Reports and Consolidated and Separate Financial Statements at December 31, 2020

Report and consolidated financial statements at December 31, 2020 of the Iccrea Cooperative Banking Group

Report and separate financial statements at December 31, 2020 of the Parent Company Iccrea Banca SpA

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

CONTENTS

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS OF THE ICCREA COOPERATIVE BANKING GROUP

CONSOLIDATED REPORT ON OPERATIONS

December 31, 2020

CONTENTS

CORPORATE BOARDS

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

BOARD OF DIRECTORS

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

EXECUTIVE COMMITTEE

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

BOARD OF AUDITORS

SBARBATI Fernando	*Chairman*
ANDRIOLO Riccardo	*Standing Auditor*
ZANARDI Barbara	*Standing Auditor*
GRANGE Alessandro (5)	*Alternate Auditor*
VENTO Gianfranco Antonio	*Alternate Auditor*

SENIOR MANAGEMENT

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

* Independent directors

(1) Member of the Risks Committee

(2) Member of the Appointments Committee

(3) Member of the Remuneration Committee

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

(5) Resigned from June 9, 2020

INTRODUCTION

Shareholders,

Starting in the first few months of 2020, world economic growth suffered a reversal because of the COVID-19 pandemic, sparking one of the worst economic crises in modern history, thereby exacerbating the slowdown in overall growth already apparent in 2019 (a year posting the weakest growth rate since the 2007 global financial crisis).

In the first quarter of 2020 the progressive spread of the virus at the global level forced many countries to adopt increasingly restrictive containment measures, with the closure of numerous economic activities and the almost total shutdown of air transport and tourism. Only in the summer did a recovery in global economic activity occur, however it once again slowed in the autumn due to the new wave of cases of COVID.

This situation caused real GDP to contract by 3.4% at global level in 2020. In Italy, the first European country to be hit forcefully by the pandemic, GDP fell by 8.9%, more than the euro area decline of 6.8%.

The severity of the crisis prompted European authorities to significantly revise the monetary policy strategy that had been followed in the recent past, introducing measures incorporating flexibility in a break with the more rigorous approach taken in the last few years, especially regarding compliance with the rigid indicators imposed for the public accounts. Specifically, they suspended some of the parameters of the Maastricht Treaty (the Stability and Growth Pact), allowing the Member States to implement fiscal measures and public support measures for households and businesses to mitigate the effects of the pandemic on the real economy; temporary economic support measures were introduced that as they were deemed compatible with the overall regulatory framework on State aid; the temporary Support to mitigate Unemployment Risks in an Emergency (SURE) instrument was established with €100 billion of support for employment and workers; and the Next Generation EU package was developed with an envelope of €750 billion, aimed at stimulating private investment and supporting firms in difficulty, boosting the EU's strategic programs to make the Single Market stronger and more resilient, in light of the lessons drawn from the crisis, and accelerating the green and digital transitions.

At the same time, the ECB strengthened the expansionary monetary policy measures it has been pursuing since 2019 in response to the economic slowdown, in particular through a gradual expansion of its targeted longer-term refinancing operations (TLTRO) and an associated improvement in funding conditions, as well as the launch of another round of quantitative easing for up to €750 billion (raised to €1,850 billion in December 2020) to counter the risks associated with the spread of the virus on the transmission of monetary policy within the euro area.

The European banking supervision authorities introduced measures in support of regulatory capital and the treatment of exposures to customers in difficulty because of the crisis in order to not compromise banks' capacity to finance the real economy, especially in light of the temporary difficulties faced by households and firms owing to the effects of the COVID-19 pandemic.

Since March 2020, the Italian government has also enacted a series of measures to support businesses and households – including those for suspending payments, offering guarantees for new loans, and providing grants to those firms hardest hit during the lockdown periods – in addition to measures to contain the spread of the virus.

Despite these efforts, which helped significantly in mitigating the effects of the pandemic on the real economy and the financial world, the continued spread of the virus in the early months of 2021 and the uncertainty concerning the health, social and economic situation continue to weigh on consumption and investment decisions, with significant repercussions on production, employment and income. The approval of the first vaccines for distribution at the end of 2020 and the roll-out of the vaccination campaign in early 2021 raised hopes that the health emergency can be effectively gotten under control this year, especially if we can count on faster production and distribution of the vaccines and on their effectiveness even against the new variants of the virus springing up in other countries.

Against this background, the most recent forecasts are engendering optimism about the future, with growth in real GDP expected to be 5.6% in 2021 and 4% in 2022 at the global level, and global output projected to surpass the pre-pandemic level as early as 2021. Euro-area GDP is also expected to rise (3.9% in 2021 and 3.8% in 2022), especially in Italy, where estimates point to an increase in GDP of 4.1% this year and of 4.0% the next.

Italy's ability to achieve these objectives has been boosted by the drafting of the National Recovery and Resilience Plan in order to access the Next Generation EU package of European funds, and the approval in March of the "Support Decree", containing a commitment of €32 billion targeted at the economic sectors hit the hardest by the shutdowns, support for employment, the use of social safety nets, and the purchase and administration of vaccines.

Although macroeconomic conditions have been fragile, Italian banks have continued to meet the demand for funds from businesses and households. The supply conditions remained relaxed thanks in part to monetary policy measures and to government liquidity support measures. Lending to the non-financial private sector rose by 5.1%, driven largely by loans to non-financial corporations (particularly in the manufacturing and service sectors) in part due to ample recourse to government-guaranteed loans by firms. The existence of these guarantees, associated with the ECB's liquidity and long-term funding support measures and the moratoriums granted by the Government (recently extended to June 2021) made it so that - unlike in past crises - they did not cause a credit crunch in the production sector. In any case, banks exercised greater prudence in their lending policies in relation to greater perceived risks and the predictable deterioration in credit quality, with an increase of one-third in loan loss provisions compared with 2019. Despite the crisis, Italy's significant credit institutions continued to pursue de-risking programs begun in years past, bringing the gross NPL ratio to 4.1% and the net NPL ratio to 2.0% at December 31, 2020, thanks to a coverage level of 53.5%.

The average profitability of the significant banking groups decreased, with return on equity (ROE) standing at 1.4%, down significantly from 2019 (4.9%); gross income was still affected by the low interest rates and the increase in loan loss provisions, only partly offset by the decrease in operating expenses. The capitalization of the significant banks remained sound (CET1 of 15.5% at December 31, 2020).

In a scenario such as this, our role as banks serving our communities is even more critical to enabling our country to make it through this crisis without excessive social, let alone economic, costs. That is why, despite this extremely complex time, the Group has further strengthened its commitment to remaining close to the local entities that constitute the economic and social fabric of our country and provide them with the support needed to get through this difficult period and face the future with greater optimism. In addition to concrete assistance to healthcare facilities and the weakest segments of the population, which have been hit hardest by the crisis, we set as our task to stop the temporary suspension of economic activity from causing permanent damage to the productive fabric due to lack of liquidity: in 2020 we granted, under the national laws enacted with unprecedented speed, loan payment holidays to around 215,000 customers for over €23 billion in exposures, down to about €13 billion in mid-April 2021 thanks to the reopening of activities so that customers did not have to ask for loan renewal. Around 126,000 customers were granted government-guaranteed loans, a large portion of which under €25 thousand, for a total of around €6 billion.

Despite the efforts rendered necessary by the challenging situation, which also prompted us to take steps to ensure business continuity within our network and to keep our staff safe, the Group continued to pursue its strategic objectives while continuing to improve operational efficiency. Specifically: programs were implemented to develop customer relationships and improve service quality, thanks to the development of customer relationship management (CRM) platforms (Nuovo Front End and Campaign Management) and the Wealth Management Platform, which will enable the Group banks to take a more specialized consulting approach to customers, as well as programs to encourage “digital adoption” by the mutual banks’ customers; the migration of the affiliated banks to the proprietary digital platform continued; the reorganization of the companies that fall within the “direct scope” of control was begun; the launch of operation strategy projects to create an administrative back office hub with the goal of achieving economies of scale and of enabling the affiliate banks to focus on their value-added commercial activities and relationships, as well as cost excellence; the process of rationalizing the network by combining operations and closing branches.

At the same time, the Group coordinated the adaptation of the affiliated banks to more stringent supervisory regulations (Capital Requirements Regulation 2, calendar provisioning, new definition of default), it just completed the demanding comprehensive assessment of its assets under the Single Supervisory Mechanism (SSM), it continued at a swifter pace its de-risking program, completing by end of the year another securitization backed by public guarantees (*garanzie sulla cartolarizzazione delle sofferenze* - GACS).

Despite the ongoing health emergency, which required us to strengthen our risk management, the Group’s result was positive, with a net profit of €202 million and a ROE of 1.9%, thanks to meticulous financial decisions and prudent cost control measures. Our capitalization improved, with a CET1 ratio of 16.7%, higher than the national average for significant banks. The considerable risk reduction (de-risking) begun even prior to the formal creation of the Group enabled us to reduce the gross stock of NPLs (equal to €8.4 billion at the end of 2020) by more than 50% in just 3 months, bringing the gross NPL ratio to 9.1% (net 4.3%), from 18.9% at the end of 2017, and in the same period raising the NPL coverage level from 46.9% to 55.7%.

In order to lay the foundation for enhancing our business model, focused on traditional commercial banking to serve our local communities and our shareholders, so that that our future profitability can cover our risks and generate suitable self-financing for lending activities, we have begun a planning process that will follow the usual consultation with the Group’s affiliate banks and should be completed by the end of this year. The top-down plan – which also factors in the possible effects of the crisis sparked by the pandemic – contains growth targets for banking operations (net loans of over €90 billion in 2023, from the current €87.3 billion) and indirect funding (stock of more than €36 billion in 2023), a reinforcement of the capitalization (CET1 at 2023 in line with the current IFRS 9 phase-in data), an improvement in the efficiency indicators (cost income ratio of 67% in 2023), and additional de-risking in order to reach targets consistent with the supervisory authorities’ and the markets’ expectations (gross and net NPL ratios of respectively 6.5% and 3.3% in 2023).

1. EXECUTIVE SUMMARY

Timeline of the formation of the ICBG

2018

Start of the process — April 27

Start of the process to obtain authorization for the Group from the ECB and the Bank of Italy through the preparation and transmission of the related application and supporting documentation.

Declaratory finding — July 24

Issuance by the ECB to Iccrea Banca of the declaratory finding pursuant to Article 37-ter, paragraph 2, of the Italian Consolidated Banking Act.

2019

Cohesion contract and cross-Guarantee Scheme — January 18

Transmission to the Bank of Italy and the ECB of the Cohesion Contract and the cross-Guarantee Scheme signed by the participating mutual banks, along with the amended articles of association, attached to the

Formation of the ICBG — March 4

Registration of the Iccrea Cooperative Banking Group in the Register of Italian banking groups effective January 1, 2019.

2020

ICBG in numbers

Leading national cooperative banking group

The Iccrea Cooperative Banking Group is the leading Italian banking group owned entirely by residents of local communities within Italy, with an ownership structure encompassing about **824,000 member shareholders**, nearly all of which are either households or small businesses.

Focus on retail customers

At December 2020 the **number of customers with loans** from the Cooperative Banking Group amounted to **1.2 million, of which 88% retail customers** (households and SMEs). The number of **depositors** is equal to **3.5 million, of which about 95% are households and SMEs.**

Assets

The total consolidated assets of the Iccrea Cooperative Banking Group at December 31, 2020 amounted to **€169.3 billion**.

Capital ratios

Capital strength demonstrated by a **phased-in CET1 ratio of 16.7%** and a **phased-in TCR of 17.5%,** figures that have been strengthening constantly since the establishment of the ICBG (respectively, 16.1% and 16.9% at June 2020 and 15.5% and 16.3% at December 2019).

Liquidity indicators

Sound and stable liquidity position with **LCR and NSFR** from the Group's formation equal on average to **299.2%** and **131.6**% (compared with, respectively, 280% and 132% at December 2019).

Liquidity reserves at December 31, 2020 equal to about €37 billion.

MAIN INDICATORS AT DECEMBER 31, 2020, JUNE 30, 2020 AND DECEMBER 31, 2019

PERFORMANCE INDICATORS[1] (amounts in thousands of euros)	31/12/2020	30/06/2020	31/12/2019
STRUCTURAL RATIOS			
Net loans to customers measured at amortized cost /total assets	51.5%	50.9%	54.8%
Direct funding from customers/total liabilities	66.9%	64.4%	67.9%
Equity (including profit/loss) /total liabilities	6.1%	6.1%	6.60%
Loan to deposit ratio	71.5%	69.7%	69.9%
Net loans to ordinary customers measured at amortized cost /direct funding from ordinary customers[2]	75.3%	76.8%	77.8%
PROFITABILITY RATIOS			
ROE (Net profit)/ net equity including the profit for the period)	1.9%	1.2%	2.4%
ROTE [Net profit/net tangible equity (Equity including profit – intangible assets]	1.9%	1.2%	2.4%
ROA (Net profit/total assets)	0.1%	0.1%	0.2%
Cost/income ratio	73.1%	71.7%	73.9%
Personnel expenses/gross income	42.5%	41.0%	43.3%
Net writedowns (writebacks) for credit risk/net loans to customers measured at amortized cost	1.0%	0.5%	0.8%
Net interest income/gross income	61.9%	59.6%	59.9%
Net fee and commission income /gross income	31.0%	29.7%	32.3%
Net interest income/Number of employees at end-period	113.9	54.6	105.8
Net fee and commission income/Number of employees at end-period	57.0	27.2	57.1
Gross income/Number of employees at end-period	184.0	91.6	176.6
RISK RATIOS			
Gross impaired loans/gross loans measured at amortized cost[3]	8.5%	10.6%	10.7%
Gross impaired loans to customers/gross loans to customers measured at amortized cost	9.1%	11.5%	11.6%
Net impaired loans to customers/net loans to customers measured at amortized cost	4.3%	5.9%	6.1%
Net Stage 2 loans to customers measured at amortized cost/net performing loans to customers measured at amortized cost	11.3%	12.5%	13.3%
Net bad loans/net loans to customers measured at amortized cost	1.4%	2.1%	2.2%
Net UTP loans/net loans to customers measured at amortized cost	2.7%	3.2%	3.6%
Writedowns of net loans to customers measured at amortized cost/net loans to customers measured at amortized cost	5.9%	6.9%	6.8%
Writedowns of impaired loans/gross loans to customers measured at amortized cost	55.7%	52.7%	50.9%
Writedowns of bad loans/gross bad loans	70.4%	66.6%	65.2%
Writedowns of UTP loans/gross UTP loans	43.6%	39.6%	38.1%
Texas ratio	36.8%	50.1%	51.6%
CAPITAL RATIOS - *phased-in*			
Tier 1 ratio	16.8%	16.2%	15.5%
Common Equity Tier 1 ratio	16.7%	16.1%	15.5%
Total capital ratio	17.5%	16.9%	16.3%
Total own funds	11,509,449	11,464,124	11,619,277
of which: Tier 1 capital after filters and deductions	*11,059,663*	*10,978,849*	*11,059,993*
Risk-weighted assets (RWA)	65,939,244	67,912,102	71,123,849
CAPITAL RATIOS - *fully loaded*			
Tier 1 ratio	15.2%	14.7%	13.9%
Common Equity Tier 1 ratio	15.2%	14.7%	13.9%
Total capital ratio	15.9%	15.4%	14.8%
LEVARAGE RATIO			
Phased-in Tier 1/Total assets	6.4%	6.2%	6.8%
Fully loaded Tier 1/Total assets	5.8%	5.5%	6.0%
LIQUIDITY RATIOS			
Liquidity coverage ratio (LCR)	299.2%	287.1%	279.8%
Net stable funding ratio (NSFR)	131.6 %	130.0%	132.0%
Encumbered asset ratio	26.1%	28.8%	24.3%

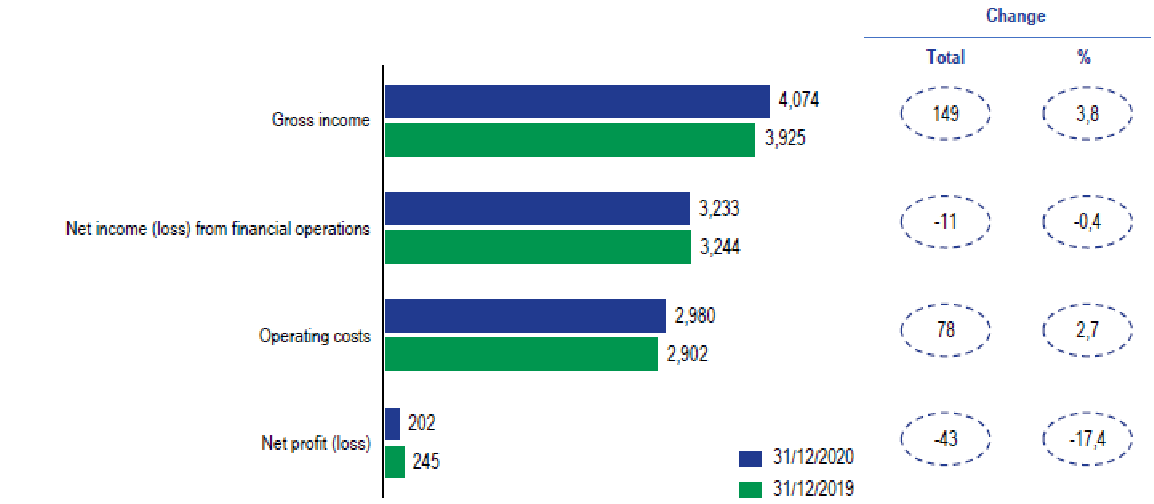
[1] For an explanation of how the Performance Indicators are calculated, refer to Annex 2 – Alternative Performance Indicators

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

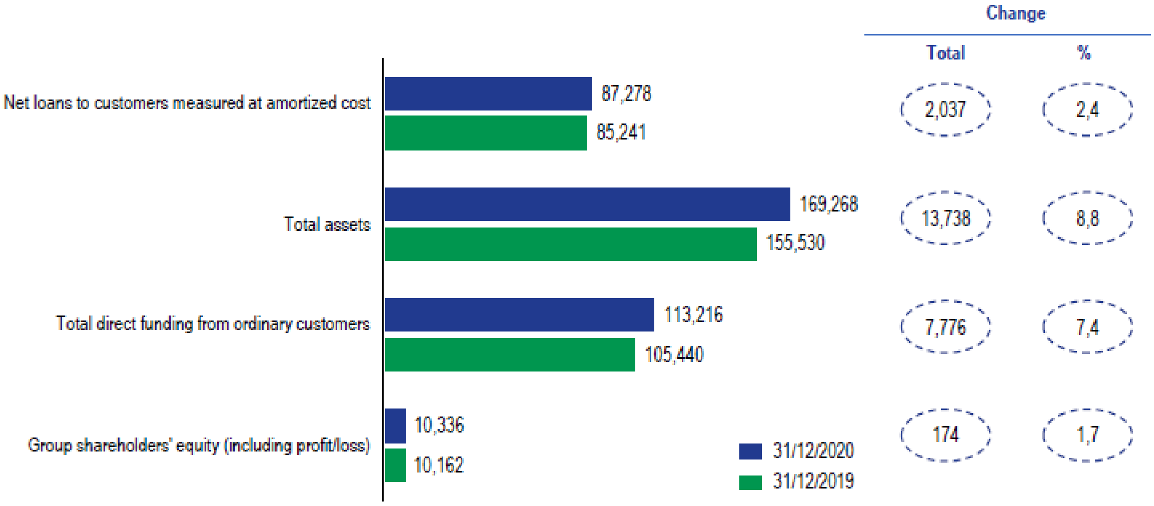
[3] Calculated based on the EBA definition including exposures to banks.

INCOME STATEMENT, BALANCE SHEET, OPERATIONAL AND STRUCTURAL DATA	31/12/2020	30/06/2020	31/12/2019
Profit/(loss) for the period	202,320	126,625	244,963
Profit/(loss) pertaining to the Group	195,793	122,123	238,478
Gross income	4,073,661	2,033,535	3,924,952
Operating expenses	2,979,517	1,457,800	2,901,822
Net loans to customers measured at amortized cost	87,277,814	85,766,612	85,240,858
of which: Net bad loans	*1,198,568*	*1,836,150*	*1,854,432*
of which: Net UTP loans	*2,329,183*	*2,767,599*	*3,057,608*
Net non-performing loans	3,739,992	5,017,923	5,208,573
Total direct funding from ordinary customers	113,215,862	106,444,437	105,439,547
Equity pertaining to the Group (including profit/loss)	10,336,056	10,216,510	10,161,857
Intangible assets	168,844	150,459	146,462
Total consolidated assets	169,268,115	168,460,726	155,530,466
Number of branches	2,529	2,552	2,592
Number of Group banks	136	140	144
Number of affiliated mutual banks	132	136	140
Number of employees at end-period	22,141	22,196	22,219
Average number of employees	21,730		21,703

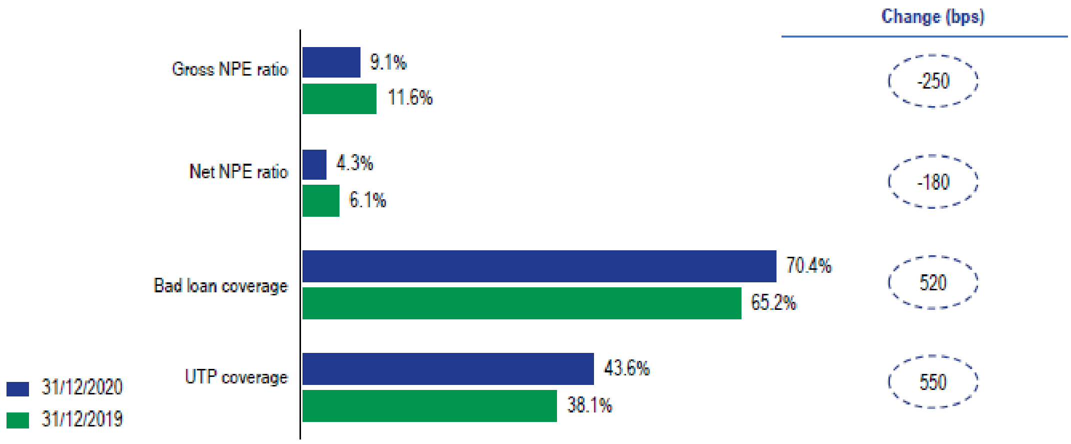
Developments in key performance figures (millions of euros)



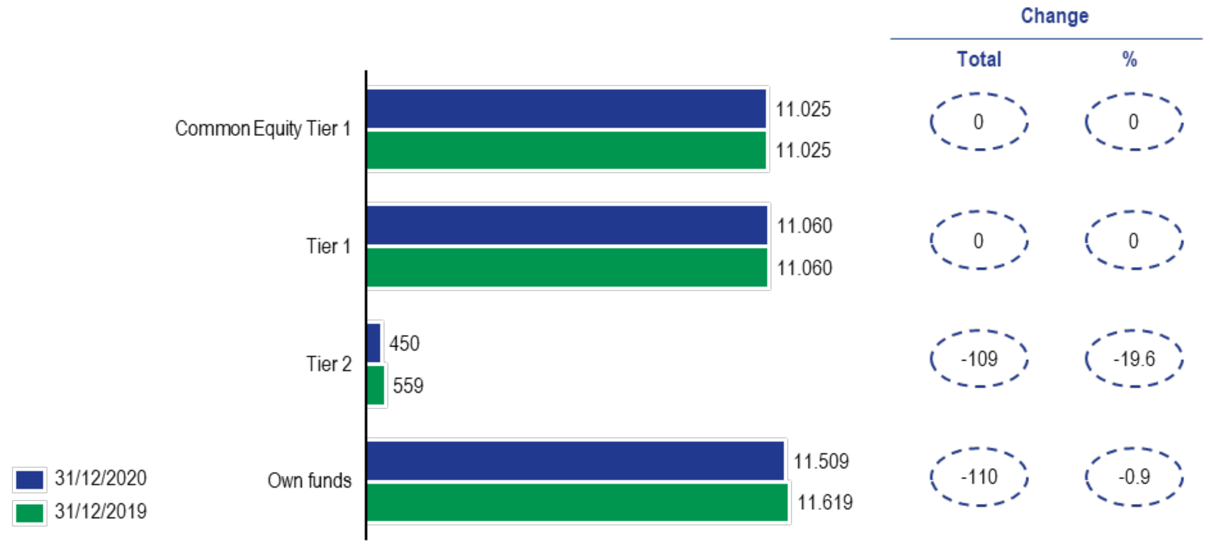
Key balance-sheet figures (millions of euros)



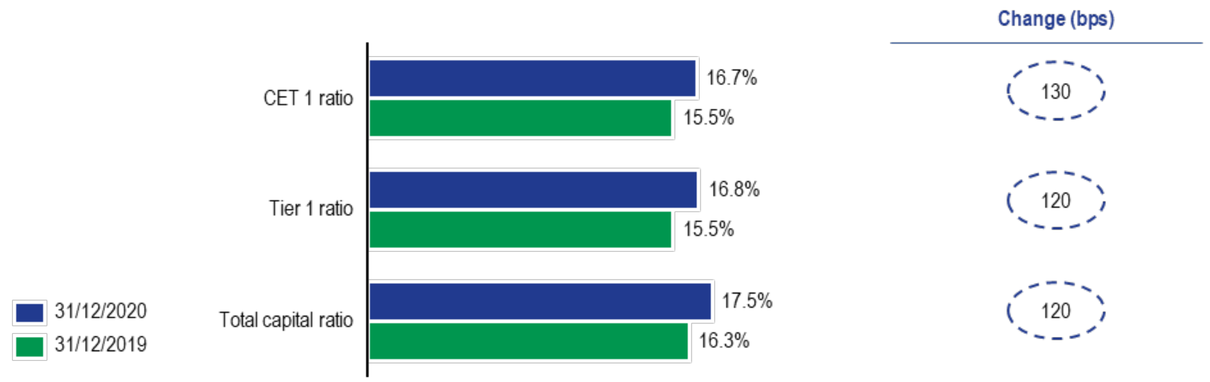
Key risk indicators (%)



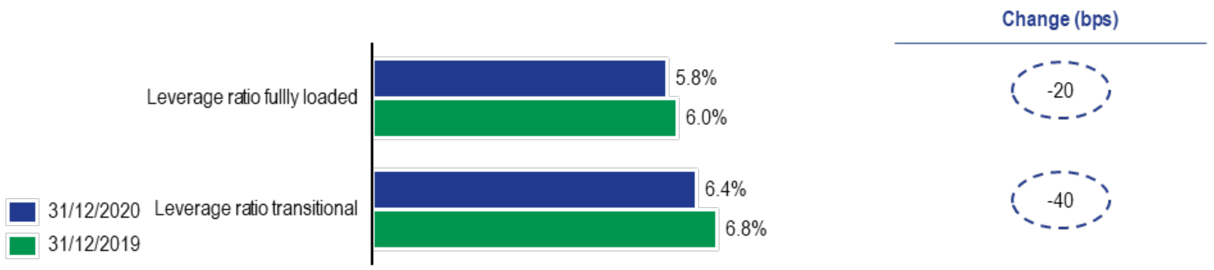
Composition of capital (millions of euros)



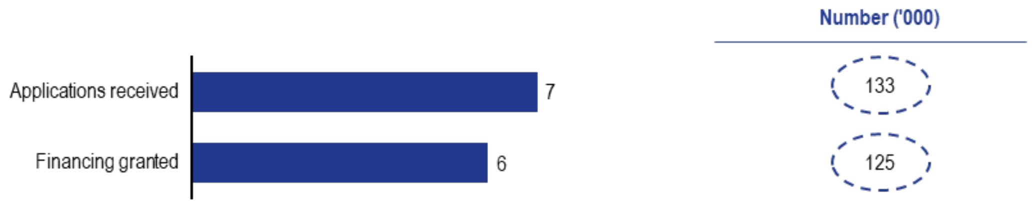
Capital ratios (%)



Leverage ratios (%)



Focus on new lending under Art. 13 DL Liquidity (billions of euros)



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

The macroeconomic environment

Starting in the first few months of 2020, world economic growth suffered a sudden reversal as a result of the COVID-19 pandemic and the actions taken by nations in response to curb its effects, sparking one of the worst economic crises in modern history thereby exacerbating the slowdown in overall growth already apparent in 2019 (a year with the weakest growth rate since the 2007 global financial crisis), owing to the slow recovery following more recent recessions and especially the trade tensions between the United States and China.

Specifically, in the first half of 2020 the progressive spread of the virus at global level forced many countries to adopt increasingly restrictive containment measures, with the closure of numerous economic activities and the almost total shutdown of air transport and tourism. Only in the summer did a recovery in global economic activity, one better than expected, occur, although it once again slowed in the autumn due to the new wave of cases of COVID.

The ongoing pandemic and the uncertainty regarding the health, social and economic situation continue to weigh on consumption and investment decisions, with significant repercussions on production, employment and income. Even at the end of 2020, approval of the first vaccines for distribution fueled hopes that the health emergency could be effectively gotten under control this year, although the risks for the next few months still seem to be high. In the short term, there is concern that containing the spread of COVID-19 could prove to be more difficult than anticipated, while in the medium and long term it remains to be seem what impact, currently unmeasurable, the pandemic will have had on consumer behavior, the organization of businesses and production activities, and work practices.

According to the data released by the OECD,[4] real GDP contracted by 3.4% at global level in 2020 because of the crisis. Since May, there have been weak signals of a recovery, owing in part to central banks' expansionary monetary policies, which contributed heavily to lessening tensions in the financial markets, and in part to the gradual loosening of restrictions on activities through government measures to support businesses and households. The roll-out of vaccination campaigns in early 2021, along with the announcement of additional fiscal support policies by some countries, is having a positive effect on the growth outlook for the world economy in the medium term. However, both the timing and the intensity of the recovery is still uncertain. The most recent OECD forecasts point to real GDP at global level growing by 5.6% in 2021 and by 4% in 2022, with global output exceeding the pre-pandemic level by mid- 2021. Nonetheless, the key risk factor is that the speed of vaccine production and distribution will not be fast enough to stop the transmission of the virus, especially if new variants require new vaccines. In this case, if governments impose further restrictions, the economic recovery could suffer a setback.

Growth rate (% change on previous year)	World	Euro Area	Italy	UK	US	CH
2020	-3.4%	-6.8%	-8.9%	-9.9%	-3.5%	2.30%
2021	5.6%	3.9%	4.1%	5.1%	6.5%	7.80%
2022	4.0%	3.8%	4.0%	4.7%	4.0%	4.90%

Source: Based on data from OECD, *OECD Economic Outlook, Interim Report March 2021*

United States: due to the restrictive measures adopted in response to COVID-19, the American economy registered a contraction, especially in the second quarter of 2020, that is without precedent in the modern era: GDP decreased at an annualized rate of 31.7% as reported by the US Bureau of Economic Analysis. Once the economy reopened, GDP rose by 7.4% in the third quarter; the recovery continued into the fourth quarter, driven by the increase in consumption. The economic recovery in the United States was boosted by the Federal Government's strong fiscal support to households through new fiscal stimulus measures set out in the American Rescue Plan, worth $1,900 billion (about 8.5% of GDP) and, in December 2020, through the enactment of the Consolidated Appropriations Act, containing measures worth $900 billion (about 4% of GDP) to help households and the unemployed.[4]

In addition to these measures, monetary policy was more accommodative than in the past: beyond introducing a series of tools to support the flow of credit to businesses, consumers and local governments, the Federal Reserve cut its target range for the federal funds rate to 0.00%-0.25%, while at the same time rolling out a new program for purchasing Treasury and mortgage-backed securities without any limitations as to amount. These measures, according to the Fed, will no longer be technical in nature, since they are aimed at ensuring the proper transmission of monetary impulses to the real economy, but rather fall squarely among the monetary policy instruments adopted and will be used to make tangible progress regarding inflation and employment.

According to the OECD's forecasts, the proposed measures could raise US output by around 3-4% in the first year (from the second quarter of 2021 to the first quarter of 2022), with a spillover effect for activity in major trading partners. In the short term, it expects that the employment level will increase by 2.2-3 million by the end of 2021 and that these measures will have a significant impact on inflation, causing it to increase by about ¾ percentage points per year on average in the first two years (2021-2022). All the measures adopted are expected to cause GDP to expand by more than 10% over 2021-2022.

Emerging countries: the health emergency and consequent measures restricting the free movement of people also had a negative impact on the economic cycle of the emerging economies: according to IMF estimates, the GDP of these countries fell by more than 3%. Only in China, the country from which the virus first spread, was there a progressive return to normality under way in 2020, as China recorded a rise

[4] OECD, *OECD Economic Outlook, Interim Report March 2021.*

in GDP of 2.3% for the year.

Excluding China, the contraction in GDP among the emerging countries exceeded around 2%: the hardest hit economies were those in Latin America and the MENA region (enlarged to include Central Asia), where the IMF estimates there was a considerable drop in the prices and production of energy commodities, which had a significant impact on GDP, estimated to have dropped by more than 7% and by around 3% respectively. The estimated decline in GDP in sub-Saharan Africa is more modest at around 3%, since this region benefited from good agricultural production.

While the Asian countries, first and foremost China, have shown tangible signs that recovery is under way, the African and South American countries have suffered a further expansion in public debt, historically high, placing their macroeconomic stability at risk.

European Union: since late February 2020 the pandemic has gradually spread at differing speeds throughout all the Member States, which adopted different containment measures starting in the second quarter of 2020. Following the first wave of infection, which caused GDP to drop considerably in the second quarter of the year (-11.7% on an annualized basis), European GDP rose more than expected in the third quarter (+12.5%). This increase was due to the progressive reopenings that led to a rise in value added across all sectors, especially in services. Starting in September, new containment measures were imposed in response to the new upturn in infections, which had a negative impact on services, leading to another sharp slowdown in many euro-area countries. According to the OECD's most recent estimates, GDP contracted by 6.8% overall in 2020 (basically consistent with the forecasts of -7.3% formulated at the end of 2020 by Eurosystem analysts), while GDP is expected to grow by 3.9% on an annualized basis in 2021 and by 3.8% in 2022. Based on the Bank of Italy's estimates, inflation fell by 0.3% year-on-year at December 2020, reflecting weak prices in tourism-related services (especially transport); the change in consumer prices is expected to be 1.0% growth in 2021, with further increases in 2022 (1.1%) and 2023 (1.4%).[5]

The measures to counter the economic effects of the pandemic – gradually adopted as of March 2020, through the postponement of tax deadlines, the granting of guarantees for bank loans, subsidies to households, and subsidies to firms whose revenue dropped – were reflected in an increase of more than 8% in the total public sector deficit. The European authorities made available to the Member States funding of around €1,200 billion, mainly through three significant program: a special line of credit called Pandemic Crisis Support (PCS) from the European Stability Mechanism (EMS); a fund (SURE) to refinance employment support program; a new recovery plan, Next Generation EU, which will finance as from 2021 reforms and projects in keeping with the EU's priority actions through transfers or subsidized loans. The participating countries are preparing National Recovery and Resilience Plans (NRRPs), to be submitted to the European Commission for examination in the first half of 2021 in order to receive the first installments of aid payments.

The European Central Bank's decision in December 2020 – reinforcing the expansionary monetary policies adopted back in March 2020 in immediate response to the crisis caused by the spread of COVID-19 – will help to further support the euro area's economy, bringing, according to initial estimates, inflation in line with the ECB's price stability objective.

Additional positive effects could derive from the trade and cooperation agreement between the EU and the United Kingdom, also signed in December 2020, which will ensure that goods can be traded without the imposition of tariffs, benefitting both parties, but obliging them to avoid distorting competition and to comply with the State aid rules. Furthermore, since the new treaty does not cover the financial sector, the parties have begun negotiations to also forge a new collaboration on regulation.

Italy: Italy was the first European country to be hit forcefully by the pandemic and, as a result, was one of the countries where the economic impact of COVID-19 on the economy was most severe, at least in the initial phase of the pandemic (a 13.0% drop in GDP in the second quarter of the year). As in the rest of Europe, during the summer months of 2020 Italy experienced faster than expected economic growth, which was followed, however, by a further slowdown caused by the fresh wave of the pandemic starting in the autumn. In the third quarter of the year, GDP rose by 15.9%, driven by the sharp increase in exports and domestic demand, in particular for gross fixed investment, which surpassed the levels registered at the end of 2019. In the fourth quarter, GDP fell again (-2.0%), which, in this second wave, had negative effects especially on services. The OECD forecasts point to an increase in GDP of 4.1% and 4.0% respectively in 2021 and in 2022, slightly faster than the euro-area average.

To dampen the negative effects of the public health emergency on the economy, in keeping with the European-level initiatives, in 2020 the national authorities made available considerable financial resources (around €110 billion, equal to 6.6% of national GDP) in terms of net borrowing, raised thanks to the approval of four successive budgetary deviations. As described in more detail in a later section, the Italian government followed the 'Cure Italy', 'Liquidity', 'Revival' and 'August' decrees with four different 'Recovery' decrees to mitigate the effects of the second wave of the pandemic (for a total of €18 billion in net borrowing).

According to the Bank of Italy's estimates,[5] industrial production fell by more than 10% in 2020, further exacerbating the already slight decline recorded in 2019 (-1.0%). After contracting strongly in the first six months of 2020, household consumption began to rise considerably in the third quarter of the year (+12.4% compared with the three preceding months, with a widespread increase across all components, in particular purchases of durable goods) to then weaken in the final quarter once again, especially in spending on services, in particular those connected to recreational activities and tourism, while purchases of goods held up. By contrast, the propensity to save (while slowing) remained high, reflecting both precautionary financial reasons and decisions not to make certain purchases to avoid exposure to the virus. In December 2020, the consumer price index fell by 0.3% compared with twelve months earlier; the change in consumer prices was negative in the final months of 2020, reflecting changes in the price of energy products and in the services that were most affected by the crisis, while the initial estimates

[5] Banca d'Italia, *Economic Bulletin*, No. 1 – January 2021.

for 2021 point to a 0.4% increase in inflation in light of an expected recovery in consumption owing to better performance of the economy as a whole.

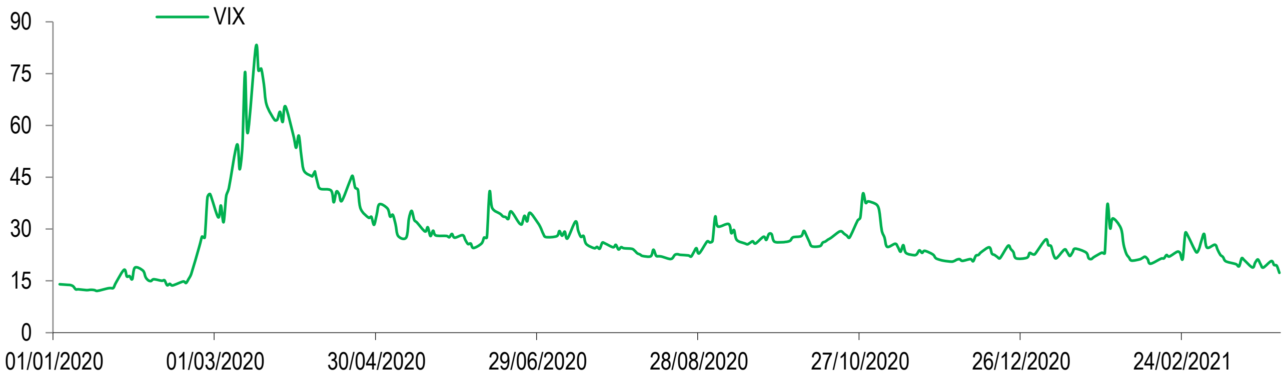
As for the labor market, thanks in part to the government measures in support of employment, the unemployment rate at the end of 2020 remained on average close to 9.2%, in line with the figure at the end of 2019; despite a decrease of around 2% in the number of persons in employment compared with the pre-pandemic period, the figure remained stable partially owing a drop in labor market participation. Hours worked, after falling steeply in the spring months (-15.1%), rose significantly in the third quarter (21.0%) reflecting the improvement recorded during the same period in the industrial, construction and services sectors. After falling sharply in the summer, recourse to wage supplementation began to rise again in the autumn (€381 million on average in the October-November period) although it stayed well below the levels reached in the spring during the first phase of the public health emergency (€863 million on average in April-May).

Towards the end of 2020 and the start of 2021, political tensions worsened, especially in relation to the contents of the 2021 Budget Act and the Government's methods for handling the emergency, as well as the drafting of the National Recovery and Resilience Plan to be submitted to the European Commission in order to access the Next Generation EU funds (over €200 billion potentially available to Italy). Against this background, the appointment in 2021 of the new Government, with the former president of the ECB, Mario Draghi, at the helm as the new Prime Minister, was favorably received by the "loosened" markets after a new, albeit modest, rise in volatility in the first part of the year. As described further on, in March the new Government approved the "Support" Decree, containing a commitment of €32 billion targeted at the production sectors affected by the shutdowns of the proceeding months, support for employment, the use of social safety nets, and the purchase and administration of vaccines.

Developments in the financial markets

The persistence of the crisis connected with the pandemic also had major repercussions on the financial markets, fueling a climate of growing uncertainty and eroding, especially in the early phase of the health emergency, investor confidence.

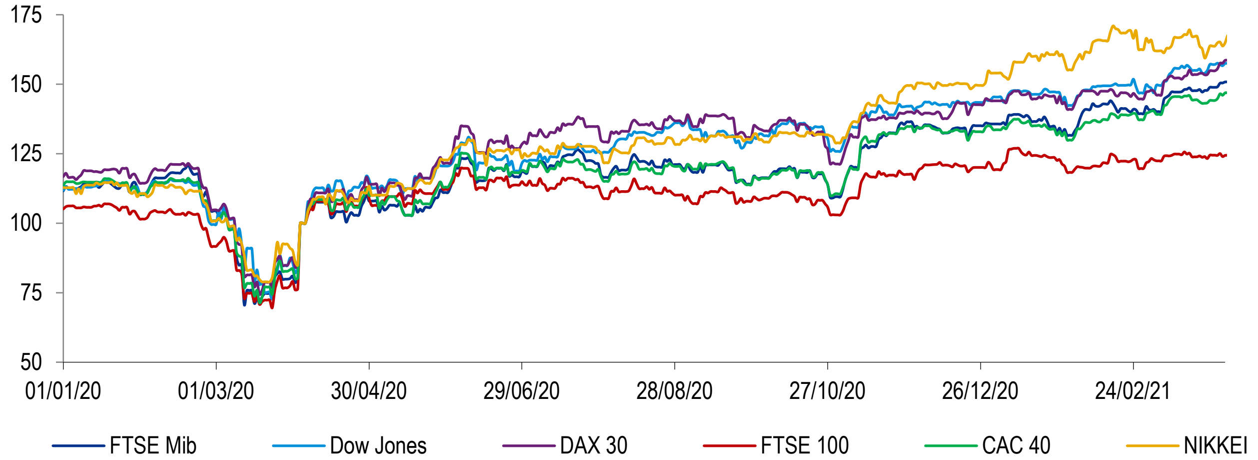
Global financial markets were affected by the progressive halt in economic activity starting from March 2020. Market tensions culminated in the shock recorded in mid-March: the exceptional volatility in share prices caused the VIX volatility index,[6] which had been essentially stable for months, to rise sharply in the first half of March 2020, hitting 80 points, an historically high figure if compared with the 60 points registered at the time of the collapse of the US financial services firm Lehman Brothers in 2008. However, the expansionary monetary policy stance adopted by the authorities, the economic support measures taken by governments, including increasing public spending, on the one hand and the progressive relaxation of the restrictions to contain the effects of the pandemic, on the other, facilitated a reduction of tensions on the financial markets during the third quarter of the year. This improvement was reflected in the decline in the VIX index, which stabilized at around 30 points between July and September, and between 20 and 30 points in the fourth quarter; as of March 2021, the index had returned to close to pre-pandemic levels.



Source: Bloomberg

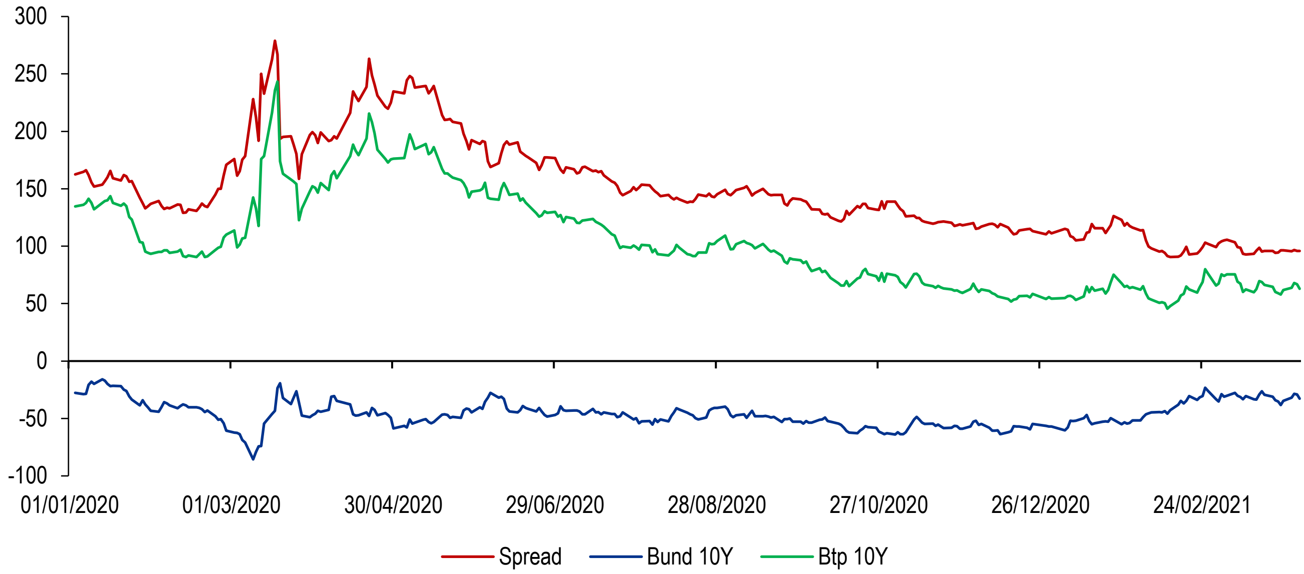
[6] The index measures the implied volatility of options, reflecting the variability expected by analysts for the main US stock index, the S&P 500.

The spread of the pandemic initially sparked a massive rebalancing of portfolios by investors in search of more secure assets: the climate of uncertainty triggered a spiral in sales on equity markets, with a consequent decline in the main equity indices, which fell by more than 40% between February and March 2020. The monetary policy and fiscal measures adopted at international level in response to the crisis contributed to reversing the performance of the equity markets: during the summer, while the European markets remained essentially stationary, the US and Japanese (and Chinese) equity markets made a considerable recovery, with their indices rising above the points where they had started the year, thanks in part to the first signs of a possible economic recovery. In the autumn, fears of a second, stronger wave arriving earlier than expected, sent new tremors through the equity markets, which subsequently began again to grow, with an upward trend that was also confirmed in the early months of 2021 by virtue of the gradual reduction in some risk factors perceived by the markets, such as, in particular, doubts concerning the effectiveness of the vaccines, the US presidential elections and the outcome of the agreements regarding Brexit.



Source: Bloomberg. Baseline equal to 100

The monetary policy measures, and more generally the economic policy, combined with the coordinated action of the central banks and governments, facilitated the decline in interest rates and in sovereign spreads, in addition to the rise in share prices. In Italy, after rising initially the BTP-Bund spread, which in mid-March exceeded 300 bps, decreased sharply, particularly since mid-May, following the expansionary monetary policy measures adopted by the ECB, described in more detail further on, and the support measures introduced by the Italian government.



Source: Bloomberg. Baseline equal to 100

Following hints of an increase in the autumn prompted by fears of a second wave of infection, the spread between the 10-year Italian BTP and the German Bund hit historically low levels at the end of December 2020 (108 bps; 162 bps at the start of 2020) and the yield on the 10-year BTP dropped to 0.53%. The increase in confidence following the installation of the new Government in February 2021 contributed to an additional drop in the BTP-Bund spread, bringing it to below 100 bps for the first time in several years.

Developments in the Italian credit system

Based on the analysis published by the Bank of Italy,[7] banks operating in Italy continued to meet demand for funds from firms, even in these particularly complicated circumstances. The supply policies remained relaxed due in part to monetary policy measures and government liquidity support measures. The cost of funding via the issuance of bank bonds declined further and interest rates on loans to firms and households remained low.

In February 2021 lending to the non-financial private sector rose by 5.1% compared with twelve months earlier, with the growth rate dropping in the last quarter (3.4%). This change was driven largely by loans to non-financial corporations which – in a reversal of the 2019 trend – rose by 7.6% on an annualized basis (particularly in the manufacturing and service sectors, which rose by 12.4% and 6.9% respectively compared with just 2% in construction) due to ample recourse to government-guaranteed loan by firms. The existence of these guarantees, associated with the ECB's liquidity and long-term funding support measures and the moratoriums granted by the government (as described in more detail further on and that were recently extended to June 2021),[8] and the initiatives by the supervisory and regulatory authorities set out in a later section of this report enabled banks to support lending and handle the risks of the crisis. Unlike in past crises, they did not cause a credit crunch in the production sector, since supply conditions continued to be relaxed in Italy, more so than in the other euro-area countries. In any case, banks exercised greater prudence in their lending policies due to greater perceived risks and the predictable deterioration in credit quality, temporarily mitigated by the support policies introduced. Loans to households rose at a more moderate pace (2.4% in February 2021 compared with twelve months earlier), slowing compared with 2019. The growth regarded mainly mortgage loans for house purchases, which began to accelerate last summer, while there was a slight decrease in applications for consumer loans, owing in part to the reduction in spending on non-essential goods during the lockdowns.

The credit access support measures introduced by the Government (moratoriums and public guarantees for new loans) and the use of flexibility in the loan classification rules allowed by the supervisory authority guidelines made it possible to contain the flow of new non-performing loans in proportion to total loans in 2020. In February 2021, the annualized default rate was around 1.1%, the lowest level in that last 15 years, especially for firms (around 1.5%). At the same time, the ratio of non-performing loans to total loans continued to decline, mainly for the significant banking groups, bringing the gross and net NPL ratios at December 31, 2020 to 4.1% and 2.0% respectively (6.7% and 3.2% at the end of December 2019). The improvement in the risk indicators was largely attributable to substantial sales of bad loans (and to a lesser extent, unlikely-to-pay positions), including through securitizations backed by public guarantees (*garanzie sulla cartolarizzazione delle sofferenze* - GACS), concentrated primarily in the last part of the year. Despite considerable sales of bad loans, which on average are more heavily written down, the coverage ratio for non-performing loans was essentially in line with the figure at the end of 2019 (53.5%, compared with 53.7% in 2019), thanks to the 31.5% increase in loan loss provisions, indicating greater prudence in lending policies on the part of the significant banks given the deterioration in the macroeconomic outlook; more conservative measures taken to limit the effects of the entry into force of the new supervisory expectations on NPL coverage (i.e. calendar provisioning), in the Pillar 1 and 2 components may have also contributed to this.

Based on Bank of Italy statistics, in 2020 Italian banks' total funding rose by 7.8%, driven largely by growth in deposits by households and non-financial corporations (+12.2% overall), owing, on the one hand, to the climate of uncertainty that caused consumption to fall and a greater propensity to save by consumer households (to which +6.8% in funding is attributable) and, on the other, to the amounts held in firms' accounts (with deposits having risen by 27.8% at December 2020 compared with twelve months earlier) deriving from the increase in bank debts, also the result of access to temporary liquidity and credit support measures, and the lower propensity to invest.

In 2020 the profitability of the significant banking groups decreased. According to the Bank of Italy's preliminary estimates, return on equity (ROE), calculated net of extraordinary components, stood at 1.4%, down significantly from 2019 (4.9%); the operating profit fell by 13.4% (-26.6% gross of extraordinary components), owing to (i) a drop in gross income of 6.2% - due to a 4.7% in net interest income, still affected by the persistently low interest rates, despite partial support provided through the negative interest rates associated with participation in TLTRO III, and to the lower contribution as compared with 2019 of the revenues from trading and the sale of financial assets - (ii) an increase of 31.5% in loan loss provisions, only partially offset by a decrease in operating expenses by 2.5%.[9]

By contrast, the capitalization of the significant banks remained sound (CET1 ratio of 15.5% at December 31, 2020) and was further strengthened starting in the second quarter of 2020 due to the decline in risk-weighted assets, resulting from the continuation of de-risking

[7] Banca d'Italia, *Economic Bulletin*, No. 2 – April 2021.

[8] The enormous volume of applications for government-guaranteed loans, after an initial stage in which difficulties were encountered in the acceptance phase, drove the growth in new loans. According to the Bank of Italy's provisional data (see "I crediti deteriorati del sistema bancario italiano: situazione attuale, prospettive e provvedimenti rilevanti"; Bank of Italy brief – Hearing before the Chamber of Deputies - Parliamentary enquiry committee on the banking and financial system, 15 January 2021), the loans backed by the Central Guarantee Fund at the end of 2020 amounted to more than €110 billion, with an additional €18 billion covered by SACE guarantees. The moratoriums in place at the end of the year equaled €197 billion in terms of residual loan value, of which €143 billion to non-financial corporations and €47 billion to households (including producer households); of these €133 billion attributable to the "Cure Italy" Decree, and €64 billion to financial sector programs (in part also classifiable under the same cases envisaged by the decree).

[9] Effective operating expenses, not sterilized of the extraordinary components, rose by 4.5% owing to the costs associated with corporate restructuring and consolidation operations and to the extraordinary contribution of the National Resolution Fund.

activities, from the entry into force of new prudential rules for mitigating risk, especially for exposures to SMEs and technical forms represented by salary-backed loans ("quick-fix" package), and from the rebalancing of bank portfolios towards government-guaranteed loans.

REGULATORY AND SUPERVISORY MEASURES TAKEN IN RESPONSE TO THE COVID-19 PANDEMIC

Regulatory and supervisory measures taken by institutions in response to the COVID-19 pandemic

The spread of the COVID-19 pandemic has produced social upheaval and impacted production and aggregate demand in all markets, posing unprecedented economic challenges. The deterioration in the outlook for growth caused a sharp fall in stock market indices and a sharp rise in volatility and risk aversion. Concerns about the profitability of the financial sector have intensified further and the quality of assets in the EU banking sector is expected to deteriorate overall. Moreover, projections of a continuation of the prolonged low interest rate environment is weighing on the profitability and prospective solvency of financial institutions.

In response to the rapid evolution of events, the monetary and fiscal authorities of all major countries have implemented major expansionary measures to support the incomes of households and businesses, ensure the flow credit to the economy and liquidity to the markets. At the same time, European institutions (European Commission, European Council and Parliament), the national and EU supervisory authorities (EBA, ESMA, ECB/SSM, Bank of Italy, SRB) and international standard setters (IASB, Basel Committee) have adopted a series of measures and issued interpretative and application guidelines to help banks mitigate the economic impact of the pandemic. This swift and coordinated response has helped to address and attenuate the impact of the health emergency for the EU financial sector and contributed to preventing the fragmentation of the single market.

The following provides a summary of the main interventions.

Government, EU and national measures

As an immediate response to developments in the crisis, the European institutions promptly approved the activation of the general escape clause of the Stability and Growth Pact, i.e. the set of rules on the compliance of the public accounts of the Member States, in order to enable the implementation of fiscal and public support measures for households and firms so as to mitigate the impact of the pandemic on the real economy.

Furthermore, as part of the supranational coordination actions taken to manage the economic fallout of COVID-19, on March 19, 2020 the European Commission set out a series of temporary measures to support the economy for the Member States to adopt – measures subject to specific monitoring and reporting obligations - deemed compatible with the overall regulatory framework on State aid (*Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak*). This temporary framework, based on Article 107, paragraph 3, letter b) of the Treaty on the Functioning of the European Union essentially provides for the following forms of aid:

- direct grants, repayable advances or selective tax advantages to support those undertakings that find themselves facing a sudden unavailability of liquidity owing to a reduction in turnover due to the emergency that has arisen because of COVID-19, in an amount of up to €800,000 per undertaking;
- public guarantees for bank loans taken out by companies. In particular, Member States can provide government guarantees to allow banks to continue lending in order to ensure sufficient liquidity for companies facing a shortage of cash;
- subsidized public loans to businesses. The Member States can grant loans bearing favorable interest rates to firms to cover immediate working capital needs and to support investment. Premiums have been set for the guarantees, to be issued by December 31, 2020, at minimum levels that differ based on loan counterparty and maturity, distinguishing between SMEs and large enterprises;
- guarantees for banks that channel government aid to the real economy. Some Member States plan to leverage banks' existing lending capacity and use them as a channel to support businesses, especially SMEs;
- greater flexibility with regard to short-term export credit insurance as regards the methods for demonstrating that certain countries represent non-marketable risks, effectively allowing states to offer, where necessary, insurance coverage for such credit.

On April 3, 2020, the European Commission extended the Temporary Framework for State Aid adopted in March to allow Member States to accelerate research, testing and production of coronavirus-related products, protect jobs and provide additional support to the economy. The modification also broadened the range of forms of support that Member States can provide to companies in difficulty, for example by making it possible to grant – up to a nominal amount of €0.8 million per firm - interest-free loans, guarantees on loans that cover 100% of the risk or to provide capital. These measures can also be combined with so-called "de minimis" aid (bringing aid per firm up to €1 million) and other forms of support. These options, which will remain in force until the end of this year, are particularly useful for responding to the urgent liquidity needs of SMEs with the necessary speed. On May 8, 2020, the European Commission adopted a new amendment to the Temporary Framework, aimed at further facilitating access to capital and liquidity for companies affected by the crisis, establishing the criteria on the basis of which Member States can recapitalize and provide subordinated debt to companies in difficulty, while preserving a level playing field in the European Union. A third amendment to the Framework was adopted by the Commission on June 29, 2020, providing for (i) the inclusion of micro and small enterprises that were already in difficulty as of December 31, 2019, among the beneficiaries of the aid schemes, provided that they meet certain parameters; (ii) the encouragement of new equity with a significant private participation in the framework of public aid to support companies in difficulty; (iii) the exclusion of the subordination of aid to the relocation of a production activity or other activity of the beneficiary from another country of the European Economic Area (EEA) to the territory of the Member State granting the aid.

The European Commission adopted a fourth amendment to the Temporary Framework on October 13, 2020, extending the duration of the aid provided for under the Framework until June 30, 2021, while the section concerning recapitalization measures was extended to September 30, 2021. The intervention also introduced a new measure to allow Member States to support companies that experience a decrease in turnover of at least 30% compared with 2019. The support must help cover part of fixed costs not covered by the beneficiaries' revenues, up to a maximum of €3 million per individual company.

On January 28, 2021, the European Commission made a further amendment to the Temporary Framework, extending the validity of all measures until December 31, 2021. At the same time, the maximum per-company amounts of the aid measures provided for under the Framework were modified, rising from €100 thousand to €225 thousand for companies active in the primary production of agricultural products, from €120 thousand to €270 thousand for companies active in the fishery and aquaculture sector and from €800 thousand to €1.8 million for companies active in all other sectors. The maximum limit on grants intended to cover fixed costs not covered the revenues of companies in difficulty was also raised to €10 million. Finally, the Commission established that until December 31, 2022 Member States will be allowed to convert repayable instruments (guarantees, loans or repayable advances) into direct grants, provided that the conditions of the Temporary Framework are met.

On May 19, 2020, in addition to the aforementioned measures, the European Council established a temporary European employment fund (Support to mitigate Unemployment Risks in Emergency - SURE), financed by the issuance of EU bonds, in support of employment and workers. The fund provides financial assistance worth a total of €100 billion in the form of loans to support and complement national unemployment funds. Since September 25, 2020, the European Council has approved loans to support 18 Member States totaling €90.3 billion (€27.4 billion for Italy). Of these, between October 2020 and February of this year, €53.6 billion euros had been disbursed by the European Commission to the Member States (€20.95 billion to Italy).

On May 26, 2020, the European Investment Bank (EIB) allocated €25 billion to a new pan-European guarantee fund, supported by the Member States, which now enables the EIB Group to activate a total of some €200 billion for the Union economy to limit the adverse impact of COVID-19 on SMEs and other European companies. At least 65% of the loans will be allocated to SMEs, while up to 7% can be allocated to support SMEs and mid-caps in the form of equity capital, growth capital and venture debt.

Finally, on May 27, 2020, the European Commission launched a comprehensive program for recovery - "Next Generation EU" - with funding of €750 billion. It is focused on three main lines of action: (i) tools to support Member States' efforts to exit the crisis, overcome its effects and re-emerge stronger; (ii) measures to stimulate private investment and support companies in difficulty; and (iii) strengthening EU strategic programs to make the single market stronger and more resilient, while addressing the lessons of the crisis, and to accelerate the green and digital transition.

After the agreement reached within the European Council on July 21, 2020, the plan was approved by the European Council on December 10 and 11, 2020 and by the European Parliament on December 17, 2020.

As part of the Next Generation EU, on January 12, 2021 the Council of Ministers approved the proposal for the National Recovery and Resilience Plan (NRRP),[10] which defines the main areas of intervention and guidelines for the allocation of resources to support the recovery of the national economy. According to the latest estimates,[11] some €192 billion could be allocated to Italy, of which €123 billion in the form of loans and the rest in the form of grants. The NRRP is defined as a recovery plan as it seeks to address the economic and social impact of the pandemic – including by seizing the opportunities associated with the ecological and digital transition - to increase productivity, create new jobs and improve the quality of services to citizens, starting with health and education. At the same time, the NRRP is also considered a resilience and reform plan, due to its capacity to govern the transformations occurring in the wake of globalization and technological development and because the lines of investment are accompanied by the adoption of a reform strategy, in line with the Country Specific Recommendations (CSR) of the European Commission and the National Reform Plans (NRPs) adopted by the Government.

The main areas of intervention of the NRRP are:

- digitalization and innovation, aimed at modernizing the country through the digital revolution, in areas such as the justice system, the productive and infrastructure system, mobility and the public administration, including the improvement of social and health assistance and the modernization the technological resources of the National Health System;
- the ecological transition, aimed at achieving the green transition of companies and the Italian economy, consistent with the European Green Deal;
- social inclusion, which will encompass supporting female empowerment, combating gender discrimination and expanding employment through support for education and research.

[10] National Recovery and Resilience Plan – January 2021.

[11] Economic Bulletin of the Bank of Italy no. 2– April 2021.

Monetary policy measures adopted by the ECB

At its March 12, 2020 meeting, the ECB Governing Council decided on a comprehensive package of monetary policy measures to address the rising financial tensions, which consists of the following programs:

- starting March 16, the temporary introduction of a series of additional weekly longer-term refinancing operations (LTROs) maturing on the June 24, 2020 TLTRO III settlement date at a rate of -50 basis points: the purpose of the measure is to temporarily inject liquidity into the system on favorable terms to ensure effective support for money markets and in general the euro-area financial system;
- application of more favorable terms to all targeted longer-term refinancing operations (TLTRO III), to be conducted between June 2020 and June 2021, that are outstanding during that time. This will be done by applying an interest rate that is 25 basis points below the average rate applied in the Eurosystem's main refinancing operations. At the same time, it introduced further support for TLTRO III operations, including raising the maximum amount that can be borrowed to 50% of banks' stock of eligible loans as at February 28, 2019 and the removal of the maximum limit of 10% of the stock of eligible loans per operation;
- additional net asset purchases (Asset Purchase Program, or APP) of €120 billion will be added until the end of the year;
- creating a temporary envelope of €120 billion, in line with other existing asset purchase programs (especially the APP), through more favorable financing conditions for the real economy;
- keeping the key interest rates on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility unchanged at 0%, 0.25% and -0.50% respectively;
- keeping the key ECB interest rates at their present or lower levels until the inflation outlook robustly converges to a level sufficiently close to, but below, 2%;
- full reinvestment of the principal payments from maturing securities purchased under previous asset purchase programs for an extended period of time past the date when the ECB starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favorable liquidity conditions and an ample degree of monetary accommodation.

In addition, under the broader framework of measures taken to address the growing emergency linked to COVID-19, on March 18, 2020 the ECB launched another quantitative easing (QE) programmer with an envelope of €750 billion called the "Pandemic Emergency Purchase Programme" (PEPP) to counter the risks posed by the spread of the virus to the transmission of its monetary policy within the euro area. It is a temporary asset purchase programmer for securities issued by private issuers and individual states and is expected to last until at least the end of the year. These support measures are directed towards all sectors of the economy and apply equally to households, firms, banks and Member State government. To make these initiatives even more effective, the ECB also expanded the range of eligible assets under the corporate sector purchase program to non-financial commercial paper of sufficient credit quality eligible for purchase.

On April 7, 2020 the ECB Governing Council decided to further lower interest rates and ease eligibility criteria for the incentive mechanism to expand the availability of collateral, facilitate banks' access to financing and support lending to firms and households by strengthening the use of loans as collateral and by generally increasing the Eurosystem's risk tolerance.

At its April 30, 2020 meeting, the ECB Governing Council, while leaving the interest rates on monetary policy operations unchanged, took further decisions to strengthen the framework of previous decisions. Specifically:

- it further improved the conditions on TLTRO III operations, reducing the interest rate for the June 2020 - June 2021 period from -25 to -50 basis points. With this measure, the rate for that period could therefore reach -100 bps. As a result of all the interventions noted above, in the period between June 24, 2020 and June 23, 2021, the base interest rate applied to TLTRO-III operations will be 50 basis points lower than the average rate applied on the main refinancing operations of the Eurosystem. Counterparties that maintain their lending levels with respect to the benchmark required in the observation period between March 1, 2020 and March 31, 2021 (the special reference period) will benefit, in the period between June 2020 and June 2021, from an interest rate that is 50 basis points lower than the average rate on the central bank's deposit facility, which cannot exceed -1.00%, while for the remaining days of the life of the transaction the interest rate applied will be equal to the average rate on the ECB deposit facility;
- it temporarily introduced a new series of pandemic emergency longer-term refinancing operations (PELTROs), with a series of monthly operations maturing through September 2021, to support liquidity conditions in the euro area financial system and to contribute to preserving the orderly functioning of money markets by providing effective liquidity support after the expiry of the additional LTROs conducted starting from March 2020;
- it decided to continue net purchases under the asset purchase program (APP) will continue at a monthly pace of €20 billion, together with the new purchases under the additional €120 billion temporary envelope until the end of the year;
- it decided to continue the full reinvestment of the principal payments from maturing securities purchased under the APP.

On April 22, 2020, the Governing Council of the ECB also adopted temporary measures (applicable until September 2021 on the occasion of the first early repayment of TLTRO-III) to mitigate the effect on the availability of marketable assets as collateral of possible rating downgrades resulting from the economic fallout from the coronavirus (COVID-19) pandemic.

More specifically, the following measures among others were applied:

- from April 8, 2020 (i) the minimum amount threshold for domestic loans at the time they are pledged as collateral is reduced to zero (from the previous €30 thousand); (ii) the concentration limit envisaged for use as collateral for senior uncovered bank bonds (UBB) issued by a credit institution or by other entities with which that institution has close links has been increased from 2.5% to 10% of the total value of the collateral pool of each counterparty;
- from April 20, 2020, a generalized reduction in haircuts will be applied for all eligible assets (securities and loans). A reduction is also envisaged for the additional risk mitigation measures applied to covered bank bonds for own use and to securities for which a theoretical price is used in their measurement (including covered bank bonds and ABSs).

In addition, as part of the framework concerning additional credit claims (ACCs), from April 20, 2020 the following were introduced:

- a reduction in the haircuts applied to loans pledged both individually and within portfolios;
- a review of other risk mitigation measures specifically envisaged for loan portfolios;
- a change in the frequency - from monthly to quarterly - for transmitting detailed data on the loans included in the portfolios (loan-level data).

A “grandfathering” regime was introduced under which marketable assets and issuers who met the minimum credit quality requirements for the eligibility of collateral as of April 7, 2020 (BBB- for all assets, except ABSs) continue to be eligible in the event of rating downgrades, as long as their rating remains at or above credit quality step 5 on the Eurosystem’s harmonized rating scale (equivalent to a BB rating). ABSs to which a minimum rating threshold equal to CQS2 (equivalent to a rating of A-) is applied within the ECB’s General Framework will continue to be eligible as long as their rating remains at or above CQS4 (equivalent to a BB+ rating). The assets eligible for this grandfathering will be subject to haircuts based on their actual ratings.

These temporary measures will remain in place until the end of the PEPP.

At its meeting on June 4, 2020, the Governing Council decided to increase the PEPP envelope by €600 billion to a total of €1,350 billion, to support lending conditions in the real economy, especially for businesses and households. In addition, the horizon for net purchases under the PEPP was extended at least until the end of June 2021. In any case, the Governing Council will conduct net asset purchases under the PEPP until it judges that the coronavirus crisis phase is over. Finally, it was decided that the maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2022 and the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary stance.

At its meeting on December 10, 2020, the Governing Council of the ECB recalibrated its monetary policy instruments in light of the economic fallout from the resurgence of the pandemic. The envelope of the PEPP was increased by another €500 billion, bringing it to a total of €1,850 billion, and the horizon for net purchases was extended at least until the end of March 2022 (from the previous limit of June 2021). In any case, net purchases will be conducted until the Council judges that the coronavirus crisis phase is over. The Governing Council also decided to extend the reinvestment of principal payments from maturing securities purchased under the PEPP until at least the end of 2023 and ensure that in any case the future roll-off of the PEPP portfolio is managed to avoid interference with the appropriate monetary policy stance.

On this occasion, the Governing Council decided to further recalibrate the conditions of the third series of targeted longer-term refinancing operations (TLTRO-III):

- the period over which considerably more favorable conditions will apply was extended by 12 months, until June 2022;
- three additional operations will be conducted between June and December 2021;
- the total amount that counterparties will be entitled to borrow in TLTRO-III operations was increased from 50% to 55% of their stock of eligible loans;
- in order to provide an incentive for banks to sustain the current level of bank lending, the recalibrated conditions will be made available only to banks that achieve a new lending performance target.

The duration of the set of collateral easing measures adopted by the Governing Council on 7 and 22 April 2020 was extended until June 2022 in order to continue to ensure that banks can make full use of the Eurosystem’s liquidity operations. The Governing Council will reassess these measures before June 2022, ensuring that the participation of Eurosystem counterparties is not adversely affected. The Governing Council will also offer four additional pandemic emergency longer-term refinancing operations (PELTROs) in 2021, which will continue to provide an effective liquidity backstop.

With regard to the asset purchase program (APP), the Governing Council confirmed that purchases would continue at a monthly pace of €20 billion as long as necessary to reinforce the accommodative impact of its policy rates. Purchases will end only shortly before it starts to raising the key ECB interest rates. In addition, principal repayments from maturing securities purchased under the APP will continue for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favorable liquidity conditions and an ample degree of monetary accommodation.

The Eurosystem repo facility for central banks (EUREP) and all temporary swap and repo lines with non-euro area central banks will be extended until March 2022.

Finally, the Governing Council decided to continue conducting its regular lending operations as fixed rate tender procedures with full allotment at the prevailing conditions for as long as necessary.

With regard to the PEPP, at its meeting on January 21, 2021, the Governing Council specified that if favorable financing conditions can be maintained with asset purchase flows that do not exhaust the envelope over the net purchase horizon of the PEPP, the envelope need not be used in full. Equally, the envelope can be recalibrated if required to maintain favorable financing conditions to help counter the negative pandemic shock to the path of inflation.

Main measures taken in Italy to support the economy that have an impact on the banking system

Given the extraordinary urgency of mitigating the negative effects that the COVID-19 emergency is having on the national socio-economic fabric, the Italian Government approved Decree Law 18 of March 17, 2020, “Measures to strengthen the national health service and provide economic support for households, workers and firms connected with the COVID-19 emergency” (hereinafter the “Decree” or the “Cure Italy Decree”). Title III is fully dedicated to liquidity support measures delivered through the banking system and aims to introduce measures in favor of SMEs, firms in general, self-employed workers and professionals.

As established by Article 49 of the decree, all SMEs located in Italy can, for a period of nine months from the entry into effect of the decree, take advantage of, among other things, the following exemptions from the ordinary rules for the Central Guarantee Fund pursuant to Law 662/96: (i) the guarantees will be provided at no charge; (ii) the maximum amount guaranteed per debtor is increased to €5 million; (iii) for direct guarantees, the maximum coverage percentage is set at 80% of the amount of each financing operations, up to a maximum amount of €1.5 million per firm; (iv) for reinsurance operations, the maximum coverage percentage is set at 90% of the amount guaranteed by loan guarantee consortiums or other guarantee funds; (v) the guarantee, until today limited to just portfolio guarantees, is eligible for use in debt renegotiation provided that the lender grants new financing equal to at least 10% of the remaining debt; and (vi) the possibility to combine the Fund’s guarantee with other forms of guarantees, including mortgages, obtained from the lender for real estate investments in the tourism and hospitality sector and real estate assets for an amount above €0.5 million and with a minimum maturity of 10 years.

Article 54 of the decree extends the scope of application of the solidarity fund for loans for the purchase of a primary residence (“Gasparrini Fund”) to self-employed workers and professionals who declare, pursuant to Articles 46 and 47 of Presidential Decree 445/2000, that they have registered, in a quarter after February 21, 2020 or in a shorter span of time between the date of the request and such date, that they suffered a drop in turnover of more than 33% compared with the final quarter of 2019 as a result of the closing of or restriction on their activity as a result of the implementation of the measures adopted by the competent authorities to handle the COVID-19 emergency. The exemption from the ordinary rules of the fund lasts for nine months from the entry into force of the decree. The Gasparrini Fund will pay compensatory interest in the amount of 50% of the interest accrued on the remaining debt during the suspension period.

Article 55 of the decree contains measures to promote the disposal of non-performing loans by December 31, 2020 with the possibility of transforming into tax credits the deferred tax assets deriving from: (i) tax losses not yet computed to reduce taxable income at the disposal date; and (ii) the amount of the notional return exceeding total net income, not yet deducted nor used as a tax credit at the disposal date (excess allowance for corporate equity). These two components can be considered in a maximum amount not to exceed 20% of the nominal value of the loans sold, with a ceiling of €2 billion for the gross value of loans sold per firm (determined by taking account of all the disposals completed by December 31, 2020 by companies connected by relationships of control). These provisions are not applicable to companies in a state of distress (or risk of distress) or insolvency.

Article 56 of the decree contains financial support measures for firms, introducing a special moratorium to help firms overcome the most critical phase of the decline in production connected with COVID-19. Microfirms and SMEs, as defined by European Commission Recommendation 2003/361/EC, headquartered in Italy, can apply to the following financial support measures: (i) for revocable credit facilities and for loans granted against advances on receivables outstanding at February 29, 2020 or, if greater, at the date of publication of the decree, the amounts agreed, both for the drawn part and the part still undrawn, cannot be revoked in whole or in part until September 30, 2020. For the increase in uses that occurs between the date of the decree and September 30, 2020 it will be possible to obtain the guarantee from the Central Guarantee Fund pursuant to Law 662/96; (ii) for loans not repayable in instalments maturing before September 30, 2020, the contracts have been extended, along with the respective ancillary elements and without any formalities, until September 30, 2020 under the same terms and conditions. A guarantee from the Central Guarantee Fund pursuant to Law 662/96 can be obtained for such contracts; (iii) for mortgages and other loans repaid in instalments, including those completed through the granting of agricultural promissory notes, the payment of mortgage installments or lease payments maturing before September 30, 2020 is suspended until that date and the repayment schedule for the suspended installments or lease payments is deferred, along with the respective ancillary elements and without any formalities, using methods that ensure that there are no new or higher costs for both parties; giving firms the option to request suspension only for repayment of principal amounts. It is also possible to obtain a guarantee from the Central Guarantee Fund pursuant to Law 662/96 in an amount equal to 33% of the individual mortgage installments or installment payments on loan or lease payments that mature by September 30, 2020 and that were suspended.

Article 57 of the decree sets out liquidity support measures for firms hit by the epidemiological emergency through guarantee mechanisms, allowing banks – with the support of Cassa Depositi e Prestiti SpA (CDP) through a credit line and/or portfolio guarantees, including on first losses – to disburse loans in any form to firms that have suffered a reduction in turnover owing to the emergency; the public guarantee – for payment, explicit, unconditional and irrevocable – is issued in favor of CDP on first demand up to a maximum of 80% of the exposure assumed.

Additional measures were adopted during ratification of the decree, including an expansion of the pool of beneficiaries of the solidarity fund for principal residence mortgage loans, the suspension of instalments on loans from the solidarity fund for usury victims and the suspension of all enforcement proceedings concerning those loans.

On April 6, 2020, the Council of Ministers approved another decree (the "Liquidity Decree") which introduce a series of urgent measures regarding access to credit and deferring certain obligations for firms (and households) as well as special powers in strategically important sectors and in the justice system. The decree further strengthens the Central Guarantee Fund for SMEs, already expanded by the "Cure Italy" Decree and introduces special measures for credit access, liquidity support, exports, international expansion, and investment.

The main areas in which the decree intervenes are: (i) access to credit and deferral of some tax payments; (ii) bankruptcy and corporate law; and (iii) the expansion of the rules on the State's special powers in strategically important sectors (golden power). With regard to access to credit, the decree considerably strengthened the system of public guarantees, which have been made available to firms of all sizes, with coverage percentages of between 70% and 90% for loans granted by intermediaries, which can arrive at 100% for smaller firms and loans.

The primary measures introduced regard: (i) the activation of a new line of public guarantees, granted through SACE SpA, a CDP Group company, for a total of €200 billion to be utilized by the end of the year (of which €30 billion reserved for SMEs) (Article 1); (ii) the expansion, up to 90%, of the Ministry of Economy and Finance's portion of the reinsurance of the export credit backed by SACE (Article 2); and (iii) for 2020, the operations of the Central Guarantee Fund for SMEs will be structured differently, including an increase in the coverage percentages for loans and expansion of the range of potential beneficiaries (Article 13, which repeals Article 49 of the Cure Italy Decree).

The decree also introduces measures regarding the bankruptcy laws to prevent the initiation– until the end of the state of emergency – of bankruptcy or other proceedings based on insolvency against companies and to sterilize the emergency period for the purposes of calculating deadlines in actions to protect creditors.

In the process of ratification into law, a rule was introduced that makes it possible to streamline the procedures for obtaining guarantees and therefore reduce the time necessary to disburse of loans. Article 1 bis establishes that requests for public guarantees through SACE shall be accompanied by a self-certification, in which the legal representative/owner declares that (i) company operations have been limited or interrupted by the measures implemented to contain the COVID-19 health emergency; (ii) the company information provided is true and complete; (iii) the loan is required to pay for personnel, investments or working capital employed in production facilities and business activities that are located in Italy; and (iv) the legal representative/owner has not been convicted of offenses related to tax evasion in the last 5 years.

Finally, Decree Law 34/2020 containing urgent measures in the areas of healthcare, support for employment and the economy as well as social policies connected with the COVID-19 emergency (the "Revival Decree"), approved in May, the Government introduced additional measures, totaling over €100 billion, to provide liquidity and support for Italian undertakings (mainly SMEs), ensuring that they can survive during the emergency and helping them to revive operations when the recovery comes.

