3,595,608	789,777	243,533
4. Liabilities associated with assets held for sale	493,700	969	-	-	-	-	-	-
Total	**42,849,272**	**4,412,322**	**597,687**	**36,702,920**	**44,018,922**	**3,684,429**	**794,814**	**39,747,993**

Key:

CA= Carrying amount
L1= Level 1
L2= Level 2
L3= Level 3

A.5 – DISCLOSURE ON "DAY ONE PROFIT/LOSS"

During the period under review, differences emerged between the fair values posted at the time of initial recognition and the values recalculated at the same date using valuation techniques in accordance with IAS 39, paragraphs AG 74 - AG 79 and IFRS 7, paragraph 28. More specifically, the net negative effect of about €302 thousand was associated with a designated cash flow hedge of a security.

PART B

Information on the balance sheet

ASSETS

SECTION 1 – CASH AND CASH EQUIVALENTS- ITEM 10

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

	30/06/2017	31/12/2016
a) Cash	98,893	113,308
b) Demand deposits with central banks	2	2
Total	**98,895**	**113,310**

"Cash" includes foreign currency in the amount of €17,277 million.

SECTION 2 - FINANCIAL ASSETS HELD FOR TRADING – ITEM 20

2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

	30/06/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	10,954	1,960	1,127	86,529	4	79
1.1 structured securities	2,679	1,206	102	2,284	-	79
1.2 other debt securities	8,276	754	1,025	84,244	4	-
2. Equity securities	3,429	98	163	170	78	159
3. Units in collective investment undertakings	1,397	-	-	100	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total A	**15,780**	**2,058**	**1,291**	**86,798**	**82**	**238**
B. Derivatives						
1. Financial derivatives	201	426,725	3,976	145	302,045	1,974
1.1 trading	201	425,482	3,976	145	299,893	1,974
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	1,242	-	-	2,152	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**201**	**426,725**	**3,976**	**145**	**302,045**	**1,974**
Total (A+B)	**15,982**	**428,783**	**5,267**	**86,943**	**302,127**	**2,212**

Sub-item B.1.1, as with financial liabilities, reports the market value of derivatives originated by the Group' operations for the purposes of the sale of derivatives to banks and customers.
The amount under B.1.3 (other) regards embedded floor options in loans to customers.

2.2 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY DEBTOR/ISSUER

	30/06/2017	31/12/2016
A. On-balance-sheet assets		
1. Debt securities	**14,042**	**86,611**
a) Governments and central banks	4,268	83,967
b) Other government agencies	177	-
c) Banks	7,260	1,669
d) Other issuers	2,338	975
2. Equity securities	**3,691**	**407**
a) Banks	652	-
b) Other issuers:	3,038	407
- insurance undertakings	626	-
- financial companies	72	71
- non-financial companies	2,339	336
- other	-	-
3. Units in collective investment undertakings	**1,397**	**100**
4. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
Total A	**19,130**	**87,118**
B. Derivatives		
a) Banks		
- fair value	360,903	236,963
b) Customers		
- fair value	69,999	67,200
Total B	**430,902**	**304,163**
Total (A+B)	**450,032**	**391,281**

SECTION 3 - FINANCIAL ASSETS AT FAIR VALUE - ITEM 30

3.1 FINANCIAL ASSETS AT FAIR VALUE: COMPOSITION BY TYPE

	30/06/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities		15,140		-	14,559	-
1.1 structured securities		15,140			14,559	
1.2 other debt securities						
2. Equity securities				-		-
3. Units in collective investment undertakings				-		-
4. Loans				-		-
4.1 structured						
4.2 other						
Total		**15,140**		**-**	**14,559**	**-**
Cost		**15,140**		**-**	**14,978**	**-**

The Group exercised the fair value option for a credit linked note - UBS London Branch-Anleihe (XS1170644840) in order to avoid unbundling the embedded derivative.

3.2 FINANCIAL ASSETS AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

	30/06/2017	31/12/2016
1. Debt securities	**15,140**	**14,559**
a) Governments and central banks		-
b) Other government agencies		-
c) Banks	15,140	14,559
d) Other issuers		-
2. Equity securities		-
a) Banks		-
b) Other issuers:		-
- insurance undertakings		-
- financial companies		-
- non-financial companies		-
- other		-
3. Units in collective investment undertakings		**-**
4. Loans		-
a) Governments and central banks		-
b) Other government agencies		-
c) Banks		-
d) Other issuers		-
Total	**15,140**	**14,559**

SECTION 4 - FINANCIAL ASSETS AVAILABLE FOR SALE – ITEM 40

4.1 FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION BY TYPE

	Total 30/06/2017			Total 31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**2,865,472**	**269,010**	**-**	**4,855,871**	**295,643**	**-**
1.1 structured securities	15,725	7,272		15,839	72	-
1.2 other debt securities	2,849,747	261,738	-	4,840,032	295,571	-
2. Equity securities	**3,693**	**10**	**44,868**	**17,437**	**10**	**41,265**
2.1 at fair value	3,693	-	18,948	17,437	-	18,140
2.2 carried at cost	-	10	25,920	-	10	23,125
3. Units in collective investment undertakings	**7,189**	**2,558**	**5,547**	**7,207**	**2,560**	**27,286**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**2,876,354**	**271,578**	**50,415**	**4,880,515**	**298,213**	**68,551**

The portfolio of financial assets available for sale is composed primarily of government securities and non-controlling shareholdings.
The item Debt securities – Structure securities mainly regards the Italia security – with a CMS structure (10Y) cap&floor (XS0222189564).
The item "Equity securities – at fair value" includes the Visa Inc. shares (US92826C8394) received by Iccrea Banca S.p.A. as part of the acquisition by that US company of Visa Europe shares. In addition, the changes in the item reflect the disposal of Cattolica for €8.8 million.
The item "Units in collective investment undertakings" includes the units of the closed-end securities investment fund Atlante (classified as Level 3) and the closed-end real estate investment fund Athens (classified as Level 2).

Impairment testing of financial assets available for sale

As required under the IFRSs, financial assets available for sale undergo impairment testing to assess whether there is objective evidence that the carrying value of such assets is not fully recoverable. The detection of any impairment involves the verification of the presence of impairment indicators and the determination of any writedown.
Impairment indicators are essentially divided into two categories: those deriving from internal factors relating to the company being valued, and therefore qualitative, and - for equity instruments - external quantitative indicators deriving from the market values of the company.
In the first category, the following indicators are considered significant: the generation of losses or, in any case, a significant gap with respect to the targets budgeted for or set forth in the multi-annual plans announced to the market, the announcement/start of insolvency proceedings or restructuring plans, and the downgrading by more than two classes of the rating issued by a specialist agency. As regards the second category, a substantial or prolonged reduction in fair value below the initial recognition value is considered significant; more specifically, a reduction in fair value of more than 30% is considered substantial, and a continuous reduction for a period of more than 18 months is considered prolonged. If one of these thresholds is exceeded, impairment of the security is recognized. If these thresholds are not exceeded but other impairment indicators are present, recognition of the impairment must also be corroborated by the result of specific analyses of the security and the investment.
The impairment tests conducted at December 31, 2016 have been updated as of the date of these interim financial statements. The outcome of the testing prompted a writedown of the value of the units of Fondo Atlante in the amount of €22.5 million.

4.3 FINANCIAL ASSETS AVAILABLE FOR SALE: ASSETS HEDGED SPECIFICALLY

	Total 30/06/2017	Total 31/12/2016
Financial assets with specific fair value hedges:	**335,810**	**944,099**
1. interest rate risk	335,810	944,099
2. price risk		-
3. exchange rate risk		-
4. credit risk		-
5. Multiple risks		-
Financial assets with specific cash flow hedges:	**135,091**	**33,646**
1. interest rate risk	135,091	33,646
2. exchange rate risk		-
3. other		-
Total	**470,900**	**977,745**

The amounts regard Italian government securities (BTPs and BTPs Italia) and a corporate security hedged with asset swaps against interest rate risk (fair value hedging) or to stabilize cash flows (cash flow hedging).

SECTION 5 - FINANCIAL ASSETS HELD TO MATURITY - ITEM 50

5.1 FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION BY TYPE

	Total 30/06/2017				Total 31/12/2016			
	CA	FV			CA	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	6,511,682	6,538,544	-	-	4,738,609	4,750,951	-	-
- structured	-	-	-	-	-	-	-	-
- other	6,511,682	6,538,544	-	-	4,738,609	4,750,951	-	-
2. Loans	-	-	-		-	-	-	-

Key
FV = fair value
CA = carrying amount

The item is mainly composed of Italian government securities with a short/medium–term maturity.

5.2 FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION BY DEBTOR/ISSUER

	Total 30/06/2017	Total 31/12/2016
1. Debt securities	**6,511,682**	**4,738,609**
a) Governments and central banks	6,330,874	4,738,609
b) Other government agencies	-	-
c) Banks	180,808	-
d) Other issuers	-	-
2. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	**6,511,682**	**4,738,609**
Total Fair Value	**6,538,544**	**4,750,827**

5.3 FINANCIAL ASSETS HELD TO MATURITY: ASSETS HEDGED SPECIFICALLY

The table has not been completed because there were no such positions as of the balance sheet date.

SECTION 6 – DUE FROM BANKS - ITEM 60

6.1 DUE FROM BANKS: COMPOSITION BY TYPE

	CA 30/06/2017	Total 30/06/2017 FV			CA 31/12/2016	Total 31/12/2016 FV		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
A. Claims on central banks	**1,084,557**	**-**	**-**	**1,084,557**	**152,719**	-	**-**	**152,700**
1. Fixed-term deposits	-	X	X	X	-	X	X	X
2. Reserve requirement	1,084,557	X	X	X	152,719	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Due from banks	**20,375,680**	**-**	**3,870**	**20,261,750**	**20,999,475**	**-**	**10,230**	**20,944,727**
1. Financing	20,058,410	-	3,870	19,943,773	20,702,892	-	10,230	20,642,142
1.1. Current accounts and demand deposits	614,873	X	X	X	591,011	X	X	X
1.2. Fixed-term deposits	78,653	X	X	X	103,243	X	X	X
1.3. Other financing:	19,364,884	X	X	X	20,008,638	X	X	X
- Repurchase agreements	-	X	X	X	-	X	X	X
- Finance leases	16,802	X	X	X	17,268	X	X	X
- Other	19,348,082	X	X	X	19,991,370	X	X	X
2. Debt securities	317,270	-	-	317,977	296,583	-	-	302,585
2.1 Structured securities	63,209	X	X	X	35,090	X	X	X
2.2 Other debt securities	254,061	X	X	X	261,493	X	X	X
Total	**21,460,237**	**-**	**3,870**	**21,346,175**	**21,152,194**	**-**	**10,230**	**21,097,427**

Key
FV = fair value
CA = carrying amount

The fair value is obtained using discounted cash flow techniques.

The sub-item “reserve requirement” includes the requirements managed on behalf of the mutual banks, with a contra-item under item 10 of liabilities (Due to banks).

Amounts due from banks include “other financing - other” comprising:
- loans to the mutual banks connected with pool collateral operations, such as advances from the ECB secured with refinanceable securities, with a total value of €19 billion, of which €9.2 billion granted within the framework of the TLTRO against securities pledged as collateral by the mutual banks with a total fair value, net of the haircut, of €22.1 billion;
- receivables for cash collateral paid to bank counterparties for derivatives transactions governed by bilateral netting arrangements in the amount of €222.8 million;
- assignments of receivables by the mutual banks, counter-guaranteed by them, in the amount of €20 million.

6.2 DUE FROM BANKS: ASSETS HEDGED SPECIFICALLY

	Total 30/06/2017	Total 31/12/2016
Loans with specific fair value hedges:	**535,549**	**894,345**
1. interest rate risk	535,549	894,345
2. price risk		-
3. exchange rate risk		
4. credit risk		-
5. Multiple risks		
Loans with specific cash flow hedges:		**-**
1. interest rate risk		-
2. exchange rate risk		-
3. other		-
Total	**535,549**	**894,345**

The item consists of fixed-rate treasury deposits with mutual banks hedged with overnight indexed swaps and a step-up bond issued by Banca IMI S.p.A. hedged with an asset swap.

6.3 FINANCE LEASES

	Total 30/06/2017					
	Explicit credit	Minimum payments			Gross investment	
		Principal		Interest		of which unguaranteed residual value
			of which guaranteed residual value			
Demand	-	110	107	60	170	-
Up to 3 months	-	373	216	139	512	-
From 3 months to 1 year	-	1,530	961	569	2,099	142
From 1 to 5 years	-	6,760	5,372	2,441	9,201	50
More than 5 years	-	15,959	10,739	2,239	18,198	5,220
Unspecified maturity	56	56	-	-	-	-
Gross total	**56**	**24,788**	**17,395**	**5,448**	**30,180**	**5,412**
Writedowns	41	**-**	-	-	-	-
Net total	**15**	**24,788**	**17,395**	**5,448**	**30,180**	**5,412**

SECTION 7 – LOANS TO CUSTOMERS - ITEM 70

7.1 LOANS TO CUSTOMERS: COMPOSITION BY TYPE

	Total 30/06/2017						Total 31/12/2016					
	Carrying amount			Fair value			Carrying amount			*Fair Value*		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**10,778,864**	**643**	**1,338,227**	**-**	**-**	**12,444,857**	**12,213,831**	**66,129**	**1,352,437**		**505**	**14,798,450**
1. Current accounts	162,899	44	213,818	X	X	X	220,304	22,112	208,904	X	X	X
2. Repurchase agreements	415,976	-	-	X	X	X	921,560	-	-	X	X	X
3. Medium/long term loans	2,853,744	592	391,835	X	X	X	3,149,479	38,170	388,130	X	X	X
4. Credit cards, personal loans and loans repaid by automatic deductions from wages	957,946	-	10,994	X	X	X	907,983	44	12,945	X	X	X
5. Finance leases	4,463,989	-	610,694	X	X	X	4,440,468	-	659,653	X	X	X
6. Factoring	393,833	-	62,238	X	X	X	474,061	-	32,053	X	X	X
7. Other	1,530,477	7	48,648	X	X	X	2,099,976	5,803	50,752	X	X	X
Debts securities	**42,039**	**-**	**1,071**	**X**	**33,260**	**11,248**	**40,931**	**-**	**928**	**X**	**35,389**	**8,688**
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9. other debt securities	42,039	-	1,071	X	X	X	40,931	-	928	X	X	X
Total	**10,820,903**	**643**	**1,339,298**	**-**	**33,260**	**12,456,105**	**12,254,762**	**66,129**	**1,353,365**	**X**	**35,894**	**14,807,138**

Loans to customers are reported net of impairment losses. The fair value is obtained using discounted cash flow techniques.

For the analysis of loan developments and the associated provisions, see the specific paragraph in the section on risk management (Section E).

The item “current accounts” mainly regards lending secured by mortgages for residential and commercial building.

The item “finance leases” reports the change in fair value of €12.4 million of fixed-rate loans hedged against interest rate risk.

“Other” includes:
- €896 million of cash collateral for Default Funds and margins paid to the Clearing & Guarantee Fund for transactions in secured funding;
- €293 million for orders in respect of property and equipment leases for which principal repayment is subordinate to the start of the leases.

Debt securities classified here include:
- minibond (as regulated by Decree Law 83/2012 ratified with Law 134/2012) subscribed by the subsidiary Iccrea BancaImpresa with a total value of €32 million;
- notes connected with the Lucrezia Securitisation Srl operation with a value of about €11 million.

7.2 LOANS TO CUSTOMERS: COMPOSITION BY DEBTOR/ISSUER

	Total 30/06/2017			Total 31/12/2016		
	Performing	Impaired		Performing	Impaired	
		Purchased	Other		Purchased	Other
1. Debt securities:	**42,039**	**-**	**1,071**	**40,931**	**-**	**928**
a) Governments	-	-	-	-	-	-
b) Other government agencies	-	-	-	-	-	-
c) Other issuers	42,039	-	1,071	40,931	-	928
- non-financial companies	22,340	-	1,071	23,600	-	928
- financial companies	19,698	-	-	17,331	-	-
- insurance undertakings	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	**10,778,864**	**643**	**1,338,227**	**12,213,831**	**66,129**	**1,352,437**
a) Governments	50	-	3	53	-	3
b) Other government agencies	129,302	-	25,292	149,442	-	1,414
c) Other issuers	10,649,512	643	1,312,931	12,064,336	66,129	1,351,020
- non-financial companies	7,341,859	387	1,225,523	7,516,752	49,802	1,260,555
- financial companies	1,616,243	-	5,200	2,745,337	184	7,416
- insurance undertakings	62,913	-	-	61,865	-	3
- other	1,628,496	256	82,208	1,740,382	16,143	83,046
Total	**10,820,903**	**643**	**1,339,298**	**12,254,762**	**66,129**	**1,353,365**

7.3 LOANS TO CUSTOMERS: ASSETS HEDGED SPECIFICALLY

	Total 30/06/2017	Total 31/12/2016
1. Loans with specific fair value hedges:	**83,896**	**86,351**
a) interest rate risk	83,896	86,351
b) exchange rate risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
2. Loans with specific cash flow hedges:	**-**	**-**
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
Total	**83,896**	**86,351**

7.4 FINANCE LEASING

	Total 30/06/2017					
	Explicit credit	Principal		Interest	Gross investment	
			of which unguaranteed residual value			of which unguaranteed residual value
Demand	-	57,448	54,430	15,519	72,967	3,017
Up to 3 months	643	134,127	103,873	31,753	165,880	4,066
From 3 months to 1 year	1,655	549,279	449,793	126,421	675,700	28,434
From 1 to 5 years	2,359	2,038,616	1,706,310	446,654	2,485,270	135,912
More than 5 years	-	2,022,322	1,427,990	315,365	2,337,687	594,159
Unspecified maturity	736,790	420,018	-	-	420,018	-
Gross total	**741,447**	**5,221,809**	**3,742,396**	**935,713**	**6,157,522**	**765,589**
Writedowns	317,942	288,725	-	-	-	-
Net total	**423,506**	**4,933,084**	**3,742,396**	**935,713**	**6,157,522**	**765,589**

Explicit credit includes €293 million for orders in respect of property and equipment leases for which principal repayment is subordinate to the start of the leases.

SECTION 8 - HEDGING DERIVATIVES - ITEM 80

For more information on the objectives and strategies underpinning hedging operations, please see the disclosures in Part E – Risks and risk management policies.

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

	FV (30/06/2017)			NV (30/06/2017)	FV (31/12/2016)			NV (31/12/2016)
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**7,373**	**-**	**500,548**	**-**	**17,773**	**-**	**3,237,153**
1) Fair value	-	4,402	-	465,498	-	10,344	-	3,147,029
2) Cash flows	-	2,971	-	35,051	-	7,429	-	90,124
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**7,373**	**-**	**500,548**	**-**	**17,773**	**-**	**3,237,153**

Key
FV = Fair value
NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

This account reports financial derivatives (interest rate swaps and overnight indexed swaps) designated as hedges of the risk of changes in the fair value of financial assets and financial liabilities due to the volatility of interest rates.

8.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE (CARRYING AMOUNT)

	Fair value						Cash flow		Investments in foreign operations
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Multiple risks				
1. Financial assets available for sale	125	-	-	-	-	X	-	X	X
2. Loans	-	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	363	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
Total assets	**125**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	3,914			X		X	2,971	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
Total liabilities	**3,914**	**-**	**-**	**-**	**-**	**-**	**2,971**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	-

The amount reported for "Financial assets available for sale" refers to asset swaps hedging a BTP Italia bond.
The item "Portfolio" regards the macro-hedging of a portfolio of collateralized loans.
The item "Financial liabilities" specifically hedging interest rate risk (fair value hedging), reports the positive fair values of interest rate swaps (IRS) and interest rate options (IRO) hedging fixed-rate bonds issued by the Group.
The item "Financial liabilities" specifically hedging cash flows (cash flow hedging) reports cross currency interest rate swaps (CCIRS) hedging bonds issued by the Group in U.S. dollars.

SECTION 9 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY - ITEM 90

This item reports the positive or negative balance of changes in the value of assets macro-hedged against interest rate risk, in application of IAS 39.

9.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	Total 30/06/2017	Total 31/12/2016
1. Positive adjustments	**-**	**-**
1.1 of specific portfolios:	-	-
a) loans	-	-
b) financial assets available for sale	-	-
1.2 comprehensive	-	-
2. Negative adjustments	**147**	**348**
2.1 of specific portfolios:	147	348
a) loans	147	348
b) financial assets available for sale	-	-
2.2 comprehensive	-	-
Total	**147**	**348**

9.2 ASSETS MACRO-HEDGED AGAINST INTEREST RATE RISK

	Total 30/06/2017	Total 31/12/2016
1. Loans	1,167,756	3,028,456
2. Assets available for sale	-	-
3. Portfolio	-	-
Total	**1,167,756**	**3,028,456**

The macro-hedging was conducted for portfolios of collateralized loans, managed by the treasury unit, using overnight indexed swaps.

SECTION 10 - EQUITY INVESTMENTS - ITEM 100

10.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	Type of relationship	Investment		% of votes
				Investor	% holding	
A. Joint ventures	-	-	-	-	-	-
B. Companies subject to significant influence						
1. Bcc Vita S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	49	49
2. Bcc Assicurazioni S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	49	49
3. Bcc Accademia	Rome	Rome	Significant influence	Iccrea Banca S.p.A.	26	26
4. Hi-Mtf S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	25	25
5. M-Facility S.r.l.	Rome	Rome	Significant influence	Iccrea Banca S.p.A.	37	37
6. Car Server S.p.A.	Reggio Emilia	Reggio Emilia	Significant influence	Iccrea BancaImpresa S.p.A.	19	19

10.2 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.	84,020	109,800	5,390
2. Bcc Assicurazioni S.p.A.	6,685	6,685	-
3. Bcc Accademia S.p.A.	112	112	-
4. Hi-Mtf S.p.A.	1,542	1,542	-
5. M-Facility S.r.l.	373	373	-
6. Car Server S.p.A	11,172	11,172	1,467
Total	**103,906**	**129,684**	**6,857**

The dividends received from investments consolidated on a full line-by-line basis have been eliminated in consolidation.

10.3 SIGNIFICANT EQUITY INVESTMENTS: ACCOUNTING DATA

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Net adjustments of property and equipment and intangible assets	Profit (loss) before tax on continuing operations	Profit (loss) after tax on continuing operations	Profit (loss) after tax of non-current assets held for sale	Net profit (loss) for the period (1)	Other comprehensive income net of taxes (2)	Comprehensive income (3)=(1) + (2)
A. Joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Companies subject to significant influence														
1. Bcc Vita S.p.A.	X	2,801,400	106,409	469	2,735,867	204,306	X	X	8,235	5,366	-	5,366	(1,106)	4,260
2. Bcc Assicurazioni S.p.A.	X	32,181	49,393	2,794	65,136	12,837	X	X	409	284	-	284	(144)	140
3. Bcc Accademia S.p.A.*	X	-	1,572	-	1,663	2,408	X	X	32	9	-	9	-	9
4. Hi-Mtf S.p.A.*	X	-	6,753	-	586	2,676	X	(59)	111	71	-	71	4	75
5. M-Facility S.r.l. *	X	-	1,738	-	95	-	X	X	(237)	(237)	-	(237)	-	(237)
6. Car Server S.p.A. *	X	X	424,458	395,295	-	202,359	X	X	25,158	7,587	-	7,587	-	7,587

* Accounting data as at 31/12/2016

IMPAIRMENT TESTING OF EQUITY INVESTMENTS

As required by the IFRS, in the presence of triggers that could indicate possible impairment, equity investments undergo impairment testing to assess whether there is objective evidence indicating that the carrying amount of such assets is not fully recoverable and determine the amount of any writedown.
Impairment indicators can essentially be divided into two categories:

- qualitative indicators such as the posting of losses or significant divergences in performance from budget objectives or targets in long-term plans, the announcement/initiation of insolvency proceedings or restructuring plans or a downgrading by a specialized agency;
- quantitative indicators, represented by a reduction in fair value below the carrying amount of more than 30% or for more than 24 months, a carrying amount of an equity investment in the separate financial statements that exceeds the carrying amount in the consolidated financial statements of the net assets and goodwill of the investee or the distribution by the latter of a dividend in excess of its comprehensive income.

In the presence of evidence of an impairment, the amount of any writedown is determined on the basis of the difference between the carrying amount and the recoverable value. The latter is represented by the greater of fair value, net of any costs to sell, and value in use.
No impairment losses were recognized during the period.

As regards the investment held by Iccrea Banca in BCC Vita, there was a difference between the carrying amount recognized in the financial statements of the Bank (€101.4 million) and the fraction of equity recognized in the consolidated financial statements (€84 million). Accordingly, the impairment test conducted at December 31, 2016 was updated, estimating the appraisal value of the company as the sum of adjusted equity, the value of in force business and the value of new business (goodwill). The impairment test found that the pro-rata economic value of the company (€110 million) was greater – even in the minimum scenario determined on the basis of a change of 0.5% in the discount rates (Ke and G) – than the value of the investment reported in the separate and consolidated financial statements of Iccrea Banca S.p.A. and so no impairment loss was recognized.

As regards the investment held in BCC Assicurazioni, there is a difference between the carrying amount recognized in the financial statements of Iccrea Banca S.p.A. for 2016 (€8.1 million) and the fraction of equity recognized in the consolidated financial statements (€6.7 million) owing to the loss for previous periods. For the purposes of impairment testing of the company, the economic value of capital was updated to June 30, 2017 using a market multiples approach using data on the stock prices of comparable companies, calculating and applying market multiples to the indicators of the company being assessed. Following the impairment test, the pro-rated value of the company (€12.8 million) was greater than the value of the equity investment recognized in the separate financial statements of Iccrea Banca S.p.A. and so no impairment loss was recognized.

As regards goodwill recognized on the acquisition of controlling interests, please see the disclosures presented in section 13.3 below.

10.4 MINOR EQUITY INVESTMENTS: ACCOUNTING INFORMATION

The table has not been completed because there were no such positions as of the balance sheet date.