The measures include:

- the extension of the moratorium in favor of micro-enterprises and SMEs provided for by Article 56 of the Cure Italy Decree to include subsidized loans guaranteed by the State granted to companies following the earthquakes of 2012 and 2016 for the payment of taxes, contributions and bonuses already suspended that still had not been paid on the date of entry into force of the respective subsidy measures;
- the refinancing of the Guarantee Fund for SMEs (with the simplification of benefit requirements) and the Guarantee Fund for principal residences;
- strengthening the system of innovative start-ups, to facilitate access to liquidity;
- aid in the form of guarantees from the regions and autonomous provinces on loans to businesses;
- aid in the form of subsidized interest rates on business loans;
- grants for companies and holders of VAT numbers with a turnover of less than €5 million;
- capitalization mechanisms for medium-sized companies (with turnover between €5 million and €50 million). The measure provides for the grant of a tax credit of 20% for persons who contribute funds for capital increases of up to €2 million and allows Invitalia to subscribe financial instruments issued by companies by the end of 2020 for a period of 6 years (in accordance with the conditions and procedures established by the Ministry for the Economy and Finance). To this end, the "SME Capital Fund" managed by Invitalia was established;
- intervention by Cassa Depositi e Prestiti to support larger companies (with turnover exceeding €50 million) through the establishment of the "Targeted Fund", which can make any form of investment (of a temporary nature), giving preference to (i) the subscription of convertible bonds; (ii) participation in capital increases; and (iii) the purchase of shares listed on the secondary market in the case of strategic transactions;

- an acceleration of payments by government entities through the establishment of a fund at the Ministry for the Economy and Finance to grant advances to regions, autonomous provinces and local authorities facing liquidity shortfalls to pay their accounts payable (provided that they are certain, determinable, enforceable and fell due by December 31, 2019);
- structural measures aimed at encouraging investment, in both equity and debt capital, in the real economy and, in particular, in unlisted companies, strengthening the capacity of long-term savings plans to channel private savings to the business world;
- a SACE guarantee for insurance companies in the credit sector equal to 90% of the indemnities generated by exposures to short-term trade receivables;
- measures to facilitate the transfer of tax credits to banks and financial intermediaries;
- the definitive abolition of the safeguard clauses concerning increases in VAT rates and excise duties.

In addition, the decree contains specific measures to safeguard the banking system and, in particular, public guarantees for new bank bond issues and public support in the liquidation of small banks (excluding mutual banks).

On August 14, 2020 Decree-Law 104 (the "August Decree") was published in the *Gazzetta Ufficiale*, extending the time period for some measures already implemented and allocating additional resources to support funds envisaged by previous decrees.

Specifically, the decree provides:

- financing for the Central Guarantee Fund for small and medium-sized enterprises (Article 64) with additional resources of €3.1 billion for 2023, €2.6 billion for 2024 and €1.6 billion for 2025. The fund is therefore also able to guarantee approved multi-year expenditure plans, based on the profile over time of expected losses;
- the extension until January 31, 2021 of the moratorium for small and medium-sized enterprises envisaged by Article 56 of the "Cure Italy" decree. Furthermore, the extension is automatic for businesses already approved to receive support measures (unless waived by the firm) (Article 65);
- grants (Article 58) for the purchase of agricultural and food (including wine) products, including those having protected designation of origin (PDO) and protected geographical indication (PGI) status, to businesses registered under ATECO codes 56.10.11 (food services to customers), 56.29.10 (canteens) and 56.29.20 (provision of food services based on contractual arrangements), already in business at the date of entry into force of the decree, provided that they experienced a drop in revenue from March to June 2020 equal to three-fourths of turnover from March to June 2019;
- non-repayable grants for economic and commercial activities in Italy's historic centers (Article 59) for businesses that sell goods and services to the public in areas considered to have high flows of tourists, provided that the beneficiaries can demonstrate that they suffered a decline of at least one-third in turnover or revenue in June 2020 compared with June 2019.

In December 2020, Parliament approved the 2021 Budget Act (Law 178/2020). It further extended the period of operation of the Central Guarantee Fund until June 30, 2021 and allocated additional funding to it to cover the guarantees given and provided for a gradual transfer of the guarantees given to mid-cap firms to SACE's "Guarantee Italy" program (Article 1, paragraphs 244-247). The law also contains an automatic extension of the moratorium for micro, small and medium-sized enterprises through June 30, 2021 (unless the recipient firm expressly waives the extension). Firms that have not yet taken advantage of these financial support measures have been given until January 31, 2021 to apply (Article 1, paragraphs 248-251).

On March 19, 2021, the Council of Ministers approved Law 41/2021 (the "Support Decree") containing "Urgent measures to support firms and economic operators, employment, health and local government services, linked to the COVID-19 emergency" with the goal of reinforcing the tools for combatting the COVID-19 pandemic and of limiting the social and economic impact of the prevention measures enacted. The decree allocated around €32 billion,[12] calibrated based on the timing and intensity of the protection of the beneficiary of the support measures.

The main areas of intervention are:

- *Support to firms and the service industry*. It provides for a non-repayable grant for businesses with revenue of up to €10 million and for professionals who between 2019 and 2020 lost at least 30% of their turnover, calculated using the monthly average. There are five levels of relief based on 2019 turnover, calculated as a percentage of the average monthly loss;
- *Employment and combatting poverty*. In this area, the decree provides for extending the freeze on terminations until June 30, 2021, extends the wage supplementation scheme and contains additional financing and support allowances to bolster employment and job training;
- *Health and safety*. Among its main health and safety measures, the decree provides further funding for purchasing vaccines and other anti-COVID drugs and contains specific support measures for medical and sanitation personnel;

[12] Around €17 billion is earmarked for firms and to support economic activity, just over €6 billion for programs to help workers and households, over €5 billon for the national health and safety services, about €3 billion for local governments, education and research and for other minor measures.

- *Local governments*. The decree sets out support for local governments to help them face the decline in revenue as a result of the pandemic (around €1 billion for municipalities and metropolitan areas for 2021) and reimburses the regional and autonomous provincial governments for healthcare costs incurred in 2020;
- *Sector-based measures*. Other measures targeted at specific sectors include: (i) financing for the funds envisaged for the culture, theater, cinema and audiovisual sectors, (ii) support for remote learning and (iii) the establishment of funds to support the hardest hit economic categories and large firms in a state of crisis owing to the pandemic, excluding the banking and insurance sector.

Banking supervision measures adopted by the ECB-SSM and the Bank of Italy

As regards banking supervision, the ECB, in line with the EBA guidelines, announced – through two communications of March 12 and 20, 2020 - measures in support of regulatory capital and operational relief for euro-area banks, in order to not compromise their capacity to finance the real economy, especially in light of the temporary difficulties faced by households and firms owing to the effects of the COVID-19 pandemic.

With this objective, the following measures were defined:

- the possibility of temporarily operating below the capital level specified by the Pillar II Capital Guidance (P2G), the Capital Conservation Buffer (CCB) and the Liquidity Coverage Ratio (LCR);
- the orientation in favor of an easing of the countercyclical capital buffer (CCyB) by national authorities;
- the possibility of partially using Additional Tier 1 capital and Tier 2 capital to satisfy the Pillar II requirement, bringing forward a measure contained in the Capital Requirements Directive V (CRDV), which was expected to enter inforce in 2021. These measures are intended to free up capital that banks can use to support the economy. In this regard, the ECB has underscored the expectation that banks will not use the positive impact of these measures to increase the distribution of dividends or the payment of variable bonuses;
- the application - to exposures that will become non-performing and benefit from government guarantees granted for the COVID-19 emergency - of the preferential treatment of non-performing exposures already envisaged for loans guaranteed by official export credit agencies (i.e. minimum coverage of 0% for seven years as part of the so-called “calendar provisioning” envisaged in the Addendum);
- the provision for exposures guaranteed by governments as part of State measures undertaken in response to COVID-19 to benefit from a high degree of flexibility regarding the treatment of NPLs in terms of classification of UTP loans and provisioning in the income statement;
- with regard to the application of the expected credit losses (ECL) governed by IFRS 9, guidance for banks concerning the need to (i) apply the transitional arrangements provided for by Article 473(a) of the CRR (phase-in of IFRS 9) and (ii) sufficiently take into account, in the predictive models used to estimate the cost of credit risk, of the long-term outlook characterized by greater stability. In this regard, the ECB reserves the right to provide banks with macroeconomic scenarios in application of the provisioning policies under IFRS 9.

In addition, the ECB, in light of the changed context and to limit any further impact on banks at this time of particular financial and operational strain, announced on that occasion that it was willing to “deploy full flexibility when discussing with banks the implementation of NPL reduction strategies, taking into account the extraordinary nature of current market conditions”, in addition to taking into consideration the reprogramming of supervisory activities with possible extension of the deadlines for some non-critical supervisory measures.

On March 27, 2020, the ECB issued a recommendation asking banks to refrain from paying dividends and avoid share buy-backs at least until October 1, 2020 in order to preserve capital in order to continue supporting households and businesses with lending and to have the necessary resources to absorb potential losses. On the same day, the Bank of Italy extended the ECB recommendation to less significant banks, reaffirming the objective of allocating profits to the strengthening of own funds in order to ensure the financial system was in the best condition to absorb losses that could arise as a result of the health emergency and to continue to support the economy.

On July 28, 2020, the ECB issued a new recommendation extending the period for which banks must refrain from paying dividends and buying back shares until January 1, 2021. In the recommendation, the ECB also invited the banks to exercise extreme moderation on the payment of variable remuneration (as also emphasized in a letter sent to the banks on the same date). On the same date, the ECB clarified the timeline for replenishing capital and liquidity buffers, allowing banks to operate below the Pillar II Capital Guidance (P2G) at least until the end of 2022 and below the Liquidity Coverage Ratio (LCR) at least until the end of 2021.

On September 17, 2020, the ECB announced temporary leverage ratio relief, after declaring the existence of exceptional circumstances due to the pandemic, allowing banks to exclude exposures to central banks in the calculation of the leverage ratio. The introduction of this measure was also intended to facilitate the implementation of monetary policy decisions.

Given the persistent uncertainty about the economic impact of the pandemic, on December 15, 2020 the ECB published a new recommendation calling on banks to refrain from paying dividends and buying back their shares until September 30, 2021. In particular, the ECB has expressed its expectation that dividend payments and share buy-backs shall remain below 15% of accumulated profits for 2019-2020 or shall not exceed 20 basis points in terms of the CET1 ratio, whichever is lower. On the same day, the ECB also sent another letter to banks in which it reiterated its expectation for extreme moderation regarding payments of variable remuneration until September 30, 2021, specifying that the appropriateness of institutions’ remuneration policies and practices will form part of the supervisory assessment within the

2021 SREP.

Communications and application guidance issued by authorities, standard setters and international bodies

Aware of how the weakening of the economy as a result of the containment measures and recession is putting a severe strain on the financial capacities of consumers and SMEs, so much so that the reduced liquidity in the system could lead to an increase in defaults on loans and the need for banks to increase the provisions recorded on their balance sheets, national, EU and international authorities and bodies have intervened with targeted corrective measures and guidelines.

In order to proactively assist banking activity in response to the complex situation created by the gradual spread of the COVID-19 pandemic, on March 25, 2020, the EBA, following on its announcement of March 12, clarified:

- interpretations connected with the prudential framework for non-performing exposures, forbearance, IFRS 9, coordinated with the simultaneous statement of the European Securities and Markets Authority (ESMA) on the accounting implications of the calculation of expected credit losses in accordance with the standard;
- measures for consumer protection and payments systems;
- further actions to support banks' focus on key operations and to limit any non-essential demands in the short term.

As for the first point, in reiterating its full support for the measures taken by national governments and EU bodies to mitigate the potential systemic risk of the impact of the COVID-19 pandemic, the EBA clarified that the general moratorium on payments, directed at all borrowers, does not result in automatic classification of loans as in default or the identification of forborne exposures. It emphasized the need to assess the debtor's financial difficulties on a case-by-case basis and to understand that the operational capability of banks in making in-depth assessments may be more limited under the current circumstances and that short-term flexibility in operational requirements taking a mass approach or, if a bank has to make an individual assessment of the likelihood of the counterparty's insolvency, recommending that it should prioritize the analysis using their risk-based approach. More specifically, the EBA stressed that moratoria in response to the COVID-19 pandemic, to the extent they are not borrower specific but rather addressed to broad ranges of product classes or customers, do not have to be automatically classified as forbearance measures for accounting purposes and as regards the prudential definition of default. However, this does not remove the obligations for credit institutions to assess the credit quality of the exposures benefiting from these measures and identify any situation of borrowers being unlikely to pay accordingly.

On April 2, 2020, the EBA also published the document "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis", which provided the detailed criteria that must be fulfilled for public and private moratoria granted by June 30, 2020[13] to avoid classification of exposures under the definition of forborne or defaulted under a restructuring. The guidelines also established that banks must continue to promptly identify borrowers in situations of possible financial difficulty and provide for consistent classification in accordance with the regulatory framework.

The EBA guidelines are addressed to both moratorium measures established under legislation and those initiated by private-sector actors that have a general scope, i.e. have been granted by banks in order to prevent systemic risk by offering broad support for all companies temporarily in difficulty due to the pandemic. The conditions and criteria that must be simultaneously fulfilled in order to be able to consider a moratorium as of general scope are specified:

- the moratorium must be based on national law or private initiative. In the latter case, the measure must be based on a broadly agreed initiative within the banking sector in order to ensure uniformity in the moratoria granted by the various credit institutions;
- the moratorium must apply to broad range of obligors, determined on the basis of general criteria, such as belonging to a certain type of customer (retail, SMEs, etc.), location in one of the areas most affected by the pandemic, type of exposure (mortgage, leases, etc.), belonging to an industry that has been especially affected by the pandemic, etc.;
- the measure must consist exclusively of a change in payment schedules and, therefore, may consist in the suspension of payments, their rescheduling or a temporary reduction of the principal and/or interest to be paid. The moratorium cannot involve the modification of other contractual clauses (such as the interest rate). The EBA clarified that if the concessions granted in the context of COVID-19 do not substantively modify the present value of cash flows following the change, they shall not be considered distressed and the exposures shall not be classified as in default, as the relief represents temporary support for those who are momentarily unable to fulfill their contractual obligations due to the interruption of business as a result of the pandemic;
- the moratorium must offer the same terms and conditions to all eligible beneficiaries;
- the measure shall not apply to loans granted after the date on which the moratorium was announced;
- the moratorium must have been organized to address the emergency created by the COVID-19 pandemic and applied before June 30, 2020 (as noted earlier, this deadline was subsequently rescheduled to September 30, 2020 and then to March 31, 2021, after the reactivation of the guidelines on moratoria on December 2, 2020).

[13] Deadline extended to September 30 with a subsequent EBA decision of June 18.

As noted, the guidelines equate moratoria granted on a private basis in response to COVID-19 with legislative moratoria. Consequently, “private” moratoria also benefit from the suspension of time limits in calculating past due positions as long as they comply with the above requirements. That said, the EBA again emphasized that banks are in any event required to evaluate the possible classification of customers benefiting from moratoria as unlikely to pay, considering the borrower’s ability to comply with the new payment plan regardless of any public guarantee and excluding the reclassification of those loans as distressed restructurings.

Recognizing that there may be difficulties in carrying out individual evaluations for the purposes of classification as non-performing, the EBA specified that in this case banks must adopt a risk-based approach (i.e., taking into account - for example - the sectors most exposed to the long-term effects of the crisis such as transport, tourism, hotels, retail). Accordingly, following the suspensions linked to the COVID-19 moratoria, it is important to identify exposures that may be in arrears with respect to the new payment plans for the purpose of promptly classifying them as non-performing.

With regard to the second point, the EBA invited financial institutions to act in the interest of the consumer, in particular when engaging with customers regarding temporary measures for consumer and mortgage loans. In this case as well, the EBA stressed that these measures may not automatically lead to loan reclassification from a prudential perspective and should not automatically lead to negative implications for the debtor’s credit rating. Finally, it invited the system to note the importance of careful consideration from a legal and reputational perspective of any new and additional charges specifically introduced in relation to contingency measures. With reference to payment systems, the EBA called on payment services providers to facilitate consumers’ ability to make contactless payments by making use of the exemption from strong customer authentication (SCA).

As for the third point, in order to limit any non-essential demands on banks in the short term, the EBA extended the deadlines of public consultations and, especially, the remittance date for funding plan data.

After monitoring the developments of the pandemic and, in particular, the impact of the second wave and the related government restrictions adopted in many EU countries, on December 2, 2020 the EBA - which on September 21 had announced that it would gradually phase out its guidelines on legislative and non-legislative loan repayment moratoria with the end of September deadline - decided to reactivate its guidelines.

In particular, the new guidelines, applicable until March 31, 2021, provide for two constraints to ensure that the support provided by moratoria is limited to bridging liquidity shortages triggered by the new lockdowns:

- only loans that are suspended, postponed or reduced under general payment moratoria not more than 9 months in total can benefit from the application of the Guidelines;
- banks are requested to document to their supervisor their plans for assessing that the exposures subject to general payment moratoria do not become unlikely to pay.

On January 29, 2021, the EBA published additional clarifications on the application of the guidelines on moratoria, specifying how the forbearance classification should be assessed and how to determine if there is an effective reduction of the financial obligation, in order to avoid potential cliff effects. Pursuant to IFRS 9, the measurement of expected credit losses (or, in any case, losses on all financial instruments that fall within the scope of the standard) must always be the result of a joint analysis of the following factors:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money;
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions (particular in this case is the reference to the inclusion of “forward-looking” macroeconomic scenarios).

As regards the analysis of whether a significant increase in credit risk has occurred in the model for assessing the cost of credit risk introduced with IFRS 9, particular importance is assumed by information on the future macroeconomic scenarios in which banks may find themselves operating and which influence the situation of borrowers with regard to both the assessment of risk of the migration of exposures to lower quality classes and the amounts effectively recoverable on impaired exposures. The crisis engendered by the COVID-19 pandemic has created pronounced uncertainty that limits the reliability of the information available, making it extremely difficult to produce detailed long-term forecasts.

In this regard, various international authorities or bodies have intervened, providing guidance to promote consistent application of International Financial Reporting Standards (IFRS) in the European Union (EU) and avoid divergence in practice on the application of IFRS 9 “Financial Instruments” in the specific context of the COVID-19 outbreak. In a communication of March 20, 2020, the ECB expressed its views on forward-looking IFRS 9 assessments, even though this is not strictly within the scope of its prudential supervisory duties, recommending that banks avoid excessively procyclical assumptions in their models to determine provisions. The ECB invited institutions to “give a greater weight to long-term macroeconomic forecasts evidenced by historical information when estimating long-term expected credit losses”. On April 1, the authority sent a letter to significant banks entitled “Letter to banks: IFRS 9 in the context of the coronavirus (COVID-19) pandemic” to provide additional guidance and references on the inclusion of forward-looking information in the determination of ECLs in accordance with IFRS 9 in the context of the COVID-19 pandemic. The letter once again refers to the ECB’s previously expressed expectations regarding the need to avoid the use of excessively procyclical assumptions, in consideration of the heightened uncertainty of the context and the very limited availability of “reasonable and supportable” information.

On March 25, 2020, ESMA and EBA also intervened on the issue to emphasize - with regard to forward-looking estimates - the complexity of the context, substantially confirming the observations of the ECB. In its statement, ESMA stressed how IFRS 9 presents a certain degree of flexibility in determining the indicators for the assessment of a significant increase in credit risk, clarifying that the application of a public or private moratorium as a relief instrument for debtors that are temporarily unable to comply with the terms of payment due to the effects of the COVID-19 outbreak should not be regarded as automatically constituting evidence of a significant increase in credit risk. The authority, in particular, emphasizes that when economic support programs for businesses implemented by governments reduce the risk of default on a financial instrument, they must be appropriately considered in the assessment of whether a significant increase in credit risk has occurred. Accordingly, a moratorium should not in itself be considered representative of a significant increase in the credit risk of a financial instrument. In addition, the specific circumstances related to the COVID-19 pandemic represent sufficient justification to rebut the presumption that payments more than thirty days past due are evidence of a significant increase in credit risk. The EBA also emphasizes the need to distinguish - for staging purposes - between exposures that will experience a temporary deterioration in credit standing and those that will incur a structural deterioration: transfer to stage 2 should be considered only for the latter.

On March 27, 2020, the International Accounting Standards Board (IASB) published the document "*COVID-19 – Accounting for expected credit losses applying IFRS 9 "Financial Instruments" in the light of current uncertainty resulting from the COVID-19 pandemic*", the contents of which are consistent with the guidelines already provided by the EBA, ECB and ESMA. Briefly, the document does not change IFRS 9 but suggests an interpretation in the current pandemic environment. Specifically, while stating that ECL estimates must take into account all available information, it indicates that entities should not continue to apply their existing ECL methodology mechanically and acknowledges the difficulty of incorporating the effects of COVID-19 and correlating government support measures in current models. In this regard, banks should consider making post-model management adjustments. More generally the Board emphasized that: (i) agreeing on tolerance measures or moratoria should not automatically result in a significant increase in credit risk; (ii) IFRS 9 does not provide bright lines or a mechanistic approach to determining ECL; (iii) although difficult in the current environment to make ECL estimates, it is necessary to monitor the facts and information available.

In line with the ESMA statements published in March 2020, Consob published warning notice 6/20 of April 9, 2020 "COVID-19 – Drawing attention to financial reporting" to underscore the importance for issuers to provide updated information (i) on the risks associated with COVID-19 that may have an impact on performance or financial position; (ii) on any measures taken or planned to mitigate such risks; and (iii) an indication of a qualitative and/or quantitative nature of the potential impacts that have been considered in estimating the company's future performance. In addition, in reports after December 31, 2019, directors are required to carefully evaluate how up to date the business planning is, in order to consider the main risks related to the pandemic that could preclude the achievement of the strategic objectives and/or compromise the company's ability to continue as a going concern. These elements could be an indication that the assets recorded in the financial statements may be impaired, thus highlighting the need to estimate the recoverable amount of the asset.

In June 2020, with the stated objective of maximizing the capacity of credit institutions to lend and to absorb losses related to the COVID-19 pandemic, while remaining consistent with the overall prudential framework, the European Commission approved a banking package amending the CRR (called the CRR quick fix due to the special, accelerated legislative process involved) to facilitate bank lending to small businesses and to households in order to mitigate the significant economic impact of the COVID-19 pandemic.

In October 2020, ESMA issued the "European common enforcement priorities for 2020 annual financial reports" which, in light of the consequences of the COVID-19 pandemic, sets out the areas requiring particular attention when drawing up financial statements:

- application of IAS 1 "Presentation of Financial Statements", with reference to the problems associated with the satisfaction of the going concern assumptions, the causes of estimation uncertainty, and the presentation of the items affected by the COVID-19 pandemic;
- application of IAS 36 "Impairment of Assets", in relation to the methods for determining the recoverable amount of goodwill and of intangible assets and tangible assets that may be impacted by the deterioration of the economic outlook;
- application of IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures", in relation to risks arising from financial assets and liabilities, in particular, those relating to liquidity risk and the measurement of expected losses by credit institutions;
- application of IFRS 16 "Leases", regarding the specific problems associated with the impact of the COVID-19 pandemic.

Therefore, according to ESMA, issuers should pay close attention to the planning process, taking into account the possible effects on business targets and risks that could arise as a result of the pandemic, the use of measures in support of the economy and their eventual withdrawal. Disclosures on these matters must be provided in the report on operations, highlighting how their business model has been adapted in response to the pandemic and the steps that companies have taken or plan to take to address the short and medium-term uncertainty that has arisen following the outbreak of COVID-19. These references were repeated by the national market authority, Consob, in its warning notice no. 1/21 of February 16, 2021.

On December 4, 2020, the ECB published a new communication to supervised banks entitled "Letter to banks: Identification and measurement of credit risk in the context of the coronavirus (COVID-19) pandemic" in order to provide additional guidance on credit risk identification and measurement in the context of the pandemic. In this new letter, the ECB clarifies which risk management policies and procedures banks should adopt, having identified heterogeneous practices among banks in implementing the measures set out in its letter of April 1, 2020.

On December 16, 2020, the European Commission presented a strategy outlining measures to help tackle the flows of non-performing loans expect to accumulate over the medium term as a result of the COVID-19 pandemic. It proposed a series of action with four main objectives:

- strengthening the development of secondary markets for distressed assets, both by reaching an inter-institutional agreement on the proposal for a directive on credit servicers, credit purchasers and the recovery of collateral (presented in 2018 and still being examined by the European Parliament and the European Council) and by increasing market transparency through the establishment of a central data hub for NPLs. In the first half of 2021, the Commission will launch a public consultation to explore the various alternatives for establishing a data hub at European level which would allow market participants to compare transactions and obtain information on the actual pricing of assets and market liquidity on a systematic basis;
- reform the EU legislation on insolvency and debt recovery to foster the convergence of the different frameworks in place in the Member States;
- support at EU level the setting up of national asset management companies (i.e. a vehicle that provides support to banks in distress, enabling them to remove NPLs from their balance sheets) and facilitate their cooperation, in order to take advantage of economies of scale in the processing of data;
- grant precautionary public support measures, provided that the health crisis can be recognized as a serious disturbance of the economy and therefore the Member States would be authorized to apply the “precautionary capitalization” rules set out in the BRRD. The support measures can only be deployed for viable banks and the amount of the aid is determined on the basis of a stress test or equivalent exercise (for example, the results of the vulnerability analysis completed by the ECB in July 2020 or the 2021 stress tests could serve as a starting point for assessing the capital shortfalls leading to the provision of the public support measures).

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

The procedure for the establishment and authorization of the Iccrea Cooperative Banking Group, initiated after the 2016 reform of the mutual banking industry, was completed with the Group's registration by the Bank of Italy in the Register of Banking Groups on March 4, 2019.

The mutual banks joined the Group by asking their shareholders to amend their articles of association as necessary to participate in the Group. This implemented the reform of Italy's Consolidated Banking Act (Legislative Decree no. 385/1993) with Law 49/2016 and the associated implementing measures of the Bank of Italy. The reform sought to ensure the cohesion and strength of the mutual banking segment, while pursuing the objectives of stability, efficiency and competitiveness and, at the same time, ensuring the necessary balance between the need to enhance the autonomy and ties to the local communities that are typical of mutual banks and the need for unity in strategic action.

The Cohesion Contract

The cooperative banking group therefore hinges on this Cohesion Contract (governed by Article 37-bis of the Consolidated Banking Act), by which the affiliated banks granted the Parent Company powers of management and coordination, exercised on a proportionate basis and as a function of the relative health of the affiliated banks themselves.

These powers are to be exercised, in particular, in areas such as corporate governance, strategic planning, risk management, internal controls, information systems, and the joint and several guarantee mechanism. The purpose of the exercise of these powers is to ensure the stability of the Group and all its members in full compliance with the principle of sound and prudent management, while at the same time supporting the affiliated banks in their achievement of the objectives established in their articles of the association and promoting the cooperative spirit and mutualistic nature of the affiliated banks and of the Group as a whole. Involvement of the affiliated banks also occurs in specific occasions for consultation with the mutual banks, which are also established in the Consolidated Banking Act, at which they issue non-binding opinions to the Parent Company (notably territorial shareholders' meetings, which meet at least annually).

The Guarantee Scheme

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

The guarantee also calls for intercompany financial support mechanisms under which the members of the group provide mutual support to ensure solvency and liquidity, particularly with regard to compliance with the requirements of prudence and those of the supervisory authorities as well as to avoid, where necessary, being subject to the insolvency procedures of Legislative Decree 180/2015 or the compulsory liquidation procedures of Article 80 *et seq.* of the Consolidated Banking Act.

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

In order to ensure the ready availability of the funds needed to carry out guarantee interventions, each member of the Group provides the Parent Company with "readily available funds" in the form of an amount established ex ante and an amount that can be called in by the Parent Company when needed (the Ex Post Quota) following the procedures established in the Cohesion Contract.

Support actions may include:

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

In order to reconcile the need for an ample guarantee even in situations of stress with that of preserving the financial strength of each member of the group, while avoiding potential "contagious episodes" of instability, the guarantee obligation assumed by each participating entity is commensurate with their risk-weighted assets and kept within the limits of any capital in excess of their individual requirements, without prejudice to compliance with said requirements.

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

In order to quantify the overall amount of readily available funds, in application of the provisions of the Cohesion Contract, the Parent Company conducts exercises to quantify those funds even in adverse scenarios.

In order to ensure the ready availability of funds for the Guarantee Scheme, independent of the outcome of stress testing, a minimum level for the Ex Ante Quota has been set at 0.50% of the RWAs of the individual affiliated banks.

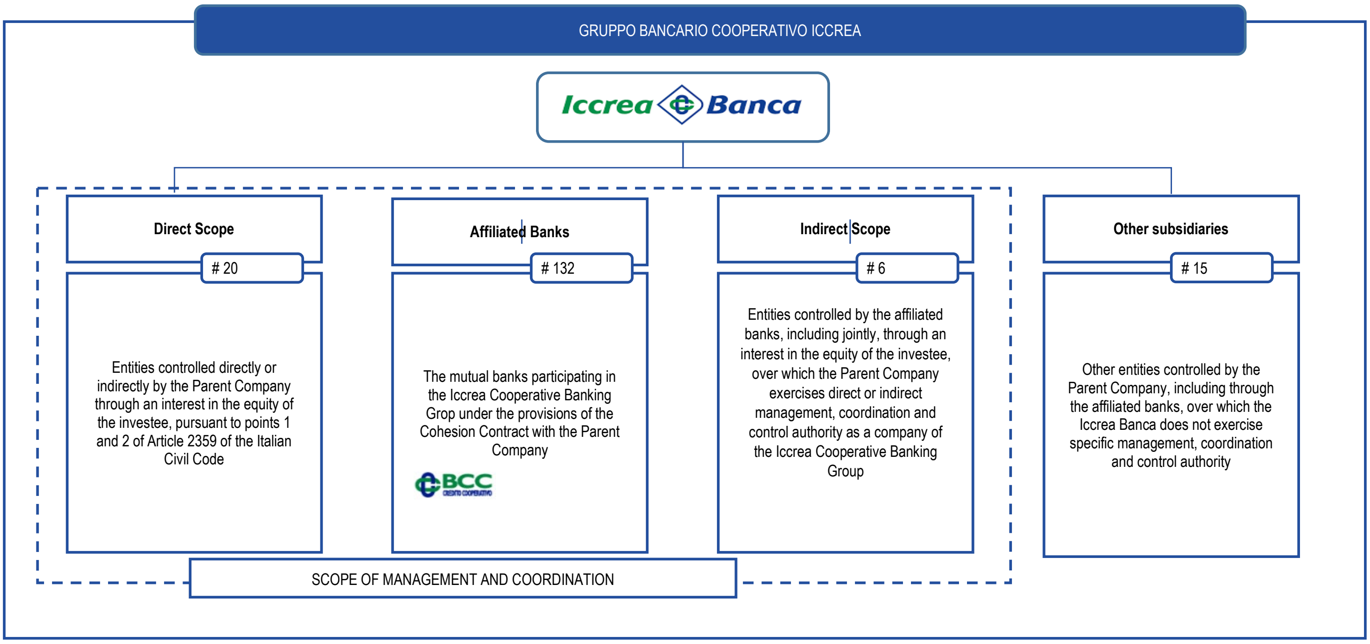
Under the provisions of the Cohesion Contract, the participating banks are remunerated for the contributions paid into the guarantee system. In particular, participating banks that generate a guarantee requirement greater than that assigned pay a premium to participating banks with a guarantee requirement that is smaller than that assigned. The premium paid/collected by the participating bank for its contribution to the generation/coverage of the requirement is determined through the application of a rate of remuneration specified annually by the Parent Company, differentiated by the type of requirement assigned and generated (ex ante and ex post).

More information on the overall management of the financial resources underlying the operation of the Guarantee Scheme for 2020, please see to the annex containing the Accounts of the Guarantee Scheme attached to the separate financial statements.

The organizational structure of the Iccrea Cooperative Banking Group

As summarized in the following chart, at December 31, 2020, the ICBG is structured as follows:

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



Organizational structure of the Parent Company

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

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

During 2020, a number of organizational and operational initiatives were undertaken to simplify and enhance Group governance and create greater specialization by area of competence, with the following main interventions:[14]

[14] Other organizational measures included: (ii) changes/refinements of the model and structure that involved the Control Functions and the Data Protection Officer Function; (ii) completion and refinement of the Data Governance model; (iii) updating of the Group model for Internal Violations Reporting; (iv) centralization of the coordination and supervision of the Bank's back office activities, including the definition of operational models for back office functions and guidance for procurement office and facility management activities; (v) enhancement of specific activities implemented with the launch of the ICBG, such as real estate; (vi) centralization of the analysis, specification and formalization of processes with an "end-to-end" approach for the entire Group; (vii) reduction of organizational levels and generation of savings through the integration of structures with contiguous activities; (vii) consolidation of the Group cost management and credit management models; and (viii) the specification of responsibilities relating to the formalization of the guidelines on insurance coverage for the Parent Company and the companies within the direct scope of consolidation.

- rationalization of top management, with a reduction of direct reporting to top management in order to make the governance of operations more effective and strengthen the decision-making lines with top management. More specifically, this intervention involved the elimination of the BCC Address Area, Institutional and Legal Relations, and the contextual reallocation of the organizational structures within the same within other Areas of the Bank (Chief Financial Officer Area and Credit and Investee Activities Area);
- creation of a single Group ICT center, which involved the integration of the ICT component of Iccrea Banca with BCC Sistemi Informatici;
- specialization of medium/long-term financing activities at the Parent Company through the transfer, with effect from January 1, 2021, of the Iccrea BancaImpresa business unit for ordinary, special and foreign lending and extraordinary corporate finance transactions, with the latter retaining lease-related operations only;
- definition of an organizational model to oversee the project initiatives of the "Group Transformation Plan" to ensure their overall consistency for the purpose of achieving the business objectives;
- definition of the organizational and operational model connected with the governance of the obligations for the Resolution Plan, in compliance with the rules established by the applicable European legislation;
- definition of models centralized with the Parent Company for the companies within the direct scope concerned as regards second-level corporate control functions and certain other functions with a view to achieving synergies and efficiency improvements (human resources, marketing, commercial networks, etc.) ;
- redefinition and updating of the functional reporting of the companies within the direct scope to the various areas of the Parent Company.

Following these measures, the current organizational model of the Parent Company envisages:

- second and third-level corporate control functions, which report directly to the Board of Directors and are organized into the following areas: Chief Audit Executive (CAE); Chief Risk Officer (CRO); Chief Compliance Officer (CCO), which incorporates the Data Protection Officer function; and the Chief AML Officer (CAMLO). Each function has its own territorial structure through which control activities on behalf of the affiliated banks are outsourced. Internal Audit is also fully centralized for the direct scope companies. During the year, organizational initiatives were carried out – with specific authorization from the supervisory authorities – to revise the organizational models of the AML, Compliance and Risk Management functions with a view to centralizing them at the Parent Company, using specific outsourcing agreements, for the companies within the direct scope as well. The new models, which have been operational since the second half of 2020 (as from 2021 for Risk Management), strengthen Group risk management governance while generating synergies and efficiencies. For further details, please see the more complete discussion concerning the Internal Control System.;
- areas that report directly to the General Manager, represented by the following main areas of responsibility:
  - Chief Financial Officer (CFO) Area;
  - Credit and Subsidiaries Area;
  - Chief Operating Officer (COO) Area;
  - Chief Business Officer (CBO) Area;
  - Chief Information Officer (CIO) Area.

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

The mutual banks have always been characterized as cooperatives providing mutualistic services for their shareholders, with deep roots in their local. The mutual nature of the mutual banks is even more pronounced than that of the non-banking cooperative sector, governed as it is - as detailed below - by an obligation to operate mainly with shareholders in their local territories.

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

In addition to a business model based on this relationship, the difference between the mutual banks and their more traditional brethren is explicated in the Consolidated Banking Act and in the supervisory instructions issued by the Bank of Italy, which set out specific rules governing certain key aspects, such as working with shareholders, their territorial scope and the distribution of profits.

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

The vocation of service to local communities is also expressed in secondary legislation issued by the Bank of Italy (Bank of Italy Circular no. 285, Part III, Chapter 5), which, in implementation of Article 35(2) of the Consolidated Banking Act,[15] states that no less than 95% of all business shall be conducted within the bank's territory,[16] and at least 50% of this business shall be in favor of shareholders,[17] such that the funding of the bank shall, in essence, go to supporting and financing the economic growth of the traditional area of operations. The intrinsic cohesion of this banking model is further strengthened by the restrictions on reserves, which cannot be distributed to shareholders either during the life of the company or in the event of its transformation or liquidation.

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

For the mutual banks, mutuality therefore means not only doing "most" with their shareholders, bringing them both economic and "meta-economic" benefits (internal mutuality), but also not pursuing purposes of "private speculation", but rather, providing benefits to shareholders and the local community, supporting the development of that community from a moral, cultural and economic point of view and increasing its awareness of the benefits of saving and social cohesion (external mutuality).

In short, the localism of the mutual banks is expressed in an "integral" manner, as these banks are:

- of the territory: the shareholders are an expression of the context in which the company operates;
- for the territory: the funds they raise support and finance the development of the real economy;
- in the territory: they belong to the local context, to which they are linked by a relationship of reciprocity.

The operational model of the mutual banks is based on these characteristics, consisting of physical and relational proximity, direct acquaintance with customers, "familiarity", the customization of products and services, and subsidiarity.

In this context, the ICBG as a whole pursues a strategy aimed at ensuring the stability and development of the mutual banks in accordance with their territorial, historical, cultural, social and economic identity, as sanctioned by the "Code of Ethics and Behavior", inspired by historical principles and the ethical values of cooperative credit. The Group is strongly oriented in its choices and conduct towards the mutualistic and ethical principles and the values of the mutual banks as expressed within their articles of association and in the Charter of Mutual Banking Values, which represents the "constitution" guiding the action of the mutual banks.

The aforementioned rules for the preservation of mutuality and localism were confirmed by the reform of the sector, which enabled local communities to remain the owners of their mutual banks and the mutual banks to maintain an adequate level of operational autonomy, correlated with their own level of risk. The objective of the reform was solely to "remove the regulatory and operational constraints typical of entities established as cooperatives - which could have hindered rapid recapitalization, including through access to the capital market, in case of need - and the related diseconomies associated with the small size of such entities".[18] In essence, the national rules protecting mutuality and localism have not been changed, but any obstacles to the use of the capital market where necessary have been removed and mechanisms have been created to generate synergies to benefit future profitability, with the aim - in an increasingly complex regulatory and market context, further impacted by the COVID-19 pandemic – of ensuring that banks characterized by a traditional business model with small individual dimensions can continue to serve their communities in the medium and long term.

As better described below, the affiliated banks are key actors in supporting economic development in the communities in which they operate, thanks to their specific offering of banking products and services, which has enabled them to maintain stability in savings and to provide contact access to credit for their local communities. As discussed in more detail below, lending operations involve traditional forms of credit, such as mortgage loans and commercial loans of relative small size, in order to best meet the financial needs of customers, who are mainly represented by households and SMEs . Direct funding, too, is made up of traditional banking products, such as deposit accounts, repos, current accounts and bonds. At the same time, indirect funding and asset management mainly feature the provision of products and services designed to minimize any reputational risk. With regard to investment products, customers are provided the opportunity to invest in mutual funds and SICAVs that offer ethical products and products tied to environmental protection. The offering is completed with a wide range of payment and collections services, online banking, and insurance products. It also features treasury services for municipal governments, hospitals, and other public bodies and organizations.

In their pursuit of business objectives centered around social cohesion and the improvement of their local communities, the mutual banks (and

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

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

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

[18] Bank of Italy Circular no. 285, Part Three, Chapter 5, Section. 1, sub-section 1).

the Group companies that serve them) are constantly engaged in enhancing the offering with banking and lending products tied to initiatives of environmental sustainability and in developing investment products aimed at promoting community-centric and ethical banking practices. Of particular note in this regard are products and initiatives aimed at combating environmental, social and governance (ESG) risks. The affiliated banks have always had a reputation for understanding that promoting social and environmental sustainability ensures economic equilibrium in the community concerned. This can be seen in their sustainability reports and the consolidated non-financial statement of the Group, which report on the many products and projects dedicated to their shareholders, to non-profit organizations, to employees, to businesses in the community, to the creation of jobs and the promotion of young entrepreneurs, to environmental protection, and to culture and other initiatives.

As concerns the provision of credit in particular, the affiliated banks are constantly committed to financing lawful, ethical activities, which tends to exclude businesses, individuals, and other financial relationships in areas seen as being controversial, such as: businesses that directly or indirectly hinder individual development or contribute to the violation of other fundamental human rights; activities connected to the promotion of gambling or pornography; activities connected with the promotion of weapons production or of other harmful products; and activities that present an elevated risk of harming the environment.

There is also a significant commitment to providing and placing ethical or environmental investment products. Efforts aimed at the provision of banking and lending products connected with environmental sustainability feature initiatives to promote a culture of energy savings and the responsible use of resources, including actions that involve the mutual banks directly, and their customers indirectly, through products of low environmental impact, financing to help businesses and households install systems for the generation of renewable energy (i.e. solar, wind, or thermal), projects to improve the energy efficiency of buildings, and financing for the purchase of environmentally sustainable vehicles. Socially responsible mutual funds are also offered as ethical forms of investment that give investors the option of donating a portion of their investment to projects of social good. In the same way, there are specific lines of personalized, diversified asset management accounts that invest solely in ethical financial instruments.

The ICBG also has an important role in business microcredit, governed by Article 111 et seq. of the Consolidated Banking Act and promoted as a tool of social development and financial inclusion. Microcredit provides access to credit for young entrepreneurs with great ideas and initiative but little or no collateral. For these young entrepreneurs, the lack of a credit history, collateral, or personal guarantees makes it difficult, if not impossible, to access credit despite having a good idea for a new business. The signing of a specific memorandum of understanding between Iccrea Banca and the National Microcredit Agency is intended to increase the number of mutual banks operating in the particular segment and to increase the already notable volume of business in this area. In 2019, one microcredit transaction in four in Italy (guaranteed by a specific section of the Guarantee Fund for SMEs) was carried out by the mutual banks belonging to the ICBG.

Initiatives are also under way to promote social microcredit. A second memorandum signed with the National Microcredit Agency regards the promotion of social microcredit among the mutual banks participating in the ICBG and the formation of a joint working group to conduct a feasibility study for the establishment of a guarantee fund to facilitate the access of individuals and households in difficulty to credit.

The concepts of mutualism and localism that characterize the model of the Iccrea Cooperative Banking Group go well with that of sustainable development, an objective explicitly expressed in Article 2 of the articles of association of the mutual banks, which integrate the bank's mission with the promotion of responsible and sustainable growth of the local community. The creation of economic and financial value in the operations of the Group's mutual banks is closely associated with the creation of the environmental, social and cultural value of local communities. In order to ensure that this natural role of banks in sustainable development is visible at the national level and to respond to an often improper use of the term "sustainable", the Group considers it appropriate and strategic to enhance the "sustainability" of the banking model of the mutual banks and the other members of the Group. In fact, the concept of sustainability represented the natural evolution of the mutualistic DNA of the mutual banks, leading them over the years to pursue the sustainable development goals of the UN 2030 Agenda (SDGs) in their territories.

In this context, ICBG considers sustainability an opportunity to reaffirm the principles and values of cooperative credit, leveraging the attention that the mutual banks dedicate to the community, people and the local economy, respecting the environment and pursuing the goals of Article 2 of the articles of association. In this regard, the Parent Company immediately invested in the construction of a sustainability governance system, understood as the integration of the three ESG factors (Environment, Social and Governance) into operations and strategy, giving itself a management model based on specific centers of accountability. Since May 2019, a delegated Director for Sustainability and Consolidated Non-Financial Reporting of the Group has been designated, with responsibility for the development of the Sustainability Plan and the preparation of the consolidated non-financial statement (NFS).

The delegated Director is assisted: (i) by the "Sustainability Chief" Committees, which support the Public Affairs & Sustainability unit in defining sustainability objectives and in the subsequent implementation of the actions necessary to achieve the desired results; (ii) by the Sustainability Scientific Committee, made up of 10 members representing the main stakeholders of the Group, with the function of providing the delegated Director with an external strategic point of view on sustainability objectives, the related plan and the NFS.

At the operational level, the Public Affairs & Sustainability unit[19] was set up at the Parent Company to liaise with the mutual banks, focusing on managing sustainability in terms of both non-financial reporting and plan for the development and integration of ESG factors. The unit interfaces with the mutual banks, collaborating and supporting the projects of the mutual banks with innovative features for the development of their territories. With a view to further enhancing the role of the mutual banks as local banks, the unit is also involved in close institutional relationships with entities at the national (e.g. with CDP), supranational (e.g. with the EIB and EIF) and local levels, with representation on regional entities (and related managing authorities) and regional financial bodies, where present. Agreements have been entered into with some of these financial institutions, with the aim of coordinating and intensifying the operational relationship between the mutual banks and these entities in the interest of local businesses, especially micro firms.

Together with the Charters of Commitments, the Board of Directors also approved the Group's 2020-2023 Sustainability Plan[20] on 30 March 2020, works on which had begun in 2019. The Sustainability Plan is a chapter of the Business Plan and represents the Group's strategy in promoting the sustainable development of territorial systems. The Plan is made up of 20 objectives and 74 targets with a deadline of 2023. They are developed into three strategic areas: Territory, the Environment and Combating Climate Change, and People and Communities. Through the Sustainability Plan, the Through the Sustainability Plan, the Iccrea Group accepts the principle of integral ecology expressed in the Encyclical Laudato Si', contributes to a large part of the Sustainable Development Goals of the UN 2030 Agenda and strengthens the role of the Group in pursuing local sustainability, with objectives that - defined at Group level - will be pursued by the Parent Company, the subsidiaries and the affiliated mutual banks on the basis of their respective spheres of responsibility and the scope of the objectives.

More detailed qualitative and quantitative information on non-financial activities is reported annually in the consolidated non-financial statement, which is audited for compliance, in accordance with Article 3, paragraph 10, of Legislative Decree 254/2016, by the audit firm, EY SpA.

The mutual banks make a significant contribution to local communities through their charitable activities, which are primarily targeted at:

- projects and other activities aimed primarily at: (i) assisting children and the elderly in need, as well as assisting those who are experiencing social hardship or exclusion, the sick and disabled, and other vulnerable segments of the population; (ii) the promotion of sports; civil protection; and (iii) projects for the development of local communities and local resources;
- education, research and culture for young people and the elderly, with an emphasis on cooperation and economic and social inclusion (supporting schools and other training and research institutions in their research projects and other specific events; scholarships and research grants for graduate and post-graduate programs; education initiatives to promote the responsible use of money; initiatives to promote employment among young people; and the promotion of start-ups and innovation);
- health care research and assistance through the projects of prestigious health care organizations, including in collaboration with universities and other local and national research institutes and by funding scholarships;
- the promotion of culture, financing: (i) historical and literary studies and initiatives, with a particular emphasis on the traditions and customs of the local communities; and (ii) exhibits and other events tied to local culture; restoration and development of local cultural landmarks.

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

[19] The Parent Company has also developed a Policy on the Consolidated Non-Financial Statement (NFS) governing the phases, timing, roles, activities, responsibilities of the Iccrea Banca areas, the companies in the direct and indirect scope of consolidation perimeter and the affiliated mutual banks involved in the process of consolidating non-financial reporting. To complete the primary regulations, a process concerning the NSF and targeted at the affiliated mutual banks was also defined. The process sets out in detail the phases and activities that contribute to the collection of the data and information to be reported. It describes the certification process and the traceability of qualitative and quantitative information, pursuant to Legislative Decree 254/2016.

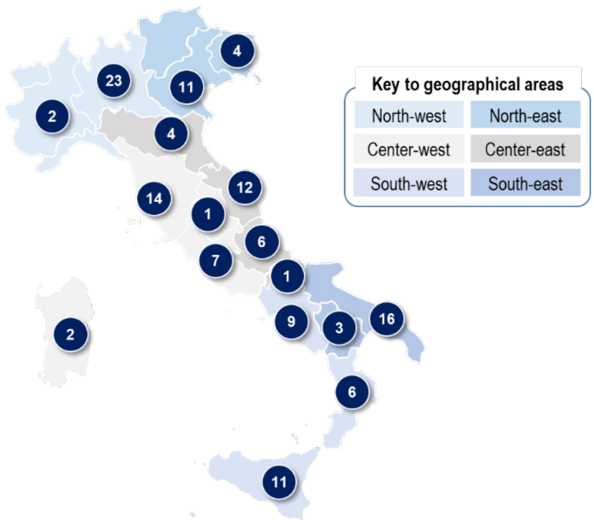
[20] The implementation of the Sustainability Plan will be accompanied by the progressive alignment of internal procedures and regulations with the European regulatory framework on sustainable finance. The package of guidelines and regulatory measures included in the EU Sustainable Finance Action Plan provides for the integration of sustainability risks (environmental, social and governance), with particular regard to those relating to climate change, into the banking risk management system, the loan origination and monitoring process and the decision-making processes relating to financial investments. Among the various actions, it also provides for the adoption of a common European classification of sustainable economic activities with direct impacts on the issuance of green bonds as well as on the promotion of financial products defined as "sustainable".

THE GROUP'S ORGANIZATION AND BRANCH NETWORK

The network of the 132 mutual banks of the Group and of Banca Sviluppo is uniform throughout the country (34% in southern Italy, 36% in central Italy, and 30% in the north) as a result of our mission to support the local communities. The only regions in which the Group has no banking presence are Valle d'Aosta, Liguria and Trentino–Alto Adige (although the Group does have branches in the latter two regions).

In 2020, the number of affiliated banks declined from 140 to 132 as a result of 6 mergers involving 8 banks:

- the merger of BCC di Formello and BCC di Riano, which resulted in the creation of Banca di Credito Cooperativo della Provincia Romana S.C.;
- the merger of Banca CRAS and BCC Umbria, which resulted in the creation of Banca Centro Credito Cooperativo Toscana Umbria S.C.;
- the merger of Banca di Credito Cooperativo di Valledolmo and Banca di Credito Cooperativo San Giuseppe di Petralia Sottana, which resulted in the creation of Banca di Credito Cooperativo San Giuseppe delle Madonia S.C.;
- the merger of BCC di Monastier in BCC Pordenonese, which resulted in the creation of BCC Pordenonese e Monsile S.C.;
- the merger of BCC Credito Trevigiano S.C. and C.R.A. Brendola, which resulted in the creation of Banca delle Terre Venete;
- the merger of Banca di Credito Cooperativo San Giuseppe di Mussomeli, Banca di Credito Cooperativo Don Stella di Resuttano, and Banca di Credito Cooperativo di San Biagio Platani into Banca di Credito Cooperativo "G. Toniolo" di San Cataldo.



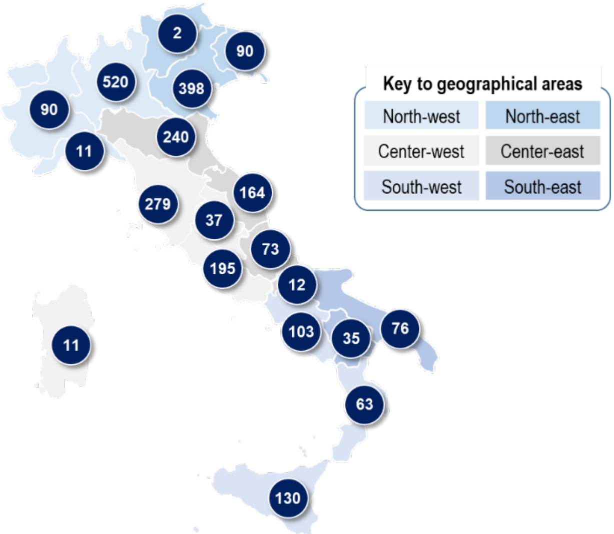
Structure of the Group's network of bank branches

The ICBG is Italy's third-largest banking group in terms of number of branches (with 2,592 branches operated by 132 mutual banks and by Banca Sviluppo), 57% of which are located in the Italian regions of Lombardy, Veneto, Tuscany and Emilia-Romagna for a nationwide branch market share of 10.6%. Since the Group's inception, the territorial development plan has established the guidelines aimed at ensuring a better balance between physical proximity (as one of the founding drivers of the relationship of the affiliated banks with their shareholders, their customers, and the community) and economic sustainability (i.e. repositioning into markets that are more attractive and present greater potential for cost efficiencies). In 2020, in line with these objectives, the branch network saw the closure of 70 branches, and this was partially offset by the opening of new branches that were identified as possessing greater potential for business development. The result of these efforts was a net reduction of 45 branches.

The ICBG has at least one branch in 1,737 of the 5,071 Italian municipalities served by banks (34.3% of the total). In 303 of these municipalities (17.4% of the total), the Group's branches are the only banking presence, consistent with the organization's community-centric mission. At the same time, the Group is also present in the leading Italian markets, with the expectation about 40% of the Group's branches to be present in municipalities with more than 3 bank branches.

No. of other banks present in the municipalities in which ICBG has a presence	0	1	2	3	more than 3	Total
No. Municipalities	303	310	267	171	686	1,737
% of the total	17.44%	17.85%	15.37%	9.85%	39.49%	100.00%

Source: Based on Bank of Italy data as at December 31, 2020



Lombardy is the Italian region in which the ICBG serves the greatest number of municipalities (410), whereas Tuscany is number one in terms of penetration in municipalities served by at least one bank (in 61.2% of these, the Group has at least one branch).

Region	Municipalities with banking services	with ICBG branch	(%)	of which ICBG is only presence	(%)
Lombardy	1,063	410	38.6%	85	20.7%
Veneto	481	270	56.1%	26	9.6%
Tuscany	255	156	61.2%	5	3.2%
Emilia–Romagna	308	121	39.3%	6	5.0%
Sicily	269	107	39.8%	37	34.6%
Lazio	218	102	46.8%	17	16.7%
Marche	184	100	54.3%	10	10.0%
Campania	283	85	30.0%	34	40.0%
Calabria	130	58	44.6%	31	53.4%
Piedmont	508	62	12.2%	8	12.9%
Friuli–Venezia Giulia	157	61	38.9%	10	16.4%
Puglia	207	61	29.5%	1	1.6%
Abruzzo	147	56	38.1%	9	16.1%
Basilicata	82	33	40.2%	14	42.4%
Umbria	75	21	28.0%	2	9.5%
Molise	33	12	36.4%	7	58.3%
Liguria	110	10	9.1%	1	10.0%
Sardinia	277	10	3.6%	-	0.0%
Trentino–Alto Adige	258	2	0.8%	-	0.0%
Valle d'Aosta	26	-	0.0%	-	0.0%
Total	**5,071**	**1,737**	**34.3%**	**303**	**17.4%**

Source: Based on Bank of Italy data as at December 31, 2020

Strategic positioning of the Group's banks

The ICBG, including Banca Sviluppo, accounts for 5.3% of the Italian market of (performing) loans to customers (not including Monetary Financial Institutions), increasing market share compared with 2019 (4.9%). As in the past, market share is higher among businesses (7.4%). This improvement in competitive positioning is to be seen in relation to the significant increase in government-backed lending within the scope of the measures by the Italian government, as described above, to support households and SMEs (the core customer base for the Group).

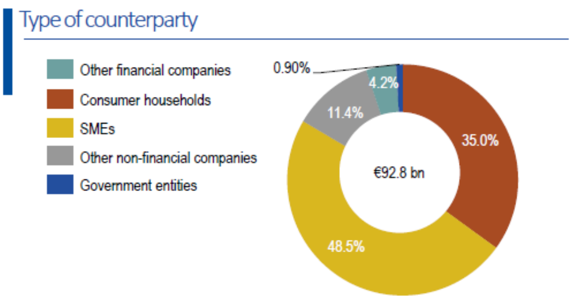
By region, the Group has the highest market share in Marche (at 15% of lending to residents), followed by Tuscany, Friuli–Venezia Giulia and Abruzzo, which all have market shares above 10%. These percentages are about the same for market share among consumers and businesses.

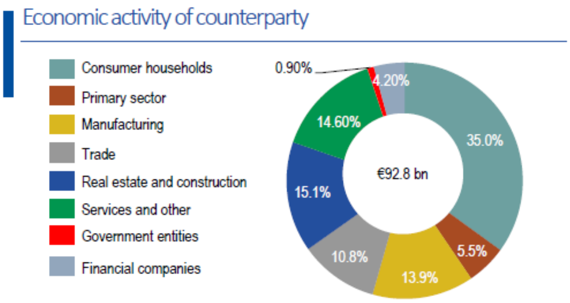
Region	Market share – loans to customers	Market share – loans to households	Market share – loans to businesses	Market share – deposits
Marche	15.0%	14.1%	17.2%	14.8%
Friuli–Venezia Giulia	10.8%	11.2%	12.5%	9.3%
Tuscany	11.1%	10.2%	12.9%	11.3%
Abruzzo	10.5%	9.4%	12.3%	8.9%
Basilicata	9.9%	6.9%	14.3%	6.9%
Veneto	9.5%	10.4%	11.0%	9.0%
Emilia–Romagna	6.8%	7.3%	7.3%	6.2%
Calabria	6.0%	5.2%	10.4%	5.4%
Lazio	3.1%	6.6%	6.5%	6.4%
Lombardy	4.6%	5.2%	6.1%	5.2%
Umbria	5.2%	4.1%	6.5%	5.4%
Molise	5.0%	3.4%	7.5%	2.7%
Piedmont	4.4%	4.0%	5.6%	1.1%
Puglia	4.5%	3.0%	6.9%	4.1%
Sicily	3.5%	2.7%	5.6%	4.8%
Campania	3.3%	2.2%	5.2%	2.9%
Sardinia	2.0%	0.8%	4.3%	1.9%
Liguria	0.8%	0.5%	1.1%	0.5%
Valle d'Aosta	1.5%	0.3%	2.6%	0.4%
Trentino–Alto Adige	0.8%	0.2%	1.0%	0.2%
Total	**5.3%**	**5.9%**	**7.4%**	**5.7%**

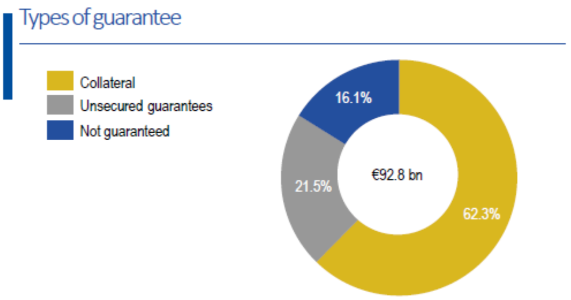
Source: Based on supervisory and Bank of Italy data as at December 31, 2020. Loans to and deposits by customers are shown based on customer residence.

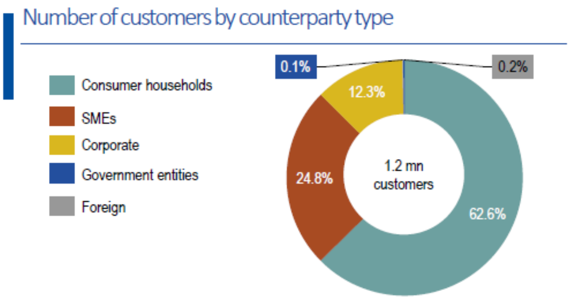
With regard to deposits by resident customers (about 3.5 million deposit holders, 95% of which households and SMEs), market share is at 5.7%, down from 2019 (6%) due, above all, to reductions in market share in Tuscany and Lazio. Again in 2020, Marche was the region in which the Group had the greatest market share (14.8%), followed by Tuscany, Friuli–Venezia Giulia and Veneto.

ICBG borrowers at the end of 2020 numbered some 1.2 million. In line with the mutual-bank business model, about two-thirds of all borrowers are consumers, while one-fourth are SMEs from all industry segments, with an average lending per borrower of about €77 thousand and a high level of guarantees backing the loans granted.









Distribution of customers and the workforce

In line with the regional distribution of branches, the branch network by number of employees shows peak numbers in the regions of Lombardy, Veneto, Tuscany, Emilia–Romagna, Lazio, and Marche, regions in which about 74% of the Groups branches and 78% of employees are located. The average number of employees per branch nationwide at the end of 2020 was 4.6, a slight decrease from the previous year (5.1) in response to ongoing efforts by the Group's banks to find the right balance between economic sustainability and physical proximity to the territories served to the benefit of the local communities and local shareholders.

Region	No. Branch Employees	No. Group Branches	Employees/Branch
Lombardy	2,542	520	4.9
Veneto	1,868	398	4.7
Tuscany	1,369	279	4.9
Emilia–Romagna	1,119	240	4.7
Lazio	986	195	5.1
Marche	782	164	4.8
Piedmont	528	90	5.9
Campania	431	103	4.2
Sicily	395	130	3.0
Friuli–Venezia Giulia	353	90	3.9
Puglia	329	76	4.3
Calabria	234	63	3.8
Abruzzo	309	73	4.2
Umbria	136	37	3.7
Basilicata	98	35	2.8
Liguria	51	11	4.6
Sardinia	37	11	3.4
Molise	14	12	1.2
Trentino–Alto Adige	3	2	1.5
Total Italy	**11,580**	**2,529**	**4.6**

Source: Based on supervisory and Bank of Italy data as at December 31, 2020

In terms of ownership structure, shareholders at December 2020 numbered more than 824,000, increasing by over 14,000 compared with December 31, 2019 (+1.8%). About 88% are concentrated, and evenly distributed, in northern and central Italy.

Geographical area	No. shareholders Dec 20	(%)	No. shareholders Dec 19	(%)	Diff Dec 20–Dec 19	Chg Dec 20–Dec 19
Northwest	241,424	29.28%	239,456	29.55%	1,968	0.82%
Northeast	118,141	14.33%	116,180	14.34%	1,961	1.69%
West-Central	201,031	24.38%	194,827	24.04%	6,204	3.18%
East-Central	165,783	20.10%	162,212	20.02%	3,571	2.20%
Southwest	71,871	8.72%	71,888	8.87%	- 17	-0.02%
Southeast	26,360	3.20%	25,754	3.18%	606	2.35%
Total	**824,610**	**100.00%**	**810,317**	**100.00%**	**14,293**	**1.76%**

Source: Based on supervisory data as at December 31, 2020. The number of shareholders is shown by area in which the bank is headquartered.

4. DEVELOPMENTS IN GROUP OPERATIONS

Provided below is an overview of the main balance sheet and income statement figures of the Iccrea Cooperative Banking Group as at December 31, 2020. To enable a more immediate understanding of the Group's balance sheet and income statement, the following tables contain more condensed schedules than those provided for in Circular no. 262/05 of the Bank of Italy.

BALANCE SHEET

Consolidated assets

€/thousands	31/12/2020	31/12/2019
Cash and cash equivalents	992,575	956,482
Financial assets measured at fair value through profit or loss	1,892,207	1,940,080
Financial assets measured at fair value through other comprehensive income	7,870,200	9,109,726
Financial assets measured at amortized cost	151,183,057	135,869,471
a) due from banks	6,461,475	7,384,246
b) loans to customers	87,277,814	85,240,858
c) securities	57,443,769	43,244,367
Hedging derivatives and value adjustments of macro-hedged financial assets	234,369	157,761
Equity investments	114,502	88,893
Property, plant and equipment	2,741,691	2,842,541
Intangible assets	168,844	146,462
Tax assets	2,119,045	2,135,149
Non-current assets and disposal groups held for sale	18,368	33,856
Other assets	1,933,254	2,250,045
Total assets	**169,268,115**	**155,530,466**

The consolidated assets of the Iccrea Cooperative Banking Group at December 31, 2020, totaled €169.3 billion, up €13.7 billion (+8.8%) on December 31, 2019. This increase is mainly attributable to the greater exposure to securities in the HTC portfolio and, to a lesser extent, to the growth in lending to ordinary customers, effects which were partially offset by a decrease in HTCS securities and exposures to banks.

Financial assets measured at fair value through profit or loss, in the amount of €1.9 billion, include financial assets held for trading in the amount of €0.3 billion (mainly in government securities held for trading), financial assets designated as at fair value in the amount of €0.3 billion (in instruments in which liquidity from the guarantee scheme is invested, mainly in European government securities), and other financial assets mandatorily measured at fair value in the amount of €1.3 billion (which mainly includes units in CIUs, policies, and postal bonds).

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

€/thousands	L1	L2	L3	Total 31/12/2020	Total 31/12/2019
Financial assets held for trading	23,132	243,406	4,000	270,538	205,225
Debt securities	17,723	1,328	59	19,110	36,035
Equity securities	2,609	3	2	2,614	6,485
Units in collective investment undertakings	2,426	5,152	-	7,577	12,641
Financial derivatives	374	236,923	3,939	241,236	150,065
Financial assets designated as at fair value	341,077	-	4,017	345,094	367,477
Debt securities	341,077	-	-	341,077	362,091
Financing	-	-	4,017	4,017	5,385
Financial assets mandatorily measured at fair value	73,658	962,019	240,899	1,276,575	1,367,379
Debt securities	13,248	49,275	4,732	67,255	95,516
Equity securities	11,259	5,467	26,456	43,182	30,058
Units in collective investment undertakings	49,151	290,381	3,631	343,163	488,496
Financing	-	616,896	206,080	822,975	753,309
Financial assets measured at fair value through profit or loss	**437,865**	**1,205,425**	**248,916**	**1,892,207**	**1,940,080**

The portfolio of financial assets measured at fair value through other comprehensive income amounted to €7.9 billion, a decrease of €1.2 billion from December 31, 2019, and is mainly represented by government securities held in accordance with the HTCS business model. The aggregate also includes minority interests in the amount of €165 million, which are measured at fair value through other comprehensive income without recycling to profit or loss.

€/thousands	L1	L2	L3	Total 31/12/2020	Total 31/12/2019
Debt securities	7,661,292	43,761	26	7,705,078	8,978,573
Equity securities	4,535	94,300	66,286	165,122	131,153
Financial assets measured at fair value through other comprehensive income	**7,665,827**	**138,061**	**66,312**	**7,870,200**	**9,109,726**

For a breakdown of financial assets measured at amortized cost, in the amount of €151.2 billion, 62% is in loans (93% of which to ordinary customers) with the remainder in debt securities. These assets may be categorized by their relative level of risk as shown below.

€/thousands	Gross value		Total writedowns	
	Stages 1 and 2	Stage 3	Stages 1 and 2	Stage 3
Financing	90,809,809	8,442,310	(810,928)	(4,701,903)
Loans to banks[21]	6,469,488	1,073	(8,428)	(658)
Loans to customers[21]	84,340,321	8,441,237	(802,500)	(4,701,245)
Debt securities	57,540,456	2,897	(98,086)	(1,498)
Total financial assets measured at amortized cost	**148,350,265**	**8,445,207**	**(909,014)**	**(4,703,401)**

More specifically, loans to customers totaled €87.3 billion, €83.5 billion of which performing and about €3.8 billion related to impaired positions. Of this total, more than 80% was in medium and long-term financing (both loans and leasing). Lending to ordinary customers – driven in part by the issue of public guarantees as part of measures implemented by way of decrees in response to the health emergency – increased by about €3.4 billion during the year, growth that was partially offset by a decrease in exposures to the Clearing and Guarantee Fund (down €1.3 billion from 2019).

Due in part to measures aimed at mitigating the economic impact of the health emergency, the year law a further shift towards longer-term financing, including sustained growth in mortgage loans (up €7.4 billion, or 12.9% annually), which more than offset the decline in current account lines of credit (down €2.6 billion, or -28.3% compared with a year ago).

€/thousands	Stages 1 and 2	Stage 3	Total 31/12/2020	Percentage %	Total 31/12/2019	Percentage %
Current accounts	5,973,361	648,110	6,621,472	7.6%	9,241,053	10.8%
Repurchase agreements	1,813,263	-	1,813,263	2.1%	2,935,176	3.4%
Medium/long-term loans	62,979,347	2,637,254	65,616,601	75.2%	58,144,238	68.2%
Credit cards, personal loans and salary-backed loans	2,033,147	29,430	2,062,577	2.4%	2,186,330	2.6%
Lease financing	4,171,955	325,106	4,497,061	5.2%	4,704,582	5.5%
Factoring	468,208	14,820	483,028	0.6%	504,704	0.6%
Other lending	6,098,539	85,273	6,183,811	7.1%	7,524,774	8.8%
Financial assets measured at amortized cost – Loans to customers	**83,537,820**	**3,739,993**	**87,277,814**	**100.0%**	**85,240,858**	**100.0%**

Gross impaired loans, which have continued to decrease in recent years thanks to robust de-risking efforts pursued in coordination with the Parent Company, came to about €8.4 billion, or 8.5% of total gross lending (9.1% of loans to customers alone, not including banks). Net impaired loans amounted to €3.7 billion, equal to 4% of net lending (4.3% when considering only ordinary customers). The ratios of net non-performing loans and net unlikely-to-pay positions to net lending came to 1.3% and 2.5%, respectively (1.4% and 2.7% when considering only ordinary customers).

As shown in the table below, efforts to improve the Group's risk profile, alongside the robust de-risking measures, can also be seen in the more prudent assessment policies, which have resulted in an increase in the coverage of NPLs to 55.7% by the end of 2020, an increase of nearly 5 percentage points compared with the end of the previous year.

Type of exposure	Gross exposure	Writedowns	Net exposure	Coverage 31/12/2020	Coverage 31/12/2019
Bad loans	4,050,841	(2,852,273)	1,198,568	70.4%	65.2%
Unlikely-to-pay positions	4,132,276	(1,803,093)	2,329,183	43.6%	38.1%
Impaired past-due positions	258,120	(45,878)	212,242	17.8%	15.7%
Impaired exposures to customers at year end	**8,441,237**	**(4,701,244)**	**3,739,993**	**55.7%**	**50.9%**

[21] Source: Based on consolidated Finrep data.

The particular business model of the affiliated banks, which account for the largest component of assets and of total loans to customers, is reflected, above all, in the type of counterparty. Total loans disbursed, a gross amount of €92.8 billion at December 31, 2020, have, as mentioned previously, mainly gone to households and small and medium-sized enterprises (SMEs), which accounted for 35% and 48.5% of total lending, respectively. As shown in the table below, these segments feature a lower NPL ratio than for the corporate segment, thereby confirming the ability to better discriminate and manage credit relationships with households and SMEs, which have always been the core customer base of mutual banks.

Type of counterparty	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	NPL Ratio	Ratio to total NPL
Ordinary customers	**91,991,879**	**99.1%**	**90.8%**	**99.1%**	**9.2%**	**99.8%**
Households	32,476,794	35.0%	94.8%	36.5%	5.2%	20.1%
Small and medium-sized enterprises	45,003,078	48.5%	90.9%	48.5%	9.1%	48.5%
- Family businesses	8,678,209	9.4%	90.3%	9.3%	9.7%	9.9%
- Micro-businesses, associations and other organizations	8,763,340	9.4%	88.3%	9.2%	11.7%	12.1%
- Other SMEs	27,561,529	29.7%	91.8%	30.0%	8.2%	26.5%
Other non-financial companies	10,606,290	11.4%	75.6%	9.5%	24.4%	30.5%
Other financial companies	3,905,717	4.2%	98.5%	4.6%	1.5%	0.7%
Government entities	**789,680**	**0.9%**	**98.3%**	**0.9%**	**1.7%**	**0.2%**
Total loans to customers at year end	**92,781,558**	**100.0%**	**90.9%**	**100.0%**	**9.1%**	**100.0%**

In terms of geographical distribution, the Group's exposures are mainly concentrated in northern Italy (55.4%), where there has been a lower level of credit risk, and in central Italy (32.4%).

Geographical area	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	NPL Ratio	Ratio to total NPL
Northeast	26,469,783	28.5%	92.0%	28.9%	8.0%	24.9%
Northwest	24,995,343	26.9%	91.2%	27.0%	8.8%	25.9%
Center	30,053,144	32.4%	90.0%	32.1%	10.0%	35.6%
South and islands	11,263,289	12.2%	89.8%	12.0%	10.2%	13.6%
Total loans to customers at year end	**92,781,558**	**100.0%**	**90.9%**	**100.0%**	**9.1%**	**100.0%**

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

Industry segment of the borrowers	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	Ratio to total	Ratio to total NPL
Households	32,476,794	35.0%	94.8%	36.5%	5.2%	20.1%
Primary sector	5,105,500	5.5%	92.0%	5.6%	8.0%	4.8%
Manufacturing	12,884,685	13.9%	91.5%	14.0%	8.5%	12.8%
Commerce	10,060,290	10.8%	90.6%	10.8%	9.4%	11.2%
Real estate and construction	14,041,950	15.1%	77.7%	12.9%	22.3%	36.9%
Services and other	13,516,943	14.6%	91.7%	14.7%	8.3%	13.3%
Government entities	789,680	0.9%	98.3%	0.9%	1.7%	0.2%
Financial companies	3,905,717	4.2%	98.5%	4.6%	1.5%	0.7%
Total loans to customers at year end	**92,781,558**	**100.0%**	**90.9%**	**100.0%**	**9.1%**	**100.0%**

The particular model of cooperative banking, featuring a prevalence of medium and long-term lending to households and small businesses, is responsible for the high rate of collateral-backed lending (62.3%). More specifically, 75% of all impaired lending is backed by collateral, and this figure is to be interpreted in conjunction with the high level of NPL coverage, which testifies to the prudent approach to assessing the recoverability of credit.

Type of guarantee	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	Ratio to total	Ratio to total NPL
Collateral	57,823,883	62.3%	89.0%	61.1%	11.0%	74.9%
Unsecured guarantees	19,988,537	21.5%	93.3%	22.1%	6.7%	15.8%
Not guaranteed	14,969,138	16.1%	94.7%	16.8%	5.3%	9.3%
Total loans to customers at year end	**92,781,558**	**100.0%**	**90.9%**	**100.0%**	**9.1%**	**100.0%**

With regard to financial assets measured at amortized cost, amounts due from banks (net of debt securities) amounted to approximately €6.5 billion and include the reserve requirement with central banks (€4.7 billion).

€/thousands	Stages 1 and 2	Stage 3	Total 31/12/2020	Percentage %	Total 31/12/2019	Percentage %
Due from central banks	4,680,695	-	4,680,695	72.4%	4,211,582	57.0%
Loans to banks	1,780,367	413	1,780,780	27.6%	3,172,664	43.0%
Current accounts and demand deposits	543,248	-	543,248	8.4%	592,548	8.0%
Time deposits	38,955	-	38,955	0.6%	79,619	1.1%
Other	1,198,164	413	1,198,578	18.5%	2,500,497	33.9%
Financial assets measured at amortized cost – Loans to banks	**6,461,061**	**413**	**6,461,475**	**100.0%**	**7,384,246**	**100.0%**

Finally, debt securities measured at amortized cost (under the HTC business model), largely in Italian government securities, totaled €57.4 billion. The significant increase compared with 2019 (of €14.2 billion) may be attributed to the Group's new strategy of financial management approved in March 2020 in response to the ECB's more expansionary monetary policy (particularly by way of expanding access to TLTRO-III operations) to combat the economic impact of the COVID-19 health emergency.

Among assets: (i) equity investments (€114.5 million) mainly represent interests in associates, the most significant of which are the investments in BCC Vita (30% interest), Satispay (16% interest), and BCC Assicurazioni (30% interest); (ii) property, plant and equipment, totaling €2.7 billion, includes property used in operations (€2.2 billion) as well as properties contributed to consolidated real estate investment funds in the amount of €0.5 billion; (iii) intangible assets (€168.8 million) mainly include software and user licenses (€145.8 million) and, to a lesser extent, goodwill for the remaining €23 million, a portion of which has been recognized among assets for the affiliated banks for the acquisition of bank branches (€7.5 million net of adjustments during the year in the amount of €2.8 million) prior to creation of the Cooperative Banking Group; (iv) tax assets totaling €2.1 billion, including current taxes of €0.5 billion and deferred tax assets of €1.6 billion, the latter of which includes €1.2 billion referring to Italian Law 214/2011.

Consolidated liabilities and equity

€/thousands	31/12/2020	31/12/2019
Financial liabilities measured at amortized cost	154,229,489	140,832,998
a) due to banks	32,114,297	18,873,746
b) due to customers	108,396,697	105,581,113
c) securities issued	13,718,495	16,378,138
Financial liabilities held for trading	243,808	163,728
Financial liabilities designated as at fair value	3,117	11,461
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	513,071	320,606
Tax liabilities	101,216	105,945
Other liabilities	3,018,072	3,111,184
Post-employment benefits	295,178	306,254
Provisions for risks and charges	528,106	445,700
Equity	10,140,264	9,994,113
Profit/(loss) for the period	195,793	238,478
Total liabilities and equity	**169,268,115**	**155,530,466**

Total consolidated liabilities and equity at December 31, 2020, amounted to €169.3 billion, up €13.7 billion (+8.3%) on December 31, 2019. The increase is mainly attributable to liabilities measured at amortized cost (up €13.4 billion).

More specifically, financial liabilities measured at amortized cost include direct deposits from ordinary customers (excluding liabilities to the

Clearing and Guarantee Fund) totaling €113.2 billion (up €7.8 billion on the end of 2019). The increase in amounts due to ordinary customers (+€10.5 billion) was connected mainly with the increase in balances on current accounts and demand deposits, partly offset by the decline in securities issued as they matured that were not accompanied by new issues (-€2.7 billion).

€/thousands	31/12/2020	31/12/2019
Current accounts and demand deposits	92,228,673	80,905,313
Time deposits	5,748,454	6,483,273
Outstanding securities	13,718,495	16,378,138
Bonds	8,308,713	10,589,999
Other securities	5,409,783	5,788,139
Other payables	1,520,030	1,672,824
Financial liabilities measured at amortized cost – Direct funding from ordinary customers	**113,215,653**	**105,439,548**

More specifically, total funding from ordinary customers (excluding outstanding securities) increased by 11.7% to €99.5 billion. Net of deposits by government entities, which decreased during the year, this funding increased by 13.1% (+€11.3 billion) in 2020, including a sharp increase in deposits by businesses of all sizes (+22.1% annually, an increase of €6.4 billion). In relative terms, funding from households, which accounts for 64% of the total, increased at a slower pace (+8.6%, an increase of €4.9 billion).

Given the level of loan payment holidays requested and the recovery in payments in 2020 among a percentage of businesses that did not request deferments in their payment plans, this trend shows that, in more general terms and despite business customers having requested deferments of their bank borrowings as allowed by government measures, cash flows were, at least in part, able to be generated during this period of lockdowns in response to the spread of COVID-19.

€/thousands	31/12/2020		31/12/2019		% change 2020-2019
	Total	Ratio to total	Total	Ratio to total	
Ordinary customers	**97,340,603**	**97.8%**	**86,034,331**	**96.6%**	**13.1%**
Households	61,847,844	62.2%	56,965,842	64.0%	8.6%
Businesses	35,492,759	35.6%	29,068,489	32.6%	22.1%
- Small and medium-sized enterprises	25,709,367	25.8%	20,821,082	23.4%	23.5%
Family businesses	*5,718,688*	*5.7%*	*4,836,614*	*5.4%*	*18.2%*
Micro-businesses, associations and other organizations	*5,313,938*	*5.3%*	*4,593,802*	*5.2%*	*15.7%*
Other SMEs	*14,676,741*	*14.8%*	*11,390,666*	*12.8%*	*28.8%*
- Other non-financial companies	5,626,305	5.7%	4,467,759	5.0%	25.9%
- Other financial companies	4,157,087	4.2%	3,779,649	4.2%	10.0%
Government entities	**2,156,763**	**2.2%**	**3,027,078**	**3.4%**	**-28.8%**
Deposits and current accounts at amortized cost	**99,497,367**	**100.0%**	**89,061,409**	**100.0%**	**11.7%**

The remainder of financial liabilities measured at amortized cost comprises funding from institutional customers (€41 billion) and includes: i) €6.8 billion in repurchase agreements, almost entirely with the Clearing & Guarantee Fund; (ii) operations on behalf of the Italian Treasury (OPTES) in the amount of about €1 billion; iii) €32.1 billion in amounts due to banks, of which €29.9 billion in targeted longer-term refinancing operations (T-LTROs) with the ECB and €2.2 billion in other amounts due to banks outside the Group.

Amounts due to banks, of which more than 90% is represented by exposures to central banks, increased by a total of €13.2 billion, primarily reflecting the Group's new financial strategy cited earlier, which was adopted in response to the more expansionary monetary policy stance of the ECB.

€/thousands	31/12/2020	31/12/2019
Loans to customers	8,899,330	16,519,704
Repos	6,821,435	13,966,184
Other	2,077,896	2,553,520
Due to banks	32,114,297	18,873,746
Due to central banks	29,923,224	17,411,817
Due to banks	2,191,072	1,461,929
Current accounts and demand deposits	299,339	306,344
Time deposits	116,154	105,736
Loans and repurchase agreements	1,648,035	939,674
Other	127,544	110,175
Financial liabilities measured at amortized cost – Funding from institutional customers	**41,013,627**	**35,393,450**

The main liabilities include the following: (i) financial liabilities held for trading, in the amount of €243.8 million (+€80 million on 2019), which include the negative fair value of trading derivatives; (ii) tax liabilities, totaling €101.3 million, including €97.7 million in deferred tax liabilities on temporarily non-taxable revenues; (iii) other liabilities of about €3 billion, mainly including €646 million in amounts available to customers, €540 million in illiquid portfolio items, €477 million in items being processed and other transit items, and €360 million of taxes payable for withholdings made and amounts to be paid; and (iv) post-employment benefits for the Group totaling €295.2 million and provisions for risks and charges of €528.1 million (which includes provisions for credit risk in the amount of €232 million against commitments to disburse funds and financial guarantees issued).

Consolidated shareholders' equity

Consolidated shareholders' equity totaled €10.3 billion. Share capital includes the capital of the Parent Company, amounting to €1.4 billion, and the capital of the mutual banks, which, together with the Parent Company, constitute a single consolidating entity. Treasury shares mainly represent the capital of Iccrea Banca held by the affiliated banks consolidated in application of Article 1072 of Law 145/2018.

Reserves totaled €8.8 billion and mainly included legal reserves of €10.1 billion – accumulated as a result of an aggressive use of self-funding by the affiliated banks in relation to the aforementioned obligation for the capitalization of at least 70% of earnings – and a negative IFRS 9 reserve of €1.6 billion.

€/thousands	**31/12/2020**	**31/12/2019**
Share capital	2,307,331	2,313,691
Equity instruments	30,139	30,139
Share premium reserve	150,256	146,702
Treasury shares	(1,247,818)	(1,212,256)
Valuation reserves	253,301	254,511
Reserves	8,575,538	8,390,591
Profit for the year	195,793	238,478
Equity pertaining to shareholders of the Parent Company	**10,264,540**	**10,161,857**
Non-controlling interests	**71,517**	**70,737**
Total shareholders' equity	**10,336,056**	**10,232,594**

INCOME STATEMENT

Consolidated income statement

€/thousands	31/12/2020	31/12/2019
Net interest income	**2,521,121**	**2,349,845**
Net fee and commission income	**1,261,960**	**1,268,563**
Dividends, net gain/(loss) on trading activities, net gain/(loss) on hedging and net gain/(loss) on assets and liabilities at FVTPL	25,953	60,076
Net gain (loss) on disposals	264,627	246,469
Gross income	**4,073,661**	**3,924,953**
Net writedowns/writebacks for credit risk	(837,532)	(666,344)
- Financial assets measured at amortized cost – Loans to customers	*(812,766)*	*(680,223)*
Gains/losses from contract modifications without cancellations	(3,197)	(14,319)
Net income/(loss) from financial operations	**3,232,931**	**3,244,289**
Administrative expenses	(2,987,996)	(3,018,872)
a) personnel expenses	(1,729,164)	(1,700,252)
b) other administrative expenses	(1,258,832)	(1,318,620)
Depreciation, amortization and provisions	(319,532)	(230,365)
Other operating income/expense	328,010	347,430
Operating expenses	**(2,979,517)**	**(2,901,807)**
Profit/(loss) from equity investments	(7,804)	10,899
Net gain/(loss) from fair value measurement of property, plant and equipment and intangible assets	(40,118)	(22,858)
Goodwill impairment	(2,842)	(22,671)
Profit/(loss) from disposal of investments	(634)	2,160
Profit/(loss) before tax on continuing operations	**202,077**	**310,012**
Income tax expense from continuing operations	242	(65,049)
Profit/(loss) for the period	**202,320**	**244,963**
Net profit/(loss) pertaining to non-controlling interests	**6,527**	**6,485**
Net profit/(loss) pertaining to the Group	**195,793**	**238,478**

The Group ended the year with net profit of €202.3 million, €195.8 million of which pertaining to the shareholders of the Parent Company, about €43 million lower than in 2019. As a result of the sale of NPLs during the year, which made it possible to benefit from the provisions of Article 55 of the Cure Italy Decree as mentioned above, the tax burden on earnings for the year was nearly zero. ROE for 2020 came to 1.9%, a decrease from 2019 (2.4%), as the increase in gross income (+3.8% from the previous year) was more than offset by the increases in net impairment of loans (+25.7%) and in operating expenses (+2.7%).

More specifically, net interest income, which increased €171.3 million over December 2019, came to €2.5 billion, the net of interest income of €3 billion (€2.3 billion on loans to customers, €462 million on debt securities, and €243 million on funding with negative interest rates, also related to T-LTRO III) and interest expense of about €0.5 billion, mainly related to amounts due to customers and outstanding securities recognized among financial liabilities and measured at amortized cost.

Interest and similar income

€/thousands	Debt securities	Loans	Other transactions	Total 31/12/2020	Total 31/12/2019
Financial assets measured at fair value through profit or loss	12,323	4,303	79	16,704	13,775
Financial assets measured at fair value through other comprehensive income	51,223	-	-	51,223	66,018
Financial assets measured at amortized cost	398,738	2,314,734	-	2,713,473	2,758,103
Hedge derivatives	-	-	(27,832)	(27,832)	(47,216)
Other assets	-	-	2,544	2,544	2,905
Financial liabilities	-	-	243,400	243,400	118,923
Interest income and similar revenues	**462,284**	**2,319,037**	**218,191**	**2,999,512**	**2,912,506**

Interest and similar expense

€/thousands	Payables	Securities	Other transactions	Total 31/12/2020	Total 31/12/2019
Financial liabilities measured at amortized cost	(218,253)	(209,905)	-	(428,158)	(519,698)
Financial liabilities held for trading	-	-	(226)	(226)	(393)
Financial liabilities designated as at fair value	-	(331)	-	(331)	(1,414)
Other liabilities and provisions	-	-	(1,833)	(1,833)	(1,941)
Hedge derivatives	-	-	1,987	1,987	2,461
Financial assets	-	-	(49,829)	(49,829)	(41,677)
Interest expense and similar charges	**(218,253)**	**(210,236)**	**(49,902)**	**(478,391)**	**(562,661)**

Net fee and commission income amounted to €1.3 billion, a slight decrease from the previous year (-€7 million), and includes fee and commission income for a total of €1.4 billion (mainly relating to commissions for the management of current accounts, collection and payment services, and intermediation and advisory services) net of commission expense of €135 million. The reduction in net fee and commission income is mainly attributable to collection and payment services (-€16.7 million, net), which reflects the impact of the economic slowdown as a result of the health emergency.

Fee and commission income

€/thousands	31/12/2020	31/12/2019
Guarantees issued	24,391	26,354
Management, intermediation and advisory services	336,583	329,767
Collection and payment services	198,969	225,025
Servicing for securitizations	2,678	3,725
Services for factoring transactions	4,092	4,087
Management of current accounts	509,967	522,107
Other services	319,978	330,337
Fee and commission income	**1,396,658**	**1,441,401**

Fee and commission expense

€/thousands	31/12/2020	31/12/2019
Guarantees received	(1,535)	(2,473)
Management and intermediation services	(15,355)	(17,463)
Collection and payment services	(14,778)	(24,132)
Other services	(103,030)	(128,771)
Fee and commission expense	**(134,698)**	**(172,839)**

The net gain on disposals came to €264.6 million, an increase of €18.2 million on 2019, and mainly includes the gain on the sale of government securities in the HTC and HTCS portfolios, which was partially offset by losses of around €55 million in relation to sales of impaired loans (largely by way of a public GACS-backed securitization).

Net writedowns for credit risk totaled €837.5 million, an increase of €171.2 million on the previous year, mainly owing to the more prudent measures adopted by the Group, particularly in relation to NPLs, to take account of the possible adverse impacts of the COVID-19 pandemic on the economy.

Operating expenses amounted to about €3 billion, broadly in line with 2019. The total reflected the following components:

- personnel expenses came to €1.7 billion. The slight increase compared with 2019 (+€29 million) is attributable, above all, to early retirement incentives and salary-support measures during the year;
- other administrative expenses settled at €1.3 billion, a decrease of €59.8 million compared with the previous year due mainly to a reduction in costs connected with the ordinary contribution to the mutual bank Deposit Guarantee Scheme (DGS). A portion of these charges related to 2020, in the amount of €35 million, were recognized among provisions for risks in anticipation of the decision of the European Commission concerning the petition filed through the industry association to reduce the target level of the funds of the DGS for mutual banks from 0.8% of guaranteed deposits to 0.5%. Other administrative expenses also declined compared with the previous year as a result of a reduction in the project costs incurred in 2019 for the establishment of the ICBG and a reduction in costs incurred in certain expense categories during the lockdown (e.g. travel and entertainment, etc.);
- provisions, depreciation and amortization amounting to €319.5 million, up €89 million compared with 2019 in reflection not only of the aforementioned provision for risks related to the DGS contribution but also of the increase in net provisions for credit risk in respect of

commitments and guarantees issued (+€16.8 million) connected with the re-estimation of ECLs in the light of macroeconomic developments in response to the spread of COVID-19;

- other net operating income came to €328 million, a decrease of €19.4 million from 2019.

CONSOLIDATED OWN FUNDS AND CAPITAL ADEQUACY

Own funds

The following table offers a breakdown of own funds at December 31, 2020, which amounted to €11.5 billion at the end of 2019.

Capital and capital ratios – €/thousands	31/12/2020	30/06/2020	31/12/2019
Share capital	2,307,331	2,314,364	2,313,704
Share premium reserve	150,256	148,518	147,180
Treasury shares and repurchase commitments	(1,272,314)	(1,239,658)	(1,226,433)
Reserves	8,834,635	8,851,670	8,649,127
Profit/(Loss) for the period	(35,725)	(90,329)	(13,101)
Other components of other comprehensive income	(2,732)	(32,126)	979
Transitional provisions	1,216,047	1,198,273	1,355,639
Goodwill (net of related tax effects)	(22,112)	(24,568)	(24,758)
Deductions – deferred tax assets	(32,664)	(59,484)	(56,327)
Intangible assets (net of related tax effects)	(145,716)	(124,746)	(120,488)
Prudential filters	13,310	(14,395)	(18,861)
Non-controlling interests	14,807	16,672	18,283
Common Equity Tier 1 (CET1 ratio)	**11,025,122**	**10,944,191**	**11,024,947**
Additional Tier 1 (AT1)	34,541	34,658	35,046
Tier 1 (T1)	**11,059,663**	**10,978,849**	**11,059,993**
Eligible subordinated loans	449,787	485,275	559,284
Tier 2 (T2)	**449,787**	**485,275**	**559,284**
Total Own Funds (TC)	**11,509,449**	**11,464,124**	**11,619,277**

In light of the special accounting rules applicable[22] and the obligation under Article 38 of the Consolidated Banking Act for the affiliated banks to allocate at least 70% of annual earnings to reserves, own funds mainly include reserves (€8.8 billion), in addition to share capital in the amount of €2.3 billion (mainly composed of the shareholder contributions of the affiliated banks), which decreases to €1.1 billion after elimination of the capital of the Parent Company held by the affiliated banks (reported under treasury shares).

The CET1 ratio at December 31, 2020, which represents 96% of total capital, remained essentially in line with the end of 2019 as a result of offsetting trends in a number of its main components, and specifically:

- positive effects related to: (i) the increase in reserves (+€185.5 million due, in part, to the calculation of earnings related to 2019 and the first half of 2020); (ii) the prudential filters, which came to €13.3 million at the end of 2020 as compared with -€18.7 million at the end of 2019 (+€32.2 million); and (iii) the decrease in deductions for deferred tax assets, which fell to €32.7 million from €56.3 million at the end of 2019 (+€23.7 million, approximately);
- negative effects related to: (i) a decrease of €139.6 million in the amount (€1.2 billion at December 31, 2020) related to IFRS 9 transitional provisions pursuant to Article 473 *bis* of Regulation (EU) 575/2013, introduced by way of Regulation (EU) 2395/2017 and as amended by Regulation (EU) 2020/873 issued in response to the pandemic, which allow for the effects of application of the standard to be amortized over time;[23] (ii) the increase in the deduction for treasury shares, in the amount of -€45.8 million, attributable mainly to the residual amount authorized by the Authority but unused; (iii) the increased deductions related to intangible assets (-€25.3 million, approximately); (iv) the increased loss for the period at December 31, 2020, as compared with the previous year (-€22.6 million). The loss, equal to €35.7 million (a loss of €13.1 million for 2019), considered for the purposes of calculating own funds, takes account of the prudential rules for the treatment of profits and losses of the Group companies, which, in compliance with the conditions set out in Article 26 of the CRR, resulted in (i) the exclusion of all profits (recognized, where applicable, between July 1, 2020, and December 31, 2020, or subsequent to the authorization for the inclusion of profits at June 30, 2020, by the ECB), as the requirements for their inclusion had not yet been met as at the reporting date; and (ii) the inclusion of all losses of the individual members of the Group.

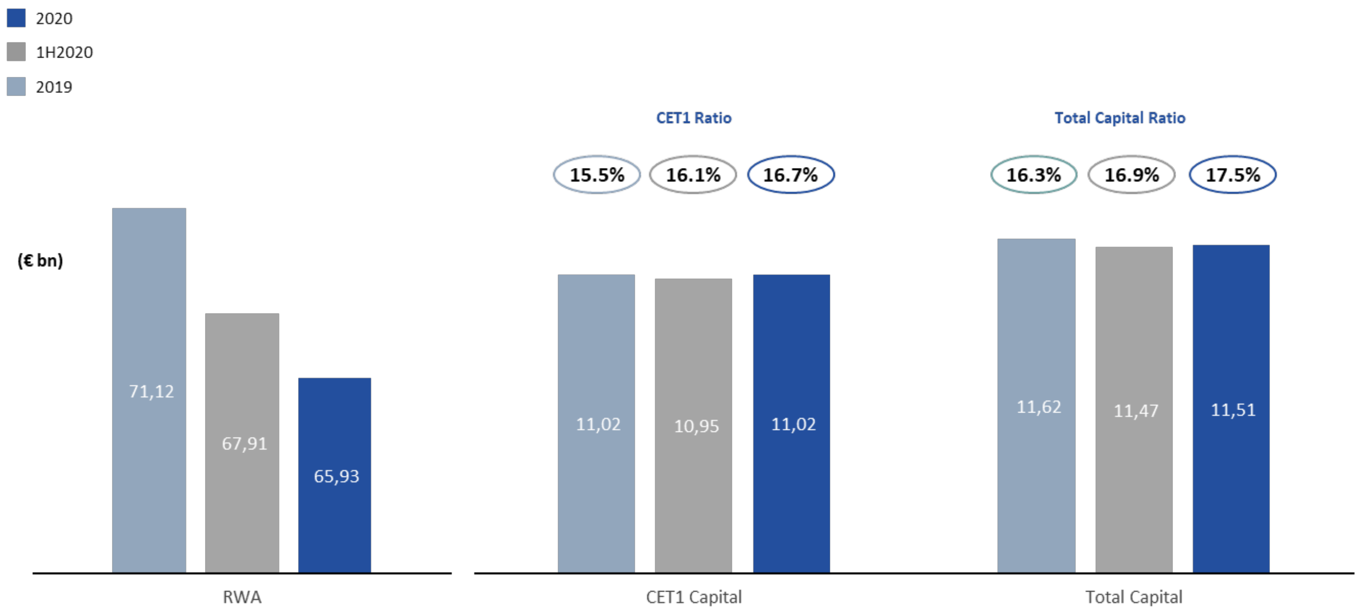
Total own funds decreased by €109.8 million compared with December 2019 due to the reduction in Tier 2 capital of nearly the same amount.

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

[23] The provisions allow for the neutralization of the increased impairment resulting from application of the expected credit loss impairment model introduced by IFRS 9 (net of the related tax component) on a declining percentage scale. The impact is the sum of the effects related to: (i) the shift of the percentage applicable to the old static and dynamic components of the filter from 85% to 70% in implementation of Regulation (EU) 2395/2017; (ii) the neutralization of the impact of the increase in the greater impairment recognized at December 31, 2020, in relation to performing positions alone (i.e. categorized as stages 1 or 2 under the standard) in accordance with the changes to the filter introduced by Regulation (EU) 2020/873, which reintroduced into the CET1 ratio a progressively declining portion of the effect of the greater impairment measured compared with January 1, 2020, net of the related tax effect, equal to 100% for 2020 and 2021, 75% for 2022, 505 for 2023, and 25% for 2024.

Capital adequacy

The CET1 ratio at December 31, 2020, came to 16.7%, which is below the national average for "significant" banks (15.5%), while the TC ratio came to 17.5%. As shown in the figure below, both of these ratios are increases compared with December 2019 (15.5% and 16.3%, respectively).



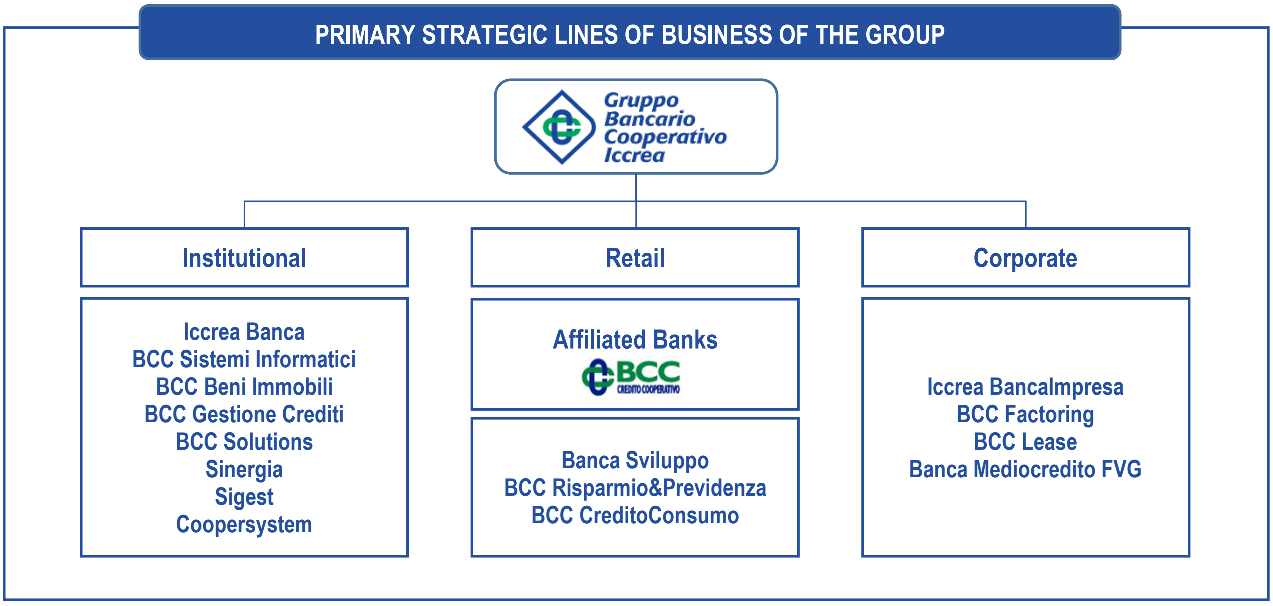
The slight reduction in own funds discussed above – which also reflects the effects of the IFRS 9 phase-in, the inclusion of losses recorded at the individual level by the Group entities and the maturing of subordinated liabilities – was accompanied by a decrease in risk-weighted assets (-€5.1 billion for the year and -€2 billion from June 2020), mainly attributable to two macro-developments: (i) the early application, decided by the competent authorities as part of the response to the deterioration in macroeconomic conditions with Regulation 873/2020 (the "CRR quick fix"), of the expansion envisaged in CRR 2 relating to the supporting factor applicable to exposures to small and medium-sized enterprises; and (ii) the benefits from the application of the provisions of the COVID-19 decrees in respect of positions benefiting from State guarantees.

Benefiting from these effects, the consolidated capital ratios for the ICBG strengthened further in 2020 to above the national average for significant banking groups (with the CET1 ratio at December 2020 of 15.5% as mentioned above). Furthermore, the calculation of 2020 earnings and recognition of the public guarantee scheme (GACS) on the senior securitization related to the sale of NPLs at the end of 2020 will make it possible to offset the effects on the capital ratios of the continued phase-in of IFRS 9, which, as a result, will not have an impact on the ratios, which, based on static figures, should remain at the current levels through the first half of [2020].

5. THE GROUP'S STRATEGIC LINES OF BUSINESS

CONSOLIDATED BANKS AND OTHER COMPANIES

The ICBG's model for offering products and services is based on an organizational structure (defined internally for operational purposes) that is divided into the following strategic lines of business, chosen on the basis of factors that management considers in making its operational and strategic decisions and consistent with IFRS 8's disclosure requirements.



The following tables show the main operational areas and the result of the individual business areas in which the Group operates. There is a specific segment for the mutual banks based on their unique qualities, in line with the sector regulations that distinguish and preserve the nature of cooperative banking.

€/thousands	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTERSEGMENT TRANSACTIONS	TOTAL
Net interest income	185,911	62,543	58,223	2,172,861	41,583	2,521,121
Net fee and commission income	32,346	162,948	42,300	1,077,198	(52,832)	1,261,960
Other financial expense and income	953	155,877	(892)	217,056	(82,415)	290,579
Gross income	**219,210**	**381,368**	**99,631**	**3,467,115**	**(93,663)**	**4,073,661**
Net value adjustments	(119,404)	(8,716)	(15,019)	(697,941)	351	(840,729)
Net gains/(losses) from financial operations	**99,806**	**372,652**	**84,612**	**2,769,174**	**(93,312)**	**3,232,931**
Operating expenses	(116,580)	(380,679)	(50,712)	(2,473,457)	41,912	(2,979,517)
Other costs and revenues	(8,092)	(64,013)	(494)	(11,168)	32,430	(51,337)
Profit/(loss) from continuing operations	**(24,866)**	**(72,040)**	**33,406**	**284,549**	(18,971)	202,077
Income tax expense from continuing operations	8,175	3,877	(9,747)	(7,368)	5,305	242
Profit/(loss) for the period	**(16,691)**	**(68,163)**	**23,659**	**277,181**	**(13,665)**	**202,320**
Profit/(loss) pertaining to non-controlling interests	**(1,429)**	**5,900**	**2,056**	**-**	**-**	**6,527**
Profit/(loss) pertaining to shareholders of the Parent Company	**(15,262)**	**(74,063)**	**21,603**	**277,181**	**(13,665)**	**195,793**

€/thousands	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTERSEGMENT TRANSACTIONS	TOTAL
Financial assets	523,244	11,556,079	81,314	58,168,555	(3,111,139)	67,218,053
Due from banks	221,850	32,798,772	639,875	15,232,687	(42,431,710)	6,461,475
Due from customers	8,712,727	4,443,893	1,098,617	75,145,087	(2,122,510)	87,277,814
Funding from banks	8,061,182	34,013,489	1,526,981	32,215,241	(43,702,597)	32,114,297
Funding from customers	801,063	9,637,075	207,402	98,094,881	(343,723)	108,396,697
Securities and other financial liabilities	75,291	5,265,967	21,526	10,890,737	(1,773,357)	14,480,164

INSTITUTIONAL BUSINESS AREA

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

Balance sheet

€/thousands	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other[24]	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Cash and cash equivalents	209,428	246,137	1	2	1	2	4	2	1	3
Financial assets measured at fair value through profit or loss	1,335,470	1,279,864	-	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	311,207	367,133	17	17	2	2	3	3	-	-
Financial assets measured at amortized cost	47,485,060	42,551,042	19,023	12,654	3,278	3,331	8,688	6,137	24,084	15,405
a) due from banks	32,755,710	25,528,379	19,023	12,654	3,278	3,331	8,688	6,137	24,084	15,405
b) loans to customers	4,501,098	5,842,484	-	-	-	-	-	-	-	-
c) securities	10,228,251	11,180,178	-	-	-	-	-	-	-	-
Hedging derivatives and value adjustments of macro-hedged financial assets	9,868	5,965	-	-	-	-	-	-	-	-
Equity investments	1,206,207	1,150,481	-	-	-	-	100	100	10	10
Property, plant and equipment	3,514	17,125	25,415	14,908	116,168	123,437	3,608	4,427	70,387	82,215
Intangible assets	2,127	53,946	110,819	33,388	330	326	2,897	1,140	1,473	1,090
Tax assets	91,859	80,178	3,187	1,730	269	29	1,344	855	5,400	3,298
Non-current assets and disposal groups held for sale	189,432	171,700	-	-	-	-	-	-	-	-
Other assets	114,985	152,988	32,796	20,671	6,777	10,494	13,943	9,892	14,290	16,644
Total assets	**50,959,158**	**46,076,559**	**191,258**	**83,370**	**126,823**	**137,621**	**30,586**	**22,557**	**115,645**	**118,665**

€/thousands	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Financial liabilities measured at amortized cost	47,707,809	42,932,558	2,736	520	56,824	58,550	2,750	3,464	27,711	24,141
a) due to banks	33,889,855	20,782,376	-	-	45,290	44,766	92	290	24,867	20,452
b) due to customers	9,631,949	17,128,866	2,736	520	11,534	13,784	2,659	3,174	2,844	3,689
c) securities issued	4,186,006	5,021,316	-	-	-	-	-	-	-	-
Financial liabilities held for trading	563,511	381,867	-	-	-	-	-	-	-	-
Financial liabilities designated as at fair value	340,957	424,058	-	-	-	-	-	-	-	-
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	173,821	118,344	-	-	-	-	-	-	-	-
Liabilities associated with disposal groups held for sale	170,813	155,930	163	-	177	-	290	2	1,976	1,641
Tax liabilities	1,173	1,407	-	-	-	-	-	-	-	-
Other liabilities	332,160	329,426	77,877	38,704	10,804	21,202	21,539	15,800	13,187	15,229
Post-employment benefits	16,179	18,003	4,475	2,540	262	218	1,194	1,194	1,392	1,327
Provisions for risks and charges	21,867	10,476	2,004	1,454	630	46	988	971	1,396	456
Shareholders' equity	1,697,663	1,831,906	103,518	39,923	55,796	55,704	1,113	1,206	73,995	69,021
Profit/(loss) for the period (+/-)	(66,795)	(127,417)	485	230	2,330	1,901	2,712	(80)	(4,011)	6,851
Total liabilities and equity	**50,959,158**	**46,076,559**	**191,258**	**83,370**	**126,823**	**137,621**	**30,586**	**22,557**	**115,645**	**118,665**

[24] Other includes BCC Gestione Crediti, Beni Immobili, Sigest and Coopersystem.

Income statement

€/thousands	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Net interest income	86,457	47,239	(114)	(179)	(1,387)	(1,401)	(87)	(131)	(245)	(273)
Net fee and commission income	68,084	72,663	-	-	(5)	(11)	(17)	(18)	10,275	11,965
Dividends	37,216	51,361					19	17	-	-
Net gain/(loss) on trading	15,547	10,479	(2)	(2)			-	-	-	-
Net gain/(loss) on hedging	(3,000)	(4,607)					-	-	-	-
Net gain/(loss) on disposals	58,883	25,298					-	-	-	-
Net gain/(loss) on financial assets and liabilities at FVTPL	(23,252)	8,779					-	-	-	-
Gross income	**239,935**	**211,212**	**(116)**	**(182)**	**(1,391)**	**(1,412)**	**(86)**	**(132)**	**10,030**	**11,692**
Net writedowns/writebacks for credit risk	(8,712)	(38,319)							(10)	23
Net gains/(losses) from financial operations	**231,223**	**172,893**	**(116)**	**(182)**	**(1,391)**	**(1,412)**	**(86)**	**(132)**	**10,020**	**11,715**
Administrative expenses	(393,763)	(344,109)	(142,265)	(85,872)	(28,544)	(30,682)	(57,157)	(50,764)	(18,907)	(20,476)
a) personnel expenses	(183,155)	(145,802)	(34,107)	(20,257)	(7,271)	(6,466)	(26,550)	(22,547)	(5,447)	(6,432)
b) other administrative expenses	(210,609)	(198,306)	(108,158)	(65,615)	(21,273)	(24,216)	(30,607)	(28,217)	(13,460)	(14,044)
Depreciation, amortization and provisions	(3,718)	(12,301)	(24,940)	(10,961)	(11,517)	(10,095)	(2,439)	(2,560)	(16,556)	(5,918)
Other operating expenses/income	150,465	102,812	168,158	97,436	44,737	44,866	63,607	53,539	21,746	24,473
Operating expenses	**(247,017)**	**(253,598)**	**952**	**603**	**4,676**	**4,089**	**4,010**	**214**	**(13,717)**	**(1,921)**
Profit/(loss) from equity investments	(44,038)	(76,765)							-	(200)
Profit/(loss) from disposal of investments			-	(3)					-	-
Net gain/(loss) from FV measurement of property, plant and equipment and intangible assets									-	-
Impairment of goodwill									-	-
Profit/(loss) before tax on continuing operations	**(59,832)**	**(157,470)**	**836**	**418**	**3,285**	**2,677**	**3,924**	**82**	**(3,696)**	**9,594**
Income tax expense from continuing operations	14,889	14,283	(351)	(188)	(955)	(776)	(1,213)	(162)	(315)	(2,743)
Profit/(loss) on discontinued operations after tax	(21,853)	15,770							-	-
Profit/(loss) for the period	**(66,795)**	**(127,417)**	**485**	**230**	**2,330**	**1,901**	**2,712**	**(80)**	**(4,011)**	**6,851**

ICCREA BANCA SPA

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

To the traditional role of the second-level bank, which, in supporting the operations of the mutual banks, provides – in the spirit of partnership and in continuation of the role taken up in the past – products, services and advisory services to help them meet the needs of their shareholders, customers, households and local communities, we have therefore, with the creation of the Iccrea Cooperative Banking Group, added duties connected with the new responsibilities of our role and with engaging in the activities need to ensure the consistency of the Group's strategic policy, operational governance, risk management, pursuit of industrial and operational synergies to achieve ever-improving levels of operational efficiency and effectiveness, and the development of production and distribution models.

Financial services

Operational governance activities are conducted alongside the investment services provided by the Group Finance area, mainly to the affiliated banks and, through them, to their own customers. Of particular note among these services there is access to trading venues and over-the-counter (OTC) markets and the order receipt and intermediation service.

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

More specifically, in 2020, within the scope of efforts to reinforce financial performance and standing through the de-risking of the NPL portfolio, the Group completed the fourth securitization of non-performing loans backed by State guarantees (GACS) for total exposure of around €2 billion.

Also in 2020, within the context of actions aimed at supporting and optimizing the capital profile at both the separate and the consolidated level, the Group rationalized and simplified the subordinated instruments issued over time by the affiliated banks. Within this landscape, and taking account of the reduced effects that the tier-II bonds previously issued by the banks had on their capital given their prudent amortization, these bonds have been eliminated and replaced with new tier-II issues by Iccrea Banca with characteristics that are consistent with those of the tier-II subordinated bond issued by the Parent Company in November 2019.

With regard to efforts to ensure the successful outcome of the structured securitization operations of Iccrea Banca following the initiatives of the Italian government and of European institutions in response to the COVID-19 health emergency, and particularly in relation to the impact of the suspension of installment payments on securitizations of performing loans, steps have been taken to bring a number of changes to the "Credico Finance 16" self-securitization involving the contributions of 16 banks as well as to the "Credico Finance 18" securitization involving the contributions of 14 assignor banks in order to raise liquidity, the senior, A2-class notes of which were subscribed by the EIB.

In 2020, with regard to liquidity management, steps were taken to ensure that the affiliated banks had the capacity to obtain collateralized funding by way of operations with the ECB and on the market. In response to the economic and financial crisis caused by the pandemic, efforts have continued to strengthen and further develop the management system following the extraordinary measures by the ECB aimed at loosening the suitability parameters and system of risk control applied to assets that can be used to back Eurosystem refinancing operations. In this area, 2020 was characterized by the revision of the T-LTRO program and participation in the new ECB facilities (see T-LTRO III). Specifically, with regard to the T-LTRO II operations, the affiliated banks repaid approximately €15 billion, €12.7 billion of which related to banks within the Iccrea T-LTRO Group. As at December 31, 2020, within the scope of the T-LTRO III program, the Group held about €30.2 billion in operations, approximately €18.9 billion of which related to banks in the T-LTRO Group. Access to collateralized funding by way of the full use of the T-LTRO program has enabled ICBG companies to benefit from the new financial conditions set by the ECB in response to the crisis brought about by the spread of the COVID-19 pandemic. These conditions call for a rate, upon reaching the target for growth in lending, of -1% for the period June 24, 2020, to June 23, 2021, and equal to the average deposit facility rate until expiration of the operations.

With its decision of December 10, 2020, the ECB increased the amount of borrowable liquidity from 50% to 55% of the stock of eligible loans as at February 28, 2019, while also introducing a new special-interest period for the period June 24, 2021, to June 23, 2022 (with the rate to be conditioned upon performance measured for the period October 1, 2020, to December 31, 2021). Finally, for 2021, the ECB introduced three new three-year operations in June, September and December.

Within the scope of strategies for the group and in support of mutual banks to make full use of the ECB facilities, the Parent Company has introduced the ability for the banks in the Iccrea T-LTRO Group to benefit from a further reduction in the cost of financing for the T-LTRO operations by way of the "over-collateral" product, with which the banks, in line with the provisions of the framework agreement for the opening of guarantee-backed credit, have the option to add eligible securities to the pooling account throughout the duration of the individual operations.

Within the context of efforts to ensure the successful outcome over time of the Iccrea Banca structured securitization operations for the companies of the ICBG for the purpose of raising liquidity, steps have been taken to adjust the “Crediper Consumer Srl” securitization completed by BCC CreditoConsumo in December 2018 as a self-securitization for the purpose of ECB refinancing in order to extend the duration from 30 to 54 months.

From the start of 2020, activity on the MTS secured market (repo segment) posted price levels in line with and close to the marginal deposit rate. As at June 30, 2020, funding on this market totaled about €7 billion, some €6 billion of which in favor of the affiliated banks.

Access to collateralized funding by way of ECB operations and/or the market has enabled the affiliated banks to benefit from cost of funding within a range of 0.50% and -0.50%.

In the second half of the year, important wholesale funding operations were executed with the goal of consolidating the ICBG’s role on domestic and international financial markets with a view to supporting the growth and development of the communities served by the affiliated banks. In October, within the scope of the €3 billion EMTN program, Iccrea Banca placed a 5-year, senior preferred bond with domestic and international institutional investors. The structure of the bond includes the option for early redemption by the issuer at the end of the fourth year. The placement was very well received by a vast, diversified base of more than 90 investors, 24% of which were international.

Also of note were the two long-term loans of €250 million each granted to the Group by Cassa Depositi e Prestiti within the scope of initiatives called for by the protocol of understanding that the two parties signed in July 2020, which marks the start of a collaboration aimed at promoting joint initiatives to support Italian businesses.

With regard to the first operation, the ICBG will make full use of the funds received to grant new financing with durations of up to 17 years, including a usage period of up to 24 months, to SMEs and mid-cap enterprises in the agriculture and agro-industrial sectors. Within the scope of the second operation, the funds will be used entirely to grant to financing with durations of up to 18.5 years, including a usage period of up to 42 months, to SMEs and mid-cap enterprises in the tourism industry, which has been profoundly impacted by the health crisis. This financing will include the obligation to allocate at least 40% of the funds to businesses in southern Italy.

The two tranches of funding received will help to facilitate access to credit by Italian businesses in industries of strategic importance to the nation’s economy and to which the Group’s banks have always served by vocation, helping them to get through this period of emergency and maintain their competitiveness. The duration of the two operations will also make it possible to support more complex, structured projects that are typical of the industries benefiting from the initiatives.

Within the scope of implementation of the year’s funding plan, the following operations were executed, allowing for the acquisition of total funding of around €6.5 billion with an average duration of 2.8 years: (*i*) time deposits of about €3.3 billion, almost entirely through the affiliated banks; *(ii)* bond issues of €0.5 billion; *(iii)* financial liabilities in the amount of €0.6 billion; (*iv*) refinancing of the senior tranches of the GACS operations in the amount of about €500 million; and (*v*) funding through the MEF (OPTES channel) in the amount of €2 billion.

In October 2020, with a view to gradually meeting recently assigned MREL targets and to maintaining the NSFR requirements of the RAS, a 5-year, €500 million, senior preferred bond for institutional investors was issued under the EMTN Program with an option for early redemption by the issuer at par at the end of the fourth year.

As at December 31, 2020, the total amount of bonds issued by Iccrea Banca came to €4.3 billion, with a weighted-average residual maturity of 1.85 years.

With regard to treasury and forex operations, the Parent Company continued to support the affiliated banks by way of the forex and money market (FXMM) internet portal, thereby enabling them to trade in real time in spot, forward and swap transactions. The pandemic and the current macroeconomic landscape did not lead to a reduction in operations in 2020, either in volume or in number of transactions, with 82,500 contracts being handled for a total volume of around €5.5 billion, of which €3.6 billion in swaps, €1.75 billion in spot transactions, and €125 million in outright transactions. Trading also continued, with volumes totaling €225 billion, mainly in the trading of swaps.

In terms of Italian government bonds, within the scope of market making on the Hi-MTF and EuroTLX platforms, 2020 saw the listing of 123 securities for a total brokered of €4.5 billion. Trading continued on the Italy’s MOT market, in line with volumes of the previous year at a total of €2.3 billion traded. Trading on the MTS, BondVision and Bloomberg platforms reserved for institutional investors decreased by 2% over the same period to settle at a total of €35.4 billion traded. Within the context of market making for eurobonds, Iccrea Banca listed 235 eurobonds on the Hi-MTF market, 368 eurobonds on the EuroTLX market, and 179 eurobonds on Extramot and Euromot. Total volumes traded on these markets came to about €1.7 billion.

As regards OTC derivatives business, Iccrea Banca traded contracts for a total nominal volume of about €4.9 billion. The Group’s affiliated banks concluded derivative contracts for a total nominal volume of about €1.3 billion. Operations in derivatives by the affiliated banks ensured the management and mitigation of the financial risk on Italian government securities indexed to European inflation (for a total notional of about €455 million) and on forward sales of the financial portfolio (for a notional of about €600 million), as well as to hedge interest rate risk on the fixed-rate loans portfolio by way of macro-hedging for a total notional of around €193 million (a reduction of approximately 72% in volume compared with the previous year). As for Iccrea BancaImpresa, derivative contracts with a total notional value of about €361 million were concluded, which is a significant increase over the €217 million of the previous year.

With regard to operations in the Parent Company’s financial portfolio, and with a view to managing and mitigating financial risk, interest-rate and/or inflation derivatives were used for hedging purposes (for a total notional of about €3.2 billion).

The year 2020 was characterized by total volumes of order execution activities on domestic and international financial markets on behalf of the affiliated banks that were essentially in line with the previous year. While overall volumes handled totaled €15.5 billion, the equity segment posted volumes of €4.5 billion, a 26% increase over 2019. Of the total, 95% was with retail customers, while the remaining 5% came from the portfolio held by the affiliated banks. Activity in the bond segment posted total volumes of €11 billion, a decline of 9% from the previous year. While volumes originating from the instruments held by the affiliated banks remained essentially unchanged from the previous year (at €7.3 billion), activity with retail customers decreased by 22% (from €4.8 billion to €3.7 billion) due to the significant reduction in yields on Italian government securities, which reached historical lows in the second half of the year as a result of the positive trend within the segment of government securities of the euro area.

The following is of note with regard to primary market activities:

- Iccrea Banca acted as co-dealer for the sixth time while participating in the placement of the sixteenth issue of Italian government bonds. The total amount of subscriptions came to €1.73 billion, €798 million of which resulting from the customers of the Group's 135 mutual banks and €935 million on our own behalf. On the whole, the Group accounted for 7.8% of the entire issue. Of the total, the retail segment accounted for 5.7% of subscriptions executed during the initial placement, whereas the institutional segment accounted for 11.3% of the total subscriptions received on the day dedicated to this category of investors;
- participation in the placement of the new July 14, 2030, and November 17, 2028, BTP Futura government bonds, for which €321.6 million and €239.1 million, respectively, were placed with the retail customers of the affiliated banks;
- participation in the auctions of Italian government bonds (BOT, CCT, CTZ, BTP) for a total of €704 million;
- the placement of two investment certificates issued by Mediobanca and by Societè Generale in the amounts of €7.2 million and €4.9 million, respectively. The Mediobanca certificate is categorized as equity protection, in that it provides an unconditional guarantee on 90% of the capital invested and participation in any increase in the EuroStoxx 50 index up to a maximum of 20%. The Societè Generale certificate, on the other hand, is a "Phoenix Memory" certificate that provides the option to pay periodic, conditional premiums and the option for early redemption based on predetermined conditions. Both the premiums and the settlement of the principal upon maturity are tied to the performance of the underlying asset.

These operations fall within the broader process of revising the range of products offered by the Group, which is the result of discussions with the affiliated banks of the needs of their customers and has the goal of providing an investment instrument that is able to broaden the product range and achieve greater portfolio efficiency.

Payment systems

The digitization of payments and the rise of innovative solutions being offered by new non-bank players added impetus to the Parent Company's efforts to perfect the instruments available to Group companies and their customers to facilitate payments and collections.

Issues connected with the COVID-19 pandemic aligned transaction volumes with those in 2019 while confirming the reduction in traditional products (e.g. checks, bank drafts, etc.), as SEPA products, such as credit transfers (SCTs), held their ground or expanded.

Within this context, Iccrea Banca has remained committed to maintaining existing services and developing new ones for the mutual banks, so as to enable them to respond to the emergency quickly. Of particular note among initiatives related to the health emergency in the area of payments and collections are the following:

- the launch of the INPS *"DB condiviso"* service enabling an entity to verify the recipient account holder before executing credit transfers for pensions and other INPS funds (e.g. the "COVID bonus");
- the definition of the operating model for the new "Check IBAN" service provided by pagoPA SpA to enable the Revenue Agency and other government entities to verify the recipient account holder before executing various types of credit transfer (e.g. non-repayable grants);
- the implementation of the plan to reorganize cash management services as proposed within the scope of the COBAN working group in order to ensure continuity in operations through the health emergency;
- management of the deferments allowed under governmental decrees for the payment of promissory notes and checks together with BCC SI and Iccrea's Legal Affairs unit;
- the expansion of compliant documentation retention to include other documentation classes, such as Siope.

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

- participates in international organizations and working groups on the development of SEPA mechanisms;

- has taken advantage of the option granted by the EPC to configure our banks as a group, with the consequent reduction in costs incurred for participation in SEPA as compared with the ordinary established prices.

This has been extended to the revision of the pricing of the services of CBI Scpa and PagoPA S.p.A. by taking advantage of the option agreed upon with CBI and PagoPA to configure the affiliated banks as a group, resulting in a reduction in the costs incurred by these banks.

During the year, work was supplemented by the analysis of the impacts of Brexit on payment operations and applications and those related to the development of new initiatives emerging at the European level (request-to-pay, digital euro, SEPA one- leg out).

In addition to these activities, work also continued on planned initiatives within the payment systems segment. In short:

- support was provided to the mutual banks in activating the pagoPA technology-partner service, which enables them to activate government entities on the pagoPA system in order to manage their collections by way of a digital platform in line with applicable laws and regulations;
- we consolidated the operational intermediation and accounting services to non-bank payment-service providers (i.e. Satispay and the Lottomatica Group), thereby significantly increasing the volume of SDD, SCT, payment notices, and SEDA transactions;
- the Bank's certification as an accredited registrar was confirmed following audits by the certification bodies concerned and new compliant document-retention services were activated, continuing to obtain past "OPI/OIL" treasury documents from the mutual banks;
- the process for managing the storage of electronic invoices for group companies was completed, along with the related activities of receipt and transmission with the SDI;
- a "smart safe" service was initiated, enabling merchants to deposit cash in safes installed in their points of sale and have that cash credited to their mutual-bank current accounts;
- the new instant-payments product on the ECB's TIPS platform has been activated for incoming payments for the direct customers of Iccrea Banca, for Banca Sviluppo and the affiliated mutual banks that have been certified for the BCC SI information system;
- Iccrea Banca's participation in the GPI (Global Payments Initiative) was finalized and the so-called universal confirmation for mutual banks that use BCC SI services was implemented.

Electronic money

In 2020, Iccrea Banca continued to develop the electronic money business in order to strengthen its range of products and services in keeping with strategic policies. The COVID-19 emergency also called for a rapid acceleration in process optimization and in the launch of new commercial initiatives offered to cardholders and merchants to provide a concrete response to their needs and support business growth.

More specifically, communication campaigns were developed in order to promote card use during the health emergency for all purchases, both online and in stores. New initiatives were also designed in order to support the small businesses typical of the ICBG and of the Italian economy. Therefore, in terms of acquiring, the ICBG decided to provide merchants with solutions aimed at promoting the use of POS terminals and remote-payment systems. Of note among the main initiatives developed in 2020 is the promotion of micropayments with the goal of stimulating the use of electronic money for small purchases. In particular, we have reimbursed participating merchants for the acquiring fees on all transactions equal to or less than €10 and made it possible for the affiliated banks to access a more competitive pricing structure. In addition, with the goal of facilitating merchants in the adoption of fast, simple payment and collection systems, we have launched commercial initiatives focused on more innovative POS products, such as SmartPOS and Mobile POS, as well as PayWayMail, a service for accepting "remote" payments.

With regard to the number of cards, despite the reduced promotional efforts as a result of the COVID-19 emergency and the removal of mutual banks that did not become members of the ICBG, the segment has seen essential stability in the main issuing metrics with some 3.9 million cards in operation (+2.3% from December 2019).

Conversely, the effects of the COVID-19 health emergency severely impacted transaction numbers during the period of lockdown. More specifically, in 2020, the issuing segment posted a decrease of €977 million (-4.9%) compared with 2019, whereas POS acquiring saw a decline of 0.8% compared with 2019 (down €108 million). A similar downward trend has been seen in ATM acquiring volumes (i.e. cash withdrawals), decreasing by €951 million (-10.4%) compared with 2019.

With regard to the ICBG affiliated banks specifically, we have seen the following: (i) on the whole, the issuing segment (i.e. debit, prepaid and credit cards) posted an 8.4% increase in number of cards, driven mainly by debit cards (+9.7% for debit cards, +4.8% for credit cards, and +8.2% for prepaid cards); (ii) the overall acquiring segment posted an increase in volumes of €592 million (5%) compared with 2019, including a significant increase in POS transactions in the large-scale distribution category (+42.4%). Within this context, fraud in issuing posted an improvement compared with 2019. In 2020, the total loss due to fraud decreased by 3.1%.

Information Technology

Within the scope of the overall reorganization following the creation of the Iccrea Cooperative Banking Group , the sale of the IT business units related to Iccrea Banca and Iccrea BancaImpresa to BCC Sistemi Informatici, with the intention of this company becoming the Group's new hub for information systems and technology, was completed on July 1, 2020. The project falls within the broader scope of the complex, strategic process of ICT development that the Parent Company began in 2015 and which was returned to immediately following completion of creating the ICBG.

Given the transformation of the mutual banking segment and within the ICBG specifically, a plan for the development of the ICT segment was defined that encompasses investments in resources, processes and infrastructures in line with the strategies of the Group and calls for:

- in an initial phase, the creation, based on BCC Sistemi Informatici, of a single hub of information systems and technology for the ICBG into which the Group's ICT activities will flow, while safeguarding current operations and processes within a landscape of profound transformation;
- over the medium term, the convergence and full integration of all ICT components of the ICBG into BCC SI by developing the segment to support and facilitate operations and the future processes of the affiliated banks and of the Group.

The expected medium to long-term benefits include a significant increase in service levels and a general improvement in the ICT system, so as to support business growth throughout the Group as a result of the ICT integration, convergence and evolution within the scope of the project. Over the short term, we will see increased levels of ICT integration between the Parent Company and the affiliated banks, particularly within the areas of governance and risk management.

The transferred divisions consist of the set of assets and liabilities relating to the ICT segments of Iccrea Banca and Iccrea BancaImpresa, including the employees, assets, and other legal relationships pertaining to them.

For information on the ICT segment, see the section related to BCC Sistemi Informatici.

BCC SISTEMI INFORMATICI S.P.A.

Operationally, the information technology segment was mainly engaged in the following: (i) projects aimed at ongoing adaptations in response to changes in the operational and legislative framework; (ii) projects related to the development of system architecture and functionality, to digitization and innovation (e.g. digital banking and the customer relationship), to management of core processes (i.e. lending); and (iii) projects related to the ongoing convergence of the affiliated banks using technical structures other than BCCSI to the proprietary structure and management of the merger processes.

As concerns the first point specifically, 2020 saw the completed migration of 11 banks that were using other information systems. The original schedule for completion of the application migration was revised in response to the spread of the (COVID-19) pandemic and related lockdowns, but should nonetheless be completed in 2022.

Specific project streams have also been targeted at enhancing the mechanisms supporting risk management as well as guidance and coordination by the Parent Company. The main actions in this regard concerned the following:

- integration of the early warning system – which has been operational since August 2019 – with the additional indicators required following the ECB on-site inspection over the period October–December 2019;
- implementation of the RAF/RAS framework – in use since November 2019 – with additional indicators, rules, and monitoring thresholds based on the ongoing development of the framework used within the Group;
- roll-out of the credit risk stress-testing platform;
- implementation of the credit-risk monitoring platform with additional reports, related credit-risk indicators, and viewing interfaces;
- creation of the new past-due calculation engine in compliance with the new regulatory rules and definitions in effect since January 1, 2021;
- implementation of business process automation solutions, including a broad-based project to redesign the entire set of compliance applications into a single tool. This plan is expected to be completed in 2021 in order to allow for the full disposal of the applications currently in use by this unit and for the start of 2022 planning using the new tool.

The main initiatives within the series of projects to support the “market” segment included the following:

- the data warehousing (DWH) project for the progressive release of the DWH and of reporting to support the specialist uses for the market;
- introduction of a reporting front-end that simplifies customer relationship management, contact management, the activation of sales, and performance monitoring. The front-end has been released and work has begun in order to activate the platform for a number of pilot banks;
- implementation of the system for generating multi-channel and multi-step initiatives, integrated with e-mail, SMS messaging, landing pages, internet banking, push notifications, and the branch channel (planning included within the digital-transformation plan for contact centers and ATMs). The system has been released for all channels within the project’s perimeter;
- the start of use of the CRM platform by a group of branches of 2 pilot banks. In 2021, the gradual roll-out of a version of the CRM system to all affiliated banks with a suitable structure, enabling them to use the basic functions of the new product;
- within the context of digital-transformation projects, important initiatives of technological innovation and functional development (PSD2, online placement services, instant payments, customer care) have been completed. At the same time, a program of 2020-2021 projects that fall within the scope of the medium to long-term digital transformation strategy has begun, including mobile-first functional enhancements, remote/off-site offering, phygital development, enhanced integration of CRM and channels, and “open credit” for individuals.

RETAIL BUSINESS AREA

Balance sheet

€/thousands	RETAIL							
	Affiliated banks		BCC CreditoConsumo		BCC R&P		Banca Sviluppo	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Cash and cash equivalents	781,904	704,675	2	49	0	3	1,218	5,591
Financial assets measured at fair value through profit or loss	1,583,803	1,697,731	-	-	6,272	6,287	297	373
Financial assets measured at fair value through other comprehensive income	9,000,584	10,215,611	-	30	3	131	1,848	1,679
Financial assets measured at amortized cost	138,219,979	117,443,846	1,192,454	1,208,559	65,301	64,862	510,953	794,769
a) due from banks	15,356,249	9,465,787	273,684	256,990	36,405	30,972	329,838	341,968
b) loans to customers	75,145,087	71,492,772	918,770	951,569	28,897	33,890	110,161	378,390
c) securities	47,718,643	36,485,287	-	-	-	-	70,954	74,411
Hedging derivatives and value adjustments of macro-hedged financial assets	222,986	161,763	-	-	-	-	-	58
Equity investments	38,563	48,089	-	-	-	-	-	-
Property, plant and equipment	1,996,668	2,018,870	114	187	4,494	4,647	31,511	42,419
Intangible assets	25,052	33,480	1,907	740	3,092	688	678	1,188
Tax assets	1,683,011	1,715,339	10,200	10,059	1,528	735	58,358	59,538
Non-current assets and disposal groups held for sale	18,368	33,861	-	-	-	-	41,721	38,590
Other assets	976,221	1,306,295	102,065	106,729	2,442	1,655	31,096	69,206
Total assets	**154,547,140**	**135,379,560**	**1,306,742**	**1,326,352**	**83,133**	**79,007**	**677,680**	**1,013,412**

€/thousands	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Financial liabilities measured at amortized cost	141,016,360	122,079,290	1,208,687	1,219,320	28,381	26,588	428,315	742,192
a) due to banks	32,339,044	22,330,321	1,195,664	1,187,190	28,311	26,463	303,076	76,357
b) due to customers	98,094,881	86,999,896	13,023	32,130	69	125	103,713	589,622
c) securities issued	10,582,435	12,749,073	-	-	-	-	21,526	76,213
Financial liabilities held for trading	2,019	2,058	-	-	-	-	-	-
Financial liabilities designated as at fair value	3,117	10,973	-	-	-	-	-	488
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	338,315	218,502	-	-	-	-	-	3
Tax liabilities	94,253	97,893	-	574	179	461	840	1,226
Liabilities associated with assets held for sale	-	-	-	-	-	-	90,660	79,669
Other liabilities	2,442,439	2,620,051	22,397	26,451	16,311	11,324	18,869	44,872
Post-employment benefits	265,117	274,445	293	252	348	335	636	2,171
Provisions for risks and charges	401,143	340,026	82	59	4,151	2,074	10,453	17,590
Equity	9,707,195	9,399,762	61,833	60,896	25,851	25,826	125,669	124,486
Profit/(loss) for the period (+/-)	277,181	336,559	13,450	18,799	7,913	12,400	2,237	717
Total liabilities and equity	**154,547,140**	**135,379,560**	**1,306,742**	**1,326,352**	**83,133**	**79,007**	**677,680**	**1,013,412**

Income statement

€/thousands	RETAIL							
	Mutual banks		BCC CreditoConsumo		BCC R&P		Banca Sviluppo	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Net interest income	2,172,883	2,059,984	46,723	46,598	-	-	11,403	20,464
Net fee and commission income	1,077,192	1,075,343	3,390	5,231	36,474	40,464	2,473	9,740
Dividends	5,842	3,272	-	-	12	10		
Bet gain/(loss) on trading activities	6,738	15,445	-	-	-		(6)	(14)
Net gain/(loss) on hedging	(385)	(3,016)	-	-	-		(2)	3
Net gain/(loss) on disposals	207,606	225,988	(3)	(277)	-		(838)	(483)
Net gain/(loss) on assets and liabilities at FVTPL	(6,300)	18,660	-		(25)	27	(31)	(68)
Gross income	**3,463,576**	**3,395,677**	**50,110**	**51,553**	**36,462**	**40,501**	**12,999**	**29,640**
Net writedowns/writebacks for credit risk	(697,918)	(554,235)	(14,341)	(8,293)	-	-	(678)	5,603
Net gains/(losses) from financial operations	**2,765,658**	**2,841,441**	**35,769**	**43,260**	**36,462**	**40,501**	**12,321**	**35,243**
Administrative expenses	(2,529,084)	(2,554,277)	(17,521)	(17,370)	(22,275)	(21,656)	(16,256)	(36,118)
a) personnel expenses	(1,393,040)	(1,414,452)	(5,822)	(5,482)	(6,013)	(5,623)	(8,735)	(20,358)
b) other administrative expenses	(1,136,043)	(1,139,824)	(11,699)	(11,888)	(16,262)	(16,033)	(7,521)	(15,760)
Depreciation, amortization and provisions	(234,701)	(179,133)	(350)	(299)	(2,869)	(1,476)	(213)	(2,714)
Other operating expenses/income	290,284	306,514	2,024	2,398	310	560	6,437	3,572
Operating expenses	**(2,473,501)**	**(2,426,895)**	**(15,847)**	**(15,271)**	**(24,834)**	**(22,571)**	**(10,031)**	**(35,259)**
Profit/(loss) from equity investments	(4,731)	(11)	-	-	-	-		
Profit/(loss) from disposal of investments	(413)	1,883	-	-	-	-	(7)	280
Net gain/(loss) from FV measurement of property, plant and equipment and intangible assets	(108)	(1,283)	-	-	-	-		
Impairment of goodwill	(2,356)	(22,671)	-	-	-	-	(487)	
Profit/(loss) before tax on continuing operations	**284,548**	**392,463**	**19,923**	**27,989**	**11,628**	**17,929**	**1,796**	**264**
Income tax expense from continuing operations	(7,368)	(55,920)	(6,472)	(9,189)	(3,714)	(5,530)	441	452
Profit/(loss) on discontinued operations after tax	-	15						
Profit/(loss) for the period	**277,181**	**336,559**	**13,450**	**18,799**	**7,913**	**12,400**	**2,237**	**717**

AFFILIATED BANKS

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

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

Balance sheet

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

What follows is a brief description of the main balance sheet and income statement items of the 132 mutual banks belonging to the Iccrea Cooperative Banking Group as at December 31, 2020, presented in aggregate form and gross of intercompany items.

Total assets as of December 31, 2020 amounted to €154.5 billion, an increase of €19.2 billion compared with December 31, 2019, with the rise being attributable to the increase in financial assets measured at amortized cost.

More specifically, financial assets measured at amortized cost increased by €20.7 billion to €138.2 billion and consist of:

- loans to customers totaling €75.1 billion (+€3.6 billion compared with 2019), mainly represented by loans to customers (€62.4 billion), current accounts (€6.5 billion), other financing (€5 billion) and transactions involving credit cards, personal loans and loans repaid by automatic deductions from wages (just over €1 billion);
- amounts due from banks of about €15.4 billion, an increase of €5.8 billion compared with 2019. The item consists of fixed-term deposits of €11 billion, with the remainder being composed of current accounts and demand deposits (€3.5 billion) and claims on central banks (€0.9 billion), essentially representing reserve requirements;
- securities amounting to €47.7 billion, represented by €46.5 billion in securities with customers (+€11.8 billion compared with 2019) and securities with banks in the amount of €1.2 billion (-€0.7 billion compared with 2019). The increase the exposure in securities with customers, largely represented by Italian government securities, is connected to the new financial strategy of the Group in response to the more expansionary monetary policy stance adopted by the ECB to counter the adverse effects of the COVID-19 health emergency on the economy.

The characteristics of the mutual banks' business model is reflected primarily by the type of customers served. Total loans to mutual bank customers were made largely to consumer households and SMEs (39.3 % and 47.8% of total lending, respectively). The aggregate NPL ratio stood at 8.9%, while the coverage ratio for impaired loans was 55.3% (51% at December 31, 2019). The mutual banking mission means that the mutual banks supported their local economies, even during periods of persistent crisis, so that, despite the credit crunch that has occurred in recent years, the mutual banks have continued to provide loans to households and SMEs; the default rates in these segments were nonetheless smaller (NPL ratios of 5.2% and 8.6%, respectively) thanks to our better understanding of these types of customers. The share of loans to larger firms (12.1% of the total) was more limited and had a higher NPL ratio.

Counterparties	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances		
		Ratio to total loans by counterparty	Percentage of total performing loans of the affiliated banks	Ratio to total loans by counterparty	Ratio to total NPLs of the affiliated banks	Coverage NPL
Ordinary customers	**99.2%**	**91.1%**	**99.1%**	**8.9%**	**99.9%**	55.3%
Consumer households	39.3%	94.8%	40.8%	5.2%	23.1%	44.3%
Small and medium-sized enterprises	47.8%	91.4%	47.9%	8.6%	46.4%	54.5%
Producer households	*10.2%*	*90.7%*	*10.2%*	*9.3%*	*10.8%*	50.5%
Micro-enterprises, institutions and associations	*9.8%*	*89.0%*	*9.6%*	*11.0%*	*12.2%*	56.1%
Other SMEs	*27.7%*	*92.5%*	*28.2%*	*7.5%*	*23.4%*	55.4%
Large corporate	12.1%	74.5%	10.3%	25.5%	30.4%	65.2%
Government entities	0.8%	99.6%	0.9%	0.4%	0.0%	66.0%
Central banks, credit institutions and other financial companies	0.0%	**96.5%**	0.0%	3.5%	**0.0%**	**61.4%**
Total	**100.0%**	**91.1%**	**100.0%**	**8.9%**	**100.0%**	**55.3%**

Financial investments totaled about €58.3 billion[25] and consist almost entirely of government securities (especially those issued by the Italian State). Of these, 81.8% are allocated to the portfolio measured at amortized cost (Hold-to-Collect, HTC, business model) in line with the traditional business model that characterizes these banks, in order to take advantage of the coupon yield and at the same time to not expose its funds to risks associated with volatility. Consistent with the mutualistic aim, the stock of securities allocated to the accounting portfolio measured at fair value through profit or loss is very small. The portfolio of financial assets measured at fair value through other comprehensive income, represented almost entirely by Italian government securities, amounted to €9 billion, down €1.2 billion compared with the previous year. Financial assets measured at fair value through profit or loss amounted to €1.6 billion, in line with 2019, and are almost entirely represented by financial assets mandatorily measured at fair value (over €1.5 billion, which also include receivables in respect of the Parent Company for the Ex-Ante contribution to the guarantee scheme) and assets held for trading amounting to €24.2 million. Finally, other relevant items include property, plant and equipment - which amounted to about €2 billion and mainly includes land and buildings for use in operations (€1.4 billion) and other capital equipment - while intangible assets amounted to just €25 million, of which €6.8 million in goodwill paid on the acquisition of bank branches before the formation of the ICBG.

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

Accordingly, liabilities largely consist of financial liabilities measured at amortized cost which amounted to 141 billion, an increase of about 19 billion compared to the previous year. More specifically:

- amounts due to banks increased by €10 billion on the previous year to €32.3 billion, attributable to loans obtained through T-LTRO operations and refinancing transactions with the Parent Company;
- amounts due to customers increased by €11 billion to €98 billion as a result of a rise in current accounts and demand deposits. Of the total, €91.3 billion consist of current accounts and demand deposits and €5.5 billion of fixed-term deposits;
- securities issued came to €10.6 billion, a decline of €2 billion due to maturing securities. Of the total, €5.2 billion are represented by bonds and €5.4 billion by certificates of deposit.

The aggregate equity of the mutual banks amounted to €9.9 billion and consists of €0.9 billion of share capital, with the rest made up of reserves.

Income statement

The aggregate income statement of the affiliated banks closed the year with profit for the year of €284.5 million (€277.2 million, net, with a minimal tax burden due to the aforementioned benefits related to the sale of NPLs in accordance with Article 55 of the Cure Italy Decree), a reduction of about €108 million from the previous year (-27.5%).

More specifically, gross income increased by €68 million compared with 2019 to reach €3.5 billion. The increase in net interest income (+€113 million from €2.2 billion) was partially offset by the decrease in the overall performance of financing activities (from €260.3 million of the previous year to €213.5 million, -€46.8 million), whereas net fee and commission income was in line with the previous year despite the ongoing pandemic.

The greater prudence in assessment policies, partly in response to macroeconomic conditions, can be seen in the increase in net writedowns for credit risk (€695 million, +€144 million compared with the previous year). Together with the increase in administrative expenses, this increase more than offset the increase in gross income, thus the decline in profits described above.

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

BCC CREDITOCONSUMO SPA

The company's distribution of consumer-credit products (personal loans exclusively) in 2020 was heavily impacted by the COVID-19 emergency, falling to €331.7 million, down 25.6% from the previous year (€433 million in 2019), although this result is not as adverse as the market average (-33.6%). Contextualized within a certainly unfavorable macroeconomic environment and a downward-trending market, as described above, this performance was made possible by careful management of the distribution channel of branches throughout the territory, especially those of the affiliated banks, and of the online channel, which, thanks to the Crediper.it website, provided access to a form that could be used to submit requests for financing online.

Balance sheet

Total assets at December 31, 2020, came to €1.3 billion, almost all of which was in financial assets measured at amortized cost (€1.2 billion), largely consumer lending to customers (€919 million, down €32.7 million from 2019), loans to banks (€274 million), and other assets in the form of amounts receivable from securitization vehicles.

Financial liabilities measured at amortized cost totaled €1.2 billion, which is essentially in line with the end of December 2019 and is almost entirely in the form of liabilities to the Parent Company.

Income statement

The 2020 financial year closed with gross profit of €19.9 million (-28.8% compared with the €28 million of 2019) and net profit of €13.5 million. Gross income came to €50.1 million, a decrease of €1.4 million from the previous year attributable solely to the decline in fee and commission income (-35.2%), a trend that was strictly related to new production. Conversely, and despite the decrease in volumes, net interest income increased slightly (€0.1 million) thanks to savings in the cost of funding, above all through self-securitization operations and funding through the affiliated banks.

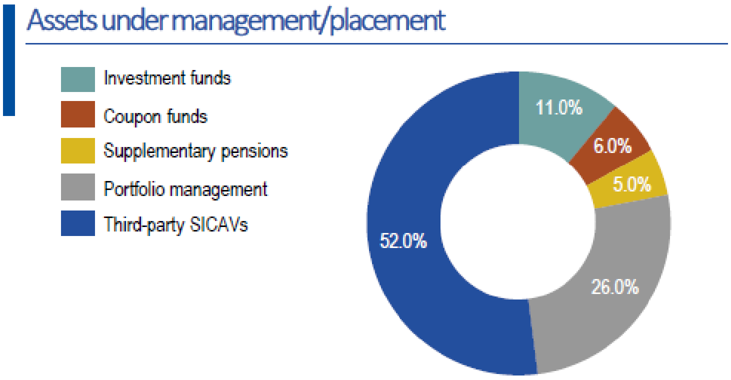
Given the increase of about €0.5 million in operating expenses, the net result of an increase in personnel expense and a reduction in other administrative expenses related to lower marketing expenses because of postponing campaigns that had been planned during the lockdown period, the significant decline in performance is attributable, above all, to the increase in impairment recognized (€14.3 million in 2020, up €6 million from the previous year) in relation to the aforementioned prudence of the Group in assessing credit quality, which, for the company, brought the NPL coverage ratio of 83.5% of last year up to 90.9% (97.2% bad loans, which account for over 85% of the total, and 69.6% for unlikely-to-pay exposures), with the coverage of performing loans increasing from 2.3% to 3.1%.

BCC RISPARMIO & PREVIDENZA SGRPA

Assets under management

At December 31, 2020, total assets managed or placed by BCC Risparmio & Previdenza amounted to €18.8 billion, an increase of €1.9 billion compared with 2019. Total net funding came to €1.4 billion, and the market effect was positive, contributing some €432 million to the increase in assets. Positive funding from pension funds, third-party SICAVs, and asset management was partially offset by the outflow of subscribers of coupon funds (mainly linked to approaching maturities and the related distribution of income).

The chart below shows the weight of each investment product out of total assets under management as at December 31, 2020.



Income statement

The 2020 financial year ended with pre-tax profit of €11.6 million (€7.9 million after taxes), down 35.1% from the €17.9 million of 2019.

Net fee and commission income fell to €36.5 million (-€4 million from the previous year, -10%) due to the decrease in performance fees (€2.7 million in 2020, down €5.2 million from the previous year), which more than offset the increase in other fees and commissions, and placement fees in particular. In any event, management fees passed through to placement agents, and to the Group's affiliated banks in particular, increased by €101 million during the year to €108.6 million (+7.5%).

Operating expenses increased by €2.3 million to €24.8 million (+10% annually) due, above all, to the increase in net allocations to provisions for risks and charges (€2.2 million, as compared with €0.9 million in 2019). Other personnel-related costs increased slightly (€6 million in 2020, up €0.4 million from 2019 due, above all, to allocations for early retirement incentives) and to other administrative expenses (+€0.2 million for a total of €16.3 million).

BANCA SVILUPPO SPA

Banca Sviluppo has continued pursuing the strategic objective of completing the disposal of its sales network and, as per the latest 2020-2023 plan, the goal of shifting the organization towards new business models by way of potential corporate actions within the Group. In 2020, in line with the plan, four disposal were completed, which led to the definitive disposal of the branches in Campania and Romagna. In Campania, two branches were sold to BCC di Capaccio Paestum e Serino, while in Romagna we completed the sale of 11 branches to BCC Ravennate Foirlivese Imolese, three branches to Credito Cooperativo Romagnolo, and seven branches to BCC Riviera e Gradara.

As a result of these transactions, the company's assets were significantly downsized to €678 million at the end of 2020, more than three-fourths of which related to amounts receivable from the Parent Company (offset by nearly equal amounts on the liabilities side), outstanding securities, assets held for sale, and tax assets. The company's core business of commercial banking in particular was sharply reduced, with loans to customers settling at €110.2 million, down from about €378.4 million at the end of 2019, while funding fell to €103.7 million from the €589.6 million of the previous year.

Income statement

The 2020 financial year was heavily impacted by the COVID-19 health emergency, which inevitably affected the bank's business opportunities. A reduction in agency business hours, the restriction of access to customers and employees, and the use of remote work hindered normal branch operations, which impacted, above all, the bank's service margin, which posted a result that was well below budget estimates.

As a result, core operations were negatively impacted by lower revenues as a result of the health emergency, as well as of the impairment of goodwill related to the branches acquired by BCC Valle del Melandro and the losses on the sale of impaired loans within the scope of the GACS IV operation. Despite these negative components, the bank was still able to post greater extraordinary income during the year as a result, in particular, of the recovery of the *ex ante* contribution of the Deposit Guarantee Scheme resulting from the sale of the protected assets along with the branches.

As a result of these factors, the bank closed 2020 with pre-tax profits of €1.8 million and net profit of €2.2 million as a result of a positive tax effect.

CORPORATE BUSINESS AREA

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

Balance sheet

€/thousands	CORPORATE							
	Iccrea BancaImpresa		BCC Lease		BCC Factoring		MCFVG	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Cash and cash equivalents	10	11	2	1	2	1	1	3
Financial assets measured at fair value through profit or loss	40,143	163,019	-	-	-	-	25,253	27,584
Financial assets measured at fair value through other comprehensive income	283	365	-	-	11	10	95,872	140,114
Financial assets measured at amortized cost	4,240,521	7,335,926	471,914	470,677	478,248	497,687	906,603	796,517
a) due from banks	34,433	39,092	3,158	2,543	1,602	5,094	176,551	162,473
b) loans to customers	4,206,087	7,160,820	468,756	468,134	476,647	492,593	523,444	543,380
c) securities	-	136,014	-	-	-	-	206,608	90,664
Hedging derivatives and value adjustments of macro-hedged financial assets	-	-	-	-	-	-	-	-
Equity investments	25,750	62,338	-	-	-	-	-	-
Property, plant and equipment	9,637	6,048	129	88	104	63	10,658	11,168
Intangible assets	-	178	365	412	122	-	391	149
Tax assets	184,718	183,959	5,025	5,672	7,444	7,230	46,213	47,538
Non-current assets and disposal groups held for sale	3,360,302	-	-	-	-	-	-	-
Other assets	150,608	60,027	11,454	15,272	5,693	9,081	5,928	5,810
Total assets	**8,011,973**	**7,811,870**	**488,888**	**492,123**	**491,624**	**514,072**	**1,090,919**	**1,028,882**

€/thousands	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Financial liabilities measured at amortized cost	3,741,326	6,890,209	436,615	437,821	464,230	490,632	928,913	847,443
a) due to banks	3,492,691	2,978,290	432,898	433,337	459,664	485,668	359,814	215,120
b) due to customers	248,635	440,660	3,718	4,483	4,566	4,964	543,632	606,947
c) securities issued	-	3,471,260	-	-	-	-	25,467	25,377
Financial liabilities held for trading	39,570	34,590	-	-	-	-	-	-
Financial liabilities designated as at fair value	-	-	-	-	-	-	-	-
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	10,140	12,659	-	-	-	-	-	-
Tax liabilities	-	-	39	386	-	-	1,622	1,722
Liabilities associated with assets held for sale	3,332,948	-	-	-	-	-	-	-
Other liabilities	113,746	83,615	12,925	15,347	6,095	5,734	43,205	59,339
Post-employment benefits	1,933	4,359	209	198	389	332	278	418
Provisions for risks and charges	59,458	49,441	147	79	1,833	487	21,077	21,077
Equity	732,078	731,663	29,816	28,884	20,886	18,455	98,801	104,267
Profit/(loss) for the period (+/-)	(19,227)	5,334	9,137	9,408	(1,809)	(1,569)	(2,976)	(5,384)
Total liabilities and equity	**8,011,973**	**7,811,870**	**488,888**	**492,123**	**491,624**	**514,072**	**1,090,919**	**1,028,882**

Income statement

€/thousands	CORPORATE							
	Iccrea BancaImpresa		BCC Lease		BCC Factoring		MCFVG	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Net interest income	150,279	141,627	21,657	20,154	3,478	3,625	10,309	10,082
Net fee and commission income	25,312	10,108	(524)	(936)	2,921	2,940	5,011	5,609
Dividends	8,467	9,242			-	-		
Net gain/(loss) on trading activities	4,716	333			(51)	7	(37)	(1,819)
Net gain/(loss) on hedging	556	445					-	-
Net gain/(loss) on disposals	449	(3,758)	-	(326)			(1,470)	27
Net gain/(loss) on financial assets and liabilities at FVTPL	(9,495)	(4,084)					(2,218)	(1,500)
Gross income	**180,284**	**153,913**	**21,133**	**18,893**	**6,349**	**6,572**	**11,595**	**12,398**
Net writedowns/writebacks for credit risk	(109,304)	(74,274)	(6,652)	(5,802)	(370)	(1,361)	(3,078)	(3,438)
Net gains/(losses) from financial operations	**70,979**	**79,639**	**14,481**	**13,090**	**5,979**	**5,211**	**8,518**	**8,960**
Administrative expenses	(62,925)	(62,305)	(9,303)	(8,445)	(7,452)	(7,147)	(13,197)	(14,123)
a) personnel expenses	(34,400)	(33,394)	(3,457)	(2,991)	(4,417)	(3,703)	(6,361)	(6,251)
b) other administrative expenses	(28,526)	(28,911)	(5,845)	(5,454)	(3,035)	(3,444)	(6,837)	(7,872)
Depreciation, amortization and provisions	(12,264)	(4,423)	(284)	(152)	(857)	(135)	(576)	(1,113)
Other operating expenses/income	(15,989)	(6,715)	5,542	5,448	28	124	664	1,098
Operating expenses	**(91,179)**	**(73,443)**	**(4,045)**	**(3,150)**	**(8,281)**	**(7,158)**	**(13,110)**	**(14,138)**
Profit/(loss) from equity investments	(6,527)	4,365						
Profit/(loss) before tax on continuing operations	**(26,727)**	**10,561**	**10,436**	**9,940**	**(2,302)**	**(1,946)**	**(4,592)**	**(5,178)**
Income tax expense from continuing operations	7,500	(5,227)	(1,298)	(532)	493	378	1,616	(205)
Profit/(loss) for the period	**(19,227)**	**5,334**	**9,137**	**9,408**	**(1,809)**	**(1,569)**	**(2,976)**	**(5,384)**

ICCREA BANCAIMPRESA SPA

As the corporate bank of the ICBG, Iccrea BancaImpresa provides financial consulting, services and solutions for SMEs. The bank's mission is to support micro-, small and medium-sized enterprises through a broad-based offering that meets all their needs, supplementing the products and services provided by the affiliated banks.

The industry segments in which the company operates include leasing, lending, consulting for extraordinary finance, internationalization, insurance services, and support in accessing loans governed by preferential legislation. The products of Iccrea BancaImpresa are distributed mainly by the Group's network of mutual banks with the support of 15 branch offices throughout the territory. The company also has an international presence with offices in Moscow and Tunis.

Through the subsidiary BCC Lease, the company also serves the small-ticket business segment with operating and finance leases and special-purpose financing. Factoring products and services are provided through the subsidiary BCC Factoring.

As part of the reorganization of the Group's corporate area, effective as of January 1, 2021, Iccrea BancaImpresa transferred its lending business unit not including leasing, foreign business and internationalization, and consulting in the fields of extraordinary corporate finance and support in accessing subsidies and incentives to Iccrea Banca. The interests held in BCC Factoring and Banca Mediocredito del Friuli Venezia Giulia were also transferred to Iccrea Banca at the same time.

Balance sheet

New financing in 2020 (about €1.5 billion, including loans and guarantee commitments, on 2,545 contracts) decreased by 10% compared with the previous year.

With regard to lending, as detailed in the table below, total volumes decreased by 12.9%. While medium and long-term loans increased by €0.9 billion (+4.7% annually), new leasing decreased by €0.4 billion (-36.3%), primarily in the equipment and property segments. Conversely, new guarantee commitments increased by 48.5% over the previous year to €108 million.

Product	31/12/2020	31/12/2019	% change
Medium & long term – New contracts	**1,366,158**	**1,568,585**	**-12.9%**
of which: New Leasing	***429,232***	***673,978***	***-36.3%***
of which: Auto	6,338	6,773	-6.4%
Property	163,142	222,075	-26.5%
Nautical	13,878	7,937	74.9%
Equipment	194,310	362,040	-46.3%
Industrial vehicles	51,563	75,153	-31.4%
New Lending	***936,926***	***894,607***	***4.7%***

Of the bank's total lending portfolio, 90% of which is related to non-financial companies given the company's business model, 54% was in leasing, while the remainder was in other forms of lending, underscoring the ongoing shift in business in line with recent years.

€/thousands	31/12/2020	31/12/2019	% change
Financing	**7,267,543**	**7,160,820**	**1.5%**
Current accounts	89,589	123,483	-27.5%
Medium/long-term loans	2,728,890	2,419,732	12.8%
Lease financing	3,998,221	4,177,635	-4.3%
Other lending	450,843	439,970	2.5%
Debt securities	**143,253**	**136,014**	**5.3%**
Other debt securities	143,253	136,014	5.3%
Total	**7,410,796**	**7,296,834**	**1.56%**

De-risking efforts, including GACS-backed sales, pursued in 2020 together with more prudent assessment policies given the current macroeconomic landscape brought the NPL ratio at year end to 14.7% and the coverage ratio 57.1%, as compared with 17.4% and 52.5%, respectively, at the end of 2019.

Income statement

The company closed the year with a pre-tax loss of €26.7 million (as compared with profit of €10.6 million in 2019) and a net loss of €19.2 million after a positive tax effect.

Gross income increased by €26.4 million compared with 2019 (or about €16 million if we consider the operating costs related to insured servicing for the disbursement of loans backed by public guarantees connected with government initiatives in response to the health emergency[26], which were recognized among other operating expenses) due to an improvement in net interest income, which benefited from an improved cost of funding provided by the Parent Company, and an increase in fee and commission income, which saw positive effects related to the fees collected on the aforementioned new lending backed by public guarantees.

Conversely – while personnel and other administrative expenses increased slightly (+€0.6 million on the whole, due in part to provisions allocated in connection with early retirement incentives) – impairment of loans increased significantly (+€35 million compared with 2019) due to the more prudent risk assessment policies adopted by the Group given the macroeconomic landscape. Provisions also increased by €7.8 million (attributable to greater allocations for credit risk on off-balance-sheet positions related to more conservative measures in calculating ECL in response to the health emergency). As a result of impairment testing, the equity investments held in Banca Mediocredito del Friuli Venezia Giulia and BCC Factoring were also written down (by €4.7 million and €1.8 million, respectively).

[26] The service generated additional fees of about €6 million in 2020, the net effect of increased fees received and increased costs for the service, which were recognized among other operating expenses.

BCC LEASE SPA

Balance sheet

BCC Lease operates in the various leasing segments typical of the small-ticket market. After the first two months that were practically normal, the COVID-19 emergency brought about a sudden drop in commercial operations in 2020 – making it necessary to handle a significant number of moratoriums – although some moderate signs of a recovery began to be seen towards the end of May.

Within this landscape, and as detailed in the table below, 19,732 new contracts were signed for a total value of €212.2 million, as compared with 22,123 new contracts totaling €260.9 million last year, decreasing by 10.8% in number and 18.7% in value.