10.5 EQUITY INVESTMENTS: CHANGE FOR THE PERIOD

	Total 30/06/2017	Total 31/12/2016
A. Opening balance	**102,285**	**89,068**
B. Increases	**7,058**	**19,981**
B.1 Purchases	4,900	-
B.2 Writebacks	-	-
B.3 Revaluations	2,158	5,216
B.4 Other changes	-	14,765
C. Decreases	**(5,434)**	**(6,764)**
C.1 Sales	-	-
C.2 Writedowns	-	(1,619)
C.3 Other changes	(5,434)	(5,144)
D. Closing balance	**103,908**	**102,285**
E. Total revaluations	**1,464**	**2,707**
F. Total writedowns	**19,229**	**17,196**

"Writebacks/writedowns" mainly report increases/decreases in equity investments accounted for using the equity method.
"Other changes" comprise the consolidation adjustments connected with the elimination of dividends.

10.6 ASSESSMENTS AND SIGNIFICANT ASSUMPTIONS FOR ESTABLISHING THE EXISTENCE OF JOINT ARRANGEMENT OR SIGNIFICANT INFLUENCE

In "Part A – Accounting Policies", Paragraph "A. 1 – General Information" and "Section 3 – Scope and methods of consolidation" sets out the general criteria for the assessment and significant assumptions made in establishing whether or not we exercise control over an investee company or another entity, as well as whether there is an agreement for joint control or the exercise of significant influence.

10.7 COMMITMENTS IN RESPECT OF JOINT VENTURES

The table has not been completed because there were no such positions as of the balance sheet date.

10.8 COMMITMENTS IN RESPECT OF COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE

At the end of the reporting period there were no significant commitments concerning companies subject to significant influence.

10.9 SIGNIFICANT RESTRICTIONS

The table has not been completed because there were no such positions as of the balance sheet date.

10.10 OTHER INFORMATION

The table has not been completed because there were no such positions as of the balance sheet date.

SECTION 11 - TECHNICAL RESERVES ATTRIBUTABLE TO REINSURERS - ITEM 110

The section has not been completed because there were no such positions as of the balance sheet date.

SECTION 12 - PROPERTY AND EQUIPMENT - ITEM 120

12.1 OPERATING PROPERTY AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

	Total 30/06/2017	Total 31/12/2016
1. Owned assets	**209,199**	**201,143**
a) land	25,588	28,371
b) buildings	117,848	125,663
c) movables	4,375	5,507
d) electrical plants	28,688	19,152
e) other	32,700	22,450
2. Assets acquired under finance leases	**4,970**	**6,748**
a) land	-	-
b) buildings	-	-
c) movables	-	-
d) electrical plants	4,970	6,748
e) other	-	-
Total	**214,169**	**207,891**

The Group has opted to measure assets used in operations and investment property at cost, with the exception of real estate from the consolidation of the assets underlying the units in the real estate investment funds, for which fair value measurement has been maintained as determined on the basis of appraisals by independent external appraisers and reported in the accounts of the funds.

12.2 INVESTMENT PROPERTY: COMPOSITION OF ASSETS CARRIED AT COST

	Total 30/06/2017				Total 31/12/2016			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned assets	**12,158**	**-**	**-**	**12,158**	**12,158**	**-**	**-**	**12,158**
a) land	4	-	-	4	4	-	-	4
b) buildings	12,154	-	-	12,154	12,154	-	-	12,154
2. Assets acquired under finance leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**12,158**	**-**	**-**	**4,158**	**12,158**	**-**	**-**	**12,158**

12.3 OPERATING PROPERTY AND EQUIPMENT: COMPOSITION OF REVALUED ASSETS

The table has not been completed because there were no such positions as of the balance sheet date.

12.4 INVESTMENT PROPERTY: COMPOSITION OF ASSETS MEASURED AT FAIR VALUE

	Total 30/06/2017			Total 31/12/2016		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**18,175**	**467,518**	**-**	**39,770**	**441,561**	**-**
a) land	-	-	-	-	-	-
b) buildings	18,175	467,518	-	39,770	441,561	-
2. Assets acquired under finance leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**18,175**	**467,518**	**-**	**39,770**	**441,561**	**-**

This item includes property from the consolidation of units of the "Securfondo" and "Securis Real Estate I, II, III”. As discussed in “Part A– Accounting policies “ the changes in the fair value of these properties are recognized in profit or loss under “Net gain (loss) from valuation at fair value of property and equipment and intangible assets”.

SECTION 13 – INTANGIBLE ASSETS - ITEM 130

13.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 30/06/2017		Total 31/12/2016	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	**22,593**	X	**22,593**
A.1.1 pertaining to the Group	X	22,593	X	22,593
A.1.2 pertaining to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**18,662**	**637**	**15,651**	**625**
A.2.1 Assets carried at cost:	18,662	637		
a) internally generated intangible assets	3,203	-	2,960	-
b) other assets	15,459	637	12,691	625
A.2.2 Assets designated at fair value:	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**18,662**	**23,230**	**15,651**	**23,218**

During the period, the value of goodwill showed no losses of value compared with December 31, 2016.

The useful life of the Group's other intangible assets, mainly software, is between 3 and 5 years.

13.3 OTHER INFORMATION

With regard to the recognition methods for goodwill and other intangible assets, please see Part A – Accounting policies.
The table below shows the allocation of goodwill among the various cash generating units.

	Total 30/06/2017	Total 31/12/2016
Retail	17,578	17,578
Corporate	138	138
Institutional	4,877	4,877
Total	**22,593**	**22,593**

For the intangible assets with a finite useful life, amortization for the year was recognized in profit or loss (under item "210 Net adjustments of intangible assets").
In accordance with IAS 36, both intangible assets with an indefinite useful life and goodwill undergo impairment testing on an annual basis to verify the recoverability of their value. In particular, for intangible assets with a finite useful life, impairment testing is carried out any time the appropriate indicators show evidence of impairment. The recoverable amount is the higher of the value in use and the fair value less costs to sell.

Definition of cash generating units (CGUs)

In order to identify, for the purposes of IAS 36, any impairment of intangible assets with an indefinite life (including goodwill) that only generate cash flows jointly with other business activities, the estimation of value in use requires the preliminary allocation of those intangible assets to relatively independent organizational units that are capable of generating cash flows largely independent of those produced by other business areas but interdependent within the business unit generating them. In IAS/IFRS terminology, such business units are known as cash generating units (CGUs).

IAS 36 calls for the correlation of the level at which impairment is tested with the level of internal reporting at which management controls increases and decreases in this value. In this regard, the definition of this level closely depends on organizational models and the assignment of management responsibilities for the purposes of defining policies for operations and the consequent monitoring. These models may diverge from the organizational structures of the legal entities through which operations are carried out, and are very often closely linked to the definition of operating segments at the basis of the segment reporting envisaged by IFRS 8.
These CGUs correspond to the Group's business units and, at the same time, are the core business areas considered in segment reporting. The carrying amount of the CGUs is determined in a manner consistent with the criterion for estimating their recoverable amount. For a bank, the cash flows generated by a CGU cannot be identified without considering the cash flows from financial assets/liabilities, as these form part of the core business. In other words, the recoverable amount of the CGUs is impacted by the aforementioned cash flows and, therefore, their carrying amount must be determined in accordance with the scope of the estimation used in determining recoverable amount; thus, they also include financial assets/liabilities. Consequently, these assets and liabilities must be properly allocated to the associated CGUs.
Under this approach (so-called "equity side"), the carrying amount of Iccrea Group CGUs can be determined in terms of their contribution to consolidated shareholders' equity including any non-controlling interests.

The table below reports the carrying amounts of the CGUs and the goodwill allocated to each. As they are determined for the purpose of impairment testing, these values take account of the portion of goodwill attributable to non-controlling interests.

CGU	Carrying amount	Of which goodwill
Retail	1,025,870	17,578
Corporate	10,503,285	138
Institutional	42,390,960	4,877

Summary of growth rates and discount rates used

The following table reports the rates used in impairment testing of the goodwill pertaining to the Retail CGU recognized for the acquisition of BCC Risparmio & Previdenza SGR.

CGU	"g" rate	Nominal rate
Retail	2.00%	9.4%

Impairment testing results

The testing of the goodwill recognized in the consolidated financial statements from the acquisition of control of BCC Risparmio e Previdenza SGR (€10.5 million) used the discounted cash flow method, which determines the economic value of a company as the sum of the present value of future potentially distributable dividends consistent with maintaining an adequate level of capital and the present value of the terminal value.
The expected cash flows used in the model were drawn from the 2017-2019 plan approved by the company's board of directors.
The discount rate used for the flow of dividends is equal to the rate of return on own funds requested by investors/shareholders for investments with similar risk characteristics. On the basis of the Capital Asset Pricing Model it was calculated to be 9.4%.
More specifically, the discount rate is determined on the basis of the risk-free rate increased by a premium for the specific risk of the sector and the company involved in the valuation. That premium is calculated by using a coefficient (ß) that measures the specific risk of the company on the basis of the variability of its performance compared with the market.
The impairment test supported the carrying amounts recognized at the reporting date.

As regards the goodwill of BCC Sistemi Informatici (€4.8 million), the impairment testing involved the estimation of the economic value of the company's capital using a market multiples approach.
The market multiples approach values a company by using data on the stock prices of comparable companies, calculating and applying market multiples to the indicators of the company being assessed. In this case, an international panel of companies operating in the IT sector and software development industry, which represent

the main activities of BCC Sistemi Informatici, was considered. For measurement purposes, the market multiples used were P/BV (Price/Book Value) and P/E (Price/Earning)s.
The impairment test supported the amounts recognized in the financial statements.

With regard to the goodwill recognized in the consolidated accounts for Banca Sviluppo (€7 million) following the acquisition of the investment with payment of a premium, account was taken of the findings of the impairment test conducted at December 31, 2016 – also in connection with the valuation of the shares of Banca Sviluppo for the Bank's capital increase reserved for the mutual banks pursuant to Article 2441 of the Civil Code – and the monetization process undertaken by the Parent Company, specifically the disposal of 28 branches for €7.1 million approved by the Board on June 30, 2017.
The impairment test supported the amounts recognized in the financial statements.

Sensitivity analyses
Since value in use is determined by using estimates and assumptions that may have some level of uncertainty, sensitivity analyses were performed, as required by the IFRS, to assess the sensitivity of the results obtained to changes in the parameters and the underlying hypotheses. The goodwill recorded has been confirmed.

SECTION 14 - TAX ASSETS AND LIABILITIES - ITEM 140 OF ASSETS AND ITEM 80 OF LIABILITIES

14.1 DEFERRED TAX ASSETS: COMPOSITION

	Total 30/06/2017	Total 31/12/2016
A. Gross deferred tax assets	**225,903**	**239,552**
A1. Loans (including securitizations)	172,160	180,667
A2. Other financial instruments	3,968	3,710
A3. Goodwill	11	12
A4. Deferred charges	-	-
A5 Property and equipment	297	324
A6. Provisions for risks and charges	15,511	14,613
A7. Entertainment expenses	-	-
A8. Personnel costs	2,235	2,094
A9. Tax losses	22,866	18,639
A10. Unused tax credits to deduct	4,387	14,552
A11. Other	4,469	4,942
B. Offsetting with deferred tax liabilities	**(4,451)**	**(6,078)**
C. Net deferred tax assets	**221,452**	**233,474**

The change in deferred tax assets is mainly attributable to:

- the conversion into tax credits of deferred tax assets generated by the writedown of receivables in the amount of €7.5 million;
- conversion into tax credits of the excess allowance for corporate equity for IRAP purposes in the amount of €10.2 million;
- the tax loss for the period for the purposes of consolidated IRES in the amount €4.4 million.

14.2 DEFERRED TAX LIABILITIES: COMPOSITION

	Total 30/06/2017	Total 31/12/2016
A. Gross deferred tax liabilities	**6,374**	**9,849**
A1. Capital gains tax in installments	1,288	2,432
A2. Goodwill	407	397
A3. Property and equipment	251	230
A4. Financial instruments	3,430	5,572
A5. Personnel costs	63	20
A6. Other	935	1,197
B. Offsetting with deferred tax assets	**(4,396)**	**(6,078)**
C. Net deferred tax liabilities	**1,978**	**3,771**

The decrease in deferred taxation is mainly attributable to the reversal to profit or loss of the positive reserves on AFS debt securities (government securities) and the payment of the tax on the capital gain from the disposal of a business unit in instalments.

Deferred taxes not recognized

Deferred tax liabilities were not recognized in respect of the revaluation reserve established in 2003 pursuant to Law 342 of November 22, 2000. The reserve is reported net of the special capital gains tax already paid. As the reserve is not expected to be distributed to shareholders, no provision had been made for deferred taxes in the amount of about €8.9 million.

14.3 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN INCOME STATEMENT)

	Total 30/06/2017	Total 31/12/2016
1. Opening balance	**235,409**	**229,176**
2. Increases	**7,908**	**32,239**
2.1 Deferred tax assets recognized during the period	7,883	29,296
a) in respect of previous period	5	-
b) due to change in accounting policies	-	-
c) writebacks	-	-
d) other	7,878	29,296
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	25	2,943
3. Decreases	**21,133**	**26,005**
3.1 Deferred tax assets derecognized during the period	13,401	8,762
a) reversals	5,782	7,033
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	7,619	1,729
3.2 Reduction in tax rates	-	-
3.3 Other decreases	7,732	17,243
a) transformation in tax credits pursuant to Law 214/2011 b) other	7,510	17,228
3.1 Deferred tax assets derecognized during the period	222	14
4. Closing balance	**222,184**	**235,410**

14.3.1 CHANGES IN DEFERRED TAX ASSETS PURSUANT TO LAW 214/2011 (RECOGNIZED IN INCOME STATEMENT)

	Total 30/06/2017	Total 31/12/2016
1. Opening balance	**181,105**	**200,040**
2. Increases	**6**	**-**
3. Decreases	**8,459**	**18,935**
3.1 Reversals	949	1,192
3.2 Conversion into tax credits	7,510	17,228
a) arising from losses for the year	7,510	17,228
b) arising from tax losses	-	
3.3 Other decreases	-	514
4. Closing balance	**172,652**	**181,105**

14.4 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN INCOME STATEMENT)

	Total 30/06/2017	Total 31/12/2016
1. Opening balance	**4,068**	**5,696**
2. Increases	**59**	**123**
2.1 Deferred tax liabilities recognized during the period	21	86
a) in respect of previous period	-	-
b) due to change in accounting policies	-	-
c) other	21	86
2.2 New taxes or increases in tax rates	9	-
2.3 Other increases	29	37
3. Decreases	**1,447**	**1,751**
3.1 Deferred tax liabilities derecognized during the period	1,392	1,612
a) reversals	1,386	1,216
b) due to changes in accounting policies	-	-
c) other	6	396
3.2 Reduction in tax rates	-	21
3.3 Other decreases:	55	118
4. Closing balance	**2,680**	**4,068**

14.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

	Total 30/06/2017	Total 31/12/2016
1. Opening balance	**4,123**	**3,740**
2. Increases	**212**	**1,194**
2.1 Deferred tax assets recognized during the period	-	1,181
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	-
c) other	-	1,181
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	212	13
3. Decreases	**616**	**864**
3.1 Deferred tax assets derecognized during the period	615	47
a) reversals	547	47
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	68	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	1	817
4. Closing balance	**3,719**	**4,070**

14.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	Total 30/06/2017	Total 31/12/2016
1. Opening balance	**5,781**	**22,710**
2. Increases	**77**	**123**
2.1 Deferred tax liabilities recognized during the period	28	2
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	-
c) other	28	2
2.2 New taxes or increases in tax rates	49	3
2.3 Other increases	-	118
3. Decreases	**2,163**	**17,051**
3.1 Deferred tax liabilities derecognized during the period	2,163	17,037
a) reversals	2,163	17,036
b) due to change in accounting policies	-	-
c) other	-	1
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	14
4. Closing balance	**3,695**	**5,782**

14.7 OTHER INFORMATION

A) Current tax assets

	Total 30/06/2017	Total 31/12/2016
A. Gross current tax assets	**114,208**	**114,351**
A1. Corporate income tax (IRES) payments on account	33,662	33,377
A2. Regional business tax (IRAP) payments on account	11,736	12,803
A3. Other credits and withholdings	68,810	68,171
B. Offsetting with current tax liabilities	**805**	**4,654**
C. Net current tax assets	**113,402**	**109,697**

"Other credits and withholdings" main reflect the conversion into tax credits of DTAs regarding loan writedowns and IRAP credits from previous years arising from acquisitions by Banca Sviluppo S.p.A.

B) Current tax liabilities

	Total 30/06/2017	Total 31/12/2016
A. Gross current tax liabilities	**1,349**	**4,828**
A1. IRES liabilities	284	37
A2. IRAP liabilities	1,064	4,792
A3. Other current income tax liabilities	-	-
B. Offsetting with current tax assets	**429**	**4,654**
C. Net current tax liabilities	**919**	**175**

The composition of current taxes shows the Group's position in respect of tax authorities in application of the regulations governing the consolidated taxation mechanism. The position in respect of the tax authorities, which this year is a creditor position, is essentially attributable to the payment of greater IRES on account (using the "historical" method) than the estimated tax liability for 2015 owing to the reduction in the Group's taxable income for the period.

As regards its tax position, Iccrea Banca reports:

- on May 8, 2017, the Finance Police began an audit concerning direct taxes for 2012, which was completed on July 27, 2017 with only one immaterial issue that could be pursued;
- for the financial years 2013, 2014 e 2015 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. After adverse rulings in the first two levels of adjudication, the Bank filed an appeal with the Court of Cassation.

SECTION 15 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES - ITEM 150 OF ASSETS AND ITEM 90 OF LIABILITIES

15.1 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY TYPE

	Total 30/06/2017	Total 31/12/2016
A. Individual assets	-	-
A.1 Financial assets	-	-
A.2 Equity investments	-	-
A.3 Property and equipment	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	-	-
of which at cost	-	-
of which at fair value Level 1	-	-
of which at fair value Level 2	-	-
of which at fair value Level 3	-	-
B. Disposal groups (operating units sold)	-	-
B.1 Financial assets held for trading	-	-
B.2 Financial assets at fair value	-	-
B.3 Financial assets available for sale	-	-
B.4 Financial assets held to maturity	-	-
B.5 Due from banks	-	-
B.6 Loans to customers	311,264	-
B.7 Equity investments	-	-
B.8 Property and equipment	9,088	-
B.9 Intangible assets	-	-
B.10 Other assets	681	-
Total B	**321,033**	-
of which at cost	321,033	-
of which at fair value Level 1	-	-
of which at fair value Level 2	-	-
of which at fair value Level 3	-	-

	Total 30/06/2017	Total 31/12/2016
C. Liabilities associated with individual assets held for sale		
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	-	-
of which at cost	-	-
of which at fair value Level 1	-	-
of which at fair value Level 2	-	-
of which at fair value Level 3	-	-
D. Liabilities associated with disposal groups held for sale		
D.1 Due to banks	-	-
D.2 Due to customers	355,520	-
D.3 Securities issued	135,963	-
D.4 Financial liabilities held for trading	-	-
D.5 Financial liabilities at fair value	969	-
D.6 Funds	-	-
D.7 Other liabilities	1,248	-
Total D	**493,700**	-
of which at cost	492,731	-
of which at fair value Level 1	969	-
of which at fair value Level 2	-	-
of which at fair value Level 3	-	-

Assets and liabilities held for sale represent the assets and liabilities of the Banca Sviluppo branches now in the process of being sold to local mutual banks, for which a sale is highly likely. As the fair value of the assets held for sale is greater than their carrying amount, the assets are reported at their carrying amount.

SECTION 16 - OTHER ASSETS - ITEM 160

16.1 OTHER ASSETS: COMPOSITION

	Total 30/06/2017	Total 31/12/2016
- Consolidation adjustments	7,563	44,548
- Tax receivables	87,300	84,828
- Current account checks drawn on third parties held by cashier		
- Coupons and securities receivable		
- Security deposits		564
- Stamp duty and other valuables		-
- Gold, silver and precious metals		-
- Own bills - difference between portfolio account and transferor's account		
- Third-party bills - difference between portfolio account and transferor's account		
- Items being processed and items in transit between branches	61,039	82,945
- Deficits, misappropriation and robbery		
- Accrued income not attributable to separate line item	1,674	23
- Prepaid expenses not attributable to separate line item	30,565	10,894
- Leasehold improvements	872	656
- Other	131,797	95,723
Total	**320,811**	**320,181**

The item "Tax receivables" is mainly composed of:
- VAT credits of €7.7 million;
- stamp duty of €36.9 million;
- withholding tax on current accounts and certificates of deposit of €4.5 million.

The item "Other" is mainly composed of:
- premiums to be received from derivatives business with customers of €19.3 million;
- receivables due from Deposit Guarantee Fund for the definitive deficit in respect of the extraordinary Banca Romagna Cooperativa transaction as well as the deficits from the acquisition of CrediVeneto and BCC di Brutia of €13.9 million;
- fees and commissions from the electronic money sector in the amount of €5.1 million;
- trade receivables of €18.6 million;
- items in respect of redemptions of securities and coupon payments that for value dating purposes were settled in the early days of the second half of 2017 in the amount of €13.9 million.

The item "Financial assets in respect of loans for a specific transaction", matching the corresponding entry in "Other liabilities", reports the residual value, equal to €782 thousand, of the two loans from the EIB pursuant to Articles 2447 bis letter b and 2447 decies of the Italian Civil Code. At June 30, 2017 the funds from the EIB had been disbursed entirely for specific loans in compliance with the purposes of the funds and the requirements set out in the Regional Operational Plans.

LIABILITIES

SECTION 1 – DUE TO BANKS- ITEM 10

1.1 DUE TO BANKS: COMPOSITION BY TYPE

	Total 30/06/2017	Total 31/12/2016
1. Due to central banks	**14,400,000**	**5,500,000**
2. Due to banks	**6,923,115**	**7,222,738**
2.1 Current accounts and demand deposits	4,359,992	3,864,323
2.2 Fixed-term deposits	2,406,780	2,899,692
2.3 Loans	127,606	433,207
2.3.1 Repurchase agreements	115,793	421,991
2.3.2 Other	11,813	11,216
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	-
2.5 Other payables	28,737	25,516
Total	**21,323,115**	**12,722,738**
Fair value L1	**-**	88,201
Fair value L2	1,008	1,899
Fair value L3	20,662,874	12,693,072
Total Fair value	**20,663,882**	**12,783,792**

The item “due to central banks” represents financing from the ECB (maturing in 2020) under the TLTRO II program and secured by securities owed by Iccrea and the mutual banks.

The sub-item “Fixed-term deposits” also includes deposits received from the mutual banks amounting to around €924 million for indirect compliance with the reserve requirement.

The fair value is obtained using discounted cash flow techniques.

1.4 DUE TO BANKS: LIABILITIES HEDGED SPECIFICALLY

The table has not been completed because there were no such positions as of the balance sheet date.

1.5 LIABILITIES IN RESPECT OF FINANCE LEASES

The table has not been completed because there were no such positions as of the balance sheet date.

SECTION 2 - DUE TO CUSTOMERS - ITEM 20

2.1 DUE TO CUSTOMERS: COMPOSITION BY TYPE

	Total 30/06/2017	Total 31/12/2016
1. Current accounts and demand deposits	1,235,447	1,626,677
2. Fixed-term deposits	90,370	154,242
3. Loans	13,370,948	23,713,830
3.1 Repurchase agreements	12,503,563	23,535,189
3.2 Other	867,384	178,641
4. Liabilities in respect of commitments to repurchase own equity instruments		-
5. Other payables	1,220,836	1,334,581
Total	**15,917,600**	**26,829,330**
Fair value L1		-
Fair value L2	10,737	3,138
Fair value L3	15,891,092	26,811,388
Total Fair value	**15,901,829**	**26,814,526**

The sub-item "Repurchase agreements" is mainly composed of transactions with the Clearing and Guarantee Fund.

The sub-item "Other" includes:
- sundry loans from Agos-Ducato S.p.A. to the subsidiary BCC Credito Consumo S.p.A, in the amount of €147 million;
- liquidity management on behalf of the Ministry for the Economy and Finance ("OPTES" transactions) in the amount of €560 million;
- secured funding within the New MIC segment of the E-MID market in the amount of €160 million.

The item "Other payables" comprises:
- bankers' drafts issued but not yet presented for settlement in the amount of €435 million;
- liabilities in respect of assets assigned but not derecognized in securitizations by the Group companies in the amount of €548 million;
- third-party funds in administration in the amount of €118 million.
- prepaid cards of €89 million.

The fair value is obtained using discounted cash flow techniques.

2.4 DUE TO CUSTOMERS: LIABILITIES HEDGED SPECIFICALLY

The table has not been completed because there were no such positions as of the balance sheet date.

2.5 LIABILITIES IN RESPECT OF FINANCE LEASES

The table has not been completed because there were no such positions as of the balance sheet date.

SECTION 3 - SECURITIES ISSUED - ITEM 30

3.1 SECURITIES ISSUED: COMPOSITION BY TYPE

	Total 30/06/2017				Total 31/12/2016			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level1	Level 2	Level 3		Level1	Level 2	Level 3
A. Securities								
1. Bonds	4,965,903	4,411,353	585,942	-	4,226,330	3,595,607	789,777	-
1.1 structured	368,543	374,595	5,112	-	490,739	413,282	94,267	-
1.2 other	4,597,359	4,036,758	580,830	-	3,735,591	3,182,325	695,510	-
2. Other securities	148,954	-	-	148,954	240,524	-	-	243,533
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	148,954	-	-	148,954	240,524	-	-	243,533
Total	**5,114,857**	**4,411,353**	**585,942**	**148,954**	**4,466,854**	**3,595,607**	**789,777**	**243,533**

The item “Bonds” comprises bonds issued by the Group and hedged against interest rate risk using derivatives, the amount of which is adjusted by changes in fair value attributable to the hedged risk, as well as unhedged bonds issued measured at amortized cost.
“Other securities” include certificates of deposit issued by Banca Sviluppo S.p.A. to customers.

The fair value of securities issued is calculated by discounting future cash flows using the swap yield curve as at the reporting date..

3.2 BREAKDOWN OF ITEM 30 "SECURITIES ISSUED": SUBORDINATED SECURITIES

	Total 30/06/2017	Total 31/12/2016
Opening balance	467,258	469,884
Issues in period	-	-
Other changes	(178,399)	(2,626)
Closing balance	**288,859**	**467,258**

Changes in the period are attributable to the combined impact of:

- the repayment of three subordinated loans issued by Iccrea BancaImpresa (XS0287516214, XS02807519663, XS0295539984) with a value net of repurchases of €140 million;
- the amortization of the subordinated loan issued by the Parent Company (IT0004991995) in the amount of €38 million.

The carrying amount of subordinated loans eligible for inclusion in own funds (Tier II) amounted to €140.7 million.

ISIN	ISSUE	MATURITY	INTERST RATE	VALUE	CURRENCY
XS1246834169	18/06/2015	18/06/2025	6m Euribor +3.50%	105,930	Euro
IT0004991995	14/03/2014	14/03/2021	4.75%	141,260	Euro
IT0005118754	29/06/2015	29/06/2025	3.50%	11,657	Euro
IT0005123820	30/07/2015	30/07/2025	6m Euribor +350BP	16,180	Euro
IT0004674773	30/12/2010	30/12/2020	6m Euribor ACT 365 + 0.75%	5,663	Euro
IT0004785728	23/12/2011	23/12/2018	4.75%	2,002	Euro
IT0004871957	27/11/2012	27/11/2017	5.05%	1,306	Euro
IT0004906241	19/04/2013	19/10/2018	5%	3,030	Euro
IT0004936438	15/07/2013	15/01/2019	5%	288	Euro
IT0004987431	23/01/2014	23/01/2021	4.1%	611	Euro
IT0004992852	17/02/2014	17/08/2021	4.5%	931	Euro

3.3 BREAKDOWN OF ITEM 30 "SECURITIES ISSUED": SECURITIES HEDGED SPECIFICALLY

	Total 30/06/2017	Total 31/12/2016
1. Securities covered by specific fair value hedges:	**429,911**	**522,913**
a) interest rate risk	429,911	522,913
b) exchange rate risk	-	-
c) multiple risks	-	-
2. Securities covered by specific cash flow hedges:	**72,693**	**80,166**
a) interest rate risk	-	-
b) exchange rate risk	72,693	80,166
c) other	-	-
Total	**502,604**	**603,079**

The amounts reported regard bonds issued by the Group hedged for interest rate risk using IRSs and IROs.

The amount under point 2.b) regards bonds issued in US dollars by Iccrea Banca S.p.A.

SECTION 4 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 40

4.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/06/2017					Total 31/12/2016				
	NV	FV			FV *	NV	FV			FV *
		Level1	Level2	Level3			Level1	Level2	Level3	
A. On-balance-sheet liabilities										
1. Due to banks	586	645	-	-	645	571	606	-	-	606
2. Due to customers	1,345	1,409	9	-	1,418	91,863	96,983	16	-	96,999
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3. Other	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**1,931**	**2,054**	**9**	**-**	**2,063**	**92,434**	**97,589**	**16**	**-**	**97,605**
B. Derivatives										
1. Financial derivatives	X	41	497,897	-	X	X	866	311,146	-	X
1.1 Trading	X	41	497,897	-	X	X	866	311,146	-	X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**41**	**497,897**	**-**	**X**	**X**	**866**	**311,146**	**-**	**X**
Total (A+B)	**X**	**2,096**	**497,906**	**-**	**X**	**X**	**98,455**	**311,162**	**-**	**X**

Key:
FV = Fair value
FV*= Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date
NV = nominal or notional value

Part A of the table reports short positions on debt securities generated by securities trading activities (shown under amounts due to banks or due to customers, depending on the assignor), which were closed in the first few days of January 2017.
The item includes the negative value of trading derivatives entered into by the Group on behalf of mutual banks.

SECTION 5 - FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE - ITEM 50

5.1 FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/06/2017					Total 31/12/2016				
	NV	FV			FV *	NV	FV			FV *
		Level1	Level2	Level3			Level1	Level2	Level3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
3. Debt securities	**523**	**581**	**-**	**-**	**581**	**20,580**	**19,469**	**1,920**	**-**	**21,076**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	523	581	-	-	X	20,580	19,469	1,920	-	X
Total	**523**	**581**	**-**	**-**	**581**	**20,580**	**19,469**	**1,920**	**-**	**21,076**

Key:
FV=Fair value
FV*=Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issue since the issue date
NV = nominal or notional value

"Financial liabilities at fair value" refer to a bond (floored&capped) issued by Banca Sviluppo S.p.A.

SECTION 6 - HEDGING DERIVATIVES - ITEM 60

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

	Fair Value (30/06/2017)			NV (30/06/2017)	Fair Value (31/12/2016)			NV (31/12/2016)
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**55,734**	**-**	**975,028**	**-**	**63,318**	**-**	**2,189,916**
1) Fair value	-	49,973	-	798,196	-	59,074	-	2,157,317
2) Cash flow	-	5,761	-	176,832	-	4,244	-	32,599
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flow	-	-	-	-	-	-	-	-
Total	**-**	**55,734**	**-**	**975,028**	**-**	**63,318**	**-**	**2,189,916**

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

These are financial derivatives designated as hedges of the risk of changes in the fair value, caused by the volatility of interest rates, of financial instruments associated with bond issues, financial assets held for sale, the loan portfolio and variable-rate loans with average indexing, as reported in the following table.

6.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair value						Cash flow		Investments in foreign operations
	Specific					Generic	Specific	Generic	
	interest rate risk	exchange rate risk	credit risk	price risk	multiple risks				
1. Financial assets available for sale	28,101	-	-	-	-	X	4,005	X	X
2. Loans	13,878	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	-	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
Total assets	**41,980**	**-**	**-**	**-**	**-**	**-**	**4,005**	**-**	**-**
1. Financial liabilities	7,993	-	-	X	-	X	1,756	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
Total liabilities	**7,993**	**-**	**-**	**-**	**-**	**-**	**1,756**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	-

The amounts reported in respect of "financial assets available for sale" regard fair value hedges that the Group has established using asset swap derivatives to sterilize the interest rate risk connected with listed debt securities. More specifically, these include inflation-linked and fixed-rate BTPs. This type of instrument essentially makes it possible to synthetically replicate a floating-rate security.
The amounts reported under "loans" regard the negative value of hedging derivatives used to hedge the risk on fixed-rate receivables in lease transactions.
The amount in respect of the specific cash flows hedges under "financial assets available for sale" regards the negative fair value of an asset swap on a BTP indexed to European inflation.
"Loans" hedged against interest rate risk regard a deposit hedged using overnight indexed swaps (OISs).
The amount reported under point 4 regards generic hedges of portfolios of deposits managed by the treasury using OISs.
The item "financial liabilities" includes the negative fair value of IRSs and IROs hedging two bonds issued by the Group.

SECTION 7 - VALUE ADJUSTMENTS OF GENERICALLY HEDGED LIABILITIES - ITEM 70

The section has not been completed because there were no such positions as of the balance sheet date.

SECTION 8 – TAX LIABILITIES – ITEM 80

See section 14 under assets.

SECTION 9 – LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE – ITEM 90

See section 15 under assets.

SECTION 10 - OTHER LIABILITIES - ITEM 100

10.1 OTHER LIABILITIES: COMPOSITION

	Total 30/06/2017	Total 31/12/2016
- Tax payables due to tax authorities	41,757	35,428
- Amounts due to social security institutions and employees	41,244	39,615
- Amounts available to customers	40,592	39,303
- Items being processed	147,771	96,982
- Accrued expenses not attributable to separate line item	932	526
- Deferred income not attributable to separate line item	8,371	5,819
- Liabilities in respect of impaired guarantees	7,052	5,007
- Other	292,547	350,870
Total	**580,266**	**573,550**

The item "tax payables due to tax authorities" includes €7.8 million in stamp duty on subscriptions.

The item "amounts due to social security institutions and employees" includes €16.8 million in respect of solidarity funds for early termination incentives.

The item "amounts available to customers" includes:

- €23 million for amounts available to third parties for pensions to be disbursed to customers in the first few days of 2017;
- €2.7 million in expired bankers' drafts;
- €8.1 million for electronic money operations.

The item "other" includes:

- €77.6 million for failed acquisitions;
- €6 million (€3.8 million at December 31, 2016) for provisions for risks associated with guarantees granted;
- €78.8 million in trade items;
- €15.3 million for premiums to be paid for derivatives business with customers.

As regards "Financial liabilities in respect of loans for a specific transaction", please the comments to Table 16.1 of assets.

SECTION 11 – EMPLOYEE TERMINATION BENEFITS – ITEM 110

This item reports employee termination benefits, estimating the amount due to each employee in relation to the specific time the employment relationship ceases. The amount is calculated on an actuarial basis, considering the future time at which the actual financial outlay will be incurred, in compliance with the criteria established by IAS 19 concerning defined-benefit plans.

11.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	Total 30/06/2017	Total 31/12/2016
A. Opening balance	**29,612**	**29,551**
B. Increases	**528**	**5,379**
B.1 Provisions for the period	155	351
B.2 Other increases	373	5,028
C. Decreases	**3,212**	**5,318**
C.1 Benefit payments	2,021	4,930
C.2 Other decreases	1,192	388
D. Closing balance	**26,928**	**29,612**
Total	**26,928**	**29,612**

"Increases/Decreases – Other increases/decreases" mainly include the effects of the actuarial recalculation of the accrued obligation determined using the projected unit credit method (current service cost, interest cost and actuarial gains/losses).

OTHER INFORMATION

Employee termination benefits cover the entire entitlement accrued as at the reporting date by employees, in conformity with applicable law, the collective bargaining agreement and supplementary company-level contract.

The main actuarial assumptions and reference rates used are:

- mortality rates: ISTAT's 2004 mortality tables;
- annual turnover rates: 2-6.50%;;
- discount rate: 1.70%;
- rate of inflation: 1.50%;
- rate of increase in salaries: 2.38% (used only for seniority purposes).

The independent actuary determined the discount rate using as a reference basket the Iboxx Obbligazioni Corporate AA index, with an average duration comparable to the group being assessed..

SECTION 12 - PROVISIONS FOR RISKS AND CHARGES - ITEM 120

12.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	Total 30/06/2017	Total 31/12/2016
1 Company pension plans	**1,879**	**1,907**
2. Other provisions for risks and charges	**71,552**	**74,769**
2.1 legal disputes	38,991	45,652
2.2 personnel expenses	-	-
2.3 other	32,560	29,117
Total	**73,431**	**76,676**

"Company pension plans" includes employee seniority bonuses.
The sub-item 2.1 "Legal disputes" mainly includes revocatory actions, litigation and disputes and legal costs for debt collection.

The sub-item 2.3. "Provisions for risks and charges – other" mainly includes contingent liabilities associated with transactions with the former users of leased assets as well as penalties requested by ICBPI in the amount of €1,507 thousand for the early termination of the contract for the management of custodian bank services for the National Pension Fund for Mutual Bank Personnel under the terms of the commitments made by the Bank to ICBPI at the time of the sale of the Custodian Bank unit. The item also includes risks connected with electronic money activities.

SECTION 13 - TECHNICAL RESERVES - ITEM 130

The section has not been completed because there were no such positions as of the balance sheet date.

SECTION 14 - REDEEMABLE SHARES - ITEM 150

The section has not been completed because there were no such positions as of the balance sheet date.

SECTION 15 - SHAREHOLDERS' EQUITY - ITEMS 140, 160, 170, 180, 190, 200 AND 220

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

As at the reporting date, share capital was represented by 22,285,487 ordinary shares with a par value of €51.65 each with a total value of €1,151,045,403.55 fully paid up. The Group held 584,221 Treasury shares.

15.2 SHARE CAPITAL – NUMBER OF SHARES OF THE PARENT COMPANY: CHANGE FOR THE PERIOD

	Ordinary 30/06/2017	Other 30/06/2017
A. Shares at the start of the year	**22,285,487**	**-**
- fully paid	22,285,487	-
- partially paid	-	-
A.1 Treasury shares (-)	(584,221)	-
A.2 Shares in circulation: opening balance	**21,701,266**	**-**
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	**21,701,266**	**-**
D.1 Treasury shares (+)	584,221	-
D.2 Shares at the end of the year	22,285,487	-
- fully paid	-	-
- partially paid	-	-

15.3 SHARE CAPITAL – OTHER INFORMATION

Share capital entirely composed of ordinary shares with a value equal to subscribed share capital, which has been entirely paid in.

15.4 EARNINGS RESERVES: OTHER INFORMATION

Group reserves amount to €384.1 million and include: the legal reserve, the extraordinary reserve, the reserve for treasury shares and other reserves for a total of €401.7 million, as well as the consolidation reserve of €(17.6)

million. Consolidation reserves are generated by the elimination of the carrying amount of equity investments against the corresponding fraction of shareholders' equity of each investment.
The valuation reserves were a positive €67.9 million and include the reserves from the valuation of assets available for sale of €13 million, the reserves on cash flow hedge derivatives of €(2) million, the reserves from special revaluation laws of €52.3 million, the negative reserve on actuarial gains (losses) for defined benefit plans of €(2.6) million, and the reserve from the valuation of investments in associated companies of €7.2 million.

15.5 OTHER INFORMATION

For more information, please see section F.

SECTION 16 - NON-CONTROLLING INTERESTS – ITEM 210

16.1 BREAKDOWN OF ITEM 210 "NON-CONTROLLING INTERESTS"

	Total 2017	Total 2016
Equity investments in consolidated companies with significant non-controlling interests		
1. BCC Risparmio & Previdenza S.G.R.p.A.	8,036	8,427
2. BCC Sistemi Informatici S.p.A.	2	2
3. BCC Credito Consumo S.p.A.	2,382	2,522
4. Banca Sviluppo S.p.A.	44,022	43,832
Other equity investments	6,986	5,437
Total	**61,428**	**60,220**

NON-CONTROLLING INTERESTS: COMPOSITION

	Total 30/06/2017	Total 31/12/2016
1. Share capital	51,880	51,880
2. Share premium reserve	505	505
3. Reserves	6,717	5,704
4. Treasury shares	(245)	(245)
5. Valuation reserves	167	2
6. Equity instruments	-	-
7. Gain (loss) pertaining to non-controlling interests	2,404	2,374
Total	**61,428**	**60,220**

16.2 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

The table has not been completed because there were no such positions as of the balance sheet date.

OTHER INFORMATION

1. GUARANTEES ISSUED AND COMMITMENTS

	Total 2017	Total 2016
1) Financial guarantees issued	**900,766**	**660,426**
a) Banks	30,372	32,849
b) Customers	870,394	627,577
2) Commercial guarantees issued	**122,838**	**109,320**
a) Banks	35,755	37,289
b) Customers	87,083	72,031
3) Irrevocable commitments to disburse funds	**1,486,043**	**2,022,596**
a) Banks	616,173	245,499
i) certain use	477,440	82,712
ii) uncertain use	138,733	162,787
b) Customers	869,870	1,777,097
i) certain use	691,600	1,576,176
ii) uncertain use	178,269	200,921
4) Commitments underlying credit derivatives: sales of protection	**15,000**	**15,000**
5) Assets pledged as collateral for third-party debts	**18,679**	**-**
6) Other commitments	**117,037**	**150,713**
Total	**2,660,363**	**2,958,055**

The amount of "guarantees issued" is reported at nominal value net of uses and any impairment losses and regard guarantees with which the Group undertook to discharge or guarantee the commercial/financial obligations of customers.
"Irrevocable commitments to disburse funds" are reported on the basis of the commitment net of amount already disbursed and any impairment losses. "Irrevocable commitments to disburse funds" where use by the applicant is certain and specified include:

- purchases (spot and forward) of securities not yet settled as well as deposits and loans to be disbursed at a future date;
- lease contracts that had yet to be disbursed at the balance sheet date.

"Commitments underlying credit derivatives: sales of protection" regard the notional value net of amounts disbursed and any value adjustments.

5. MANAGEMENT AND INTERMEDIATION SERVICES

	Amount
1. Order execution on behalf of customers	**54,271,985**
a) Purchases	**29,558,176**
1. settled	*29,216,210*
2. not settled	*341,966*
b) Sales	**24,713,809**
1. settled	*24,384,409*
2. not settles	*329,400*
2. Asset management	**7,446,447**
a) Individual	2,678,203
b) Collective	4,768,244
3. Securities custody and administration	**258,703,743**
a) Third-party securities held as part of custodian bank services (excluding asset management)	80,001
1. Securities issued by reporting entity	-
2. other securities	80,001
b) Other third-party securities on deposit (excluding asset management): other	99,104,595
1. Securities issued by reporting entity	5,189,943
2. Other securities i	93,914,652
c) Third-party securities deposited with third parties	90,866,379
d) Securities owned by bank deposited with third parties	68,652,768
4. Other transactions	**75,228**

"Asset management" reports the total value at market prices of the portfolios managed by the Group asset management company (BCC Risparmio&Previdenza S.G.p.A).

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 30/06/2017	Total 30/06/2016
1. Financial assets held for trading	549	-	-	549	3,439
2. Financial assets at fair value	120	-	-	120	263
3. Financial assets available for sale	4,996	-	-	4,996	20,854
4. Financial assets held to maturity	14,245	-	-	14,245	28,523
5. Due from banks	2,753	3,200	1	5,954	9,603
6. Loans to customers	914	182,417	2,696	186,027	219,878
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	38,304	38,304	1,549
Total	**23,577**	**185,617**	**41,001**	**250,195**	**284,109**

During the period, interest income recognized under loans to customers in respect of finance leases came to €86 million (€92 million at June 30, 2016). Negative indexing adjustments came to €8.9 million (€10 million at June 30, 2016).

1.4 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 30/06/2017	Total 30/06/2016
1. Due to central banks	0	X		0	(3.654)
2. Due to banks	(2,939)	X	(103)	(3,042)	(8,300)
3. Due to customers	(6,160)	X		(6,160)	(9,168)
4. Securities issued	X	(54,161)		(54,161)	(59,134)
5. Financial liabilities held for trading	(2,023)			(2,023)	(1,668)
6. Financial liabilities carried at fair value		(103)		(103)	(5,770)
7. Other liabilities and provisions	X	X	(24,324)	(24,324)	(16,832)
8. Hedging derivatives	X	X	(3,937)	(3,937)	(1,260)
Total	**(11,122)**	**(54,264)**	**(28,364)**	**(93,750)**	**(105,786)**

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	Total 30/06/2017	Total 30/06/2016
a) guarantees issued	1,096	1,420
b) credit derivatives	-	-
c) management, intermediation and advisory services:	78,530	42,792
1. trading in financial instruments	3,390	4,313
2. foreign exchange	115	121
3. asset management	30,114	27,512
3.1. individual	741	785
3.2. collective	29,373	26,727
4. securities custody and administration	3,890	3,972
5. depository services	-	-
6. securities placement	556	1,374
7. order collection and transmission	1,246	743
8. advisory services	774	652
8.1 concerning investments	183	24
8.2 concerning financial structure	591	628
9. distribution of third-party services	38,445	4,105
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	3,593	4,105
9.3. other	34,852	-
d) collection and payment services	23,791	25,358
e) servicing activities for securitizations	8	36
f) services for factoring transactions	2,269	2,186
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) holding and management of current accounts	4,222	3,813
j) other services	153,786	167,574
Total	**263,702**	**243,179**

2.2 FEE AND COMMISSION EXPENSE: COMPOSITION

	Total 30/06/2017	Total 30/06/2016
a) guarantees received	(610)	(357)
b) credit derivatives	-	-
c) management, intermediation and advisory services:	(21,268)	(21,055)
1. trading in financial instruments	(849)	(635)
2. foreign exchange	(39)	(42)
3. asset management:	(17,741)	(16,858)
3.1 own portfolio	(17,741)	(16,858)
3.2 third-party portfolio	-	-
4. securities custody and administration	(2,022)	(2,246)
5. securities placement	(617)	(1,274)
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	(1,123)	(1,936)
e) other services	(140,437)	(128,814)
Total	**(163,438)**	**(152,162)**

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES - ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

		Total 30/06/2017		Total 30/06/2016	
		Dividends	Income from units in collective investment undertakings	Dividends	Income from units in collective investment undertakings
A.	Financial assets held for trading	112	-	21	-
B.	Financial assets available for sale	1,764	-	1,551	-
C.	Financial assets at fair value	-	-	-	-
D.	Equity investments	-	X	-	X
	Total	**1,876**	**-**	**1,572**	**-**

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 (A+B) - (C+D)
1. Financial assets held for trading	**49**	**8,498**	**(444)**	**(2,548)**	**5,554**
1.1 Debt securities	20	7,708	(106)	(2,371)	5,251
1.2 Equity securities	28	682	(271)	(124)	315
1.3 Units in collective investment undertakings	-	68	(68)	(3)	(3)
1.4 Loans	-	-	-	-	-
1.5 Other	-	40		(50)	(11)
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**	**70,096**
4. Derivatives	**47,918**	**67,695**	**(109,739)**	**(72,212)**	**(66,339)**
4.1 Financial derivatives:	47,918	67,695	(109,739)	(72,212)	(66,339)
- on debt securities and interest rates	45,524	64,641	(42,753)	(67,496)	(84)
- on equity securities and equity indices	1,832	31	(63)	(1,922)	(123)
- on foreign currencies and gold	-	-	(66,893)	-	(66,893)
- other	562	3,024	(30)	(2,794)	762
4.2 Credit derivatives	-	-	-	-	-
Total	**47,966**	**76,192**	**(110,183)**	**(74,761)**	**9,312**

SECTION 5 - NET GAIN (LOSS) ON HEDGING ACTIVITIES – ITEM 90

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

		Total 30/06/2017	Total 30/06/2016
A.	**Gains on:**		
A.1	Fair value hedges	8,010	3,704
A.2	Hedged financial assets (fair value)	826	15,053
A.3	Hedged financial liabilities (fair value)	648	1,093
A.4	Cash flow hedges	566	-
A.5	Assets and liabilities in foreign currencies	5,997	912
Total income from hedging activities (A)		**16,047**	**20,762**
B.	**Loss on:**		
B.1	Fair value hedges	(2,367)	(14,635)
B.2	Hedged financial assets (fair value)	(5,348)	(2,113)
B.3	Hedged financial liabilities (fair value)	(1,177)	(2,677)
B.4	Cash flow hedges	(7,353)	(1,073)
B.5	Assets and liabilities in foreign currencies	-	-
Total expense on hedging activities (B)		**(16,245)**	**(20,498)**
C.	**Net gain (loss) on hedging activities (A - B)**	**(198)**	**264**

The amounts regard the following transactions:

- hedges of fixed-rate and inflation-linked Italian government securities (BTPs) with asset swaps;
- hedges of 4 bonds issued by the Bank with interest rate swaps and interest rate options;
- hedges of 4 bonds issued by the Bank in US dollars with cross currency interest rate swaps;
- hedges of treasury deposits with overnight indexed swaps;
- hedges of cash flows on inflation-linked Italian government securities (BTPs);
- macro-hedges of portfolios of deposits with overnight indexed swaps;
- hedge of 1 Banca IMI bond using an asset swap.

SECTION 6 - GAIN (LOSS) ON DISPOSAL OR REPURCHASE - ITEM 100

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	Total 30/06/2017			Total 30/06/2016		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Due from banks	**9**	**(1)**	**8**	**3**	**(1)**	**28**
2. Loans to customers	**6**	**-**	**6**	**-**	**(311)**	**3,352**
3. Financial assets available for sale	**29,842**	**(4,010)**	**25,832**	**77,913**	**(6,051)**	**25,364**
3.1 Debt securities	20,247	(4,010)	16,237	34,729	(6,051)	25,364
3.2 Equity securities	9,595	-	9,595	43,184	-	-
3.3 Units in collective investment undertakings	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	**-**	**-**	**-**	**-**	**-**	**-**
Total assets	**29,857**	**(4,010)**	**25,846**	**77,916**	**(6,363)**	**28,744**
Financial liabilities						
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**
3. Securities issued	**215**	**(1,273)**	**(1,058)**	**341**	**(2,704)**	**(2,363)**
Total liabilities	**215**	**(1,273)**	**(1,058)**	**341**	**(2,704)**	**(2,363)**

The net gain on the disposal of "financial assets available for sale – equity securities" essentially reflects the gain on the disposal of Visa and Cattolica shares.

SECTION 7 - NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE - ITEM 110

7.1 NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE: COMPOSITION

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Trading losses (D)	Net gain (loss) [(A+B) - (C+D)]
1. Financial assets	**581**	**-**	**-**	**-**	**581**
1.1 Debt securities	581	-	-	-	581
1.2 Equity securities	-	-	-	-	-
1.3 Units in collective investment undertakings	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Financial liabilities	**23**	**87**	**-**	**-**	**110**
2.1 Debt securities	23	87			110
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	X	X	X	X	**-**
4. Financial and credit derivatives	-	-	-	-	-
Total	**604**	**87**	**-**	**-**	**691**

SECTION 8 - NET LOSSES/RECOVERIES ON IMPAIRMENT - ITEM 130

8.1 NET LOSSES/RECOVERIES ON IMPAIRMENT OF LOANS: COMPOSITION

	Losses (1)			Recoveries (2)				Total 30/06/2017	Total 30/06/2016
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Due from banks	**-**	**(260)**	**-**	**-**	**-**	**-**	**-**	**(260)**	**2,923**
- Loans	-	-	-	-	-	-	-	-	2,923
- Debt securities	-	(260)	-	-	-	-	-	(260)	-
B. Loans to customers	**(49,365)**	**(134,615)**	**(2,377)**	**16,522**	**105,179**	**-**	**18,161**	**(46,495)**	**(82,414)**
Impaired receivables acquired	-	-	-	-	35	-	-	35	-
- Loans	-	-	X	-	35	X	X	35	-
- Debt securities	-	-	X	-	-	X	X	-	-
Other receivables	(49,365)	(134,615)	(2,377)	16,522	105,144		18,161	(46,530)	(82,414)
- Loans	(49,365)	(134,615)	(2,377)	16,522	105,144		18,161	(46,530)	(82,414)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(49,365)**	**(134,875)**	**(2,377)**	**16,522**	**105,179**		**18,161**	**(46,755)**	**(79,491)**

Key

A= recoveries from interest

B= other recoveries

8.2 NET LOSSES/RECOVERIES ON IMPAIRMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION

	Losses (1)		Recoveries (2)		Total 30/06/2017	Total 30/06/2016
	Specific		Specific			
	Writeoffs	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	-	-	X	X	-	-
C. Units in collective investment undertakings	-	(22,548)	X		(22,548)	-
D. Due from banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**(22,548)**	**-**	**-**	**-**	**-**

Key

A= recoveries from interest

B= other recoveries

8.3 NET LOSSES/RECOVERIES ON IMPAIRMENT OF FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION

The table has not been completed because there were no such positions as of the balance sheet date.