Amounts in €/thousands - Numbers in units	New contracts					
	2020		2019		% change	
	No.	Amount	No.	Amount	No.	Amount
Equipment vendor						
Operating leases	8,494	63,590	9,504	72,529	-10.6%	-12.3%
Equipment leasing	3,694	53,610	4,775	71,055	-22.6%	-24.6%
Special-purpose financing	6,042	51,470	5,548	50,561	8.9%	1.8%
Total vendor	**18,230**	**168,670**	**19,827**	**194,145**	**-8.1%**	**-13.1%**
Mutual banks						
Light commercial vehicle leasing	672	19,526	945	26,690	-28.9%	-26.8%
Equipment leasing	484	10,542	760	16,392	-36.3%	-35.7%
Heavy vehicle leasing	52	2,314	76	3,821	-31.6%	-39.4%
Total mutual banks	**1,208**	**32,383**	**1,781**	**46,904**	**-32.2%**	**-31.0%**
Other						
Light commercial vehicle leasing – Agents	183	6,306	238	8,037	-23.1%	-21.5%
Heavy vehicle leasing – Agents	111	4,811	182	9,688	-39.0%	-50.3%
Total other	**294**	**11,111**	**420**	**17,725**	**-30.0%**	**-37.3%**
Total	**19,732**	**212,170**	**22,028**	**258,774**	**-10.4%**	**-18.0%**

While total assets came to €488.9 million, net lending at year end totaled €468.8 million, essentially in line with the previous year. In terms of risk profile, the company closed the year with a gross NPE ratio of 4.3% and, given an average coverage ratio of 74.9%, a net NPE ratio of 1.1%.

Income statement

The year closed with pre-tax profit of €10.4 million (€9.1 million after taxes), as compared with €9.9 million in 2019 (+5.2%). The growth in gross income for the year (up €2.2 million due to an increase in net interest income and a decrease in fee and commission expense) was almost entirely offset by increased provisions for credit risk (+€0.9 million) and an increase in administrative expenses (+€0.8 million).

BCC FACTORING SPA

The year ended with a pre-tax loss of €2.3 million (about €1.8 million after the positive tax effect), performance which is, nonetheless, better than the revised budget taking account of the effects of the pandemic and is a decrease of €1.9 million compared with the previous year. Given the extraordinary circumstances of the period, turnover declined by about 9% from last year.

Balance sheet

Within these extraordinary circumstances, the company's turnover decreased by about 9% from the previous year. In relation to this business trend, the company's total assets, which are almost entirely in loans to customers, settled at €491.6 million, a decline of €514.1 million from the end of 2019.

Credit quality has also worsened, with gross impaired exposures increasing to 6.5%, up from 2.2% at the end of 2019. Coverage of impaired positions remained limited (at around 9%) given the guarantees issued by the parent company.

Income statement

Gross income decreased by €0.2 million to €6.3 million as a result of a similar decline in net interest income, while fee and commission income remained essentially stable, having benefited from a reduction in the fee and commission expense assessed by the parent company on the most significant positions.

Operating expenses increased by a total of €1.1 million due to higher personnel expenses (+€0.7 million, including extraordinary costs of €0.6 million related to the allocation to the solidarity fund to support early retirement) and provisions (+€0.7 million due, above all, to the increase in impairment of off-balance-sheet positions resulting from the recalculation of ECL to take account of the new macroeconomic landscape), which were partially offset by a decrease in administrative expenses.

BANCA MEDIOCREDITO FVG SPA

Banca Mediocredito del Friuli Venezia Giulia S.p.A. specializes in mainly medium and long-term loans and is also responsible for the loan granted through subsidized financing instruments that the Region of Friuli (in part under Revolving Funds) and other public entities have made available to businesses. New lending disbursed to businesses in the Friuli–Venezia Giulia region in 2020 totaled €174 million, of which €77 million related to non-subsidized lending with the remainder being in lending based on third-party funds.

Balance sheet

Total assets at December 31, 2020, came to €1.1 billion, €523 million of which in loans to customers (a decrease of about €20 million from 2019), €328 million in financial assets, and the remainder in loans to banks (about €177 million) and tax assets (at just under €46 million),

Net performing loans totaled €483 million, which is essentially in line with the end of 2019. Conversely, impaired exposures decreased by 26.8% (totaling €88.5 million at December 31, 2020) due to sales and collections totaling about €25 million, in addition to write-offs and transfers back to performing status. As a result of these effects, the NPL ratio fell to 15.4%.

Direct deposits from customers came to €339 million, a decrease of 11% from the end of 2019 due to a precise strategy currently under way to restructure interest-bearing liabilities and reduce the cost of funding.

Income statement

At December 31, 2020, the income statement again shows a pre-tax loss of €4.6 million (vs. a loss of €5.2 million in 2019) and a net loss of €3 million after a positive tax effect.

Gross income, in the amount of €11.6 million, decreased by €0.8 million due to an increase in losses on sales, mainly attributable to de-risking efforts during the year, and to a decrease in fee and commission income, which was only partially offset by an increase in net interest income (+€0.3 million) and decreased losses on the financial portfolios. Operating expenses also decreased (by €1 million), as did impairment on loans (down €0.4 million).

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

The income statement and balance sheet presented below have been reclassified based on management criteria for the purpose of facilitating comparability of information.

Following the Board of Directors' resolution of November 29, 2018, regarding a project to rationalize the electronic money business — which calls for the spin-off of the activities relating to this sector into a new company (Ventis S.p.A.), which was established on December 20, 2018 — in application of IFRS 5, in the separate financial statements of Iccrea Banca the items attributable to the aforementioned branch have been reclassified to the balance sheet and income statement items for assets held for sale. In view of the difficulties of proceeding with the spin-off connected with the pandemic, the spin-off has only been postponed until 2021.

In addition, following the resolution of the Board of Directors of December 13, 2018, work continued on developing the Group's ICT project and, within the scope of the overall reorganization following the creation of the Iccrea Cooperative Banking Group, the sale of the IT business units of Iccrea Banca and Iccrea BancaImpresa to BCC Sistemi Informatici was completed as of July 1, 2020, with the latter company officially becoming the new hub of information systems and technology for the Group. In the financial statements of Iccrea Banca at December 31, 2020, the items related to the IT business unit have been reclassified under the balance sheet and income statement items related to assets held for sale in accordance with IFRS 5.

Given the above, for the purposes of comparability of the results of the Parent Company with the previous year, the figures related to the two business units being sold/sold have been reallocated to the related items of the separate financial statements.

BALANCE SHEET

Assets

€/thousands	31/12/2020	31/12/2019
Financial assets measured at amortized cost – *Due from banks – Loans and securities*	33,192,774	29,273,773
Financial assets measured at amortized cost – *Due from customers – Loans*	4,501,678	5,843,040
Financial assets measured at amortized cost – *Due from customers – Securities*	9,791,187	7,434,784
Financial assets measured at fair value through profit or loss	1,335,470	1,279,864
Financial assets measured at fair value through other comprehensive income	311,207	367,133
Equity investments	1,206,207	1,155,401
Other assets	300,457	315,037
Total interest-bearing assets	**50,638,980**	**45,669,032**
Other non-interest-bearing assets	320,177	407,527
Total assets	**50,959,158**	**46,076,559**

Total assets at December 31, 2020, amounted to €51 billion, up €46.1 billion compared with the end of December 2019, due mainly to the following factors:

- an increase in loans to banks due to greater collateralized lending (+€6.7 billion, all intercompany, including Iccrea BancaImpresa in the amount of €3.6 billion) and uses in current accounts and deposits as well as the reserve requirement funds of the affiliated banks (totaling €0.3 billion), effects which were partially offset by a reduction in investments in debt securities (down €3.3 billion due to the redemption of bonds issued by Iccrea BancaImpresa related to the aforementioned spin-off);
- a decrease in loans to ordinary customers (down to €4.5 billion, -€1.3 billion from the end of December 2019), which largely includes intercompany financing to non-bank companies of the Group (€2.1 billion) and repurchase agreements with the Clearing & Guarantee Fund (€1.8 billion, down €1.1 billion from the end of 2019);
- an increase in amounts due from customers for securities related to the HTC business model (which reached €9.8 billion, largely in government securities; +€2.4 billion compared with the end of the previous year) in implementation of the Group's new T-LTRO III financial strategy, an increase which was partially offset by, above all, a decrease in repurchase agreements with the Clearing & Guarantee Fund (-€1.2 billion);
- a decrease of €55.9 million in financial assets measured at fair value through other comprehensive income, referring to the HCTS business model and mainly made up of government securities, which showed a balance of €311 million at the end of 2020;
- an increase in assets measured at fair value through profit or loss (up €55.6 million to €1.3 billion), the net result of the following factors:
  - an increase in derivatives trading (+€186 million), offset by an analogous trend on the liability side;

- a decrease in other financial assets mandatorily measured at fair value (-€103 million) due to a contraction in the value of units in CUIs (-€112 million, due to sales of investment funds of around €77 million, capital losses of €28 million almost entirely on "Securis" real estate funds – about €13 million of which resulting from the calculated liquidity adjustment – and redemptions of these funds for about €6 million), which was only partially offset by an increase in the value of debt securities held, mainly from banks (about €7 million);
- a reduction in assets originally measured at fair value (€22 million) attributable entirely to assets invested by the Parent Company as the manager of the guarantee scheme and resulting from the divestment of debt securities during the fourth quarter;

• an increase in equity investments resulting from the subscription (for a future capital increase) of an interest in BCC Vita (+€22.5 million), the consideration (+€62.9 million) received on the transfer of the ICT division to BCC Sistemi Informatici (against a reduction in the assets transferred, mainly related to property, plant and equipment and intangible assets), and an increase in the interests in Ventis Srl and BCC CreditoConsumo (both in the amount of €2.8 million). All of the above was partially offset by the writedowns of Banca Sviluppo (€1.5 million), Iccrea BancaImpresa (-€23.9 million), Venti Srl (-€7.7 million), BCC Beni Immobili (€5.2 million), and Banca Mediocredito del Friuli Venezia Giulia (€5.5 million).

Loans to banks, in particular, largely include lending to the affiliated banks (€20.8 billion, an increase of €2.9 billion compared with 2019). These loans, disbursed with pool collateral, include approximately €19 billion in operations with the ECB (T-LTRO III in the amount of €18.9 billion and T-LTRO II for the remainder of €78 million), with the residual component being other forms of collateralized financing. Loans to other credit institutions (including debt securities) include €7.4 billion in intercompany lending (about €6.8 billion to Iccrea BancaImpresa) and deposits with third parties for the remainder.

€/thousands	31/12/2020	31/12/2019
Mutual banks	20,824,539	17,955,094
Other credit institutions	12,368,235	11,318,679
Loans to banks	**33,192,774**	**29,273,773**

Liabilities and equity

€/thousands	31/12/2020	31/12/2019
Financial liabilities measured at amortized cost – *Due to banks*	33,889,855	20,782,376
Financial liabilities measured at amortized cost – *Due to customers*	9,740,677	17,228,036
Financial liabilities measured at amortized cost – *Securities issued*	4,186,006	5,021,316
Financial liabilities held for trading	563,511	381,867
Financial liabilities designated as at fair value	340,957	424,058
Other liabilities	391,585	384,215
Total interest-bearing liabilities	**49,112,591**	**44,221,870**
Other non-interest-bearing liabilities	215,700	150,200
Shareholders' equity	1,697,663	1,831,906
Earnings for the year	(66,795)	(127,417)
Total liabilities and equity	**50,959,158**	**46,076,559**

The increase in liabilities and equity in 2020 is attributable entirely to the increase of €4.9 billion in interest-bearing funding, which is the net effect of the following factors:

- an increase of €13.1 billion in amounts due to banks, up to €33.9 billion, due to an increase in time deposits (+€4.4 billion, entirely intercompany), ECB funding (+€7 billion), current accounts and demand deposits (+€1.3 billion), and repos with banks (+€0.4 billion);
- a reduction of €8.3 billion in amounts due to customers and securities issued, which settled at €13.8 billion, due to: (i) a decrease in repurchase agreements with the Clearance & Guarantee Fund (-€7.1 billion); (ii) a reduction in OPTES operations with the MEF (-€1 billion), which was partially offset by a new loan with CDP (+€0.5 billion); (iii) a decrease in securities issued due almost entirely to the redemption of matured securities (-€1.1 billion) and the early settlement of subordinated securities with the affiliated banks (-€134 million) as authorized by the ECB, which was partially offset by new issues in the amount of €0.5 billion;
- an increase in liabilities held for trading, attributable mainly to trading derivatives (€182 million, related to the same phenomenon as described on the asset side);
- a decrease in financial liabilities designated as at fair value related to financing received from the affiliated banks (the *ex ante* portion) in relation to the guarantee scheme (-€83 million) due to repayments made in January 2020.

€/thousands	31/12/2020	31/12/2019
Mutual banks	13,853,920	8,177,376
Other credit institutions	20,035,935	12,605,000
Due to banks	**33,889,855**	**20,782,376**

Amounts due to banks, which include €5.4 billion in deposits with the affiliated banks to meet reserve obligations, include: (i) €13.9 billion in positions with the affiliated banks related to time deposits (€11 billion) and amounts held in the daily settlement account (€2.8 billion); (ii) €20 billion in amounts due to other credit institutions, largely related to financing from the ECB within the scope of T-LTRO III in the amount of €18.9 billion (with the remaining €78 million related to T-LTRO II); and (iii) intercompany positions with companies in the direct scope for the remainder.

€/thousands	31/12/2020	31/12/2019
Current accounts and deposits	941,373	1,009,117
Financing	8,212,042	15,789,731
Other payables	587,262	429,188
Due to customers	**9,740,677**	**17,228,036**

Equity

At December 31, 2020, the share capital of Iccrea Banca, represented by 27,125,759 ordinary shares with a par value of €51.65 each, was equal to €1.4 million, and remains unchanged from 2019. Shareholders' equity, excluding earnings for the year, amounted to €1.7 billion, a decrease (of €134 million) compared with December 31, 2019. The change is mainly due to: the loss carried forward from 2019 (-€127.4 million); the decrease in valuation reserves (-€11.4 million) mainly due to changes in the CFH reserve as a result of the new hedging policy for forward security sales; and the zeroing of the treasury shares reserve (€4.6 million) in accordance with the shareholder resolution.

Income statement

€/thousands	31/12/2020	31/12/2019
Net interest income	**86,457**	**47,239**
Gains/losses on financial transactions	48,177	39,948
Dividends	37,216	51,361
Net fee and commission income	**152,470**	**162,497**
Other operating expenses/income	169,327	118,912
Gross income	**493,647**	**419,958**
Personnel expenses	(196,489)	(153,797)
Other administrative expenses	(305,095)	(272,989)
Net adjustments of property, plant and equipment and intangible assets	(11,671)	(12,083)
Total operating expenses	**(513,256)**	**(438,869)**
Gross operating profit	**(19,608)**	**(18,911)**
Net provisions for risks and charges	(1,875)	(1,289)
Net losses/recoveries on impairment of loans and other financial transactions	(8,706)	(38,325)
Total provisions and adjustments	**(10,581)**	**(39,614)**
Profit/(loss) from equity investments	(44,038)	(76,765)
Profit/(loss) before tax	**(74,227)**	**(135,290)**
Income tax expense	7,432	7,873
Profit/(loss) for the period	**(66,795)**	**(127,417)**

The net loss for 2020 came to €66.8 million, an improvement over the loss at December 2019 (€127.4 million). The main factors that contributed to this performance concerned the following:

- an increase in gross income (+€73.7 million) to €493.7 million, including the following factors:
    - an increase in net interest income (+€39.2 million) attributable to: the increased income on Italian government bonds indexed to Italian and European inflation in the HTC portfolio (+€13.7 million); the net contribution of ECB funding (+€6.8 million); the increase in interest on OPTES operations (+€5.4 million); repos (+€10.1 million); and the interest on the daily settlement account (+€4.8 million). These factors were partially offset by a decrease in interest on the lending of the companies within the direct scope;

  - a decrease in net fee and commission income (-€10 million) due mainly to reduced spending in the use of payment cards (with lower transaction volumes and fewer international ATM withdrawals) and to a reduction in check transactions as a result of governmental restrictions in order to combat COVID-19;
  - an increase in other gains and losses on financial transactions (up €8.2 million compared with the previous year to €48.2 million) driven by increased gains on the sale of 15% of the securities (excluding government securities) held in the HTC portfolio and by the additional sale of FVOCI securities in the HTCS portfolio, which generated gains of €54 million and €2 million, respectively (+€34 million compared with 2019). These factors were partially offset by the significant reduction in 2020 of the net result on financing activities (down €26 million compared with 2019, going from a net gain of €15 million to a net loss of €11 million), which, in 2019, included a number of extraordinary positive components (the sale of Nexi securities), whereas the year under review was affected by significant losses above all on units in CIUs (-€14.8 million compared with the previous year and essentially all attributable to the Securis funds) and on equity securities in the HTCS portfolio (-€13 million), effects which were only partially mitigated by gains on the trading of securities and derivatives (+€5 million) and on hedging activities (+€1.6 million);
  - a decrease in dividends received (down €14.1 million to €37.2 million) due to poorer performance compared with the previous year and/or losses recognized by a number of subsidiaries in 2019;
  - an increase in other operating expenses/income (+€50.4 million) due mainly to the increased billing of services related to the new ICBG. Class-1 services increased by €17.7 million (from €42.3 million to €60 million); Class-2 services increased by €19.5 million (from €25.9 million to €45.4 million), and income on project services increased by €9.4 million (from €15.6 million to €25.0 million).

- an increase of €74.4 million in operating expenses to €513.3 million at the end of 2020 due mainly to: (i) an increase in personnel expenses (from €153.8 million to €196.5 million), the combined effect of the new size of the workforce following creation of the ICBG and the extraordinary cost incurred for early retirement incentives (€12.1 million); (ii) a generalized increase in administrative expenses, which reflects, in part, the increase in contributions to the Resolution Fund (+€8.1 million compared with the previous year);
- a decrease in adjustments to controlling interests (-€38.2 million), going from €76.8 million in 2019 (related, above all, to the impairment loss on the interest in Iccrea BancaImpresa) to €44 million. In this regard, impairment was recognized on the interests held in Iccrea BancaImpresa (€24.0 million), Banca Sviluppo (€1.5 million), Ventis (€7.7 million), BCC Beni Immobili (€5.2 million), and Banca Mediocredito FVG (-€5.5 million).
- a decrease in the impairment of loans, from €38.3 million in 2019 – a year in which the bad loans underlying the note of the vehicle "Lucrezia 4" were included in the "sale scenario" and were then sold within the scope of the securitization backed by public guarantee (GACS IV) – to €8.7 million.

ASSETS HELD FOR SALE

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

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

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

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

Balance sheet

€/thousands	31/12/2020	31/12/2019
Financial assets measured at amortized cost	580	556
Equity investments	-	4,920
Property, plant and equipment	-	3
Intangible assets	3,380	4,172
Other assets	185,472	162,049
Total assets	**189,432**	**171,700**

€/thousands	31/12/2020	31/12/2019
Financial liabilities measured at amortized cost – Due to customers	108,728	99,170
Other liabilities	59,426	54,789
Post-employment benefits	465	463
Provisions for risks and charges	2,194	1,508
Profit/(loss) for the period (+/-)	18,619	15,770
Total liabilities and equity	**189,432**	**171,700**

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

Income statement

€/thousands	31/12/2020	31/12/2019
Fee and commission income	340,487	379,046
Fee and commission expense	(260,158)	(289,212)
Net fee and commission income	**80,330**	**89,834**
Gross income	**80,330**	**89,834**
Net income/(loss) from financial operations	**80,330**	**89,834**
Administrative expenses:	(69,386)	(82,677)
a) personnel expenses	*(5,492)*	*(7,995)*
b) other administrative expenses	*(63,894)*	*(74,682)*
Net provisions for risks and charges	(444)	(483)
b) other net provisions	*(444)*	*(483)*
Net losses/recoveries on impairment of loans and other transactions	6	(6)
Net writedowns/writebacks of property, plant and equipment	-	(2)
Net writedowns/writebacks of intangible assets	(723)	(587)
Other operating expenses/income	16,295	16,100
Operating expenses	**(54,253)**	**(67,655)**
Profit/(loss) before tax on continuing operations	**26,076**	**22,179**
Income tax expense	**(7,457)**	**(6,410)**
Net profit/(loss) for the period	**18,619**	**15,770**

7. SIGNIFICANT EVENTS DURING THE PERIOD

Measures taken in response to the COVID-19 health emergency

Starting from the end of February 2020, the health emergency connected with the COVID-19 pandemic has affected both market developments and commercial operations, which were penalized by the continuation of emergency measures linked to the pandemic in Italy. In this context, the Group has continued to pay the utmost attention to the instructions of the authorities aimed at protecting public health and safeguarding consumer interests and has then adapted processes and the organization in a timely manner to ensure the necessary safety in the workplace and in relations with customers and with stakeholders generally, as well as to ensure business and service continuity for all members of the Group.

This has included the immediate creation, within the Parent Company, of a specific cross-functional COVID-19 emergency task force, which has constantly assessed the evolving circumstances and made the decisions that have been needed over time, with the goal of providing adequate mechanisms of coordination and ensuring harmonization in the interpretation of the various measures and guidelines issued by Italian and European government entities and other authorities and in the solutions implemented throughout the Group.

The main areas of action of the COVID-19 task force concerned:

- monitoring developments in the legislative framework by analyzing and interpreting government measures and information released by the competent authorities, as well as the steps taken by other national players and by the various banks within the Group;
- interacting with the authorities for questions, clarifications and requests for amendments, including in collaboration with Federcasse;
- distribution of the guidelines and interpretations to the companies within the direct scope and the handling of requests for clarification and assistance by the affiliated banks and the companies of the direct scope;
- the definition of measures to increase the efficiency of operating processes and to strengthen the servicing measures offered by the companies of the Group;
- the identification and implementation of technical solutions to help customers access services remotely and to help the banks handle the growing volume of business related to the health emergency;
- the definition of ways to adapt information technology, to implement contingency solutions to support operations in the lending segment, and to monitor related developments.

With regard to safety and continuity in operations, the necessary steps were guided and coordinated in order to ensure the safety of employees, customers and vendors – in addition to the necessary communications with other internal and external stakeholders – and to ensure the continuity of critical services. The main solutions implemented in order to respond to the emergency during the lockdown, while mitigating risks and ensuring continuity in operations, have been based primarily on the extension and timely activation of remote working and on the coordinated management of opening branches to the public.

It should be noted, first of all, that the Group has been participating in the protocol of intent established between Federcasse and the trade unions for the mutual banking industry in order to avoid large gatherings and limit the spread of the virus, as well as to help safeguard the health of mutual bank employees.

Remote working was also quickly adopted in relation to service operations and the provision of access to systems. Available infrastructures enabled us to ensure the effective operation of systems supporting new operating procedures while ensuring compliance and the management of the various projects underway essentially in line with established plans.

With regard to systemic processes, beginning with the Group’s business continuity plan, the critical activities and emergency solutions related to the unavailability of facilities and personnel have been analyzed, giving priority to the areas of operations that handle customer-related processes and services.

The employees of units conducting critical activities, of those that handle systemic processes, and of those that work with the markets have been given the ability to work from home. In situations in which the job requires physical presence in the workplace, shifts have been organized in such a way as to reduce the risk of infection and consequent lack of personnel.

For the network of operating branches of the various banks and other companies of the Group, a uniform, coordinated approach for their opening and, where necessary, selective closure has been established. Access has been governed by precise rules aimed at ensuring social distancing. Throughout the lockdown, customers have been kept informed by way of the timely posting of in-branch notices and the usual means of communication as to the need to keep branch visits limited exclusively to transactions that must be done in branch and other needs that cannot be postponed. Branch access has been ensured – by appointments made by phone and in more limited numbers – only for urgent transactions that cannot be done by remote channels or automated teller machines as determined by the bank. In any event, where necessary, urgent transactions that cannot be postponed related to essential public services have been ensured.

In order to facilitate activation of government measures and industry accords (i.e. the ABI moratoriums, *Imprese in Ripresa 2.0*, and *Accordo con Associazione dei Consumatori*), we immediately activated solutions aimed at their execution and qualification by the companies of the Group, along with the production of daily reports and other information aimed at detailed monitoring of both the level of execution and its related impact, particularly in terms of the quality of the loan portfolio. A direct expression of this reporting and information can also be seen in the new, specific supervisory reports activated in this regard.

In this regard, it is also important to note the actions aimed at ensuring a response to dynamics in lending and related risk factors (the “COVID-19 Plan”) in order to adapt and strengthen the operational model for lending and related management strategies to the changing landscape, while ensuring a timely response to the needs of the customer, as well as to respond to the potential deterioration of the loan portfolio and promote the main initiatives defined within the scope of the Operational Plan that accompanies the Group’s NPE strategy.

The granting of credit within the Group is based mainly on the framework of Group’s policies in this regard, which are inspired by applicable laws and regulations, by the principle of sound and prudent management, by industry best practice, and by the principle of proportionality in the application of lending rules. In confirming the implementation of this system even within the context of the COVID-19 emergency, the Group has, in certain specific cases, deemed it appropriate to adapt this framework so as to facilitate application of governmental and industry-association measures and to meet the needs of our customers.

Therefore, beginning in March 2020, the companies of the Group were provided with general operational guidelines concerning the approach and mechanisms to be used when granting credit, monitoring and classifying loan-facilitation measures, and evaluating guarantees in light of the particular circumstances of the moment; and strategic operational guidelines for the handling of moratoriums to support customers.

In this regard, we have:

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

In order to manage the process of assessing creditworthiness as effectively as possible, with a particular emphasis on corporate customers, we have defined a number of areas for closer attention – reinforcing the credit standards of the ordinary assessment of borrowers – based on the type of customer and the type of transaction. In light of the related EBA guidelines, we have also issued specific instructions to the companies of the Group for the proper classification of the established measures, including specifying the types of suspensions and the conditions which, if met, do not result in the automatic classification of the exposure subject to a moratorium as forborne. In this regard, the Parent Company has also promoted various initiatives with the IT function aimed at facilitating, from an operational point of view, the affiliated banks in managing extensions, including specific rules for the classification of positions subject to a moratorium as “forborne”.

Cure Italy moratoriums	**Number (thousands)**	**Amount (€/billions)**
Applications received at 31/12/2020	220	23.80
Applications approved at 31/12/2020	215	23.26
% applications approved	*97.73%*	*97.73%*
Moratoriums outstanding at 31/12/2020		*16.37*
Moratoriums still outstanding at 16/4/2021		*13.09*
New financing under the Liquidity Decree (Article 13)	**Number (thousands)**	**Amount (€/billions)**
Applications received at 31/12/2020	133	7.07
Financing granted at 31/12/2020	126	6.04
% financing granted	*94.74%*	*85.43%*

The areas of action identified has allowed for the adequate overall management of operations underlying the lending process throughout the peak phases of the emergency with very high percentages of approval of the requests for moratorium and financing (as summarized in the table below), while maintaining constant monitoring of portfolio quality, of dynamics in lending, and of related risk factors.

In 2020, the total number of moratorium applications based on the various types of intervention (legislation, ABI, and individual initiative) agreed upon by the companies of the Group came to about 215,000 (out of some 220,000 applications received), for a total gross exposure of €23.3 billion. The lack of renewal applications from customers, which partly reflected the resumption of economic activity last summer, has led to a gradual reduction in the amount of loans benefiting from the support measure. As of April 16, 2021, the total value of moratoriums still outstanding amounted to €13.1 billion.

With regard to the additional lending measures adopted nationwide (i.e. the Liquidity Decree), in 2020 the Group received some 133,000 applications for a total value of €7 billion. Loans totaling €6 billion were disbursed in response to these applications. The vast majority of these actions (about 93% in terms of volumes disbursed) concerned new loans with a maximum value of €25,000 and backed by the Central

Guarantee Fund (Article 13(1)(m) of Decree Law 23 of April 8, 2020). Within the loans disbursed, we have seen a substantial focus on captive customers, with only a minimal part being loans to new borrowers.

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

- the identification and constant monitoring of key information related to the loan portfolio impacted by application of the support measures established by applicable COVID-19 legislation. This has entailed, practically speaking, the incorporation of these new dimensions of analysis within the ordinary processes of credit-risk monitoring and control and of the production of related separate and consolidated reporting within the Group, including in response to the requests for information received from the supervisory authorities;
- the revision of credit-risk forecasting metrics to factor in the new aspects of analysis related to the COVID-19 emergency (e.g. updated macroeconomic scenarios and the effect of support measures) within the scope of ordinary measurement processes and, in particular, within the IFRS 9 impairment framework.
- With regard to the need for internal information and the complex framework of reporting to the organization's governing bodies, since the start of the health emergency risk monitoring and detection has been intensified in order to respond to the main risk dynamics (i.e. credit risk, financial risk and operational risk).
- As concerns the monitoring of credit risk, specific summary information related to credit-risk efforts under way in connection with the COVID-19 emergency has been brought to the attention of the corporate bodies of the Parent Company (i.e. the Risks Committee and the Board of Directors), including:
- information related to the process of monitoring lending operations with regard to COVID-19, with a particular emphasis on the support measures approved for customers and the main analyses of and trends in the Group's overall loan portfolio;
- simulations – initially conducted based on an assumption of static financials and on information available at the time, as well as on an initial version of the macroeconomic scenarios generated in response to the COVID-19 emergency and subsequently updated – of the additional provisioning for the Group's loan portfolio expected for 2020;
- the main trends in the credit risk profile.

After the supervisory authorities had issued specific guidelines accompanied by *ad hoc* requests for banks to provide qualitative and quantitative information, the Parent Company produced the following COVID-19 reporting at the consolidated level.:

- "COVID-19 Emergency Measures – Moratoriums and lending", a template issued to the Bank of Italy on a weekly basis;
- "SSM COVID-19 reporting", a template issued monthly to the ECB JST together with the ICBG's monthly closing package for the balance sheet, income statement, and risk-weighted assets (RWAs);
- "COVID-19 Questionnaire: Customer relations and support measures", which is sent on a semi-monthly basis to the Bank of Italy and provides information on relations with the customers of the affiliated banks within the context of COVID-19 (e.g. access to online banking, legislative moratoriums, government-backed lending, complaints, and other issues related to the pandemic);
- "COVID-19 Impact – Weekly credit monitoring", submitted weekly to the ECB JST, which provides a risk-based presentation of the numbers and trends for the Group's loan portfolio, with a specific focus on operations related to the COVID-19 emergency and related support measures.

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

With regard to operational risk, the Loss Data Collection process has been further intensified, particularly as concerns the collection of operational loss data and/or the extraordinary costs incurred by the various legal entities in order to ensure business continuity, as has the monitoring of IT and cyber incidents, which, in recent months, has been oriented more towards identifying any causal links of events to the pandemic. The adoption of a multi-risk approach is also key to managing and strengthening operational stability, which includes the ability to manage ICT risks and to govern IT and cyber security issues, paying particular attention to the growing number cyber threats and new forms of financial crime that are known to characterize periods of severe economic turbulence.

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

This set of analyses and simulations provided fundamental input and opportunities for consistency checks to support the Group's revised budget – approved by the Board of Directors of the Parent Company on August 7, 2020 – and the related realignment of the main risk governance processes for 2020 (RAS 2020 for the Group, the companies of the direct scope, and the affiliated banks).

Finally, within the scope of initiatives taken in response to the COVID-19 emergency, we have activated market solutions in the following areas:

- insurance, with the provision of two separate COVID-19 insurance policies, one aimed at covering the employees and shareholders of the affiliated banks and one to be offered to business customers to cover their employees;
- payment systems and electronic money, with an offering to promote the acceptance of remote micropayments using cards with reimbursement of the merchant fees for payments of €10 or less. In addition, we have eliminated rental fees and fees for new PayWay Mail activations for all of 2020. In order to promote the use of electronic money and limit the need to come into a branch, we have provided the option to increase withdrawal and spending limits for debit cards and have increased the ATM withdrawal limits for Bancomat cards until the end of the health emergency;
- operating leases and consumer credit, providing the option of both a reduced lease payment for six months with consequent extension of the operating lease agreement and the suspension for up to three months of payments on loans for customers who are experiencing difficulties as defined under Article 54 of Decree Law 18/2020.

Within the scope of efforts related to the ongoing development of digital banking, the following were implemented:

- a new function to enable both the bank and customers to upload, share and sign documents using strong customer authentication (SCA);
- a technical infrastructure to handle investment orders via phone.

In line with recommendations by the Bank of Italy concerning communications with customers, a Group site has been created for the COVID-19 emergency, which has been integrated with the websites of the mutual banks, in order to:

- provide customers with updated information on regulatory measures, including FAQs and forms for applying for support programs dedicated to families and businesses, self-employed workers and professionals;
- provide customers with a means of making appointments via online forms on the sites of the mutual banks (updated daily with information of open branches and changes in branch hours).

We also issued specific notices to customers covered by the decree and those who use RelaxBanking in order to promote the use of digital tools.

Finally, in order to organize the COVID-19 measures taken by the mutual banks belonging to the Group, a dedicated page on the Coopera website (the ICBG's brand dedicated to the third sector) was created.

New strategic plan and internal reorganization of the companies within the direct scope

Work related to the 2021-2023 planning cycle began in the fourth quarter of 2020 with the goal of obtaining approval, by January 2021, of a three-year plan that would factor in both the new macroeconomic landscape and the results of the comprehensive assessment. The prolonged need for prudent operations has made it necessary to define a new plan and revised calendar of completion in order to meet the various needs of such operations. Therefore, consolidated planning efforts have continued with the goal of approving the 2021 RAS/budgets of the individual affiliated banks and the consolidated 2021 budget by the end of May 2021.

The planning cycle will take account of the current macroeconomic landscape – factoring in the effects of the pandemic on the real economy and the consequent extraordinary responses of the Italian government, of the European institutions, and of the central bank – and in particular, given the ICBG business model, of the continuation of extremely low interest rates, which are significantly negative at the short end of the curve (Euribor 3M 2021 -0.50%, Euribor 3M 2023 -0.46%) and low at the longer end (IRS 10y 2021 -0.15%, IRS 10y 2023 +0.17%), as well as of the outlook for the loan portfolio, which, in line with 2020, calls for continued disbursement in 2021 of government-backed loans targeting the core customer base served by the ICBG. The plan will also factor in the effects of the regulatory landscape, which remains particularly dynamic, including constant innovations and the consequent need to adapt (esp. the effects of CRR2, the MREL target, the definition of default, and calendar provisioning).

Within this framework as summarized above, the Parent Company has also been heavily engaged in implementing the 2020-2023 Transformation Plan, as approved by the Iccrea Banca Board of Directors on March 30, 2020, which defines the actions that the Group intends to take in order to revise and streamlining the organization of the companies within the direct scope with a view to increasing the operating efficiency of the Group and realizing the full potential of the affiliated banks.

Pending the issue of the findings of the comprehensive assessment, the 2021–2023 plan has been developed based on the actions of the Transformation Plan, while factoring in the strategic goals for 2023 as approved by the Board in November 2020.

Defined based on a top-down approach, the three-year plan, which must now be included in the convergence of and discussions with the affiliated banks over the coming months, is based on the following main drivers of financial solidity:

- focus on lending, supported by execution of actions to realize our full commercial potential, which, by leveraging the return of economic activity, will drive growth in loans to customers to reach around €90 billion in net lending by 2023 (up from €87.3 billion at the end of 2020);
- significant development of indirect funding, concentrated in qualified funding (asset management and insurance) to reach a stock of around €36 billion by 2023 (vs. €27 billion in 2020, or around €50 billion when also considering assets under administration), along with a slight reduction in direct funding compared with the very high levels of 2020 (€121 billion by 2023 vs. €122 billion in 2020);
- full use of monetary policy facilities (T-LTRO III) and stability in the stock of financial assets, which is to remain at current levels (around €67 billion) throughout the three-year period;
- issuing of MREL-eligible liabilities by Iccrea Banca in order to meet the targets set by the competent authority;
- a trend in credit risk that, upon implementation of the NPE strategy described below, will see the gross value of NPLs fall to around €2.4 billion from 2020 levels, despite prudent forecasts of significant increases in such exposures given, in part, the current macroeconomic landscape.

In terms of efficiency, the plan factors in the continuation of intensive efforts to rationalize the organization of the ICBG by developing the plan to centralize activities within Sinergia (the specialist hub, in terms of processes and competencies, in which to centralize assets, resources and services to support the affiliated banks), and to carry out the branch plan (with closures increased compared with the pre-COVID plan), along with a number of mergers of affiliated banks defined on the basis of the current plan and an initial forecast of the banks subject to sustainability risk, which is expected to generate savings in administrative expenses (both HR and other administrative expenses). The plan also takes account of the benefits of the cost-excellence initiatives launched by the Parent Company.

Upon completion of these actions, and despite the ongoing context of negative interest rates across a large part of the curve, the plan calls for net interest income to continue being the main source of revenue (63%), benefiting from both the volume/mix effect of product lines and the actions of expansive monetary policy. Fee and commission income is also expected to increase, with its percentage of gross income increasing from 31% in 2020 to 36% by 2023. Over the course of the plan, the efficiency efforts are expected to lead to a contraction, above all, in administrative expenses (-1.9% CAGR), whereas personnel expenses should decrease less on the expectation, in part, of inertial growth following developments in contract negotiations.

Given the general landscape and the intention to continue with intensive de-risking actions, as described in greater detail below, cost of risk is expected to settle at a total of around €2.7 billion during the three-year period.

As a result of these actions, growth in overall profitability and cost reductions should make it possible to achieve a cost-to-income ratio (calculated as the ratio of net operating expenses to gross income net of losses on the sale of NPLs) of 67% by 2023 (-6.5% from current levels). Despite the expected prudence in measuring the cost of credit aimed at improving the overall risk profile, as described above, these results will make it possible to achieve net profits of €296 million by 2023 (estimated ROE of 2.8%).

The trend in the loan portfolio, including an increase in volumes that will lead to growth in RWAs, and the effects of the amortization of the IFRS 9 phase-in (i.e. transitional adjustments on capital), which will be only partially offset by self-financing, should, nonetheless, maintain a CET1 ratio of around 15% by 2023, while potential actions to reinforce capital should bring the TC ratio above 16.4%.

NPE strategy

In 2020, in continuation of the de-risking of the NPL portfolio, we completed the fourth securitization of non-performing loans backed by State guarantee (GACS). This operation concerned a total portfolio of more than 17,000 NPEs related to some 9,600 borrowers and originated by 88 banks of the ICBG and two banks from outside the Group. The portfolio had a total exposure of greater than €2.3 billion, €2 billion of which originated by the ICBG. For the purposes of the operation, senior securities rated Baa2 by Moody's and BBB by Scope, subscribed entirely by the originators along with 5% of the mezzanine and junior securities in observance of the regulatory retention rule requiring us to maintain a net economic interest in the operation, were issued. The remaining 95% of the mezzanine notes, rated Caa2 by Moody's and CC by Scope, and of the unrated junior notes were placed on the market.

For prudent purposes, the junior and mezzanine notes were weighted as a whole at approximately 1.250% in accordance with the provisions of Regulation (EU) 2401/2017, while the senior notes were weighted as ordinary positions in a rated securitization. Once the GACS public guarantee is received, which is expected in the first half of 2021, the senior notes will be weighted as government exposures. When structuring the operation, a special-purpose company known as a "ReoCo" was created in order to optimize the property recovery process by making it possible to buy, manage and sell the registered securities and properties used as collateral for the loans involved in the securitization.

This operation falls within the broader overall framework of major de-risking efforts of recent years (since the creation of the ICBG), which have made it possible to significantly reduce non-performing exposures (NPEs) and reach a gross NPL ratio at the end of 2020 of 9.1% (4.3% net), as compared with 18.9% at the end of 2017 prior to the start of coordinated action by the Parent Company. The gross stock of NPEs fell over the three-year period from €17.5 billion at the end of 2017 to €8.4 billion by the end of 2020.

So as not to waste the effort of recent years to improve the Group's risk indicators, and despite the complex macroeconomic landscape brought about by the spread of the COVID-19 pandemic, the goal of the 2021-2023 NPE Plan is to approach the most challenging positioning targets expected by the European supervisory authority.

For these reasons, the 2021-2023 NPE Plan factors in operational actions the positive effects of which could, although not deviating from the levels of performance seen in the recent past, enable the Group to approach a gross NPL ratio of 6.5% by the end of 2023 (with GBV at around €6 billion) and a net NPL ratio of 3.3% thanks to a coverage ratio of 51%. These targets, which call for a reduction in gross NPLs of €2.4 billion over the three years, take account not only of the expected improvement in the risk indicators issued by the supervisory authority and expected by the market, but also the impact of the new rules introduced concerning the new definition of default, the levels of calendar provisioning called for by the authority, and the potential default of a portion of the portfolio given, in part, the current macroeconomic landscape (with new defaults over the three years estimated at a total of €5.8 billion).

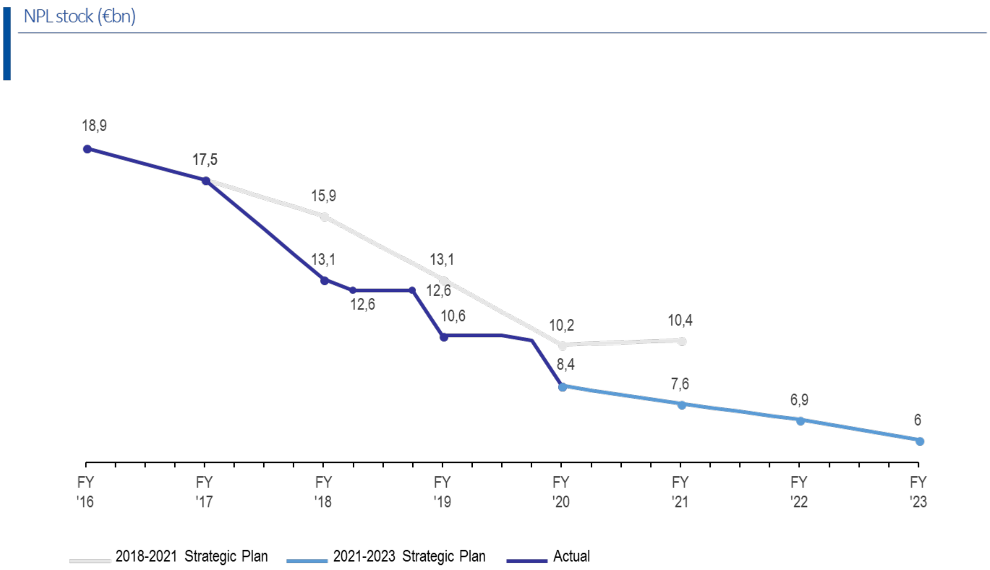
In order to achieve these targets, a combination of actions has been planned that aim to minimize the economic impact of the de-risking strategy, which – in addition to potential sales of NPEs, hypotheses that factor in any public measures that should be issued or renewed – include well-defined, proactive actions involving the impaired credit positions (in particular, attention aimed at returning customers of good credit standing back to performing status, collections, the liquidation of collateral, write-offs, and settlements).

Upon completion of these actions, coverage levels should decrease in 2021 due, essentially, to the closure, by way of the mechanisms described above, of important segments of the portfolio that call for high levels of coverage, before rising again by the end of the plan (51% total NPL coverage, including around 77% for bad loans and 41% for unlikely-to-pay exposures). The overall decline in NPE coverage levels by the end of the plan, from the 55.7% of 2020 to 51%, is also to be seen in relation to the change in the organization and composition of the portfolio, which, upon completion of these actions, will include a decrease in the riskiest impaired positions (with the percentage of bad loans expected to fall from the 48% of 2020 to 34% by the end of the plan), a reduction in the average estimated age of NPEs (from 5.1 years in 2020 to 3.2 years by plan end), and a proper valuation of the guarantees that provide important support to the Group's impaired credit.

Within this context, it is important to note that the 2021-2023 NPE Plan does not yet factor in the effects of the ECB's recently completed comprehensive assessment of the Group. Therefore, the qualified targets of the 2021-2023 NPE Plan could be revised based on the impact of this assessment as soon as the results are official.

The chart shown below summarizes the trend of the last 5 years in the volume of impaired credit and the forecasts for 2021-2023 based on the strategies defined, as well as the line related to the 2018-2021 plan submitted to the authority in conjunction with the filing for the creation of the Iccrea Cooperative Banking Group. As the chart shows, the Group has, in terms of de-risking, thus far reached better targets compared with the forecasts submitted to the authority as a result of the overall organization put in place to achieve the targets set.

NPL stock evolution



Continuing with the de-risking efforts aimed at significantly reducing the Group's NPLs, in the first half of 2021, the ICBG began organizing another multi-originator securitization concerning multiple loan portfolios resulting from mortgage loans and unsecured lending to non-performing borrowers (GACS V), the senior class of which is eligible for the public guarantee of the liabilities issued. In this regard, should the State guarantee scheme not be extended, the operation would still be executed with a suitable financial structure aimed at achieving the best result possible in terms of sale price and deconsolidation. In line with market best practice for operations of this type and with previous operations carried out by the ICBG, this operation, too, calls for the without-recourse sale of loans to a special-purpose securitization vehicle established in accordance with Italian Law 130/1999, which will finance the payment of the sale by issuing asset-backed securities.

The Parent Company will be involved in the operation as both the selling party and the co-arranger (together with JP Morgan Securities Limited). As a result of the operation, loans originated by banks of the ICBG and of banks from outside the Group will be sold for a total gross exposure that falls within the scope of the overall de-risking strategy being pursued by the Group.

Development of the ICBG commercial and marketing strategy

In 2020, the Group continued efforts to enhance our model of banking in support of the local communities of the affiliated banks, while maintaining a keen focus on the needs of territory and on the satisfaction our customers and shareholders. Within this context, we have consolidated the ongoing process of transitioning the current service model and branch network towards a model based on high-quality relationships. To this end, the following primary areas of development have been targeted:

- an offering based on high-value advisory services dedicated to individual customers (affluent, wealth, and private banking, with an emphasis on insurance services) and business customers (including SMEs and corporate accounts);
- the development of the branch model by enhancing the automation of transaction services (including advanced ATMs, in-branch self-service kiosks, and "cash-light" branches) and through investment in remote-banking technologies;
- the dissemination of a customer-centric approach by listening to the needs of both customers and shareholders in order to manage current and future needs and establish lasting relationships that create value;
- community development with product/segment specializations, particularly aimed at businesses, for whom dedicated offerings have been defined, reinforcing the strategic positioning of the ICBG as a key partner for SMEs;
- enhancing customer-service capabilities through advanced customer-insight tools and models for the affiliated banks (including the release of the GALILEO system for planning, market analysis, and branch financial benchmarking);
- the launch of a digital, multichannel strategy.

In order to support this evolution, and within the ICBG Transformation Plan, we have defined and launched the "Full Revenue Potential" program, the main projects of which are described below, along with information on progress made:

- *Customer Relationship Management* (CRM): launched in early 2019, this project is part of the strategic actions aimed at harmonizing the commercial approach of the affiliated banks by providing them with a marketing-automation tool to guide sales processes and manage customer relationships with the goal of ensuring greater efficacy in analyses by taking advantage of knowledge throughout the Group. The main channels of customer contact (e.g. RelaxBanking, email, SMS messaging, landing pages, ATMs and push notifications) have been integrated within this project. This integration will allow for coordinated communications throughout all contact channels that can be personalized based on the needs of the customer concerned. Application development was completed in 2020, and tests have been run on the data warehouse feeding the system. Verifications of the CRM front-end and of the campaign have also been refined in preparation of the roll-out to the affiliated banks.
- *Full Commercial Potential*: a project aimed at developing and specializing the branch model of the mutual banks by, in part, enhancing and further developing the catalogue of products and services (particularly in the business areas of asset management, insurance, bancassurance, consumer credit and electronic money aimed at businesses, and at SMEs in particular). Despite the limitations brought about by the spread of the COVID-19 health emergency, we have carried out a pilot project with a number of mutual banks that produced encouraging results in terms of adding value to consulting services for customers. Additional mutual banks have joined the project, and we await a mitigation of COVID-19 risks in order to implemented the related action plan with customers.
- *Development of the bank service model*: a project aimed at developing the branch network and service model of the affiliated banks by developing employee skills, providing modulated coverage of specific territories, improving the quality of relations with shareholders and with customers, and disseminating a customer-centric approach to managing current and future needs, all with the goal of promoting increased customer loyalty and consequent growth in the core revenues of the affiliated banks in the main segments of our offering;
- *Project Intour*: a project based on the establishment of quality partnerships to create an advanced platform of services for the tourism industry that integrates an innovating offering of financing, payment systems, and insurance (i.e. fintech and insurtech), which will make it possible to reduce the industry's dependence on intermediaries (e.g. OTAs), promote local consumption, and shorten the distance between business and banking. In 2020, we *(i)* acquired a minority interest in H Benchmark S.r.l. with the goal of acting as an "accelerator" of the Group's activities in the tourism segment. Using this web-based platform, it is possible to acquire, aggregate and run comparative analyses of a rich series of performance indicators for a hotel in order to facilitate the loan-origination process; and (ii) an InTour business network has been created with six other strategic partners involved in the initiative;
- *Project Wealth Management* (WM): a project to develop our advisory models in order to ensure the quality of the offering and management of investment, funding, life insurance, and other wealth management products. Released in April 2021, the WM platform is to be rolled out gradually in order to allow for the effective activation of the new front-end available to the affiliated banks and will integrate the various application components, including Aladdin by BlackRock, the company with which BCC Risparmio & Previdenza has established a partnership aimed at benefiting from the related technological know-how;
- *Asset management*: a process of strengthening the Group's role as an investment center is under way, and this involves broadening the range of action – beyond mere internal production of investment products – and focusing on the generation of more technological investment solutions (e.g. development of the aforementioned WM platform);

- *Implementation of the product and service offering for affluent and private-banking customers*: launch and creation of the visual aids for the Admaiora Investment Certificates, a tool designed to meet the many investment needs of a diverse range of market segments and which can be indexed to various types of underlying asset. This tool will help customers create investment portfolios based on asset allocation in order to hedge against risks and optimize tax effects.

A series of other projects and initiatives in 2020 also arose out of our intention to provide services the shareholders and customers of the affiliated banks, as well as services related to the current economic landscape and measures issued by government, in order to further promote customer relationships with the Group, which has been made even more complicated by the precautions put in place to limit the spread of the pandemic.

These included the following:

- *Project Ecobonus.* With regard to developments related to the environmental and earthquake bonuses (*Eco-* and *Sisma Bonus*) governed by Italy's Relaunch Decree and subsequent amendments, commercial agreements have been developed with prominent strategic partners (e.g. Enigaseluce and Harley Dickinson, AATECH/Termo) along with structural changes to information systems and new financing products with related contracts (the CONenergy line), all with the goal of converging the Group's full potential on directly and indirectly meeting the needs of the customers and shareholders of the affiliated banks;
- Restart package. Implemented in the first half of 2020, this project includes initiatives that aim to extend the use of electronic money, including through government incentives within the scope of the Italia Cashless plan. In this regard, we have launched the first joint campaigns with Cattolica Assicurazioni within the framework agreement between Iccrea Banca and the parent company of the Cattolica group. Of particular note are the initiatives dedicated to the income-protection products and the initiative #INSIEMESIVINCE. The restart package also includes initiatives for the customers and shareholders of the mutual banks to support the placement of BlackRock funds through the aforementioned agreement, as well as individual investment and incremental trading accounts. Many commercial initiatives in recent months have been conducted making use of the Group's customer relationship management (CRM) application, although not to its full potential;
- Consolidation package. A "consolidation" package has been made available to the affiliated banks that concerns the wealth management, bancassurance, electronic money (both acquiring and issuing), and lending (both businesses and individuals) segments. Of particular note are the Cattolica multi-risk home and family policy, the credit cards, the mobile POS, and the personal loan based on spending from the previous month. The package also included communication campaigns that involved the affiliated banks buying geolocalized, digital ad spaces on strategic products. Another initiative of note within the consolidation package were the communications with the holders of electronic-money products concerning the need to adapt the authorization channels for online transactions following the efficacy of PSD2 legislation;
- *Governmental Cashback: MPAY and CartaBCC Loyalty campaigns. The Italia Cashless* plan drafted by the Italian government to promote the use of digital payment, to remove barriers to the use of payment cards, and to combat tax evasion also includes a "Governmental Cashback" initiative. The Italian government has called for banks to launch communication campaigns aimed at increasing awareness of cashback incentives among customers and to create projects that would work alongside those of the State. As a result, we have prepared product materials related to cashback incentives and made them available to the acquiring customers of Iccrea Banca through the affiliated banks. A commercial was also produced, and broadcast by both RAI and Sky, that focused on the MPay product and on governmental cashback incentives. We also took advantage of the government's communication to promote the PremiaTi Revolution loyalty program, launched in May 2020, in order to increase spending on the credit cards already in the customer portfolio and to promote the placement of new cards. The holiday instant-win promotion PremiaTi Revolution also launched on December 1 in conjunction with the start of the "super governmental cashback" initiative. The contest was supported by a prize-based initiative aimed at all new subscribers in the month of December, who could win a subscription to an online magazine;
- *StudioSì campaign.* The ICBG has been selected by the European Investment Bank (EIB) to be an intermediary for the management of the student loan fund financed with 2014-2020 NOP resources assigned by Italy's Ministry of Education and Research in order to support students in southern Italy. The fund is designed for all those looking to pursue undergraduate or post-graduate degrees or specializations at any university. Through the mutual banks, the ICBG will be able to disburse €43.5 million to finance – without any cost – both tuition and accommodations. In this way, the affiliated banks can direct resources to their communities to reinforce our attention and service to their youth and to the development of their skills. In order to inform students of this opportunity, which, in such a complicated year for employment, serves as a sort of social safety valve, a promotional campaign has been designed and was launched on September 1, 2020. The campaign is running primarily on mobile devices and online with the help of influencers who are able to attract the attention of young people, as well as on specialized sites such as Skuola.net and on innovative social media platforms like TikTok;
- *Digital marketing projects.* This project has defined the current degree of maturity of the business, starting with a six-factor analysis, i.e.: touch points, creative assets, audience strategy, ad channels, and marketing automation. We then determined the areas for development in order to further optimize the coverage and output of our digital marketing activities. This mapping process made it possible to focus efforts on achieving the following objectives: to better manage the online marketing funnel in order to ensure a consistent brand experience across all touch points used by the Group and by the affiliated banks (i.e. Group and bank branch info, product offering, online and social-media channels); to structure a media strategy consistent with marketing objectives and to support

the campaigns with an investment plan based on actual potential and on online and offline traffic; and to gather data and knowledge in order to optimize the campaigns for customer targets that present high potential for conversion;

- *Web and social media monitoring.* In 2020, this project, which began in previous years, focused on monitoring the impact of the Group's activities in the digital mediascape. This allowed for an analysis of the online positioning of the Group and of the affiliated banks based on the various areas of our offering. This is then updated each quarter and compared with the content marketing activities carried out. Social-media monitoring focused on the key performance indicators of the social media accounts of the Group and of the affiliated banks, which has provided knowledge that can be used to improve our use of social-media channels in the marketing and communication efforts of the affiliated banks, while also increasing our knowledge of the target audience that follows the digital channels of the Group and of the affiliated banks;
- *Optimization of the conversion funnel of our digital channels.* The Lead Acquisition Optimization project was launched in the second half of 2020 with the goal of enhancing our performance in this area and disseminating best practices locally to the affiliated banks. These efforts have benefited the marketing campaigns executed by the Group within the scope of our 2020 marketing plan. More specifically, an architecture and channel-relationship model for the Group and the affiliated banks has been created with the goal of gathering leads and enabling the affiliated banks to access a specific area in which to contact the potential customers and establish a commercial relationship with them.

Reorganization of the Group's retail segment – Bancassurance

Following the start of operations for the Group, work began on the reorganization of the bancassurance segment, including the renewal of the partnership with the Cattolica Group until 2020 and a comprehensive total revision of the business management model within the Group, which is currently highly complex and heterogeneous given the number of organizations and parties involved, including the company BCC Retail. In this regard, in order to support the growth and modernization of business, the Group has set the strategic priority of developing the segment by redesigning the business model and the partnership with the Cattolica Group (as the primary provider of insurance solutions through the companies BCC Vita and BCC Assicurazioni).

The main lines of development concern the creation of a single Group competency center for insurance to serve the compound needs of the affiliated banks, including by redefining the role of BCC Retail and strengthening its operations, while also reorganizing the local commercial and operational offices. Within this context, and with a view to optimizing commercial and operational processes and approaches, we began the process of evolving the segment in the first half of the year, which calls for:

- the creation of BCC Servizi Assicurativi, an insurance agency established on August 13, 2020 out of the transformation of BCC Retail from a "limited liability consortium company" into a "limited liability company" and the consolidation within this company of a number of regional agencies in order to serve as the unified hub for insurance within the Group;
- the redefinition of the role and focus of BCC Servizi Assicurativi, including actions aimed at transferring commercial activities and related resources to the business divisions of the Parent Company, while maintaining operations within these divisions.

Partnership with Cattolica

Following the renewal until December 31, 2022 of the bancassurance partnership between Iccrea Banca and Cattolica Assicurazioni in July 2019, the performance of the insurance joint ventures (BCC Vita and BCC Assicurazioni, both 30% owned by Iccrea Banca and 70% by Cattolica Assicurazioni) in the second half of 2019 and in the early months of 2020 was in line with forecasts, maintaining solvency ratios well above the regulatory minimums.

However, during the first half of 2020, with the spread of the effects of the health crisis and the worsening of tensions and volatility in the financial markets, there was a deterioration in the solvency levels of all insurance operators, including BCC Vita and BCC Assicurazioni. To this end, on June 22, in execution of the capital strengthening plan approved by BCC Vita, the shareholders executed, in proportion to the shareholdings, a capital injection of €50 million (€15 million paid by Iccrea Banca and €35 million by Cattolica Assicurazioni).

In July, a second capital transaction was executed to strengthen the capital position of BCC Vita by an additional €50 million. This was again carried out in proportion to the interests held by the shareholders, with €25 million (of which €7.5 million pertaining to Iccrea Banca) in the form of a new capital contribution and €25 million (of which €7.5 million pertaining to Iccrea Banca) in the form of a bond, issued on August 5, with features making it eligible for inclusion in Tier 2 of Solvency II Own Funds. Similarly to BCC Vita and consistent with the rest of the non-life insurers, BCC Assicurazioni was less affected by the market volatility than the life business. In light of these developments, in November the shareholders made, in proportion to their stakes, a capital contribution of €5 million (€1.5 million were paid by Iccrea Banca and €3.5 million by Cattolica Assicurazioni), with the aim of supporting its commercial revival and maintaining solvency ratios above the monitoring thresholds.

Reorganization of the Group's retail segment – Electronic money

In the year, work continued on creating the company for Iccrea Banca's electronic money business, which calls for the convergence of all functional and technological components by spinning off the electronic money business (issuing and acquiring) into the company Ventis SpA, which was created on December 20, 2018, with the goal of achieving greater organizational and operational efficiency, at improving time to market as a result of converging all functional and technological components related to this business, and at potentially expanding the market concerned. This operation is a preparatory step in developing electronic money issuing and payment services within Ventis SpA to support the affiliated banks with a view to improving service levels to them and their customers and to realizing the full commercial potential of this segment.

Partnership with Pitagora to develop lending repaid by automatic deductions from wages or pensions

During the closing months of 2020, Iccrea Banca and BCC CreditoConsumo signed an agreement with Pitagora SpA, a company belonging to the Cassa di Risparmio di Asti Group specialized in the sector of loans secured by the assignment of one-fifth of the borrower's wages or pension, thus initiating a strategic partnership for the distribution of Pitagora SpA's loan products in this category through BCC CreditoConsumo and the branches of the mutual banks belonging to the Group, accompanied by the related assignment without recourse of the receivables resulting from the commercial agreement. The medium-long term project, launched on January 1, 2021, represents a major pillar in the Group's strategy in the retail sector. In fact, the partnership aims to strengthen the Group's positioning in the consumer credit market within the broader process of expanding the offer of the affiliated banks to meet the needs of the Group's shareholders and customers.

Acquisition of 100% of the Ventis Srl marketplace

As part of the definition of a new development path for the subsidiary Ventis Srl, in December 2020 Iccrea Banca acquired 100% of the share capital of the company, acquiring the 5% of shares held by the former founding shareholders. As part of this transaction, the investment agreements with the former founders were also terminated. Following the acquisition, Iccrea Banca initiated a specific strategic assessment of the possible future repositioning of the subsidiary, which is leading to an agreement for the sale of the asset to a market counterparty interested in expanding into this specific business.

Acquisition of 100% of BCC CreditoConsumo SpA

On December 22, 2020, as part of the Group strategy aimed at optimizing the structure and business of the direct scope companies to ensure that the mutual banks receive the best support and valorization in the market, Iccrea Banca completed the acquisition of 100% of BCC CreditoConsumo through the purchase of 1,840,000 shares held by Cassa Centrale Raiffeisen, equal to 4% of the capital of BCC CreditoConsumo, for €2.8 million.

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

In October 2019, an agreement was signed with Cassa Centrale Banca SpA, the parent company of the second national cooperative banking group (Cassa Centrale Banca Cooperative Banking Group - CCB Group), for the reorganization of the investments held by the mutual banks participating in the two cooperative banking groups, as well as the stakes held in entities belonging to the two groups.

In particular, the agreement provides for the commitment of Iccrea Banca to ensure that, in full compliance with the prudential and/or regulatory limits as well as the terms and conditions defined in the agreement, over a period of approximately 4 years, mutual banks affiliated with Iccrea or, alternatively, other parties designated by Iccrea Banca shall acquire the investments of the CCB Group in Iccrea; Conversely, Cassa Centrale Banca undertakes as the parent company, in full compliance with the legal and prudential and/or regulatory limits, to ensure that the CCB shares held by companies of the Iccrea Group shall be purchased by the banks affiliated with its group or alternatively by other parties designated by Cassa Centrale.

The holdings of companies of the CCB Group in Iccrea Banca at the time of the agreement is summarized as follows:

Company	No. of shares held by mutual banks	No. of mutual bank shareholders	No. of CCB shares	Total shares held by CCB Group	%
Iccrea Banca	4,279,009	78	619,069	4,898,078	18.05%

In application of the agreement, in December 2019 2,205,000 Iccrea Banca shares, equal to 8.13% of the share capital, were sold, while at the end of 2020 the Group's mutual banks purchased a further 897,000 shares, equal to 3.31% of the share capital.

Revision of the network of affiliated banks

In 2020, the reorganization of the affiliated bank network continued, with the merger of banks in order to consolidate their presence throughout the territory and develop the capital solidity and efficiency that will enable the new entities to operate more effectively within the community.

The following transactions were completed during the year:

- merger of BCC di Formello into BCC di Riano, giving rise to Banca di Credito Cooperativo della Provincia Romana S. C. with legal effect from January 1, 2020;
- merger of Banca CRAS into BCC Umbria, giving rise to Banca Centro Credito Cooperativo Toscana Umbria S.C. with legal effect from January 1, 2020;
- merger of Banca di Credito Cooperativo di Valledolmo into Banca di Credito Cooperativo San Giuseppe di Petralia Sottana, giving rise to Banca di Credito Cooperativo San Giuseppe delle Madonie S.C. with legal effect from January 1, 2020;
- merger of BCC di Monastier into BCC Pordenonese, giving rise to BCC Pordenonese e Monsile S.C. with legal effect from January 1, 2020;
- merger of BCC Credito Trevigiano S.C. into C.R.A. Brendola, giving rise to Banca delle Terre Venete with effect from October 1, 2020;
- merger of Banca di Credito Cooperativo San Giuseppe di Mussomeli, Banca di Credito Cooperativo Don Stella Di Resuttano and Banca di Credito Cooperativo di San Biagio Platani into Banca di Credito Cooperativo "G. Toniolo" di San Cataldo, with effect from October 1, 2020.

Participation in the T-LTRO

In March, in light of the new landscape brought about by the pandemic and of the timely activation of major monetary-policy measures, aimed at providing the needed support in providing households, businesses and banks with liquidity and at helping to maintain the regular provision of credit to the real economy, the Board of Directors of the Parent Company approved a revision to the Group's financial strategy, particularly with regard to the maximum level of exposure in Italian government securities at both the separate and the consolidated levels. An increase of about €13 billion in additional liquidity was approved, bringing the new T-LTRO III resources to about €30 billion in collateralized funding.

Securitizations

As part of the activities to ensure the ongoing success of securitization transactions for liquidity purposes structured by Iccrea Banca for the ICBG companies, the securitization denominated "Crediper Consumer Srl" was restructured. This transaction, completed by BCC CreditoConsumo in December 2018 in the form of a self-securitization for refinancing purposes with the ECB, had an average maturity of 30 months, 18 of which representing a revolving period in which BCC CreditoConsumo had reserved the right to transfer additional loans in an amount corresponding to the principal repayments on the loans transferred to the Vehicle Company. In order to improve the efficiency of Senior notes of this securitization, rated AA by DBRS and AA- by Fitch, the revolving period was extended by a further 24 months, extending the overall average term of the transaction itself from the initial 30 months to 54 months.

Taking account of the measures taken by the Italian government and European institutions to address the COVID-19 emergency, with particular regard to the impact on performing securitizations produced by the measures suspending payments of loan installments, a number of changes were made to the Credico Finance 16 self-securitization, in which 16 banks took part, and the Credico Finance 18 securitization, originated by 14 Group banks, whose A2 senior notes were subscribed by the EIB. For Credico Finance 16, steps were taken to: (i) raise the total percentage of suspended installment payments from 8% to 10% of the value of the loans sold, a percentage that does not include the suspensions imposed by law or those provided for in agreements reached by industry associations in which banks decided to participate voluntarily; (ii) insert the forecast for loan renegotiations attributable to COVID-19 within a percentage limit not exceeding 20% of the principal value of the loans sold; and (iii) increase the percentage of loan repurchases from 10% to 20% provided that the 5% limit is respected. With regard to the securitization of performing loans to small and medium-sized enterprises, Credico Finance 18 renegotiated the agreement with the EIB with which the latter accepted the temporary suspension of the required percentage draws on the liquidity provided, which had a six-month maturity, while maintaining the commitment for the banks to use this liquidity within 24 months and, for the EIB, the commitment to retrocede interest to the banks. Furthermore, the maturity and the reasons for the loans disbursed with EIB liquidity have been changed: with regard to the reasons for which the loans may be made, the banks will be able to grant working capital loans that reflect a liquidity requirement linked to the operational continuity of the final beneficiary, while with regard to the maturity, those loans may also have a term of less than 2 years as long as they are extensions or renewals of existing working capital loans.

Senior preferred notes under the EMTN Program

The senior preferred notes issued with a view to gradually meeting MREL requirements and ensuring continued compliance with the NSFR requirements set out in the RAS are governed by Italian law. As part of the renewal of the EMTN Program, governed by English law, the necessary functional changes were made to allow emissions governed, alternatively, by English or Italian law. This solution was adopted in response to the uncertainties connected with the outcome of Brexit negotiations. The ability for the bonds issued under the Program to be recognized under Italian law also makes it easier to include bonds that contribute to own funds in those funds.

Early Warning System (EWS)

In January 2020, a number of improvements and developments were implemented. These changes fall within the scope of an ordinary process of development and enhancement of the overall early warning system, which takes account of the input and expectations of the supervisors and other elements aimed at the further integration of the EWS within the Group's risk governance processes.

With regard to implementation of the EWS framework, work was carried out in the first half of 2020 to implement the system, while the related periodic (ongoing) monitoring of the risk profile and (quarterly) reporting has begun. The outcome of these activities show an overall situation of financial, capital and operational equilibrium within the affiliated banks. Affiliated banks that present imbalances were addressed with the activation of the governance mechanisms envisaged under the Cohesion Contract, which led to the execution by the banks concerned of equilibrium-restoration and de-risking efforts. Upon completion of the process of classifying their technical standing at December 2019, the classified mutual banks were, in a controlled and coordinated manner, subject to specific directives and guidance in which remediation plans and actions, as well as the objectives to be reached in 2020 to improve their respective risk profiles, were defined.

Updates and adaptations of the IFRS 9 impairment framework under COVID-19

The implications of the COVID-19 emergency have called for a series of actions to supplement and adapt the measurement framework and management of credit risk for the Group aimed both at the constant monitoring of risk drivers and other information related to lending within the context of COVID and at revising the risk-forecasting metrics in consideration of the evolving economic scenarios.

In light of these new environmental factors, the Group launched a series of actions to estimate and incorporate, for the 2020 half-year report, the impact of the expected deterioration in economic conditions in its provisioning of the ICBG loan portfolio, including the development of ad-hoc forecasting models, with the goal of: (i) estimating the cost of credit[27] attributable to the pandemic; and (ii) reinforcing the measurement processes envisaged by prevailing internal regulations.

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

The great discontinuities in market conditions brought about COVID-19, although lying within the extraordinary uncertainty generated , by the pandemic, especially looking forward, have prompted a number of exceptional in methodology and implementation that have made it possible to incorporate the potential impact of the pandemic into the impairment model, with specific regard to the inclusion of risk metrics for forecasting the main financial and macroeconomic variables contained in the new economic scenarios prepared by external providers and supervisory authorities.

At the same time, the introduction of measures to support customers and the economy, with a particular emphasis on actions taken by the Group in relation to applicable legislative measures enacted in Italy (Decree Law 18 of March 17, 2020, the "Cure Italy Decree", and Decree Law 23 of April 8, 2020, the "Liquidity Decree"), the measures agreed with industry association and the initiatives undertaken by individual organization led to the introduction of further methodological changes to the IFRS 9 impairment framework in order to take account of the impact of the emergency in calculating ECL. More specifically, the measures to adapt the impairment framework to incorporate the effects of the COVID-19 pandemic in the calculation of expected credit losses included:

- the use of forecast scenarios updated in response to developments in macroeconomic conditions. In particular, in order to enable the adaptation of the IFRS 9 methodological framework to the pandemic, the difficulty of modeling its peculiar characteristics using ordinary tools (satellite models) prompted the use of forward-looking projection metrics (implicit multipliers) to be applied to the risk parameters (PD, LGD) estimated on the basis of the forecast values of the exogenous macroeconomic variables provided by our external provider (Prometeia), differentiated by type of counterparty, sector of economic activity and geographical area;
- the management of the impacts related to the implementation of customer support measures, with particular regard to loan payment moratoriums and measures to support the liquidity of companies. More specifically, loan moratoriums were managed by adapting automatic staging mechanisms (e.g. halting the count of days past due) in order to make the stage allocation criteria consistent with application of the support measures, considering at the same time an appropriate degree of prudence in the assessment of these positions in the light of the evolution of market conditions and the expectations of the supervisory authorities in this regard based on the guidance received over the course of 2020. The handling of measures to support liquidity called for the application of coverage levels set to take account of the mitigating effects on credit risk of the specific guarantees to support operations in this area.

These exceptional changes to the IFRS 9 impairment framework in response to COVID-19 were introduced in concert with the ordinary maintenance of the estimation models planned prior to the pandemic, thereby lending continuity to the updating and fine-tuning of the risk

[27] Measures concerning impaired exposures were introduced at the closing of the accounts for the first half of the year for subsequent incorporation in the valuation process.

parameters (PD and LGD) used to calculate ECL, in line with applicable financial reporting standards. These updates over the course of the year led to the development of a version of the models and measurements of the related parameters that are more stable and more accurate in measuring the characteristics of risk typical of the loan portfolios of the affiliated banks and of the Group as a whole.

THE EVOLUTION OF THE REGULATORY AND OPERATIONAL ENVIRONMENT AND ASSOCIATED PROJECTS

The following section examines additional organizational and procedural adaptations implemented or in progress in response to the main regulatory changes that took place during 2020.

Environmental, Social and Governance (ESG) and climate change

ESG issues are a priority for the European Commission, which in 2021 will publish the new Sustainable Finance Action Plan. In April 2020 the Commission opened a public consultation on the "Renewed Sustainable Finance Strategy", which is part of the broader Green New Deal project. Two years after the issue of the action plan that has governed the regulatory actions of the EU until now, the update of the sustainable finance strategy has three objectives:

- strengthening the foundations of sustainable finance through the creation of an enabling framework with more efficient tools and structures;
- increasing the opportunities for citizens, financial institutions and businesses to have a positive impact on society and the environment by adopting sustainable solutions;
- reducing and managing climate and environmental risks by financial institutions and in the system as a whole, while at the same time considering social risks.

The consultation, which closed on July 15, 2020, involved the participation of numerous key market players, including the EBA, ESMA and EIOPA, the ECB and Eurosif, from which a consensus emerged on a number of points that will probably constitute some of the priorities of the new European strategy: (i) ensuring accessible ESG data; (ii) developing minimum standards for ESG scoring and rating calculation methodologies; (iii) defining robust and methodologically reliable European ESG benchmarks that incorporate not only environmental aspects but also social aspects and corporate governance; (iv) introducing sustainability labels (ecolabels) for financial products to improve their transparency; (v) providing incentives for issuers of and investors in sustainable finance instruments; (vi) applying the proportionality criterion to the formalities linked to ESG disclosures for both investors and companies; and (vii) promoting international regulatory convergence.

A priority of the previous Action Plan that can also be considered an objective of the upcoming Action Plan is the integration of sustainability into prudential requirements as well, as the role of banks is not limited to channeling capital into investments but defending the stability of the financial and economic system as a whole.

On December 14, 2020, the European Commission published a study on the development of tools and mechanisms for integrating ESG factors into the EU banking prudential framework and into the business strategies and investment policies of banks. The study mainly focuses on the assessment of the current practices of banks and supervisory authorities and is based on a preliminary analysis of the data collected so far; it therefore represents one of the many inputs that will inform the work on implementing the Commission's Sustainable Finance Action Plan.

The supervisory authorities also addressed the issue of climate risk from the perspective of stability. On November 27, the ECB published the final version of its "Guide on climate-related and environmental risks" for significant institutions. The document illustrates how the ECB expects banks to manage these risks in a prudent manner and to provide transparent disclosure in this regard in compliance with current prudential regulations. The expectations concern the integration of climate risks into the corporate strategy, expectations relating to risk management, governance and risk appetite and expectations relating to disclosures. The ECB will monitor the implementation status through two concrete actions: (i) at the beginning of 2021, banks were asked to conduct a self-assessment in the light of the supervisory expectations set out in the guide and to draw up an action plan on this basis; (ii) subsequently, the ECB will conduct a comparative analysis of the self-assessments and action plans, which will be subject to challenge in the supervisory dialogue. A comprehensive supervisory review of banking practices will be carried out in 2022, which the ECB will follow up with concrete action where necessary.

Furthermore, in line with the growing importance of climate change for the economy and with the increase in data demonstrating its financial impact on banks, the ECB will take climate risks into account in the next stress test to be conducted in 2022. Finally, the ECB also published a report showing that banks are lagging behind on the climate-related and environmental risk disclosures, despite some improvements compared with 2019. In the second half of 2021, the ECB intends to identify the remaining gaps and discuss them with the banks.

At the end of October 2020, the EBA issued a discussion paper for public consultation with a proposal on how ESG factors and ESG risks could be included in the regulatory and supervisory framework for credit institutions and investment firms.[28] For the first time, the document specifies common definitions of ESG risks, based on the EU taxonomy and an overview of current assessment methods, and outlines recommendations for incorporating ESG risks into business strategies, governance and risk management, as well as in supervision.

[28] *Discussion Paper on management and supervision of ESG risks for credit institutions and investment firms 30/10/2020*.

By June 2021, the EBA will produce a report on these issues, as part of the more comprehensive Action Plan on Sustainable Finance, published by the European Banking Authority on December 6, 2019, which defines the road map for implementation of the mandates imparted in primary legislation (CRD II, CRD V, IFR and IFD).

The Group recognizes the strategic importance of ESG factors and the urgency of limiting climate change, thus committing itself to include these aspects in its strategic decision-making processes and to fully integrate them into its risk management framework with the aim of maintaining a low risk profile. This implies the ability to monitor how ESG and climate change risks affect current risks (credit, operational, reputational, market and liquidity risk) and include high ethical and environmental standards in internal processes, the products and services offered to customers and the selection of counterparties and suppliers.

The Parent Company is participating in the banking system's working groups on regulatory changes, in which the regulatory framework addressing these issues is taking shape, with the aim of fully assessing the issues relating to the measurement and management of ESG risk and exploring the impacts and evolution of "traditional" risk management processes, with particular attention to climate risks (physical and transitional), developing synergies with other projects under way within the Group.

Finally, in compliance with supervisory requirements, a self-assessment was carried out in light of the supervisory expectations defined in the ECB guidelines and an action plan for the implementation of climate and environmental risk management arrangements was drafted. .

For more details, please see the Group's Consolidated Non-Financial Statement drawn up pursuant to Legislative Decree 254 of December 30, 2016

Exposures and conflicts of interest with connected parties

On June 23, 2020, the Bank of Italy issued the 33rd update of Circular no. 285 of 2013 "Supervisory Provisions for Banks", with the addition of Chapter 11 "Exposures and conflicts of interest with connected parties" in Part III. This new chapter governs the exposures and conflicts of interest of banks and banking groups in respect of connected parties, previously contained in Circular no. 263 of 2006, in order to update it to comply with the new regulatory framework (amendments to the Consolidated Banking Act and introduction of Regulation (EU) 575/2013 (CRR) and to exclude, under certain conditions, investments in insurance companies from the scope of prudential limits. The Parent Company has begun activities to ensure compliance with the new regulatory provisions.

Credit

On January 14, 2020, the Bank of Italy published "Supervisory guidelines on early repayment of credit by consumers", with the aim of promoting the prompt alignment of domestic regulations with the interpretation of Article 16, paragraph 1, of Directive 2008/48/EC contained in the ruling of the Court of Justice of the European Union of September 11, 2019 in the "Lexitor case". An interdepartmental working group was established with the competent units of the Parent Company and with the support of the technical units responsible for the IT system to provide operational guidance and contractual language that would enable the Group to comply with the interpretative framework outlined in that ruling.

On March 1, 2020, Law 8 of February 28, 2020 containing "Urgent provisions regarding the extension of legislative deadlines, the organization of government entities and technological innovation" entered force.

As discussed more extensively above, the following measures addressing credit-related matters were issued in response to the COVID-19 emergency:

- Decree Law 18 of March 17, 2020, which strengthens the intervention of the Guarantee Fund for SMEs and the Solidarity Fund for mortgages for the purchase of a primary residence, financial support measures for businesses and incentives for the assignment of impaired loans;
- Decree Law 23 of April 8, 2020 containing urgent measures regarding access to credit;
- Law 27 of April 24, 2020, which governs the Guarantee Fund for SMEs and the Solidarity Fund for mortgages for the purchase of a primary residence, as well as the methods for real estate foreclosures together with measures in support of the agricultural and fishing industries in response to the health emergency;
- Decree Law 34 of May 19, 2020, containing provisions concerning the GACS guarantee scheme, the SACE guarantee for insurance on trade receivables, aid in the form of guarantees and subsidized interest rates on loans to businesses, renegotiation of loans of local authorities, the transfer of tax credits to banks and financial intermediaries and discounts on prices charged, the possibility for agricultural enterprises to renegotiate loans and the possibility of granting loans to land reclamation consortia;
- Law 40 of June 5, 2020 containing provisions concerning temporary measures to support the liquidity of companies through a guarantee granted by SACE S.p.A. as well as provisions relating to the Guarantee Fund for mortgages for the purchase of a primary residence and the SME Guarantee Fund;
- "Nuova Sabatini", a public subsidy which provides for the suspension of loan installments by businesses.

Article 4 of Decree Law 23 of April 4, 2020, ratified with amendments by Law 40 of June 5, 2020, as well as Articles 33 and 34 of Decree Law

34 of May 19, 2020, ratified with amendments by Law 77 of July 17, 2020, allow, for the duration of the state of emergency, the subscription in simplified form of banking, financial and insurance contracts concluded remotely. Finally, with Law 104/2020, Parliament ratified into law the “August Decree” containing measures to support and revive the economy.

In order to manage the COVID-19 emergency, a permanent interdepartmental working group was set up by the Parent Company to develop interpretations and operational guidance for implementing the support measures envisaged by the Government for issue to all Group entities.