8.4 NET LOSSES/RECOVERIES ON IMPAIRMENT OF OTHER FINANCIAL INSTRUMENTS: COMPOSITION

	Losses (1)			Recoveries (2)				Total 30/06/2017	Total 30/06/2016
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Guarantees issued	-	(18)	(2,195)	-	-	-	-	(2,213)	-
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse	-	-	-	-	-	-	-	-	-
D. Other transactions	(5)	(181)	-	-	-	-	-	(186)	(1,278)
E. Total	**(5)**	**(199)**	**(2,195)**	**-**	**-**	**-**	**-**	**(2,399)**	**(1,278)**

Key

A= recoveries from interest

B= other recoveries

“Losses” reports amounts associated with the mutual bank deposit guarantee fund for allotments and the commitments relating to the requests for repayment made to the fund and already authorized by the Bank of Italy.

SECTION 9 - NET PREMIUMS - ITEM 150

The section has not been completed because there were no such positions as of the balance sheet date.

SECTION 10 - NET OTHER INCOME (EXPENSE) FROM INSURANCE ACTIVITIES - ITEM 160

The section has not been completed because there were no such positions as of the balance sheet date.

SECTION 11 - ADMINISTRATIVE EXPENSES - ITEM 180

11.1 Personnel expenses: composition

	Total 30/06/2017	Total 30/06/2016
1) Employees	**(91,226)**	**(93,969)**
a) wages and salaries	(63,583)	(64,807)
b) social security contributions	(16,849)	(17,216)
c) termination benefits	(788)	(1,151)
d) pensions	-	(17)
e) allocation to employee termination benefit provision	(639)	(1,012)
f) allocation to provision for retirement and similar liabilities:	(6)	(91)
- defined contribution	9	(79)
- defined benefit	(15)	(12)
g) payments to external pension funds:	(4,939)	(5,146)
- defined contribution	(4,317)	(4,397)
- defined benefit	(622)	(749)
h) costs in respect of agreements to make payments in own equity instruments	-	-
i) other employee benefits	(4,422)	(4,529)
2) Other personnel	**(904)**	**(1,360)**
3) Board of Directors and members of Board of Auditors	**(2,051)**	**(2,112)**
4) Retired personnel	**-**	**-**
Total	**(94,181)**	**(97,441)**

11.2 Average number of employees by category: banking group

Employees:	**1,981**
a) senior management	54
b) middle management	758
c) other employees	1,170
Other personnel	**27**

11.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Total 30/06/2017	Total 30/06/2016
Information technology	**(48,367)**	**(45,058)**
Property and movables	**(5,565)**	**(5,742)**
- rental and fees	(2,548)	(3,054)
- ordinary maintenance	(2,735)	(2,312)
- security	(282)	(376)
Goods and services	**(16,501)**	**(14,991)**
- telephone and data transmission	(7,545)	(6,107)
- postal	(2,938)	(2,931)
- asset transport and counting	(1,142)	(546)
- electricity, heating and water	(1,248)	(1,518)
- transportation and travel	(3,247)	(2,861)
- office supplies and printed materials	(262)	(959)
- subscriptions, magazines and newspapers	(119)	(69)
Professional services	**(25,858)**	**(22,742)**
- professional fees (other than audit fees)	(10,933)	(11,795)
- audit fees	(491)	(369)
- legal and notary costs	(3,534)	(4,029)
- court costs, information and title searches	(753)	(1,049)
- insurance	(953)	(783)
- administrative services	(9,194)	(4,717)
Promotional, advertising and entertainment expenses	**(2,353)**	**(2,830)**
Association dues	**(3,071)**	**(3,345)**
Donations	**(14)**	**(27)**
Other	**(6,823)**	**(4,712)**
Indirect taxes and duties	**(34,163)**	**(21,179)**
- stamp duty	(9,014)	(7,629)
- long-term loan tax - Pres. Decree 601/73	(130)	(142)
- municipal property tax	(776)	(797)
- financial transaction tax	(36)	(28)
- other indirect taxes and duties	(24,207)	(12,583)
Total	**(142,715)**	**(120,626)**

Pursuant to Article 2427, paragraph 16-bis of the Italian Civil Code, we set out below the fees paid in the first half of 2017 to the audit firm EY S.p.A. (and its network) by the Parent Company and the other Iccrea Banking Group companies:

- statutory audit of the interim accounts for €220 thousand;
- other audit-related services (translations, EMTN) for €58 thousand;
- other non-audit services for the rest.

These amounts are shown net of VAT and expenses.

The item "other indirect taxes and duties" includes the ordinary contributions to the National Resolution Fund (BRRD) totaling €23.2 million, which were provisioned in the first half of the year.

SECTION 12 - NET PROVISIONS FOR RISKS AND CHARGES - ITEM 190

12.1 NET PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	Total 30/06/2017	Total 30/06/2016
- Provisions for damages and revocatory actions in bankruptcy		-
- Provisions for litigation	(373)	(573)
- Provisions for other risks and charges	(1,333)	(316)
- Use of provisions for damages and revocatory actions in bankruptcy		-
- Use of provisions for litigation	1,389	384
- Use of provisions for other risks and charges	159	440
Total	**(158)**	**(65)**

The "provisions for other risks and charges" include the adjustment of the provision for contingent liabilities associated with former tenants of buildings sold after the lease contracts had been terminated.

The "use of provisions for litigation" regard the closure and elimination of a major dispute for which more than €1 million had been provisioned.

SECTION 13 - NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT - ITEM 200

13.1. NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT: COMPOSITION

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustment (a + b - c)
A. Property and equipment				
A.1 owned	**(5,990)**	**-**	**-**	**(5,990)**
- operating assets	(5,990)	-	-	(5,990)
- investment property	-	-	-	-
A.2 acquired under finance leases	**(2,869)**	-	-	**(2,869)**
- operating assets	(2,869)	-	-	(2,869)
- investment property		-	-	
Total	**(8,859)**	**-**	**-**	**(8,859)**

For more information, please see the Accounting Policies section of these notes to the consolidated financial statements.

SECTION 14 - NET ADJUSTMENTS OF INTANGIBLE ASSETS - ITEM 210

14.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a+b-c)
A. Intangible assets				
A.1 owned	**(5,480)**	**-**	**-**	**(5,480)**
- generated internally by the Group	(735)	-	-	(735)
- other	(4,745)	-	-	(4,744)
A.2 Acquired under finance leases	**-**	**-**	**-**	**-**
Total	**(5,480)**			**(5,480)**

SECTION 15 - OTHER OPERATING EXPENSES/INCOME - ITEM 220

15.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 30/06/2017	Total 30/06/2016
- Reductions in assets not attributable to separate line item		-
- Prior-year expenses not attributable to separate line item	(59)	(109)
- Robbery and theft		-
- Amortization of expenditure for leasehold improvements	(85)	(105)
- Settlement of disputes and claims		-
- Other expenses	(15,761)	(15,115)
- Consolidation adjustments	(2,914)	(4,029)
Total	**(18,819)**	**(19,358)**

15.2 OTHER OPERATING INCOME: COMPOSITION

	Total 30/06/2017	Total 30/06/2016
- Reductions in liabilities not attributable to separate line item	-	-
- Non-recurring income not attributable to separate line item	379	211
- Property rental income	112	38
- Recovery of taxes and duties	7,746	7,258
- Recovery for services rendered to Group companies	112	-
- Recovery of legal and notary costs	-	-
- Recovery of sundry charges	4,289	1,801
- Other income	54,832	56,956
- Consolidation adjustments	-	-
Total	**67,470**	**66,264**

SECTION 16 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 240

16.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total 30/06/2017	Total 30/06/2016
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	**2,769**	**1,159**
1. Revaluations	2,769	1,159
2. Gains on disposals		-
3. Writebacks		-
4. Other income		-
B. Losses	**-**	**(360)**
1. Writedowns	-	(360)
2. Impairment	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net profit (loss)	**2,769**	**799**
Total	**2,769**	**799**

SECTION 17 - NET ADJUSTMENT TO FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS - ITEM 250

17.1 NET ADJUSTMENT TO FAIR VALUE (OR REVALUED AMOUNT) OF PROPERTY 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 and equipment					
A.1 owned:	-	(9,758)	-	-	(9,758)
- operating assets	-	-	-	-	-
- investment property	-	(9,758)	-	-	(9,758)
A.2 acquired under finance leases:	-	-	-	-	-
- operating assets	-	-	-	-	-
- investment property	-	-	-	-	-
B. Intangible assets	-	-	-	-	-
B.1 owned:	-	-	-	-	-
B.1.1 internally generated	-	-	-	-	-
B.1.2 other	-	-	-	-	-
B.2 acquired under finance leases	-	-	-	-	-
Total	**-**	**(9,758)**	**-**	**-**	**(9,758)**

SECTION 18 - GOODWILL IMPAIRMENT - ITEM 260

There were no such positions as of the balance sheet date.

SECTION 19 - GAINS (LOSSES) FROM DISPOSAL OF INVESTMENTS - ITEM 270

	Total 30/06/2017	Total 30/06/2016
A. Property	**-**	**26**
- gains	-	-
- losses	-	26
B. Other assets	**-**	**-**
- gains		
- losses	-	-
Net gain (loss)	**-**	**26**

SECTION 20 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS - ITEM 290

20.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

		Total 30/06/2017	Total 30/06/2016
1.	Current taxes (-)	(4,822)	(6,805)
2.	Changes in current taxes from previous periods (+/-)	849	(1)
3.	Reduction of current taxes for the period (+)	(13)	-
3.*bis*	Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	-	-
4.	Change in deferred tax assets (+/-)	2,451	(6,577)
5.	Change in deferred tax liabilities (+/-)	1,377	649
6.	**Income taxes for the period (-) (-1+/-2+3+3 *bis*+/-4+/-5)**	**(158)**	**(12,734)**

20.2 RECONCILIATION OF THEORETICAL TAX LIABILITY AND ACTUAL TAX LIABILITY RECOGNIZED

	Taxable income	Tax	Tax rate (%)
A) Profit (loss) before tax (item 280 of the income statement):	11,742	(2,818)	24%
- Temporary differences taxable in subsequent periods	(12)	-	
- Temporary differences deductible in subsequent periods	5,092	(1,387)	
- Reversal of taxable temporary differences of previous periods	4,161	-999	
- Reversal of deductible temporary differences of previous periods	(4,035)	1,035	
- Permanent taxable differences	(10,441)	(10,254)	
- Permanent deductible differences	(60,671)	14,404	
B) IRES - actual tax liability	(54,164)	(19)	
C) IRAP* - theoretical tax liability with application of nominal rate to value of production:	135,533	(7,301)	
- Temporary differences taxable in subsequent periods	-	-	
- Temporary differences deductible in subsequent periods	48	(2)	
- Reversal of taxable temporary differences of previous periods	-	-	
- Reversal of deductible temporary differences of previous periods	(1,077)	60	
- Permanent taxable differences	6,644	(388)	
- Permanent deductible differences	(64,481)	2,828	
D) IRAP - actual tax liability	76,667	(4,803)	
Total current taxes		**4,822**	

*The IRAP figure was calculated by applying the rates in force in the regions in which each company has its registered office and, for those that operate in more than one region, by taking the taxable amount and distributing it among the regions involved in proportion to the number of employees.

SECTION 21 - PROFIT (LOSS) AFTER TAX FROM DISPOSAL GROUPS - ITEM 310

21.1 PROFIT (LOSS) AFTER TAX FROM DISPOSAL GROUPS: COMPOSITION

The section has not been completed because there were no such positions as of the balance sheet date.

21.2 BREAKDOWN OF INCOME TAXES FOR DISPOSAL GROUPS HELD FOR SALE

The section has not been completed because there were no such positions as of the balance sheet date.

SECTION 22 - NET PROFIT (LOSS) PERTAINING TO NON-CONTROLLING INTERESTS - ITEM 330

22.1 BREAKDOWN OF ITEM 330 "PROFIT (LOSS) PERTAINING TO NON-CONTROLLING INTERESTS"

	Total 30/06/2017	Total 30/06/2016
Consolidated equity investments with significant non-controlling interests		
1. BCC Risparmio & Previdenza S.G.r.p.A.	1,588	1,049
2. BCC Sistemi Informatici S.p.A.	-	-
3. BCC Gestione Crediti S.p.A.	384	219
4. BCC Credito Consumo	235	169
Other equity investments	196	(186)
Total	**2,403**	**1,251**

SECTION 23 - OTHER INFORMATION

It was not felt necessary to add further information other than that already provided in the previous tables.

SECTION 24 - EARNINGS PER SHARE

The ordinary shares of the Parent Company are not traded on a public market and the company not file its financial statements with Consob in order to issue ordinary shares on a public market. Accordingly, IAS 33 does not apply.

24.1 AVERAGE NUMBER OF ORDINARY SHARES IN DILUTED SHARE CAPITAL

The table was not completed as there were no such positions as of the balance sheet date.

24.2 OTHER INFORMATION

No further information to report.

Part D

Comprehensive income

Detailed statement of consolidated comprehensive income

		Gross amount	Income taxes	Net amount
10.	**Net profit (loss) for the period**	**X**	**X**	**11,584**
	Other comprehensive income not recyclable to profit or loss			
20.	Property and equipment			
30.	Intangible assets			
40.	Defined-benefit plans	1,103	(248)	855
50.	Non-current assets held for sale			
60.	Valuation reserves of equity investments accounted for with equity method			
	Other comprehensive income recyclable to profit or loss			
70.	**Hedging of investments in foreign operations:**			
	a) fair value changes			
	b) reversal to income statement			
	c) other changes			
80.	**Foreign exchange differences:**			
	a) value changes			
	b) reversal to income statement			
	c) other changes			
90.	**Cash flow hedges:**	**649**	**(215)**	**434**
	a) fair value changes	(6,704)	2,217	(4,487)
	b) reversal to income statement	7,353	(2,432)	4,921
	c) other changes			
100.	**Financial assets available for sale:**	**(8,368)**	**1,935**	**(6,433)**
	a) fair value changes	3,414	(712)	2,702
	b) reversal to income statement	(11,782)	2,647	(9,135)
	- impairment adjustments			
	- gain/loss on realization	(11,782)	2,647	(9,135)
	c) other changes			
110.	**Non-current assets held for sale:**			
	a) fair value changes			
	b) reversal to income statement			
	c) other changes			
120.	**Valuation reserves of equity investments accounted for with equity method (pro rata)**	**(914)**	**303**	**(611)**
	a) fair value changes	**(914)**	**303**	**(611)**
	b) reversal to income statement			
	- impairment adjustments			
	- gain/loss on realization			
	c) other changes			
130.	**Total other comprehensive income**	**(7,530)**	**1,775**	**(5,755)**
140.	**Comprehensive income (item 10+130)**	**(7,530)**	**1,775**	**5,829**
150.	Consolidated comprehensive income pertaining to non-controlling interests	X	X	2,569
160.	**Consolidated comprehensive income pertaining to shareholders of the Parent Company**	**X**	**X**	**3,260**

Part E

Risks and risk management policies

SECTION 1 – RISKS OF THE BANKING GROUP

INTRODUCTION

The Iccrea Group attaches great importance to controlling risks and to control systems, which are essential to ensuring the reliable and sustainable generation of value, preserving a sound financial position over time, and enabling effective management of assets and liabilities, including in respect of its core business of supporting and providing services to the mutual banks and their customers.

ORGANIZATION OF RISK MANAGEMENT

- Roles and responsibilities in Risk Management

The risk management function is based on the CRO area, which is structured into units that operate within both the Parent Company and at the level of each subsidiary. The organizational implementation of the governance for risk management model takes account of the company structure of the Group, the specialization of business segments within the company structure, the executive effectiveness of the centralized governance approach, the complexity and impact on corporate operations of the functional areas included in the CRO area, compliance with applicable prudential regulations, the effectiveness of second-level controls in relation to management requirements and the applicable regulatory context.

In recent years, the Group has undertaken a gradual process to upgrade its methods and tools for managing credit, financial and operational risks, bringing the system into line with external regulations and operational and internal monitoring needs. In order to increase the effectiveness and efficiency of internal controls and respond to changes in the regulatory environment and the organizational, operational and corporate structure of the Group, in 2016 we completed a review of governance arrangements and the associated structure of the second-level control units (Risk Management, Compliance and Anti-Money Laundering).

The main changed involved:

- a revision of the CRO area, which retained its powers and responsibilities in the risk management field, including IT risk, but with the reassignment of responsibility for managing risks associated with compliance, money-laundering and terrorist financing to another unit;
- the establishment of the CCO area, reporting directly to the Board of Directors of the Parent Company, to manage compliance risk and money-laundering and terrorist financing risk. During 2017, consistent with developments in the corporate governance project and with a view to implementing the organizational measures associated with the adoption of a governance model for the Risk Management function centralized within the CRO area of the Parent Company, for all of the Group's banks and financial companies, an evolutionary reorganization of the Group Risk Management department was completed. The reorganization was carried out in such a way so as to ensure that the individual Risk Management units in the various companies continue to report directly to the boards of directors of each subsidiary.

In this context and in consideration of the needs that have arisen in relation to the implementing measures associated with the reform of the mutual banking system, the main lines of development underpinning that reorganization concerned:

- the transformation of the Parent Company into a bank through the merger of Iccrea Holding and Iccrea Banca, which from a forward-looking perspective made it necessary to structure strong credit risk management arrangements within the Parent Company, which had already existed at the Group level but were organizationally distributed among the subsidiaries whose core business was lending;
- the start of work on the project to create the new Mutual Banking Group (MBG), with the significant involvement of the Risk Management department, giving rise to:
  - the need to implement an organizational structure to support the planning activity itself, with the incorporation of targeted organizational development measures, with a view to streamlining arrangements;
  - the need to create the conditions for the multi-tasking phase of the project, making it essential to introduce greater organizational flexibility in order to maximize the individual contribution of the senior staff of the unit;
  - the need to ensure that organizational evolution was temporary, designed to remain in place for a period limited to some 12-18 months: the organizational structure and the internal organization (roles and responsibilities of personnel) of the Risk Management function of the new Mutual Banking Group will only be determined at the end of the project;
  - the need to implement an organizational structure capable of ensure the continuity of the existing Group while the new Mutual Banking Group is being created in order to ensure constant, efficient and effective operation. A special emphasis was placed on relations with the supervisory authorities, which in the transition phase will certainly focus specific attention on the continuing compliance of the Iccrea Banking Group with regulatory requirements while the project is being developed

and on the requirements for the formation and authorization of the new MBG;
- the desire to retain the governance arrangements of the CRO area, with functional responsibility centralized with the Parent Company and the distribution of local units with the subsidiaries and the need to maximize the contribution of all senior staff, including those who joined the Group most recently.

Bearing in mind the foregoing, the reorganization of the Risk Management function involved the following organizational measures:

- the retention of functional responsibility for the Risk Management function with the Parent Company. More specifically the Risk Manager position at the Parent Company was assigned to the CRO, while at the individual companies that role is filled by the Heads of the Risk Management units of the subsidiaries, who continue to report functionally to the CRO area, consistent with the operational characteristics of those companies, and to the Board of the subsidiary to which they belong;
- the shifting of the Bank Risk unit, which previously reported functionally to the Financial Risk unit, to reporting directly to the CRO, as a natural development of risk management arrangements in response to the reform project under way;
- the rationalization of the risk management arrangements of Iccrea BancaImpresa, which continues to report functionally to the Credit Risk Management unit of Iccrea Banca, which is in turn organized into two units:
  - Models and Risk Policy;
  - Risk Analysis and Monitoring.
- the creation of a specific unit for operating continuity with the assignment of the functional role of BCMS.

- Structure of the CRO Area

Following the above reorganization, the CRO area is structured into five units:

- Risk Integration & Capital Adequacy;
- Bank risk;
- Financial Risk Management;
- Credit Risk Management;
- Operational & IT Risk Management.

Under the governance arrangements, the units at the subsidiaries, which form part of the staff structure supporting their respective boards of directors, report functionally to the CRO area on the basis of the special characteristics of the operations of each subsidiary, creating segments by main line of business.

More specifically,
- the Risk Management units of the subsidiaries report functionally to:
  - the Credit Risk Management unit of the Parent Company for Iccrea BancaImpresa SpA, Banca Sviluppo SpA, BCC Credito Consumo SpA, BCC Lease SpA and BCC Factoring SpA;
  - the Financial Risk Management unit of the Parent Company for BCC Risparmio e Previdenza SGRpA.

The Operational & IT Risk Management unit operates as a specialized hub for the entire Group, with responsibility for providing guidance and technical support to the risk management units of all Group companies in the area of operational and IT risks.

MAIN DUTIES OF THE CRO AREA

The responsibilities of the CRO area include participating in the definition, development and any corrective maintenance of the framework for risk assumption and management, developing proposals for the Risk Appetite Framework and its operational manifestation (Risk Appetite Statement), monitoring developments in the exposure to the different types of risk and monitoring capital requirements and prudential ratios on a current and prospective basis in relation to the targets defined by the Risk Appetite Statement and the supervisory authorities. In supporting the operations of the Iccrea Banking Group, the CRO area:

- participates in the definition and development of the framework for the assumption and management of the risks, which is formed of the organizational units and corporate processes (operating, administrative and business), including line controls, support tools, risk governance policies (policies, limits and powers), methods and risk measurement and assessment criteria, ensuring that it is:
  - compliant with applicable regulations, in line with market best practice and consistent with internal requirements;
  - consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the ICAAP and the ILAAP;
- develops the Risk Appetite Framework and its operational implementation, the Risk Appetite Statement, in accordance with applicable internal and external regulations;
- monitors developments in the exposure to the different forms of risk in relation to developments in markets and the operation of the internal management system. In this area, it:
  - develops risk measurement and assessment methods and models;
  - performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible;

- identifies any risk developments exceeding the limits set out in the Risk Appetite Statement, in the Risk Governance Policies or in external regulations and, in general, potentially harmful or unfavorable situations in order to assess possible mitigation initiatives to implement;
- analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement;
- identifies any needs for fine tuning/corrective or evolutionary maintenance of the assumption and management framework for the risks for which it is responsible, providing support – within the scope of its duties – in implementing the associated actions;
- assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (capital absorption, ICAAP) and the appropriateness of the Group's liquidity profile (ILAAP);
- reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining strategic policy and risk policy and the associated implementation of those policies;
- assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to resolve the issues;

• within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The ICCREA Banking Group devotes special attention to managing 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 Iccrea Banking Group. 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 daily/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 companies of the Iccrea Banking Group in the long term, systematic and independent Internal Auditing units, etc.).

RISK MANAGEMENT STRATEGIES AND PROCESSES

The Risk Management Process is a component of the Bank's organizational structure, forming part of all operational sectors in which risk is assumed and managed. For each sector, it provides for the identification, assessment (or measurement), monitoring, prevention and mitigation of those risks, also defining the systems (criteria, methods and means) with which those activities are performed.

The Risk Management Process is structured into five phases, the sequentiality of which is itself an integral part of the macro-process. They represent the general organizational manifestation of the Group's risk assumption and management framework:

- **Risk identification (knowledge):** this requires that each process and/or operational and business activity that involves the assumption or management of risks on an ongoing basis provide for the identification of the underlying types of risk and the factors that drive them. This phase is especially significant at the start of new initiatives, in implementing new strategies (business, organizational and infrastructural development, etc.) but is also important in existing activities in the present of changes in the surrounding context (market, operational, regulatory, etc.).

- **Assessment/measurement of the identified risks (awareness)**: this requires that the level of risk connected with the activities performed be assessed/measured for each of the various types of identified risk. This phase is especially important in understanding the dynamics of the risks involved and in forecasting (or estimating) their developments in relation to developments in the underlying risk drivers and the possibility of adverse events that could jeopardize achievement of expected results or generate losses. All of this is based on a methodological framework for the assessment/measurement of each type of risk assumed and/or managed. It must be defined and implemented consistently with the provisions of internal rules and in compliance with the applicable regulatory framework.

- **Risk prevention and attenuation (strategy):** this consists in the ex-ante identification, both at the organization stage and the current execution of operational and business activities, of the possible approaches to preventing and attenuating adverse developments in the risks assumed and/or managed. After a cost/benefit analysis of the risk/return trade-off, this phase involves establishing the actions (or techniques) necessary to prevent the occurrence of adverse internal or external events or to attenuate the impact of an adverse event or development. Such actions are intended to guide the evolution of the possible risk scenarios underlying operations within the risk appetite levels established for the individual operating or business segment.

- **Monitoring and reporting (tracking and control)**: this consists of the set of monitoring and ongoing assessment (measurement) activities tracking the dynamic evolution of the risks underlying operating and business activities in each segment, using methods consistent with the established methodological framework, providing for reporting at the frequency and levels established in the applicable internal rules for the segment, and functionally preliminary in terms of timeliness, accuracy and effectiveness to the decision-making process underlying the subsequent management and mitigation phase.

- **Risk management and mitigation (reaction and proactivity)**: this phase comprises the activities and actions that must be established for each operational and business segment to manage the development of the risks assumed, to mitigate any adverse impacts on expected results in the event of unfavorable actual or expected (estimated) developments, also providing for the constant monitoring of the results of the activities performed. The most important operational and business sectors perform entire corporate processes dedicated to these activities, with corresponding organizational arrangements specifically established for their performance. A critical success factor for the effectiveness of risk management and mitigation activities is the presence of a decision-making process to identify the activities themselves and their evolutionary/corrective maintenance that is soundly based on the results of the monitoring and reporting activities in the previous phase.