In addition to the foregoing, in 2020, the EBA consultation on its Guidelines on loan origination and monitoring was concluded.

From June 30, 2020, Decree of the President of the Council of Ministers no. 51 of April 22, 2020 governing the obligations relating to the granting of advances on employee severance pay took effect. On August 19, 2020 the Ministry for Public Administration issued a decree approving the Framework Agreement on advances on employee severance pay. In light of the new regulations, the Parent Company has provided guidance to the affiliated banks and the companies within the direct scope regarding the procedures for participating in the agreement signed by the Italian Banking Association, the specific characteristics of the financing product and the correct methods of explicating the product management process outlined in the relevant Group policy.

EBA Guidelines on Loan Origination and Monitoring (LOM)

On May 29, 2020, the EBA published guidelines on loan origination and monitoring with a view to ensuring that standards for credit risk assumption, management and monitoring are robust and prudent and that newly originated loans are of high credit quality. The guidelines also aim to ensure the alignment of credit practices with consumer protection rules and anti-money-laundering requirements

The new guidelines will be applied progressively starting on June 30, 2021. More specifically, from that date, the guidelines will be fully applicable for newly originated relationships (loans and similar). For loans disbursed before June 30, 2021 and loans subject to renegotiation or contractual amendments, the compliance deadline is set at June 30, 2022. The end of the grace period for information and missing data on loans granted before June 30, 2021 is set for June 30, 2024. The same date is the deadline for implementation of the requirements for monitoring the stock of existing loans.

An assessment of the current structure of the loan origination process in the Group is under way based on the new guidelines in order to assess the adequacy of the process.

New definition of default

At the beginning of 2020 the Group launched the “New DoD” project to implement the new definition of default, investigate and define the qualitative and quantitative impacts, identify and implement the applicative and organizational measures necessary for consistent, uniform, comprehensive and effective adoption. These activities have made it possible to adapt the lending and credit risk management processes to the new regulatory requirements, addressing the consequent repercussions in the affected reporting processes.

In parallel with the activities implementing the new definition in risk assessment models, management solutions were developed for the implementation of the requirements dictated by the new rules in the context of strategies, processes and operational guidelines, functional to mitigating the overall risk profile of the Group.

In this context, on January 1, 2021 the “past due engine” to identify impaired past due and over limit exposures on the basis of the new criteria for counting days past due was rolled out. As regards the management of the credit processes impacted by the new provisions, a specific review was conducted of policies, processes, procedures, reporting and applications in order to achieve compliance with the new rules for default classification by the deadline set by regulators. Specifically, a process was defined to ensure both the uniformity of classification of customers of more than one Group bank and the correct application of the criteria underlying the propagation of the classification in relation to connected customers. Arrangements were also implemented to ensure the correct calculation of the DFO (diminished financial obligation) relating to the determination of the change in the net present value (NPV) of cash flows before and after forbearance measures to a performing customer in proven financial difficulty.

Following the adoption of the new definition of default, the Group estimated an increase of about €310 million in the total value of impaired exposures at the moment of transition to the new definition (January 1, 2021), approximately 80% of which in respect of exposures that are classified as past due and/or over limit due to the introduction of the new materiality thresholds. For the remainder, the increase is attributable to the necessary uniformity of classification within the Group, as required under the new regulations. Note that in relation to the impact of classification uniformity, the above estimate was produced with reference to overall classification activities carried out within the Group as of December 31, 2020.

Regulations governing issuers

On December 17, 2020, Consob published a press release announcing the adoption (i) of Resolutions 21639 and 21640 defining new methods of accessing the KIDs of the PRIIPs and the obligation to make the information and structured data relating to the PRIIPs marketed in Italy accessible to Consob; (ii) of the “Operating Instructions” identifying the methods for Consob access to the KIDs and the related structured data.

These measures take effect as from January 1, 2021. However, Consob has provided for a transitional regime allowing the creators of PRIIPs the possibility of opting, until December 31, 2021, for the use of the notification methods in accordance with the provisions of the current system. The projects to implement the new regulatory practices led to the implementation of specific internal procedures for regulating the communication activities of the KIDs of the PRIIPs, developed by Iccrea Banca and/or the affiliated banks in compliance the rules laid down by Consob for the transitional period.

Of particular relevance for these regulations is the proposal of July 24, 2020 for a Regulation amending Regulation (EU) 2017/1129 in order to support financial intermediaries in the emergency. In particular, two important simplification measures are noted in the proposal, which impact the bond issuance activities of the Parent Company and the affiliated banks. The first concerns the prospectus supplement system, with a proposal that would simplify the obligations of financial intermediaries in the event of publication of a supplement. A further simplification measure would be to increase the threshold for exemption from drafting a prospectus from €75 million to €150 million for offers of non-securities issued in a continuous or repeated manner.

Insurance distribution

With a joint communiqué of March 17, 2020, the Bank of Italy and IVASS called on banking, financial and insurance intermediaries to exercise particular caution in offering of non-financial products in combination with a loan. The admonition is directed at ensuring compliance with the applicable legislation and preserving the integrity of the fiduciary relationship with customers through conduct suitable for promoting customer awareness of the characteristics, obligations and advantages deriving from the combination of the products on offer. To this end, intermediaries were invited to instruct their Compliance and Internal Audit functions to perform specific checks of the policies used to offer products and of the methods for placing combined products, with a view to ascertaining the level of compliance of their practices with the applicable legislation, the appropriateness of internal processes and rules and the exposure to risks deriving from disputes with customers and the action of other competent authorities.

With a subsequent communiqué of June 8, 2020, taking account of the continuation of the health emergency at the national level, the Bank of Italy and IVASS extended the deadline for the examination of the results of the checks by the management and control bodies, initially set at September 30, 2020, to December 31, 2020. In the event of significant deficiencies, companies are required to submit to those authorities a report on the analysis conducted, the remedial plan and the minutes of the company bodies. In light of this communiqué, the Group launched a project to provide the affiliated banks and companies within the direct scope of consolidation that are engaged in the distribution of insurance products with uniform guidance on the methods to be adopted in offering policies combined with loans

With regard to the COVID-19 emergency, IVASS has adopted specific measures to support the activities of insurance companies and intermediaries and to protect the consumer. On March 17 and 23, 2020, taking account of the effective operational difficulties faced by companies, the insurance regulator suspended the obligation to perform the certification tests associated with professional training courses exclusively in the classroom, allowing them to be carried out remotely, and extended the deadline for all entities required to manage complaints to respond to customer complaints within 75 days, instead of the ordinary 45 days provided for in applicable regulations.

Furthermore, on April 3, 2020, taking account of the limits and restrictions imposed by the COVID emergency and the impact of the measures adopted by the Government to contain the outbreak on the performance of production and commercial activities and on the mobility of people around the country, IVASS alerted sector companies to “*take steps, in relation to the commitments undertaken and compatibly with the emergency situation, to organize themselves as effectively as possible to ensure the continuity of services and the greatest protection of users. From the perspective of business continuity, among other things, extensive use of electronic mail and other remote communication systems for sending notices to customers would be desirable, reserving the use of the postal service - whose operations have been significantly reduced as a consequence of the health emergency - to cases where this is strictly essential*”.

In a subsequent notice of June 30, 2020, IVASS ordered the restoration of the ordinary deadlines envisaged for the management of complaints starting from July 1, 2020 and also specified that, as the critical conditions affecting the use of the postal service by virtue of which the use of e-mail and other electronic means of communication had been recommended no longer obtain, sector companies are in any case invited to ensure the quality of services, allowing users to choose between the communication methods that they consider most suited to their interests.

Article 33 of the Decree Law 34 of May 19, 2020, ratified with amendments by Law 77 of July 17, 2020, allows, for the duration of the state of emergency, the subscription in simplified form of insurance contracts concluded remotely.

In addition, on August 4, 2020, IVASS published two measures to complete the regulatory framework, in compliance with the new division of responsibilities on matters supervised by IVASS and by Consob: (i) Regulation no. 45/2020 containing provisions on governance and control requirements for insurance products and (ii) Measure no. 97/2020, which amends ISVAP Regulations no. 23/2008, no. 24/2008, no. 38/2018, no. 40/2018 and no. 41/2018.

Consob, with Resolution no. 21466 of July 29, 2020, substantially revised Book IX of the Intermediaries Regulation concerning the rules of conduct and the disclosure obligations that supervised intermediaries must observe in the distribution of insurance-based investment products (IBIPs). These regulatory measures will come into force on March 31, 2021.

In order to adapt the operations of insurance distributors (affiliated banks and companies in the direct scope) to comply with these regulatory measures, working groups have been established to evaluate the various issues impacted by the new regulations and to provide appropriate operational recommendations.

Finally, Legislative Decree 187 of December 30, 2020 was issued, amending the Private Insurance Code in order to supplement and correct a number of provisions transposing the IDD Directive in Legislative Decree 68/2018, amending the text to correct a number of typographical errors and improve its formal coordination.

Finance and markets

On January 4, 2020 the regulation implementing Articles 4-undecies and 6, paragraph 1, letters b) and c-bis) of the Consolidated Law, published in the Official Journal General Series no. 298 of December 20, 2019 entered force. This measure implements, at national level, the obligations introduced with Directive 2014/65/EU ("MiFID II"), Regulation (EU) no. 600/2014 ("MiFIR") and the respective delegated instruments with regard to the areas of corporate governance, control functions, outsourcing, business continuity, deposit and sub-deposit, and remuneration policies.

In particular, Part III of the measure, taking up the provisions of the Consolidated Law governs activities relating to the deposit and sub-deposit of customer assets and replaces, with some additions, the provisions on "deposit and sub-deposit of financial instruments and cash belonging to clients", previously governed by the joint Consob-Bank of Italy Regulation of October 29, 2007 and by Title V of the Bank of Italy Regulation of August 4, 2000.

The provisions apply to intermediaries that provide investment services and activities when (i) they receive customer assets (liquidity and financial instruments) on deposit; (ii) they deposit (liquidity) or sub-deposit (financial instruments) the assets with third parties; and (iii) they are authorized to hold deposit accounts in the name of customers.

Specifically, Part III of the measure introduces the following main obligations:

- the preparation of adequate accounting, organizational, operational, contractual and IT safeguards to ensure the protection of customers who deposit assets;
- the designation of a sole manager, with adequate skills, for the protection of the financial instruments and liquid assets of customers;
- the separation of the intermediary's accounts and those in which customer assets are deposited or sub-deposited;
- the authorization by customers for the sub-deposit of financial instruments with central depositories or authorized depositories and for their possible use;
- a limitation of 20% on the deposit of liquid assets of customers with banks of the same group to which the intermediary belongs or for the investment in units of money market funds managed by asset management companies also belonging to the same group as the intermediary (this provision does not apply to banks). Verification of compliance with the limit and prompt notification of any overshoots to the Bank of Italy;
- the adequate selection and monitoring of the depositories and sub-depositories with which the intermediary decides to hold customers' financial instruments;
- the preparation of an annual report on the measures adopted in accordance with the regulation, to be transmitted, subject to the approval of the Board of Directors, through the entity responsible for the statutory audit to the Bank of Italy by June 30, and in any case within 6 months of the end of the financial year. For 2020, due to the health emergency, the deadline for submitting the report for the 2019 financial year has been extended to October 28, 2020.

In this regard, the Parent Company coordinated the project to ensure compliance for all Group companies involved in the operations subject to the provisions of the regulation, providing support for the correct representation of the organizational and operational arrangements connected with the protection of customer assets on deposit, on the basis of which the audit firm, EY SpA, performed the audit activities and prepared the related report, which was submitted to the Bank of Italy by the statutory deadline.

The publication by ESMA of the Final Reports concerning the regulatory technical standards on reporting of derivatives for EMIR purposes was also relevant with regard to finance and markets issues. In particular, these rules will govern the formats, methods, frequency and minimum information of reports to the Trade Repositories. The regulatory changes were reported by the Parent Company's Compliance unit to the affected units of the companies in the direct scope and the affiliated banks so that they could take the necessary steps to ensure compliance with the regulations.

Finally, with regard to SFT reporting, the European Commission Regulation (EU) 2365/2015 (SFTR - Securities Financing Transactions Regulation) introduced, for financial and non-financial counterparties, an obligation to report securities financing transactions (hereinafter also SFTs) to a Trade Repository. With regard to financial counterparties, this obligation took effect from July 13, 2020 following the deferral granted by ESMA in response to the COVID-19 emergency, while for non-financial counterparties the reporting obligation takes effect from January 11, 2021. The Parent Company carried out project activities to support the affected companies of the direct scope and the affiliated banks in ensuring compliance with the obligations envisaged by the legislation.

In this regard, the Parent Company initiated a project to define guidance and solutions to support the ICBG companies that operate in SFTs in complying with the reporting obligation. In compliance with the deadlines specified in the regulation, the first reports were submitted on July 14, 2020.

Shareholder Rights Directive II

Directive (EU) 2017/828 (the Shareholder Rights Directive II or, more briefly, SRD II), which amends Directive 2007/36/EC, gives listed companies the right to identify their shareholders and requires intermediaries to collaborate to this identification process. The Directive also promotes communication between listed companies and their shareholders, regulating the transmission of information along the chain of intermediaries and requiring intermediaries to facilitate the exercise of shareholder rights. The Directive is supplemented by Implementing Regulation (EU) 2018/1212 to ensure the uniform implementation of the new provisions within the European Union.

More specifically, the Directive governs the following macro areas: (i) the transmission of notices calling a general meeting; (ii) the confirmation of shareholders' entitlement legitimacy to exercise their rights at the meeting and the notice of attendance of the shareholder at the meeting; (iii) the request for the transmission of information regarding the identity of the shareholders; and (iv) the transmission of specific information relating to corporate events other than general meetings.

Owing to the health emergency, Monte Titoli Market Notice of May 28, 2020 announced that the industry had decided to divide the interventions to adapt processes to the new regulatory provisions into two different releases, giving priority to the most important processes.

The first release occurred on September 3, 2020 and provided for the adaptation of the processes referred to in points (i) and (ii), while the remaining areas will be adapted to the new provisions at a later time (first half of 2021).

Complaints management

The decree of the Minister for the Economy and Finance-Chairman of the Interministerial Committee on Credit and Savings (ICCS) of July 10, 2020 amended ICCS resolution no. 275 of July 29, 2008 concerning the out-of-court settlement of disputes. In implementation of the amendments, the Bank of Italy modified the "Provisions concerning out-of-court settlement systems for disputes relating to banking and financial transactions and services", introducing a number of amendments applicable from October 1, 2020. In this regard, the Parent Company took steps to adapt internal rules, standard contractual clauses and transparency documentation to the new regulations.

With Resolution no. 21666, Consob extended the transitional provisions concerning the handling of complaints through the financial disputes arbitrator for intermediaries belonging to industry associations.

Benchmark indices – Benchmarks Regulation

Regulation (EU) no. 2016/1011 of the European Parliament and of the Council of June 8, 2016 (the "Benchmarks Regulation – BMR") defined the new regulatory framework for the EURIBOR, LIBOR and EONIA benchmark rates, aligning market indices and the methodology with which they are calculated with international principles in order to ensure the integrity of the reference parameters used in the euro area (including benchmark interest rates), reducing the scope for discretion, improving governance controls and addressing conflicts of interest.

On the basis of this regulatory framework, the European Money Market Institute - EMMI – the administrator of the EURIBOR and EONIA indices, concluded that none of the benchmarks it administers was compliant with the BMR. Consequently, it was decided to:

- move ahead with the progressive replacement of the EONIA rate with another overnight benchmark published by the ECB (€STR), using a gradual process that first envisages a recalibration of the rate calculation methodology and subsequently its definitive replacement (from January 3, 2022, the EONIA rate will no longer be published and will be replaced by €STR);
- modify the methodology used to calculate EURIBOR by adopting a hybrid approach that combines transaction data with expert judgement.

In response to these developments, the Parent Company launched a detailed assessment phase in January 2020 to identify the scope of intervention necessary to adapt to the new regulations for the Group. The expected impact of the benchmark rate reform on the Bank mainly concerns transactions in OTC derivatives in euros subject to netting, which are carried out for hedge accounting purposes and can be summarized as follows:

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

OTC derivative transactions are managed centrally by the Parent Company at the service of the affiliated banks. As a consequence, the planning activities for this issue are performed directly by the Parent Company and primarily focused on the measures necessary to adapt the front to back process for OTC derivatives operations, with particular reference to the adjustment of the valuation framework, the management of collateral, the modification of agreements with counterparties, the management of hedging operations and netting accounting.

In this context, the following main interventions are under way:

- review of the valuation framework, building a new discounting curve based on the €STR rate in place of EONIA;
- any recalibration of existing hedges;
- collateral management which, in addition to implementing the mark-to-market defined on the basis of the new valuation framework, must be remunerated at the new €STR rate;
- revision of contracts with counterparties.

The Parent Company also followed the work carried out by the European Commission and the euro-area working group. The latter was set up to support intermediaries in the transition to the new IBORs, providing guidelines to operators for adjusting the main rates. The various issues involved in this transition are addressed in numerous publications relating to:

- proposals for amendments to the Benchmark Regulation by the European Commission published on July 24, 2020;
- a report published by the ECB on July 23, 2020 on good practices that banks can adopt to prepare for the reform;
- a consultation of the ECB on changes to the methodologies for calculating rates and publication of a €STR-based term structure compounded in arrears as the fallback rate for EURIBOR.
- a consultation of the European working group on the calculation of the fallback rates for EURIBOR and the EURIBOR fallback trigger events, as well as Technical Advice on fees to be paid by benchmark administrators of November 23, 2020.

Pending the completion of the regulatory framework, the Parent Company has defined and completed a series of measures to ensure an adequate level of uniformity of processes among the direct scope companies and the affiliated banks, including:

- the preparation of a standard model of the Group's internal fallback plan, published on the websites of the companies impacted by the regulations;
- the amendment of contracts in order to include fallback clauses for new customers, as well as the provision of information to existing customers in order to notify them of the publication of the fallback plan on the Bank's website;
- the publication of internal process rules governing the activities to be implemented in the event of the termination or significant change in a benchmark rate.

Finally, the necessary interventions to manage the transition of the LCH clearing house from EONIA to €STR were completed, ensuring the continuity of transactions in euro derivatives.

Internal and corporate governance

The following measures were issued in 2020 with regard to issues concerning shares and equity investments:

- Consob Resolution no. 21304 on the reduction of the initial notification threshold pursuant to Article 120, paragraph 2-bis, of the Consolidated Law on Financial Intermediation (the "Consolidated Law") for equity investments in listed companies with a high current market value and a particularly extensive shareholding structure;
- Decree Law 23 of April 8, 2020 containing provisions regarding the loss of share capital and shareholder loans granted in response to the health emergency, the obligation to notify specific resolutions, instruments or transactions and the associated veto power exercisable by the Government ("golden powers").

As regards corporate governance, the following measures were published:

- Decree Law 18 of March 17, 2020 containing provisions regarding the conduct of company meetings issued in response to the health emergency;
- Decree Law 23 of April 8, 2020 regarding the loss of share capital and shareholder loans granted in response to the health emergency;
- Law 40 of June 5, 2020 regarding the conduct of the shareholders' meetings of cooperative corporations issued in response to the health emergency;
- Legislative Decree 84 of July 14, 2020, in implementation of Article 7 of Law 117 of October 4, 2019 regarding the encouragement of long-term shareholder engagement and the rules of the corporate governance system;

- Consob Resolutions no. 21320 and no. 21359 regarding amendments to the regulation implementing Legislative Decree 58 of February 24, 1998 concerning the regulation of issuers in the matter of corporate transparency.

On September 2020, the Commission Implementing Regulation (EU) 1212/2018 took effect, laying down minimum requirements implementing of the provisions of Directive 2007/36/EC of the European Parliament and of the Council as regards shareholder identification, the transmission of information and the facilitation of the exercise of shareholder rights.

This regulation implements the specific disclosure obligations of intermediaries who hold shares on behalf of their customers, in compliance with the provisions of Directive (EU) 2017/828 (the Shareholder Rights Directive II) amending Directive 2007/36/EC introducing provisions to improve the governance of European listed companies by, among other things, facilitating the exercise of certain rights by the shareholders of these companies.

On September 23, 2020, the Bank of Italy issued the 34th update of Circular no. 285/2013 in transposition of the EBA Guidelines on outsourcing arrangements. The Parent Company has initiated a project to ensure that internal rules and information systems are compliant with the new provisions.

Privacy

As part of the response to the COVID-19 emergency, the Decree of the President of the Council of Ministers of April 26, 2020 was issued containing guidelines on the processing of personal data in cases of body temperature detection.

The decree contained amendments to the shared protocol for regulating measures to combat and contain the spread of the COVID-19 virus in the workplace", signed on March 14, 2020, which allowed the detection of body temperature, bearing in mind that this activity constituted the processing of personal data pursuant to the GDPR. Guidelines and clarifications regarding the detection of the body temperature of customers, suppliers, workers and visitors were issued on May 24, 2020 in a specific operational circular transmitted to all the Group companies.

During the first half of 2020, the following consultations initiated by the European Data Protection Board ("EDPB") on the processing of personal data in the context of connected vehicles and the processing of personal data through video devices were also completed:

- "Guidelines 1/2020 on processing personal data in the context of connected vehicles and mobility related applications";
- "Guidelines 3/2019 on processing of personal data through video devices", adopted on January 29, 2020.

The EDPB guidelines on consent pursuant to Regulation (EU) 679/2016 (the "GDPR") are currently being drafted. The "Guidelines 05/2020 on consent pursuant to Regulation 2016/679", adopted on May 4, 2020, represent a slightly updated version of the guidelines previously adopted by the "Article 29" Working Group on November 28, 2017 and amended on April 10, 2018. In particular, the innovations (clarifications) concern the validity of the consent given by users in their interaction with so-called "cookie walls" and the possibility (denied) of associating the act of scrolling through the pages of a website with the consent of users.

In relation to the update in question, in the June 2020 newsletter the DPO Observatory (Data Protection Officer unit) notified the changes to the Territorial DPOs of the affiliated mutual banks and the internal DPOs of the companies within the direct scope.

On May 12, 2020, the Privacy Authority provided a number of clarifications regarding the subjective qualification of the Supervisory Body (provided for pursuant to Article 6 of Legislative Decree 231 of June 8, 2001. The authority ruled out the possibility that the Supervisory Body can be construed as an independent controller or a processor pursuant to Article 28 of the GDPR within the scope of the exercise of its functions regarding the processing of personal data, specifying that the individual members of the Supervisory Body must be designated by the controller - as part of the technical and organizational measures to be taken in line with the principle of responsibility of the controller (Article 24 of the Regulation) - as third parties (Articles 4, 10, 29, and 32, paragraph 4 of the Regulation; see also Article 2-quaterdecies of the Code). The Data Protection Officer unit notified the Territorial DPOs of the affiliated mutual banks and the internal DPOs of the companies within the direct scope of the changes, distributing on May 20, 2020 the document "ICBG_Knowledge Base_Opinions Privacy Forms _20200520" and on July 1, 2020 the June 2020 newsletter of the DPO Observatory.

On October 20, 2020, the EDPB adopted the Guidelines 4/2019 on Article 25 Data protection by design and by default and, on December 15, 2020, the Guidelines no. 6/2020 on the interplay of the Second Payment Services Directive and the GDPR. In response to these developments, an interdepartmental working group was set up by the Parent Company to determine the privacy impacts and specific repercussions for the Open Banking project.

The DPO Observatory notified the internal DPOs of the companies with the direct scope and the Territorial DPOs of the affiliated mutual banks of the impact of these updates on the mutual banks.

In addition to the foregoing, public consultations are currently under way for the Italian Data Protection Authority's Guidelines on the use of cookies and other tracking tools (26/11/2020-11/01/2021) and the EDPB Guidelines 10/2020 on restrictions pursuant to Article 23 of the GDPR (18/12/2020-12/02/2021).

Finally, on July 16, 2020 the Court of Justice of the European Union ruled in the case between the Austrian activist Maximillian Schrems, Facebook Ireland Ltd and the Data Protection Commissioner (the Irish authority for the protection of personal data), definitively invalidating the 2016/1250 decision on the adequacy of the protection provided by the so-called “Privacy Shield”, with which the European Commission (following a different approach to that of the CJEU and the EDPB) had tried to fill the regulatory vacuum created following the 2015 “Schrems I” ruling of the Court of Justice, which had invalidated the legal framework underlying the agreement between the European Union and the United States on the “Safe Harbor”, predecessor of the Privacy Shield.

Corporate criminal liability – Legislative Decree 231/01

On July 30, 2020, Legislative Decree 75 of July 14, 2020 implementing Directive 1371/2017/EU entered force. It makes changes to the predicate offenses considered within the scope of corporate criminal liability, in particular concerning the undue receipt of payments to the detriment of the State, undue inducement to give or promise benefits and fraud.

The offenses referred to in Article 25-septies of Legislative Decree 231/01 have been supplemented with provisions adopted in the context of the COVID-19 emergency, i.e. Decree Law 18 of March 17, 2020, Decree of the President of the Council of Ministers of May 17, 2020 and the Decree Law 34 of May 19, 2020.

On December 8, 2020, Council Regulation (EU) no. 2020/1998 concerning restrictive measures against serious human rights violations and abuses entered force.

These regulatory changes have been incorporated in the ongoing updates of the Compliance Models pursuant to Legislative Decree 231/01 of the Group companies, in particular as regards the Parent Company’s Model in relation to predicate offenses.

Payment services and systems

On July 28, 2020, the Bank of Italy issued a press release regarding co-badged debit cards without contactless payment functionality on the domestic payment circuit. The Parent Company conducted an in-depth verification of the technological functionalities available on the Group’s outstanding debit cards, subsequently sending the Group companies placing debit cards a communiqué on the classification of all of the debit cards issued by Iccrea Banca within the scope of “symmetrical cards”, i.e. with contactless functionality on domestic and international payment circuits, also providing a summary document of the results of the audits performed. The Parent Company also specified that it would undertake an information campaign targeted exclusively at affiliated merchants to provide operational clarifications on the proper handling of any asymmetric cards (i.e. without contactless payment functionality on the domestic payment circuit) issued by other issuers.

On November 28, 2020, Decree no. 156 issued by the Ministry for the Economy and Finance governing the obligations of issuers and acquirers affiliated with the “Cashback” program, an initiative of the Cashless Italy Plan to encourage the use of electronic money, entered force.

In this regard, the Parent Company has actively participated with the main players in the sector and with PagoPA SpA on the drafting of the final document identifying roles, application functions and operating methods governing the latter company and the affiliated acquirers in the correct implementation of the regulatory requirements referred to in Article 5, paragraph 2-sexies, of Legislative Decree 82 of March 7, 2005, and Article 1, paragraph 288, of Law 160 of December 27, 2019. The Parent Company also notified the companies within the direct scope and the affiliated banks of its participation in the Cashback program, as well as the initiation of promotional and advertising campaigns for customers to inform them about the eligibility of the payment instruments issued by Iccrea Banca for the program.

Finally, the EBA published a consultation paper on the proposal to revise the guidelines on major incident reporting under PSD2 (EBA/CP/2020/22). The consultation itself ended on December 14, 2020.

PSD2 - Payment Services Directive

Within the scope of the activity under way since 2018 to achieve organizational and procedural compliance with PSD2, a variety of planning was done, first and foremost, to complete the various steps envisaged by the new legislation.

In this area, the following activities were conducted:

- the reporting of the risk analysis, the deadline for which has been extended by the competent authority to September 2020;
- the upgrading of the e-commerce sector for online purchases with cards, on both the issuing and acquiring ends;
- work to complete the new exemption procedure (the “fallback solution”) for banks migrating after September 14, 2019, in line with the operating procedures defined with the Bank of Italy.

The innovations introduced by PSD2 have already led to significant changes in the European banking market and in the electronic payments market, opening up new business opportunities. The goal of the planning now being done is therefore, to not just ensure that the Group as a whole complies with the regulatory obligations, but also to lay the groundwork for a new strategic evolution of the Group, identifying business opportunities in terms of offering innovative open-banking products and improving processes, starting with the marketing and commercial areas and working towards credit processes, while leveraging the information available.

SEPA Instant Payments

Within the context of the radical evolution underway in the area of payment services, the European Payments Council (EPC) established guidelines for the first pan-European instant payments scheme (SCT Inst). Under the umbrella of SEPA Instant Credit Transfers, Instant Payment is a service that is key for the Group banks' digital offerings, enabling them to provide private customers and firms the opportunity to make and receive real-time transfers with counterparties located throughout the SEPA area whose service is active, through both digital and physical channels (operating 24/7, receipt of transaction outcome within 10 seconds). Instant payments will represent a leap forward in the quality of payment systems and will help businesses and institutions rationalize digital-migration processes. Pilot operations at Banca Sviluppo and Iccrea Banca began on March 3, 2020 (with the receipt of credit transfers on current accounts and transmission features reserved for a limited number of users).

Under the participation timeline published by the EPC, the service was extended to all mutual banks operating with the BCC SI information system.

Supervisory reporting

On March 31, 2020, the Commission Implementing Regulation (EU) 429/2020 of February 2, 2020 came into force, amending Regulation 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions in accordance with Regulation no. 575/2013.

As from May 27, 2020, Regulation (EU) 605/2020 of the European Central Bank of April 9, 2020, amending Regulation (EU) 2015/534 on reporting of supervisory financial information will take effect.

On June 7, 2020, Law 40 of June 5, 2020 containing provisions on the temporary suspension of non-performing loan reports to the Central Credit Register and credit information systems entered into force.

In 2020, guidelines on harmonized definitions and models for the funding plans of credit institutions were published in accordance with the recommendation of the European Systemic Risk Board of December 20, 2012 (ESRB/2012/2), as were the EBA guidelines on reporting and disclosure regarding exposures subject to the measures applied in response to the COVID-19 crisis.

The following consultations were also launched:

- EBA: indicators of global systemic importance, RTS on supervisory reporting of thresholds for authorization as a credit institution, ITS on supervisory reporting and public disclosure of IFs, ITS on specific reporting requirements for market risk;
- Bank of Italy: instructions for the observation of average global effective interest rates, 21st update of Circular no. 189 of October 21, 1993, 23rd update of Circular no. 148 of July 2, 1991, 19th update of Circular no. 217 of August 5, 1996, 26th update of Circular no. 115 of August 7, 1990, 13th update of Circular no. 272 of July 30, 2008,
- ECB: Regulation amending Regulation 1071/2013 concerning the balance sheet of the MFI sector.

The Group participated in the public consultation launched by the Bank of Italy on May 20, 2020 on the proposal to amend the "Instructions for the observation average global effective interest rates pursuant to the Usury Act", formulating comments and proposals for changes to the text of the regulations through the ABI. The consultation ended on July 20, 2020; publication of the definitive text of the measure is pending.

Short selling

With Resolution no. 21303, of March 17, 2020, Consob introduced a ban on taking or increasing net short positions (short selling and other bearish speculative transactions, including those carried out using derivatives or other financial instruments), wherever carried out and including intraday positions, in the shares indicated in attachment 1 of the resolution. This prohibition was in force until May 17, 2020 and was applied to transactions carried out by an intermediary on own account and to transactions carried out by customers. In this regard, the Parent Company provided the necessary information to the Group companies and developed operational solutions to support the companies involved in such transactions, especially as regards customer disclosure requirements.

Remuneration and incentive systems

In response to the COVID-19 emergency, the following notices were published concerning remuneration and incentive policies:

- letter from the European Central Bank of July 28, 2020 regarding "Remuneration policies in the context of the coronavirus (COVID-19) pandemic";
- letter from the European Central Bank to significant banks of December 15, 2020 regarding " Remuneration policies in the context of the coronavirus (COVID-19) pandemic".

On October 29, 2020, the EBA launched a public consultation on the revision of the Guidelines on sound remuneration policies

(EBA/GL/2015/22), which ended on January 29, 2021.

Finally, in November 2020, the Bank of Italy published for consultation a revision of the measures on remuneration policies and practices at banks and banking groups contained in Circular no. 285/2013. The Parent Company participated in the consultation, offering comments and proposed amendments of the document. The consultation ended on January 18, 2021.

With regard to the variable component of remuneration for 2020, the Group has taken into account the guidance received from the supervisory authorities regarding the advisability of maintaining a prudent approach, compatibly with any applicable statutory constraints, in order to safeguard the ability to absorb losses and grant loans in support of the economy.

Sustainability

With regard to sustainable finance, on July 12, 2020 Regulation (EU) 852/2020 of the European Parliament and of the Council of June 18, 2020 on the establishment of a framework to facilitate sustainable investment, and amending the EU Regulation 2088 entered force. The Regulations regards the pre-contractual and periodic disclosures connected with sustainable investments, financial products that promote environmental characteristics and other financial products and the transparency of environmental sustainability claims in the non-financial statement. This Regulation will take effect as from January 1, 2022.

On November 27, 2020, the ECB Guide on supervisory expectations regarding climate-related and environmental risks was published.

On December 23, 2020 the Delegated Regulation (EU) 1816/2020 entered into force. It supplements Regulation (EU) 1011/2016 with regard to: i) the benchmark statement of how ESG factors (environmental, social, governance) are reflected; ii) how ESG factors are reflected in the benchmark methodology; and iii) minimum standards for climate benchmarks.

Note that the issue of sustainability or sustainable finance is not limited to these regulations and entails transversal impacts that essentially affect the Group’s entire operations.

The Parent Company therefore undertook a project involving a number of its units to manage the complex task of integrating the numerous obligations connected with this regulatory framework, which as seen consists of multiple regulatory instruments and will continue to produce legislation with which we will have to comply in the coming years as well.

Transparency

The decrees issued by the Government in response to the COVID emergency include provisions:

- on the signing and notification of financial and insurance contracts in a simplified manner in response to the health emergency (Decree Law 34 of May 19, 2020);
- on simplified notifications for the signing of contracts in response to the health emergency (Decree Law 23 of April 8, 2020).

The Parent Company, together with the proprietary technical unit responsible for the IT system, has defined the activities necessary to ensure the compliance of the Iccrea Cooperative Banking Group with these regulations.

On December 28, 2020, the Bank of Italy issued a notice on the information that banks and financial intermediaries must send to customers in view of the application of the new definition of default.

In this regard, the Parent Company has made available to the companies of the direct scope and the affiliated banks a set of information documentation and forms to be sent to their customers as part of their periodic transparency disclosures in order to enable those disclosures to perform the functions of awareness-raising and clarification concerning regulatory changes, in compliance with the requirements of the supervisory authorities.

Product governance

The Group has developed a single operating model for the management of products and services with the aim of ensuring their uniformity, while creating synergies that also take account of local conditions. From January 1, 2020, the application of the Product Management model was also extended to the affiliated banks in relation to the entry into force of transparency regulations in this area. Activities focused, among other things, on the creation of IT support tools with the aim of guaranteeing both greater coordination of the product management process and the supervision of the Group’s entire commercial product range (the Product Catalog) in compliance with regulatory obligations concerning the governance of banking products.

ICT

During 2020, in addition to the application upgrading referred to earlier and the continuation of the projects already in progress, the ICT area was significantly involved in the project for the evolution of the information system of BCC Sistemi Informatici (SicraWeb) and the plan for the migration of affiliated mutual banks using other technical services providers to the information system of BCC-SI.

The main project activities carried out during the period include those associated with the broader initiative in customer relationship management (CRM) for the creation of new CRM tools (with particular regard to the Data and Reporting, Relational Front-End and Campaign projects). The roll-out of the new CRM tools to a limited cluster of banks was planned and launched in the second half of 2020. Starting from January 2021, taking advantage of the lessons learned with the 2020 release plan, planning was begun for the large-scale migration of the Group's remaining mutual banks to the new application solutions.

Among digital transformation projects, major technological innovation and functional evolution initiatives have been largely completed (PSD2, online placement services, instant payments, customer care). At the same time, projects included in the medium-long term Digital Transformation Strategy were agreed with the relevant units of BCC SI, the Parent Company and the pilot mutual banks (functional enhancement from a mobile-first perspective; remote/off-site product offering; phygital evolution; channel-CRM integration upgrading; "open credit" for individuals).

8. GROUP HUMAN RESOURCES

The workforce of the Iccrea Cooperative Banking Group totaled 22,141 employees at December 31, 2020 (21,674.8 FTE[29]), distributed as follows:

Category	Number of employees December 31, 2020	FTE December 31, 2020
Mutual bank employees	18,715	18,821.3
Direct scope companies	3,384	3,351.5
Other companies	42	42.0
Total	**22,141**	**21,674.8**

The developments in new hires and terminations for the Iccrea Cooperative Banking Group in 2020 showed a net decrease of 16 (1,102 new hires compared with 1,118 terminations). In addition, 425 intra-group transfers of staff were recorded. The composition of the workforce by category and gender at December 31, 2020 is reported in the following table:

Position	Men	Women	Total
Senior management	379	27	406
Middle management	4,707	1,584	6,291
Office staff	7,778	7,666	15,444
Total	**12,864**	**9,277**	**22,141**
of which:			
On open-ended contracts	12,669	9,117	21,786
On fixed-term contracts	195	160	355

During 2020, a voluntary retirement incentive plan was launched, aimed at enhancing the financial sustainability of the ICBG and taking advantage of the opportunities offered by the recent experimental regulations on pensions (so-called "Quota 100" early retirement option, the "female option" and the freeze on the life expectancy adjustment for eligibility for the "Fornero" early retirement option). Participation was open to all those who meet the eligibility requirements by March 31, 2022.

In 2020, the companies in the direct scope had 58 employees leave through participation in the plan.

The procedure for the sale of the branches of Banca Sviluppo had already begun in 2019, governing the impact on the employment relationship of employees of the branches involved in the sale. In 2020, the sale of the Banca Sviluppo branches led to the exit of 139 employees, of whom 132 were transferred to other Group companies (4 to BCC Di Capaccio Paestum e Serino; 70 to Banca Credito Cooperativo Ravennate Forlivese e Imolese; 29 to Rivierabanca; 17 to Credito Cooperativo Romagnolo; in addition, 12 employees were transferred to companies in the direct scope: 6 to Iccrea Banca; 1 to Iccrea BancaImpresa; 1 to Sinergia; and 1 to BCC Creditoconsumo Spa).

The Parent Company's workforce decreased by a net 39 in 2020 (211 hires and 250 terminations), mainly attributable to additional implementations linked to the organizational needs associated with the new model defined following the establishment of the ICBG and, as reported above, the progressive implementation of the early retirement incentive plan.

In 2020, the transfer to the Parent Company of the employees of the centralized control functions was carried out with the aim of enhancing the efficiency of controls in the Parent Company in line with the guidance provided by the European and national supervisory authorities, with the adoption of a centralized model in order to make the analysis, control and reporting processes as uniform as possible, and to strengthen synergies within the functions. This operation, which had already been adopted for the affiliated mutual banks, also involved 23 employees at the companies of the direct scope in 2020.

During 2020, the transfer of the IT operations of Iccrea Banca and Iccrea BancaImpresa to BCC SI was carried out, involving the transfer of employment for 193 staff, of whom 171 from Iccrea Banca and 22 from Iccrea BancaImpresa, while Sinergia SpA entered the direct scope of consolidation (357 employees).

Finally, at the end of 2020, the procedure for the centralization of the lending operations of Iccrea BancaImpresa with the Parent Company (effective January 1, 2021) was launched, involving in particular operations concerning ordinary lending, special lending, international operations, extraordinary corporate finance and the associated guarantees, while lease operations continue to be managed by Iccrea BancaImpresa. Following the transaction, over 200 Iccrea BancaImpresa employees joined the staff of Iccrea Banca.

Remuneration and incentive policies

In 2020 the Parent Company, in compliance with regulatory principles and the Cohesion Contract with the affiliated banks, coordinated the activities associated with personnel remuneration policies.

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

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

The document was approved by the shareholders of the Parent Company – based on a proposal by the Board of Directors – meeting in ordinary session on July 16, 2020 and is available on the Bank's website.

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

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

As part of the implementation of remuneration policies and in compliance with the conditions and limits established by that policy, the management of the annual incentive system took on importance during the year as a channel for the involvement and participation of staff in achieving company objectives.

With regard to the variable component of remuneration for 2020, the Group has taken into account the guidance received from the supervisory authorities regarding the advisability of maintaining a prudent approach, compatibly with any applicable statutory constraints, in order to safeguard the ability to absorb losses and grant loans in support of the economy.

Labor relations

With regard to labor relations, in 2020 discussions with trade unions intensified with regard to both procedures relating to the Parent Company and the companies within the direct scope, and the reorganizations and mergers of the affiliated mutual banks.

From the early months of the year, labor relations were, obviously, also affected by the consequences of the COVID-19 emergency, prompting the establishment of a permanent forum for discussion at the industry and group levels charged with developing consensus solutions to guarantee the effective protection of workers' health while ensuring business continuity. In compliance with the protocols agreed at government level with the social partners on the regulation of measures to combat and contain the spread of the virus in the workplace and the subsequent agreements defined by the industry association and the national secretariats of the trade unions, company-level committees have also been set up at Group companies for the application and verification of the rules developed at the government and industry level.

In March, work began on the sale of the 21 branches of Banca Sviluppo located in Emilia Romagna to BCC Ravennate Forlivese Imolese, Credito Romagnolo and Riviera Banca. Talks with the social partners was concluded with the trade union agreement of May 29, which, in addition to regulating the impact of the sale on the employment relationship of the 108 employees of the branches involved in the sale, also defined working conditions for the additional 23 employees of Banca Sviluppo present in the Emilia Romagna region, who, with the individual transfer of their employment contracts o Iccrea Banca or the transferee mutual banks themselves, will continue to provide service in their original areas.

With regard to the companies within the direct scope of consolidation, three important agreements were reached:

- the trade union agreement concerning the sale of the assets, with effect from July 1, 2020 for a total of 195 employees, of the IT business units of Iccrea Banca and Iccrea BancaImpresa to BCC Sistemi Informatici;
- the trade union agreement relating to the transfer of the assets, with effect from January 1, 2021 for a total of 227 employees, of the lending business (ordinary credit, special credit, foreign and extraordinary corporate finance) of Iccrea BancaImpresa to Iccrea Banca.
- the agreement on funding for training through the activation of the industry's FONCOOP bilateral fund.

Also this year, union agreement on the performance bonus envisaged the possibility of paying the bonus on a "flexible benefits" basis, in a percentage chosen by the employee, with further payment by the company, where the "welfare" approach is adopted, of an additional contribution of 20% on the amount of the premium to be paid.

Finally, procedures concerning the centralization with the Parent Company of the corporate control functions of the companies within the direct scope were defined and talks began on the reorganization of the territorial units.

At the Group banks, union procedures concerning the reorganization associated with revision of the distribution model also continued. In the last final months of the year, talks were held with unions concerning two important mergers: in Sicily, the merger of BCC San Giuseppe di Mussomeli, BCC Don Stella di Resuttano and San Biagio Platani into BCC Toniolo di San Cataldo and in Veneto, the merger of Credito Trevigiano into Cra Brendola, which led to the creation of Banca delle Terre Venete. These mergers, which were finalized with the consequent trade union agreements, led to the formation of two banks of significant size, consolidating the Group's presence in their respective territories.

Early retirement incentive program for the companies within the direct scope

In 2020, two significant agreements were reached to enable access to the extraordinary benefits of the Solidarity Fund:

- on November 6, for the employees of the companies within the direct scope who had already elected to participate in the early retirement incentive plan to obtain a “Quota 100” or early retirement pension (which involved the participation of 86 employees by March 31, 2020, the deadline for submitting applications) and to those who, in addition to being eligible for an old-age or early retirement pension by December 31, 2023, were also “disadvantaged” conditions;
- on December 22, for the employees of the companies within the direct scope (up to a maximum of 60 employees), who will become eligible for an old-age or early retirement pension by March 31, 2027.

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

RISKS

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

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

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

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

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

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

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

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

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

The risks identified as significant and assessed are the following:

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

- credit spread risk, namely the risk arising from changes in the market value of debt instruments due to fluctuations in the relative credit spread.

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

The completion of the RAF project and its operational implementation in the various analytical dimensions (i.e. the individual RASs) led to the definition of the Group Risk Appetite Statement, i.e. the risk strategy of the ICBG for 2020, in line with the risk profiles included in the related framework. The ICBG risk strategy for 2020 was revised and updated in August 2020 at the same time as the review of the Group Operational Plan to incorporate the effects of the COVID-19 scenario. A similar process was conducted in the early months of 2021 with regard to the definition of the Risk Strategy for 2021.

In terms of capital adequacy, work focused on:

- optimizing the capital structure of the Group and the individual affiliated banks, with a view to convergence towards the levels found at comparable peers, using subordinated Tier 2 instruments to:
  - strengthen the capitalization of the affiliated banks in order to enhance their capital soundness and increase the potential for development or consolidation in sectors, markets and territories deemed of strategic interest by the Group;
  - start a gradual process of diversifying financial resources for compliance with solvency and MREL requirements;
- calibrating capital indicators at levels such as to ensure compliance with the levels expected by regulators (P2G and CCB) - even with the option of temporarily operating below these levels due to the COVID-19 emergency - preserving adequate prudential buffers to ensure stability in the changed external environment;
- continuing Group initiatives to enhance the efficiency of capital resources to allocate to the development of plan actions (development of internal models in the credit sector, RWA optimization, improvement of CRM techniques, etc.);
- undertaking actions targeted at the financial sector to increase the efficiency of financial leverage to support net interest income, making use of the facilities available under the latest monetary policy actions, and to position the Group leverage ratio at a level more in line with those found at comparable peers.

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

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

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

- credit risk:
  - continuing the reduction of the gross NPL stock through the operational implementation of a plan that sets clear quantitative reduction objectives (intermediate and final), which in addition to continuing disposals through structured finance operations - especially with GACS support – is also being pursued through: (i) the development of a highly skilled hub and procedures for the large-scale management of NPLs dedicated exclusively to recovery activities; and (ii) the strengthening of the impaired credit management model to trigger remedial actions from the first signs of deterioration in the position;
  - continuing the qualitative repositioning of the portfolio risk profile through the implementation of credit strategies with new targeted production to: (i) achieve a sustainable portfolio objective consistent with the Group's risk appetite through targeted strategies that combine the customer's risk level with proportionate guarantees; and (ii) mitigate the concentration risk of the portfolio in respect of individual borrowers (or group of connected customers) and specific economic sectors through individually specified risk limits for Group companies that foster the diversification of the loan portfolio;
  - implementing more prudent coverage policies for the impaired component of the loan portfolio, taking due account of the impact of the COVID-19 emergency on risk parameters (ECL models).
- financial risks:
  - establishing a financial portfolio (the strategic portfolio) of Italian government securities to support net interest income, financed back-to-back through the ECB or through market repos, commensurate with the facilities available under recent monetary policy actions (TLTRO-III), with the portfolio gradually being wound down until their expiry;
  - dynamically managing the financial portfolio (the investment – HTCS portfolio) through: (i) the search for extra returns from market volatility, in compliance with the risk limits and capital resources allocated to these operations; (ii) the optimization of the cost of funding through greater use of "market" forms of funding in compliance with the established duration gap limits; and (iii) the gradual diversification of the portfolio with EU government assets, as well as financial and corporate assets with high credit standing;
  - efficiently managing at the Group level excess liquidity and the interest rate risk profile on the banking book in order to optimize the mismatching between Group assets and liabilities and minimize the sensitivity of net interest income and seek alternative returns from the market (e.g. use of ECB tiered facilities, greater penetration of asset management);
  - completing initiatives involving the financial segment through consolidation of the operating model and the offer of asset management services.

UNCERTAINTIES

Impact of the economic crisis brought about by the COVID-19 pandemic

Since the end of February 2020, the pandemic health emergency has affected market developments and commercial operations, with the latter heavily impacted by increasingly stringent containment measures that led to the suspension of many economic activities. These measures are still affecting the exercise of economic activities, restricting personal travel and interrupting classroom teaching in schools and universities.

The Group operates primarily in Italy. Although the start of vaccination campaigns in Italy and the rest of the world has induced a degree of cautious optimism for the future, the Italian health system remains under considerable strain and uncertainty about the evolution of the health crisis and hence outlook for Italy's economy is still high. Accordingly, it is still not possible to predict with accuracy the ultimate impact this will have of Italy's economy, as it will depend on how long the emergency lasts, the effectiveness of steps taken by the authorities, the resilience of businesses and households and their ability to react in a timely manner, and on the role that the banking system will be able to play in supporting the economy. The prospects for the Italian economy are therefore still extremely uncertain. Furthermore, the effects that the pandemic is generating at a global macroeconomic level are weighing on the national situation. The presence of great uncertainty represents a key element in the communications issued by supranational authorities, such as the International Monetary Fund ("IMF") and the European Commission:

- in its "October 2020 World Economic Outlook", the IMF noted among other factors that the uncertainties surrounding the forecasts remain substantial, the uncertainty surrounding the baseline projection is unusually large, and growing restrictions on trade and investment and geopolitical uncertainties could harm the recovery;
- in its November 2020 communiqué, "Autumn 2020 economic forecast: rebound interrupted as resurgence of pandemic deepens uncertainty", the European Commission stated, among other things, that "the epidemiological situation means that growth projections over the forecast horizon are subject to an extremely high degree of uncertainty and risks" and that there was "a high degree of uncertainty with downside risks to the outlook".

As noted, the economic measures that the Italian Government and European institutions were quick to implement, as well as any additional steps that may be taken throughout the year should a worsening of the crisis call for them, contribute to mitigating the recessionary effects of the COVID-19 pandemic, the first real global crisis after the financial crisis of 2008.

The monetary policy of the ECB, which was already highly expansionary before the pandemic, was strengthened further through the deployment of all of the main instruments available to the central bank. In addition to the introduction of new refinancing operations in response to the pandemic (Pandemic Emergency Longer-Term Refinancing Operations, PELTRO), the financial conditions applied to the third series of targeted longer-term refinancing operations (TLTRO III) and the programs for the purchase of financial assets (Asset Purchase Program - APP) and of public and private securities for the pandemic emergency (Pandemic Emergency Purchase Program - PEPP) were significantly enhanced.

Among the actions activated by the ECB, TLTRO III is particularly relevant for the ICBG, extending three further auctions and increasing the amount that can be financed by 5%.

Given the sounder condition of Europe's banking industry today in terms of capital and liquidity, banking oversight has also been moving towards an approach that seeks to avoid procyclical impacts. Accordingly, in order to promote the ability of the banking system to continue providing financial support to businesses and households, the ECB now allows for a greater use of the flexibility permitted under prudential regulations by loosening certain restrictions and postponing supervisory initiatives that are not deemed to be of critical importance.

Generally speaking, the measures implemented by Italian and European authorities and organizations have enabled banks to support lending to firms and households by making greater use of capital and liquidity levers and benefiting from public guarantees that will support actions governed by national rules. We are waiting to see if these measures, together with fiscal policy measures, are able to effectively mitigate the impact on profitability and, in particular, on risk indicators, at least over short and medium term.

In the Italian context, the fiscal policy measures taken in direct support of demand envisaged, in particular, in the "Cure Italy" and "Revival" decrees have played an important role in countering the adverse impact of the pandemic. Measures such as loan repayment moratoriums and public guarantees on new loans were in fact essential to avoid the occurrence of possible further adverse impacts and preventing corporate liquidity crises. Thanks to the continued support from monetary policy and public guarantees on loans, Italian banks were able to meet firms' demand for funds. Unlike developments in recent recessions, bank lending to businesses has actually increased and at a rapid pace. The strengthening of the Central Guarantee Fund for small and medium-sized enterprises and the statutory and private-sector measures establishing loan moratoriums have buoyed access to credit (in particular - but not only – for smaller companies, which represent the Group's target customer base). Moreover, most of the secured loans added to outstanding credit and did not simply replace it.

The public guarantees also serve to reinforce lending to small and medium-sized enterprises. In consideration of the expected partial deterioration in credit quality at the end of the moratorium, these guarantees will help to reduce the expected future losses on these exposures by improving recovery rates (for a lower LGD compared with what would prevail for positions without guarantees). The costs of companies were contained through the extension of the wage supplementation fund and liquidity was supported with non-repayable grants, the deferral of tax and contribution charges and the loan repayment moratorium. The moratoriums envisaged in the legislation, the new lending with a term of 6 years and the wage supplementation mechanism should enable greater realignment of future cash flows with rescheduled debt, with a consequent reduction in potential future past due/over limit positions. The guarantees issued by SACE and the Central Guarantee Fund will reduce both expected and unexpected losses, with consequent attenuation of the impact on RWAs and the cost of credit.

These areas of intervention are of particular importance for the Group, especially considering their business model, which is targeted at supporting households and small and medium-sized enterprises, the customer segments on which the main support measures approved by the Italian government are focused. It should be recalled that, from the very outset, the Group has lent strong impetus to the activation of the main lines of COVID-19 support introduced with the government decrees in the form of loan repayment moratoriums and new lending to firms.

Lending activity represents the core business of the Group and, consequently, the main source of risk assumed, as aspect that has only increased in the current macroeconomic environment, as it could lead to a significant increase in defaulted positions over the next three years.

The continuing economic crisis, which could adversely affect the ability of the customers of the banks and Group companies to discharge their obligation, could therefore lead to a deterioration in credit quality.

Among positions that are already impaired, the average recovery times for exposures classified as bad loans could increase (attributable, for example, to the slowdown in the work of the courts) and a necessary revision of the restructuring agreements for loans classified as unlikely to pay, whose cure rates could decline significantly. Again, it is useful to recall not only the important initiatives launched as part of the NPL strategy adopted in March 2021, but how, in particular for non-performing exposures that have experienced a slowdown in recovery rates, the Group has continuously supported the initiatives begun before its establishment for the progressive reduction of the NPL stock. In this context, the finalization in December 2020 of the fourth securitization transaction with GACS backing (BCC NPLs-2020, for which more information is provided elsewhere in this report and in the notes to the financial statements) made it possible to reduce the gross and net NPL ratios, which at December 31, 2020, stood at 9.1% and 4.3% respectively (compared with 11.6% and 6.1% respectively in 2019). Further decline in this indicator, despite the significant de-risking efforts under way, could be impeded by the continuation of the crisis and the associated ability of borrowers to meet their debt service obligations. Furthermore, even if the actions implemented by the Italian government should mitigate the deterioration in the quality of performing loans, the high degree of uncertainty surrounding developments in the economy and the market still require that we be on guard for potential future market corrections, a deterioration in liquidity on the financial markets and for a reassessment of existing risk management arrangements in order to verify their capacity to take sufficient account of the unique characteristics of this crisis. These effects, also taking into account the implications related to the application of the new definitions of impaired credit, could lead to a progressive increase in the cost of credit and the stock of NPLs, which would only improve in the medium to long term.

In this context, the ability to adequately assess the quality of portfolios takes on further importance, thanks in part to the initiatives implemented by the Group to strengthen lending safeguards through more stringent policies and control mechanisms, taking due account the temporary nature of the loan repayment moratoriums and additional political support measures.

The uncertainty discussed here also affects the factors underlying the forward-looking models required by IFRS 9 for estimating expected credit losses. In this specific regard, the Group has adapted the IFRS 9 impairment model used to calculate value adjustments on performing loans and developed a specific model for conditioning valuations for the non-performing portfolio, using scenarios that are constantly updated and reflect the conditions caused by the COVID-19 pandemic. This required a series of extraordinary interventions and methodological and implementation adjustments to incorporate the potential impacts of the pandemic into the impairment model, albeit in the context of extraordinary ongoing uncertainty. More specifically, the adjustments to the impairment framework associated with the pandemic emergency concerned:

- the use of forecast scenarios updated in step with the evolution of the macroeconomic environment, which led to the use of forward-looking projection metrics to be applied to the risk parameters (PD, LGD), estimated on the basis of the macroeconomic forecasts from an external provider, differentiated by type of counterparty, sector of economic activity and geographical area;
- the management of the impacts related to the implementation of customer support measures, with particular regard to the moratoriums and measures to support the liquidity of firms, in order to ensure that the stage allocation criteria and the levels of coverage were consistent with the methods and purposes of the support measures. Note that the number of interventions carried out in this area also took account of the guidance received during 2020 from the supervisory authorities concerning the identification and measurement of credit risk in the pandemic.

These adjustments to the IFRS 9 impairment framework in relation to COVID-19 were made in parallel with the ordinary maintenance of the estimation models, lending continuity to the updating/fine-tuning of the risk parameters (PD, LGD) used to estimate ECL under IFRS 9, in line with the dictates of the accounting standard. These updates made it possible to develop a version of the models and measurements of the related parameters that is capable of generating a more accurate and precise measurement of the risk characteristics typical of the loan portfolios of the affiliated banks and of the Group as a whole.

More generally, the preparation of the consolidated financial statements of the ICBG required more in-depth analysis than under ordinary conditions, partly reflecting the need to provide more extensive information on the Group's situation in terms of both qualitative disclosures and specific quantitative assessments of the resilience of certain asset valuations in view of the possible impact on performance and financial position of the risks associated with the COVID-19 emergency.

Specifically, for the purposes of drawing up the financial statements, account was taken of the guidance provided by Consob in its warning notice no. 6/20 regarding the information to be provided: (i) on the risks associated with COVID-19 that may have an impact on a company's performance or financial position; (ii) on any measures taken or planned to mitigate said risks; and (iii) an indication of the potential impacts that have been considered in estimating the company's future performance. Subsequently, consideration was also given to the recommendations provided by ESMA in its Public Statements "Implications of the COVID-19 outbreak on the half-yearly financial reports" of May 20, 2020 and in the "European common enforcement priorities for 2020 annual financial reports" of October 28, 2020, regarding the need to carefully assess the relevance of business planning in order to consider the main risks related to the pandemic that could preclude the achievement strategic objectives and/or jeopardize business continuity and to verify any impairment losses on assets . In particular, Consob stressed that the assessments that directors are required to make pursuant to IAS 36 "Impairment of assets" and, in this context, whether the effects of the COVID-19 pandemic are relevant in the preparation of the reports, constitute evidence of impairment such as to require the performance of specific assessments of the recoverable amount of the assets. The Authority also underscored the importance of describing the significant uncertainties and risks associated with COVID-19 with reference to the income statement, as well as providing information: (i) on the impacts of COVID-19 on strategic orientation and targets, performance, financial position and cash flows; and (ii) on the measures taken and/or planned to address and mitigate the impacts of COVID-19 on operations and performance and their progress/state of completion.

Of particular note is the information provided in this report and/or in the notes to the financial statements concerning:

- the impairment testing of equity investments, goodwill,[30] other tangible and intangible assets that may be impacted by the deterioration of economic conditions, which is especially important in the light of the Consob recommendations. These assets underwent a close analysis by way of the assessments made by an independent third party;
- the probability testing of DTAs, which - in compliance with the Consob recommendations - required more careful sensitivity analyses to verify the robustness of their value in the light of the available information;
- the application of IFRS 16 in the context of specific issues related to COVID-19.

In determining the recoverability of the carrying amount of the most significant items in the financial statements mentioned above, the Group based its assessment on the latest approved strategic plan, appropriately revised - in particular with regard to assets (funding and loans), fees and commissions, the cost of risk and forward-looking profitability - to take account of the impacts of the COVID-19 pandemic and the initiatives and measures implemented in this area.

Given the difficult of adequately predicting the severity and duration of the crisis, strategies aimed at maintaining adequate levels of capitalization are of even greater importance, including forward-looking assessments of capital that take account of the current uncertainties and protect the quality and level of capital by, in part, maintaining more conservative policies of distribution and remuneration.

In this scenario, also essential is the ability to manage ICT risks and digital security, while paying particularly close attention to the growing number and new forms of financial crime that have, as the reader will be aware, characterized periods of severe economic upheaval and taking account of the inevitable jump in customer use of online banking services. With regard to the exposure to operational risks, the pandemic has produced a significant increase in cyber security and IT risk, also associated with the significant use of digital services and the use of remote working and web collaboration tools. The potential risks inherent in business continuity have also increased, reflecting the greater dependence on network infrastructures and equipment to ensure user access to the information system. However, it is believed that these potential risks have been adequately mitigated by the numerous initiatives promptly adopted by the Group to strengthen control and monitoring systems (such as, for example, upgrading the access authentication system).

Conversely, with regard to the portfolio of government securities, the impact on the stability of own funds and on capital ratios in this current market environment are limited given the classification and ALM policies adopted by the Group and the guidelines provided over time by the Parent Company. It should also be noted in this regard that prevailing prudential regulations allow the use of the recently introduced (Regulation (EU) 2020/873) prudential filter, which temporarily allows - in decreasing percentages until 2022 – the mitigation of the impact on CET1 of fluctuations in the value of exposures to central government measured at FVTOCI. This filter, which the Group has not yet implemented, can be activated quickly when needed.

Very briefly, the Group pays constant attention to the development of tools to measure the potential impact on operations of the various risks and uncertainties (particularly by way of sensitivity analysis and stress testing) in order to ensure the timely adaptation of strategies – in terms of the branch network, the organization, and the management/rationalization of costs – in response to the changing environment. These risks and uncertainties are also the subject of constant monitoring through our risk policies, which in close coordination with the instructions issued by the Parent Company, are updated and adapted in relation to changes in strategy, the operational environment and market expectations. This monitoring and development is aimed at verifying the adequacy of these polices and rules and their proper implementation. Therefore, the risks and uncertainties described above have been subjected to an evaluation process aimed, in part, at underscoring the impact of changes market parameters and conditions on the company's performance.

For more information, please see the details provided in the Accounting Policies (Part A), in the tables of the notes to the financial statements in Part B (Information on the Balance Sheet), Part C (Information on the Income Statement) and Part E (Risk and risk management policies) on loans involved in payment moratoriums or other forbearance measures in place at the reporting date, or which represent new liquidity granted with the support of public guarantees.

Comprehensive assessment

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

In particular, the comprehensive assessment exercise consists of:

[30] With regard to the determination of the recoverable amount of goodwill, property, plant and equipment and intangible assets that might be impacted by a deterioration in economic conditions, IAS 36 requires that certain types of assets undergo impairment testing at least once per year in order to verify the recoverability of their carrying amount. The same standard also states that, when preparing interim financial reports, certain qualitative and quantitative analyses are to be conducted in order to determine the existence of any (internal or external) indicators of impairment and, consequently, of the conditions for conducting impairment tests more frequently than the standard of once per year.

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

In the first half of 2020, the Parent Company, together with the affiliated banks and following the discussions with the Joint Supervisory Team, coordinated activities for the comprehensive assessment exercise. In the wake of the developments connected with the spread of COVID-19, the EBA decided to postpone the performance of the EU-wide stress test to 2021, as it is felt that banks should focus all their efforts on ensuring business continuity in this challenging environment, guaranteeing the proper operation of their core business and all critical functions, and avoid placing the additional burden of operations connected with the regulatory exercise on the operational structures of the banks, which are already under strain. Accordingly, the comprehensive assessment involving the ICBG was temporarily suspended and postponed to the second half of this year, while maintaining the reference date of December 31, 2019.

With specific regard to the credit file review of the comprehensive assessment, the results of the preliminary analysis of the sample of individual credit exposures were brought to the attention of the Group companies affected by potential reclassifications or provisioning increases with specific guidelines for dealing with the various cases (essentially linked to portfolio movements that took place in 2020) for the purpose of incorporation into the financial statements as at December 31, 2020. In essence, all the status reclassifications were incorporated and all the requests for additional provisions relating to the positions sampled by the authorities were recognized with the exception of a limited number of cases that, based on the performance of the credit relationship or other circumstances that emerged after the reference date, did not, in the view of the Group, suggest the need to reclassify the position or modify the related provisioning. The Group is still waiting for indications from ECB concerning the projection of the results of the sample analysis to the entire portfolio.

With regard to the challenger model and the stress test, the official findings are expected to be communicated to the Group by the end of June.

10. INTERNAL CAPITAL AND LIQUIDITY ADEQUACY ASSESSMENT PROCESS

Supervisory Review and Evaluation Process (SREP)

With regard to the outcome of the Supervisory Review and Evaluation Process (SREP), on November 17, 2020, the supervisory authorities notified Iccrea Banca that as a result of the COVID-19 pandemic it had taken the pragmatic decision to not adopt a new SREP decision, instead maintaining the prudential requirements determined in 2019 SREP decision for all of 2021.

Accordingly, the consolidated own funds requirements for 2021 remain:

- an additional Pillar 2 requirement (P2R) of 2.5% to be held in the form of Common Equity Tier 1 capital, to be maintained on an ongoing basis, in accordance with Article 16 of Regulation (EU) no. 1024/2013;
- a recommendation for Pillar 2 Guidance (P2G) of 1.25%, which should consist entirely of Common Equity Tier 1 capital and held in addition to the Overall Capital Requirement (OCR).

Given the above, for 2020 the Iccrea Cooperative Banking Group is therefore required to meet:

- a Total SREP Capital Requirement (TSCR) of 10.5%, of which at least 7% shall consist of Common Equity Tier 1 instruments;
- an OCR equal to 13%, of which at least 9.5% shall consist of Common Equity Tier 1 instruments.

With regard to the Group’s affiliated banks, the SREP decision did not impose own funds requirements to be met on an individual basis. Therefore, in order to comply with the aforementioned consolidated requirements, mechanisms have been provided for their allocation at individual level within the main risk governance processes (i.e. RAF, EWS), compatibly with the capital resources of each affiliated bank, thus ensuring that the Group’s strategies and capital constraints are also reflected at the individual level.

As already mentioned, on March 12, 2020 the ECB, having noted that the banks subject to supervision could have encountered difficulties in ensuring continuous compliance with capital requirements as a result of the COVID-19 emergency and the related impact on their activities, operations and capital and liquidity situation, granted significant supervised entities the possibility of using equity instruments not qualified as Common Equity Tier 1 to meet part of the additional Pillar 2 own funds requirements. In this regard, on April 8, 2020, the ECB notified Iccrea Banca of the decision to change the composition of the additional Pillar 2 own funds requirement notified on December 4, 2019. With this decision, the supervisory authority amended the initial SREP decision, keeping the previous quantitative requirements unchanged but allowing the additional Pillar 2 own funds requirement (P2R) to also be met with Additional Tier 1 and Tier 2 instruments, within the limits of certain percentages. More specifically, at least 56.25% of the P2R shall be held in the form of Common Equity Tier 1 (CET1), with Tier 1 capital accounting for at least 75%.

In response to this decision, the Group conducted studies at both the consolidated and individual levels in order to identify the complete scope of risk governance arrangements strictly connected to the SREP decision and therefore potentially impacted by these changes, with particular regard to the issues of capital adequacy and the effects deriving from the application of capital management and capital allocation approaches.

In greater detail, considering the special characteristics of the methodological and operating systems of the risk governance frameworks defined and adopted by the Group, these studies concentrated:

- at the consolidated level, on the Risk Appetite Framework, the ICAAP framework and the Recovery Plan, with specific reference to the thresholds defined for the capital adequacy indicators;
- at the individual level, on the key and unique operating mechanisms of the ICBG (the Guarantee System - GS - and the Early Warning System), the definition of the reference thresholds for the execution of the stress test for GS purposes (the GS threshold), the consequent quantification of the readily available funds (RAFs), the associated allotment of the funding obligation among the participating banks and the determination of the thresholds in the EWS and RAF area.

Following the analysis, it was determined that, at the consolidated level and taking account of the structure of the Group’s capital, in which CET1 components predominate, there was no need to recalibrate the capital ratio thresholds in the context of the RAF/RAS, ICAAP and the Recovery Plan, confirming the appropriateness of covering the P2R requirement entirely with CET1 instruments.

At the individual level, the capital structure of the affiliated banks is similar to that found at the consolidated level, with very few immaterial exceptions. Therefore, the application of the ECB notice of April 8 would have had marginal positive impacts. In consideration of the above, therefore, it was decided not to modify the Group’s risk governance arrangements, considering that the amendment to the SREP decision had substantially non-material impacts both on the Group as a whole and on its individual members.

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

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

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

The analyzes performed in assessing adequacy were conducted at both the individual and consolidated levels and were developed, in accordance with the request of the supervisory authorities issued on April 7, 2020 in a specific communication, using a pre-COVID macroeconomic context.

The findings of the assessments were formalized within the Group ICAAP and ILAAP package, which was submitted to the supervisory authorities in May 2020.

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

- with regard to the regulatory perspective, the CET1 and TC ratios were stably above the established thresholds both at the regulatory level and in terms of the main risk governance processes and had significant capital buffers over the time horizon considered;
- from the economic perspective, risk-taking capacity showed that the levels of capital determined on a going-concern basis were amply sufficient to cover potential unexpected losses in relation to the Group's risks.

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

The ILAAP assessments, in turn, indicated adequate overall liquidity for the ICBG over the entire time horizon, both at short term and over the longer term, taking account of both baseline operations and the adverse scenario. In particular, the estimated evolution of the LCR and NSFR indicators over the plan period did not reveal any critical issues in terms of the adequacy of operating and structural liquidity, as the expected positioning in the baseline scenario is consistent with the objectives set out in the RAS and the projection in the stress scenario exceeds not only the regulatory threshold but also the risk capacity specified in the 2020 RAS.

Recovery Plan

The recovery plan is of particular strategic importance at the consolidated level, so it has been developed based on the data and on processes and systems in place at the Group level. Within this context, the operational processes underlying preparation of the recovery plan were carried out at the consolidated level under the direct responsibility of the Parent Company, which is responsible for preparation of the plan itself. The Parent Company's Board of Directors is the body generally responsible for this document, whereas the plan's implementation and management is defined in recovery governance principles and guidelines, which call for the involvement of the Risks Committee and other management bodies such as the Recovery Committee and the boards of directors of the subsidiaries and affiliated banks when involved in implementation of the recovery plan.

During the second half of 2020, the activities related to the implementation of the Group's Recovery Framework were started in its target configuration and at the same time updating of the Group's Recovery Plan was begun.

In this regard, the assessment/analysis performed in order to assess the Group's capacity to restore the performance and financial position of all Group companies in the event of highly adverse scenarios characterized by idiosyncratic and systemic risks also took account of the outbreak and spread of the COVID-19 emergency.

The definition of the Group Recovery Plan was completed at the start of 2021 and submitted to the supervisory authorities.

Minimum Requirement of Eligible Liabilities (MREL)

With regard to Pillar II capital adequacy, the "MREL" indicator represents the minimum requirement for eligible liabilities introduced by the Bank Recovery and Resolution Directive (BRRD). The objective is to ensure the proper functioning of the bail-in mechanism. increasing the ability to absorb losses, and to rebuild the Group's capital position, continuing to guarantee the continuity of critical economic functions during and after a possible crisis.

In the early months of 2021, Iccrea Banca, as the Parent Company, received the decision of the Single Resolution Committee on the determination of the minimum requirement of own funds and eligible liabilities (MREL - Minimum Requirement of Eligible Liabilities) on a consolidated basis, including the subordination requirement, the intermediate targets and the final target to be achieved by January 1, 2024.

The decision, which is currently being discussed with the competent authorities, provides for compliance with the following two mandatory targets:

- an intermediate target to be achieved by January 1, 2022 equal to 21.49% of the total risk exposure amount (including the combined buffer requirement of 2.5%) and 6.40% of the total exposure measure;
- a final target to be achieved by January 1, 2024 equal to 24.35% of the total risk exposure amount (including the combined buffer requirement of 2.5%) and 6.40% of the total exposure measure.

With regard to the subordination requirement, the Group is required to comply at the consolidated level by January 1, 2022 and January 1, 2024, with the greater of:

- 16% of the total risk exposure amount (including the combined buffer requirement of 2.5%);
- 6.40% of the total exposure measure.

A subordination requirement equal to 16% of the total risk exposure amount is applied to Iccrea Banca.

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

- own funds at Group level calculated in accordance with the provisions of the CRR and CRR2;
- eligible liabilities of Iccrea Banca with a residual maturity of more than one year, including subordinated debt securities and subordinated loans that are not included in additional Tier 1 or Tier 2 instruments, which satisfy the eligibility conditions set out in Article 12d of Regulation (EU) no. 877/2019 ("SRMR 2").

11. INTERNAL CONTROL SYSTEM

Structure of the Group internal control system

The structure of the internal control system (ICS) has been designed in accordance with the organizational structure of the Group and, in its operational implementation, takes account of the specific operations and associated risk profiles of each of the Group companies.

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

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

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

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

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

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

The Group has created a model of governance for the corporate control functions based on which the Parent Company governs the operation and primary responsibilities of the corporate control functions, while also defining the interrelationships between these functions and the various other corporate bodies. In line with the model adopted, the Parent Company is responsible for providing the Group with a unified internal control system that enables effective internal control of the strategic decisions of the Group as a whole and of the operational equilibrium of its individual members.

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

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

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

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

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

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

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

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

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

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

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

In 2020 the Board of Directors of the Parent Company approved the revision of the operating model of the second-level CCF's for the companies within the direct scope, providing them with second-level control services on an outsourcing basis governed by specific service contracts between the Parent Company and the companies within the direct scope involved. The revision first concerned the centralization of the Compliance and AML function of the companies within the direct scope and subsequently the centralization of the Risk Management function. The initiative is part of a more general process aimed at ensuring the uniformity not only of the governance model but also of the organizational structure of the second-level FACs between the affiliated banks and the companies within the direct scope, extending to the latter the structure currently adopted for the affiliated banks. With this in mind, from 2021 the risk management activities of the companies within the direct scope have been centralized directly with the Parent Company on an outsourcing basis.

The Internal Audit function

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

The Chief Audit Executive is responsible for implementing the Internal Audit function in accordance with the model designed when creating the ICBG, in terms of both organization and methodology, so as to fulfill the area's duties and responsibilities in a unified, coordinated manner for the Parent Company, the companies of the direct and indirect scopes, and for all affiliated banks.

The CAE Area is organized into the following units:

- "Audit Operational Support", which handles operational and administrative activities in support of the CAE, the internal audit managers of the affiliated banks and companies of the direct and indirect scopes, and the heads of the other organizational units of the function in meeting their respective obligations;
- "Audit Governance", which supports the CAE in governance, defining processes, methodologies and tools and in planning and supervising internal audit activities and remote controls, as well as in performing the quality assurance activities of the function;
- "ICT Audit", which performs IT audits in order to provide assessments on the overall IT risk situation with regard to the Parent Company, the companies subject to the latter's management and coordination, and any external providers;
- "Parent Company and Direct and Indirect Scope Audit ", which is responsible for performing internal audit activities for the Parent Company and the companies within the direct and indirect scope in support of the CAE and the internal audit managers of the companies within the direct and indirect scope, based specific outsourcing agreements, and in accordance with the processes,

methods and tools of the function. The unit also supports the CAE in coordinating consolidated audit activities or issues concerning the entire Group;

- “Mutual Bank Audit”, which is responsible for conducting internal audits at the affiliated banks, supporting the CAE and the internal audit managers of those banks, based on specific outsourcing agreements and in accordance with the processes, methods and audit tools defined by the function. This unit includes not only the internal audit manager of the mutual banks but also the Internal Audit Supervisor, who works with the Mutual Bank Audit manager in supervising, supporting and coordinating the correct application of the audit processes, methods and tools in carrying out internal audit activities and in the management of the resources under the responsibility of the internal audit managers of the affiliated banks;
- “Network Audit”, which is responsible for conducting internal audits of the branches of the affiliated banks of the Group and of Banca Sviluppo in line with the processes, methodologies, and audit tools defined by the function. Within the unit, a functional position of Internal Audit Coordinator has been established, with the responsibility for supporting the Head of Network Audit in the supervision and coordination of Internal Audit activities at branches: (i) ensuring methodological and operational consistency with the guidelines defined by the function; ii) providing assistance in scheduling resources; iii) supporting the performance of audit activities and related reporting; and iv) monitoring the network audit activities in order to ensure compliance with the approved audit plans.

As part of the “Group Policy on Violation Reporting Systems”, the CAE acts as Head of Internal Systems for Reporting Violations for the Parent Company and for the companies within the direct scope of consolidation, while the internal audit managers of the mutual banks have been designated as Heads of the Internal Systems for Reporting Violations for the individual affiliated banks.

The Risk Management function

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

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

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

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

In the early months of 2021, the organizational structure of the Parent Company’s Risk Management function underwent revision/fine-tuning.

This organizational revisions should be framed within the continuation of the overall process of fine-tuning the structure of the CRO area, leveraging the experience gained by the function in the two years since the start of the Group within the overall operating model of the function. In particular, this reorganization was intended to achieve:

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

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

- Validation and Support for Cross-Functional Activities: reporting directly to the CRO, this unit validates models developed internally to quantify the risks to which the Group is exposed and operates as a transversal support center within the organizational structure of the Chief Risk Officer, ensuring and promoting coordinated management of the operational and liaison mechanisms between the units of the function;
- Group Risk Management: this unit is responsible on an ongoing basis for (i) the supervision and coordination of the organizational units dedicated to the individual risk categories, which within their areas of responsibility are involved in the development and maintenance of the methodological framework for the assumption and management of specific risks, as well as risk assessment and monitoring on a consolidated basis and identification of any mitigation measures; ii) the functional guidance to the specialized units of the Risk Management function in respect of the risk management units of the affiliated banks and the companies within the direct scope;
- Risk Governance & Strategy: this represents the "competence center" overseeing the Group's risk governance and risk strategy issues, including the EWS and stress test frameworks for Group strategy purposes on both a consolidated and individual basis. In this context, the unit also coordinates the activities involved in the annual planning of the CRO area activities and the institutional reporting document of the Group Risk Management function for the corporate bodies and the supervisory authorities, supporting the Chief Risk Officer as appropriate. It also oversees risk management activities for the companies of the direct scope under a specific service contract, coordinating the contacts with the other specialist structures of the Risk Management function;
- Mutual Bank Risk Management: this unit operates as the "control center" for the risk profile of the individual affiliated banks, representing the vertex of the territorial Risk Management units, whose managers report through the areas of the Mutual Bank Risk Management unit (Area 1, Area 2 and Area 3), coordinating their dialogue with the other specialist structures of the Risk Management function. Acting through its subordinate units (Area 1, Area 2 and Area 3) it (i) oversees the performance of risk management activities, ensuring compliance with the standards required for the execution of these activities and verifying the correct application the risk management framework defined by the Parent Company and (ii) supports the Risk Management managers of the affiliated banks their dialogue with their corporate bodies concerning risk developments in the various operating and business sectors. In this context, with the support of the Mutual Bank Risk Governance Unit, it assists those managers in defining strategic guidelines and risk policies and their implementation in line with the guidelines defined for the Group.

The Compliance function

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

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

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

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

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

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

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

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

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

- Compliance Governance, which is responsible for continuously monitoring the regulations applicable to the Group and interdepartmental consistency of compliance consulting activities, also monitoring the evolution of the regulatory framework. It is also charged with the operational supervision of the second-level control model for the management of compliance risk relating to the companies in the direct scope subject to supervision, as well as the centralized coordination of compliance activities in the regulatory areas overseen by specialist functions and those relating to the unsupervised companies, for which a specific compliance manager has been appointed (with the exception of BCC Sistemi Informatici);
- Affiliated Mutual Bank Compliance, the compliance unit of the affiliated banks, is organized territorially through Local Compliance units, who are responsible for performing the operational activities envisaged by the second-level control model for managing compliance risk adopted by the Parent Company;
- ICT Compliance is responsible for the management and assessment of compliance risk associated with ICT issues for the affiliated banks, the companies within the direct scope and the Data Protection Officer, including responsibility for the compliance activities of BCC Sistemi Informatici;
- Methodologies, Processes and Systems, which is charged with ensuring the constant management and maintenance of the technical rules of the function, of the associated IT applications, of the control methodologies and of the uniform reporting standards for the management of compliance risk for the Group;
- Planning and Reporting oversees the planning of compliance activities, preparation of reporting and information flows at the consolidated level for all the legal entities of the Group and at individual level for the companies within the direct scope that do not have a compliance officer. It also monitors the service level agreements for the compliance services governed by the outsourcing agreement with the companies in the direct scope;
- Data Protection Officer, which is responsible for monitoring compliance, within the Group, with the General Data Protection Regulation (GDPR) and other external or internal regulations regarding the protection of personal data, for the attribution of responsibilities, for awareness-raising and training for personnel who participate in data processing and related control activities. The head of the Data Protection Officer unit is the Data Protection Officer of Iccrea Banca.