For each operational and business segment, the practical implementation of the general model represented by the Risk Management Process is set out in the framework of rules defined and developed within each Group company (rules, policies, procedures, manuals, etc.) and the consequent implementation of infrastructure (organizational, IT, methodological) to support the performance of activities by the organizational units established for that purpose.

1.1 CREDIT RISK

QUALITATIVE DISCLOSURES

– Governance and organizational model

In accordance with the organizational model established at the Iccrea Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca coordinates and directs the credit risk assumption policies of the individual subsidiaries. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the investees, in agreement with the Parent Company;
- the CRO area supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (measurement, monitoring, mitigation) of the risks for the Group companies.

The procedures for taking on credit risk, which are governed in the systems of powers and delegated authority currently in place at the subsidiaries, are developed within those companies on the basis of the specific characteristics of the activities they perform. The cardinal criterion adopted in structuring delegated powers is the establishment of a lending ceiling by risk class (regarding the various categories of counterparty, technical form of the credit, guarantees) assigned to each decision-making body.

To ensure interaction among all the units and bodies with control and monitoring duties, the Iccrea Group has introduced the following criteria within its organization that characterize the entire credit function:

- processing of loan applications, leading to the formulation of a loan proposal;
- approval of the loan application;
- management of position: this comprises all of the activities involved in monitoring and managing outstanding loans.

In view of the multiple units within the individual Group companies that are responsible for managing credit risk, the management process is based on the following principles:

- attribution of the responsibilities of the body with strategic oversight functions and the body with management functions in the definition, implementation and supervision of the credit governance system and the associated credit risk management processes;
- independence of control functions, with clear separation of responsibilities and elimination of

conflicts of interest between control units and business units;
- attribution of responsibilities to all organizational levels, designed to ensure the effective implementation of strategies and governance of the credit and credit risk management system, minimizing organizational inefficiencies.

The credit risk management process is implemented at the operational level in line with the business model that characterizes the internal organization of the Iccrea Group, specifically adopted in relation to the various categories of counterparties with which the Group operates.

Credit risk management policies

– Identification of risks

Lending activities expose the Iccrea Banking Group to default risk, i.e. the risk of incurring a loss owing to the failure of a counterparty to perform its contractual obligations or as a result of a reduction in the credit quality attributed to the counterparty. This type of risk is a function of both the intrinsic solvency of the borrower and, through certain impact transmission mechanisms, the economic conditions of the market within which the borrower operates.

Given our lending operations, the emergence of adverse macroeconomic or market conditions expose the Group to a general deterioration in asset quality and a general deterioration in the solvency of borrowers. This latter dynamic translates into an increase in positions classified as non-performing loans (NPLs), the direct impact of which is manifested in profit or loss as an increase in writedowns/impairment losses recognized in the financial statements.

Depending on the type of counterparty and the sector in which it operates, the Group's operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral).

A special process in the lending sector is the management of credit risk mitigation techniques. For regulatory purposes, use of the latter is only permitted subject to specific conditions, which must be complied with for the duration of the guarantees and which determine their eligibility for use in reducing mandatory capital requirements. Accordingly, any inefficiency or ineffectiveness in the collateral management process may expose the Group to what prudential regulations call residual risk.

The operations of the Banking Group are also characterized by exposures to financial instruments, such as financial derivatives transacted on unregulated markets, repurchase transactions and transactions settled forward that generate counterparty risk and, consequently, a need to determine any additional capital requirement for such transactions (credit value adjustment – CVA).

– Measurement and valuation of risks

For the purpose of calculating prudential requirements for credit risk, the Iccrea Banking Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The measurement and valuation of credit risk involves:
- measuring credit risk at the single entity/business unit level and at the Group level, considering both conditions of normal operations and stress scenarios;
- formalizing credit risk exposure limits for those with delegated powers, verifying the methodological consistency of the overall structure of those limits;
- monitoring the capacity of the risk limits in terms of the associated credit risk metrics at the individual business unit level and for the Group as a whole;
- defining and updating the methods and measurement models for credit risk, dialoguing with the risk control unites of the Group companies to agree methodological issues where appropriate.

– Risk prevention and attenuation

For each business line (Corporate, Financial Institutions, Retail), the Group has adopted a comprehensive system of arrangements and controls set out in the respective corporate policies that are consistent with the overall Risk Appetite Framework established by the Parent Company.

The operational units involved in lending processes are responsible for performing first-level controls, which are designed to assess credit risk in the loan application acceptance stage and to enable monitoring of borrower solvency over time and signal any irregularities.
More specifically, with regard to the following business lines:

- *Corporate*: the integration between the rating model and the front-end system permits extensive automation of the application assessment process and of the approval of operations (electronic loan decision), while at the same time permitting control to be maintained over the process, data quality and the use of delegated powers (tracking every decision/change) The entire segment is governed by comprehensive rules set out in the Credit Handbook;
- *Financial Institution*: the systematic oversight process performed by the business units involves assessing problem positions, tracking developments to ensure proper classification of exposures, and implementing consequent actions. It uses a specific application which generates daily key risk indicators

for each segment of operations. These reports are generated with the same frequency (daily) to all business units that operate with banking counterparties.;

- *Retail*: first-level controls are structured into a series of activities performed on an ongoing basis by the branch of the mutual bank proposing the transaction in its capacity as the manager of the credit relationship with the customer, with verification carried out at the territorial level. Loan applications received via electronic channels are checked to ensure the accuracy of the information using the following controls:
  - automated check of correspondence between tax ID number and other personal data of borrowers;
  - automated check of ID documents to ensure they have not been stolen or lost, including through a direct connection with the website of the State Police;
  - possible direct telephone contacts at the customer's home or workplace.

The operating limits defined in the lending process are automatically controlled by the IT system by assigning specific user codes enabled on the basis of the user's category.

With regard to loan management at Banca Sviluppo, the Lending department oversees the process of processing applications and managing loans, while impaired loans not classified as bad debts are managed by the Debt Collection department. Bad debts are managed by an external company, BCC Gestione Crediti. All stages of the lending process are governed by the Lending Rules, which provide for the involvement of the various units belonging to both the branch network and headquarters. With the significant expansion of the Bank's loan portfolio in 2015 and 2016, specific projects have been launched with the support of the Parent Company, Iccrea Banca, which has made it possible to achieve significant benefits in terms of rationality, transparency and timeliness in the various phases of the lending process. More specifically, these have included: adoption of the Group rating system (Alvin Rating) to assess the corporate portfolio; re-engineering of the monitoring, recovery, classification and evaluation phases. Second-level controls are conducted by the Risk Management department (with the support of its local units), a unit independent of those that process and manage loans, ensuring effective functional separation and giving the Bank an immediate and objective analysis of situations in which risk levels have increased significantly.

The CRO area performs second-level controls in verifying the adequacy, effectiveness and consistency over time of policies (and limits), processes and delegated powers with regard to the assumption and management of credit risk, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management department for RAF purposes and specific analysis of the Group's overall exposure to credit risk.

The natural locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives, tolerances and limits (appetite, tolerance and capacity), with compliance ensured by the monitoring and control activities of the department. The RAS sets out the main credit risk indicators.

Finally, the Internal Audit unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

– *Monitoring and reporting*

Monitoring and reporting involves both business units and control units, in accordance with their respective duties. These activities include aggregate portfolio analysis and analysis of developments in individual positions.

For the Corporate business line, operational monitoring involves:

- aggregate analysis and analysis of developments in the overall configuration and risk of the loan portfolio;
- specific analysis through the qualitative monitoring of individual positions. This approach is based on advanced management/operational monitoring of loans, which on the basis of mass analysis of developments supplemented with all other codified information available at the company level, seeks to construct, with the contribution of the various position managers and analysts involved, an overall picture of the situation of the borrower to provide support for the decisions regarding actions to take with regard to the customer concerned.

Within leasing operations, the system also has a number of blocking criteria (prejudicial factors, newly formed entities, negative equity, other transactions already rejected or defaulted, embargo on the supplier, any adverse rating in the portfolio of the parent company, etc.) and a number of warning criteria (cellphone only, considerable distance between customer area and supplier area, extreme age, etc.).

The operational monitoring framework for the Financial Institutions business line consists of a comprehensive system of warning signals represented by Key Risk Indicators, which are drawn from monitoring indicators (financial indicators and internal company indicators) and thresholds specified using statistical analysis that defines alert status.

For the Retail business line, monitoring of individual loans is conducted, within the scope of collection activities, through the daily observation of past due positions as from the first unpaid instalment, using a classification based on the seriousness of the situation (sound positions, sensitive positions, doubtful positions in collection, doubtful positions in litigation), which is managed using automated procedures in the IT system. The monitoring of credit risk also considers “connected” exposures, i.e. exposures that are not classified as positions in collection or in litigation but are connected with customers who have other positions in collection or in litigation.

In addition, periodic monitoring is carried out for all personal loans that, while not having unpaid instalments, have experienced repeated instances of resubmission of direct debit (RID/SDD) requests.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. ON the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively. The Risk Management department is also responsible for preparing periodic reports for management and the operating business units.

– *Credit risk mitigation techniques*

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage doubtful positions, i.e. positions that have been judged unlikely to fully discharge their credit obligations to the Group;
- clear and timely escalation mechanisms accompanied by actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- clear and timely escalation mechanisms accompanied by actions to be taken in the event the limits specified in the risk policies are breached.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 Impaired and unimpaired exposures: stocks, writedowns, changes and distribution by sector and geographical area

A.1.1 Distribution of financial assets by portfolio and credit quality (carrying amount)

	Bad debts	Unlikely to be repaid	Impaired past due exposures	Unimpaired past due positions	Other unimpaired positions	Total 30/06/2017
1. Financial assets available for sale	-	-	-	-	3,134,482	3,134,482
2. Financial assets held to maturity	-	-	-	-	6,511,682	6,511,682
3. Due from banks	-	-	16	29	21,460,192	21,460,237
4. Loans to customers	488,556	776,182	75,202	230,909	10,589,994	12,160,844
5. Financial assets at fair value	-	-	-	-	15,140	15,140
6. Financial assets held for sale	7,398	18,122	4,240	18,869	262,635	311,264
Total (30/06/2017)	**495,954**	**794,304**	**79,458**	**249,807**	**41,974,126**	**43,593,649**
Total (31/12/2016)	**501,871**	**846,963**	**70,677**	**808,752**	**42,502,868**	**44,731,131**

A.1.2 Distribution of credit exposures by portfolio and credit quality (gross and net values)

	Impaired assets			Unimpaired assets			Total 30/06/2017 (Net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets available for sale	-	-	-	3,134,482	-	3,134,482	3,134,482
2. Financial assets held to maturity	-	-	-	6,511,682	-	6,511,682	6,511,682
3. Due from banks	56	(41)	16	21,460,222	(1)	21,460,221	21,460,237
4. Loans to customers	2,480,959	(1,141,018)	1,339,941	10,913,156	(92,253)	10,820,903	12,160,844
5. Financial assets at fair value	-	-	-	X	X	15,140	15,140
6. Financial assets held for sale	52,673	(22,913)	29,760	289,233	(7,729)	281,504	311,264
Total (30/06/2017)	**2,533,688**	**(1,163,972)**	**1,369,717**	**42,308,775**	**(99,983)**	**42,223,932**	**43,593,649**
Total (31/12/2016)	**2,569,246**	**1,149,735**	**1,419,511**	**43,404,145**	**107,084**	**43,311,620**	**44,731,131**

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	3,096	3,384	441,559
2. Hedging derivatives	-	-	7,373
Total (30/06/2017)	**3,096**	**3,384**	**448,932**
Total (31/12/2016)	**7,518**	**56**	**408,900**

A.1.3 Banking Group - On-balance-sheet and off-balance-sheet credit exposures to banks: gross values, net values and time past due

	Gross exposure					Specific writedowns	Portfolio writedowns	Net exposure 30/06/2017
	Impaired assets				Unimpaired assets			
	Up to 3 months	From more than 3 months to 6 months	From more than 6 months to 1 year	More than 1 year				
A. ON-BALANCE-SHEET EXPOSURES								
a) Bad debts	-	-	-	-	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	-	-	-	56	X	(41)	X	16
- of which: forborne exposures	-	-	-	-	X	-	X	-
d) Unimpaired past due exposures	X	X	X	X	29	X	-	29
- of which: forborne exposures	X	X	X	X	-	X	-	-
e) Other unimpaired assets	X	X	X	X	21,694,197	X	(1)	21,694,196
- of which: forborne exposures	X	X	X	X	-	X	-	-
Total A	**-**	**-**	**-**	**56**	**21,694,226**	**(41)**	**(1)**	**21.694.241**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Impaired	-	-	-	-	X	-	X	-
b) Unimpaired	X	X	X	X	524,752	X	-	524,752
Total B	**-**	**-**	**-**	**-**	**524,752**	**-**	**-**	**524,752**
TOTAL (A+B)	**-**	**-**	**-**	**56**	**22,218,978**	**(41)**	**(1)**	**22,218,993**

A.1.6 Banking Group - On-balance-sheet and off-balance-sheet credit exposures to customers: gross values, net values and time past due

	Gross exposure					Specific writedowns	Portfolio writedowns	Net exposure 30/06/2017
	Impaired assets				Unimpaired assets			
	Up to 3 months	From more than 3 months to 6 months	From more than 6 months to 1 year	More than 1 year				
A. ON-BALANCE-SHEET EXPOSURES								
a) Bad debts	991	22,134	79,372	1,178,356	X	(784,899)	X	495,954
- of which: forborne exposures	-	725	4,834	52,881	X	(28,294)	X	30,146
b) Unlikely to be repaid	373,791	111,540	194,439	485,018	X	(370,484)	X	794,304
- of which: forborne exposures	258,430	52,289	93,896	177,075	X	(171,935)	X	409,755
c) Impaired past due exposures	54,686	14,120	8,312	11,783	X	(9,458)	X	79,442
- of which: forborne exposures	480	688	273	145	X	(172)	X	1,414
d) Unimpaired past due exposures	X	X	X	X	258,582	X	(8,803)	249,779
- of which: forborne exposures	X	X	X	X	20,574	X	(604)	19,970
e) Other unimpaired exposures	X	X	X	X	20,379,823	X	(91,179)	20,288,644
- of which: forborne exposures	X	X	X	X	228,353	X	(4,283)	224,070
Total A	**429,468**	**147,794**	**282,123**	**1,675,157**	**20,638,405**	**(1,164,841)**	**(99,982)**	**21,908,123**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Impaired	35,258	-	-	-	X	(879)	X	34,380
b) Unimpaired	X	X	X	X	2,363,480	X	(6,132)	2,357,348
Total B	**35,258**	**-**	**-**	**-**	**2,363,480**	**(879)**	**(6,132)**	**2,391,728**
TOTAL (A+B)	**464,726**	**147,794**	**282,123**	**1,675,157**	**23,001,885**	**(1,165,720)**	**(106,114)**	**24,299,851**

B.4 Large exposures

The rules governing the concentration of exposures define a large exposure as one to a customer or group of connected customers that (regardless of the weighted position) is equal to or greater than 10% of a bank's own funds. It is no longer possible to use favorable weightings for interbank exposures and new methods have been introduced for calculating exposures in the presence of investment schemes.

In the light of these changes, the following reports positions that, in exceeding 10% of own funds, represent large exposures. Of these, none represents a weighted exposure that exceeds the supervisory limit of 25% of consolidated own funds.

The following represents the situation for the first half of 2017:

a) Number of positions: 43
b) Carrying amount: 37,068 million
c) Weighted amount: 1,452 million.

The 43 positions mainly regard transactions with bank counterparties in the mutual banking industry and institutional counterparties (Clearing and Guarantee Fund, Ministry for the Economy and Finance).

C. SECURITIZATIONS

C.1 Securitizations

QUALITATIVE DISCLOSURES

The Iccrea Banking Group operates in the securitization market as both an originator and investor. The main objectives pursued through securitization can be summarized as follows:

- diversifying the sources of funding and reducing its cost;
- strengthening the liquidity position by creating eligible assets for refinancing operations with the ECB (so-called self-securitizations).

In all of these transactions, the Group companies have retained first losses by subscribing the junior notes. The senior notes have been placed with institutional investors (with the exception of the self-securitizations in which the originator subscribes all of the securities issued by the special purpose vehicle).

The following section details the main securitizations by originator:

- ICCREA BANCA IMPRESA S.P.A.

On August 10, 2016, the Agri#9 securitization was finalized, with the assignment of future receivables in an initial portfolio of €1,364,760,850.25 of performing lease contracts originated by Iccrea BancaImpresa and the issue of the associated securities by ICCREA SME CART 2016 S.r.l (the "special purpose entity"), with the concomitant payment of the assignment price of €1,364,622,200.00, including €617,460,000.00 of the Class D (junior) notes subscribed by Iccrea BancaImpresa.

The operation, in line with those carried out in 2007, 2009 and 2011 through the special-purpose entities Agricart 4 Finance S.r.l. and Iccrea Sme Cart S.r.l. (Agri#4, Agri#6 and Agri#7), was carried out to acquire new funding for lease financing and loans to small and medium-sized enterprises, or projects sponsored by mid-caps, thereby diversifying funding sources and at the same time obtaining new funding (with an expected average life of about 4 years) with an attractive maturity and cost, especially in view of current market conditions. The transaction did not pursue capital objectives, as under the provisions of the relevant supervisory regulations the characteristics of the transaction do not permit any reduction in capital requirements for the assignor bank.

FEATURES OF THE OPERATION

The transaction involved Iccrea Banca as Sole Arranger.

SECURITIES

As part of the transaction, on August 10, 2016, ABSs amounting to €1,374,160,000.00 were issued by the special purpose entity. The Class A1, A2 and B notes are listed on the Irish Stock Exchange. The issue has the following characteristics:

Class	Rating (Moody's/S&P)	Amount (€/millions)	Amount (%)	Interest rate	Expected weighted average life	Expected maturity
A1	Aa2/AAA	202.3	14.7%	3M Euribor + 0.10%	2.56	Jun-2019
A2	Aa2/AA (low)	480	35%	3M Euribor + 0.85%	3.83	Jun-2021
B	A1/A	65	4.7%	3M Euribor + 1.15%	5.18	Dec-2021
C	NR – LOW MEZZANINE	9.4	0.7%	3M Euribor + 1.20%	2.35	Dec-2018
D	NR - JUNIOR	617.5	44.9%	Residual remuneration	5.6	Mar-2022

The Class A1 and A2 are ranked pari passu for payment of interest but are amortized on a different schedule except in the case of post enforcement, in which case amortization will also be pari passu and have priority with respect to all other notes.

Redemption of the Class A1 notes will begin at the end of the two-year revolving period. Accordingly, the first redemption is scheduled for December 2018.

Redemption of the Class C notes will begin in December 2018 only if and to the extent that the special purpose entity has sufficient funds, exclusively for interest, to use for that purpose after having paid all costs in the interest payment ranking that have priority over redemption.

ASSIGNED PORTFOLIO

The contract assigning the portfolio of performing leasing receivables to the special purpose entity was executed on July 20, 2016. The portfolio also includes the receivables, which meet the requirements for assignment in the new operation, that were repurchased by the Bank as part of the early extinguishment of the previous securitizations. The portfolio was selected on the basis of criteria agreed with the Arranger and the investors, in an amount essentially equal to the value of the Class A1, A2, B and D securities issued, broken down into four pools. At the assignment date, they had the following composition:

Pool	Amount (€)	Amount (%)
1) – Industrial vehicles	85,720,330.26	6.28
2) – Equipment	329,175,688.94	24.12
3) – Real estate	925,077,135.78	67.78
4) – Auto	24,787,695.27	1.82
Total	**1,364,760,850.25**	**100**

Revolving operations will be conducted on a quarterly basis and end in September 2018, providing for 8 subsequent assignments of portfolios. The selection criteria for the subsequent portfolios are essentially analogous to those used for the initial portfolio.

In line with the most recent securitizations originated by Iccrea BancaImpresa and with recent market trends, the value of the bargain purchase option was not assigned.

REPURCHASE OPTION

The assignment contract gives Iccrea BancaImpresa an option for the repurchase of the entire portfolio, which can be exercised on a quarterly basis as from the interest payment date following that on which the Class A and B notes are redeemed in full, as long as the purchase price of the receivables, determined in accordance with the procedures set out in the assignment contract, enables full redemption of the outstanding securities and priority payment of all expenses ranking prior to the latter and Iccrea BancaImpresa has obtained any necessary authorizations required by law or regulations governing the repurchase option, in conformity with the provisions of Article 58 of the Banking Act. In concomitance with the exercise of the repurchase option, the special purpose entity will carry out the early redemption of the securities.

TRIGGER EVENTS

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

SERVICING

Servicing activities are performed by Iccrea BancaImpresa, which carries out monitoring, collection and recovery activities using the same procedures adopted for the company portfolio. The contract provides for the termination of servicer activities by Iccrea BancaImpresa and the transfer of the Servicer role to the Back-Up Servicer where Iccrea BancaImpresa:

- is in material breach of the provisions of the Servicing agreement; or
- becomes insolvent; or
- is not, or ceases to be, an entity resident in or with its registered office in a country of the European Union, or that status should apply to the Parent Company of the banking group to which Iccrea BancaImpresa belongs.

The role of Back-Up Servicer has been entrusted to Iccrea Banca under the provision of the Back-Up Servicing Agreement signed at the start of the securitization.

CREDIT ENHANCEMENT

Redemption of the notes is secured by the cash flow expected from the assigned portfolio. The operation also provides for the excess spread to cover first losses and for a Debt Service Reserve, which will be made available to the special purpose entity on a quarterly basis. That reserve will be equal to 2% of the rated notes outstanding on a quarter to quarter basis, with a floor of €3,000,000. Until amortization of the notes begins, the reserve will therefore be equal to €14,948,745.04 and was entirely financed at the Issue Date – in the amount of €9,400,000 – with the subscription of the Class C notes by Iccrea BancaImpresa and with collections of interest – in the amount of the remaining €5,548,745.04 – generated on the assigned portfolio for the lease instalment for August 2016.

- BANCA SVILUPPO S.P.A.

Banca Sviluppo operates in the securitization market as a result of the acquisition of Banca Romagna Cooperativa and CrediVeneto. The main objectives pursued through securitization can be summarized as follows:

- diversifying the sources of funding and reducing its cost;
- strengthening the liquidity position by creating eligible assets for refinancing operations with the ECB (so-called self-securitizations).

In all of these transactions, the bank has retained first losses by subscribing the junior notes. The senior notes have been placed with institutional investors (with the exception of the self-securitizations in which the originator subscribes all of the securities issued by the special purpose vehicle).

Banca Sviluppo has 7 outstanding "own" securitizations (2 securitizations and 5 self-securitizations) of performing loans, acquired from Banca Romagna Cooperativa (hereinafter BRC) and Banca Credito Cooperativo Interprovinciale Veneto (hereinafter Crediveneto). The transactions are multi-originator securitizations with the involvement of multiple mutual banks, structured as follows:

- assignment without recourse "en bloc" by the originator of a loan portfolio;
- acquisition of the loans by the assignor/issuer, special purpose vehicle and issue by the latter of notes in tranches with different repayment characteristics in order to raise funds;
- subscription of the Senior and Mezzanine notes by intermediaries acting as placement agents;
- subscription by the mutual banks (assignors) of the Class C – Junior notes.

The Class notes were broken down into various series, each proportionate to the amount of the loans assigned by the individual banks, which then subscribed the notes in full.
Although the individual operations have the same structure, the parts of each assignor mutual bank remain separate (segregated asset pools). This means that despite the unitary nature of the operation, the cash flows are separate. The transaction would be managed as a single operation only in extraordinary circumstances (i.e. default events).

The following section details the individual transactions.

"CREDITI IN BONIS 2006" SECURITIZATION – CREDICO FINANCE 4 SRL

On June 1, 2006, BRC assigned without recourse performing residential mortgage loans to Credico Finance 6 Srl (SPV) with a nominal value of €13,784,187.

FEATURES OF THE OPERATION
The transaction involved Societè Generale as arranger and Iccrea Banca S.p.A. as co-arranger.

SECURITIES
The Senior and Mezzanine notes were placed with institutional investors and have been rated as follows:

Class	Rating (Moody's/S&P)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/BBB-	563.9	94%	3-month Euribor + 0.16%	2038
B	Aa2/BBB-	24	4%	3-month Euribor + 0.46%	2038
C	NR - JUNIOR	11.8	2%	Residual remuneration	2038

The Class C notes were subdivided into 25 series, each in an amount proportionate to the amount of the loans assigned by the individual participating banks, which subscribed those notes in full. Each subscribed only the series of subordinated securities pertaining to them, with payment of the price at par. The structure of the transaction enables the Bank to benefit from any return on the assigned portfolio that exceed the amount paid to the subscribers of the Senior and Mezzanine notes.

The amount of the Class C – Junior notes subscribed by the Bank was €297,187.

Assigned portfolio
The purchase price for the portfolio of assigned loans was equal to €13,784,187, corresponding to the carrying amount of the loans at the assignment date. The assigned portfolio meets a number of criteria common to all of the participating mutual banks (more specifically, performing loans from mortgage transactions secured by first mortgages) as well as the specific criteria determined by our Bank.

Repurchase option
Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

Trigger events
The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

Servicing

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

In this securitization, each assignor mutual bank acts as servicer. Although no longer owner of the assigned loans, as they were assigned without recourse, each mutual bank handles the ordinary management (collection of payments, issuing receipts of payment, certification of interest, etc.) and extraordinary management (management of irregularities, dunning in the event of payment arrears, management of substandard positions and bad debts) in the name and on behalf of the SPV as if the loan portfolio had never been transferred.