The Anti-Money Laundering function

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

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

The implementation of the Anti-Money Laundering function in accordance with the model developed at the time the ICBG was established, in order to take into consideration the special features of the Group, included the structuring of:

- the Affiliated Bank AML unit, with a focus on the coordination and operational control of the anti-money laundering control model relating to the affiliated banks. In particular, the Anti-Money Laundering function of the affiliated banks, outsourced to the Parent Company under the outsourcing contracts and mainly deployed through the local offices of the Parent Company, is subject to the coordination and monitoring of the Affiliated Bank AML unit. To this end, the so-called Local AML units have been created to report to the Affiliated Bank AML unit. These local units represent the anti-money laundering structures of the local offices, which under the outsourcing contracts are responsible for performing the support activities envisaged by the second-level control model for the management of money laundering and terrorist financing risk;
- the Direct Scope AML unit, which coincides with the Anti-Money Laundering unit of Iccrea Banca. It is responsible for monitoring and coordinating the control activities performed by the Institutional & Retail AML unit and the Lending AML for companies within the direct scope[31] on an outsourcing basis.

With regard to the model outlined, 2020 was characterized by the following developments:

[31] The direct scope companies also includes non-bank/non-financial subsidiaries that are not required to establish an anti-money laundering function but for which the Parent Company has explicitly requested the establishment of local anti-money laundering units to support the Group Anti-Money Laundering Function in view of the risks underlying their operations.

- the completion of the organizational/IT activities necessary to enable the progressive adoption of a uniform procedure for all the companies within the direct scope to support anti-money laundering, with the selection of the “Gianos® 4D” IT system. This will standardize the processes for customer profiling and the identification/evaluation/reporting of potentially suspicious transactions;
- the completion of the definition of the new structure of the CAMLO area for the companies in the direct scope, with the creation of the Institutional & Retail AML and Lending AML units, with the centralization with the Parent Company of the head of AML and the STR delegate for the companies within the direct scope as well;
- the definition and approval of internal rules, mainly regarding the due diligence policy for the direct scope companies, the operating rules for the Institutional & Retail and Lending units and the consequent update of the AML function rules.

In the first half of 2020, an inspection by the Bank of Italy of the Group’s AML Function was completed, the findings of which were issued on August 4, 2020. Despite substantial compliance with the new organizational and governance arrangements for AML risk adopted by the Parent Company and implemented by the Board of Directors, a number of management issues were identified, but no substantial non-compliance subject to penalties was found. These issues underscore the need for the Parent Company to focus on recent governance and management issues at some mutual banks, and to promptly direct the completion of actions already under way, ensuring that they are fully operational, especially with regard to the refinement and strengthening of the processes and procedures involved.

Director responsible for the Internal Control System

Within the architecture of the internal control system of the Iccrea Cooperative Banking Group, the Group policy on the structure of the corporate control functions as updated by the Parent Company in October 2020 extended the requirement for the appointment of a director responsible for the internal control system to all Group companies subject to supervision and not just the affiliated banks. This was done in order to facilitate the effective exercise of its responsibilities in this area. This director supports the Board of Directors on issues pertaining to risk management and the control systems of the individual companies, promoting compliance with the principles defined within the Group control system and fostering awareness among the members of the administrative and control bodies of the companies of the risk management policies and processes adopted within the Group.

As envisaged by the Group policy on the structure of the corporate control functions, issued by the Parent Company in April 2019 and implemented by the boards of directors of all the Group’s supervised companies and the affiliated banks, the director responsible for the internal control system:

- provides opinions to the Board of Directors concerning proposed appointments of the heads of the corporate control functions and the Suspicious Transaction Report (STR) delegates;
- interacts directly with the heads of the corporate control functions of their entity and monitors their activities and their results on an ongoing basis;
- monitors the execution of the guidelines established by the Board of Directors and the corporate bodies of the Parent Company, drawing on the assistance of the corporate control functions, constantly evaluating the adequacy and effectiveness of the internal control system;
- examines in advance activity plans, annual reports and any additional reporting relating to the control activities performed by the corporate control functions for the Board of Directors;
- provides assessments and recommendations to the Board of Directors concerning compliance with the principles that must guide the internal control system and company organization.

Given the need to ensure that the directors responsible for the control systems of the affiliated banks can develop appropriate understanding of and experience in these issues, specific training activities were launched within the broader context of the corporate governance training plan for the directors. These activities will involve the CAE, CRO, CCO and CAMLO areas, each in their operational areas of responsibility.

12. OTHER SIGNIFICANT INFORMATION

Iccrea rating

In view of the recent instability in the financial markets as a result of the COVID-19 emergency, the rating agencies conducted a general review of their ratings of the leading banks. More specifically, for the Group:

- on February 24, 2021, Fitch Ratings confirmed its rating of the medium/long-term debt of Iccrea Banca and Iccrea BancaImpresa at “BB-”, with a revision of the outlook from “negative” to “stable”;
- on March 26 2020, S&P Global Rating confirmed its rating of the medium/long-term debt of Iccrea Banca and Iccrea BancaImpresa at “BB”, with a revision of the outlook from “stable” to “negative”. The rating was subsequently confirmed on November 24, 2020;
- on December 2, 2020, DBRS Morningstar lowered its rating of the medium/long-term debt of Iccrea Banca from “BBB (low)” with a “negative” outlook to “BB (high)” with a “stable” outlook.

Treasury shares

At December 31, 2020 Iccrea Banca SpA did not hold any treasury shares.

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

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

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

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

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

Transactions with related parties

Group Policy for the management of conflicts of interest and transactions with related parties governs the management of conflicts of interest in respect of transactions with related parties, decisions within the scope of application of Article 136 of the Consolidated Banking Act and Article 2391 of the Italian Civil Code and, where applicable, conflicts of interest connected with the application of the Early Warning System. It establishes the responsibilities of the companies subject to the management and coordination of the Parent Company, creating management arrangements consistent with the regulations established by the Bank of Italy while at the same time serving the Group’s organizational and corporate structure.

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

In addition, decision–making procedures have been tailored to the risk level of the transactions involved. Since the materiality threshold envisaged under supervisory regulations is 5% of consolidated own funds, a lower threshold, equal to 5% of the individual own funds of the Bank, has been established to identify significant-value transactions of lesser importance for which the enhanced decision-making process should be activated.

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

On December 18, 2020, the Board of Directors of Iccrea Banca approved an update of the Policy designed to implement the amendments to the regulations approved by the Bank of Italy with the 33rd update of Circular 285 of 2013 and to fine-tune certain aspects that emerged following the issue of the new regulations.

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

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

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

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

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

Mutual banks under administration

At December 31, 2020, 12 affiliated mutual banks in a situation of "critical" risk for which banks are placed under special administration (compared with 10 at the end of 2019) and represent 9.4% of the affiliated banks and 5.4% of total assets.

These banks displayed a positioning gap with respect to the threshold levels for asset quality and profitability indicators.

With the directive classifying a bank as in a "critical" risk state, the following steps are envisaged for mutual banks under administration: (i) the coordination of analyses to assess the critical issues, the proposed remedies and the definition of corrective measures; (ii) the preparation of memos for the Parent Company's assessment and decision-making bodies (Technical Intervention Committee, CIBA and Board of Directors); (iii) the drafting of a draft EWS directive and the transmission of the formalized directive; and (iv) the provision of support to the mutual banks for the preparation/execution of corrective action plans, monitoring of actions and outcomes, and reporting.

Inspections performed/planned by supervisory authorities

In the first half of 2020, a Bank of Italy inspection of the Group's AML function was completed, the results of which were notified on August 4, 2020. For more on the findings of the inspection, please see the section "Anti-Money Laundering Function".

13. SUBSEQUENT EVENTS

Reorganization of the Group's "Corporate" segment

In order to maximize the potential synergies and efficiencies of the model/process in order to enhance the level of the services provided to the affiliated mutual banks as part of the evolutionary plan for the "Corporate" segment, which provides for the reorganization of the companies within the direct scope operating in that segment, the transfer of Iccrea BancaImpresa's loan operations (ordinary credit, special and foreign credit and extraordinary corporate finance operations) to Iccrea Banca was completed, with the latter retaining solely those activities related to leasing. This reorganization, consistent with the strategic guidelines of the Group, was carried out with a view to achieving the following objectives: (i) specialization of the activities of the Group's "Corporate" segment in order to improve the levels of service offered to the customers of the mutual banks; (ii) expanding the operational standardization of lending processes and achieving operational synergies on transactions that lend themselves to standardized processing; and (iii) focusing of specialist skills in order to enhance the support provided to the mutual banks in the development and planning of customer activities through the creation of a single hub for business services.

Sale of the investment in Satispay

On March 31, 2021, as part of the strategy to rationalize the Group's equity investments, following a lengthy period of providing support to enable the company to achieve its current market positioning, the sale of the 623,998 shares held by Iccrea Banca in Satispay, representing approximately 14.9% of the share capital, to three investors (Tencent Holdings Limited, Lightstone Fund SA and Telecom Italia Ventures Srl) was finalized for a total of about €20.1 million, giving the Group a pre-tax capital gain of about €12.0 million.

Acquisition of 100% of BCC Risparmio & Previdenza

As part of the Group strategy regarding the measures to optimize the structure and the businesses of the companies within the direct scope in order to provide a high level of support to the mutual banks, Iccrea Banca completed the acquisition of 100% of BCC Risparmio & Previdenza SGRpA. Specifically, on January 14, 2021 Iccrea Banca purchased the 25% interest (equal to 2,125,000 shares) held by Assimoco Vita, a company of the Assimoco Group, for €26 million.

Covered bond transaction

In light of the establishment of the ICBG and in the context of the planning of activities functional to it, the creation of a Covered Bank Bond Program was identified as a major additional funding channel.

In addition to reducing funding costs, the main benefits of the establishment of the program include the optimization of ICBG assets and structural liquidity profiles, the possibility, as a centralized treasury instrument, to distribute new funding in accordance with the needs of the affiliated banks and the possibility of improving the correlation between the maturity profiles of loans and funding.

The Parent Company will participate in the transactions as both the issuer and as promoter and joint arranger (together with Barclays).

The conclusion of the program and the first issue are expected to occur by the end of the first half of 2021, taking account of prevailing market conditions.

Mergers and reorganizations of mutual banks under way

During the year, a number of additional mergers were approved by the Iccrea Board of Directors:

- in October 2020, the ECB authorized the merger between BCC del Cilento di Sassano e Vallo di Diano e della Lucania and BCC di Buonabitacolo, giving rise, with effect from January 1, 2021, to Banca 2021 - CC del Cilento, Vallo di Diano e Lucania SC;
- with effect from April 10, 2021 Banca di Verona Credito Cooperativo Cadidavid s.c.p.a. was merged into Banca San Giorgio Quinto Valle Agno – Credito Cooperativo – Società Cooperativa with legal effect from April 1, 2021.

Finally, following the application submitted by Iccrea Banca on August 10, 2020, on April 15, 2021 the ECB authorized the merger of Banca Valdichiana Credito Cooperativo di Chiusi e Montepulciano - Società Cooperativa (hereinafter, "Banca Valdichiana") into Banca Terre Etrusche e di Maremma - Credito Cooperativo – Società Cooperativa. In addition to pursuing the objective of creating a larger bank and improving overall efficiency through the integration of the branch network of the two entities, this operation is one of the reorganization measures requested by the Parent Company from Banca Valdichiana to address the critical issues associated with the financial condition of that bank.

The merger, the plan for which was approved in 2020 by the Board of Directors of the banks involved and the Parent Company, will take place following the issue by Banca Valdichiana of shares to be subscribed by the Parent Company.

In this regard, in response to the applications of August 10, 2020 and November 23, 2020, on April 15, 2021 the European Central Bank notified its decision to: i) authorize Banca Valdichiana to issue shares in the maximum amount of €35 million to be subscribed by Iccrea Banca

SpA pursuant to Article 150 ter, paragraph 4 bis, of the Consolidated Banking Act, and Part III, Chapter 5, Section II, sub-section 3.2, of Circular no. 285; ii) allow Banca Valdichiana to classify these shares as Common Equity Class 1 (CET1) instruments up to a maximum aggregate amount of €35 million (up to 1,400,000 shares with a par value of €25.00 each).

Following the subscription of the instruments and pursuant to Article 22 bis of the articles of association of the supervised entity, Iccrea Banca will hold about 75% of the share capital of Banca Valdichiana.

CONCLUSIONS

To our shareholders: The year 2020, the second in the history of the Group and the year in which we should have benefitted from exiting the start-up phase, was made even more challenging by the crisis triggered by an unprecedented pandemic in a context that was in itself characterized by slow economic growth and the proliferation of projects and increasingly pressing legislation impacting the banking industry.

Despite everything, we have executed all our strategic projects to ensure compliance with European and national banking regulations and launched new initiatives to enhance Group efficiency, and continued to strengthen our capital position and improve risk indicators. In addition, in the new scenario that has emerged, we have provided even more support for the activities of our members and customers at the local level, activating of all the measures allowed under the initiatives taken at European and national levels to mitigate the effects of the crisis.

Against this background, the performance of the Parent Company continued to reflect the significant investments needed to for the progressive creation of the new Group's organizational architecture and, above all in 2021, to improve the services provided to the affiliated banks in all areas, from commercial and financial to risk management, administration, data governance, technology development, and the support of operations.Work continued on expanding operational and control units and developing the many projects aimed at establishing a complete regulatory and operational framework, and to establish the Group's application platforms, taking due account of the numerous regulatory developments that called for an extraordinary commitment of financial resources and human capital.The Parent Company's loss for the year of €66.8 million, which also reflected impairment losses recognized on a number of controlling shareholdings, was in any case reduced by almost half compared with budget forecasts (an expected net loss of €124.2 million), thanks in part to the activation of targeted cost containment initiatives.

We recommend that this net loss be carried forward. Conversely, the consolidated net profit for the Iccrea Cooperative Banking Group (€202.3 million, of which €195.7 million pertaining to shareholders of the Parent Company) exceeded the budget forecasts despite a process that has led to a significant reduction in the levels of risk of our loan portfolio and increased coverage levels. We are now involved in looking to the future with confidence. To this end, there must be an increased awareness that the actions envisaged in the Group's upcoming business plan, in an environment that is still characterized by low interest rates in the medium term, must continue to be aimed at recouping operating efficiency, reducing costs, enhancing commercial efforts with a view to enhancing our presence in our various target markets and diversifying our sources of income, adopting all appropriate risk containment measures and strengthening our capital. If we are successful in this effort, we will be able to continue to serve our communities and our members.As always, thanks go to the mutual banks of our Group, which even in this year of emergency and crisis unprecedented in modern history were able to maintain active and profitable relationships in a range of areas with the Parent Company and provided our members and customers in our local communities an unprecedented level of support. In compliance with the roles defined in the Cohesion Contract and thanks to the involvement of the mutual banks in the Group's decision-making processes, we pursued initiatives to continue the projects undertaken following the establishment of the Group and in the business plan defined before the suspension of those activities due to the significant uncertainties in macroeconomic conditions that emerged in early 2020.

We would also like to recognize all those who, in their respective roles – whether directors or auditors –worked hard in all the Group's banks and other companies and helped to implement this unified business project. But certainly in this complicated year, special thanks go to all the employees of the Group who, even in an extremely challenging situation, contributed with great dedication and spirit of service to the achievement of all the objectives we had set for ourselves.

Finally, we would like to thank the ECB and the Bank of Italy, Consob and the Resolution Authority for their constructive, beneficial collaboration and for all the invaluable guidance provided.

Rome April 22, 2021

The Board of Directors

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

€/thousands	SHARE CAPITAL	RESERVES	VALUTATION RESERVES	EQUITY INSTRUMENTS	NET PROFIT	SHAREHOLDERS' EQUITY
Iccrea Banca SpA financial statements	**1,401,045**	**258,567**	**38,050**	**-**	**(66,795)**	**1,630,867**
Net profit of consolidated companies	906,287	8,493,223	232,669	30,139	287,422	**9,949,739**
Elimination of Group company dividends		45,218			(45,218)	**-**
Net profit of companies accounted for using equity method		(27,558)	129		124	**(27,305)**
Adjustment of intercompany writedowns (revaluations)		(47,180)			47,180	**-**
Goodwill		37,811				**37,811**
Other consolidation adjustments		(1,282,106)	(17,547)		(26,920)	**(1,326,573)**
Consolidated shareholders' equity	**2,371,902**	**7,477,960**	**253,734**	**30,139**	**202,320**	**10,336,056**
Non-controlling interests	**64,570**	**(14)**	**433**		**6,527**	**71,517**
Group shareholders' equity	**2,307,332**	**7,477,974**	**253,301**	**30,139**	**195,793**	**10,264,539**

ATTACHMENT 2 - ALTERNATIVE PERFORMANCE MEASURES

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

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

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

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

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

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

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

Structural indicators

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

Profitability measures

- ROE - Return On Equity: the measure is calculated as the ratio between net profit and shareholders’ equity and expresses the profitability generated by available equity.
- ROTE - Return On Tangible Equity: the measure is calculated as the ratio between net profit and tangible equity.[32]
- ROA - Return On Assets: the measure is calculated as the ratio between net profit and total assets and provides an indication of the profitability of company assets.

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

- Cost/Income Ratio: the measure is calculated as the ratio between operating costs (personnel expenses, administrative expenses and depreciation/amortization) and net operating income in the income statement and provides an indication of the efficiency of operations.

Risk measures

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

GROUP FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Assets		31/12/2020	31/12/2019
10.	Cash and cash equivalents	992,575	956,482
20.	Financial assets measured at fair value through profit or loss	1,892,207	1,940,080
	a) financial assets held for trading	270,538	205,225
	b) financial assets measured at fair value	345,094	367,476
	c) other financial assets mandatorily measured at fair value	1,276,575	1,367,379
30.	Financial assets measured at fair value through other comprehensive income	7,870,200	9,109,726
40.	Financial assets measured at amortized cost	151,183,057	135,869,471
	a) due from banks	7,215,898	8,405,860
	b) loans to customers	143,967,159	127,463,611
50.	Hedging derivatives	11,876	17,816
60.	Value adjustments of financial assets hedged generically (+/-)	222,493	139,945
70.	Equity investments	114,502	88,893
90.	Property, plant and equipment	2,741,691	2,842,541
100.	Intangible assets	168,844	146,462
	- goodwill	23,030	25,868
110.	Tax assets	2,119,045	2,135,149
	a) current	489,246	432,725
	b) deferred	1,629,799	1,702,424
120.	Non-current assets and disposal groups held for sale	18,368	33,856
130.	Other assets	1,933,255	2,250,045
	Total assets	**169,268,115**	**155,530,466**

Liabilities and shareholders' equity		31/12/2020	31/12/2019
10.	Financial liabilities measured at amortized cost	154,229,489	140,832,997
	a) due to banks	32,114,297	18,873,746
	b) due to customers	108,396,697	105,581,113
	c) securities issued	13,718,495	16,378,138
20.	Financial liabilities held for trading	243,808	163,728
30.	Financial liabilities measured at fair value	3,117	11,461
40.	Hedging derivatives	514,743	321,431
50.	Value adjustments of financial liabilities hedged generically (+/-)	(1,672)	(825)
60.	Tax liabilities	101,216	105,945
	a) current	3,495	19,113
	b) deferred	97,721	86,832
80.	Other liabilities	3,018,072	3,111,184
90.	Employee termination benefits	295,178	306,254
100.	Provisions for risks and charges	528,107	445,700
	a) commitments and guarantees issued	232,346	205,309
	c) other provisions for risk and charges	295,761	240,391
120.	Valuation reserves	253,301	254,511
140.	Equity instruments	30,139	30,139
150.	Reserves	8,575,538	8,390,589
160.	Share premium reserves	150,256	146,702
170.	Share capital	2,307,331	2,313,691
180.	Treasury shares (-)	(1,247,818)	(1,212,256)
190.	Non-controlling interests (+/-)	71,517	70,737
200.	Net profit (loss) for the period (+/-)	195,793	238,478
	Total liabilities and shareholders' equity	**169,268,115**	**155,530,466**

CONSOLIDATED INCOME STATEMENT

		31/12/2020	31/12/2019
10.	Interest and similar income	2,999,512	2,912,506
	of which: interest income calculated using effective interest rate method	2,878,884	2,846,033
20.	Interest and similar expense	(478,391)	(562,661)
30.	**Net interest income**	**2,521,121**	**2,349,845**
40.	Fee and commission income	1,396,658	1,441,401
50.	Fee and commission expense	(134,698)	(172,838)
60.	**Net fee and commission income (expense)**	**1,261,960**	**1,268,563**
70.	Dividends and similar income	6,339	4,373
80.	Net gain (loss) on trading activities	24,242	19,752
90.	Net gain (loss) on hedging activities	(3,278)	(4,772)
100.	Net gain (loss) on the disposal or repurchase of:	264,627	246,469
	a) financial assets measured at amortized cost	169,853	151,666
	b) financial assets measured at fair value through other comprehensive income	95,115	94,420
	c) financial liabilities	(341)	383
110.	Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss	(1,350)	40,722
	a) financial assets and liabilities measured at fair value	1,316	3,168
	b) other financial assets mandatorily measured at fair value	(2,666)	37,554
120.	**Gross income**	**4,073,661**	**3,924,952**
130.	Net losses/recoveries for credit risk in respect of:	(837,532)	(666,344)
	a) financial assets measured at amortized cost	(831,806)	(667,458)
	b) financial assets measured at fair value through other comprehensive income	(5,727)	1,114
140.	Gains/losses from contractual modifications without derecognition	(3,197)	(14,319)
150.	**Net income (loss) from financial operations**	**3,232,931**	**3,244,289**
180.	**Net income (loss) from financial and insurance operations**	**3,232,931**	**3,244,289**
190.	Administrative expenses:	(2,987,996)	(3,018,872)
	a) personnel expenses	(1,729,164)	(1,700,252)
	b) other administrative expenses	(1,258,832)	(1,318,620)
200.	Net provisions for risks and charges	(88,807)	(30,568)
	a) commitments and guarantees issued	(29,833)	(13,569)
	b) other net provisions	(58,973)	(16,999)
210.	Net adjustments of property, plant and equipment	(198,835)	(178,472)
220.	Net adjustments of intangible assets	(31,890)	(21,325)
230.	Other operating expenses/income	328,010	347,415
240.	**Operating costs**	**(2,979,517)**	**(2,901,822)**
250.	Profit (loss) from equity investments	(7,742)	10,899
260.	Net gain (loss) from valuation at fair value of property, plant and equipment and intangible assets	(40,118)	(22,858)
270.	Goodwill impairment	(2,842)	(22,671)
280.	Profit (loss) from disposal of investments	(634)	2,160
290.	**Profit (loss) before tax on continuing operations**	**202,077**	**309,997**
300.	Income tax expense from continuing operations	242	(65,049)
310.	**Profit (loss) after tax on continuing operations**	**202,320**	**244,948**
320.	Profit (loss) after tax on discontinued operations	-	15
330.	**Net profit (loss) for the period**	**202,320**	**244,963**
340.	Net profit (loss) for the period – non-controlling interests	6,527	6,485
350.	**Net profit (loss) for the period – shareholders' of the Parent Company**	**195,793**	**238,478**

STATEMENT OF COMPREHENSIVE INCOME

		31/12/2020	31/12/2019
10.	**Net profit (loss) for the period**	**202,320**	**244,963**
	Other comprehensive income net of taxes not recyclable to profit or loss	**(12,768)**	**2,356**
20.	Equity securities designated as t fair through other comprehensive income	(7,331)	16,520
50.	Property, plant and equipment	(103)	-
70.	Defined-benefit plans	(5,334)	(11,259)
90.	Share of valuation reserves of equity investments accounted for with equity method	-	(2,905)
	Other comprehensive income net of taxes recyclable to profit or loss	**11,384**	**292,926**
120.	Cash-flow hedges	(31,180)	7,231
140.	Financial assets (other than equity investments) measured at fair value through other comprehensive income	44,354	286,864
160.	Share of valuation reserves of equity investments accounted for with equity method	(1,790)	(1,169)
170.	**Total other comprehensive income net of taxes**	**(1,383)**	**295,282**
180.	**Comprehensive income (Item 10+170)**	**200,937**	**540,245**
190.	**Comprehensive income pertaining to non-controlling interests**	**6,484**	**8,364**
200.	**Comprehensive income pertaining to shareholders' of the Parent Company**	**194,453**	**531,881**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY 2020

				Allocation of net profit of previous period		Change in the period											
							Equity transactions										
	As at 31/12/2019	Change in opening balance	As at1/1/2020	Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Change in equity holdings	Comprehensive income as at 31/12/2020	Shareholders' equity 31/12/2020	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests
Share capital:																	
a) ordinary shares	2,380,125		2,380,125				8,945	(15,306)					(2,848)		2,370,917	2,307,332	63,585
b) other shares	985		985												985		985
Share premium reserve	151,077		151,077	(331)			3,885						(37)		154,595	150,256	4,338
Reserves:																	
a) earnings	8,418,939		8,418,939	211,698		(22,521)							(1,295)		8,606,821	8,602,612	4,207
b) other	(36,360)		(36,360)			569							156		(35,635)	(27,076)	(8,559)
Valuation reserves	254,982		254,982			135								(1,383)	253,734	253,301	433
Equity instruments	30,139		30,139												30,139	30,139	
Treasury shares	(1,212,256)		(1,212,256)				8,144	(43,706)							(1,247,818)	(1,247,818)	
Net profit (loss) for the period	244,963		244,963	(211,367)	(33,596)									202,320	202,320	195,793	6,527
Total shareholders' equity	**10,232,594**		**10,232,594**		**(33,596)**	**(21,817)**	**20,974**	**(59,012)**					**(4,024)**	**200,937**	**10,336,056**	**10,264,539**	**71,517**
Shareholders' equity pertaining to shareholders' of Parent Company	**10,161,857**		**10,161,857**		**(29,787)**	**(21,490)**	**20,974**	**(59,012)**					**(2,456)**	**194,453**	**10,264,539**		
Shareholders' equity pertaining to non-controlling interests	**70,737**		**70,737**		**(3,809)**	**(328)**							**(1,567)**	**6,484**	**71,517**		

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY 2019

				Allocation of net profit of previous period			Change in the period												
								Equity transactions											
	As at 31/12/2018	Change in opening balance	As at 1/1/2019	Reserves	Dividends and other allocations	Effect of formation of ICBG	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Change in equity holdings	Comprehensive income as at 31/12/2019	Shareholders' equity 1/12/2019	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests
Share capital:																		
a) ordinary shares	1,257,242		1,257,242			892,308		244,683	(14,109)							2,380,125	2,313,691	66,433
b) other shares	985		985													985		985
Share premium reserve	10,753		10,753			142,003	(4,467)	2,788								151,077	146,702	4,375
Reserves:																		
a) earnings	315,855		315,855	4,739		8,054,448	43,897									8,418,939	8,418,310	629
b) other						(24,435)	(11,925)									(36,360)	(27,719)	(8,641)
Valuation reserves	44,064		44,064			(88,163)	3,799								295,282	254,982	254,511	471
Equity instruments						30,139										30,139	30,139	
Treasury shares	(4,608)		(4,608)			(836,531)		1,849	(372,966)							(1,212,256)	(1,212,256)	
Net profit (loss) for the period	7,502		7,502	(4,739)	(2,763)										244,963	244,963	238,478	6,485
Total shareholders' equity	**1,631,794**		**1,631,794**		**(2,763)**	**8,169,769**	**31,304**	**249,320**	**(387,075)**						**540,245**	**10,232,594**	**10,161,857**	**70,737**
Shareholders' equity pertaining to shareholders' of Parent Company	**1,538,916**		**1,538,916**		**(2,763)**	**8,188,319**	**43,325**	**249,320**	**(387,075)**						**531,881**	**10,161,857**		
Shareholders' equity pertaining to non-controlling interests	**92,878**		**92,878**			**(18,550)**	**(11,955)**								**8,363**	**70,737**		

STATEMENT OF CASH FLOWS: INDIRECT METHOD

	31/12/2020	31/12/2019
A. OPERATING ACTIVITIES		
1. Operations	**1,107,775**	**1,085,017**
- net profit (loss) for the period (+/-)	202,320	244,963
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+)	(16,535)	(33,638)
- gains (losses) on hedging activities (-/+)	3,373	2,349
- net losses/recoveries on impairment (+/-)	647,294	389,045
- net adjustments of property, plant and equipment and intangible assets(+/-)	230,725	199,539
- net provisions for risks and charges and other costs/revenues (+/-)	75,018	216,211
- taxes, duties and tax credits to be settled (+/-)	(38,601)	56,761
- other adjustments (+/-)	4,181	9,786
2. Net cash flows from/used in financial assets	**(14,226,967)**	**(5,039,080)**
- financial assets held for trading	(41,807)	136,367
- financial assets measured at fair value	22,383	(290,019)
- other assets mandatorily measured at fair value	83,832	108,811
- financial assets measured at fair value through other comprehensive income	1,271,217	5,795,791
- financial assets measured at amortized cost	(15,804,356)	(10,298,616)
- other assets	241,764	(491,414)
3. Net cash flows from/used in financial liabilities	**13,421,916**	**4,234,619**
- financial liabilities measured at amortized cost	13,396,491	4,637,354
- financial liabilities held for trading	80,080	(102,475)
- financial liabilities measured at fair value	(8,344)	(29,977)
- other liabilities	(46,311)	(270,283)
Net cash flows from/used in operating activities	**302,724**	**280,556**
B. INVESTING ACTIVITIES		
1. Cash flow from	**85,595**	**124,188**
- sales of equity investments	89	55,288
- dividends on equity investments	4,373	4,373
- sales of property, plant and equipment	25,016	58,204
- sales of intangible assets	56,117	6,323
2. Cash flow used in	**(283,068)**	**(251,830)**
- purchase of equity investments	(25,698)	(23,219)
- purchases of property, plant and equipment	(152,906)	(174,686)
- purchases of intangible assets	(104,464)	(53,924)
Net cash flows from/used in investing activities	**(197,473)**	**(127,641)**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	(35,562)	(123,381)
- dividend distribution and other	(33,596)	(6,184)
Net cash flows from/used in investing activities	**(69,158)**	**(129,565)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**36,093**	**23,351**

Key
(+) generated
(-) used in

RECONCILIATION

	31/12/2020	31/12/2019
Cash and cash equivalents at beginning of period	956,482	129,087
Effect of formation of ICBG at 1/1/2019	-	804,044
Net increase/decrease in cash and cash equivalents	36,093	23,351
Cash and cash equivalents at end of period	992,575	956,482

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PART A – ACCOUNTING POLICIES

A.1 –GENERAL INFORMATION

SECTION 1 – DECLARATION OF CONFORMITY WITH INTERNATIONAL ACCOUNTING STANDARDS

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

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

These financial statements have been prepared in accordance with the format and rules for the preparation of bank financial statements set out in Circular no. 262 of December 22, 2005 – 6th update of November 30, 2018 – issued by the Bank of Italy in the exercise of the powers established by Article 43 of Legislative Decree 136/2015, as well as with the Communication of the Bank of Italy of December 15, 2020 – Supplement to the provisions of Circular no. 262 "Bank financial statements: formats and rules of preparation" concerning the impact of COVID-19 and the measures to support the economy and amendments of the IAS/IFRS.

The consolidated financial statements were prepared using the IAS/IFRS endorsed and in force as at December 31, 2020.

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, 2020:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
2075/2019	**Amendments to the Conceptual Framework for Financial Reporting** The main amendments regard a new chapter on measurement, improved definitions and guidance, clarification of concepts such as stewardship, prudence and uncertainty in measurement.	Annual reporting periods beginning on or after January 1, 2020.
34/2020	**Amendments to IFRS 9, IAS 39 and IFRS 7** The amendments concern the requirements for hedge accounting and also have an impact for entities that have elected to continue applying the hedge accounting model under IAS 39. The IASB has amended the specific accounting requirements so that entities apply these requirements assuming that the benchmark interest rate on which the hedged cash flows and the cash flows of the hedging instrument are based does not change due to the uncertainties associated with the benchmark interest rate reform. The amendments apply to all hedging relationships that are directly affected by the benchmark interest rate reform and seek to avoid the interruption of existing cash flow and fair value hedging relationships directly impacted by the reform, which in the absence of this relief would give rise to hedge ineffectiveness and potential hedge accounting failures following the replacement of IBOR with alternative benchmarks. These issues could have given rise to large reclassifications to profit or loss of cash flow hedge reserves and to the termination of hedge accounting for fair value hedges of fixed-rate debt. The changes to the requirements for the accounting treatment of hedging transactions also have an impact on the entities that have chosen to continue applying the accounting treatment of hedging transactions envisaged in IAS 39.	Annual reporting periods beginning on or after January 1, 2020
551/2020	**Amendments to IFRS 3: Business Combinations** The main changes are intended to resolve the issues that arise when an entity determines whether it has acquired a business or a group of assets. More specifically, the changes: – clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; – remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; – add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; – narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; – add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.	Annual reporting periods beginning on or after January 1, 2020
2104/2020	**Amendments to IAS 1 and IAS 8: Definition of materiality** The amendments are intended to align the definition of "material" with that used in the Conceptual Framework and the standards themselves. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of financial statements make on the basis of those financial	Annual reporting periods beginning on or after January 1, 2020

<table>
<tr><td></td><td>statements.</td><td></td></tr>
<tr><td>1434/2020</td><td>Amendment to IFRS 16 Leases – COVID-19-Related Rent Concessions
The amendments grant optional temporary support for lessees that benefit from rent concessions related to COVID-19.
As a practical expedient, a lessee may elect not to assess whether a rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession connected with COVID-19 the same way it would account for the change applying IFRS 16 if the change were not a lease modification.
The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:
• the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
• any reduction in lease payments affects only payments originally due on or before June 30, 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before June 30, 2021 and increased lease payments that extend beyond June 30, 2021); and
– there is no substantive change to other terms and conditions of the lease.</td><td>Annual reporting periods beginning on or after January 1, 2020. Early application is permitted.</td></tr>
</table>

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

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

<table>
<tr><th>ENDORSEMENT REGULATION</th><th>IAS/IFRS AND SHORT DESCRIPTION</th><th>ENTRY INTO FORCE</th></tr>
<tr><td>2097/2020</td><td>Amendments to IFRS 4 - Extension of the Temporary Exemption from Applying IFRS 9
The amendments to IFRS 4 seek to remedy the temporary accounting consequences of the mismatch between the date of entry into force of IFRS 9 Financial Instruments and the date of entry into force of the future IFRS 17 Insurance Contracts. In particular, the amendments to IFRS 4 extend the expiry of the temporary exemption from the application of IFRS 9 (so-called Deferral Approach, Temporary exemption) until 2023 in order to align the date of entry into force of IFRS 9 with the new IFRS 17.</td><td>Annual reporting periods beginning on or after January 1, 2021</td></tr>
<tr><td>25/2021</td><td>Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform—Phase 2
The amendments provide for specific accounting treatment to distribute changes in the value of financial instruments or leases contracts attributable to the replacement of the benchmark index for determining interest rates over time, thus avoiding immediate repercussions on profit or loss and the unnecessary termination of hedging relationships following the replacement of an interest rate benchmark index.</td><td>Annual reporting periods beginning on or after January 1, 2021</td></tr>
<tr><td>To be determined</td><td>Amendments to IAS 1 – Presentation of Financial Statements: classification of liabilities as current or non-current
The amendments seek to clarify one of the criteria of IAS 1 for the classification of a liability as non-current, i.e. the requirement that an entity must have the right to defer the settlement of the liability for at least 12 months after the end of the reporting period. The changes:
– specify that the right to defer settlement must exist at the end of the reporting period;
– clarify that the classification is unaffected by management's intentions or expectations regarding the possibility of exercising the right to defer settlement;
– clarify how the terms of a liability impact its classification; and
– clarify the requirements for the classification of liabilities that an entity intends to settle or could settle with the issue of equity instruments.</td><td>Annual reporting periods beginning on or after January 1, 2022</td></tr>
<tr><td>To be determined</td><td>Amendments to IFRS 3, IAS 16 and IAS 37 and Annual Improvements to IFRS Standards 2018–2020
The amendments involve limited-scope modifications of three accounting standards and annual improvements to the following accounting standards:
– IFRS 1;
– IFRS 9;
– IFRS 16;
– IAS 41.</td><td>Annual reporting periods beginning on or after January 1, 2022</td></tr>
<tr><td>To be determined</td><td>IFRS 17 Insurance contracts
The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers.
On June 25, 2020, the IASB published the following amendments to IFRS 17:
– a reduction in costs with the simplification of certain requirements of the accounting standards;
– the simplification of statements of financial performance;
– the deferral of the effective date until 2023.</td><td>Annual reporting periods beginning on or after January 1, 2023</td></tr>
</table>

To be determined	**Amendments to IAS 1 Presentation of Financial Statements – Disclosure of Accounting Policies** The amendments to IAS 1 are intended to improve disclosure of accounting policies and require companies to disclose material accounting policy information for their financial statements.	Annual reporting periods beginning on or after June 1, 2023. Early application is permitted
To be determined	**Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of accounting estimates** The amendments to IAS 8 clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.	Annual reporting periods beginning on or after June 1, 2023. Early application is permitted

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

SECTION 2: GENERAL PREPARATION PRINCIPLES

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

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

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

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

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

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

Reference is also made to the documents issued by European Securities and Markets Authority (ESMA) regarding the application of specific provisions in the IFRS, with particular regard to the methods of accounting for the effects of the COVID-19 pandemic (ESMA statements of March 25, 2020, May 20, 2020 and October 28, 2020).

For the purposes of preparing the financial statements, consideration was also given to the guidelines, documents and warnings notices published by ESMA, EBA, ECB, Consob and the IASB, which are discussed more fully in the section "Communications and application guidance issued by authorities, standard setters and international bodies" in chapter 2 of the report on operations, for the consistent application of international accounting standards (in particular IFRS 9) in the countries of the European Union in reporting the impact of the exceptional measures taken by governments in response to the COVID-19 pandemic.

In compliance with the provisions of IAS 1, these consolidated financial statements have been prepared on a going-concern basis. In this regard, the Directors are not aware of any significant uncertainties, events or conditions that could warrant serious concern about the Group's ability to continue to operate as a going concern in the foreseeable future, taking particular account of the recent establishment of the Cooperative banking group based on a system of cross-guarantees, on which extensive discussion is provided in the report on operations.

Content of the financial statements and the explanatory notes

Balance sheet and income statement

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

Statement of comprehensive income

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

Statement of changes in equity

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

Statement of cash flows

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

Content of the notes to the financial statements

The explanatory notes to the financial statements include the information required by international accounting standards, using the tables provided for in Bank of Italy Circular no. 262/2005 – 6th update of November 30, 2018, as well as the Communication of the Bank of Italy of December 15, 2020 – Supplement to the provisions of Circular no. 262 “Bank financial statements: formats and rules of preparation” concerning the impact of COVID-19 and the measures to support the economy and amendments of the IAS/IFRS.

For the sake of a complete representation compared with the schedules provided for by the Bank of Italy, the notes also report the titles of sections for items in the financial statements that do not have values either for the period under review or the previous period.

SECTION 3 – SCOPE AND METHODS OF CONSOLIDATION

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

- the financial statements of Iccrea Banca SpA in its capacity as Parent Company and Central Body;
- the financial statements of the 132 affiliated mutual banks, which together with Iccrea Banca SpA comprise the Consolidating Entity;
- the financial statements of the companies over which, in application of IFRS 10, IFRS 11 and IAS 28, Iccrea Banca and the affiliated mutual banks exercise control, joint control or significant influence.

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

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

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

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

	Headquarters	Type of relationship	Equity investment		% share of votes
		(A)	Investor	% holding	(B)
34 Banca di Anghiari E Stia - Credito Cooperativo S.C.	Anghiari				
35 BCC di Avetrana S.C.	Avetrana				
36 BCC Pordenonese e Monsile S.C.	Azzano Decimo				
37 Banca di Pescia e Cascina - Credito Cooperativo S.C.	Pescia				
38 BCC di Arborea S.C.	Arborea				
39 BCC Campania Centro - Cassa Rurale e Artigiana S.C.	Battipaglia				
40 BCC di Bellegra S.C.	Bellegra				
41 Cassa Rurale e Artigiana di Binasco - Credito Cooperativo S.C.	Binasco				
42 Banca delle Terre Venete Credito Cooperativo S.C.	Vedelago				
43 BCC di Busto Garolfo e Buguggiate S.C.	Busto Garolfo				
44 BCC di Buonabitacolo S.C.	Buonabitacolo				
45 Banca di Verona Credito Cooperativo Cadidavid S.C.	Verona				
46 Cassa Rurale e Artigiana di Cantù BCC S.C.	Cantù				
47 BCC di Capaccio Paestum e Serino S.C	Capaccio Paestum				
48 BCC Abruzzese - Cappelle Sul Tavo S.C.	Cappelle Sul Tavo				
49 BCC del Basso Sebino S.C.	Capriolo				
50 BCC di Carate Brianza S.C.	Carate Brianza				
51 Credito Cooperativo Di Caravaggio Adda e Cremasco - Cassa Rurale S.C.	Caravaggio				
52 BCC di Terra D'Otranto S.C.	Carmiano				
53 Banca Alpi Marittime Credito Cooperativo Carrù S.C.	Carrù				
54 BCC di Venezia, Padova E Rovigo - Banca Annia S.C.	Cartura				
55 BCC di Milano S.C.	Carugate				
56 Credito Padano Banca di Credito Cooperativo S.C.	Cremona				
57 Banca dei Sibillini - Credito Cooperativo Di Casavecchia S.C.	Pieve Torina				
58 Credito Cooperativo Valdarno Fiorentino Banca di Cascia S.C.	Reggello				
59 Cassa Rurale e Artigiana di Castellana Grotte Credito Cooperativo S.C.	Castellana Grotte				
60 BCC di Castiglione Messer Raimondo e Pianella S.C.	Castiglione Messer Raimondo				
61 Banca del Piceno Credito Cooperativo S.C.	Acquaviva Picena				
62 CereaBanca 1897 Credito Cooperativo S.C.	Cerea				
63 Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	Chiusi				
64 BCC di Cittanova S.C.	Cittanova				
65 BCC dell'Oglio e Del Serio S.C.	Calcio				
66 Banca della Valsassina Credito Cooperativo S.C.	Cremeno				
67 BCC di Fano S.C.	Fano				
68 BCC di Alba, Langhe, Roero e del Canavese S.C.	Alba				
69 Credito Cooperativo Cassa Rurale ed Artigiana di Erchie S.C.	Erchie				
70 Credito Cooperativo Ravennate, Forlivese e Imolese S.C.	Faenza				
71 Banca di Filottrano - Credito Cooperativo di Filottrano e Camerano S.C.	Filottrano				
72 BCC di Gaudiano di Lavello S.C.	Lavello				
73 Banca di Pisa e Fornacette Credito Cooperativo S.C.	Pisa				
74 BCC di Gambatesa S.C.	Gambatesa				
75 BCC Agrobresciano S.C.	Ghedi				
76 BCC del Crotonese - Credito Cooperativo S.C.	Crotone				
77 BCC Basilicata - Credito Cooperativo di Laurenzana e Comuni Lucani S.C.	Laurenzana				
78 BCC Valle Del Torto S.C.	Lercara Friddi				
79 BCC di Leverano S.C.	Leverano				
80 BCC di Canosa - Loconia S.C.	Canosa Di Puglia				
81 BCC di Lezzeno S.C.	Lezzeno				
82 Chiantibanca - Credito Cooperativo S.C.	Monteriggioni				

	Headquarters	Type of relationship	Equity investment		% share of votes
		(A)	Investor	% holding	(B)
83 BCC del Garda - BCC Colli Morenici del Garda S.C.	Montichiari				
84 BCC di Mozzanica S.C.	Mozzanica				
85 BCC di Marina Di Ginosa S.C.	Ginosa				
86 BCC di Nettuno S.C.	Nettuno				
87 BCC del Metauro S.C.	Terre Roveresche				
88 BCC di Ostra e Morro D'alba S.C.	Ostra				
89 BCC di Ostra Vetere S.C.	Ostra Vetere				
90 BCC di Ostuni S.C.	Ostuni				
91 BCC di Oppido Lucano e Ripacandida S.C.	Oppido Lucano				
92 BCC di Pachino S.C.	Pachino				
93 Banca di Udine Credito Cooperativo S.C.	Udine				
94 Credito Cooperativo Cassa Rurale e Artigiana di Paliano S.C.	Paliano				
95 Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	Pietrasanta				
96 Banca Patavina Credito Cooperativo di Sant'Elena e Piove di Sacco S.C.	Sant'Elena				
97 BCC di Pergola e Corinaldo S.C.	Pergola				
98 BCC Vicentino - Pojana Maggiore S.C.	Pojana Maggiore				
99 BCC di Pontassieve S.C.	Pontassieve				
100 Cassa Rurale e Artigiana dell'Agro Pontino - BCC S.C.	Pontinia				
101 BCC di Pratola Peligna S.C.	Pratola Peligna				
102 Centromarca Banca - Credito Cooperativo di Treviso e Venezia, S.C.	Treviso				
103 BCC di Recanati e Colmurano S.C.	Recanati				
104 Banca di Ripatransone e del Fermano - Credito Cooperativo S.C.	Ripatransone				
105 Cassa Rurale e Artigiana di Rivarolo Mantovano Credito Cooperativo S.C.	Rivarolo Mantovano				
106 BCC della Provincia Romana S.C.	Riano				
107 Banca San Giorgio Quinto Valle Agno - Credito Cooperativo S.C.	Fara Vicentino				
108 Banca del Valdarno - Credito Cooperativo S.C.	San Giovanni Valdarno				
109 Banca di Pesaro Credito Cooperativo S.C.	Pesaro				
110 BCC di Santeramo In Colle S.C.	Santeramo In Colle				
111 Banca TEMA - Terre Etrusche e di Maremma S.C.	Orbetello				
112 BCC di Scafati e Cetara S.C.	Scafati				
113 BCC Bergamo e Valli S.C.	Sorisole				
114 BCC di Spinazzola S.C.	Spinazzola				
115 BCC di Staranzano e Villesse S.C.	Staranzano				
116 Banca Centro Credito Cooperativo Toscana - Umbria S.C.	Sovicille				
117 Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese S.C.	Vibo Valentia				
118 Cassa Rurale - BCC di Treviglio S.C.	Treviglio				
119 BCC di Triuggio e della Valle del Lambro S.C.	Triuggio				
120 BCC della Valle del Fitalia S.C.	Longi				
121 Banca Alta Toscana Credito Cooperativo S.C.	Quarrata				
122 BCC Bergamasca e Orobica S.C.	Cologno Al Serio				
123 Banca Don Rizzo - Credito Cooperativo della Sicilia Occidentale S.C.	Alcamo				
124 BCC dei Colli Albani S.C.	Genzano Di Rome				
125 BCC G. Toniolo di San Cataldo S.C.	San Cataldo				
126 BCC Mutuo Soccorso di Gangi S.C.	Gangi				
127 Banca San Francesco Credito Cooperativo S.C.	Canicattì				
128 BCC S. Giuseppe delle Madonie S.C.	Petralia Sottana				
129 BCC San Michele di Caltanissetta e Pietraperzia S.C.	Caltanissetta				
130 BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	Casagiove				
131 BCC degli Ulivi - Terra di Bari S.C.	Palo Del Colle				

	Headquarters	Type of relationship	Equity investment		% share of votes
		(A)	Investor	% holding	(B)
132 RivieraBanca Credito Cooperativo di Rimini e Gradara S.C.	Rimini				
133 BCC di San Marco dei Cavoti e del Sannio - Calvi S.C.	San Marco Dei Cavoti				
134 BCC Risparmio&Previdenza SGrpA	Milan	1	Iccrea Banca S.p.A.	75.00	75.00
135 Iccrea BancaImpresa S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.00	100.00
136 BCC Factoring S.p.A.	Rome	1	Iccrea BancaImpresa S.p.A.	100.00	100.00
137 Banca Sviluppo S.p.A.	Rome	1	Iccrea Banca S.p.A.	77.08	77.08
			BCC di Roma S.C.	1.44	1.44
			Centromarca Banca - Credito Cooperativo di Treviso e Venezia, S.C.	0.91	0.91
			Banca della Marca Credito Cooperativo S.C.	0.88	0.88
			Banca Patavina Credito Cooperativo di Sant'Elena e Piove di Sacco S.C.	0.84	0.84
			BCC di Alba, Langhe, Roero e del Canavese S.C.	0.77	0.77
			BCC Pordenonese e Monsile S.C.	0.75	0.75
			Emil Banca - Credito Cooperativo S.C.	0.70	0.70
			Credito Cooperativo Ravennate, Forlivese E Imolese S.C.	0.66	0.66
			Banca delle Terre Venete Credito Cooperativo S.C.	0.56	0.56
			Banca Centro Credito Cooperativo Toscana - Umbria S.C.	0.50	0.50
			BCC di Milano S.C.	0.46	0.46
			Cassa Rurale e Artigiana di Cantù S.C.	0.43	0.43
			BCC di Venezia, Padova e Rovigo - Banca Annia S.C.	0.40	0.40
			Banca Centropadana	0.39	0.39
			BCC di Carate Brianza S.C.	0.38	0.38
			Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	0.36	0.36
			Banca Alpi Marittime Credito Cooperativo Carrù S.C.	0.35	0.35
			RivieraBanca Credito Cooperativo di Rimini e Gradara S.C.	0.33	0.33
			Banca Alta Toscana Credito Cooperativo S.C.	0.32	0.32
			Banca TEMA - Terre Etrusche e di Maremma S.C.	0.32	0.32
			Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	0.30	0.30
			Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro in Vincio S.C.	0.28	0.28
			BCC Vicentino - Pojana Maggiore S.C.	0.25	0.25
			BCC Bergamasca e Orobica S.C.	0.25	0.25
			Valpolicella Benaco Banca Credito Cooperativo S.C.	0.24	0.24
			Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	0.24	0.24
			Banca Veronese Credito Cooperativo di Concamarise	0.23	0.23
			BCC del Garda - BCC Colli Morenici Del Garda S.C.	0.23	0.23
			Banca di Verona Credito Cooperativo Cadidavid S.C.	0.21	0.21
			Cassa Rurale e Artigiana di Binasco - Credito Cooperativo S.C.	0.20	0.20
			BCC Pescia e Cascina	0.20	0.20
			BCC di Castiglione Messer Raimondo e Pianella S.C	0.18	0.18
			BCC di Busto Garolfo e Buguggiate S.C.	0.18	0.18
			BCC di Fano S.C.	0.18	0.18
			BCC Agrobresciano S.C.	0.17	0.17
			Banca del Cilento di Sassano e Vallo Di Diano e Della Lucania - Credito Cooperativo S.C.	0.17	0.17
			Credito Cooperativo Friuli (CrediFriuli) S.C.	0.16	0.16
			BCC G. Toniolo di San Cataldo S.C.	0.19	0.19
			BCC di Buccino e dei Comuni Cilentani S.C.	0.14	0.14
			BCCC Anghiari e Stia	0.14	0.14
			Cereabanca 1897 Credito Cooperativo S.C.	0.14	0.14
			BCC Bergamo e Valli S.C.	0.13	0.13
			Banca del Valdarno - Credito Cooperativo S.C.	0.13	0.13

	Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
			Investor	% holding	
			Credito Cooperativo Mediocrati S.C.	0.12	0.12
			BCC di Pontassieve S.C.	0.12	0.12
			BCC di Staranzano e Villesse S.C.	0.12	0.12
			Banca del Piceno Credito Cooperativo S.C.	0.12	0.12
			BCC del Metauro S.C.	0.11	0.11
			Cassa Rurale e Artigiana di Castellana Grotte Credito Cooperativo S.C.	0.11	0.11
			BCC Campania Centro - Cassa Rurale e Artigiana S.C.	0.10	0.10
			Cassa Rurale e Artigiana dell'Agro Pontino - BCC S.C.	0.10	0.10
			Banca di Udine Credito Cooperativo S.C.	0.10	0.10
			BCC di Pachino S.C.	0.09	0.09
			Banca di Pesaro Credito Cooperativo S.C.	0.09	0.09
			Banca di Credito Cooperativo di Capaccio Paestum e Serino S.C.	0.09	0.09
			BCC Abruzzese - Cappelle sul Tavo S.C.	0.09	0.09
			BCC di Pergola e Corinaldo S.C.	0.09	0.09
			BCC di Pratola Peligna S.C.	0.09	0.09
			BCC di Santeramo in Colle S.C.	0.08	0.08
			BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	0.09	0.09
			BCC della Provincia Romana S.C.	0.08	0.08
			Banca San Francesco Credito Cooperativo S.C.	0.08	0.08
			BCC di Triuggio e della Valle del Lambro S.C.	0.08	0.08
			BCC Borghetto Lodigiano	0.07	0.07
			Credito Cooperativo Valdarno Fiorentino Banca di Cascia S.C.	0.07	0.07
			Banca di Ripatransone e Del Fermano - Credito Cooperativo S.C.	0.07	0.07
			Cassa Rurale e Artigiana di Rivarolo Mantovano Credito Cooperativo S.C.	0.07	0.07
			BCC di San Marco Dei Cavoti e Del Sannio - Calvi S.C.	0.07	0.07
			BCC di Arborea	0.06	0.06
			BCC del Basso Sebino S.C.	0.06	0.06
			BCC di Leverano S.C.	0.06	0.06
			BCC di Scafati e Cetara S.C.	0.06	0.06
			BCC dei Colli Albani S.C.	0.06	0.06
			BCC di Cittanova S.C.	0.05	0.05
			BCC di Bellegra	0.05	0.05
			BCC di Terra D'Otranto S.C.	0.05	0.05
			BCC Basilicata - Credito Cooperativo di Laurenzana e Comuni Lucani S.C.	0.05	0.05
			BCC di Nettuno S.C.	0.05	0.05
			BCC di Ostra Vetere S.C.	0.05	0.05
			Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese S.C.	0.05	0.05
			BCC San Michele di Caltanissetta e Pietraperzia S.C.	0.05	0.05
			BCC degli Ulivi - Terra di Bari S.C.	0.05	0.05
			BCC dell'Adriatico Teramano	0.04	0.04
			BCC del Catanzarese	0.04	0.04
			BCC di Cagliari	0.04	0.04
			BCC Valle del Trigno	0.04	0.04
			BCC del Crotonese - Credito Cooperativo S.C.	0.04	0.04
			BCC di Canosa - Loconia S.C.	0.04	0.04
			Banca dell'Elba - Credito Cooperativo S.C.	0.03	0.03
			BCC di Bari S.C.	0.03	0.03
			BCC di Gambatesa S.C.	0.03	0.03
			BCC Valle Del Torto S.C.	0.03	0.03
			BCC di Avetrana S.C.	0.03	0.03
			BCC di Ostuni S.C.	0.03	0.03

	Headquarters	Type of relationship	Equity investment		% share of votes
		(A)	Investor	% holding	(B)
			Credito Cooperativo Cassa Rurale ed Artigiana di Erchie S.C.	0.03	0.03
			BCC di Gaudiano di Lavello S.C.	0.03	0.03
			BCC di Marina Di Ginosa S.C.	0.03	0.03
			BCC di Oppido Lucano e Ripacandida S.C.	0.03	0.03
			Credito Cooperativo Cassa Rurale e Artigiana di Paliano S.C.	0.03	0.03
			BCC di Spinazzola S.C.	0.03	0.03
			Credito Cooperativo di Caravaggio Adda e Cremasco - Cassa Rurale S.C.	0.03	0.03
			Banca di Taranto	0.02	0.02
			BCC Massafra	0.02	0.02
			Banca di Andria di Credito Cooperativo S.C.	0.02	0.02
			BCC Agrigentino	0.02	0.02
			BCC di Montepaone S.C.	0.02	0.02
			BCC di Altofonte e Caccamo	0.02	0.02
			BCC Mutuo Soccorso di Gangi S.C.	0.02	0.02
			BCC Putignano	0.01	0.01
			BCC S. Giuseppe delle Madonie S.C.	0.01	0.01
			BCC di Mozzanica S.C.	0.01	0.01
138 Banca Mediocredito del F.V.G. S.p.A.	Udine	1	Iccrea Banca S.p.A.	27.28	27.28
		1	Iccrea BancaImpresa S.p.A.	24.71	24.71
139 BCC Gestione Crediti S.p.A.	Roma	1	Iccrea Banca S.p.A.	100.00	100.00
140 BCC Solutions S.p.A.	Roma	1	Iccrea Banca S.p.A.	100.00	100.00
141 BCC Beni Immobili S.r.l.	Roma	1	Iccrea Banca S.p.A.	100.00	100.00
142 BCC Lease S.p.A.	Roma	1	Iccrea BancaImpresa S.p.A.	100.00	100.00
143 BCC CreditoConsumo S.p.A.	Roma	1	Iccrea Banca S.p.A.	100.00	100.00
144 BCC Sistemi Informatici S.p.A.	Milano	1	Iccrea Banca S.p.A.	98.88	98.88
			Iccrea BancaImpresa S.p.A.	0.50	0.50
			Banca Sviluppo S.p.A.	0.00	0.00
145 Coopersystem Societa' Cooperativa	Firenze	1	Banca di Anghiari e Stia - Credito Cooperativo S.C.	0.00	5.26
			Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro in Vincio S.C.	0.01	5.26
			Chiantibanca - Credito Cooperativo S.C.	0.09	5.26
			Banca del Valdarno - Credito Cooperativo S.C.	0.08	5.26
			Banca di Pescia e Cascina - Credito Cooperativo S.C.	0.01	5.26
			Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	0.01	5.26
			BCC di Pontassieve S.C.	0.00	5.26
			Banca dell'Elba - Credito Cooperativo S.C.	0.01	5.26
			Credito Cooperativo Valdarno Fiorentino Banca di Cascia S.C.	0.00	5.26
			Banca Alta Toscana Credito Cooperativo S.C.	0.40	5.26
			Banca Centro Credito Cooperativo Toscana - Umbria S.C.	0.10	5.26
			Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	0.05	5.26
			Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	0.01	5.26
			Banca TEMA - Terre Etrusche e di Maremma S.C.	0.02	5.26
146 Sigest S.r.l.	Calcinaia	1	BCC Pisa e Fornacette Credito Cooperativo S.C.	100.00	100.00
147 Sinergia S.p.A.	Roma	1	Iccrea Banca S.p.A.	89.27	89.27
			Banca delle Terre Venete Credito Cooperativo S.C.	1.17	1.17
			Credito Padano Banca di Credito Cooperativo S.C.	1.17	1.17
			Banca Centropadana Credito Cooperativo S.C.	1.17	1.17
			Banca Cremasca e Mantovana - Credito Cooperativo S.C.	1.17	1.17
			Banca Sviluppo	0.61	0.61
			BCC Pordenonese e Monsile S.C.	0.59	0.59

	Headquarters	Type of relationship	Equity investment		% share of votes
		(A)	Investor	% holding	(B)
			Cassa Rurale e Artigiana di Cantù BCC S.C.	0.58	0.58
			BCC di Lezzeno S.C.	0.58	0.58
			BCC Bergamasca e Orobica S.C.	0.58	0.58
			BCC di Busto Garolfo e Buguggiate S.C.	0.58	0.58
			BCC di Triuggio e della Valle del Lambro S.C.	0.58	0.58
			Banca di Udine Credito Cooperativo S.C.	0.58	0.58
			BCC del Garda - BCC Colli Morenici del Garda S.C.	0.58	0.58
			Banca Centro Credito Cooperativo Toscana - Umbria S.C.	0.04	0.04
			Banca di Pescia e Cascina - Credito Cooperativo S.C.	0.02	0.02
			Credito Cooperativo Mediocrati S.C.	0.02	0.02
			BCC del Crotonese - Credito Cooperativo S.C.	0.02	0.02
			Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese S.C.	0.02	0.02
			Banca del Catanzarese - Credito Cooperativo S.C.	0.02	0.02
			Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	0.02	0.02
			BCC S. Giuseppe delle Madonie S.C.	0.02	0.02
			BCC della Provincia Romana S.C.	0.02	0.02
			BCC dei Colli Albani S.C.	0.02	0.02
			BCC di Buccino e dei Comuni Cilentani S.C. e dei Comuni Cilentani S.C.	0.02	0.02
			BCC G. Toniolo di San Cataldo S.C.	0.04	0.04
			Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	0.02	0.02
			BCC San Michele di Caltanissetta e Pietraperzia S.C.	0.01	0.01
			BCC di Gambatesa S.C.	0.01	0.01
			BCC di Pachino S.C.	0.01	0.01
			BCC di Cittanova S.C.	0.01	0.01
			BCC Abruzzese - Cappelle sul Tavo S.C.	0.01	0.01
			BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	0.01	0.01
			Banca San Francesco Credito Cooperativo S.C.	0.01	0.01
			BCC Mutuo Soccorso di Gangi S.C.	0.01	0.01
			Banca del Valdarno - Credito Cooperativo S.C.	0.01	0.01
			BCC di Leverano S.C.	0.01	0.01
			BCC Vicentino - Pojana Maggiore S.C.	0.01	0.01
			BCC di Altofonte e Caccamo S.C.	0.01	0.01
			CereaBanca 1897 Credito Cooperativo S.C.	0.01	0.01
			Banca dell'Elba - Credito Cooperativo S.C.	0.01	0.01
			Banca Alpi Marittime Credito Cooperativo Carrù S.C.	0.01	0.01
			BCC di Terra D'Otranto S.C.	0.01	0.01
			BCC Campania Centro - Cassa Rurale e Artigiana S.C.	0.01	0.01
			BCC di Arborea S.C.	0.01	0.01
			BCC di Nettuno S.C.	0.01	0.01
			BCC di Canosa - Loconia S.C.	0.01	0.01
			BCC di Pontassieve S.C.	0.01	0.01
			BCC della Valle del Fitalia S.C.	0.01	0.01
			BCC di Basciano S.C.	0.01	0.01
			BCC di Bellegra S.C.	0.01	0.01
			BCC dell'Adriatico Teramano S.C.	0.01	0.01
			Valpolicella Benaco Banca Credito Cooperativo S.C.	0.01	0.01
			BCC di Montepaone S.C.	0.01	0.01
			Banca di Taranto – Banca di Credito Cooperativo S.C.	0.01	0.01
			BCC Agrigentino S.C.	0.01	0.01
			Banca del Cilento di Sassano e Vallo di Diano e della Lucania - Credito Cooperativo S.C.	0.01	0.01
			BCC di Cagliari S.C.	0.01	0.01

	Headquarters	Type of relationship	Equity investment		% share of votes
		(A)	Investor	% holding	(B)
			Banca della Marca Credito Cooperativo S.C.	0.01	0.01
			BCC di Bari S.C.	0.01	0.01
			BCC di Napoli S.C.	0.01	0.01
			Banca di Andria Di Credito Cooperativo S.C.	0.01	0.01
			BCC di Buonabitacolo S.C.	0.01	0.01
			BCC di Gaudiano di Lavello S.C.	0.01	0.01
			BCC di Roma S.C.	0.01	0.01
			Banca Don Rizzo - Credito Cooperativo della Sicilia Occidentale S.C.	0.01	0.01
148 Fondo Securis Real Estate	Roma	4	Iccrea Banca S.p.A.	56.55	56.55
			Iccrea BancaImpresa S.p.A.	21.47	21.47
			BCC Brianza e Laghi S.C.	1.18	1.18
149 Fondo Securis Real Estate II	Roma	4	Iccrea Banca S.p.A.	84.78	84.78
150 Fondo Securis Real Estate III	Roma	4	Iccrea BancaImpresa S.p.A.	34.54	34.54
			Iccrea Banca S.p.A.	54.61	54.61
151 Fondo Il Ruscello	Milano	4	BCC di Milano S.C.	100.00	100.00
152 Fondo Sistema BCC	Roma	4	BCC di Milano S.C.	44.44	44.44
			Credito Cooperativo di Caravaggio Adda e Cremasco - Cassa Rurale S.C.	8.89	8.89
			BCC del Garda - BCC Colli Morenici Del Garda S.C.	29.44	29.44
			BCC di San Marco dei Cavoti e del Sannio - Calvi S.C.	10.56	10.56
153 Asset Bancari V	Roma	4	BCC di Milano S.C.	16.00	16.00
			Banca di Anghiari e Stia - Credito Cooperativo S.C.	16.00	16.00
			BCC del Garda - BCC Colli Morenici del Garda S.C.	19.33	19.33
			Cassa Rurale e Artigiana di Binasco - Credito Cooperativo S.C.	4.00	4.00
			Credito Padano Banca di Credito Cooperativo S.C.	11.33	11.33
			Banca Cremasca e Mantovana - Credito Cooperativo S.C.	26.00	26.00

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

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

Introduction

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

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

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

- the commitments of the central body and the affiliated institutions are joint and several liabilities;
- the solvency and liquidity of the central body and of all the affiliated institutions are monitored as a whole on the basis of consolidated accounts.

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

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

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

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

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

The regulatory changes introduced in the Italian legal system are consistent with the position expressed by the European Commission in 2006 regarding the adoption of international accounting standards, according to which the obligation to draw up the consolidated financial statements must be determined in accordance with the provisions of the national legislation transposing European directives[33] notwithstanding the provisions of those accounting standards.

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

Taking account of the foregoing, in particular:

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

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

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

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

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

Scope and methods of consolidation

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

- the financial statements of Iccrea Banca SpA in its capacity as Parent Company and Central Body;
- the financial statements of the 132 affiliated mutual banks, which together with Iccrea Banca SpA comprise the Consolidating Entity;
- the financial statements of the companies over which, in application of IFRS 10, IFRS 11 and IAS 28, Iccrea Banca and the affiliated mutual banks exercise control, joint control or significant influence.

Subsidiaries

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

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

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

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

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

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

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

For companies that are included in the scope of consolidation for the first time, the fair value of the costs incurred in order to obtain control of that equity interest, inclusive of ancillary costs, is measured as at the acquisition date.

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

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

Non-material subsidiaries are not consolidated.[34] Their exclusion from the scope of consolidation does not have a material impact on Group equity.

Associated companies

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

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

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

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

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

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

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

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

Joint arrangements

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

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

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

31, 2020 the Group had no interests in joint arrangements.

Structured entities

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

Structured entities are treated as subsidiaries where:

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

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

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

Structured entities – Real estate investment funds

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

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

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

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

Structured entities –securitizations

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

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

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

3. INVESTMENTS IN SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

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

	Non-controlling interests	Non-controlling interest percentage of votes (1)	Dividends distributed to non-controlling interests
1. Banca Mediocredito del F.V.G. S.p.A.	48.45%	48.45%	-
2. BCC Risparmio&Previdenza SGRpA	25.00%	25.00%	3,081
3. Coopersystem Società Cooperativa	99.21%	25.00%	-

(1) Percentage of votes in ordinary shareholders' meeting

3.2 INVESTMENTS WITH SIGNIFICANT NON-CONTROLLING INTERESTS: ACCOUNTING DATA

	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Shareholders' equity	Net interest income	Gross income	Operating expenses	Profit (loss) before tax on continuing operations	Profit (loss) after tax on continuing operations	Profit (loss) after tax on disposal groups	Net profit (loss) for the period (1)	Other comprehensive income after tax (2)	Comprehensive income (3) =(1)+(2)
1. Banca Mediocredito del F.V.G. SpA	1,090,919	1	1,027,728	11,049	928,913	95,825	10,309	11,595	13,110	4,592	2,976	-	(2,976)	829	(2,147)
2. BCC Risparmio & Previdenza SGrpA	83,097	-	71,576	7,586	28,381	62,490	-	36,462	24,352	12,110	8,259	-	8,259	3	8,261
3. Coopersystem Società Cooperativa	30,115	-	18,291	4,252	2,767	14,970	(137)	(137)	(7,958)	7,821	5,946	-	5,946	-	5,946

4. SIGNIFICANT RESTRICTIONS

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

5. OTHER INFORMATION

Data used for consolidation

The accounting data used for line-by-line consolidation are those at December 31, 2020, as approved by the competent bodies of the companies included in the scope of consolidation, adjusted where necessary to adapt them to the uniform Group accounting policies.

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

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

SECTION 4 – EVENTS SUBSEQUENT TO THE REPORTING DATE

In the period between the reporting date of the financial statements and their approval by the Board of Directors April 22, 2021, no events occurred that would entail a modification of the financial data approved at that meeting.

SECTION 5 – OTHER MATTERS

Risks and uncertainties associated with the use of estimates

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

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

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

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

- for allocation to the three stages of credit risk provided for under IFRS 9 of loans and debt securities classified under financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income and the associated calculation of expected losses, the main estimates regard the determination of the parameters representing a significant increase in credit risk, the inclusion of forward-looking factors in determining PD, EAD and LGD and the determination of future cash flows from impaired loans;
- for the quantification of provisions for risks and charges, the estimation of the amount of outlays necessary to discharge liabilities, taking account of the effective probability of having to employ resources to do so.

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

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

Risks, uncertainties and impacts of the COVID-19 pandemic

In line with the ESMA statements published in March and May 2020 as well as with the IOSCO document of April 2020, Consob published two warning notices in April and July 2020 that emphasized the importance of providing updated disclosures on the risks associated with COVID-19 that may have an impact on performance, financial position or cash flows, on any actions taken or planned to mitigate said risks, on the potential impacts relevant to the estimation of future developments. The attention of management was also drawn to the need to carefully assess the present and future impact of COVID-19 on strategic planning and plan targets, on financial performance, on the financial position and on cash flows, as well as on the going-concern assumption.

With regard to the forward-looking assessments of the impacts of the pandemic on the business as a whole and on the main areas affected, please see the sections “Measures taken in response to the COVID-19 health emergency” and “Outlook” in the report on operations.

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

The quantification of impairment losses on receivables

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

The great discontinuities in market conditions brought about COVID-19, although lying within the extraordinary uncertainty generated , by the pandemic, especially looking forward, have prompted a number of exceptional in methodology and implementation that have made it possible to incorporate the potential impact of the pandemic into the impairment model, with specific regard to the inclusion of risk metrics for forecasting the main financial and macroeconomic variables contained in the new economic scenarios prepared by external providers and supervisory authorities.

At the same time, the introduction of measures to support customers and the economy, with a particular emphasis on actions taken by the Group in relation to applicable legislative measures enacted in Italy (Decree Law 18 of March 17, 2020, the “Cure Italy Decree”, and Decree Law 23 of April 8, 2020, the “Liquidity Decree”), the measures agreed with industry association and the initiatives undertaken by individual organization led to the introduction of further methodological changes to the IFRS 9 impairment framework in order to take account of the impact of the emergency in calculating expected credit losses.

More specifically, the measures to adapt the impairment framework to incorporate the effects of the COVID-19 pandemic in the calculation of expected credit losses included:

- the use of forecast scenarios updated in response to developments in macroeconomic conditions. In particular, in order to enable the adaptation of the IFRS 9 methodological framework to the pandemic, the difficulty of modeling its peculiar characteristics using ordinary tools (satellite models) prompted the use of forward-looking projection metrics (implicit multipliers) to be applied to the risk parameters (PD, LGD) estimated on the basis of the forecast values of the exogenous macroeconomic variables provided by our external provider (Prometeia), differentiated by type of counterparty, sector of economic activity and geographical area;
- the management of the impacts related to the implementation of customer support measures, with particular regard to loan payment moratoriums and measures to support the liquidity of companies. More specifically, loan moratoriums were managed by adapting automatic staging mechanisms (e.g. halting the count of days past due) in order to make the stage allocation criteria consistent with application of the support measures, considering at the same time an appropriate degree of prudence in the assessment of these positions in the light of the evolution of market conditions and the expectations of the supervisory authorities in this regard. The handling of measures to support liquidity called for the application of coverage levels set to take account of the mitigating effects on credit risk of the specific guarantees to support operations in this area.

These exceptional changes to the IFRS 9 impairment framework in response to COVID-19 were introduced in concert with the ordinary maintenance of the estimation models planned prior to the pandemic, thereby lending continuity to the updating and fine-tuning of the risk parameters (PD and LGD) used to calculate ECL within the IFRS 9 framework, in line with applicable financial reporting standards. These updates over the course of the year led to the development of a version of the models and measurements of the related parameters that are more stable and more accurate in measuring the characteristics of risk typical of the loan portfolios of the affiliated banks and of the Group as a whole.

Impairment testing of equity investments and goodwill

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

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

The above approaches, which are discussed in greater detail in part B of the notes to the financial statements, are applied on the basis of the data and results of the more recently approved corporate strategic plan, appropriately revised - in particular with regard to the volume of funding and lending, fees and commissions, the cost of risk and forward looking profitability - to take account of the impact of the COVID-19 pandemic and the initiatives and measures implemented by the Group companies in this area.

Probability testing of DTAs

The probability testing conducted to verify the conditions for continuing to recognize existing and new deferred tax assets in the financial statements was conducted on the basis of the common criteria and methods adopted by the Group, estimating the profit or tax loss (IRES/IRAP) over a forecast period deemed reasonable and verifying that this would be sufficient to ensure recovery of the total amount of DTAs requiring testing.

The estimates and assumptions concerning the recoverability of tax assets in respect of prepaid taxes, which are discussed in more detail in part B of the notes to the financial statements, were based on the most recently approved strategic plan, appropriately revised - in particular with regard to the volume of funding and lending, fees and commissions, the cost of risk and forward looking profitability - to take account of the impact of the COVID-19 pandemic and the initiatives and measures implemented by the Group companies in this area.

Rights of use in leases

Similarly to the treatment of assets owned outright, IFRS 16 specifies that the right-of-use assets acquired through leases must undergo testing to ascertain if there is evidence that they have incurred an impairment loss. If so, the carrying amount of the asset is compared against its recoverable amount, which is equal to the greater of the fair value and the value in use - the latter understood as the present value of future cash flows originating from the asset. Any adjustments are recognized through profit or loss.

In assessing whether there is any indication that an asset may be impaired, IAS 36 requires an entity to consider the following:

- internal sources of information, such as signs of obsolescence or physical damage of an asset, restructuring plans and closures of branches;
- external sources of information, such as the increase in interest rates or other market rates of return on investments that could cause a significant decrease in the recoverable amount of the asset.

As of 31 December 2020, the companies of the Group have checked:

- developments in the rates used to discount lease payments;
- the presence of unused leased properties.

This latter check was also carried out considering the temporary closures of branches induced by the COVID-19 pandemic. Thanks in part to the gradual easing of the emergency, most of the branches have resumed their activities. At the reporting date of these financial statements, given the purely temporary nature of the closure of some branches as a result of the pandemic and the absence of further indications of impairment, no critical factors emerged that might threaten the recoverable amount of the right-of-use assets recognized in connection with leases.

Contract modifications resulting from COVID-19

Contract modifications and derecognition (IFRS 9)

In light of the severity of the COVID-19 health emergency and its inevitable social and financial repercussions, the Italian government launched a range of financial support measures for the economy (especially for small and medium-sized enterprises, which constitute the backbone of the country's economy). The main authorities, bodies and standard setters at both the national and EU levels developed various support measures for the European banking system in order to support the economies of the areas affected by the emergency.

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

In this context, they were:

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

The most recent EBA intervention in this regard in 2020 was that of 2 December concerning the updating of the guidelines that banks must apply to legislative or non-legislative moratoriums on the repayment of existing loans. These guidelines were then reflected in the ABI renewals of the initiatives to suspend payments on mortgages and loans already governed by specific agreements with industry and consumer associations.

These last guidelines must first be framed within the context of the effort undertaken by the authorities since the beginning of the pandemic to develop a regulatory framework consisting of certain yet flexible rules for the various forms of payment moratorium available to banks to support their customers. The main stages of this effort are as follows.

The European Banking Authority (EBA) first intervened specifically in this area with a document issued on March 25, 2020 entitled "Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures", which addressed the accounting (and prudential) issues relating to the potential reclassification of loans prompted by public or industry-based moratoriums and by other forms of support adopted in response to the pandemic.

The EBA specified that since public or industry-based moratorium measures granted in response to the pandemic were intended to mitigate systemic risks and not specific needs of individual obligors, they should not automatically lead to reclassification under the definition of "forbearance" of loans benefiting from such measures nor should they automatically lead to prudential classification of positions as non-performing for the purposes of IFRS 9 (and therefore of migration between risk stages).

That said, the EBA also emphasized that, even in these specific circumstances, banks were still required to assess the creditworthiness of obligors who benefit from a moratorium and, consequently and possibly, reclassify obligors whose creditworthiness has deteriorated.

In performing such assessments - which could affect a wide range of borrowers - banks must avoid mechanistic assessments and prioritize analyses using risk-based approaches. Furthermore, in the period directly after the moratorium, institutions should nevertheless pay particular attention to those exposures which experience delays in payments or other signs of deterioration in creditworthiness.

On April 2, 2020, the EBA also published the document "Guidelines on legislative and non-legislative moratoriums on loan repayments applied in the light of the COVID-19 crisis", which sets out detailed guidelines for public and private loan repayment moratoriums applied by September 30, 2020 (extending the time limit from the original June 30, 2020 deadline, as per the EBA decision published on June 18, 2020), so that positions are not classified as exposures subject to forbearance measures or a distressed restructuring. The guidelines also establish that entities must continue to promptly identify situations of possible financial difficulty of debtors and provide for consistent classification in accordance with the regulatory framework.

The EBA guidelines refer both to the moratorium measures imposed ex lege and those initiated by private actors that are of "general" scope, i.e. have been granted by banks in order to prevent systemic risk through the provision of broad support for all companies temporarily in difficulties due to the pandemic. In this regard, the guidelines set out a series of conditions that must all be met for a moratorium measure to be considered of general scope:

- the moratorium must be based on national law or private initiative. In this case, the moratorium must be broadly applied within the banking sector in order to ensure the uniformity of moratoriums granted by the various credit institutions;
- the moratorium has to apply to a broad range of obligors, determined on the basis of general criteria, such as belonging to a certain type of customer segment (retail, SMEs, etc.), location in one of the areas most affected by the pandemic, the type of exposure (mortgage loans, leases, etc.), or belonging to a particularly affected industry sector, etc.;
- the moratorium must only change the schedule of payments and, therefore, temporarily suspend, postpone or reduce principal and/or interest payments. The moratorium, therefore, cannot involve the modification of other loan conditions (such as the interest rate);
- the moratorium must offer the same conditions to all those who benefit from it;
- the moratorium must not apply to loans granted after the launch of the moratorium;
- the moratorium must have been launched in response to the COVID-19 pandemic and applied before June 30, 2020 (the deadline was extended to September 30, 2020 as per the EBA decision published on June 18, 2020).

Moratoriums granted in response to the COVID-19 pandemic impact the identification and reporting of past due amounts, as the counting of days past due takes account of the suspension of payments. Consequently, such measures should lead to a short-term reduction in the classification of exposures as non-performing as a result of the suspension of the deadlines for counting days past due.

Article 18 of the EBA "Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013" of January 18, 2017 established, in relation to moratoriums granted under the provisions of law, that exercising the option to suspend the calculation of days past due during the period of covered by the moratorium, thereby extending the normal period of 90 days, should be assessed as a possible indicator of unlikeliness to pay.

The EBA guidelines of April 2, 2020 referred to above equate moratoriums granted on a private basis in response to COVID-19 to public moratoriums. Consequently, the former also benefit from the interruption of the counting of days past due as long as they comply with the requirements set out in the EBA guidelines. The EBA reiterates that the concessions granted in response to COVID-19, in cases of substantial invariance of the present value of the cash flows following the contract modification, shall not to be considered distressed restructuring, do not involve the transition to default and represent temporary relief for those who are unable to fulfill their contractual obligations due to business disruptions caused by the pandemic.

The EBA emphasizes that the banks shall in any case to evaluate the possible classification of customers benefiting from the moratoriums as unlikely to pay for the purpose of the definition of default, considering the obligor's ability to meet the new payment plan (regardless of any public guarantee) and excluding the automatic classification of these loans as distressed restructurings.

In this regard, the EBA recognizes that there may be difficulties in carrying out individual assessments for the purposes of classification of positions as non-performing. In this case, banks must adopt a risk-based approach (i.e., taking account of, for example, the sectors most exposed to the long-term effects of the crisis such as transport, tourism, hotels, retail trade). Therefore, it will be important to identify, after the end of COVID-19 moratoriums, those exposures that present payment delays with respect to the new repayment schedules for the purpose of promptly classifying them as non-performing.

If it meets the requirements indicated above, loans benefiting from the application of a moratorium scheme should not be considered subject to a "forbearance measure" unless they were already benefiting from forbearance at the time of application of the moratorium itself.

On September 21, 2020, the EBA announced that it would not extend the date of September 30, 2020 for the expiry of the extraordinary flexibility measures granted to banks concerning the prudential treatment of moratoriums granted in response to the COVID-19 pandemic, specifying that there should be no automatic reclassification of positions requesting the moratorium by September 30, 2020 for the entire period of suspension of payments.

For the exposures for which a legislative or industry-sponsored moratorium was granted by the banks in the period between September 30 and December 31, 2020, the current rules on the prudential treatment of forbearance measures should apply.

In particular:

- unlike during the period covered by the flexibility granted by the EBA, banks should assess an applicant's possible financial difficulties in settling payments falling due. In case of difficulty, the position affected by the concession measure should be classified as forborne, even in the case of a legislative moratorium;
- in the case of a legislative moratorium, the rules on the definition of default already mentioned provide for a suspension of the count of 90 days of past due payments to classify the company as in default.

As noted earlier, the continuation of the COVID-19 pandemic, taking account of the monitoring of the developments of the pandemic, in particular the impact of the second wave and the consequent new restrictions imposed by many European governments, prompted the EBA to reactivate its guidelines. In particular, in the second amendment of December 2, 2020, the EBA established that for the purposes of the those guidelines, the overall period within which the payment schedule of a given loan agreement is amended in accordance with paragraph 10(c) of the guidelines following the application of general payment moratoriums should not exceed nine months. However, this nine-month maximum limit does not apply to changes in payment schedules agreed for loans granted before September 30, 2020 under a general payment moratorium if the total duration of the changes exceeds nine months.

Measures to suspend payments and/or extend the maturity of installment transactions or extend the maturities of advances, when granted, involve a modification of the original contract conditions and can be construed as contractual modifications of financial assets, which under IFRS 9 calls for verification of whether the circumstances permit the asset to continue to be recognized in the financial statements or, conversely, require that the original instrument be derecognized and a new financial instrument be recognized.

As reiterated a number of times in the EBA and ESMA statements cited earlier, these contract modifications must be granted in response to COVID-19 in order to offer broad support to all companies and individuals temporarily in difficulty due to the pandemic in order to prevent systemic risk.

Note that the operational procedures for granting COVID-19 provide for the application of interest to the entire residual liability. This approach implies substantial actuarial neutrality, as also provided for in the Government's explanatory report to the Cure Italy Decree and the EBA statement of April 2, 2020, thus avoiding significant accounting impacts.

The contract modifications in question do not affect the original contractual characteristics and flows of the loans and consequently they do not require derecognition.

Amendment of IFRS 16

On May 28, 2020, the IASB published the amendment to IFRS 16 "COVID-19 Related Rent Concessions", endorsed with Regulation (EU) no. 1434/2020, with application of the amendment for financial statements for periods on or after June 1, 2020, with early application permitted. The amendment, which was taken in response to the COVID-19 crisis, allows lessees not to account for temporary reductions and/or suspensions of rent payments granted for the period from the beginning of the pandemic to June 30, 2021 as a direct consequence of COVID-19 as a "lease modification". On the basis of the provisions of IFRS 16, in the event of a change in the original contractual conditions of a lease, it would be necessary to modify the amortization plan of the lease ("lease modification") with consequent recalculation of the liability. The amendment of IFRS 16 makes it possible, as a practical expedient, to treat the unpaid rent as a variable payment, to be recognized as a reduction in costs in the profit or loss, without necessarily having to recalculate the financial liability.

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

Consolidated tax mechanism option

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

Other issues

The consolidated financial statements have been audited by EY SpA, which has also been engaged to monitor the keeping of the accounts pursuant to Article 14 of Legislative Decree 39/2010; the engagement for the period 2019-2020 was conferred in execution of the shareholders' resolution of April 30, 2019.

A.2 - THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

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

Classification of financial assets

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

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

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

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

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

The business model

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

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

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

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

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

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

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

- in the case of an increase in credit risk and, more specifically:
  - on the basis of developments in CDS spreads with regard to the securities portfolio, taking due account of all reasonable and supportable information concerning forecasts, approved/authorized as appropriate;

- on the basis of the staging indicator for the loan portfolio;

- in the case of sales that occur near the maturity date, i.e. when they approximate the cash flows that would be generated obtained by not selling the security;
- to manage structural liquidity in order to respond to extreme liquidity situations;
- when the sales are frequent but not material in value terms or are occasional even if material in value terms. Frequency and materiality thresholds have been specified to determine those aggregates:
  - frequency is defined as the number of trading days considered in the period considered;
  - materiality is defined as the percentage ratio between the nominal value of sales and the total nominal value of the instruments held in the portfolio during the period considered.

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

The SPPI test

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

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

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

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

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

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

Classification

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

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

The category therefore includes:

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

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

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

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

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

Recognition

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

Measurement

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

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

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

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

Derecognition

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

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

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

Recognition of income components

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

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

Classification

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

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

Specifically, the item includes:

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

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

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

Recognition

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

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

Measurement

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

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

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

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

Derecognition

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

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

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

Recognition of income components

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

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

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

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

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

3 - Financial assets measured at amortized cost

Classification

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

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

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

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

Recognition

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

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

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

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

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

Measurement

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

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

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

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

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

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

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

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

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

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

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

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

Derecognition

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

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

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

In certain cases, during the course of the life of financial assets, in particular loans, the terms of the contract may be modified from those in force at the time of initial recognition. In these circumstances, the modified terms must be analyzed to determine whether the original assets can continue to be recognized or must instead be derecognized, with the consequent recognition of new modified financial assets. In general, modifications of contractual terms lead to the derecognition of the financial asset and the recognition of a new asset when they are considered to be "substantial", with the recognition in profit or loss of any difference in carrying amounts.

In conducting this assessment, qualitative judgments are called for. To this end, the assessment shall consider:

- the reasons for the modifications, distinguishing, for example, between renegotiations carried out for commercial reasons or in response to the counterparty's financial difficulties:
  - transactions carried out with performing counterparties for reasons other than debtor's financial difficulties, and therefore not related to a change in the creditworthiness of the borrower, are considered commercial renegotiations, which have the main objective of adjusting the cost of credit to market conditions. These cases include all renegotiations aimed at maintaining the commercial relationship with the client, and are therefore carried out with the aim of retaining the counterparty, who might otherwise turn to another bank. In this case, these modifications are considered substantial because if they did not occur, the customer could turn to another financial institution, thus causing the bank to lose future revenue;
  - transactions whose objective is to maximize the recoverable amount of the loan are considered renegotiations due to financial difficulties of the counterparty, with the creditor therefore willing to accept a restructuring of the debt on terms potentially favorable to the debtor. In these circumstances, it is generally assumed that there has essentially been no extinguishment of the original cash flows that would therefore require derecognition of the original loan. Consequently, these types of renegotiation represent the majority of cases presented in the financial statements through "modification accounting", in which the difference between the carrying amount and the recalculated value of the financial asset is recognized in profit or loss by discounting the renegotiated or modified cash flows at the original effective interest rate;
- the presence of specific objective elements that substantially modify the characteristics and/or cash flows of the financial instrument, such that they would entail the derecognition of the instrument and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual terms that would cause the asset to fail the SPPI test or a change in the denomination of the currency of the instrument, as the entity would be exposed to a new risk.

Recognition of income components

Interest on financial assets measured at amortized cost is recognized under "Interest and similar income" in the income statement using the effective interest criterion, which takes account of both the amortization of transaction costs and the differential between the initial value and the repayment value.

Gains or losses on the financial assets in question are recognized in profit or loss when the assets are derecognized or have incurred an impairment loss.

More specifically, gains or losses deriving from the sale of an asset are, as previously noted, recognized in the income statement under the item "Gain (loss) on the disposal or repurchase of: a) financial assets measured at amortized cost" on the disposal of the asset.

Writedowns and writebacks for credit risk are recognized under "Net losses/recoveries for credit risk in respect of: a) financial assets measured at amortized cost", with a corresponding adjustment of the relevant provision.

4 - Hedging

The Iccrea Cooperative Banking Group has elected to exercise the option to continue to apply the rules provided for in IAS 39 governing hedge accounting for each type of hedge (the "opt-out" option).

Classification

Risk hedging transactions are intended to neutralize the potential losses recognized on a given element or group of elements attributable to a given risk in the event that risk should actually be realized.

The types of hedges permitted under IAS 39 are as follows:

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

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

The items "hedging derivatives" among assets and liabilities include the positive and negative values of derivatives that establish effective hedging relationships.

Recognition

Hedging derivatives and the hedged financial assets and liabilities are reported in accordance with hedge accounting rules. In particular, derivative instruments with a positive fair value are recognized under "Hedging derivatives" on the asset side of the balance sheet, while derivatives with a negative fair value at the reporting date are recognized under "Hedging derivatives" on the liability side of the balance sheet.

Measurement and recognition of income components

Hedging derivatives are measured at fair value. More specifically:

- in the case of fair value hedges, the change in the fair value due to the risk on the hedged item has a corresponding impact on the income statement, where the change in the fair value of the hedging instrument is recognized. Any difference between the two changes, which represents the partial ineffectiveness of the hedge, represents the net impact in profit or loss;
- in the case of cash flow hedges, changes in the fair value of the derivative are recognized in a specific equity reserve in the amount of the effective portion of the hedge and in profit or loss in the amount of the ineffective or overhedging portion. The reserve is reclassified to profit or loss only when the cash flows on the hedged item whose variability is being hedged manifest themselves or in the event the hedging relationship is discontinued in the manner specified for the circumstance that prompted the interruption of the hedge.

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

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

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

Effectiveness is measured at every reporting date through:

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

If the tests do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the above criteria, the hedging derivative is reclassified as a trading instrument or extinguished early and the hedged financial instrument is measured using the criteria normally adopted for instruments of its category. Subsequent changes in the fair value of the derivative are recognized through profit or loss. For cash flow hedges, when it becomes certain that the hedged transaction will no longer be carried out, the cumulative gain or loss recognized in the equity reserve is reversed through profit or loss.

The changes in the fair value of the hedged instruments and those used to hedge a fair value hedge transaction are recognized in the income statement under "Net gain (loss) on hedging activities". The ineffective or overhedging portion of the cash flow hedging derivative measured with respect to the hypothetical derivative (hedge ineffectiveness) is also recognized under this item.

5 – Equity investments

Classification

The item includes equity investments in subsidiaries, associates and joint ventures. Immaterial entities[35] are not consolidated. Their exclusion from the scope of consolidation does not have a significant impact on Group equity.

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

Pursuant to IFRS 10 the control requirement is met when an investor simultaneously has:

- the power to direct the relevant activities of the investee;

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

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

Joint control is the contractually agreed sharing of control of an arrangement.

Associated companies comprise companies in which the Group holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Group exercises a significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control.

Equity interests in subsidiaries, joint ventures and associates held for sale are reported separately in the financial statements as a disposal group and are measured at the lower of the carrying amount and the fair value excluding disposal costs.

Recognition

Equity investments are initially recognized at cost at the settlement date including costs and revenue that are directly attributable to the transaction.

Measurement

Investments in subsidiaries are measured at cost, while investments in associates or joint ventures are measured using the equity method (for more details, see Section 3 – Scope and methods of consolidation in Part A Accounting policies: A.1 – General information). Where there is evidence that the value of an equity investment may be impaired, its recoverable amount is determined, taking account of both its market value and the present value of future cash flows. If this value is lower than the carrying amount, the difference is recognized through profit or loss as an impairment loss.

Impairment testing of equity investments

As required by the accounting standards referred to earlier and by IAS 36, if there is evidence (triggers) of possible impairment, equity investments undergo impairment testing to determine whether there is objective evidence that the carrying amount of such assets is not fully recoverable and to determine the amount of any writedown.

Impairment indicators are essentially divided into two categories:

- qualitative indicators, such as the posting of losses or in any case a significant divergence with respect to budget targets or the objectives set out in the long-term plans announced to investors, the announcement/start of composition with creditors or restructuring plans, and the downgrading of the rating issued by a specialist agency;
- quantitative indicators consisting of a reduction in fair value below the carrying amount of over 30%, or for a period of more than 24 months, or a carrying amount for the equity investment in the separate financial statements greater than the carrying amount in the consolidated financial statements of the company’s net assets and goodwill, or the distribution by the latter of a dividend greater than its comprehensive income. In the presence of evidence of impairment, the size of any writedown is determined on the basis of the difference between the carrying amount and the recoverable amount, which is equal to the greater of fair value less costs to sell and the value in use.

Derecognition

Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IFRS 9, as provided for financial instruments.

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

Recognition of income components

Dividends received from equity investments are recognized in the income statement under “Dividends and similar income” when the right to receive payment is established.

Impairment losses on equity investments are recognized in the income statement under the item “Profit (loss) from equity investments”. If the reasons for the impairment loss should be removed following an event occurring after the recognition of the impairment loss, the consequent writebacks are recognized in the income statement (in an amount not exceeding the previous writedowns) under the same item.

The recognition of the income effects in respect of equity investments accounted for using the equity method is discussed in Section 3 – Scope and methods of consolidation in Part A Accounting policies: A.1 – General information.

6 - Property, plant and equipment

Classification

Property, plant and equipment includes land and buildings used in operations and those held for investment purposes, plant, vehicles, furniture, furnishings and equipment of any kind.

According to IAS 16, buildings used in operations are those held for use in the supply of services or for administrative purposes. Pursuant to IAS 40, investment property includes property held to earn rentals or for capital appreciation or both.

The item also includes assets in accordance with IAS 2 - Inventories, which mainly include assets deriving from the enforcement of guarantees or purchase at auction that the Group intends to sell in the near future without carrying out significant restructuring works and which do not meet the conditions for classification in the previous categories ("for use in operations" or "for investment"). This therefore includes assets acquired following the closure of an impaired credit exposure (for example from acceptance of the asset in lieu of the original performance ("datio in solutum"), from the consolidation of companies acquired as a result of loan restructuring/recovery agreements, the non-exercise of the purchase option in a finance lease or the termination of an impaired lease, etc.).

Where the requirements for the application of IFRS 5 to these assets are not met, the Group normally initially classifies the assets as inventories, subsequent measuring them in accordance with the criteria set out in IAS 2, except in rare cases in which the conditions are met for classification as:

- asset held for use in operations (see IAS 16);
- assets held for investment purposes (see IAS 40), insofar as they are held for the purpose of generating income through the receipt of lease payments or for capital appreciation.

Finally, property, plant and equipment also includes the rights of use for assets held under leases (whether finance or operating leases) pursuant to IFRS 16, even though the lessor retains legal ownership of the assets.

Recognition

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

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

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

Property, plant and equipment originally held as collateral for credit and acquired in recovery activities carried out on the basis of specific contracts or legal proceedings is recognized when both of the following conditions are met:

- recovery activities have been completed;
- the Group has acquired ownership of the property.

Normally these exchange transactions lack commercial substance as defined in paragraph 24 of IAS 16 and, consequently, the asset is initially recognized at the carrying amount of the asset given up.

In the rare cases where, in an exception to the general principle mentioned above, the enforcement operation has commercial substance, the asset acquired is initially recognized at fair value.

In the case of recognition of rights of use in respect of leased assets pursuant to IFRS 16, the cost of the right-of-use asset is determined as follows:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

A right-of-use asset is recognized at the time in which the leased asset effectively becomes available for use.

Measurement

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

For assets purchased and placed in service during the year, the period of depreciation is calculated on the basis of the actual number of days the assets contributes to the production cycle. For assets transferred and/or disposed of during the year, depreciation is calculated on a daily basis up to the date of transfer or disposal.

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

In accordance with the provisions of paragraph 32a) of IAS 40, investment property as defined in IAS 40 is valued using the cost model and is depreciated, with the exception of properties deriving from the consolidation of real estate investment funds, which are measured at fair value since they are connected with liabilities that produce a return directly linked to the fair value of the investment property.

Assets classified as inventory are measured at the lower of recognition cost and net realizable value and are not depreciated. The net realizable value is equal to the estimated price for sale in the normal course of business, net of the estimated completion costs and those necessary for the sale of the asset.

Following initial recognition, assets acquired through recovery or enforcement of guarantees in debt collection activities carried out by the Group for impaired loans are measured in accordance with the criteria established for the classification adopted (for use in operations, for investment purposes, inventories).

Right-of-use assets determined in compliance with IFRS 16 are subsequently measured using a cost model, less depreciation and impairment losses, in accordance with IAS 16.

Derecognition

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

Recognition of income components

Depreciation of property, plant and equipment measured at cost, with the exception of inventories, is recognized through profit or loss under “Net adjustments of property, plant and equipment”.

In the first year, depreciation is recognized in proportion to the period the asset is effectively available for use. For assets sold or otherwise disposed of during the year, depreciation is calculated on a daily basis up to the date of transfer and/or disposal.

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

Gains (losses) deriving from changes in the fair value of investments deriving from the consolidation of real estate investment funds are recognized in the income statement under “Net gain (loss) from valuation at fair value of property, plant and equipment and intangible assets”.

Gains and losses deriving from the disposal or decommissioning of property, plant and equipment are determined as the difference between the net sale price and the carrying amount of the asset. They are recognized in profit and loss at the same date on which the assets are derecognized, under the item “Profit (loss) from the disposal of investments”..

7 - Intangible assets

Classification

Intangible assets are recognized as such if they are identifiable and are based on legal or contractual rights. They include application software.

Right-of-use assets have not been recognized in respect of leases involving intangible assets as such recognition is optional under IFRS 16.

Recognition

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

Recognition of intangible assets generated internally, and software in particular, is subject to verification of the above conditions and distinguishing between the research activities and development activities carried out to produce the asset. Costs associated with research cannot be capitalized, as the generation of probable future economic benefits cannot be demonstrated.

Intangible assets can be recognized in respect of goodwill arising from business combinations (purchases of business units). This goodwill is recognized in an amount equal to the positive difference between the purchase price of the business combination (the consideration transferred) and the fair value of the assets and liabilities acquired if that positive difference represents future economic benefits. Goodwill in respect of business combinations carried out prior to the date of transition to the IFRS are measured on a cost basis and represent the same value as that given using Italian GAAP.

Measurement

After initial recognition, intangible assets with a finite useful life are recognized at cost, net of total amortization and accumulated impairment losses. Amortization begins when the asset becomes available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended and ceases when the asset is derecognized. Intangible assets are amortized on a straight-line basis, so as to reflect the long-term use of the asset over its estimated useful life, which for application software does not exceed 5 years.

Goodwill is not amortized and is tested for impairment at the reporting date.

Derecognition

Intangible assets are derecognized upon disposal or when no future economic benefits are expected to be generated by the use or disposal of the asset.

Recognition of income components

Amortization is recognized through profit or loss under “Net adjustments of intangible assets”, as are impairment losses. If the reasons for the impairment of intangible assets other than goodwill should cease to obtain, a writeback is recognized in profit or loss. The value of the asset after the writeback shall not exceed the value that the asset would have had, net of amortization, in the absence of the prior writedowns for impairment.

Writedowns of goodwill are recognized in the income statement under “Writedowns of goodwill”. Goodwill previously written down may not be written back.

Gains and losses from the disposal or other transfer of an intangible asset are determined as the difference between the net sale price and the carrying amount of the asset and recognized in the income statement under the item “Profit (Loss) from disposal of investments”.

8 - Non-current assets and liabilities and disposal groups held for sale

Classification

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

Properties obtained through the enforcement of guarantees are classified under this item when the following conditions are met:

- the asset is available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets;
- the sale is highly probable. In particular, the appropriate level of management must be committed to a plan to sell the asset, and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. Finally, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by IFRS 5, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Recognition

Non-current assets and disposal groups held for sale are valued at the lower of their carrying amount and their fair value less costs to sell, with the exception of assets for which IFRS 5 requires measurement in accordance with the applicable IFRSs (e.g. financial assets within the scope of IFRS 9).

Measurement and recognition of income components

Following initial recognition in this category, the assets are measured at the lower of their carrying amount and their fair value less costs to sell, with the exception of assets that IFRS 5 requires be measured using the provisions of the relevant accounting standard (for example, financial assets within the scope of IFRS 9). If the assets held for sale can be depreciated, any such depreciation ceases upon classification to non-current assets held for sale. Non-current assets and disposal groups held for sale, as well as “discontinued operations”, and the associated liabilities are reported under specific items of assets (“Non-current assets and disposal groups held for sale”) and liabilities (“Liabilities associated with disposal groups held for sale”).

The results of the measurement, income, expenses and gains/losses upon disposal (net of any tax effect), of “discontinued operations” are recognized in the income statement under “Profit (loss) after tax of discontinued operations”. Gains and losses associated with individual assets held for sale are recognized under the most appropriate item of the income statement.

Derecognition

Non-current assets and disposal groups held for sale are derecognized upon disposal.

9 - Current and deferred taxation

Classification

Income taxes, which are calculated on the basis of national tax law, are accounted for as a cost on an accruals basis, in line with the recognition of the costs and revenue that gave rise to the tax liability. They therefore represent the balance of current taxes and deferred taxes in respect of income for the year. Current tax assets and liabilities report the net tax positions of the Group companies in respect of Italian and foreign tax authorities. More specifically, they report the net balance between current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax liability for the period, as determined on the basis of applicable tax law, and current tax assets represented by payments on account and other tax receivables for withholding tax incurred or other tax credits for previous years which the Group companies opted to offset against taxes for subsequent years. Current tax assets also report tax receivables for which the Group companies have requested reimbursement from the competent tax authorities.

While taking account of the adoption of the national consolidated taxation mechanism by the companies forming part of the “direct scope” of the Group (the former Iccrea Banking Group), the tax positions of each Group company are managed separately for administrative purposes.

Deferred taxation is determined using the balance sheet liability method, taking account of the tax effect of temporary differences between the carrying amount of assets and liabilities and their value for tax purposes, which will give rise to taxable or deductible amounts in future periods. To that end, “taxable temporary differences” are those that in future periods will give rise to taxable amounts and “deductible temporary differences” are those that in future periods will give rise to deductible amounts. Deferred taxes are recognized on all taxable temporary differences, with the following exceptions: i) deferred tax liabilities arising from the initial recognition of goodwill or ii) an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect either the balance sheet or the tax situation.

Deferred tax assets are recognized against all deductible temporary differences, tax receivables and unused tax losses that can be carried forward, insofar as it is probable that sufficient future taxable income will be available to allow the use of the deductible temporary differences and the tax receivables and losses carried forward, except for cases in which the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect either the balance sheet or the tax situation.

Deferred tax is calculated by applying the tax rates established in applicable tax law, laws already issued or substantially in force at the reporting date that are expected to be applied during the year in which those assets are realized or those assets are extinguished to taxable temporary differences for which it is likely that a tax charge will be incurred and to deductible temporary differences for which it is reasonable certain there were be future taxable income at the time they become deductible (the probability test).

Current tax assets and liabilities and deferred tax assets and liabilities are offset in the financial statements if, and only if, they relate to income taxes applied by the same taxation authority and there is a legally enforceable right to set off current tax assets against current tax liabilities.

Recognition and measurement

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

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

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

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

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

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

Recognition of income components

Income taxes are recognized through profit or loss, with the exception of those debited or credited directly to equity. Current income taxes are calculated based on taxable income for the period.

In determining income taxes, any uncertainties over tax treatments are taken into account, in accordance with the provisions of IFRIC 23.

Current tax payables and receivables are recognized at the value that payment to or recovery from the tax authorities is expected by applying current tax rates and regulations. Deferred income tax assets and liabilities are calculated, using expected tax rates, on the basis of temporary differences between the value attributed to the assets and liabilities in the financial statements and the corresponding values recognized for tax purposes.

Derecognition

Deferred tax assets and deferred tax liabilities are derecognized in the period in which:

- the temporary difference that originated them becomes taxable for deferred tax liabilities or deductible for deferred tax assets;
- the temporary difference that originated them is no longer relevant for tax purposes;
- for deferred tax assets only, the probability test envisaged by IAS 12 indicates that sufficient future taxable income will not be available.

10 - Provisions for risks and charges

Provisions for commitments and guarantees issued

This sub-item reports provisions estimated in respect of the credit risk on commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules for calculating expected losses in accordance with IFRS 9. In principle, these cases use the same methods for allocation to the three risk stages and the calculation of expected losses that are adopted for financial assets measured at amortized cost or at fair value through other comprehensive income.

This sub-item also includes are provisions for other types of commitments and guarantees issued that, on the basis of their characteristics, do not fall within the scope of application of impairment in accordance with IFRS 9.

Other provisions for risks and charges

The other provisions for risks and charges include provisions for legal obligations or related to employment relationships or disputes originating from a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The item also includes long-term employee benefits.

Recognition

A provision shall be recognized if and only if:

- the company has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Measurement and recognition of income components

The amount recognized is the best estimate of the expenditure required to settle the obligation or to transfer it to third parties at the end of the reporting period and reflects the risks and uncertainties that inevitably surround many events and circumstances.

Where the time value of money is material and the payment dates of the obligation can be estimated reliably, the provision shall is discounted at market rates as of the reporting date.

Provisions are reviewed at every reporting date and are adjusted to reflect the best estimate of the charge required to settle the obligations existing at the close of the period. The impact of the time value of money and that of changes in interest rates are reported in profit or loss under net provisions for the period.

Actuarial gains and losses are recognized immediately in profit or loss.

Derecognition

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

11 - Financial liabilities measured at amortized cost

Classification

Financial liabilities measured at amortized cost include amounts due to banks, amounts due to customers and securities issued, comprising all technical forms of interbank and customer funding, repurchase agreements and funding through certificates of deposit, bonds and other funding instruments in circulation, net of any amounts repurchased.

The item also includes liabilities recognized by the lessee in respect of leases (finance or operating) pursuant to IFRS 16).

Recognition

The liabilities are initially recognized at fair value, which is normally equal to the amounts received or the issue price, plus or minus any additional costs or revenue directly attributable to the transaction that are not reimbursed by the creditor. Internal administrative costs are excluded.

Financial liabilities issued on non-market terms are recognized at estimated fair value and the difference with respect to the amount paid or the issue price is taken to the income statement.

Measurement and recognition of income components

Following initial recognition, these liabilities are measured at amortized cost using the effective interest rate method, excluding short-term liabilities, which are recognized in the amount received in keeping with the general principles of materiality and significance. See to the section on assets measured at amortized cost for information on the criteria for determining amortized cost.

Interest expense recognized on financial liabilities is reported under “Interest and similar expense” in the income statement.

Lease liabilities are remeasured when there is a lease modification (e.g. a change in the scope of the lease) that is not accounted for/considered as a separate contract.

In addition to cases of extinguishment and expiration, financial liabilities reported in these items are also derecognized when previously issued securities are repurchased. In this case, the difference between the carrying amount of the liability and the amount paid to repurchase it is recognized in the income statement under “Gain (loss) on the disposal or repurchase of: c) financial liabilities”. If the repurchased security is subsequently placed again on the market, this is treated as a new issue and is recognized at the new placement price, with no impact on the income statement.

Derecognition

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

12 – Financial liabilities held for trading

Classification

The item reports the negative value of trading derivatives that are not part of hedging relationships as well as the negative value of embedded derivatives to be separated from hybrid instruments representing financial liabilities. Liabilities deriving from short positions in by securities trading activities are recognized under “Financial liabilities held for trading”.

Recognition

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

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

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

Measurement

Subsequent to initial recognition, the financial liabilities are recognized at fair value through profit or loss. Please see Part 4 “Fair value disclosures” of these notes to the financial statements for information on determining fair value.

Derecognition

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

Recognition of income components

Gains and losses from the measurement of and transactions in financial liabilities held for trading are recognized through profit or loss.

13 - Financial liabilities designated as at fair value

Classification

This item reports financial liabilities designated as at fair value through profit or loss under the option permitted to entities in IFRS 9 (the “fair value option”). More specifically, financial liabilities may be irrevocably designated as at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch due to a measurement inconsistency or where they contain one or more embedded derivatives.

Recognition

Financial liabilities at fair value through profit or loss are initially recognized at the issue date at their fair value, which normally corresponds to the price paid. If the price is different from the fair value, the financial liability is recognized at its fair value and the difference between the price and the fair value is recognized in the income statement.

Measurement and recognition of income components

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

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

Pursuant to IFRS 9, this accounting method shall not be applied if would create or enlarge an accounting mismatch in the income statement. In this case, the gains or losses related to the liability falling under this item shall be recognized through profit or loss.

Derecognition

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

14 - Foreign currency transactions

Classification

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

Recognition

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

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

Measurement

At the reporting date, foreign currency items are measured as follows:

- monetary items are translated at the exchange rate prevailing at the reporting date;
- non-monetary items measured at historic cost are translated at the exchange rate prevailing at the transaction date;
- non-monetary items measured at fair value are translated using the exchange rate prevailing at the reporting date.

Recognition of income components

Exchange rate differences relating to financial assets/liabilities other than those designated as at fair value and those mandatorily measured at fair value through profit or loss are recognized in the income statement under the item “Net gain (loss) on trading activities”. Exchange rate differences relating to the two categories referred to above are recognized in under the item “Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss”. In addition, if the financial asset is measured at fair value through other comprehensive income, exchange rate differences are allocated to the relevant valuation reserve.

Exchange rate differences resulting from the settlement of monetary items or from the translation of monetary items at exchange rates other than the initial translation rate, or translation of the previous financial statements, are recognized through profit or loss in the period in which they emerge.

When gains or losses relating to a non-monetary item are recognized in equity, the exchange rate difference for the item is also recognized in equity. Likewise, when a gain or less is recognized through profit or loss, the corresponding exchange rate difference is also recognized through profit or loss.

15 – Other information

Employee termination benefits

Following the reform of supplementary pension schemes introduced by Legislative Decree 252 of December 5, 2005, changes were made to the way in which employee termination benefits are recognized. The portion of termination benefits accrued through December 31, 2006 is treated as a defined-benefit plan, since the company is required under law to pay the employee an amount determined pursuant to Article 2120 of the Italian Civil Code.

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

Therefore, starting January 1, 2007, the Group:

- continues to recognize the obligation accrued at December 31, 2006 in accordance with the rules for defined-benefit plans, i.e. using the projected unit credit method. This means that it measures the obligation for benefits accrued by employees using actuarial techniques, projecting into the future the amount to pay at the time the employment relationship is termination and discounting the accrued portion. To this end, the projected unit credit method considers each individual service period as the originator of an additional unit of termination benefits to be used in constructing the final obligation by projecting future outflows on the basis of statistical analysis of historical developments and the demographic curve, discounting those flows using a market interest rate. Total actuarial gains and losses are recognized, in line with the provisions of IAS 19, in equity, while the interest cost component of the change in the defined benefit obligation is recognized in profit or loss;
- recognizes the obligation for portions accrued starting January 1, 2007, payable to a supplementary pension scheme or to the treasury fund managed by INPS, on the basis of the contributions owed in each period, as a defined contribution plan for employee service, in profit or loss. More specifically, in the case of termination benefits payable to a supplementary pension scheme that treatment begins at the time of the choice or, if the employee does not exercise any option, as from July 1, 2007.

Recognition of revenue

Revenue is recognized when realized or, in the case of the sale of goods or services, in relation to the extent to which the performance obligation has been satisfied, as specified below.

Specifically:

- interest is recognized on an accruals basis using the contractual interest rate or the effective interest rate where the amortized cost method is applied;
- default interest, if any, is recognized through profit or loss only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;
- commissions for revenue from services are recognized in relation to the effective provision of the services to a customer, as discussed in greater detail below;
- revenue from the placement of funding instruments, calculated on the basis of the difference between transaction price and the fair value of the financial instrument, are recognized in the income statement when the transaction is recognized if the fair value can be determined with reference to parameters or transactions recently observed in the same market in which the instrument is traded. If

these amounts cannot be easily determined or the instrument is not highly liquid, the financial instrument is recognized in an amount equal to the transaction price, excluding the commercial margin. The difference between this amount and the fair value is taken to profit or loss over the duration of the transaction through the gradual reduction in the valuation model of the corrective factor reflecting the reduced liquidity of the instrument;

- revenue from the sale of non-financial assets are recognized at the time the performance obligation is satisfied with the transfer of the asset, i.e. when the customer obtains control of the asset.

In application of IFRS 15, the following steps are followed in recognizing revenue from contracts with customers:

- identification and analysis of the contract signed with the customer to identify the type of revenue. In some specific cases, multiple contracts may have to be combined and accounted for as a single contract;
- identification of the specific performance obligations in the contract. If the goods/services to be transferred are distinct, they qualify as performance obligations and are accounted for separately;
- determination of the transaction price, considering all the performance obligations in the contract. This price may be a fixed amount, but may sometimes include variable or non-monetary consideration;
- allocation of the transaction price to the performance obligations. The transaction price is allocated to the various performance obligations on the basis of the selling prices of each distinct good or service provided contractually. If it is impossible to determine the standalone selling price, it is necessary to estimate it. The assessment must be carried out as from the start date of the contract (the inception date);
- recognition of revenue when the performance obligation is satisfied. Revenue is recognized following the satisfaction of the performance obligation to the customer, i.e. when the latter obtains control of the good or service. Some revenue is recognized at a point in time, while other is accrued over time. It is therefore necessary to identify the moment in which the performance obligation is satisfied. In the case of performance obligations satisfied over time, revenue is recognized over the reference period, selecting an appropriate method to measure the progress made towards complete satisfaction of the performance obligation".

Accruals and deferrals

Accruals and deferrals reporting costs and revenue accruing in the period on assets and liabilities are recognized as adjustments to the assets and liabilities to which they refer. In the absence of such assets or liabilities, they are recognized under "Other assets" or "Other liabilities".

Expenditure for leasehold improvements

Expenses for refurbishments of buildings belonging to third parties that do not have an independent function or use are conventionally classified under "Other assets". Amortization is performed over the useful life of the right of use in respect of the buildings and amortization charges are reported under other operating expenses.

Determination of amortized cost

Amortized cost is applied to financial assets and liabilities measured at amortized cost and to the income components of financial assets measured at fair value through other comprehensive income.

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

The effective interest rate is the rate that discounts the contractual flow of future or received payments until the maturity date or the next repricing date to the present value of a financial asset or financial liability.

For instruments bearing a fixed rate or a fixed rate for periods of time, future cash flows are determined on the basis of the specified interest rate over the life of the instrument. For variable-rate financial assets or liabilities, future cash flows are determined on the basis of the last known rate. At each repricing date, the residual amortization and the effective yield over the residual useful life (i.e. until maturity) of the financial instrument are recalculated.

For purchased or originated credit-impaired financial assets ("POCI"), the effective interest rate corrected for credit risk is calculated, discounting estimated future cash flows over the expected life of the financial asset, taking of account all the contractual terms of the asset (e.g. prepayment options, call options, etc.) as well as expected credit losses.

Financial assets and liabilities transacted on market terms are initially recognized at their fair value, which normally corresponds to the amount paid or received including directly attributable transaction costs and fees: internal marginal costs and income not recoverable from customers are considered transaction costs attributable at the time of initial recognition of the instrument.

These ancillary components, which must be attributable to the individual asset or liability, affect the effective return and cause the effective interest rate to differ from the contractual interest rate: therefore, costs and income referable indiscriminately to multiple transactions and related components that they may be recognized during the life of the financial instrument are not included. Furthermore, costs that the Group incurs independently of the transaction, such as administrative, office supplies and communication costs, are not considered in the calculation of the amortized cost.

Determination of impairment

Financial assets

At each reporting date, the Group determines whether there is objective evidence that a financial asset or group of financial assets has incurred a significant increase in the related credit risk since initial recognition and requires the definition of a methodology for calculating the expected loss (ECL) and the related risk parameters necessary to calculate it, namely: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The staging methodology provides for the allocation each exposure/tranche (loans and securities) to the three distinct stages on the basis of the following:

- stage 1: this includes newly issued instruments/tranches and exposures to counterparties classified as performing that, as at the reporting date, have a PD lower than or equal to a given threshold (qualifying for the low credit risk exemption) or have not experienced a significant increase in credit risk with respect to that measured the date of disbursement/purchase. The 12-month expected loss is measured for these positions;
- stage 2: this includes all performing instruments/tranches that, as at the reporting date, simultaneously:
  - have a higher PD than that specified for the low credit risk exemption;
  - have experienced a significant increase in credit risk with respect to the date of disbursement;

  In general, in the absence of a rating/PD at the reporting date the exposure is allocated in stage 2 (without prejudice to the use of additional criteria specifically adopted for the management of particular types of portfolios/positions not covered by the use of an internal rating model). In this case, the lifetime expected loss is measured;
- stage 3: this includes all instruments/tranches associated with loans/securities in default, for which the loss is calculated as the difference between the contractual cash flows and expected cash flows, discounted at the effective interest rate of the instrument (lifetime expected loss), which is essentially unchanged compared with the previous accounting standard.

A so-called grace period is also granted, under which newly disbursed exposures are conventionally classified in stage 1 for the first 3 months of the relationship, unless they derive from forbearance measures.

Furthermore, in order to reduce the volatility of allocations of exposures to the various stages, the mechanisms for transferring exposures between stages envisage a so-called 3-month probation period (the minimum period for which positions are allocated to a given stage), defined as follows:

- an exposure allocated to stage 2 can be transferred to stage 1 if at the reporting date the conditions for allocation to stage 1 are met and at least 3 continuous months have elapsed since the factors that prompted allocation to stage 2 no longer exist;
- the reclassification as performing of an exposure previously allocated to stage 3 involves direct allocation to stage 2 for at least 3 months following the return to performing status, unless events requiring reallocation to stage 3 should occur.

If at least one of the criteria for classification in stage 2 is activated for a position within the probation period, the probation period recommences from the month in which the criteria that determined the allocation to stage 2 are no longer active.

Performing forborne exposures for which the regulatory probation period of 24 months is already activated are excluded from the application of this criterion.

With regard to the securities portfolio, the functional methodology for staging performing exposures is based solely on quantitative information. Although they consist in comparing the PD/rating class at the origination date and PD/rating class at the reporting date, the approach used makes extensive use of the low credit risk exemption for the purpose of staging exposures, even in the presence of information on credit risk measures at the date of origination. In particular, exposures with a rating better than or equal to investment grade at the reporting date are allocated to stage 1. Exposures associated with securities in default are classified in stage 3.

With regard to expected credit loss, the risk parameters necessary for calculating that value have been distinguished by differentiating between the securities portfolio and the loan portfolio.

With regard to the securities portfolio:

- Probability of Default (PD): the PD at 12 months and multi-period PDs used underwent forward-looking conditioning;

- Loss Given Default (LGD): the unconditioned LGD measures used are the same for both stage 1 and stage 2 exposures. More specifically, and unconditioned LGD metric of 45% is used, which subsequently undergoes forward-looking conditioning;
- Exposure At Default (EAD): for the purposes of quantifying the EAD associated with each securities issue, the gross value of the exposure at the reporting dates is generally used.

With regard to the loan portfolio:

- Probability of Default (PD): the approach defined by the Group envisages:
  - the use of internal rating models to determine the transition matrix based on rating classes, conditioned to incorporate forward-looking macroeconomic scenarios and used to obtain lifetime PDs;
  - where an internal rating model is absent, calculating default rates on an annual basis, conditioned to include forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
- Loss Given Default (LGD): the approach for estimating LGD developed by the Group provides for the determination of historical loss rates on closed impaired positions and the application of the so-called danger rate, conditioned by macroeconomic scenarios;
- Exposure At Default (EAD): the estimation approach for EAD differs by type of portfolio, product and stage to which the exposure has been assigned.

In order to condition the risk parameters for future macroeconomic scenarios, the Group uses multipliers (or macroeconomic conditioning factors) that, updated periodically, make it possible to obtain projections of changes in the riskiness of the portfolio (PD) and losses generated by default of the debtor counterparties (LGD), based on a defined time horizon and certain reference macroeconomic variables.

For the purpose of applying these multipliers, the Group associates the probability of occurrence on a judgmental basis to each scenario. The probability of occurrence of each scenario are used as weights in the calculation of the average multiplier associated with each calendar year.

More specifically, three calendar years are considered subsequent to the estimation date of the satellite models (reference date), while for subsequent years, the multiplier used is equal to the arithmetic mean of the multipliers of the three years.

With regard to exposures classified in stage 3 (credit-impaired assets), even if the definition of “impaired loans” in IAS 39 and IFRS 9 is substantially the same, the inclusion of forward-looking information, such as the consideration of alternative recovery scenarios, incorporated a number of methodological peculiarities. In particular, scenarios for the sale of credit exposures were considered in connection with possible sales of impaired positions, in line with the company’s objectives for reducing non-performing assets, to which a probability of realization was attributed for consideration in the context of the overall assessments. It follows that, for transferrable non-performing loans, in order to determine the overall expected loss of exposures, the “ordinary” scenario assuming a recovery strategy based on the recovery of receivables through legal action, the enforcement of guarantees, etc. , has been accompanied by scenarios that envisage the sale of the loan as a recovery strategy.

Note that in order to factor in the effects of the pandemic in the calculation of impairment, a so-called COVID-19 effect is considered in the determination of impairment, with the aim of considering the effects of the pandemic both on the macroeconomic forecasts that contribute to the determination of the expected credit loss and in the stage allocation process for exposures, with specific treatments of the portfolio subject to economic support measures.

Equity securities and units of collective investment undertakings

Equity securities and units of collective investment undertakings, regardless of the accounting portfolio to which they are allocated, do not undergo impairment testing as they are measured at fair value.

Other non-financial assets

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

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

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

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

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

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

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

The value in use of a CGU is calculated by estimating the present value of the future cash flows that are expected to be generated by the CGU on the basis of criteria and methodological models in line with best market practice and the literature in this field. Those cash flows are determined using the most recent public business plan or, in the absence of such a plan, an internal forecasting plan developed by management.

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

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

With specific reference to the rights of use recognized in accordance with IFRS 16, evidence that an asset may have suffered an impairment loss may be associated both with internal factors (deterioration, obsolescence, etc.) and external factors (market value, technological changes, etc.). Failure to exercise a right of use or the subletting of the underlying asset are considered potential indicators of impairment of the right of use.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability between willing and knowledgeable market participants in an orderly transaction. In the definition of fair value, a key assumption is that an entity is fully operational (the assumption that an entity is a going concern) and does not have the intention or the need to liquidate, significantly reduce its operations or undertake transactions on unfavorable terms. In other words, fair value is not the amount an entity would receive or would pay in a forced transaction, an involuntary liquidation or a distress sale. Nevertheless, the fair value reflects the credit quality of the instrument as it incorporates counterparty risk.

Financial instruments

Please see section A.4 Fair value disclosures for more information on the methods used to determine the fair value of financial instruments.

Non-financial assets

Investment property is primarily valued using external appraisals, considering transactions at current prices in an active market for similar properties, in the same location and condition and subject to similar conditions for rentals and other contracts.

Financial guarantees

As part of its ordinary banking operations, the Group grants financial guarantees in the form of letters of credit, acceptances and other guarantees. Commission income earned on guarantees, net of the portion representing the recovery of costs incurred in issuing the guarantee, are recognized on an accruals basis under "Fee and commission income", taking account of the term and residual value of the guarantees.

Following initial recognition, the financial guarantees are measured as the greater of the amount of the provision covering the losses determined in accordance with the rules governing impairment and the initial recognition amount (fair value) less (where appropriate) the cumulative amount of the income that the Group has recognized in accordance with IFRS 15 (deferred income).

Any losses and value adjustments on such guarantees are reported under "Net provisions for risks and charges: a) commitments and guarantees issued" in the income statement. Writedowns due to the impairment of guarantees issued are reported under "Provisions for risk and charges: a) commitments and guarantees issued" in liabilities in the balance sheet.

Guarantees are off-balance-sheet transactions and are reported under "Other information" in Part B of the notes to the financial statements.

Business combinations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Loans under TLTRO III program are variable rate loans, indexed to ECB rates, with a reward mechanism for determining the final rate applicable to each operation based on the achievement of certain performance objectives for eligible loans in the period April 1, 2019 - March 31, 2021. Interest is settled in arrears. The Bank of Italy will notify the participating banks of achievement of the performance targets on September 10, 2021.

The term of the loans is 3 years, in accordance with the calendar defined by the ECB, with the option of quarterly early repayment, starting from September 2021.

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

At its meeting of December 10, 2020, the Governing Council of the ECB decided to further recalibrate the terms applied to the third series of longer-term refinancing operations (TLTRO-III):

- the period in which considerably more favorable conditions will apply has been extended by 12 months, until June 2022;
- three additional operations will be conducted between June and December 2021;
- the total amount that counterparties will be able to borrow under TLTRO-III has been increased from 50% to 55% of the respective stock of eligible loans;
- in order to encourage banks to support the current level of bank lending, the recalibrated terms will only be offered to banks that reach a new target for the volume of lending.

The duration of the set of measures to relax the eligibility criteria applicable to the guarantees adopted on April 7 and 22, 2020 has been extended until June 2022 in order to continue to ensure that banks can make full use of the liquidity-providing operations of the Eurosystem. The Governing Council will review these measures before June 2022, ensuring that the participation of Eurosystem counterparties is not adversely affected.

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

- change in the estimates of achievement of the objectives;
- recognition of financial effects, “special interest”;
- management of early repayments.

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

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

The operation essentially has the following financial structure:

- it is a floating-rate transaction indexed to the rate on main refinancing operations (MRO), which is the base rate for the main refinancing operations of the ECB;
- in its basic structure it has a spread of -50 bps in the so-called “special interest rate period” from June 24, 2020 to June 23, 2021;
- in the event of achievement of the goal for the “special reference period” (from March 1, 2020 to March 31, 2021), the structure of the transaction changes as follows:
  - the benchmark rate becomes the rate on the ECB’s deposit facility (DF);
  - for the “special interest rate period” a cap of -1.00% is applied to the final rate (deposit facility rate – 50bp).
- in the event the target for the “special reference period” is not achieved but the secondary objective (growth of 1.15% between April 1, 2019 and March 31, 2021) is partially achieved, an intermediate rate between the average MRO and the average deposit facility rate will be applied.

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

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

The final rate applied to each loan will therefore be equal to the sum of: (i) the weighted average of the ECB MRO or DF rate, (ii) the fixed spread and (iii) the recognition of any performance incentive. The latter element is determined on the basis of periodic monitoring of developments in net lending in the special period.

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

In execution of shareholders' resolutions passed in December 2018 and following the establishment and launch of the Iccrea Cooperative Banking Group , at the beginning of 2019 71 mutual banks reconfigured the business model of their financial portfolio, reclassifying about €3.7 billion of securities held under the hold to collect and sell (HTCS) business model to the hold to collect (HTC) business model and reclassifying about €0.3 billion of securities held under the hold to collect (HTC) business model to the hold to collect and sell (HTCS) business model.

No financial assets were reclassified in 2020.

The following table reports the reclassified carrying amount at January 1, 2020 of the reclassified assets as at that date and still recognized at the reporting date as they were not sold or otherwise derecognized during the year.

A.3.1 RECLASSIFIED FINANCIAL ASSETS: CHANGE IN BUSINESS MODEL, CARRYING AMOUNT AND INTEREST INCOME

Type of financial instrument	Original portfolio	New portfolio	Reclassification date	Reclassified carrying amount	Interest income recognized in the period (before taxes)
Debt securities	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	31/12/2019	42,335	-
Debt securities	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortized cost	31/12/2019	3,466,488	-

A.3.2 RECLASSIFIED FINANCIAL ASSETS: CHANGE IN BUSINESS MODEL, FAIR VALUE AND IMPACT ON COMPREHENSIVE INCOME

No financial assets were reclassified in 2020.

A.3.3 RECLASSIFIED FINANCIAL ASSETS: CHANGE IN BUSINESS MODEL AND EFFECTIVE INTEREST RATE

The disclosures required by IFRS 7 12C do not apply.

A.4 –FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURES

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

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

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

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

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

Mark to market

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

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

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

The definition of "active market" is broader than that of "regulated market": regulated markets are defined as the markets included in the list provided for by Article 63, paragraph 2, of the Consolidated Finance Act (TUF) and in the special section of the same list (see Article 67, paragraph 1, of the TUF). These markets are managed by companies authorized by Consob that operate in accordance with the provisions of the TUF and under the supervision of Consob itself.

Other markets in addition to regulated markets include organized trading systems (Multilateral Trading Systems and Systematic Internalizers) defined, pursuant to Legislative Decree 58/98, as a "set of rules and structures, including automated structures, which make exchange possible, on an ongoing or periodic basis, in order to collect and transmit orders for transactions in financial instruments and to settle these orders, for the purpose of concluding contracts": although normally the financial instruments listed on these markets fall within the definition of instruments listed on active markets, there may be situations in which officially listed instruments are not liquid due to low trading volumes. In such cases, quoted prices cannot be considered representative of the fair value of an instrument. Generally speaking, multilateral trading facilities (MTF) can be considered active markets if they are characterized by continuous and significant trading and/or by the presence of binding prices provided by the market maker, such as to ensure the formation of prices that actually represent the fair value of the instrument.

Financial instruments are also listed on regulated markets in other countries, and therefore not regulated by Consob, whose prices are available daily. These prices are considered representative of the fair value of the financial instruments insofar as they represent the result of a regular transaction and not only of offers to buy or sell. Finally, other markets, while not regulated, can also be considered active markets (e.g. platforms such as Bloomberg or Markit). Electronic over-the-counter (OTC) trading circuits are considered active markets to the extent that the quotations provided actually represent the price at which a normal transaction would occur. Similarly, the quotes published by brokers are representative of fair value if they reflect the actual price level of the instrument in a liquid market (that is, they are not indicative prices, but rather binding offers).

Ultimately, in order to consider a market active, the significance of the price observed on the market itself is of particular importance and, for this reason, the following factors are considered:

- bid-ask spreads: the difference between the price at which an intermediary undertakes to sell the securities (ask) and the price at which it undertakes to buy them (bid). The larger the spread, the lower the liquidity of the market and therefore the significance of the price;
- breadth and depth of the trading book: the first concept refers to the presence of offers of large dimensions, while the depth of the book means the existence of both purchase and sell orders for numerous price levels;
- number of contributors: number of market participants providing purchase or sell offers for a specific instrument. The larger the number of active market participants, the greater the significance of the price;
- availability of information on the terms and conditions of transactions;
- price volatility: presence of daily prices of the instrument outside a certain range. The lower the volatility of the prices, the greater the significance of the price.

Comparable approach

As already noted, the fair value of financial instruments classified in Level 2 can be determined using two different approaches: the so-called comparable approach, which presupposes the use of prices quoted on active markets for similar assets or liabilities or the prices of identical assets or liabilities on inactive markets, and the model valuation approach (or mark to model), which uses valuation techniques based on observable inputs concerning the instrument itself or similar instruments.

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

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

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

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

Mark-to-model approach

In the absence of quoted prices for the instrument or for comparable instruments, valuation models are adopted. Valuation models must always maximize the use of market inputs. Accordingly, they must make priority use of observable market inputs (e.g. interest rates and yield curves observable at commonly quoted intervals, volatilities, credit spreads, etc.).

In the absence of directly or indirectly observable inputs or where they are insufficient to determine the fair value of an instrument, inputs that are not observable on the market be used (discretionary estimates and assumptions). With the consequent allocation of the estimate obtained to Level 3 of the fair value hierarchy.

The mark-to-model technique therefore does not give rise to a single classification within the fair value hierarchy. Depending on the observability and materiality of the inputs used in the valuation model, an instrument could be assigned to Level 2 or Level 3.

A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

The Group uses mark-to-model approaches in line with methods that are generally accepted and used in the industry. The valuation models comprise techniques based on the discounting of future cash flows and the estimation of volatility. They are reviewed both during their development and periodically thereafter in order to ensure their full consistency with the valuation objectives.

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

- bonds are valued using a discounted cash flow model adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer;
- structured bonds are valued using a discounted cash flow model that incorporates valuations from option pricing models, adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer, and volatility and correlation surfaces for the underlying;
- derivatives are valued using discounted cash flow models, within the multi-curve framework based on OIS discounting;
- equity and CIU derivatives are valued using the Black&Scholes models (or models based on it, such as the Rubinstein model for forward starts and the Nengju Ju model for Asian options), which includes an estimate of volatility through interpolation by maturity and strike prices on a volatility matric, as well as the inclusion of discrete dividends through the escrowed dividend model. The inputs used are the price of the underlying equity, the volatility surface and the dividend curve;
- derivatives on exchange rates are valued using a discounted cash flow approach for plain-vanilla contracts or a Garman and Kohlhagen model for European options on exchange rates. The inputs are spot exchange rates and the forward points curve and volatility surfaces for plain-vanilla options;
- equity securities are valued at fair value estimated using models applied in valuation practice or using balance sheet, income or mixed methods or with reference to direct transactions in the same security or similar securities observed over an appropriate span of time with respect to the valuation date. They are measured at cost if their carrying amount is below the materiality thresholds set by the Group both at individual and consolidated level and in cases where the cost represents a reliable estimate of fair value (e.g. because the most recent information to evaluate fair value is not available);
- investments in CIUs other than open-end harmonized funds are generally valued on the basis of the NAVs (adjusted if not fully representative of the fair value) made available by the asset management companies. These investments include private equity funds, real estate investment funds and hedge funds;
- medium/long-term loans to customers are measured on the basis of a mark-to-model process using the discounted cash flow approach for the positions and other models for estimating option components where applicable;
- for medium/long-term liabilities, represented by securities for which the fair value option was chosen, the fair value is determined alternatively by either discounting the residual contractual cash flows using the zero-coupon yield curve, by applying the asset swap method or by using other yield curves deemed representative of the Bank's credit standing.

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

With particular regard to units held in unlisted alternative investment funds (so-called AIFs), for the purposes of preparing the 2020 financial statements, a specific project was carried out, coordinated by the Parent Company, aimed at determining the "liquidity adjustment" to be applied to the Net Asset Value (NAV) of the unlisted funds held.

The methodological approach adopted provides for the consideration, in line with market best practice, of the following main elements:

- the average holding period of the individual unlisted funds before they can be sold;
- the characteristics of the individual assets held by the fund and their level of volatility in the holding period considered (degree of uncertainty);
- the level of risk aversion reflected in a prudent threshold which, with reference to the distribution of the possible returns/final value of the asset/portfolio considered, makes it possible to measure any divergence from their expected value.

The use of these elements made it possible to estimate a discount with respect to the NAV, calculated as a percentage adjustment of the risk premium linked to the uncertainty concerning potential unfavorable changes in value before their realization while also taking account of the management costs of the funds not incorporated in the NAVs of the individual unlisted funds.

For 2020, the percentage adjustment applied was respectively 3.69% for real estate funds, 9.55% for private debt-non-performing loan funds, 1.28% for private debt-bond bonds and 9.47% for private equity funds.

The factors impacting the need for an adjustment include the complexity of the financial instrument; the credit standing of the counterparty; and the presence of any collateral agreements. In particular, the Group uses a method for calculating the CVA/DVA (Credit Value

Adjustments/Debt Value Adjustments) in order to adjust the calculation of the fair value of uncollateralized derivatives in order to take account of counterparty risk (non-performance risk). The CVA/DVA is not calculated when collateral agreements have been formalized and are operational for derivatives positions.

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

- estimates and assumptions underlying the models used to measure investments in equity securities and units in CIUs;
- Probability of Default (PD) and Loss Given Default (LGD): the parameters are derived from the impairment model. They are used to measure financial instruments for disclosure purposes only;
- credit spreads: the figure is extrapolated to create sector CDS curves using regression algorithms on the basis of a panel of single-name CDS curves. The figure is used to value financial instruments for disclosure purposes only.

A.4.2 VALUATION PROCESSES AND SENSITIVITY

The 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. A financial instrument is considered to be quoted on an active market if prices are readily and regularly available and represent actual market transactions carried out on normal terms on a regulated market or MTF;
- Level 2: inputs other than the quoted prices noted above that are observable on the market either directly (prices) or indirectly (derivatives on prices). Fair value is determined using valuation techniques that provide for: a) the use of market inputs indirectly connected with the instrument being valued and derived from instruments with similar risk characteristics or quoted on inactive markets (the comparable approach); or b) that use observable inputs;
- Level 3: inputs that are not observable on the market. Fair value is determined using valuation techniques that use significant unobservable inputs, such as non-binding quotes provided by infoproviders (Mark to Model approach).

The following are normally considered Level 1:

- shares, debt securities and units of CIUs listed on regulated markets. Units of CIUs include mutual investment funds (UCITS, AIFs and restricted FIAs), SICAVs/SICAFs and ETPs (Exchange Traded Products);
- debt securities listed on Multilateral Trading Facilities (MTF) which meet the “specific requirements for multilateral trading systems” set out in MiFID II;
- debt securities whose fair value is equal to the unadjusted prices provided by brokers/market makers from an active market for an identical instrument and executable at the declared level;
- Units of CIUs whose value (NAV) is provided directly by the market operator;
- listed derivative financial instruments and issued financial liabilities whose fair value at the valuation date corresponds to the price quoted on an active market.

The following are normally considered Level 2:

- debt securities issued by national and international issuers that are not listed on an active market and are measured using approaches that mainly employ observable market inputs;
- debt securities whose fair value is equal to the prices provided by brokers/market makers determined with a valuation model based on observable market inputs;
- OTC financial derivatives entered into with institutional counterparties for which the main inputs are observable market data;
- units of CISs whose prices are provided by the issuing entity (the so-called “soft NAV”).

Finally, the following are normally considered Level 3:

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

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

A.4.4 OTHER INFORMATION

The circumstances referred to in paragraphs 51, 93 letter (i) and 96 of IFRS 13 do not apply to the Group’s financial statements as the Group is not managing groups of financial assets and liabilities on the basis of its net exposure to a specific market risk (or risks) or to the credit risk of a specific counterparty and the highest and best use of a non-financial asset does not differ from its current use.

QUANTITATIVE DISCLOSURES

A.4.5 FAIR VALUE HIERARCHY

A.4.5.1 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS: BREAKDOWN BY FAIR VALUE INPUT LEVEL

	31/12/2020			31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss of which	437,866	1,205,425	248,916	670,107	923,755	346,218
a) financial assets held for trading	23,132	243,406	4,000	48,643	154,890	1,692
b) financial assets designated as at fair value	341,076	-	4,017	362,091	-	5,385
c) other financial assets mandatorily measured at fair value	73,658	962,019	240,899	259,373	768,865	339,141
2. Financial assets measured at fair value through comprehensive income	7,665,827	138,014	66,359	8,885,355	135,921	88,450
3. Hedging derivatives	633	11,244	-	55	17,761	-
4. Property, plant and equipment	-	470,664	12,825	12,177	529,201	18,192
5. Intangible assets	-	-	-	-	-	-
Total	8,104,326	1,825,347	328,100	9,567,695	1,606,638	452,860
1. Financial liabilities held for trading	423	242,649	736	630	162,211	887
2. Financial liabilities designated as at fair value	2,868	249	-	7,933	3,528	-
3. Hedging derivatives	93	514,650	-	22	321,409	-
Total	3,384	757,548	736	8,584	487,148	887

A 4.5.2 CHANGE FOR THE PERIOD IN FINANCIAL ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3)

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	346,218	1,692	5,385	339,141	88,450	-	18,192	-
2. Increases	78,031	2,363	147	75,521	19,360	-	9,468	-
2.1 Purchases	22,410	4	-	22,405	13,833	-	-	-
2.2 Profits recognized in:	11,528	-	147	11,382	868	-	72	-
2.2.1 Income statement	11,528	-	147	11,382	10	-	72	-
- of which: capital gains	6,812	-	84	6,728	10	-	-	-
2.2.2 Shareholders' equity	-	X	X	X	858	-	-	-
2.3 Transfers from other levels	13,398	-	-	13,398	2,534	-	-	-
2.4 Other increases	30,695	2,359	-	28,337	2,124	-	9,396	-
3. Decreases	(175,333)	(55)	(1,515)	(173,763)	(41,451)	-	(14,835)	-
3.1 Sales	(1,003)	(46)	-	(956)	(12,248)	-	(602)	-
3.2 Repayments	(29,029)	-	(915)	(28,114)	(214)	-	-	-
3.3 Losses recognized in:	(7,495)	(4)	(156)	(7,334)	(1,944)	-	(538)	-
3.3.1 Income statement	(7,495)	(4)	(156)	(7,334)	(353)	-	(538)	-
- of which: capital losses	(3,990)	-	(122)	(3,867)	(5)	-	(259)	-
3.3.2 Shareholders' equity	-	X	X	X	(1,591)	-	-	-
3.4 Transfers to other levels	(89,351)	-	-	(89,351)	(8,069)	-	(1,639)	-
3.5 Other decreases	(48,455)	(4)	(444)	(48,007)	(19,355)	-	(12,056)	-
4. Closing balance	248,916	4,000	4,017	240,899	66,359	-	12,825	-

A.4.5.3 CHANGE FOR THE PERIOD IN FINANCIAL LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3)

	Financial liabilities held for trading	Financial liabilities designated as at fair value	Hedging derivatives
1. Opening balance	**887**	**-**	**-**
2. Increases	**-**	**-**	**-**
2.1 Issues	-	-	-
2.2. Losses allocated to:	-	-	-
2.2.1 Income statement	-	-	-
- of which: capital losses	-	-	-
2.2.2 Shareholders' equity	X	-	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	-
3. Decreases	**(151)**	**-**	**-**
3.1. Repayments	-	-	-
3.2. Repurchases	-	-	-
3.3 Profits recognized in:	(151)	-	-
3.3.1 Income statement	(151)	-	-
- of which: capital gains	(151)	-	-
3.3.2 Shareholders' equity	X	-	-
3.4 Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**736**	**-**	**-**

A.4.5.4 FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE A NON-RECURRING BASIS: BREAKDOWN BY FAIR VALUE INPUT LEVEL

	31/12/2020				31/12/2019			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortized cost	151,183,057	56,471,276	5,295,782	99,691,644	135,869,471	41,571,185	6,414,821	95,520,408
2. Investment property	151,302	-	2,557	155,406	157,696	-	1,030	167,502
3. Non-current assets and disposal groups held for sale	18,368	-	-	1,010	33,856	-	104	7,518
Total	**151,352,728**	**56,471,276**	**5,298,339**	**99,848,060**	**136,061,023**	**41,571,185**	**6,415,954**	**95,695,428**
1. Financial liabilities measured at amortized cost	154,229,489	3,367,303	32,771,418	118,451,087	140,832,997	1,067,445	31,608,462	107,370,324
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**154,229,489**	**3,367,303**	**32,771,418**	**118,451,087**	**140,832,997**	**1,067,445**	**31,608,462**	**107,370,324**

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

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

During the period under review, differences emerged between the fair values posted at the time of initial recognition and the values recalculated at the same date using valuation techniques in accordance with IFRS 9 (paragraphs B.5.1.2 A letter b), with a net negative impact of about €1,856 thousand in respect of hedging derivatives.

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
a) Cash	788,440	842,226
b) Demand deposits with central banks	204,135	114,257
Total	992,575	956,482

The item “Demand deposits with central banks” includes deposits with the Bank of Italy, including €80 million attributable to the Guarantee Scheme operated by Parent Company.

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 20

2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

	Total 31/12/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**17,723**	**1,328**	**59**	**34,841**	**1,134**	**60**
1.1 structured securities	2,172	-	10	1,480	-	10
1.2 other debt securities	15,551	1,328	49	33,361	1,134	50
2. Equity securities	**2,609**	**3**	**2**	**6,237**	**197**	**51**
3. Units in collective investment undertakings	**2,426**	**5,152**	**-**	**7,521**	**5,119**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	22,758	6,483	61	48,599	6,450	111
B. Derivatives						
1. Financial derivatives	**374**	**236,923**	**3,939**	**44**	**148,440**	**1,581**
1.1 trading	374	236,923	3,939	44	148,440	1,581
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
B. Derivatives	-	-	-	-	-	-
Total (B)	374	236,923	3,939	44	148,440	1,581
Total (A+B)	23,132	243,406	4,000	48,643	154,890	1,692

The sub-item A.1 – 1.2 “other debt securities” mainly includes government securities held for trading, in the amount of about €11.8 million.

The sub-item B.1 – 1.1 reports the market value of the derivatives originated by Group operations.

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

	Total 31/12/2020	Total 31/12/2019
A. On-balance-sheet assets		
1. Debt securities	**19,110**	**36,035**
a) Central banks	-	-
b) Government entities	11,820	24,183
c) Banks	2,640	5,787
d) Other financial companies	2,450	4,256
of which: insurance undertakings	399	818
e) Non-financial companies	2,200	1,809
2. Equity securities	**2,614**	**6,485**
a) Banks	86	169
b) Other financial companies	458	741
of which: insurance undertakings	341	398
c) Non-financial companies	2,070	5,575
d) Other issuers	-	-
3. Units in collective investment undertakings	**7,578**	**12,641**
4. Loans	**-**	**-**
a) Central banks	-	-
b) Government entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance undertakings	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	29,302	55,160
B. Derivatives		
a) Central counterparties	526	-
b) Other	240,710	150,065
Total (B)	241,236	150,065
Total (A+B)	270,538	205,225

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

	Total 31/12/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**341,076**	**-**	**-**	**362,091**	**-**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	341,077	-	-	362,091	-	-
2. Loans	**-**	**-**	**4,017**	**-**	**-**	**5,385**
2.1 structured	-	-	-	-	-	928
2.2 other	-	-	4,017	-	-	4,457
Total	341,077	-	4,017	362,091	-	5,385

The item 1.2 “other debt securities” reports the balance for securities in which the liquidity from the Guarantee Scheme is invested.

2.4 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

	Total 31/12/2020	Total 31/12/2019
1. Debt securities	**341,077**	**362,091**
a) Central banks	-	-
b) Government entities	292,586	311,492
c) Banks	42,609	44,644
d) Other financial companies	5,882	5,955
of which: insurance undertakings	-	-
e) Non-financial companies	-	-
2. Loans	**4,017**	**5,385**
a) Central banks	-	-
b) Government entities	-	-
c) Banks	-	-
d) Other financial companies	-	4
of which: insurance undertakings	-	-
e) Non-financial companies	899	1,756
f) Households	3,118	3,626
Total	345,094	367,476

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

	Total 31/12/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**13,248**	**49,275**	**4,732**	**13,087**	**79,287**	**3,141**
1.1 structured securities	1,520	17,188	2,128	796	23,392	-
1.2 other debt securities	11,727	32,087	2,604	12,291	55,896	3,141
2. Equity securities	**11,259**	**5,467**	**26,456**	**4,040**	**110**	**25,908**
3. Units in collective investment undertakings	**49,151**	**290,381**	**3,631**	**242,245**	**198,639**	**47,612**
4. Loans	**-**	**616,895**	**206,080**	**-**	**490,829**	**262,480**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	616,895	206,080	-	490,828	262,480
Total	73,658	962,018	240,899	259,373	768,865	339,141

The item includes financial instruments that under IFRS 9 do not meet the requirements for measurement at amortized cost or at fair value through other comprehensive income (unit in CIUs, insurance policies, postal savings bonds, debt securities and loans failing to pass the SPPI test, the latter including exposures to system funds).

In particular, item 3, Units in collective investment undertakings decreased compared with the end of the previous year by a total of €145.3 million, mainly due to the sale of units in investment funds during the year and, to a lesser extent, the effect of impairment losses.

The largest components of loans reported under 4.2 “other” include insurance policies underwritten by the banks of the Group in the amount of about €566 million and interest-bearing postal bonds of around €130 million.

2.6 OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

		Total 31/12/2020	Total 31/12/2019
1.Equity securities		**43,182**	**30,058**
of which: banks		7,797	941
of which: other financial companies		22,276	20,540
of which: non-financial companies		13,109	8,577
2. Debt securities		**67,255**	**95,515**
a) Central banks		-	-
b) Government entities		548	3,134
c) Banks		41,418	58,981
d) Other financial companies		18,018	25,416
of which: insurance companies		1,276	8,240
e) Non-financial companies		7,271	7,984
3. Units in collective investment undertakings		**343,163**	**488,497**
4. Loans		**822,975**	**753,309**
a) Central banks		-	-
b) Government entities		2,147	20,427
c) Banks		644	2,630
d) Other financial companies		815,208	697,669
of which: insurance companies		565,906	494,964
e) Non-financial companies		4,941	22,088
f) Households		35	10,495
	Total	**1,276,575**	**1,367,379**

The item “Units in collective investment undertakings” mainly includes real estate funds in the amount of €118.9 million bond funds in the amount of €72.9 million.

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – ITEM 30

3.1 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY TYPE

	Total 31/12/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**7,661,292**	**43,760**	**26**	**8,877,633**	**100,439**	**501**
1.1 structured securities	30,449	850	-	71,297	5,725	-
1.2 other debt securities	7,630,843	42,910	26	8,806,336	94,714	501
2. Equity securities	**4,535**	**94,254**	**66,333**	**7,722**	**35,482**	**87,949**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**7,665,827**	**138,014**	**66,359**	**8,885,355**	**135,921**	**88,450**

The item “Debts securities” mainly includes government securities.

“Equity securities - Level 2” includes the equity investment in the Bank of Italy for a total of €73.8 million. The remainder of equity securities mainly includes non-controlling interests.

3.2 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY DEBTOR/ISSUER

	Total 31/12/2020	Total 31/12/2019
1. Debt securities	**7,705,078**	**8,978,573**
a) Central banks	492	526
b) Government entities	7,213,528	8,384,109
c) Banks	295,172	431,150
d) Other financial companies	127,952	112,784
of which: insurance undertakings	992	3,173
e) Non-financial companies	67,934	50,004
2. Equity securities	**165,122**	**131,153**
a) Banks	80,444	36,842
b) Other issuers:	84,679	94,311
- other financial companies	54,034	66,834
of which: insurance undertakings	8,318	12,485
- non-financial companies	30,639	27,474
- other	6	3
3. Loans	**-**	**-**
a) Central banks	-	-
b) Government entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance undertakings	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**7,870,200**	**9,109,726**

3.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: GROSS VALUE AND TOTAL WRITEOFFS

	Gross amount				Total writeoffs			Total partial writeoffs*
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	7,514,560	6,765,002	199,238	41	(2,401)	(6,348)	(12)	-
Loans	-	-	-	-	-	-	-	-
Total 31/12/2020	**7,514,560**	**6,765,002**	**199,238**	**41**	**(2,401)**	**(6,348)**	**(12)**	**X**
Total 31/12/2019	**8,882,589**	**8,298,919**	**101,036**	**394**	**(2,849)**	**(2,435)**	**(162)**	**X**
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

** Value to be reported for information purposes*

3.3A LOANS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME INVOLVED IN COVID-19 SUPPORT MEASURES: GROSS AMOUNT AND TOTAL WRITEOFFS

The table has not been completed as the Group has not granted loans measured at fair value through other comprehensive income.

SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTIZED COST - ITEM 40

4.1 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN OF LOANS AND RECEIVABLES WITH BANKS

	Total 31/12/2020						Total 31/12/2019					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
A. Claims on central banks	**4,680,695**	**-**	**-**	**-**	**-**	**4,680,695**	**4,211,582**	**-**	**-**	**5**	**-**	**4,211,577**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	4,680,689	-	-	X	X	X	4,211,577	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	6	-	-	X	X	X	5	-	-	X	X	X
B. Due from banks	**2,534,790**	**413**	**-**	**395,328**	**393,605**	**2,082,794**	**4,193,855**	**423**	**-**	**773,491**	**2,161,255**	**1,269,367**
1. Financing	1,780,367	413	-	12,026	61,710	2,032,394	3,172,240	423	-	2,397	2,017,065	1,195,353
1.1 Current accounts and demand deposits	543,248	-	-	X	X	X	592,548	-	-	X	X	X
1.2. Fixed-term deposits	38,955	-	-	X	X	X	79,619	-	-	X	X	X
1.3. Other financing:	1,198,164	413	-	X	X	X	2,500,073	423	-	X	X	X
- Repurchase agreements	-	-	-	X	X	X	24,721	-	-	X	X	X
- Finance leases	251	-	-	X	X	X	299	-	-	X	X	X
- Other	1,197,913	413	-	X	X	X	2,475,053	423	-	X	X	X
2. Debts securities	754,423	-	-	383,302	331,895	50,400	1,021,615	-	-	771,094	144,189	74,014
2.1 Structured securities	50,556	-	-	20,930	26,102	-	71,657	-	-	34,047	17,394	-
2.2 Other debt securities	703,867	-	-	362,372	305,793	50,400	949,958	-	-	737,047	126,795	74,014
Total	**7,215,485**	**413**	**-**	**395,328**	**393,605**	**6,763,489**	**8,405,437**	**423**	**-**	**773,496**	**2,161,255**	**5,480,944**

“Claims on central banks” total €4.7 billion and include:

- the balance of the Group banks’ reserve requirement in the amount of €1 billion, of which €0.8 billion managed on behalf of the mutual banks by the Parent Company;
- the excess liquidity of the banks held on the reserve requirement account as a result of the monetary policy measures adopted by the European Central Bank (ECB), in the amount of €3.7 billion.

Amounts due from banks “Other financing – Other” include loans by the Parent Company to the mutual banks not belonging to the Group, connected with pool collateral operations, with a total value of €0.3 billion. The reduction by comparison with the balance at December 31, 2019 is explained by the early repayment of the TLTRO-II loan by banks not belonging to the Group.

The sub-item “debt securities” comes to €0.8 billion and includes bank bonds held by the Group.

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

	Total 31/12/2020						Total 31/12/2019					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
1. Loans	**83,537,820**	**3,739,993**	**23,002**	**-**	**2,865,487**	**92,721,086**	**80,032,422**	**5,208,436**	**45,839**	**-**	**3,285,723**	**89,478,991**
1.1. Current accounts	5,973,361	648,110	193	X	X	X	8,253,047	988,007	2,045	X	X	X
1.2. Repurchase agreements	1,813,263	-	-	X	X	X	2,935,176	-	-	X	X	X
1.3. Medium/long term loans	62,979,347	2,637,254	14,083	X	X	X	54,521,468	3,622,770	27,200	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from wage	2,033,147	29,430	6	X	X	X	2,148,153	38,177	3	X	X	X
1.5. Finance leases	4,171,955	325,106	3,412	X	X	X	4,292,086	412,496	9,223	X	X	X
1.6. Factoring	468,208	14,820	-	X	X	X	492,578	12,126	-	X	X	X
1.7. Other loans	6,098,539	85,273	5,308	X	X	X	7,389,914	134,860	7,369	X	X	X
2. Debt securities	**56,687,946**	**1,400**	**-**	**56,075,948**	**2,036,691**	**207,069**	**42,221,208**	**1,545**	**-**	**40,797,689**	**967,843**	**560,472**
2.1. Structured securities	273,983	348	-	90,375	187,669	29,852	131,271	135	-	55,619	69,347	1,405
2.2. Other debt securities	56,413,963	1,052	-	55,985,573	1,849,022	177,217	42,089,937	1,410	-	40,742,070	898,496	559,067
Total	**140,225,766**	**3,741,393**	**23,002**	**56,075,948**	**4,902,178**	**92,928,155**	**122,253,630**	**5,209,981**	**45,839**	**40,797,689**	**4,253,566**	**90,039,463**

The item “Repurchase agreements” came to €1.8 billion and reports amounts connected with transactions with the Clearing & Guarantee Fund.

Medium/long-term loans, amounting to €65.6 billion are mainly granted to households and non-financial companies.

Loans to customers include approximately €1.1 billion in loans disbursed with funds made available by public entities, mainly local governments, with the Group to a prevalent extent assuming part of the risk. The operations are mainly aimed at supporting the business sector (mainly small and medium-sized enterprises) and agriculture with credit.

“Debt securities” classified here came to €56.7 billion and include €54.6 billion of government securities, mainly Italian government securities. The significant increase in debt securities compared with December 2019 is attributable to an increase in exposures in securities (+€14.5 billion), mainly government securities, reflecting the new Group financial strategy approved in March 2020 in response to the more expansionary monetary policy stance of the ECB (in particular the expansion of access to TLTRO III operations) to counter the adverse effects of the COVID-19 health emergency on the economy.

The above items include senior notes issued in securitization transactions totaling about €1.7 billion, mostly attributable to own securitization transactions.

4.3 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN BY DEBTOR/ISSUER OF LOANS TO CUSTOMERS

	Total 31/12/2020			Total 31/12/2019		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired
1. Debt securities	**56,687,946**	**1,400**	**-**	**42,221,208**	**1,545**	**-**
a) Government entities	54,560,504	16	-	40,656,166	16	-
b) Other financial companies	1,945,907	702	-	1,423,626	1,485	-
of which: insurance undertakings	14,647	-	-	637	-	-
c) Non-financial companies	181,535	682	-	141,416	44	-
2. Loans to:	**83,537,820**	**3,739,993**	**23,002**	**80,032,422**	**5,208,436**	**45,839**
a) Government entities	776,122	11,221	-	780,082	1,074	-
b) Other financial companies	3,861,566	33,269	114	4,893,920	25,141	34
of which: insurance undertakings	4,175	70	-	8,239	-	-
c) Non-financial companies	39,809,098	2,352,076	19,611	36,681,956	3,475,027	38,169
d) Households	39,091,034	1,343,427	3,277	37,676,464	1,707,194	7,636
Total	**140,225,766**	**3,741,393**	**23,002**	**122,253,630**	**5,209,981**	**45,839**

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

	Gross amount				Total writeoffs			Total and partial writeoffs *
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debts securities	56,875,017	51,279,965	665,439	2,897	(16,764)	(81,322)	(1,498)	(1,976)
Loans	80,418,390	15,053,852	10,391,419	8,442,310	(285,169)	(525,760)	(4,701,903)	(324,869)
Total 31/12/2020	**137,293,407**	**66,333,817**	**11,056,858**	**8,445,207**	**(301,933)**	**(607,082)**	**(4,703,401)**	**(326,845)**
Total 31/12/2019	**119,549,989**	**44,705,447**	**12,050,469**	**10,619,629**	**(355,304)**	**(586,087)**	**(5,409,225)**	**(411,964)**
f which: financial assets purchased or originated credit-impaired	X	X	1,194	38,428	X	(78)	(16,542)	-

** Value to be reported for information purposes*

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

	Gross amount				Total writeoffs		
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1. Loans subject to forbearance measures compliant with guidelines	10,921,131	647,434	2,998,924	162,395	(47,146)	(172,274)	(51,936)
2. Loans subject to other forbearance measures	93,398	23	24,544	113,106	(1,921)	(1,946)	(39,910)
3. New loans	5,956,462	63,683	34,387	13,816	(5,291)	(2,638)	(3,255)
Total 31/12/2020	**16,970,991**	**711,140**	**3,057,855**	**289,317**	**(54,358)**	**(176,858)**	**(95,101)**

The table reports a breakdown of the gross value and total writeoffs, broken down by risk stages, for loans subject to moratoriums or other forbearance measures outstanding at the reporting date, or which represent new liquidity granted through public guarantee mechanisms.

More specifically, “loans subject to forbearance measures compliant with guidelines” concern financial assets subject to moratoriums that fall within the scope of the “Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis” published by the EBA (EBA/GL/2020/02) as amended.

“Loans subject to other forbearance measures” regard loans subject to COVID-19 support measures that meet the conditions for “forborne exposures” as defined by current supervisory reporting requirements and which are not included in the category “loans subject to forbearance measures compliant with guidelines “.

“New loans” include, among other things, financial assets recognized as a result of forbearance measures that involved a refinancing with derecognition of the original asset and the recognition of a new loan, or a restructuring of multiple debts with the recognition of a new loan. Also included are new loans guaranteed by the State or other public entities.