Credit enhancement

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

In order to hedge interest rate risk, the SPV subscribed a basis swap with Société Générale in order to mitigate any rate mismatching between the securitized assets and the interest paid on the notes issued. Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that at a payment date the available funds from collections were not sufficient to pay interest on the notes in the payment priority order. The assignors also acted as limited-recourse loan providers. Accordingly, each assignor made government securities (or other securities in accordance with the contractual terms, specifying the type of security and the amounts) available to the SPV in order to provide a form of liquidity support, replacing the resources available through the line of liquidity. This form of guarantee can only be enforced if it is not possible to use the line of liquidity and can be activated up to the entire amount of the liquidity line. This enables the SPV to pay promptly any amounts due to the holders of the Senior and Mezzanine notes in respect of principal and interest, in accordance with the rules governing the Notes, as well as to meet the costs of the securitization. Following the downgrade of Italian government securities, the securities pledged to secure the line of liquidity were no longer considered sufficient. This prompted the SPV to request, in 2011, the establishment of a cash reserve for the line of liquidity, amending the contract documentation appropriately.

"CREDITI IN BONIS 2006" SECURITIZATION– CREDICO FINANCE 7 SRL

On December 19, 2006, BRC assigned without recourse performing residential mortgage loans to Credico Finance 7 Srl (SPV) with a nominal value of €37,318,807.

Features of the operation

The transaction involved Societè Generale as arranger and Iccrea Banca S.p.A. as co-arranger.

Securities

The Senior and Mezzanine notes were placed with institutional investors and have been rated as follows:

Class	Rating (Moody's/S&P)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/BBB-	449.2	94%	3-month Euribor + 0.16%	31/03/2039
B	Aa2/BBB-	19.1	4%	3-month Euribor + 0.55%	31/03/2039
C	NR - JUNIOR	9.5	2%	Residual remuneration	31/03/2039

The Class C notes were subdivided into 16 series, each in an amount proportionate to the amount of the loans assigned by the individual participating banks, which subscribed those notes in full.

Each subscribed only the series of subordinated securities pertaining to them, with payment of the price at par.

The structure of the transaction enables the Bank to benefit from any return on the assigned portfolio that exceed the amount paid to the subscribers of the Senior and Mezzanine notes.

The amount of the Class C – Junior notes subscribed by the Bank was €746,807.

Assigned portfolio

The purchase price for the portfolio of assigned loans was equal to €37,318,807, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The assigned portfolio meets a number of criteria common to all of the participating mutual banks (more specifically, performing loans from mortgage transactions secured by first mortgages) as well as the specific criteria determined by our Bank.

Repurchase option

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

Trigger events

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

Servicing

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

Credit enhancement

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

In order to hedge interest rate risk, the SPV subscribed a basis swap with Royal Bank of Scotland in order to mitigate any rate mismatching between the securitized assets and the interest paid on the notes issued. Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that at a payment date the available funds from collections were not sufficient to pay interest on the notes in the payment priority order. The assignors also acted as limited-recourse loan providers: each assignor made the government securities CCT 1/11/2012 IT0003993158, in the amount of €1,062,000, available to the SPV in order to provide a form of liquidity support, replacing the support already provided with the line of liquidity (this guarantee can therefore only be enforced if it is not possible to use the liquidity and can only be activated up to the entire amount of the liquidity line). This enables the SPV to pay promptly any amounts due to the holders of the Senior and Mezzanine notes in respect of principal and interest, in accordance with the rules governing the Notes, as well as to meet the costs of the securitization.

In 2011, following the downgrade of Italy by Standard&Poor's and Moody's, the Italian government securities (CCTs) pledged to secure the line of liquidity through the establishment of a limited-recourse loan no longer met the criteria of the rating agencies and were replaced with a cash reserve created by fully drawing down the line of liquidity.

"CREDITI IN BONIS 2011" SECURITIZATION – CREDICO FINANCE 9 SRL

On June 30, 2011, BRC assigned without recourse performing residential mortgage loans to Credico Finance 9 Srl (SPV) with a nominal value of €35,471,478.

Features of the operation

The transaction involved Iccrea Banca S.p.A. as arranger.

Securities

The Senior notes have been rated as follows::

Class	Rating (Moody's/DBRS)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/AAA	554.4	87%	3-month Euribor + 0.30%	15/11/2050
B	NR - JUNIOR	82.8	13%	Residual remuneration	15/11/2050

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

Assigned portfolio

The purchase price for the portfolio of assigned loans was equal to €35,471,478, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 18 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by the Bank was €4,571,478.

Trigger events

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

Repurchase option

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

Servicing

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

Credit enhancement

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

In order to hedge interest rate risk, the SPV subscribed a basis swap in order to mitigate any rate mismatching between the securitized assets and the interest paid on the notes issued. Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The assignors also acted as limited-recourse loan providers. Accordingly, each assignor made government securities (or other securities in accordance with the contractual terms, specifying the type of security and the amounts) available to the SPV in order to provide a form of liquidity support, replacing the resources available through the line of liquidity. This form of guarantee can only be enforced if it is not possible to use the line of liquidity and can be activated up to the entire amount of the liquidity line. This enables the SPV to pay promptly any amounts due to the holders of the Senior in respect of principal and interest, in accordance with the rules governing the Notes, as well as to meet the costs of the securitization. The enduring recession and recent market turbulence, which among other things have led to a downgrade of the Italian State, made it advisable to review the collateral forms of guarantee provided for securitizations initiated by the Bank in previous years.

In this context, in 2011 a number of amendments were made to the transaction contracts: in particular, the liquidity contract and the limited-recourse loan contract were amended to enable substitution of the government securities where necessary. As a result of these changes, the Bank, subject to notification of the SPV, replaced the limited-recourse loan in government securities with a cash reserve, established by the SPV by fully drawing down the liquidity line.

"CREDITI IN BONIS 2012" SECURITIZATION – CREDICO FINANCE 10 SRL

On April 23, 2012, BRC assigned without recourse performing residential mortgage loans to Credico Finance 9 Srl (SPV) with a nominal value of €36,668,028. At the same time, Crediveneto assigned performing residential mortgage loans with a nominal value of €34,275,649.58, for a total of €70,943,677.27

Features of the operation

The transaction involved Iccrea Banca S.p.A. as arranger.

Securities

The Senior notes have been rated as follows:

Class	Rating (Moody's/DBRS)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/AA	1,333.2	84.25%	3-month Euribor + 0.30%	31/10/2050
B	NR - JUNIOR	249.2	15.75%	Residual remuneration	31/10/2050

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

Assigned portfolio
The purchase price for the portfolio of assigned loans was equal to €70,943,677, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 30 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by BRC was €5,769,000, while Crediveneto subscribed €5,376,000.

Trigger events
The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

Repurchase option
Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

Servicing
Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

Credit enhancement
There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.
Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The liquidity was deposited on a current account in the name of the SPV (the cash reserve).

"CREDITI IN BONIS 2013" SECURITIZATION– CREDICO FINANCE 14 SRL

On October 17, 2013, BRC assigned without recourse performing residential mortgage loans to Credico Finance Srl (SPV) with a nominal value of €22,831,016.

Features of the operation
The transaction involved Iccrea Banca S.p.A. as arranger.

Securities
The Senior notes have been rated as follows:

Class	Rating (S&P/DBRS)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	BBB-/A high	219.4	72%	3-month Euribor + 0.20%	31/07/2052
B	NR - JUNIOR	85.4	28%	Residual remuneration	31/07/2052

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

Assigned portfolio
The purchase price for the portfolio of assigned loans was equal to €22,831,016, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 10 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by the Bank was €6,432,000.

Trigger events

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

Repurchase option

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

Servicing

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

Credit enhancement

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The liquidity was deposited on a current account in the name of the SPV (the cash reserve).

"CREDITI IN BONIS 2009" SECURITIZATION– CREDICO FINANCE 8 SRL

On February 23, 2009, Crediveneto assigned without recourse performing residential mortgage loans to Credico Finance 8 Srl (SPV) with a nominal value of €39,835,432.

Features of the operation

The transaction involved Iccrea Banca S.p.A. as arranger.

Securities

The Senior notes have been rated as follows:

Class	Rating (Moody's/DBRS)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/AAA	369.25	90.5%	3-month Euribor + 0.30%	31/07/2046
B	NR - JUNIOR	38.77	9.5%	Residual remuneration	31/07/2046

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

Assigned portfolio

The purchase price for the portfolio of assigned loans was equal to €39,835,432, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 14 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by the bank was €3,785,432.

Trigger events

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

Repurchase option

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

Servicing

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.30% on the outstanding and 6% on collections on defaulted positions.

Credit enhancement

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The liquidity was deposited on a current account in the name of the SPV (the cash reserve).

"CREDITI IN BONIS 2012" SECURITIZATION– CREDICO FINANCE 11 SRL

On July, 25, 2012, Crediveneto assigned without recourse performing residential mortgage loans to Credico Finance 11 Srl (SPV) with a nominal value of €51,880,270.

Features of the operation

The transaction involved Iccrea Banca S.p.A. as arranger.

Securities

The Senior notes have been rated as follows:

Class	Rating (Moody's/DBRS)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/AA	916.4	88%	3-month Euribor + 0.20%	31/12/2052
B	NR - JUNIOR	125.029	12%	Residual remuneration	31/12/2052

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

Assigned portfolio

The purchase price for the portfolio of assigned loans was equal to €51,880,270, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 22 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by the bank was €15,081,000.

Trigger events

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

Repurchase option

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

Servicing

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

Credit enhancement

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The liquidity was deposited on a current account in the name of the SPV (the cash reserve).

THIRD-PARTY SECURITIZATIONS

As at June 30, 2017 the Group had subscribed two senior notes from the Lucrezia Securitisation in the amount of €9,035 million.

1.2 BANKING GROUP - MARKET RISKS

1.2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS

Market risk is defined as the risk of incurring losses generated by operations in markets for financial instruments, foreign exchange and commodities (see Bank of Italy Circular 263/2006, Title II, Chapter 4, Part One). At the Iccrea Banking Group level, operational management of finance activities is centralized with Iccrea Banca, which is responsible for funding and the assumption and management at the individual and consolidated levels of interest rate, exchange rate and liquidity risk in order to ensure the essential sterilization and optimization of overall funding and hedging costs for Group companies.

Intermediation for the mutual banks is the main strategic objective of Iccrea Banca. This is pursued by seeking to ensure that the breadth and content of the financial portfolios are consistent with the needs of the mutual banks and in line with the evolution of the markets. Position activities are carried out using standard financial instruments as well as derivative contracts. In all cases, the management of maturity transformation both at medium/long-term and within the context of treasury operations is carried out in compliance with a financial risk containment policy.

B. MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK

A. Governance and organizational model

The market risk management and governance framework of the Iccrea Banking Group adopts a "centralized" approach. The Parent Company is responsible for the overall governance of financial operations and the associated market risks at the Group level because:

- it is responsible for setting the Group's market risk policies;
- it monitors the exposure to market risks at the centralized level;
- it manages market risks at the Parent Company level.

Within these organizational arrangements, the assumption/identification of market risks is the responsibility of the business units, which with the support of Risk Management monitor and analyze new risk components for risk positions already held, new types of business, developments in the financial market and the various combinations of financial instruments and markets in which the Group may be operating.

Risks positions are taken on by the trading and investment desks and are actively managed by them during the working day using appropriate position-keeping applications.

Front office staff operate with the various units and risk positions are assumed in compliance with the portfolio tree and the associated risk limits.

Coordination of the trading and investment desks is performed through the unit heads, each at his or her level in the hierarchy, who are responsible for ensuring compliance with the assigned limits.

The operational model for managing market risks at both the consolidated and individual levels is the responsibility of the Finance department, which is organized into specific units dealing with market risks:

- *Proprietary Finance and Trading*, which is tasked with managing activities connected with the trading book and identifying funding needs at the individual and consolidated level, monitoring the interest-rate, exchange-rate and liquidity risks of the banking book. The unit also manages interest-rate and liquidity risks at medium and long term. It acts as a market maker on multilateral trading systems, and as a specialist and primary dealer, as well as handling the structuring and own-account trading of OTC financial derivatives. It operates in accordance with the policies defined and the guidelines set for the management of the portfolios within the established risk limits and seeking to achieve profit targets;
- *Treasury and Foreign Exchange*, which uses derivatives on interest rates and exchange rates in order to manage the short-term interest rate and exchange rate risk profile in respect of trading on the interbank money market and intercompany transactions.

B. Risk management processes

- *Identification of risks*

Operations in financial market, especially positions in the trading book, expose the Iccrea Banking Group to market risks and other subcategories of risk. Market risks also include foreign exchange risk, which in view of the Group's operations is immaterial.

The identification of risks is mainly carried out in the process of specifying and updating risk models and metrics for market risks, and involves the following activities:

- the specification and updating of risk metrics, i.e. the evolution by the Risk Management department of measurement and monitoring methods on the basis of developments in markets, regulations and best practice;
- the approval process, conducted before the start of operations in a new financial instrument and the associated definition of the procedures for measuring fair value and risks.

Market risks are managed using advanced measurement and monitoring methods. The Risk Management unit is responsible for the development, use and maintenance of these measurement procedures.

- *Risk measurement and assessment*

Risk Management, acting through the Market Risks unit, is the main actor within the Group 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 Group uses the standardized approach for the purpose of calculating capital requirements for market risks, in accordance with the applicable supervisory regulations.

Measurement is centralized with the Risk Management unit and involves:

- verification and validation of the market and price parameters used as inputs in the front office and market risk management applications;
- verification of the quality of the identifying information of the financial instruments;
- validation of the fair value of the financial instruments held by the Group;
- oversight and validation of the production of all risk metrics.

At the operational level, the Iccrea Banking Group uses internal models for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- *Probabilistic metrics:*
  - Value at Risk (VaR) approach, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- *Deterministic metrics:*
  - Level metrics (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
  - Analysis of sensitivity and Greeks, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
  - Stress testing and scenario analysis, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
  - Loss, which represents the negative financial performance in a specified period of time of both closed and open positions.

Probabilistic metrics

Value at Risk (VaR)

To calculate VaR, the Iccrea Banking Group uses the so-called Delta Gamma parametric approach (confidence level of 99% and holding period of 1 day), in which the risk factors and the financial instruments in the portfolio have a normal distribution.

Measuring VaR therefore involves calculating (i) the sensitivity of the individual positions to changes in market parameters, summarized in the so-called VaRMap; and (ii) the variance/covariance matric of the market parameters. The model currently covers the following risk factors:

- interest rates;
- exchange rates;
- interest rate volatility.

The current model can calculate VaR both for more detailed portfolios and for larger aggregates, permitting considerable granularity in the analysis, control and management of risk profiles and the effects of diversification. The possibility for calculating VaR at multiple levels of synthesis (consistent with the operating strategies of the portfolios and the organizational hierarchy of Finance) and the ability of the model to decompose VaR into different risk determinants make it possible to create an effective system of comparable cross-risk and cross-business limits.

Deterministic metrics

Sensitivity and Greeks of options

Sensitivity measures the risk associated with changes in the theoretical value of a financial position in response to changes in a defined amount of the associated risk factors. It captures the breadth and direction of the change in the form of multiples or monetary changes in the theoretical value without explicit assumptions about the holding period or correlations between risk factors. The main sensitivity indicators currently used are:

- PV01: the change in market value in response to a change of 1 basis point in the zero coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- IL01 *(sensitivity to inflation)*: the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- Vega sensitivity to inflation: a change of 1 percentage point in implied volatilities on forward inflation rates;
- CS01: a change of 1 basis point in credit spreads;
- Delta: the ratio between the expected change in the price of options and a small change in the prices of the underlying financial assets;
- Delta1%: the change in market value in response to a change of 1% in equity prices;
- Delta Cash Equivalent: the product of the value of the underlying financial asset and the delta;
- Vega1%: the change in market value in response to a change of 1% in the implied volatility of equity prices/indices;
- Correlation sensitivity: the change in the market value in response to a 10% change in implied correlations.

Level metrics

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile.

The nominal position (or equivalent) is determined through the identification of:

- the notional value;
- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);
- the FX open position.

At Iccrea Banca, the approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements. These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures.

Stress testing and scenarios

Stress tests measure the change in the value of instruments or portfolios in response to unexpected (i.e. extreme) changes in the intensity or correlation of risk factors. Scenario analyses measure the change in the value of instruments or portfolios in response to changes in risk factors in circumstances that reflect actual past situations or expectations of future developments in market variables.

Stress tests and scenario analysis are carried out by measuring the change in the theoretical value of positions in response to changes in the risk factors. The change can be calculated both through the use of linear sensitivity relationships (e.g. deltas) and through the revaluation of positions by applying the specified variations to the risk factors.

Loss

Loss is a risk metric representing the negative financial performance achieved on closed and open positions over a specified period of time.

Loss is determined by identifying, with the specified time interval:

- the component of realized profits and losses;
- the component of latent (unrealized) profits and losses calculated using the mark-to-market/mark-to-model value of open positions.

Loss is equal to the algebraic sum of the two components indicated above, if negative.

In determining loss, foreign currency positions still open are measured at the ECB end-of-day exchange rate.

The metric makes it possible to measure losses connected with the general risk profile of outstanding positions and the management of the portfolio, identifying any deterioration in the profitability of financial operations.

It is helpful in monitoring the performance of the portfolio, given the risk profile assumed, when:

- more sophisticated measurement systems are not present;
- it is impossible to capture all risk factors;
- timely control and management of limits is required.

-- Risk prevention and attenuation

Risk Management conducts backtesting of operational measurement models on an ongoing basis. The effectiveness of the calculation model is monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. In order to ensure greater effectiveness of the overall risk management system, Iccrea Banca conducts backtesting using management P&L. 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;
- capture and monitor any risk factors that are not fully captured by the calculation models adopted.

The daily P&L series used in the comparison with the VaR series is estimated using the total effective P&L achieved by the various desks, adjusted for components that are not pertinent to the estimation of risk (such as, for example, intraday operations).

The comparison highlights potential but functional differences due to details and measurement periods that are not always perfectly matched between front office measurements and Risk Management measurements. The measurements of P&L are conducted by Risk Management on a daily basis by individual desk.

In addition to the backtesting noted earlier, the effectiveness management of market risk is ensured using a comprehensive system of limits, which is a key tool for the management, control and attenuation of risks. The development of this system, which is a key element of the Risk Management Framework, took account of the nature, objectives and operational complexity of the Group.

The overall system of market risk indicators comprises indicators included in and governed by the RAS and more strictly operational indicators set out in the Group Market Risk Policy.

At the operational process level, the Group has a complete system of arrangements and controls that help define the overall control model, which is set out and formalized in the risk management policy.

The controls established to manage market risks break down into:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the market risk profile and ensure the correct activation of escalation mechanisms;
- Level III controls, which are intended to verify compliance with rules and procedures as well as internal and external regulations.

The first-level controls are intended to ensure the appropriate management of positions on a daily basis in order to assess their market value, the risks associated with operations and compliance with position limits, thereby enabling the accurate measurement of risks for second-level controls. These controls are conducted by front office and back office staff in their respective areas of responsibility.

If the operating limits are breached, the heads of the trading desks, each in their respective area of responsibility, participate in the management process and in activating escalation mechanisms.

In order to ensure the appropriateness and effectiveness of the organizational model and management arrangements for the risks identified, the second-level control units operate within the framework of the Group Internal Control System.

The second-level controls, carried out by Risk Management, are aimed at monitoring the Group's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators defined for managing financial risk. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of market risk indicators has been provided for.

Monitoring risk indicators is a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds.

These activities therefore perform an "ex post" control function in relation to the continuous monitoring of all indicators that signal breaches of assigned risk levels, but they also serve an "ex ante" function in signaling the approach of risk profiles towards the threshold/limit/tolerance levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/Risk Limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

Third-level controls are the responsibility of Internal Audit, which consistent with the approved activity plan monitors the overall appropriateness, operation and effectiveness of the internal control system and compliance of actions with internal and external rules and procedures.

- Monitoring and reporting

The market risk control and monitoring activities are governed within a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.

At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the Parent Company's General Manager. In this context, a thorough discussion of risk developments increases awareness of the risks assumed (in line with defined profit targets) and therefore facilitates the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the Group Finance Committee, operating units, top management and boards of directors.

- Risk management and mitigation

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage any irregularities;
- the actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- the actions to be taken in the event the limits specified in the risk policies are breached.

QUANTITATIVE DISCLOSURES

1. Supervisory trading book: distribution by residual maturity (repricing date) of on-balance-sheet financial assets and liabilities and financial derivatives.

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. Supervisory trading book: distribution of exposures in equity securities and equity indices by main countries of listing

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

3. Supervisory trading book: internal models and other sensitivity analysis methodologies

With regard to market risks on the trading book, which are managed at the Group level by Iccrea Banca, a risk tolerance of €2.5 million in 1-day VaR with a

99% confidence level, calculated using a parametric method has been established. From the start of the year, the risk profile of all trading operations has never breached the RAS limit.

The Market Risk Policy sets consistent VaR limits in terms of total operations and in terms of sub-limits for the various books, measured using the same VaR method.

In the last 250 trading days, the average VaR has been €0.65 million, with a minimum of €0.16 million and a maximum of €1.73 million, which is below the limit for that specific category of operations, which was €2.0 million for the head of Finance at Iccrea Banca. At June 30, 2017, the VaR was €0.26 million.

DAILY VAR ON TRADING BOOK	NOTIONAL		VAR
	30/06/2017	LIMIT	RISK PROFILE
Iccrea Banca	11,516	2.00	0.26

Figures in millions of euro at June 30, 2017

1.2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK MANAGEMENT

A. Governance and organizational model

In order to comply both with regulatory requirements and management needs, in 2016 the Iccrea Banking Group began updating and evolving Group policy for managing interest rate risk on the banking book, which sets out guidelines, principles for prudent management, the roles and responsibilities of corporate bodies and operating units and control processes for interest rate risk on the banking book.

The framework for managing and governing interest rate risk on the Iccrea Banking Group's banking book is based on a centralized model. The Parent Company is responsible for overall governance of financial operations and risk at the Group level since:

- it is responsible for setting the Group's policies for managing interest rate risk on the banking book;
- it measures and monitors the exposure to such risk at the centralized level;
- it manages such risk at the Group level;
- it defines and governs the internal transfer pricing system.

In order to insure uniform management of interest rate risk on the banking book at the Group level, risk management has been centralized with the Parent Company and performed by the **Asset & Liability Management** (ALM) function, performed by the Finance unit of the Parent Company, which in turn operates in two lines of business:

- **Capital Market operations**, which are performed by the Proprietary Finance and Trading unit of the Parent Company. The latter is responsible for managing interest rate risk on the medium/long-term banking book originated by unsecured operations securitizations;
- **Money Market operations,** which are performed by the Treasury and Foreign Exchange unit of the Parent Company. The latter is responsible for managing interest rate risk on the short-term banking book (up to 12 months) originated by unsecured operations and interest rate risk originated by secured operations (with the exception of securitizations).

The management of mismatching of interest rate risk generated by operations conducted by subsidiaries with customers is transferred to the Parent Company using intercompany funding/lending transactions with comparable maturities whose characteristics hedge the exposure to interest rate risk, in compliance with the risk limits set by the Parent Company.

B. Risk management processes

- Identification of risks

The ability to identify sources of interest rate risk and manage the short and medium/long-term exposure to such risk, while at the same time limiting potential declines in interest income, is crucial to ensuring profitability in line with the targets established in strategic planning.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, the Group identifies sources of interest rate risk to which it is exposed, classifying them in the following risk sub-categories: reprising risk, yield curve risk, basis risk and option risk.

- Risk measurement 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, construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis. In this perspective, the analysis is conducted using a static “gone concern” approach, which assumes the run-off of positions at maturity, with no substitution or rollover of items at maturity.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.

The metrics used by the Iccrea Banking Group in the <u>current earnings approach</u> are:

- **Repricing gap**: this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income.
- **NII sensitivity**: the potential impact on net interest margin of hypothetical changes in risk-free rates is calculated using a "full revaluation" method that compares, over a selected time horizon, expected prospective net interest income In the event of changes in interest rates with expected net interest income in a "base" scenario of no variations. This approach is also used to quantify the impact on net interest income of possible variations in credit spreads (CSRBBs).

The metrics adopted by the Iccrea Banking Group in the <u>economic value approach</u> are:

- **Duration gap**: the change in the expected value of the banking book due an interest rates shock. It is calculated by weighting the net exposure of each time bucket, determined by placing positions in the banking book in different time buckets on the basis of their repricing date, by the associated modified duration;
- **EVE sensitivity**: the change in the expected value of the banking book is calculated using a “full revaluation” approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time (“bucket sensitivity”).

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.
The stress tests adopted by the Group are conducted for two of the metrics used to measure interest rate risk on the banking book:

- **EVE sensitivity**: using a full revaluation approach with the adoption of risk-free yield curves. The analysis uses a static “gone concern” approach, which assumes the run-off of positions at maturity, with no substitution or rollover of items at maturity. The sensitivity of economic value is calculated as the difference between the present values of cash flows in the base scenario and those values recalculated in the assessment scenarios;
- **NII Sensitivity**: using a full revaluation approach with the adoption of risk-free yield curves. The analysis uses 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. The metric quantifies the impact of changes in reference rates and/or spread components on net interest income.

The measures seek to quantify the exposure to interest rate risk attributable to each identified source of such risk in the banking book and the credit risk spread in the banking book (CSRBB).

The scenarios used in the stress testing are based on both regulatory shocks and shocks defined internally by the Group.

Sample scenarios used for IRRBB stress testing include:

- **Parallel shocks:** parallel shocks to the yield curve in order to assess the impact on economic value and net interest income. based on various degrees of severity (e.g. changes of +/- 200 bps in the curve);
- **Non-parallel shocks**: non-parallel shocks to different notes of the yield curve shock in order to assess the impact on economic value and net interest income. based on various degrees of severity (steepening and flattening shocks);
- **Historical:** shocks defined internally on the basis of prudential assessments and historical analyses of observed rate variations.

- Risk prevention and attenuation

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework. The definition of this system, which distinguishes the Risk Management Framework, took account of the nature, objectives and complexity of operations of the Group and the individual subsidiaries.

The system of limits is defined by the Parent Company, taking due account of RAS and Risk Limit indicators consistent with the policy-setting and coordination role attributed to it and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the interest rate risk management model adopted.

The RAS sets out - at the consolidated level and at the level of individual legal entities – indicators representing the interest rate risk on the banking book. The indicators included in the RAS are supplemented by operating indicators determined with the Risk Policy. The current policy provides for setting risk limits for exposures in terms of the sensitivity of economic value and net interest income at both the consolidated and individual levels. The policy review currently under way also provides for the introduction of limits for the business lines responsible for managing interest rate risk on the banking book, namely Capital Market and Money Market, which come under the ALM function.

In addition to the above system of limits, the Group also has a comprehensive system of arrangements and controls that contribute to defining the overall control model set out and formalized in the risk management policy.

The controls established to manage interest rate risk on the banking book break down as follows:

- <u>Level I controls</u>, which are intended to ensure the correct registration and maintenance of transactions over time;
- <u>Level II controls</u>, which are intended to measure, monitor and report the interest rate risk profile and activate escalation mechanisms;

<u>Level III controls</u>, which are intended to verify compliance with rules and procedures as well as internal and external regulations.

The first-level controls are intended to ensure the appropriate management of positions on a daily basis in order to assess their market value, the risks associated with operations and compliance with position limits, thereby enabling the accurate measurement of risks for second-level controls. These controls are conducted by front office and back office staff in their respective areas of responsibility.
If the operating limits are breached, the heads of the trading desks, each in their respective area of responsibility, participate in the management process and in activating escalation mechanisms.
In order to ensure the appropriateness and effectiveness of the organizational model and management arrangements for the risks identified, the second-level control units operate within the framework of the Group Internal Control System.

The second-level controls, carried out by Risk Management, are aimed at monitoring the Group's exposure to interest rate risk on a daily basis, in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of indicators has been provided for.

Monitoring risk indicators is a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds.

These activities therefore perform a control function for the continuous monitoring of all indicators with respect to assigned risk levels, signaling when risk profiles approach or breach the threshold/limit/tolerance levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/Risk Limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

Third-level controls are the responsibility of Internal Audit, which consistent with the approved activity plan monitors the overall appropriateness, operation and effectiveness of the internal control system and compliance of actions with internal and external rules and procedures.

- Monitoring and reporting

The interest rate risk control and monitoring activities are performed through a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.[1] At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the General Manager of the Parent Company.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined I accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the Group Finance Committee, operating units, top management and boards of directors.

- Risk management and mitigation

The management and mitigation of risk seek to reconcile profitability with management of the risk to which the Group companies, and thus the Group, are exposed. The system is based on the following principles:

- <u>Managing the overall profitability of the Group</u>: the centralized management and control of developments in net interest income represent a key requirement of the Iccrea Banking Group's overall control system. That role is played by the Parent Company in exercising its functions of setting the strategic policy of the Group and coordinating the individual Group companies;

- <u>Managing interest rate risk</u>: funding and lending with supervised intermediaries, financial and intercompany activities involve normal parameter mismatches at the various maturities. The Group's ability to manage short and long-term mismatches, while at the same time limiting potential decreases in net interest income, is of fundamental importance in ensuring that profitability is in line with the targets set in the strategic planning stage. Within the Group, the function of pooling parameters and managing rate mismatches is the responsibility of the Parent Company, which manages the exposure to interest rate risk on a centralized basis. The management of mismatches in interest rate risk generated by operations conducted by the subsidiaries with customers is transferred to the Parent Company through intercompany funding/lending transactions with average maturities and characteristics that hedge the exposure to interest rate risk, consistent with the risk limits set by the Parent Company.

B. FAIR VALUE HEDGING

Positions exposed to interest rate risk are hedged in accordance with the IAS rules for fair value hedges.

More specifically, at June 30, 2017 the following positions were hedged:

- 1 fixed-rate loan issued by BCC Solutions, with a current outstanding residual debt of €18.7 million, hedged with an interest rate swap (IRS);

- 2 fixed-rate loans issued by the Bank and hedged by means of an IRS with a nominal value of €60 million;

[1] *See. ""Interest Rate Risk in the Banking Book Policy (IRRBB Policy)"";*

- 2 mixed-rate bond issued by the Bank and hedged with IRSs and cap/floors with a nominal value of €373 million;
- 1 EMTN Italian government security linked to European inflation hedged with IRSs and options with a nominal value of €100 million;
- 1 treasury bond (BTP) linked to Italian inflation hedged with IRSs and options with a nominal value of €25 million;
- 2 fixed-rate treasury bonds (BTPs), hedged with IRSs and with an overnight indexed swap (OIS) with a nominal value of €160 million;
- 1 EMTN fixed-rate Italian government security, hedged with IRSs with a nominal value of €82 million;
- 1 EMTN IMI Banca step-up bond hedged with IRSs with a nominal value of €72 million;
- 1 EMTN SNAM fixed rate, hedged with IRSs with a nominal value of €1.4 million;
- 8 fixed-rate deposits hedged with an overnight indexed swap (OIS) with a nominal value of €515 million;
- 4 fixed-rate lease portfolio with a nominal value of €7.8 million.

In addition, the Bank also undertook the following macro-hedging transactions:

- hedging of portfolios (collateralized loans to the mutual banks) with a value of € 989 million;
- hedging of fixed-rate loans to customers with a nominal value of €80 million.

Effectiveness tests were carried out using the dollar offset method for the retrospective profile and the scenario method for the prospective profile, with the exception of loans to customers covered by macrohedging, for which the tests adopted the volatility risk reduction method.

C. Cash flow hedging

The Bank conducted cash flow hedging for the following transactions:

- 1 Italian government bond (BTP) linked to European inflation using asset swaps with a nominal value of €28 million;
- 1 Italian government bond (BTP) linked to Italian inflation hedged using IRSs with a nominal value of €100 million;
- 4 dollar-denominated bonds hedged using cross currency interest rate swaps (CCIRS) with a nominal value of €76 million.

QUANTITATIVE DISCLOSURES

1. BANKING BOOK: DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY (REPRICING DATE)

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. BANKING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

The interest rate risk on the banking book used for management purposes with regard to sensitivity indicators for economic value and net interest income is reported below. The analysis of the exposure to the risk is monitored on a monthly basis by the Group Finance Committee.

SCENARIO	IMPACT ON ECONOMIC VALUE		IMPACT ON NET INTEREST INCOME AT 12 MONTHS	
	- 100 bp	+100 bp	- 100 bp	+100 bp
Iccrea Banking Group	+20.0	-6.5	-14.8	16.5

Figures in millions of euros at June 30, 2017

1.2.3 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF EXCHANGE RATE RISK

Exchange rate risk is managed in a centralized manner by the Treasury and Foreign Exchange Unit. The Bank constantly scales the positions it assumes in the various currencies in relation to the support it provides to the foreign exchange requirements of the mutual banks and other Group companies.

Operations are mainly concentrated in major currencies. The Bank adopts a system of daily operating limits on the overall foreign exchange exposure, as well as the net foreign exchange positions in respect of individual currencies. The overall limit is segmented into partial ceilings on the basis of the importance of the various currencies.

B. HEDGING EXCHANGE RATE RISK

Operations are largely executed in currencies with deep markets. Iccrea has adopted a system of daily operational limits on the overall composition of foreign currency positions and on the net positions in the individual currencies, with partial use of the overall position limit, appropriately graduate by the importance of the currencies.

1.3 BANKING GROUP: LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

Liquidity risk for the Iccrea Banking Group is the risk of not being able to discharge one's payment obligations and can take different forms depending on the source of that risk, which can be caused by:

- the inability to raise funds or efficiently discharge one's payment obligations at market prices (expected and unexpected outlays), i.e. incurring high funding costs, without jeopardizing the daily operations of the bank or its financial position (funding liquidity risk);
- the existence of limitations on the liquidation of assets or incurring capital losses (owing to insufficient liquidity in the market or disruption of the market) following their liquidation (market liquidity risk).

The framework for governing and managing liquidity risk within the Iccrea Banking Group is designed to ensure the sound and prudent management of liquidity and the associated risk, and has the following objectives:

- to enable the Bank to remain solvent in both "the normal course of business" and in a liquidity crisis;
- to ensure that the Bank constantly holds an appropriate amount of liquid assets in relation to the limits it has set and with respect to internal and external constraints;
- to ensure the compliance, in accordance with the principal of proportionality, of the system for the governance and management of liquidity risk with applicable supervisory regulations.

The framework for managing liquidity and governing liquidity risk within the Iccrea Banking Group is based on the centralization of those activities. The Parent company is responsible for overall governance of liquidity and liquidity risk at the Group level, as it:

- is responsible for defining Group liquidity risk management policies;
- monitors the exposure to liquidity risk (operational and structural) on a centralized basis;
- manages liquidity risk at the consolidated level with the preparation of a funding plan that is consistent with current and prospective operations;
- defines and governs the internal transfer pricing system.

More specifically, the liquidity risk management model establishes that:

- operating liquidity is managed on a centralized basis by the Parent Company, which performs the following functions:
  - managing liquid assets and funding in euros and foreign currencies over a time horizon of 12 months for all the Group companies included within the scope of liquidity risk management activities;
  - managing operations in repurchase transactions and pooling with the central bank, market counterparties and the mutual banks;
  - funding the securities portfolio at the Group level;
  - managing the reserve requirements (on its own behalf and for Group companies subject to reserve requirements as well as centralized management of the requirement for mutual banks who request that service);
  - managing open market operations with the ECB.
- the management of structural liquidity is centralized with the Parent Company, which takes corrective action to ensure that medium/long-term assets and liabilities are balanced appropriately at both the individual and consolidated level, while at the same time seeking to optimize the cost of funding and:
  - performing transactions with subsidizing entities or national/supranational entities (CDP, EIB, etc..);
  - structuring and issuing debt instruments on the market.

All the Group companies included within the scope of liquidity risk management activities have direct access to the interbank market in accordance with the procedures established by the Parent Company. They contribute to creating short-term liquidity imbalances in their transactions with customers and transfer them to Iccrea Banca through reciprocal current accounts, time deposits, bond issues and other technical forms.

Liquidity risk is identified and monitored by defining and monitoring the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Group and market conditions.

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- **operational liquidity** – which is divided into two complementary levels:
  - o *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;
  - o *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..

Measuring liquidity risk consists in identifying and quantifying the exposure to such risk over the observation period in a complete, accurate and timely manner.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder. The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions..

The maturity ladder, which is the main tool for measuring liquidity risk, makes it possible to monitor the effective ability of the counterbalancing capacity to cover any liquidity shortfalls caused by an imbalance between certain and uncertain expected cash inflows and outflows as assigned on a prudential basis to the different maturity banks that make up the ladder.

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 liquidity position of Treasury/Finance operations, excluding items regarding commercial operations, over a 12-month time horizon.

Inflows from assets are assigned to time bands on the basis of their contractual maturity, while specific behavioral assumptions are used in determining the run-off of liabilities.

The system for monitoring Group operational liquidity makes it possible to monitor:

- management of access to the payments system (operational liquidity management);
- management of the liquidity outflow profile;
- the size and degree of use of liquidity reserves (analysis and active management of the maturity ladder);
- the active management of collateral (cash-collateral management, i.e. refinanceable securities and bank loans);
- the integration of short-term liquidity management actions with structural liquidity requirements.

The structural maturity ladder is used to monitor the overall liquidity position at the consolidated and individual level at both short and medium/long term, considering items generated by Treasury/Finance operations and those associated with commercial operations. Cash inflows and outflows are assigned to the various time bands of the ladder on the basis of the purpose of the analysis, using two separate approaches.

The first approach provides for the assignment of cash flows on the basis of the contractual maturities of the items involved. This is used to produce the regulatory reporting provided for in the Short Term Exercise) – template Maturity Ladder C-66, consistent with the instructions issued by the EBA.

The second approach is based on the adoption of behavioral assumptions for demand items and margins on the credit lines granted. To determine drawings on funding held on the settlement account, the assumptions are based on a behavioral model for demand funding.

The structural maturity ladder used by the Group in monitoring the medium/long-term liquidity position is designed to monitor the balance of the funding profile and control maturity transformation (also on the basis of the strategic instructions issued by management). This tool is essential for obtaining a view of Group funding requirements and an understanding of the liquidity risk associated with execution of the funding plan, thereby preventing the emergence of future liquidity strains. In addition, the structural maturity ladder makes it possible to control:

- the management of maturity transformation in accordance with the guidelines established by management;
- support for the funding decisions in the funding plan.

The intraday liquidity position is measured with metrics aimed at monitoring the maximum use of liquidity on an intraday basis, the reserves available at the beginning of each business day to meet liquidity requirements, gross payments sent and received and "time-specific" bonds.

The money market position is measured on a daily basis by quantifying the liquidity reserves and covering any deficit in the prospective liquidity balance at 1 and 30 days with those reserves.

The overall system of limits and liquidity risk monitoring indicators was recently revised as part of the updating of the Group's RAS and the adjustment of the Liquidity Policy to the RAS.

The process of monitoring the liquidity indicators defined by the Group is structured and supplemented with the liquidity risk governance and management model adopted by the Group and the subsidiaries. Liquidity risk is monitored by the Risk Management unit of the Parent Company. This activity is based on assessing and measuring the risk profile against the RAS, Risk Policies and Contingency indicators established for managing liquidity risk, consistent with the RAF and the system of limits, as well as on measuring additional metrics.

The Risk Management unit of the Parent Company, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with the individual subsidiaries (where these have been specifically allocated liquidity risk indicators). As part of the liquidity risk management and monitoring activities carried out by Risk Management, a reporting process has been defined for reporting to corporate boards, top management and operational units, in accordance with the rules on corporate control reporting. The data and information used in the reporting support the effectiveness and efficiency of communication, using terminology and references that are understandable to the recipients to whom it is addressed.

Exceeding the indicator limits triggers, depending on the type of indicator, the activation of specific, codified escalation processes associated with circumscribed areas of intervention connected with the seriousness of the breach (overshoot/violation of the indicator). The escalation processes are designed to operate promptly and efficiently and they clearly define the roles and responsibilities of the various actors involved and the timing of execution of the process. The provide for direct reporting lines to the heads of the risk management departments and other control units, as well as and reporting lines to the committees (the Board's Risk, Finance and Recovery Committees) and corporate bodies.

STRESS TEST FRAMEWORK

The Group liquidity position is monitored in the normal course of business and under stress conditions. For the latter, the Group has defined a stress test framework on the basis of the indicators that characterize the Liquidity Risk Framework. In accordance with the rules established by the supervisory authorities, that framework has been defined at the methodological level with the intention of extending it to other processes on the basis of a differentiated calendar and with severity levels connected to the main related processes (RAF, ILAAP, Recovery Plan).

The stress test analyses are used to measure the degree to which the liquidity position can deteriorate in the event of especially adverse market conditions, thereby enabling verification of its robustness.

Accordingly, the objectives of the stress testing are:

– to verify the Group's capacity to cope with unexpected liquidity crises in the first period in which they occur, before activating initiatives to modify the structure of assets or liabilities;
– to calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits determines the maintenance of sufficient liquidity reserves to enable the Group to discharge planned obligations over the time horizon envisaged in the stress scenario.

The types of stress test that characterize the framework provide for the occurrence of sever but plausible events (scenarios) that can be classified into three categories:

– **stress scenarios caused by a systemic event**, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy and, consequently, the Iccrea Banking Group;
– **stress scenarios caused by specific events (idiosyncratic)**, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves highly adverse consequences for the Iccrea Banking Group. In defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Group;
– **stress scenarios generated by a combination of specific and systemic events,** i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimated inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Group to cope with any liquidity strains.

For each scenario, the Group has incorporated shocks generated by the main risk variables, which have been identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

The stress scenarios do not take account of the effects of exchanges rates on currencies, as exchange rate risk is assumed to be negligible and/or essentially offset at the Group level.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of asset to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

The stress tests are performed using a static or dynamic approach depending on the type of indicator being stressed. On the basis of the approach selected, assumptions that modify the maturity structure of assets and/or liabilities or the composition of funding are introduced (dynamic approach) or are not introduced (static approach) within the time horizon considered.

QUANTITATIVE DISCLOSURES

Distribution of financial assets and liabilities by residual maturity

CURRENCY 242 - EURO

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Unspecified maturity
On-balance-sheet assets	2,634,284	911,330	490,740	1,379,456	3,967,412	3,648,688	3,452,900	22,398,120	4,212,691	1,091,345
A.1 Government securities	4,773	-	1,403	4,778	997,178	991,083	344,344	6,247,840	741,267	-
A.2 Other debt securities	3,191	3	-	1,993	19,985	36,271	14,394	459,328	64,564	2,200
A.3 Units in collective investment undertakings	483,544	-	-	-	-	-	-	-	-	-
A.4 Loans	2,142,777	911,327	489,336	1,372,685	2,950,249	2,621,334	3,094,161	15,690,952	3,406,860	1,089,145
- banks	853,215	821,337	444,061	1,270,639	2,191,099	1,875,863	2,179,864	10,307,695	15,024	1,084,597
- customers	1,289,562	89,990	45,276	102,046	759,150	745,471	914,297	5,383,258	3,391,836	4,548
On-balance-sheet liabilities	7,257,043	4,483,586	757,693	620,643	2,390,035	2,419,439	5,636,693	18,701,420	432,888	4,795
B.1 Deposits	6,696,077	30,288	144,790	63,543	78,595	195,627	533,643	468,867	-	-
- banks	5,128,673	28,121	140,046	54,416	50,419	169,103	497,774	454,950	-	-
- customers	1,567,404	2,167	4,744	9,127	28,176	26,524	35,869	13,917	-	-
B.2 Debt securities	2,612	56,517	14,807	23,293	92,451	106,055	1,343,488	3,399,595	221,319	-
B.3 Other liabilities	558,355	4,396,781	598,096	533,808	2,218,989	2,117,757	3,759,562	14,832,959	211,569	4,795
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	6,915,006	73,430	1,620,931	118,657	51,119	12,690	200,269	325,139	200
- short positions	-	6,215,826	62,842	2,039,440	394,135	298,657	12,122	176,025	275,682	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	227,308	608	68	27	1,186	2,040	4,176	-	-	-
- short positions	267,509	115	6	77	9,963	4,018	4,813	-	-	-
C.3 Deposits and loans to receive	-	-	-	-	-	-	-	-	-	-
-- long positions	-	-5,030,268	-	-	-193,856	-415,229	-1,925,018	-1,357,752	-	-
- short positions	-	4,139,168	99,499	34,768	489,238	606,964	467,949	3,084,537	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	214,644	136,003	-	23	3	645	2,084	104,157	242,563	17,195
- short positions	564,185	136,527	-	-	-	-	-	-	-	17,195
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

CURRENCY 999 – OTHER

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Unspecified maturity
On-balance-sheet assets	36,542	10,931	5,791	22,405	25,849	12,454	4,754	17,282	10,872	-
A.1 Government securities	-	-	-	3	888	33	45	174	1,981	-
A.2 Other debt securities	-	-	-	10	24	15	408	1,180	5,451	-
A.3 Units in collective investment undertakings	687	-	-	-	-	-	-	-	-	-
A.4 Loans	35,855	10,931	5,791	22,393	24,937	12,406	4,302	15,927	3,440	-
- banks	35,232	10,931	5,791	22,393	24,535	11,409	1,920	903	-	-
- customers	623	-	-	-	402	997	2,382	15,024	3,440	-
On-balance-sheet liabilities	158,358	18,999	10,652	33,027	22,111	8,098	7,467	73,409	663	-
B.1 Deposits	158,358	18,999	10,652	24,993	19,686	7,559	6,552	-	-	-
- banks	157,393	18,999	10,652	24,993	19,686	7,559	6,552	-	-	-
- customers	965	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	285	539	827	73,156	-	-
B.3 Other liabilities	-	-	-	8,034	2,140	-	88	252	663	-
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	44	15,285,825	339,330	2,536,855	559,137	294,810	7,937	81,374	8,643	-
- short positions	44	16,140,006	349,881	2,135,387	296,267	52,377	7,920	2,986	9,797	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	1,216	-	-	-	-	-	-	-	-	-
- short positions	1,565	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to receive	-	-	-	-	-	-	-	-	-	-
-- long positions	-	-16,962	-	-	-	-	-	-	-	-
- short positions	-	16,962	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	822	-	-	-	-	-	-	-	-
- short positions	-	822	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

1.4 BANKING GROUP: OPERATIONAL RISKS

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISK

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 Banking Group, it is exposed to operational risks across the entire organization.

Within the regulatory framework, the deregulation and the globalization of financial services, together with the progressive refinement of the financial technology supporting transactions, are making the Group's activities, and thus the associated operational risk engendered, increasingly complex.[2] In the absence of appropriate controls, the growing use of highly automated technology under way in the Group can transform the risk of manual errors and data processing errors into system malfunctions, given the expanding adoption of integrated IT infrastructures and applications.

The growing use of electronic money and e-commerce generates other potential risks (or example, internal and external fraud, system security, customer data processing and IT risks) whose comprehensive governance and mitigation represents a strategic factor in the development of the Group's business.

In addition, the presents of banks and financial companies in the Group, delivering services on a mass scale (the mutual banking system) to the public makes it necessary to constantly maintain internal controls and backup systems, with the risk of rules violations, incurring penalties, etc.

The various types of operational risk to which the Iccrea Banking Group is structurally exposed therefore include IT risk and reputational risk. This is associated with the banking activities carried out with the public and financial and institutional counterparties, as well as the countless national and international regulations to which the Group is subject.

[2] See BIS, "Sound practices for the management and supervision of operational risk", February 2003;

A. GOVERNANCE AND ORGANIZATIONAL MODEL

The organizational model adopted in 2016 by the Iccrea Banking Group to supervise and manage operational risk is structured as follows:

- an Operational & IT Risk Management unit was established at the Parent Company, reporting to the CRO area, which handles operational and IT risks at the Group level, acting as a specialized hub responsible for providing guidance, coordination and technical support to the various Risk Management units of the companies in the Banking Group;
- the Risk Management units of the banking/financial subsidiaries report to their boards of directors and are responsible, among other duties, for monitoring and managing developments in the exposure to operational and IT risks..

With regard current governance arrangements, the Risk Committee of the Board of Directors provides support to that body, engaging in strategic supervision of risks and the internal control system, including the frameworks for operational risk and IT risk.

In particular, the Risk Committee:

- supports activities to verify the correct implementation of Group strategy, 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.

B. OPERATIONAL RISK MANAGEMENT POLICIES

Consistent with the "Risk Management Process", the framework is structured into the following phases:

1. **Identification of risks (knowledge)**: a set of activities, processes, methods and tools to identify operational risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (i.e. operational loss data) and potential risk (assessed through the collection of business expert opinion).

2. **Evaluation/measurement of identified risks (awareness)**: processes, methods and tools for assessing/measuring Group operational risks.

3. **Risk prevention and mitigation (strategy)**: activities, processes, methods and tools for the ex-ante identification of the possible ways of preventing and mitigating unfavorable developments in the dynamics of operational risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational risks, and the implementation of measures to ensure that possible operational risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.

4. **Monitoring and reporting (tracking and control)**: activities, processes, methods and tools to monitor the Group's risk profile and deliver comprehensive reporting to provide timely, accurate and appropriate support to the decision-making process underlying "Risk Prevention and Mitigation" and "Risk Management and Mitigation".

5. **Risk management and mitigation (reaction and proactivity)**: processes, methods and tools to support the management of developments in operational risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to operational risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments (operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

The operational risk assessment framework outlined above also includes legal risk is integrated with that for assessing IT risk, in line with the relevant regulations.

Operational risk management and mitigation activities are governed by a set of codified and formalized rules that include:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in the risks assumed;
- the adoption of a set of measures for managing the problems found as part of the risk assessment framework;
- the actions to be taken in the event of breaches of monitoring thresholds or risk tolerances and the risk limits set out in the Risk Appetite Statement;
- the actions to be taken in the event of breaches of the limits defined in risk policies.

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. The Operational & IT Risk Management unit prepares the necessary reporting in this area, bringing it to the attention of the various internal users (Board bodies, senior management, operating units).

QUANTITATIVE DISCLOSURES

As provided for in Circular no. 285/2013 of the Bank of Italy as updated, for reporting purposes the Bank calculates its capital requirement for operational risks using the Basic Indicator Approach. The requirement is calculated by applying a regulatory coefficient to an indicator of the volume of business, which in the case of Iccrea is "gross income".

In particular, the capital requirement, equal to 15% of the average of the last three observations of gross income at the end of the year, amounted to €90,524 thousand.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2016	T	599,447
- at December 31, 2015	T-1	640,517
- at December 31, 2014	T-2	570,516
Relevant indicator average		**603,493**
Regulatory coefficient		**15%**
Capital requirement		**90,524**

Part F

Information on consolidated capital

SECTION 1 – CONSOLIDATED CAPITAL

A. Qualitative disclosures

Consolidated capital is managed by centralized units of Iccrea Banca, through the definition of a set of internal policies and processes that ensure dynamic equilibrium and appropriate consistency between the Group's overall capital resources, the range of risks the Group has assumed or intends to assume, and the targets for growth in size and profitability as specified in the strategic planning process.

With a view to achieving sustainable and balanced growth, the Iccrea Banking Group continues to pursue capital adequacy through careful management of both regulatory requirements (First Pillar) and operational constraints (Second Pillar – ICAAP). In particular, the Group's compliance with capital adequacy requirements is ensured:

- for the First Pillar, through the management and monitoring of regulatory capital, so as to ensure compliance with the minimum statutory capitalization limits, so as to be able to handle with the risks typical of the banking business;
- for the Second Pillar, through a process that controls current and prospective capital adequacy, which in addition to First Pillar risks also considers other material risks that affect or could affect the Group's operations, in order to determine an adequate level of internal capital in relation to the overall risk exposure.

Accordingly, management of financial soundness at the consolidated level is structured in a dynamic process, which is managed on both an ongoing basis in accordance with the corporate objectives set out in the strategic planning process (annual budget, three-year business plan) and on a non-recurring basis in conjunction with extraordinary transactions (acquisitions, mergers, asset disposals) that modify the composition or scope of the Group's operations.

B. Quantitative disclosures

B.1 CONSOLIDATED EQUITY: BREAKDOWN BY TYPE OF ENTITY

	Banking Group	Insurance undertakings	Other entities	Consolidation eliminations and adjustments	Total June 30, 2017
Share capital	2,078,491	-	36,128	(911,694)	**1,202,925**
Share premium reserve	22,746	-	810	(18,304)	**5,252**
Reserves	450,343	-	5,503	(65,057)	**390,789**
Equity instruments	-	-	-	-	**-**
(Treasury shares)	(30,835)	-	-	-	**(30,835)**
Valuation reserves:					
- Financial assets available for sale	14,040	-	-	(935)	**13,105**
- Property and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedging of investments in foreign operations		-			
- Cash flow hedges	(1,971)	-	-	-	**(1,971)**
- Foreign exchange differences	-	-	-	-	-
- Non-current assets held for sale	-	-	-	-	-
- Actuarial gains (losses) on defined benefit plans	(2,480)		(122)		**(2,602)**
- Share of valuation reserves of equity investments accounted for using equity method	7,232	-	-	-	**7,232**
- Special revaluation laws	52,330	-	-	-	**52,330**
Net profit (loss) for the period	42,361	-	(1,230)	(29,547)	**11,584**
Shareholders' equity	**2,632,257**	**-**	**41,089**	**(1,025,537)**	**1,647,809**

The table above 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, "Banking Group" 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.

B.2 VALUATION RESERVES FOR FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION

	Banking Group		Insurance undertakings		Other entities		Consolidation eliminations and adjustments		Total June 30, 2017	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	5,022	(3,266)					(928)		**4,094**	**(3,266)**
2. Equity securities	11,634	(44)							**11,634**	**(44)**
3. Units in collective investment undertakings	299	(232)					(8)		**291**	**(232)**
4. Loans	670	(43)							**670**	**(43)**
Total (2017)	**17,625**	**(3,586)**	**-**	**-**	**-**	**-**	**(936)**	**-**	**16,690**	**(3,588)**
Total (2016)	**24,842**	**(4,013)**	**-**	**-**	**-**	**-**	**(1,293)**	**-**	**23,550**	**(4,013)**

B.3 VALUATION RESERVES FOR FINANCIAL ASSETS AVAILABLE FOR SALE: CHANGE FOR THE PERIOD

	Debt securities	Equity securities	Units in collective investment undertakings	Loans
1. Opening balance	**4,326**	**14,627**	**581**	**-**
2. Increases	**5,297**	**1,455**	**126**	**-**
2.1 Fair value gains	3805	1455	124	-
2.2. Reversal to income statement of negative reserves	1492	-	-	-
- from impairment	-	-	-	-
- from realization	1492	-	-	-
2.3 Other changes	-	-	-	-
3. Decreases	**-8,795**	**-4,493**	**-20**	**-**
3.1 Fair value losses	-2,617	-44	-20	-
3.2 Impairment adjustments	-	-	-	-
3.3 Reversal to income statement of positive reserves	-6,178	-4,448	-	-
3.4 Other changes	-	-	-	-
4. Closing balance	**828**	**11,590**	**686**	**-**

B.4 VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

	TOTAL AT 30/06/2017	
	POSITIVE RESERVE	NEGATIVE RESERVE
1. Gain (loss) from changes in financial assumptions	-	-
2. Gain (loss) from passage of time	693	24
TOTAL	**693**	**24**

SEZIONE 2 – CAPITAL AND CAPITAL RATIOS

2.1 SCOPE OF APPLICATION

As from January 1, 2014, the new regulatory framework for banks and investment firms is composed of:

- Regulation (EU) no. 575/2013 ("Capital Requirement Regulation"): the regulation, which took immediate effect in the EU Member States, establishes new rules concerning own funds, minimum capital requirements, counterparty risk, liquidity risk, leverage and disclosure;
- Directive no. 2013/36/EU ("Capital Requirement Directive"): the directive has been transposed into national law and contains provisions for determining capital reserves, the prudential control process, corporate governance rules and remuneration, and administrative penalties.

In implementing the Directive, the Bank of Italy issued Circular no. 285/2013 "Provisions for the prudential supervision of banks", which is divided into three parts:

i) i) the first part contains secondary provisions for which the Bank of Italy is responsible that are necessary for the transposition of Directive 2013/36/EU;
ii) the second part contains measures implementing Regulation (EU) no. 575/2013, specifically through the exercise of national discretion;
iii) the third part sets out provisions that, while not harmonized at the European level, are needed to align the Italian supervisory system with the best practices and requirements established by international bodies, include the Core Principles of the Basel Committee.

The primary changes introduced with the new regulatory framework are:

- with regard to the first pillar, steps have been taken to improve the quality of regulatory capital and raise the minimum capital requirements. More specifically, with regard to capital quality, the new framework defines the concept of Common Equity Tier 1, which essentially corresponds to ordinary shares and earnings reserves. Furthermore, additional reserves were introduced, relating to capital conservation, countercyclical buffers and buffers for systematically important banks (G-SII buffer or O-SII buffer). A limit was placed on leverage (including off-balance-sheet exposures) to restrict the growth in system-wide leverage. Finally, Basel III contains new requirements and systems for monitoring liquidity risk centering around a short-term liquidity requirement (Liquidity Coverage Ratio – LCR) and a longer-term structural stability rule (Net Stable Funding Ratio – NSFR);
- with regard to the second pillar, emphasis was placed on the importance of the following in terms of the adequacy of the prudential supervision process:
  - corporate governance structure: the regulatory requirements concerning the role, qualification and composition of the management bodies were strengthened. These bodies and senior management are required to have a more informed understanding of the adequacy of the organizational structure and the overall risk exposure of the bank and/or the related banking group;
  - the internal control systems of intermediaries: company control functions play a decisive role in ensuring the stability of individual institutions and the banking system as a whole. More specifically, special provisions have been issued concerning: the recognition of risks associated with off-balance-sheet assets and securitizations, the independence of the heads of the function, the valuation of assets and stress testing, and remuneration and incentive systems.
- with regard to the third pillar, the new rules introduce:
  - enhanced transparency requirements regarding securitization exposures, information on the composition of regulatory capital and on the methods used by the bank to calculate the capital ratios;
  - a requirement for annual disclosure of information concerning profit/loss before taxes, the amount of tax on such profit/loss and government support received.
  - an obligation to disclose the leverage ratio.

Within the scope of the discretion granted national governments by the new CRR, the Iccrea Banking Group notified the Bank of Italy that is has chosen to exercise the option to not include unrealized gains and losses on exposures to central government departments classified under "financial assets available for sale" (IAS 39) in the calculation of own funds. Articles 14 and 15 of Regulation (EU) no. 445 of March 14, 2016 on the exercise of options and discretions available in Union law[1] established at as from October 1, entities shall also include unrealized gains and losses in respect of exposures to central governments classified in the "available for sale" category in the calculation of own funds in the following percentages:

- unrealized losses: inclusion of 80% until December 31, 2017;
- unrealized gains: exclusion of 20% until December 31, 2017.

2.2 OWN FUNDS

A. Qualitative disclosures

Total own funds are calculated as the algebraic sum of a number of positive and negative components that are allowed, with or without restrictions as the case may be, depending on the capital quality of each. Specifically, the total own funds of an institution are the sum of its Tier 1 capital (Common Equity Tier 1 + Additional Tier 1) and its Tier 2 capital. The components that make up the various categories are described below.

1. Common Equity Tier 1 (CET1)

Common Equity Tier 1 of the Iccrea Group consists primarily of the following positive components:

- Fully paid-up capital instruments;
- Share premium accounts related to the above instruments;
- Other reserves including retained earnings;
- Accumulated other comprehensive income: this item includes reserves in respect of assets available for sale, actuarial loss reserves, cash flow hedge reserve, revaluation reserve and the portion of the valuation reserves of equity investments accounted for using the equity method.
- Permitted non-controlling interests.

Negative CET1 components mainly include:

- Direct, indirect or synthetic holdings in CET1 equity instruments;
- Loss for the period;
- Goodwill net of the associated deferred tax liabilities;
- Other intangible assets net of the associated deferred tax liabilities;
- Deduction of deferred tax assets relying on future profitability and not arising from temporary differences (unused tax credits for ACE benefit and tax losses);

The CET1 above is adjusted by applying the following prudential filters:

- Filters connected with the cash flow hedge reserve for financial instruments that are not measured at fair value;
- Filters connected with the net cumulative unrealized gain of financial liabilities measured at fair value that result from changes in its credit risk;
- Filters associated with additional value adjustments..

Transitional adjustments to CET1 include:

- the exclusion of the unrealized gains on AFS securities;
- the positive filter for negative actuarial reserves (IAS 19);
- the filter for the inclusion of non-controlling interests subject to transitional provisions;
- the filter for the deduction of deferred tax assets relying on future profitability and not arising from temporary differences.

2. Additional Tier 1

Additional Tier 1 capital is represented by non-controlling interests in T1 instruments of the subsidiary Banca Sviluppo, included in consolidated own funds, to meet the prudential requirements for the individual subsidiary pursuant to Article 85 of the CRR.

3. Tier 2

Tier 2 capital is composed of subordinated liabilities issued by the Parent Company, Iccrea Banca S.p.A., and the non-controlling interests in T2 instruments issued

[1] As part of the national discretionality provided for in the CRR in force since January 1, 2014, the Iccrea Group had notified the Bank of Italy that it was exercising the option of not including unrealized gains and losses on exposures to central government classified in the "financial assets available for sale" category of IAS 39.

by the subsidiary Banca Sviluppo. The relative amount, calculated net of the Iccrea Group's direct, indirect or synthetic holdings in these instruments, is reduced by the theoretical amortization calculated pursuant to Article 64 of Regulation (EU) no. 575/2013.

This item includes the following transitional adjustments:

- a national positive filter introduced by Bank of Italy Circular no. 285 equal to 20% of 50% of the unrealized profits on AFS securities other than debt instruments issued by the central governments of EU countries;
- a positive filter for including non-controlling interests in T2 instruments issued by subsidiaries subject to transitional provisions.

B. Quantitative disclosures

OWN FUNDS	30/06/2017	31/12/2016
A. Common Equity Tier 1 (CET1) capital before application of prudential filters	**1,572,449**	**1,584,954**
of which CET1 instruments affected by transitional provisions		
B. CET 1 prudential filters (+/-)	**(3,994)**	**(3,058)**
C. CET1 gross of deductible elements and the effects of the transitional provisions (A +/- B)	**1,568,455**	**1,581,896**
D. Elements to be deducted from CET1	**(27,253)**	**33,229**
E. Transitional provisions - Impact on CET1 (+/-), including non-controlling interests affected by transitional provisions	**6,950**	**6,672**
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	**1,548,152**	**1,555,339**
G. Additional Tier 1 (AT1) capital gross of deductible elements and the effects of the transitional provisions	**5,773**	**5,837**
of which AT1 instruments affected by transitional provisions		
H. Elements to be deducted from AT1		
I. Transitional provisions - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 as a result of the transitional provisions		
L. Total Additional Tier 1 (AT1) capital (G - H +/- I)	**5,773**	**5,837**
M. Tier 2 (T2) capital gross of deductible elements and the effects of the transitional provisions	**137,046**	**138,569**
of which Tier 2 instruments affected by transitional provisions		
N. Elements to be deducted from T2		
O. Transitional provisions - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 as a result of the transitional provisions	**1,304**	**3,030**
P. Total Tier 2 (T2) capital (M - N +/- O)	**138,350**	**141,599**
Q. Total own funds (F + L + P)	**1,692,275**	**1,702,775**

TRANSITIONAL PROVISIONS

The transitional adjustments of CET1 can be summarized as follows:

- gains on the debt securities of EU governments classified as AFS were sterilized in the amount of €1.5 million (attributable to companies accounted for using the equity method);
- gains on securities other than those of EU governments classified as AFS were sterilized in the amount of €2.5 million (mainly equity securities and units in CIUs);
- actuarial losses on defined benefit plans were neutralized in the amount of €1.032 million (see CRR, Part Ten, Transitional provisions, Section 3, Art. 473);
- minority interests in consolidated subsidiaries not subject to the CRR, recognized pursuant to CRR, Part Ten, Transitional provisions, Section 4, Art. 479, amounted to €4.5 million;
- the deduction of deferred tax assets relying on future profitability and not arising from temporary differences was sterilized in the amount of €5.450 million (see Article 469, paragraph 1.a) and Article 478, paragraph 1 of the CRR).

Transitional adjustments of T2 mainly regard positive valuation reserves on non-EU government securities or on equity securities and units in CIUs were recognized in T2 capital in the amount of €1.3 million pursuant to Art. 481 of the CRR and Part Two, Chapter 14, of Bank of Italy Circular no. 285.

PRUDENTIAL FILTERS

Tier 1 capital was adjusted by the amount of the following prudential filters:

- €1.1 million to exclude from the cash flow hedge reserve the amount in respect of asset/liability positions not measured at fair value;
- €(200) thousand to sterilize the distortive effects of the fair value measurement of our own liabilities with regard to the component attributable to changes in our credit standing;
- €(4.9) million in additional value adjustments (CRR Art. 34 and Part Two, Section 3, Art. 105): the latter were calculated using the simplified approach set out in EBA/RTS/2014/06 of March 31, 2014; for entities for which the sum of the absolute value of fair valued assets/liabilities[2] is less than €15 billion, the additional value adjustments are equal to 0.1% of that aggregate.

DEDUCTIONS WITH THRESHOLD EXEMPTIONS

The Iccrea Group did not make any deductions with threshold exemptions;[3] accordingly, the elements indicated above were risk weighted as follows:

- deferred tax assets and significant investments in the equity instruments of other financial sector entities: a risk weight of 250%;
-
- non-significant investments in the equity instruments of other financial sector entities: a risk weight of 100%.

[2] This does not include assets and liabilities measured at fair value whose change in value is not included in the calculation of CET1.

[3] The regulations provide for threshold exemptions for certain deductions:

- deductions with a threshold of exemption 10% of CET1 calculated in accordance with Art. 48, paragraph 1, point a, of the CRR:
    a. deferred tax assets that are dependent on future profitability and arise from temporary differences;
    b. significant investments in the equity instruments of other financial sector entities;
- deductions with a threshold exemption of 17.65% of CET1 calculated in accordance with Art. 48, paragraph 2, point b, of the CRR: the aggregate of the above elements below the first threshold of 10%;
- deductions with a threshold exemption of 10% of CET1 calculated in accordance with Art. 46 of the CRR: non-significant investments in the equity instruments of other financial sector entities.

2.3 CAPITAL ADEQUACY

A. Qualitative disclosures

Under the provisions of prudential supervisory regulations (Circular no. 285 of December 17, 2013 as updated), the Banking Group must constantly maintain the following minimum capital to meet the risks typical of banking and financial activity (credit and counterparty risk, market risk and operational risk):

- a CET 1 Ratio of 4.5%;
- a Tier 1 Ratio of 6%;
- a Total Capital Ratio of 8%.

The capital ratios are calculated by setting the various levels of regulatory capital against the overall exposure to risk: the consolidated requirement is made up of the sum of the individual requirements of the Banking Group companies, excluding exposures arising from intragroup transactions used in calculating credit, counterparty and regulatory risks.

The minimum requirements are supplemented by additional capital buffers, which have been imposed to give banks high quality capital to be used in moments of market strains in order to prevent malfunctions in the banking system and interruptions in the supply of credit. These buffers include:

- the Capital Conservation Buffer (CCB): consisting of CET 1, it represents an additional requirement of 1.25%;[4]
- the Countercyclical Capital Buffer: also consisting of common equity, it must be accumulated in periods of economic growth to cope with possible future losses, using a specific ratio established on a national basis. On March 24, 2017, the Bank of Italy, in its capacity as the designated authority, issued a notice maintaining the countercyclical capital buffer ratio for the second quarter of 2017 at 0% for exposures to Italian counterparties, unchanged on previous quarters. The specific countercyclical capital buffer ratio for the Bank is equal to the weighted average of the countercyclical ratios applicable in the various countries in which the Bank has significant credit exposures;
- the buffers for Global & Other Systemically Important Institutions (G-SII & O-SII): both consist of CET 1 and directly regard Global & Other Systemically Important Institutions as identified by the Bank of Italy in Italy. The buffer for G-SIIs can range from a minimum of 1% and a maximum of 3.5%, while that for O-SIIs has a non-binding maximum threshold of 2%.

Accordingly, given the predominantly national nature of the Group's operations, the capital requirements including the capital buffers for 2017 were: a Common Equity Tier 1 ratio of 5.75%, a Tier 1 ratio of 7.25% and a Total Capital Ratio of 9.25%.

At June 30, 2017, the Iccrea Group easily exceeded the regulatory minimums:

- the CET1 ratio was 12.31% (12.04% in 2016);
- the Tier 1 ratio was 12.26% (12.08% in 2016);
- the Total Capital ratio was 13.46% (13.18% in 2016).

In addition, following the Supervisory Review and Evaluation Process (SREP), as announced by the ECB in January 2017, the Iccrea Group is required to maintain a Common Equity Tier 1 capital ratio for 2017 of 9.25% (this was confirmed for 2017 as well, with a TCR target of 10.75%).

[4] With the publication of the 18th update of Circular n. 285, the Bank of Italy modified the rules governing the Capital Conservation Buffer to bring the national regulations into line with those in the majority of euro-area countries and ensure equality of treatment among intermediaries from different countries. The change established that banks at the individual and consolidated levels are no longer required to apply a minimum ratio of 2.5% but instead shall use the following progression: 1.25% as from January 1, 2017 to December 31, 2017, 1.875% as from January 1, 2018 to December 31, 2018 and 2.5% as from January 1, 2019.

B. Quantitative disclosures

	Unweighted amounts		Weighted amounts/requirements	
	2017	2016	2017	2016
A. EXPOSURES				
A. 1 Credit and counterparty risk	27,475,165	28,719,365	11,106,069	11,428,782
1. Standardized approach	27,464,176	28,710,677	11,095,080	11,420,094
2. IRB approach				
2.1 Foundation				
2.2 Advanced				
3. Securitizations	10,989	8,688	10,989	8,688
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			888,486	914,303
B.2 Risk of adjustment of credit rating			6,729	8,665
B.3 Settlement risk				
B.4 Market risks			20,373	20,364
1. Standardized approach			20,373	20,364
2. Internal models				
3. Concentration risk				
B.5 Operational risk			90,524	90,524
1. Basic indicator approach			90,524	90,524
2. Standardized approach				
3. Advanced measurement approach				
B.6 Other components				
B.7 Total prudential requirements			1,006,112	1,033,856
C. EXPOSURES AND CAPITAL ADEQUACY RATIOS				
C.1 Risk-weighted assets			12,576,396	12,923,194
C.2 CET 1 capital ratio			12.31%	12.04%
C.3 Tier 1 capital ratio			12.36%	12.08%
C.4 Total capital ratio			13.46%	13.18%

In the standardized approach, the unweighted amounts in the different categories of assets exposed to credit and counterparty risk (on-balance-sheet exposures, off-balance-sheet exposures, SFTs, LSTs, derivatives) correspond to the carrying amount net of prudential filters, the effects of risk mitigation techniques (full method for secured financial transactions) and credit conversion factors.[5]

[5] For off-balance-sheet transactions (guarantees granted and commitments), the credit conversion factor approximates the probability that a transaction will give rise to an on-balance-sheet credit exposure, for which the size of the exposure is estimated: the credit exposure equivalent is calculated by multiplying the nominal value of the commitment by the corresponding conversion factor (full, medium and low risk).

SECTION 3 – INSURANCE REGULATORY CAPITAL AND RATIOS

The section has not been completed because there were no such positions as of the end of the reporting period.

SECTION 4 – CAPITAL ADEQUACY OF FINANCIAL CONGLOMERATE

The section has not been completed because there were no such positions as of the end of the reporting period.

Part G

Business combinations

SECTION 1 – TRANSACTIONS CARRIED OUT DURING THE YEAR

The Group did not carry out any business combinations during the period.

SECTION 2 – TRANSACTIONS AFTER THE CLOSE OF THE PERIOD

The section has not been completed because there were no such positions as of the balance sheet date.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

The section has not been completed because there were no such positions as of the balance sheet date.

Part H

Transactions with related parties

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table reports information concerning the remuneration paid in the first half of 2017 to members of the Board of Directors, the Board of Auditors and key management personnel of the Parent Company who can be considered "related parties".

	Short-term benefits	Post-employment benefits	Other long-term benefits	Loans and guarantees	Share-based payments	Total first half of 2017
Members of the Board of Directors and the Board of Auditors and key management personnel	1,502	-	-	323	-	1,825

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

In December 2011, the Bank of Italy issued regulations governing on related party transactions contained in Circular no. 263/2006 with the aim of strengthening arrangements to ensure that close ties with the decision-makers of a bank cannot compromise the impartiality and objectivity of decisions relating to the granting of loans and other transactions involving them, with possible distortions in the resource allocation process, the exposure of the bank to risks that are not measured or monitored appropriately and the generation of losses for deposit holders and shareholders.

The individual companies of the Iccrea Banking Group, and therefore the Group as a whole, have adopted a document governing the principles and rules applicable to related party transactions in compliance with the supervisory regulations.

Transactions between the Iccrea Banking Group and corporate officers regard ordinary Group operations. They are undertaken in accordance with agreements applicable to all employees, where the necessary conditions are met. Transactions with corporate officers, their immediate family and entities controlled by them amounted to €513 thousand.

Transactions with associated companies regarded ordinary operations within a multi-functional banking organization. These transactions amounted to €33 million and included loans in the amount of €28 million and irrevocable commitments in the amount of €5 million.

In compliance with supervisory regulations, all transactions carried out by Group companies with their related parties were carried out in compliance with the principles of substantive and procedural fairness, on terms analogous to those applied to transactions with independent non-Group counterparties. No unusual or atypical transactions were carried out by Group companies with related parties, nor were any such transactions carried out with other counterparties.

Part I

Share-based payments

No information is reported in this section.

Part L

Operating segments

A. PRIMARY REPORTING BASIS

For segment reporting, a summary income statement and key financial aggregates are prepared and presented. The companies within the Group mainly operate exclusively in individual operating segments, which, as noted in Section 5 of Part A.1 of these notes to the financial statements, are as follows:

- Institutional: business conducted with institutional counterparties (mutual banks, other banks and public institutions), such as payment services, financial intermediation (trading and capital markets), and foreign activities, as well as additional support services for member banks;
- Corporate: business focused mainly on financing small and medium-sized companies that are customers of the mutual banks;
- Retail: mainly asset management activities on an individual and collective basis for retail customers;
- Corporate Center: internal Group activities of an administrative and support nature, as well as all intercompany eliminations.

For additional information regarding the criteria used to identify and measure the individual operating segments, please see Part A – Accounting policies.

A.1 DISTRIBUTION BY BUSINESS SEGMENT: INCOME STATEMENT

	CORPORATE	INSTITUTIONAL	RETAIL	CORPORATE CENTER	INTER-SEGMENT TRANSACTIONS	TOTAL
Net interest income	**102,222**	**29,139**	**22,786**	**(521)**	**2,819**	**156,445**
Net fee and commission income	4,658	78,662	19,307	(1)	(2,362)	100,264
Other financial expense and income	2,802	59,918	-	-	(26,252)	36,468
Gross income	**109,682**	**167,719**	**42,093**	**(522)**	**(25,795)**	**293,177**
Net value adjustments	(41,517)	(22,297)	(7,888)	-	-	(71,702)
Net gains (losses) on financial operations	**68,165**	**145,422**	**34,205**	**(522)**	**(25,795)**	**221,475**
Operating expenses	(42,103)	(148,257)	(16,518)	2,368	1,767	(202,743)
Other costs and revenues	(584)	(9,176)	-	-	2,771	(6,989)
Profit/(loss) from continuing operations before tax	**25,478**	**(12,011)**	**17,687**	**1,846**	**(21,257)**	**11,743**
Income tax for the period on continuing operations	(7,301)	13,391	(5,459)	(587)	(202)	(158)
Profit/(loss) for the period	**18,177**	**1,380**	**12,228**	**1,259**	**(21,459)**	**11,585**
Profit/(loss) for the period pertaining to non-controlling interests	(121)	(468)	(1,825)	-	10	(2,404)
Profit/(loss) for the period pertaining to shareholders of the Parent Company	**18,056**	**912**	**10,403**	**1,259**	**(21,449)**	**9,181**

A.2 DISTRIBUTION BY BUSINESS SEGMENT: BALANCE SHEET

	CORPORATE	INSTITUTIONAL	RETAIL	CORPORATE CENTER	INTER-SEGMENT TRANSACTIONS	TOTAL
Financial assets	1,703,279	8,525,340	6,506	2	(52,552)	10,182,575
Due from banks	155,004	29,799,905	28,660	1,722	(8,525,063)	21,460,227
Loans to customers	8,645,002	4,065,715	990,704	-	(1,540,577)	12,160,844
Funding from banks	4,383,297	21,361,986	785,097	31,952	(5,239,217)	21,323,115
Funding from customers	693,535	15,093,135	144,631	-	(13,701)	15,917,600
Securities and other financial liabilities	4,881,537	5,671,201	-	-	(4,881,565)	5,671,173

B. SECONDARY REPORTING BASIS

As regards the secondary reporting basis, please note that the Group operates almost exclusively in Italy.

Report of the audit firm

Iccrea Banca S.p.A.

Interim consolidated financial statements as of June 30, 2017

Review report on the interim consolidated financial statements
(Translation from the original Italian text)

EY S.p.A.
Via Po, 32
00198 Roma

Tel: +39 06 324751
Fax: +39 06 32475504
ey.com

Review report on the interim consolidated financial statements

(Translation from the original Italian text)

To the Shareholders of
Iccrea Banca S.p.A.

Introduction

We have reviewed the interim consolidated financial statements, comprising the balance sheet as of June 30, 2017, the income statement, the statement of comprehensive income, the statement of shareholders' equity and the statement of cash flows for the six-month period then ended and the related explanatory notes of Iccrea Banca S.p.A. and its subsidiaries (the "Iccrea Banking Group"). The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the interim consolidated financial statements in conformity 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 the 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 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 (ISA Italia) 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 interim consolidated financial statements of the Iccrea Banking Group as of June 30, 2017 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Rome, September 21, 2017

EY S.p.A.
Signed by: Wassim Abou Said, Partner

This report has been translated into the English language solely for the convenience of international readers

EY S.p.A.
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