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

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

	Fair value 31/12/2020			NV	Fair value 31/12/2019			NV
	L1	L2	L3	31/12/2020	L1	L2	L3	31/12/2019
A. Financial derivatives								
1. Fair value	633	9,366	-	437,655	55	8,968	-	617,372
2. Cash flows	-	1,877	-	74,128	-	8,793	-	275,253
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**633**	**11,243**	**-**	**511,783**	**55**	**17,761**	**-**	**892,625**

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

5.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair value							Cash flows		Investments in foreign operations
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and equity indices	currencies and gold	loans	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	1,455	X	X
2. Financial assets measured at amortized cost	2,689	X	715	-	X	X	X	422	X	X
3. Portfolio	X	X	X	X	X	X	12	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**2,689**	**-**	**715**	**-**	**-**	**-**	**12**	**1,877**	**-**	**-**
1. Financial liabilities	4,944	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	1,639	X	-	X
Total liabilities	**4,944**	**-**	**-**	**-**	**-**	**-**	**1,639**	**-**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

SECTION 6 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY – ITEM 60

6.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	Total 31/12/2020	Total 31/12/2019
1. Positive adjustments	**222,506**	**154,318**
1.1 of specific portfolios:	222,506	154,318
a) financial assets measured at amortized cost	217,208	150,396
b) financial assets measured at fair value through comprehensive income	5,298	3,922
1.2 comprehensive	-	-
2. Negative adjustments	**(13)**	**(14,373)**
2.1 of specific portfolios:	(13)	(14,373)
a) financial assets measured at amortized cost	(13)	(14,373)
b) financial assets measured at fair value through comprehensive income	-	-
2.2 comprehensive	-	-
Total	222,493	139,945

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	Type of relationship	Investment		% of votes
				Investor	% holding	
A. Joint ventures						
B. Companies subject to significant influence						
1. BCC Vita S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	30.0%	30.0%
2. BCC Assicurazioni S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	30.0%	30.0%
3. Satispay S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	13.9%	13.9%
				BCC Alpi Marittime Credito Cooperativo Carrù S.C.	2.4%	2.4%
4. Hi-Mtf S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	25.0%	25.0%
5. Polo Verde S.r.l.	Cremona	Cremona	Significant influence	Credito Padano Banca di Credito Cooperativo S.C.	25.0%	25.0%
6. Foro Annonario Gest S.r.l.	Cesena	Cesena	Significant influence	Credito Cooperativo Romagnolo BCC di Cesena e Gatteo S.C.	25.0%	25.0%
7. Solaria S.r.l.	Grosseto	Grosseto	Significant influence	Banca TEMA - Terre Etrusche e di Maremma S.C.	40.0%	40.0%
8. HBenchmark S.r.l.	Altavilla Vicentina	Altavilla Vicentina	Significant influence	Iccrea Banca S.p.A.	10.0%	10.0%

7.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

	Carrying amount	Fair value	Dividends received
A. Joint ventures			
B. Companies subject to significant influence			
1. BCC Vita S.p.A.	87,121	87,121	-
2. BCC Assicurazioni S.p.A.	6,906	6,906	-
3. Satispay S.p.A.	4,325	4,325	-

7.3 SIGNIFICANT EQUITY INVESTMENTS: ACCOUNTING DATA

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Net adjustments of property, plant and equipment	Profit (loss) from continuing operations before tax	Profit (loss) from continuing operations after tax	Profit (loss) of disposal groups held for sale after tax	Profit (loss) for the period (1)	Other income after tax (2)	Comprehensive income (3) = (1) + (2)
A. Joint ventures														
B. Companies subject to significant influence														
1. BCC Vita S.p.A.	X	4,021,207	280,100	35,590	3,975,313	584,923	X	X	9,408	6,551	-	6,551	-	6,551
2. BCC Assicurazioni S.p.A.	X	41,089	51,402	489	73,982	22,834	X	X	1,230	771	-	771	-	771
3. Satispay S.p.A.	X	14,285	6,912	4,691	3,383	5,617	X	X	(12,711)	(12,676)		(12,676)	-	(12,676)

7.4 NON-SIGNIFICANT EQUITY INVESTMENTS: ACCOUNTING DATA

	Carrying amount of investment	Total assets	Total liabilities	Total revenues	Profit (loss) from continuing operations after tax	Profit (loss) for the period (1)	Other income after tax (2)	Comprehensive income (3) = (1) + (2)
A. Joint ventures								
B. Companies subject to significant influence	2,384	25,438	25,438	6,070	(174)	(174)	-	(174)

7.5 EQUITY INVESTMENTS: CHANGE FOR THE PERIOD

	Total 31/12/2020	Total 31/12/2019
A. Opening balance	**88,893**	**120,962**
B. Increases	**33,563**	**24,611**
B.1 Purchases	27,375	592
B.2 Writebacks	-	-
B.3 Revaluations	3,287	9,420
B.4 Other increases	2,901	14,599
C. Decreases	**7,954**	**56,680**
C.1 Sales	89	55,288
C.2 Impairment losses	7,865	-
C.3 Writedowns	-	1,391
C.4 Other decreases	-	-
D. Closing balance	**114,502**	**88,893**
E. Total revaluations	**27,431**	**24,144**
F. Total impairment losses	**11,336**	**3,471**

7.6 ASSESSMENTS AND SIGNIFICANT ASSUMPTIONS FOR ESTABLISHING THE EXISTENCE OF JOINT CONTROL OR SIGNIFICANT INFLUENCE

"Part A – Accounting Policies, "Section 3 – Scope and methods of consolidation" of the notes to the financial statements sets out the general criteria for the assessment and significant assumptions made in establishing whether or not we exercise joint control or significant influence over an investee company or another entity.

7.7 COMMITMENTS IN RESPECT OF INVESTMENTS IN JOINT VENTURES

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

7.8 COMMITMENTS IN RESPECT OF INVESTMENTS IN COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE

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

7.9 SIGNIFICANT RESTRICTIONS

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

7.10 OTHER INFORMATION

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

SECTION 8 – TECHNICAL RESERVES ATTRIBUTABLE TO REINSURERS - ITEM 80

The Section has not been completed because there were no such positions as of the reporting date..

SECTION 9 – PROPERTY, PLANT AND EQUIPMENT – ITEM 90

9.1 OPERATING PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

	Total 31/12/2020	Total 31/12/2019
1. Owned assets	**1,781,675**	**1,818,663**
a) land	299,068	298,763
b) buildings	1,257,266	1,286,378
c) movables	58,820	62,485
d) electronic systems	81,912	86,207
e) other	84,609	84,830
2. Assets acquired under finance leases	**269,907**	**298,400**
a) land	5,111	5,126
b) buildings	249,408	276,731
c) movables	670	605
d) electronic systems	8,254	10,735
e) other	6,464	5,203
Total	**2,051,582**	**2,117,063**
of which: obtained through enforcement of guarantees received	1,176	97

The rights of use acquired under leases for buildings are attributable almost entirely to the leases of properties used as branches and spaces used to host ATMs or offices.

At December 31, 2020 the Group had granted operating leases to others for assets used in operations, mainly buildings, in the amount of, about €35 million. The leased properties are mainly for commercial and office use.

9.2 INVESTMENT PROPERTY: COMPOSITION OF ASSETS CARRIED AT COST

	Total 31/12/2020				Total 31/12/2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level3		Level 1	Level 2	Level3
1. Owned assets	**143,762**	**-**	**2,557**	**147,866**	**150,156**	**-**	**1,030**	**159,962**
a) land	29,172	-	339	28,194	30,353	-	309	28,745
b) buildings	114,590	-	2,218	119,672	119,803	-	721	131,217
2. Right-of-use assets acquired under leases	**7,540**	**-**	**-**	**7,540**	**7,540**	**-**	**-**	**7,540**
a) land	-	-	-	-	-	-	-	-
b) buildings	7,540	-	-	7,540	7,540	-	-	7,540
Total	**151,302**	**-**	**2,557**	**155,406**	**157,696**	**-**	**1,030**	**167,502**
of which: obtained through enforcement of guarantees received	39,234	-	1,306	32,651	4,007	-	-	4,012

As at December 31, 2020, the Group had granted operating leases to others for investment property, mainly buildings, in the amount of about €55 million. The leased properties are mainly for commercial and residential use.

9.3 OPERATING PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF REVALUED ASSETS

	Total 31/12/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Owned assets	**-**	**-**	**9,796**	**12,177**	**-**	**-**
a) land	-	-	-	945	-	-
b) buildings	-	-	9,796	11,232	-	-
c) movables	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	-	-	-	-
2. Right-of-use assets acquired under leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
c) movables	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	-	-	-	-
Total	**-**	**-**	**9,796**	**12,177**	**-**	**-**
of which: obtained through enforcement of guarantees received	-	-	56	-	-	-

9.4 INVESTMENT PROPERTY: COMPOSITION OF ASSETS AT FAIR VALUE

	Total 31/12/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Owned assets	**-**	**470,664**	**3,029**	**-**	**529,201**	**18,192**
a) land	-	-	909	-	5,496	1,124
b) buildings	-	470,664	2,120	-	523,705	17,068
2. Right-of-use assets acquired under leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**470,664**	**3,029**	**-**	**529,201**	**18,192**
of which: obtained through enforcement of guarantees received	-	-	28	-	-	-

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

		Total 31/12/2020	Total 31/12/2019
1. Inventories of property, plant and equipment obtained through enforcement of guarantees received		**52,288**	**7,620**
a) land		16,924	333
b) buildings		26,778	2,483
c) movables		-	-
d) electronic systems		-	-
e) other		8,586	4,804
2. Other inventories of property, plant and equipment		**3,030**	**592**
	Total	55,318	8,212
of which: measured at fair value net of selling costs		103	-

9.6 OPERATING PROPERTY, PLANT AND EQUIPMENT: CHANGE FOR THE PERIOD

	Land	Buildings	Movables	Electronic plant	Other	Total
A. Opening gross balance	**304,904**	**2,233,325**	**418,892**	**295,733**	**571,546**	**3,824,400**
A.1 Total net writedown	70	658,984	355,801	198,791	481,512	1,695,158
A.2 Opening net balance	**304,834**	**1,574,341**	**63,091**	**96,941**	**90,034**	**2,129,240**
B. Increases:	**4,816**	**100,456**	**9,446**	**43,121**	**36,996**	**194,835**
B.1 Purchases	3,964	51,388	7,324	37,597	33,124	133,397
B.2 Capitalized improvement costs	-	11,283	194	947	563	12,987
B.3 Writebacks	-	-	-	-	1	1
B.4 Fair value gains recognized in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Transfers from investment property	193	592	X	X	X	785
B.7 Other changes	659	37,193	1,928	4,577	3,308	47,665
C. Decreases:	**5,471**	**158,327**	**13,047**	**49,896**	**35,957**	**262,698**
C.1 Sales	69	2,274	240	737	936	4,256
C.2 Depreciation	23	103,438	11,835	31,503	30,979	177,778
C.3 Writedowns for impairment recognized in	227	8,945	-	51	-	9,223
a) equity	-	100	-	-	-	100
b) income statement	227	8,845	-	51	-	9,123
C.4 Fair value losses recognized in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to:	1,577	8,050	-	-	-	9,627
a) investment property	1,546	8,006	X	X	X	9,552
b) non-current assets and disposal groups held for sale	31	44	-	-	-	75
C.7 Other changes	3,575	35,620	972	17,605	4,042	61,814
D. Closing net balance	**304,179**	**1,516,470**	**59,490**	**90,166**	**91,073**	**2,061,378**
D.1 Total net writedowns	90	716,635	350,126	220,400	475,760	1,763,011
D.2 Closing gross balance	**304,269**	**2,233,105**	**409,616**	**310,566**	**566,833**	**3,824,389**
E. Measurement at cost	-	-	-	-	-	-

9.7 INVESTMENT PROPERTY: CHANGE FOR THE PERIOD

	Total	
	Land	Buildings
A. Opening balance	**36,974**	**668,115**
B. Increases:	**10,762**	**12,445**
B.1 Purchases	5,156	3,022
B.2 Capitalized improvement costs	58	708
B.3 Fair value gains	-	-
B.4 Writebacks	22	56
B.5 Positive exchange rate differences	-	-
B.6 Transfers from operating property	1,538	8,014
B.7 Other changes	3,988	645
C. Decreases	**17,655**	**85,646**
C.1 Sales	5,392	13,743
C.2 Depreciation	-	3,196
C.3 Fair value losses	-	40,010
C.4 Writedowns for impairment	579	1,943
C.5 Negative exchange rate differences	-	-
C.6 Transfers to:	1,559	2,603
a) operating property	193	592
b) non-current assets and disposal groups held for sale	1,366	2,011
C.7 Other changes	10,125	24,150
D. Closing balance	**30,081**	**594,914**
E. Measurement at fair value	30,179	125,748

9.8 INVENTORIES OF PROPERTY, PLANT AND EQUIPMENT WITHIN THE SCOPE OF IAS 2: CHANGE FOR THE PERIOD

	Inventories of property, plant and equipment obtained through enforcement of guarantees received					Other inventories of property, plant and equipment	Total
	Land	Buildings	Movables	Electronic plant	Other		
A. Opening balance	**333**	**2,483**	**-**	**-**	**4,803**	**593**	**8,212**
B. Increases	**17,441**	**28,726**	**-**	**-**	**4,495**	**2,604**	**53,266**
B.1 Purchases	3,269	3,388	-	-	4,463	210	11,330
B.2 Writebacks	-	-	-	-	-	-	-
B.3 Positive exchange rate differences	-	-	-	-	-	-	-
B.4 Other increases	14,172	25,338	-	-	32	2,394	41,936
C. Decreases	**850**	**4,431**	**-**	**-**	**712**	**167**	**6,160**
C.1 Sales	-	1,565	-	-	61	-	1,626
C.2 Writedowns for impairment	533	1,008	-	-	651	59	2,251
C.3 Negative exchange rate differences	-	-	-	-	-	-	-
C.4 Other decreases	317	1,858	-	-	-	108	2,283
D. Closing balance	**16,924**	**26,778**	**-**	**-**	**8,586**	**3,030**	**55,318**

9.9 COMMITMENTS TO ACQUIRE PROPERTY, PLANT AND EQUIPMENT

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

SECTION 10 – INTANGIBLE ASSETS – ITEM 100

10.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 31/12/2020		Total 31/12/2019	
	Finite life	Indefinite life	Finite life	Indefinite life
A,1 Goodwill	**X**	**23,030**	**X**	**25,868**
A.1.1 pertaining to the Group	X	23,030	X	25,868
A.1.2 pertaining to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**145,809**	**5**	**120,589**	**5**
A.2.1 Assets carried at cost	145,809	5	120,589	5
a) internally generated intangible assets	5,017	-	4,419	-
b) other assets	140,792	5	116,170	5
A.2.2 Assets designated at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**145,809**	**23,035**	**120,589**	**25,873**

Item A.1.1 includes goodwill paid in the acquisition of bank branches by the Group banks (€7.5 million, net of writedowns for the period of €2.8 million) and goodwill recognized upon first-time consolidation of certain controlling interests (€15.6 million) prior to the formation of the Mutual Banking Group.

Other intangible assets mainly comprise software and licenses and, to a lesser extent, intangible assets deriving from business combinations carried out by Group banks prior to formation of the Group.

10.2 INTANGIBLE ASSETS: CHANGE FOR THE PERIOD

	Goodwill	Other intangible assets internally generated		Other intangible assets: other		Total
		finite life	indefinite life	finite life	indefinite life	
A. Opening balance	**42,283**	**4,419**	**-**	**121,527**	**5**	**168,234**
A.1 Total net writedown	16,415	-	-	5,357	-	21,772
A.2 Opening net balance	**25,868**	**4,419**	**-**	**116,170**	**5**	**146,462**
B. Increases	**5**	**1,850**	**-**	**105,062**	**-**	**106,917**
B.1 Purchases	-	-	-	103,407	-	103,407
B.2 Increases in internally generated intangible assets	X	1,850	-	106	-	1,956
B.3 Writebacks	X	-	-	-	-	-
B.4 Fair value gains recognized in	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Other changes	5	-	-	1,549	-	1,554
C. Decreases	**2,843**	**1,252**	**-**	**80,440**	**-**	**84,535**
C.1 Sales	-	-	-	899	-	899
C.2 Writedowns	2,843	1,252	-	24,323	-	28,418
- Amortization	X	995	-	23,506	-	24,501
- Impairment	2,843	257	-	817	-	3,917
+ equity	X	-	-	-	-	-
+ income statement	2,843	257	-	817	-	3,917
C.3 Fair value losses recognized in:	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	55,218	-	55,218
D. Closing net balance	**23,030**	**5,017**	**-**	**140,792**	**5**	**168,844**
D.1 Total net writedowns	5,918	-	-	3,855	-	9,772
E. Closing gross balance	**28,948**	**5,017**	**-**	**144,647**	**5**	**178,617**
F. Measurement at cost	-	-	-	-	-	-

10.3 OTHER INFORMATION

Goodwill impairment testing

Under the provisions of IAS 36, at each reporting date, goodwill must be tested for impairment in order to verify the asset's carrying amount. The test must also be performed following the occurrence of a trigger event during the year.

An asset is written down after impairment testing if its carrying amount is greater than that deemed recoverable, the latter defined as the greater of value in use (i.e. the present value of future cash flows cash expected from the cash generating unit – CGU - involved) and the fair value less of costs to sell, i.e. the price that would be received to sell an asset in an orderly transaction between informed and independent counterparties, net of any transaction costs.

The goodwill of the affiliated banks

In order to perform impairment tests for the goodwill recognized by the affiliated banks, the Group has adopted common criteria and methodological models, in line with best market and theoretical practice, for performing impairment testing of the goodwill recognized by the banks. More specifically, they calculate value in use instead of fair value less costs to sell, mainly due to the fact that the mutual banks are not listed on an active market and their nature, size and operations make it difficult and excessively arbitrary to identify comparable listed companies in the Italian market that would enable the use of the most common methods for estimating fair value net of costs to sell (e.g. "comparable transactions" or "comparable companies" methods).

Consistent with the provisions of IAS 36 and taking account of the general principles of reasonableness and demonstrability of the estimates to be used, two distinct approaches have been adopted within the Group (based on the use of a CGU represented, respectively, by the entire company or the branches that originally led to the recognition of goodwill) in order to ensure any necessary continuity in the analytical methods.

In the case of the "entire company CGU", the dividend discount model (DDM) - excess capital variant – has been applied. It estimates the value of a company (in this case, the affiliated mutual bank) on the basis of future dividends distributable to shareholders. This method is widely used in accepted valuation practice and supported by the literature on corporate valuation techniques, with particular regard to companies operating in the financial sector.

Affiliates that adopt the "branches acquired CGU" use the discounted cash flow ("DCF") – levered variant. It estimates the value of the economic capital of a company ("equity value") as the sum of the present value of the cash flows distributable to shareholders that it will generate over a specified explicit period for planning projected economic/financial data and of the residual value at the end of the that period ("TV"), discounted at a rate equal to the cost of equity ("Ke").

The assumptions underlying the valuation models used are shown below:

- the value in use of the CGUs is determined by estimating the present value of future cash flows that are expected to be generated by the CGUs themselves;
- the CGUs were assessed on a stand-alone and going-concern basis;
- the CET1 Target P2G of the Parent Company was considered in estimating the flows that can be distributed over the plan horizon;
- the data for BTP, Beta, etc. were acquired from market infoproviders or from publicly available information.

The discount rate was set equal to the average rate of return on capital, determined on the basis of the capital asset pricing model ("CAPM") and using:

- the 12-month average for 10-year BTPs as the risk-free rate;
- to calculate beta, a sample of comparable companies (in terms of business) on the basis of which the average or median beta was drawn from monthly observations over a two-year horizon;
- a market risk premium of 5.14%, in line with commonly adopted valuation practice.

On the basis of these assumptions, the discount rate (Ke) used by the Bank was calculated at 6.78%.

Finally, in accordance with the provisions of paragraph 134, letter f) of IAS 36, as part of the assessment of the recoverable amount of goodwill and where the estimate of this value is the result of valuation procedures based on specific assumptions defined by company management, it is also necessary perform a sensitivity analysis to identify any reasonably possible changes in the those assumptions that could cause the carrying amount of the CGU to exceed its recoverable amount.

In this regard, as described above, the basic assumptions adopted by the Bank's management and used in the valuation procedure are represented:

- the rate for discounting the income referred to in the previous line, set equal to the average cost of capital for shareholders, estimated using the CAPM.
- by the measure of the prospective income derived from the Bank's business plan, corrected appropriately on the basis of the valuation methodology applied and, therefore, by the average growth rate implicit for that income.

In the sensitivity analysis, the "Ke" and "g" parameters modified with the reasonably possible range of +/- 0.25% and +/- 0.15% respectively. The outcome of the sensitivity analysis out confirms the value of the goodwill recognized.

Net of impairment adjustments for the year of €2.8 million, at December 31, 2020 the recognized goodwill of the affiliated banks totaled €7.5 million, of which €1.9 million in respect of the "entire company CGU" and €5.6 million in respect of the "branch CGU".

Goodwill of investee companies

In the measurement of the goodwill recognized in the consolidated financial statements following the acquisition of control over the investee, the CGU is represented by each of these investees.

With regard to the goodwill recognized at the first-time consolidation of BCC Risparmio & Previdenza SGRpA (€10.5 million), the market multiples method was used to measure the company.

The market multiples method is based on the assumption that the value of a company can be determined by drawing information from the stock exchange market for companies operating in the same sector of the company being valued ("comparable companies"). Specifically, the method involves calculating multipliers ("stock market multiples") resulting from the relationship between the value that the market attributes to comparable companies and their performance and financial indicators. The value of the company being valued is obtained by applying the identified multiples to the indicators of the company involved.

In particular, an international panel of companies operating in the asset management sector was considered, representing the business of BCC Risparmio & Previdenza SGRpA, using P/BV (Price/Book Value) as the multiple.

The outcome of the impairment test confirms the value of the goodwill recognized in the financial statements.

In order to assess the goodwill recognized at first-time consolidation of BCC Sistemi Informatici (€4.9 million), for the purposes of the impairment test, the economic value of the company's capital was estimated using the market multiples method. In particular, an international panel of companies operating in the IT sector and in the development of software was considered, as these represent the main activities of BCC Sistemi Informatici, using P/BV (Price/Book Value) as the multiple.

The outcome of the impairment test confirms the value of the goodwill recognized in the financial statements.

SECTION 11 - TAX ASSETS AND LIABILITIES – – ITEM 110 OF ASSETS AND ITEM 60 OF LIABILITIES

11.1 DEFERRED TAX ASSETS: COMPOSITION

	IRES	IRAP	TOTAL	IRES	IRAP	TOTAL
	31/12/2020			31/12/2019		
1) Recognized in income statement:	**1,433,401**	**164,805**	**1,598,206**	**1,492,969**	**178,233**	**1,671,202**
a) DTAs pursuant to Law 214/2011	**1,116,477**	**119,579**	**1,236,056**	**1,155,648**	**130,114**	**1,285,762**
Writedowns of loans to customers	1,034,218	116,169	1,150,387	1,154,768	129,992	1,284,760
Goodwill and other intangible assets at December 31, 2014	440	80	520	664	87	751
Tax losses/negative value of production pursuant to Law 214/2011	81,819	3,330	85,149	216	35	251
b) Other	**316,924**	**45,226**	**362,150**	**337,321**	**48,119**	**385,440**
Writedowns of amounts due from banks	2,637	-	2,637	4,718	3	4,721
Writedowns of loans to customers	70,500	22,820	93,320	70,870	24,704	95,574
Goodwill and other intangible assets	6,028	1,199	7,227	6,230	1,265	7,495
Tax losses	43,297	-	43,297	70,949	-	70,949
Writedowns of financial instruments	859	451	1,310	1,032	520	1,552
Writedowns from impairment of guarantees issued recognized under liabilities	39,541	35	39,576	33,252	291	33,543
Provisions for risks and charges	92,022	11,762	103,784	78,396	9,819	88,215
Costs of predominantly administrative nature	1,595	7	1,602	1,933	171	2,104
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	30,212	4,974	35,186	26,292	4,243	30,535
Other	30,233	3,978	34,211	43,649	7,103	50,752
2) Recognized in shareholders' equity:	**27,141**	**4,452**	**31,593**	**26,076**	**5,146**	**31,222**
a) Valuation reserves	**3,813**	**879**	**4,692**	**10,231**	**2,146**	**12,377**
Capital losses on financial assets measured through OCI	3,813	879	4,692	10,231	2,146	12,377
b) Other:	**23,328**	**3,573**	**26,901**	**15,845**	**3,000**	**18,845**
Actuarial gains/losses on provisions for employees	4,128	25	4,153	3,614	27	3,641
Other	19,200	3,548	22,748	12,231	2,973	15,204
A. Total deferred tax assets	**1,460,542**	**169,257**	**1,629,799**	**1,519,045**	**183,379**	**1,702,424**
B. Offsetting with deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets - Total item 110 b)	**1,460,542**	**169,257**	**1,629,799**	**1,519,045**	**183,379**	**1,702,424**

The DTAs referred to in Law 214/2011, equal to a total of €1.2 billion, are mainly represented by prepaid taxes attributable to writedowns of loans to customers accounted for up to 2015 and not yet deducted, which can be converted into tax credits in the event of a net loss for the year and/or a tax loss. The DTAs referred to in Law 214/2011 on tax losses are generated by the reversal of writedowns of loans to customer and can be transformed into tax credits at the time tax returns are filed.

DTAs recognized in the income statement other than those referred to in Law 214/2011 amount to a total €362.1 million.

The sub-item "Provisions for risks and charges", which amounts to €103.8 million, represents the prepaid taxes recognized in respect of provisions for risks and charges that are expected to be deducted in future years.

The sub-item "Writedowns of loans to customers" reported in the aggregate b) Other and equal to €93.3 million includes the deferred tax assets that can be recognized in respect of the nine-tenths of writedowns on loans to customers recognized at first-time adoption of IFRS 9, which under Law 145 of December 30, 2018 are deducted in tenths.

The reduction in the sub-item "Tax losses" is attributable to the transformation into tax credits allowed under Art. 55 of the Decree Law 18 of March 17, 2020 ("Cure Italy Decree"), which in order to provide financial support to businesses allowed companies that have transferred receivables in respect of non-solvent debtors to third parties to transform deferred tax assets in respect of tax losses not yet used at the date of legal effect of the transfer and the ACE not yet deducted or transformed at the date of legal effect of the transfer into tax credits.

In application of this option, the Group recognized DTAs in profit or loss attributable to unused tax losses and/or ACEs not deducted or used in the total amount of about €46 million, and converted DTAs into tax credits in the total amount of around €76 million.

11.2 DEFERRED TAX LIABILITIES: COMPOSITION

	IRES 31/12/2020	IRAP 31/12/2020	TOTAL	IRES 31/12/2019	IRAP 31/12/2019	TOTAL
1) Deferred tax liabilities recognized in income statement	**29,471**	**4,189**	**33,660**	**29,035**	**4,489**	**33,524**
Writedowns of loans to customers deducted in tax return	19	-	19	-	-	-
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	17,705	3,442	21,147	18,182	3,491	21,673
Other	11,747	747	12,494	10,853	998	11,851
2) Deferred tax liabilities recognized in shareholders' equity	**53,637**	**10,424**	**64,061**	**44,695**	**8,613**	**53,308**
Valuation reserves						
Capital gains on financial assets measured through OCI	36,845	7,287	44,132	25,556	5,036	30,592
Revaluation of property	15,310	3,029	18,339	15,841	3,112	18,953
Other	1,482	108	1,590	3,298	465	3,763
A. Total deferred tax liabilities	**83,108**	**14,613**	**97,721**	**73,730**	**13,102**	**86,832**
B. Offsetting with deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax liabilities	**83,108**	**14,613**	**97,721**	**73,730**	**13,102**	**86,832**

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

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**1,671,202**	**292,474**
2. Increases	**223,334**	**1,519,171**
2.1 Deferred tax assets recognized during the period	218,227	128,804
a) in respect of previous period	2,041	215
b) due to change in accounting policies	-	-
c) writebacks	-	-
d) other	216,186	128,589
2.2 New taxes or increases in tax rates	155	-
2.3 Other increases	4,952	1,390,367
3. Decreases	**296,330**	**140,443**
3.1 Deferred tax assets derecognized during the period	243,125	129,972
a) reversals	238,464	119,318
b) writedowns for supervening non-recoverability	4,272	9,126
c) due to changes in accounting policies	-	-
d) other	389	1,528
3.2 Reduction in tax rates	32	13
3.3 Other decreases	53,173	10,458
a) transformation in tax credits pursuant to Law 214/2011	16,459	7,042
b) other	36,714	3,416
4. Closing balance	**1,598,206**	**1,671,202**

11.4 CHANGES IN DEFERRED TAX ASSETS PURSUANT TO LAW 214/2011

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**1,285,762**	**172,859**
2. Increases	**89,859**	**1,120,357**
3. Decreases	**139,565**	**7,454**
3.1 Reversals	123,076	55
3.2 Conversion into tax credits	16,459	7,037
a) arising from losses for the year	15,812	6,284
b) arising from tax losses	647	753
3.3 Other decreases	30	362
4. Closing balance	**1,236,056**	**1,285,762**

The increases mainly include convertible deferred tax assets on tax losses recognized during the year, while sub-item 3.1 Reversals represents the cancellation of deferred tax assets referred to in Law 214/2011.

11.5 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN INCOME STATEMENT)

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**33,524**	**2,648**
2. Increases	**2,419**	**33,828**
2.1 Deferred tax liabilities recognized during the period	2,222	2,309
a) in respect of previous period	246	82
b) due to change in accounting policies	-	-
c) other	1,976	2,227
2.2 New taxes or increases in tax rates	23	-
2.3 Other increases	174	31,518
3. Decreases	**2,283**	**2,951**
3.1 Deferred tax liabilities derecognized during the period	2,278	2,385
a) reversals	2,162	2,372
b) due to changes in accounting policies	-	-
c) other	116	12
3.2 Reduction in tax rates	-	-
3.3 Other decreases	5	567
4. Closing balance	**33,660**	**33,524**

11.6 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**31,222**	**19,786**
2. Increases	**14,705**	**156,229**
2.1 Deferred tax assets recognized during the period	14,504	4,448
a) in respect of previous periods	177	25
b) due to change in accounting policies	207	-
c) other	14,120	4,423
2.2 New taxes or increases in tax rates	-	39
2.3 Other increases	201	151,742
3. Decreases	**14,334**	**144,793**
3.1 Deferred tax assets derecognized during the period	8,687	135,301
a) reversals	764	30,104
b) writedowns for supervening non-recoverability	12	134
c) due to changes in accounting policies	-	-
d) other	7,911	105,063
3.2 Reduction in tax rates	-	-
3.3 Other decreases	5,647	9,492
4. Closing balance	**31,593**	**31,222**

11.7 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**53,308**	**660**
2. Increases	**21,899**	**57,691**
2.1 Deferred tax liabilities recognized during the period	19,359	20,819
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	2
c) other	19,359	20,817
2.2 New taxes or increases in tax rates	14	94
2.3 Other increases	2,526	36,778
3. Decreases	**11,146**	**5,043**
3.1 Deferred tax liabilities derecognized during the period	9,477	4,323
a) reversals	3,168	670
b) due to change in accounting policies	233	-
c) other	6,076	3,653
3.2 Reduction in tax rates	-	-
3.3 Other decreases	1,669	720
4. Closing balance	**64,061**	**53,308**

The increase reported under sub-item 2.1 c) other reflects the appreciation during the period of financial assets classified under financial assets measured at fair value through other comprehensive income (FVOCI).

11.8 OTHER INFORMATION

The recovery of the DTAs pursuant to Law 214/2011 is certain under the provisions of the law and does not take account of the profit generating capacity of the companies that recognized them.

DTAs other than those referred to in Law 214/2011 are recognized to the extent that their recovery is probable. This probability was assessed using the probability test on the basis of the ability of the companies recognizing them (affiliated banks) or, as a result of the exercise of the option to participate in the tax consolidation mechanism, of the group of companies participating in that mechanism (the companies in the direct scope of consolidation) to generate positive taxable income.

With regard to the probability test conducted by the affiliated banks, the tax income or loss (IRES/IRAP) was estimated over a five-year forecast period (from 2021 to 2025), and the sufficiency of the estimated taxable income to absorb the temporary deductible differences that gave rise to the recognition of DTAs that will be reversed in the reference period was verified. In addition, with regard to DTAs reversing subsequent to the aforementioned time horizon, a further assessment was carried out that demonstrated their recoverability within a limited and reasonable period of years.

The estimations and assumptions concerning the recoverability of deferred tax assets were made on the basis of the latest approved strategic plan, appropriately revised - in particular with regard to the volume of funding and lending, fees and commissions, the cost of risk and forward looking profitability - to take account of the impact of the COVID-19 pandemic and the initiatives and measures implemented by the Group companies in this area.

The test used the IRES and IRAP rates in force at the reporting date (27.50% for IRES, including the surtax of 3.50%).

As regards the recoverability test for prepaid IRES of the Parent Company and the other companies participating in the tax consolidation mechanism, the projections for expected profitability prepared by the competent units of the Parent Company indicate the tax consolidation mechanism will be able to absorb all recognized DTAs by 2026, even those that by definition could be carried forward indefinitely (i.e. DTAs on tax losses and the ACE) and those for which reversal is expected beyond the observation period.

The following table shows the composition of current tax assets at the reporting date.

	31/12/2020			
	IRES	IRAP	OTHER	TOTAL
Current tax liabilities (-)	(5,170)	(20,153)	(1,600)	(26,923)
Payments on account (+)	81,380	54,778	4,115	140,273
Other tax receivables (+)	202,992	32,879	20,761	256,632
Tax credit pursuant to Law 214/2011 (+)	46,186	759	-	46,945
Withholding tax (+)	4,230	25	228	4,483
Debtor balance of item 60 a) of liabilities	**(1,474)**	**(1,853)**	**(168)**	**(3,495)**
Creditor balance	331,092	70,141	23,672	424,905
Balance of non-offsettable tax receivables	54,136	10,205	-	64,341
Creditor balance of item 110 a) of assets	**385,228**	**80,346**	**23,672**	**489,246**

SEZIONE 12 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES - ITEM 120 OF ASSETS AND ITEM 70 OF LIABILITIES

12.1 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY TYPE

	31/12/2020	31/12/2019
A. Assets held for sale		
A.1 Financial assets	-	769
A.2 Equity investments	-	-
A.3 Property, plant and equipment	18,368	33,087
of which obtained through enforcement of guarantees received	15,947	8,091
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**18,368**	**33,856**
of which carried at cost	17,358	26,234
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	104
of which measured at fair value level 3	1,010	7,518
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated as at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortized cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which carried at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
C. Liabilities associated with assets held for sale		
C.1 Debt	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	**-**	**-**
of which carried at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortized cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated as at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total D	**-**	**-**

SECTION 13 - OTHER ASSETS – ITEM 130

13.1 OTHER ASSETS: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
- Shortfalls, embezzlement and robberies	1,318	1,461
- Trade receivables	42,835	48,172
- Stamp duty and other valuables	1,269	1,606
- Gold, silver and other precious metals	2,254	2,731
- Receivables for future premiums on derivatives	9,901	11,678
- Fees and commissions and interest to be received	13,265	18,244
- Tax receivables due from central govt. tax authorities and other tax agencies	365,443	353,557
- Receivables from social security institutions	4,660	3,999
- Tax receivables	12,810	27,758
- Receivables from employees	5,594	6,951
- Non-recurring transactions (acquisitions)	11,252	17,518
- Items in transit between branches and items being processed	272,787	583,008
- Accrued income not attributable to separate line item	21,222	32,119
- Prepaid expenses not attributable to separate line item	33,126	29,129
- Leasehold improvements	42,082	52,028
- Other (security deposits, assets not attributable to other items)	559,990	490,047
- Consolidation adjustments	533,447	570,039
Total	**1,933,255**	**2,250,045**

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

LIABILITIES

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

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

	Total 31/12/2020				Total 31/12/2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to central banks	**29,923,224**	X	X	X	**17,411,817**	X	X	X
2. Due to banks	**2,191,073**	X	X	X	**1,461,929**	X	X	X
2.1 Current accounts and demand deposits	299,339	X	X	X	306,344	X	X	X
2.2 Fixed term deposits	116,154	X	X	X	105,736	X	X	X
2.3 Loans	1,648,035	X	X	X	939,674	X	X	X
2.3.1 Repurchase agreements	1,534,792	X	X	X	799,850	X	X	X
2.3.2 Other	113,243	X	X	X	139,824	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	1,522	X	X	X	2,136	X	X	X
2.6 Other payables	126,023	X	X	X	108,039	X	X	X
Total	**32,114,297**	**-**	**20,472,027**	**11,837,754**	**18,873,746**	**-**	**12,771,725**	**5,603,419**

"Due to central banks" mainly represents financing from the ECB (TLTROs), maturing between December 2022 and December 2023. The significant increase compared with the previous year reflects the new Group financial strategy approved in March 2020 in response to the more expansionary monetary policy stance of the ECB (in particular the expansion of access to TLTRO III operations) to counter the adverse effects of the COVID-19 health emergency on the economy.

The increase in the item "Due to banks" includes an increase of €0.7 billion repurchase transactions entered into by Group banks.

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

	Total 31/12/2020				Total 31/12/2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and demand deposits	92,228,718	X	X	X	80,905,313	X	X	X
2. Fixed-term deposits	5,748,454	X	X	X	6,483,273	X	X	X
3. Loans	8,899,331	X	X	X	16,519,704	X	X	X
3.1 Repurchase agreements	6,821,435	X	X	X	13,966,184	X	X	X
3.2 Other	2,077,896	X	X	X	2,553,520	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	262,303	X	X	X	282,977	X	X	X
6. Other payables	1,257,891	X	X	X	1,389,846	X	X	X
Total	**108,396,697**	**3,593**	**6,938,328**	**101,451,848**	**105,581,113**	**3,676**	**8,536,288**	**96,608,613**

Amounts due to customers increased by €2.8 billion compared with December 2019, mainly reflecting the increase in balances on current accounts and demand deposits.

The sub-item "Repurchase agreements" is mainly composed of transactions with the Clearing and Guarantee Fund in the amount of €6.7 billion.

The sub-item "Loans-other" comprises €1 billion in loans obtained in OPTES auctions with the MEF.

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

	Total 31/12/2020				Total 31/12/2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	8,308,713	3,363,710	5,035,742	-	10,589,999	1,063,769	9,591,316	-
1.1 structured	4,875	-	4,875	-	6,462	-	6,469	-
1.2 other	8,303,838	3,363,710	5,030,867	-	10,583,537	1,063,769	9,584,847	-
2. Other securities	5,409,783	-	325,322	5,161,485	5,788,139	-	709,133	5,158,292
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	5,409,783	-	325,322	5,161,485	5,788,139	-	709,133	5,158,292
Total	**13,718,495**	**3,363,710**	**5,361,064**	**5,161,485**	**16,378,138**	**1,063,769**	**10,300,449**	**5,158,292**

“Other securities – other” include certificates of deposit issued by Group banks.

1.4 BREAKDOWN OF SUBORDINATED DEBT/SECURITIES

	31/12/2020	31/12/2019
A.1 Subordinated debt	**1,021**	**1,021**
- banks	1,021	1,021
- customers	-	-
B.1 Subordinated securities	**608,177**	**754,339**
- banks	595,411	696,589
- customers	12,766	57,750
Total	**609,198**	**755,360**

The sub-item B.1 “Subordinated securities – banks” includes €430 million in respect of subordinated bonds issued by Iccrea Banca SpA and subscribed by non-Group banks, while the remainder is represented by bonds issued by the Group mutual banks.

1.5 BREAKDOWN OF STRUCTURED DEBT

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

1.6 LEASE LIABILITIES

Right of use	Falling due within 5 years	Falling due after 5 years
Land	-	-
Buildings	147,430	101,046
Movables	462	57
Electronic systems	6,533	27
Other	8,162	108

The table provides a breakdown by maturity of lease liabilities, as required under IFRS 16 and the sixth update of Circular 262 of the Bank of Italy.

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 31/12/2020					Total 31/12/2019				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	133	153	-	-	153	290	312	-	-	312
2. Due to customers	125	120	-	-	120	332	313	-	-	313
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3. Other	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**258**	**273**	**-**	**-**	**273**	**622**	**625**	**-**	**-**	**625**
B. Derivatives										
1. Financial derivatives	X	150	242,649	736	X	X	5	162,211	887	X
1.1 Trading	X	150	242,649	-	X	X	5	162,211	-	X
1.2 Associated with fair value option	X	-	-	736	X	X	-	-	887	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**	**150**	**242,649**	**736**	**X**	**X**	**5**	**162,211**	**887**	**X**
Total (A+B)	**X**	**423**	**242,649**	**736**	**X**	**X**	**630**	**162,211**	**887**	**X**

Key:
NV=nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3
* Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

The sub-item 1.1 “Financial derivatives – trading” includes the negative value of trading derivatives entered into almost entirely by the Parent Company.

2.2 BREAKDOWN OF “FINANCIAL LIABILITIES HELD FOR TRADING”: SUBORDINATED LIABILITIES

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

2.3 BREAKDOWN OF “FINANCIAL LIABILITIES HELD FOR TRADING”: STRUCTURED LIABILITIES

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

SECTION 3 - FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE - ITEM 30

3.1 FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE: COMPOSITION BY TYPE

	Total 31/12/2020					Total 31/12/2019				
	NV	Fair value			Fair value *	VN	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees issued	-	X	X	X	X	X	X	X	X	X
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees issued	-	X	X	X	X	X	X	X	X	X
3. Debt securities	**3,026**	**2,868**	**249**	**-**	**2,849**	**11,006**	**7,933**	**3,528**	**-**	**11,055**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	3,026	2,868	249	-	X	11,006	7,933	3,528	-	X
Total	**3,026**	**2,868**	**249**	**-**	**2,849**	**11,006**	**7,933**	**3,528**	**-**	**11,055**

Key:
NV= Nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3
** Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date*

The sub-item 3.2 "Debt securities – Other" includes bonds issued by a number of affiliated banks hedged with interest rate derivatives measured in accordance with the fair value option pursuant to IFRS 9. The decrease compared with the previous year is mainly attributable to the maturity of a number of bonds issued.

3.2 BREAKDOWN OF "FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE": SUBORDINATED LIABILITIES

	31/12/2020	31/12/2019
A. Financial liabilities designated as at fair value – Subordinated liabilities	**268**	**405**
A.1 Due to banks	-	-
A.2 Due to customers	-	-
A.3 Securities issued	268	405

SECTION 4 - HEDGING DERIVATIVES – ITEM 40

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

	Fair value 31/12/2020			NV	Fair value 31/12/2019			NV
	L1	L2	L3	31/12/2020	L1	L2	L3	31/12/2019
A) Financial derivatives	**93**	**514,650**	**-**	**8,968,599**	**22**	**321,409**	**-**	**7,617,757**
1) Fair value	93	469,649	-	7,615,797	22	321,075	-	7,586,602
2) Cash flows	-	45,001	-	1,352,802	-	334	-	31,155
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**93**	**514,650**	**-**	**8,968,599**	**22**	**321,409**	**-**	**7,617,757**

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

4.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair value							Cash flows		
	Specific									
	Debt securities and interest rates	Equity securities and stock indices	Foreign currencies and gold	Credit	Commodities	Other	Generic	Specific	Generic	Foreign investments
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortized cost	237,937	X	95	-	X	X	X	41,627	X	X
3. Portfolio	X	X	X	X	X	X	230,905	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**237,937**	**-**	**95**	**-**	**-**	**-**	**230,905**	**41,627**	**-**	**-**
1. Financial liabilities	804	X	-	-	-	-	X	3,374	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**804**	**-**	**-**	**-**	**-**	**-**	**-**	**3,374**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

The table reports the negative fair values of hedging derivatives, broken down by hedged asset or liability and type of hedge.

As indicated in Part A “Accounting policies” of these notes to the financial statements, for the purposes of accounting for the results of hedging, the Group has exercised the option provided for in paragraph 7.2.21 of IFRS 9 to continue applying the provisions on hedge accounting envisaged by IAS 39.

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

5.1 VALUE ADJUSTMENTS OF HEDGED FINANCIAL LIABILITIES

	Total 31/12/2020	Total 31/12/2019
1. Positive adjustment of financial liabilities	-	-
2. Negative adjustment of financial liabilities	1,672	825
Total	**1,672**	**825**

SECTION 6 – TAX LIABILITIES – ITEM 60

See section 11 under assets.

SECTION 7 – LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE – ITEM 70

There were no such positions as of the reporting date.

SECTION 8 - OTHER LIABILITIES – ITEM 80

8.1 OTHER LIABILITIES: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
Amounts due to social security institutions and State	103,876	112,421
Trade payables	170,020	129,232
Securities to be settled	1,632	2,469
Amounts available to customers	646,097	561,809
Non-recurring transactions (acquisitions)	1,161	1,521
Liabilities for future premiums on derivatives	13,455	5,285
Tax payables due to tax authorities	359,559	407,801
Payables due to employees	175,042	153,095
Financial liabilities in respect of loans granted for a specific transaction	14,412	2,666
Guarantees issued and credit derivatives	10	42
Accrued expenses not attributable to separate line item	8,009	8,476
Deferred income not attributable to separate line item	18,242	19,544
Items in transit and items being processed	476,857	225,894
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)	489,555	409,981
Consolidation adjustments	-	2,290
Balance of illiquid portfolio items	539,957	1,068,460
Dividends to be paid	177	198
Tax consolidation mechanism	11	-
Total	3,018,072	3,111,184

The item “Amounts available to customers” mainly regards pension and wage payments from other banks awaiting payment to customers by mutual banks acting as intermediaries.

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

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

The item “Other” includes residual items not attributable to other specific items, and includes, among the main items, liabilities due to third parties for collections and/or withholdings such as, for example, amounts collected from mutual bank customers for the payment of utilities, the collection of insurance policies or the collection of amounts for prepaid cards.

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

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

		Total 31/12/2020	Total 31/12/2019
A. Opening balance		**306,254**	**24,696**
B. Increases		**12,776**	**311,547**
B.1 Provisions for the period		7,824	16,974
B.2 Other increases		4,952	294,573
C. Decreases		**23,852**	**29,989**
C.1 Benefit payments		19,908	21,637
C.2 Other decreases		3,944	8,352
D. Closing balance		**295,178**	**306,254**
	Total	295,178	306,254

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

9.2 OTHER INFORMATION

With regard to the provision for TFR benefits, service cost totaled €2.6 million, while interest cost came to €2.1 million. Net actuarial losses amounted to €6.3 million and break down as follows:

- €7 million of losses from change in discount rate;
- €0.1 million of gains from changes in demographic assumptions;
- €0.6 million of gains from experience adjustments.

The following are the main actuarial and demographic assumptions adopted in measuring the provision at the reporting date:

- discount rate: Euro Composite AA yield curve at December 31, 2020
- expected inflation rate: 0.8%;
- expected rate of increase in remuneration: between 0.50% and 2.5%;
- turn-over: 2.05% average;
- mortality tables published by State Accountant General’s Office and INPS disability tables.

The following reports the findings of the sensitivity analysis of the present value of the defined benefit obligation (DBO) at the end of the period using a discount rate adjusted by +0.25% and -0.25% compared with that actually used:

- in the case of an increase of 0.25%, the TFR provision would amount to €290.7 million;
- in the case of a decrease of 0.25% the TFR provision would amount to €299 million.

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

		Total 31/12/2020	Total 31/12/2019
1. Provisions for credit risk in respect of commitments and financial guarantees issued		232,346	201,431
2. Provisions for other commitments and guarantees issued		-	3,878
3. Company pension plans		-	-
4. Other provisions for risks and charges		295,761	240,391
4.1 legal disputes		93,651	96,101
4.2 personnel expense		70,769	53,748
4.3 other		131,340	90,543
	Total	**528,107**	**445,700**

Item 1. "Provisions for credit risk in respect of commitments and financial guarantees issued" includes provisions for credit risk in respect of commitments to disburse funds and financial guarantees issued that are subject to the impairment rules of IFRS 9.

The sub-item 4.1 "legal disputes" mainly includes provisions for revocatory actions, in the amount of €6 million, disputes over interest, compound interest, contract terms and banking and investment services in the amount of about €37 million, provisions for labor disputes in the amount of about €5 million, and provisions for litigation and legal costs for debt collection.

The main provisions recognized under sub-item 4.2 "personnel expenses" include that for the employee loyalty bonus in the amount of about €32 million.

The sub-item 4.3 "Other" reports provisions for charity and mutual aid funds in the amount of €25 million as well as provisions connected with the DGS contribution in response to the decision of the European Commission in response to the petition to reduce the target level of the resources of the DGS for mutual banks from 0.8% of guaranteed deposits to 0.5%, equal to about €35 million.

10.2 PROVISIONS FOR RISKS AND CHARGES: CHANGE FOR THE PERIOD

	Provisions in respect of commitments and other guarantees issued	Retirement provisions	Other provisions	Total
A. Opening balance	**3,878**	**-**	**240,391**	**244,269**
B. Increases	**-**	**-**	**140,200**	**140,200**
B.1 Provisions for the year	-	-	118,766	118,766
B.2 Changes due to passage of time	-	-	69	69
B.3 Changes due to changes in the discount rate	-	-	28	28
B.4 Other increases	-	-	21,337	21,337
C. Decreases	**3,878**	**-**	**84,830**	**88,708**
C.1 Use during the period	-	-	62,255	62,255
C.2 Changes due changes in the discount rate	-	-	323	323
C.3 Other decreases	3,878	-	22,252	26,130
D. Closing balance	**-**	**-**	**295,761**	**295,761**

10.3 PROVISIONS FOR CREDIT RISK IN RESPECT OF COMMITMENTS AND FINANCIAL GUARANTEES ISSUED

	Provisions for credit risk in respect of commitments and financial guarantees issued			
	Stage 1	Stage 2	Stage 3	Total
Commitments to disburse funds	26,661	28,166	20,622	75,449
Financial guarantees issued	61,529	23,115	72,252	156,897
Total	**88,190**	**51,281**	**92,874**	**232,346**

10.4 PROVISIONS IN RESPECT OF OTHER COMMITMENTS AND GUARANTEES ISSUED

"Provisions in respect of other commitments and guarantees issued" regard provisions for other commitments and other guarantees issued that are not subject to IFRS 9 impairment rules and fall within the scope of the provisions of IAS 37 concerning provisions.

10.5 DEFINED-BENEFIT COMPANY PENSION PLANS

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

10.6 PROVISIONS - OTHER

Please see the comments to table 10.1 “Provisions for risks and charges: composition“.

SECTION 11 - TECHNICAL RESERVES - ITEM 110

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

SECTION 12 - REDEEMABLE SHARES - ITEM 130

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

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

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

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

As at the reporting date, share capital was represented by 27,125,759 ordinary shares with a par value of €51.65 each, for a total of €1,401,045,452.

As at the reporting date, share capital of the mutual banks belonging to the Iccrea Cooperative Banking Group amounted to €906,270,937. In accordance with the bylaws of the mutual banks, their share capital is variable as it is composed of shares that in principle can be issued without limit.

13.2 SHARE CAPITAL – NUMBER OF SHARES OF THE PARENT COMPANY: CHANGE FOR THE PERIOD

	Ordinary	Other
A. Shares at the start of the year	27,125,759	-
- fully paid	27,125,759	-
- partially paid	-	-
A.1 Treasury shares (-)	(23,042,900)	-
A.2 Shares in circulation: opening balance	**4,082,859**	-
B. Increases	-	-
B.1 new issues	-	-
- for consideration:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sales of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**(1,111,340)**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	(1,111,340)	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**2,971,519**	-
D.1 Treasury shares(+)	24,154,240	-
D.2 Shares at the end of the year	27,125,759	-
- fully paid	27,125,759	-
- partially paid	-	-

13.3 SHARE CAPITAL: OTHER INFORMATION

The Group share capital of €2,307,316,389 is represented only by ordinary shares (subscribed share capital, fully paid up) with the exception of a small portion of preference shares issued by a Group bank in the amount of about €1 million.

13.4 EARNINGS RESERVES: OTHER INFORMATION

Group reserves amount to a total €8.5 billion.

In particular, earning reserves amount to €8.6 billion and include, among the largest, the legal reserve in the amount of €10.1 billion as well as a negative IFRS 9 reserve of €1.6 billion.

13.5 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

The item amounts to €30 million and is represented by six Additional Tier 1 bonds issued by the mutual banks between 2016 and 2018. No new bond issues were carried out during the year.

SECTION 14 - NON-CONTROLLING INTERESTS – ITEM 190

14.1 BREAKDOWN OF ITEM 190 "NON-CONTROLLING INTERESTS"

	31/12/2020	31/12/2019
Equity investments in consolidated companies with significant non-controlling interests		
1. Banca Mediocredito del F.V.G. S.p.A.	39,537	39,981
2. BCC Risparmio&Previdenza SGRpA	8,441	9,556
3. Coopersystem Società Cooperativa	19,070	13,169
Other investments	4,469	8,031
Total	**71,517**	**70,737**

NON-CONTROLLING INTERESTS: COMPOSITION

	31/12/2020	31/12/2019
1. Share capital	64,570	67,418
2. Share premium reserve	4,338	4,375
3. Reserves	(4,351)	(8,011)
4. Treasury shares	-	-
5. Valuation reserves	433	471
6. Equity instruments	-	-
7. Gain (loss) pertaining to non-controlling interests	6,527	6,484
Total	**71,517**	**70,737**

14.2 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

The consolidated capital of the Iccrea Cooperative Banking Group does not include equity instruments issued by Group companies that are not wholly owned.

OTHER INFORMATION

1. GUARANTEES ISSUED AND COMMITMENTS

	Nominal value of financial guarantees issued and commitments			Total 31/12/2020	Total 31/12/2019
	Stage 1	Stage 2	Stage 3		
Commitments to disburse funds	**20,845,292**	**1,758,205**	**226,285**	**22,829,782**	**19,949,058**
a) Central banks	-	-	-	-	-
b) Government entities	882,988	32,167	250	915,404	804,745
c) Banks	563,376	40,949	-	604,325	329,276
d) Other financial companies	1,216,767	147,543	1,854	1,366,164	619,408
e) Non-financial companies	15,389,377	1,185,092	198,138	16,772,607	15,238,879
f) Households	2,792,784	352,454	26,043	3,171,281	2,956,749
Financial guarantees issued	**2,606,934**	**483,385**	**156,431**	**3,246,751**	**3,335,709**
a) Central banks	-	-	-	-	-
b) Government entities	32,004	8,848	-	40,852	31,228
c) Banks	501,209	19,125	-	520,333	520,897
d) Other financial companies	21,476	38,342	110	59,928	53,645
e) Non-financial companies	1,735,592	282,487	144,845	2,162,924	2,200,634
f) Households	316,653	134,585	11,476	462,714	529,306

2. OTHER COMMITMENTS AND GUARANTEES ISSUED

	Nominal value	
	Total 31/12/2020	Total 31/12/2019
Other guarantees issued		
of which: impaired credit exposures	-	39
a) Central banks	-	-
b) Government entities	-	-
c) Banks	-	5,025
d) Other financial companies	-	942
e) Non-financial companies	177	1,669
f) Households	-	-
Other commitments		
of which: impaired credit exposures	-	-
a) Central banks	-	-
b) Government entities	-	-
c) Banks	-	5,389
d) Other financial companies	174	1,642
e) Non-financial companies	-	15,923
f) Households	-	-

3. ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

	Amount 31/12/2020	Amount 31/12/2019
1. Financial assets measured at fair value through profit or loss	11,628	72,098
2. Financial assets measured at fair value through other comprehensive income	2,909,955	2,234,944
3. Financial assets measured at amortized cost	37,521,296	18,641,463
4. Property, plant and equipment	-	-
of which: property, plant and equipment classified as inventories	-	-

4. COMPOSITION OF INVESTMENTS ASSOCIATED WITH UNIT-LINKED AND INDEX-LINKED POLICIES

There were no such positions at December 31, 2020.

5. MANAGEMENT AND INTERMEDIATION SERVICES

	Amount 31/12/2020
1. Order execution on behalf of customers	**19,757,837**
a) Purchases	12,456,948
1. settled	12,446,559
2. not settled	10,389
b) Sales	7,300,889
1. settled	7,286,836
2. not settles	14,053
2. Asset management	**9,762,812**
a) Individual	5,567,699
b) Collective	4,195,113
3. Securities custody and administration	**751,818,630**
a) Third-party securities held as part of custodian bank services (excluding asset management)	81,716
1. Securities issued by consolidated companies	-
2. other securities	81,716
b) Other third-party securities on deposit (excluding asset management): other	103,749,487
1. Securities issued by consolidated companies	8,923,334
2. other securities	94,826,152
c) Third-party securities deposited with third parties	100,487,431
d) Securities owned by bank deposited with third parties	647,987,427
4. Other transactions	**22,622,309**

6. FINANCIAL ASSETS OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

	Gross amount of financial assets (a)	Financial liabilities offset (b)	Net amount of financial assets reported (c=a-b)	Related amounts not offset		Net amount (f=c-d-e) 31/12/2020	Net amount 31/12/2019
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	365,133	5,413	359,720	237,335	67,215	55,170	38,223
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2020	**365,133**	**5,413**	**359,720**	**237,335**	**67,215**	**55,170**	**X**
Total 31/12/2019	**323,801**	**47,441**	**276,360**	**206,845**	**30,659**	**X**	**38,223**

7. FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

	Gross amount of financial liabilities (a)	Financial assets offset (b)	Net amount of financial liabilities reported (c=a-b)	Related amounts not offset		Net amount (f=c-d-e) 31/12/2020	Net amount 31/12/2019
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	891,144	5,431	885,712	57,923	210,038	617,752	433,656
2. Repurchase agreements	822,846	-	822,846	809,674	-	13,171	35,735
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2020	**1,713,989**	**5,431**	**1,708,558**	**867,597**	**210,038**	**630,923**	**X**
Total 31/12/2019	**1,288,831**	**47,590**	**1,241,242**	**600,351**	**171,499**	**X**	**469,391**

8. SECURITIES LENDING TRANSACTIONS

No information to report.

9. DISCLOSURES ON JOINT ARRANGEMENTS

No information to report.

PART C - INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

SECTION 1 - INTEREST -ITEMS 10 AND 20

1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

	Debt securities	Loans	Other transactions	Total 31/12/2020	Total 31/12/2019
1. Financial assets measured at fair value through profit or loss	**12,324**	**4,302**	**79**	**16,705**	**13,775**
1.1 Financial assets held for trading	719	1	79	799	1,597
1.2 Financial assets designated at fair value	2,631	110	-	2,741	2,829
1.3 Other financial assets mandatorily at fair value	8,974	4,191	-	13,165	9,349
2. Financial assets measured at fair value through other comprehensive income	**51,223**	**-**	**X**	**51,223**	**66,018**
3. Financial assets measured at amortized cost	**398,738**	**2,314,734**	**X**	**2,713,472**	**2,758,103**
3.1 Due from banks	13,304	10,670	X	23,974	17,284
3.2 Loans to customers	385,434	2,304,064	X	2,689,498	2,740,819
4. Hedging derivatives	**X**	**X**	**(27,832)**	**(27,832)**	**(47,216)**
5. Other assets	**X**	**X**	**2,544**	**2,544**	**2,905**
6. Financial liabilities	**X**	**X**	**X**	**243,400**	**118,923**
Total	462,284	2,319,037	(25,209)	2,999,512	2,912,506
of which: interest income on impaired financial assets	314	193,119	165	193,598	237,877
of which: interest income on finance leases	-	136,193	-	136,193	138,206

Interest on loans to customers include interest income in respect of loans to customers of €2.3 billion (€2.4 billion at December 31, 2019), mainly on loans to households and non-financial companies.

Interest income on debt securities came to €462.3 million and mainly includes interest on securities issued by government entities. The total represents an increase on the €426.9 million posed in 2019, reflecting the expansion of the securities portfolio connected with the TLTRO strategy approved in March.

“Hedging derivatives” include differences on hedging derivatives adjusting interest income on the hedged financial instruments.

The item “Financial liabilities” includes interest on funding operations at negative interest rates. In particular, the increase compared with the balance of the previous year reflected the additional monetary policy measures adopted by the ECB to mitigate the effects of the pandemic (the “special period”), as discussed in greater detail in the report on operations and in part A of these notes.

1.2 INTEREST AND SIMILAR INCOME: OTHER INFORMATION

1.2.1 INTEREST INCOME ON FOREIGN-CURRENCY FINANCIAL ASSETS

Interest received on financial assets in foreign currency totals approximately €13.7 million and mainly regards current accounts and deposits (€9.7 million) and other financing (€3.2 million).

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 31/12/2020	Total 31/12/2019
1. Financial liabilities measured at amortized cost	**(218,253)**	**(209,905)**	**X**	**(428,158)**	**(519,698)**
1.1 Due to central banks	(364)	X	X	(364)	(1,236)
1.2 Due to banks	(7,604)	X	X	(7,604)	(7,888)
1.3 Due to customers	(210,285)	X	X	(210,285)	(255,205)
1.4 Securities issued	X	(209,905)	X	(209,905)	(255,368)
2. Financial liabilities held for trading	**-**	**-**	**(226)**	**(226)**	**(393)**
3. Financial liabilities designated at fair value	**-**	**(331)**	**-**	**(331)**	**(1,414)**
4. Other liabilities and provisions	**X**	**X**	**(1,833)**	**(1,833)**	**(1,941)**
5. Hedging derivatives	**X**	**X**	**1,988**	**1,988**	**2,461**
6. Financial assets	**X**	**X**	**X**	**(49,829)**	**(41,677)**
Total	**(218,253)**	**(210,236)**	**(73)**	**(478,391)**	**(562,661)**
of which: interest expense on finance leases	(8,139)	-	(2)	(8,141)	(8,969)

The item 1.4 “Securities issued” regards interest expense accrued in the period on bonds and certificates of deposit measured at amortized cost.

The item 6. “Financial assets” includes interest on investment transactions at negative interest rates.

1.4 INTEREST AND SIMILAR EXPENSE: OTHER INFORMATION

1.4.1 INTEREST EXPENSE ON FOREIGN-CURRENCY LIABILITIES

Interest expense incurred by the Group on foreign-currency liabilities amounted to €4.3 million and is essentially accounted for by current accounts and deposits.

1.5 DIFFERENCES ON HEDGING TRANSACTIONS

	Total 31/12/2020	Total 31/12/2019
A. Positive differences on hedging transactions:	20,316	12,219
B. Negative differences on hedging transactions:	(46,161)	(56,973)
C. Balance (A-B)	**(25,845)**	**(44,754)**

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	31/12/2020	31/12/2019
a) guarantees issued	24,391	26,354
c) management, intermediation and advisory services:	336,583	329,767
1. Trading in financial instruments	3,433	1,880
2. foreign exchange	4,574	6,111
3. asset management	65,592	65,827
3.1 individual	17,013	10,352
3.2 collective	48,579	55,475
4. securities custody and administration	9,005	11,621
6. securities placement	30,749	25,155
7. order collection and transmission	17,766	21,968
8. advisory services	5,962	3,405
8.1 concerning investments	2,416	2,158
8.2 concerning financial structure	3,546	1,247
9. distribution of third-party services	199,501	193,799
9.1. asset management	6,947	8,552
9.1.1. individual	6,814	8,350
9.1.2. collective	133	202
9.2. insurance products	95,989	87,094
9.3. other	96,565	98,154
d) collection and payment services	198,969	225,025
e) servicing activities for securitizations	2,678	3,725
f) services for factoring operations	4,092	4,087
i) holding and management of current accounts	509,967	522,107
j) other services	319,978	330,337
Total	**1,396,658**	**1,441,401**

The composition of fee and commission income reflects the operations of the Group's mutual banks, which are typically composed of customer current accounts (€510 million), collection and payment services (€199 million), distribution of third-party products and services (€199.5 million, including insurance products for €96 million), portfolio management (€65.6 million) securities placement (€30.7 million) and order collection and transmission (€17.8 million). The decline in fees and commissions for collection and payment services compared with the previous year reflected the contraction in the Italian economy as a result of the COVID-19 emergency.

Fees and commissions concerning sub-item C.3 "asset management" regard asset management activities, which are primarily performed by the Group asset management company.

"Other services" includes €232.3 million in fees related to the electronic money sector of the Parent Company. The main components that cannot be allocated to another specific account include fees and commission on lending operations, home banking services and treasury management services.

The following table provides disclosures on the breakdown by business segment of revenues from contracts with customers, as required under IFRS 15, paragraphs 114 and 115.

€/thousands	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Guarantees issued	2,289	632	62	23,504	(2,097)	24,390
Management, intermediation and advisory services	3,910	38,474	63,340	262,229	(127,934)	240,019
Collection and payment services	24	39,058	1,461	357,551	(199,126)	198,968
Servicing for securitizations	295	-	-	2,529	(146)	2,678
Services for factoring operations	4,078	-	-	55	(41)	4,092
Holding and management of current accounts	193	206	1,295	508,450	(177)	509,967
Other services	27,195	261,565	88,444	98,620	(59,280)	416,544
Fee and commission income	**37,984**	**339,935**	**154,602**	**1,252,938**	**(388,801)**	**1,396,658**

As regards the other disclosures required under IFRS 15, the main types of revenues from contracts with customers are recognized as follows:

- fees and commissions from the management of individual and collective portfolios are mainly recognized "over time";
- fees and commissions from securities placement are recognized "at a point in time";

- fees and commissions from order collections and transmission are mainly recognized “at a point in time”;
- fees from the distribution of third-party products are typically recognized “at a point in time”;
- fees and commissions from collection and payment services are recognized “at a point in time”;
- fees and commissions from holding and managing current accounts and other services are recognized “at a point in time” or “over time”, depending on the specific nature of the fees and commissions;
- losses from impairment of loans in compliance with IFRS 9 include any loss connected with the debiting of revenues from contracts with customers pursuant to IFRS 15.

2.2 FEE AND COMMISSION EXPENSE: COMPOSITION

		Total 31/12/2020	Total 31/12/2019
a) guarantees received		(1,535)	(2,473)
c) management and intermediation services:		(15,355)	(17,463)
1. trading in financial instruments		(1,882)	(2,434)
2. foreign exchange		(328)	(339)
3. asset management:		(4,086)	(4,982)
3.1 own portfolio		(3,717)	(4,615)
3.2 third-party portfolio		(369)	(367)
4. securities custody and administration		(5,242)	(4,835)
5. placement of financial instruments		(3,817)	(4,871)
d) collection and payment services		(14,778)	(24,132)
e) other services		(103,030)	(128,771)
	Total	**(134,698)**	**(172,839)**

“Other services” includes €87.2 million in fees and commissions from the electronic money segment of the Parent Company.

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 31/12/2020		Total 31/12/2019	
	Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading	89	19	116	39
B. Other financial assets mandatorily measured at fair value	690	2,431	869	706
C. Financial assets measured at fair value through other comprehensive income	2,466	57	2,350	33
D. Equity investments	587	-	260	-
Total	**3,832**	**2,507**	**3,595**	**778**

The main components of this item include dividends received on the interest held in the Bank of Italy in the amount of €2 million, classified under financial assets measured at fair value through other comprehensive income.

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses	Net gain (loss) (A+B) – (C+D)
1. Financial assets held for trading	**372**	**27,649**	**(738)**	**(10,207)**	**17,077**
1.1 Debt securities	112	15,489	(102)	(2,009)	13,490
1.2 Equity securities	123	471	(405)	(1,347)	(1,157)
1.3 Units in collective investment undertakings	137	302	(231)	(605)	(397)
1.4 Loans	-	-	-	-	-
1.5 Other	-	11,387	-	(6,246)	5,140
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**	**135,262**
4. Derivatives	**50,172**	**35,016**	**(26,300)**	**(54,322)**	**(128,096)**
4.1 Financial derivatives:	50,172	35,016	(26,300)	(54,322)	(128,096)
- on debt securities and interest rates	47,388	35,016	(26,242)	(52,459)	3,703
- on equity securities and equity indices	2,785	-	(59)	(1,863)	863
- on foreign currencies and gold	X	X	X	X	(132,662)
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	**50,545**	**62,665**	**(27,038)**	**(64,528)**	**24,242**

The net gain/(loss) on “Financial assets and liabilities: foreign exchange differences” reports the balance of changes in the value of financial assets and liabilities denominated in foreign currencies, regardless of the accounting portfolio in which they are recognized, which correlate with the amount reported under “Financial derivatives on foreign currencies and gold”.

SECTION 5 - NET GAIN (LOSS) ON HEDGING ACTIVITIES – ITEM 90

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
A. Gain on:		
A.1 Fair value hedges	33,480	40,127
A.2 Hedged financial assets (fair value)	193,068	220,242
A.3 Hedged financial liabilities (fair value)	2,473	2,198
A.4 Cash flow hedges	1,185	1,034
A.5 Assets and liabilities in foreign currencies	2,955	-
Total income on hedging activities (A)	**233,161**	**263,601**
B. Loss on:		
B.1 Fair value hedges	(220,964)	(223,378)
B.2 Hedged financial assets (fair value)	(9,673)	(41,662)
B.3 Hedged financial liabilities (fair value)	(300)	(921)
B.4 Cash flow hedges	(3,425)	-
B.5 Assets and liabilities in foreign currencies	(2,077)	(2,411)
Total expense on hedging activities (B)	**(236,439)**	**(268,372)**
C. Net gain (loss) on hedging activities (A - B)	**(3,278)**	**(4,772)**
of which: net gain (loss) of hedges of net positions	-	-

As indicated in Part A “Accounting policies” of these notes to the financial statements, for the purposes of accounting for the results of hedging, the Group has exercised the option provided for in paragraph 7.2.21 of IFRS 9 to continue applying the provisions on hedge accounting envisaged by IAS 39.

SECTION 6 - GAIN (LOSS) ON DISPOSAL OR REPURCHASE – ITEM 100

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	Total 31/12/2020			Total 31/12/2019		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortized cost	377,409	(207,557)	169,853	341,380	(189,714)	151,666
1.1 Due from banks	3,264	(152)	3,112	2,820	(57)	2,763
1.2 Loans to customers	374,145	(207,405)	166,740	338,560	(189,657)	148,903
2. Financial assets measured at fair value through other comprehensive income	118,354	(23,238)	95,115	171,340	(76,921)	94,420
2.1 Debt securities	118,354	(23,238)	95,115	171,340	(76,921)	94,420
2.2 Loans	-	-	-	-	-	-
Total assets (A)	495,763	(230,795)	264,968	512,720	(266,634)	246,086
Financial liabilities measured at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	1,696	(2,039)	(341)	2,328	(1,945)	383
Total liabilities (B)	1,696	(2,039)	(341)	2,328	(1,945)	383

This reports the positive or negative balances between the gains and losses realized with the sale of financial assets or repurchase of financial liabilities other than those held for trading or designated as at fair value.

The gain (loss) on disposal amounts to about €264.6 million and is mainly attributable to the disposal of debt securities measured at amortized cost and assets measured at FV through other comprehensive income.

SECTION 7 - NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 110

7.1 NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF FINANCIAL ASSETS AND LIABILITIES DESIGNATED AS AT FAIR VALUE

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) - (C+D)]
1. Financial assets	**2,968**	**124**	**(1,748)**	**(263)**	**1,081**
1.1 Debt securities	2,760	124	(1,531)	(263)	1,090
1.2 Loans	208	-	(217)	-	(9)
2. Financial liabilities	**106**	**129**	**-**	**-**	**235**
2.1 Securities issued	106	129	-	-	235
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	3,074	254	(1,748)	(263)	1,316

The net gain for the item includes €1.1 million in respect of securities in which the liquidity of the Guarantee Scheme is invested.

7.2 NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) - (C+D)]
1. Financial assets	**22,638**	**13,768**	**(29,609)**	**(9,463)**	**(2,666)**
1.1 Debt securities	2,055	927	(1,338)	(4,778)	(3,135)
1.2 Equity securities	7,146	3,799	(1,387)	(177)	9,381
1.3 Units in collective investment undertakings	4,580	8,987	(18,623)	(4,370)	(9,426)
1.4 Loans	8,858	55	(8,261)	(138)	514
2. Financial assets: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	22,638	13,768	(29,609)	(9,463)	(2,666)

The change in the net result compared with the end of the previous year for assets mandatorily measured at fair value reflected the elimination of the net capital gains realized last year (sale of Nexi and appreciation of other equity securities) and, to a lesser extent, the fair value measurement of CIU units, including the liquidity adjustment.

SECTION 8 - NET LOSSES/RECOVERIES FOR CREDIT RISK – ITEM 130

8.1 NET LOSSES/RECOVERIES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST: COMPOSITION

	Losses (1)			Recoveries (2)		Total 31/12/2020	Total 31/12/2019
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3		
A. Due from banks	**(8,978)**	**-**	**(300)**	**2,386**	**-**	**(6,892)**	**12,764**
- loans	(6,891)	-	(278)	1,686	-	(5,483)	13,165
- debt securities	(2,087)	-	(22)	700	-	(1,409)	(400)
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-	-
B. Loans to customers	**(498,341)**	**(190,239)**	**(1,440,523)**	**534,339**	**769,851**	**(824,913)**	**(680,223)**
- loans	(480,116)	(190,239)	(1,439,390)	527,128	769,851	(812,766)	(673,617)
- debt securities	(18,225)	-	(1,133)	7,210	-	(12,147)	(6,605)
of which: receivables purchased or originated credit-impaired	(48)	-	(1,327)	98	211	(1,066)	1,927
Total	(507,320)	(190,239)	(1,440,823)	536,724	769,851	(831,806)	(667,458)

The value adjustments reported in the “Stage 1 and 2” column regard collective writedowns on performing loans.

The value adjustments in the “Stage 3 - Other” column regard analytical writedowns of impaired past-due loans and those classified as unlikely to pay and bad loans, while those reported in the “Stage 3 - Writeoffs” column reflect extinguishing events, with the losses recognized following the definitive derecognition of the financial instruments.

Compared with the end of the previous year, net losses for credit risk increased by €164 million, thanks in part to the more prudent stance taken by the Group in response to the possible negative effects of the health emergency on the economy. For a discussion of the adjustments to the impairment model adopted by the Group in response to COVID-19, please the information provided in the consolidated report on operations.

8.1A NET LOSSES/RECOVERIES FOR CREDIT RISK IN RESPECT OF LOANS MEASURED AT AMORTIZED COST INVOLVED IN COVID-19 SUPPORT MEASURES: COMPOSITION

	Net writeoffs			Total 31/12/2020
		Stage 3		
	Stage 1 and 2	Writeoffs	Other	
1. Loans subject to forbearance measures compliant with guidelines	7,446	(1,545)	(31,317)	**(25,416)**
2. Loans subject to other forbearance measures	611	(244)	(28,258)	**(27,891)**
3. New loans	(7,170)	(32)	(2,678)	**(9,880)**
Total	**888**	**(1,821)**	**(62,253)**	**(63,186)**

The table reports net writeoffs for loans subject to moratoriums or other forbearance measures outstanding at the reporting date, or which represent new liquidity granted through public guarantee mechanisms.

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

	Losses (1)			Recoveries (2)		Total 31/12/2020	Total 31/12/2019
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3		
A. Debt securities	(7,209)	-	(89)	1,418	153	(5,727)	1,137
B. Loans	-	-	-	-	-	-	(23)
- to customers	-	-	-	-	-	-	(23)
- to banks	-	-	-	-	-	-	-
of which: loans purchased or originated credit-impaired	-	-	-	-	-	-	-
Total	**(7,209)**	**-**	**(89)**	**1,418**	**153**	**(5,727)**	1,114

8.2.A NET LOSSES FOR CREDIT RISK IN RESPECT OF LOANS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME INVOLVED IN COVID-19 SUPPORT MEASURES: COMPOSITION

The Group has not granted loans measured at fair value through other comprehensive income.

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

9.1 GAINS (LOSSES) FROM CONTRACT MODIFICATIONS: COMPOSITION

The item, a negative €3.2 million (€14.3 million at December 31, 2019), includes the impact of modifications of medium/long-term loan contracts with customers that, in compliance with IFRS 9, do not produce the derecognition of the assets but rather involve the recognition in profit or loss of the changes in the contractual cash flows.

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

SECTION 10 - NET PREMIUMS - ITEM 160

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

SECTION 11 - NET OTHER INCOME (EXPENSE) FROM INSURANCE ACTIVITIES - ITEM 170

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

SECTION 12 - ADMINISTRATIVE EXPENSES – ITEM 190

12.1 PERSONNEL EXPENSES: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
1) Employees	(1,666,672)	(1,638,795)
a) wages and salaries	(1,137,804)	(1,121,821)
b) social security contributions	(279,525)	(280,189)
c) termination benefits	(44,866)	(46,772)
d) pension expenditure	-	-
e) allocation to employee termination benefit provision	(10,109)	(11,403)
f) allocation to provision for post-employment benefits and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	(76,687)	(72,855)
- defined contribution	(76,486)	(72,712)
- defined benefit	(201)	(143)
h) costs from share-based payment plans	-	-
i) other employee benefits	(117,681)	(105,755)
2) Other personnel	(13,780)	(13,231)
3) Board of Directors and members of Board of Auditors	(48,710)	(48,227)
4) Retired personnel	-	-
Total	**(1,729,164)**	**(1,700,252)**

12.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

	Total 31/12/2020	Total 31/12/2019
Employees:	**21,455**	**21,409**
a) senior management	402	402
b) middle management	6,117	5,900
c) other employees	14,936	15,107
Other personnel	**275**	**294**
Total	**21,730**	**21,703**

12.3 DEFINED-BENEFIT COMPANY PENSION PLANS: TOTAL COSTS AND REVENUES

At the reporting date, the company had no defined-benefit pension plans, with no associated costs or revenues.

12.4 OTHER EMPLOYEE BENEFITS

	Total 31/12/2020	Total 31/12/2019
Early termination incentives and income support fund	(40,373)	(24,964)
Lunch vouchers	(30,567)	(30,431)
Insurance policies	(12,600)	(12,318)
Medical checkups	(2,421)	(2,615)
Training	(5,605)	(7,277)
81/08 training	(90)	(118)
Other benefits	(26,025)	(28,032)
Total	**(117,681)**	**(105,755)**

The item includes, among others, charges for early termination incentives and the income support fund in the amount of €40.4 million, lunch vouchers in the amount of €30.6 million and insurance policies for employees in the amount of €12.6 million.

12.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
Information technology	(227,711)	(188,956)
Property and movables	(85,600)	(90,393)
- rental and fees	(12,223)	(16,633)
- ordinary maintenance	(63,003)	(62,830)
- security	(10,374)	(10,930)
Goods and services	(162,663)	(181,687)
- telephone and data transmission	(60,928)	(63,045)
- postal	(25,631)	(26,756)
- asset transport and counting	(19,034)	(21,718)
- electricity, heating and water	(32,904)	(35,883)
- transportation and travel	(10,091)	(16,411)
- office supplies and printed materials	(11,303)	(13,574)
- subscriptions, magazines and newspapers	(2,772)	(4,300)
Professional services	(197,728)	(232,029)
- professional fees (other than audit fees)	(86,720)	(101,683)
- audit fees	(8,246)	(8,037)
- legal and notary costs	(69,144)	(86,496)
- court costs, information and title searches	(33,618)	(35,814)
Administrative services	(56,608)	(39,291)
Insurance	(22,283)	(21,146)
Promotional, advertising and entertainment expenses	(35,017)	(60,283)
Association dues	(30,320)	(47,832)
Donations	(7,385)	(6,066)
Other	(55,919)	(70,564)
Indirect taxes and duties	(377,598)	(380,372)
Total	**(1,258,832)**	**(1,318,620)**

Other administrative expenses totaled €1,258.8 million, down by €598 million compared with the previous year, mainly reflecting:

- a reduction of project costs incurred in 2019 for the launch of the Cooperative Banking Group;
- lower costs incurred on certain types of spending during the lockdown (e.g. travel, entertainment, etc.);
- a reduction in charges connected with the ordinary contribution to the DGS Fund accounted for in this item. Part of these charges, pertaining in part to 2020 (€35 million), were recognized in the provisions for risks pending the decision by the European Commission regarding the petition presented through the industry association for a reduction in the target level of the resources of the DGS for mutual banks from 0.8% of guaranteed deposits to 0.5%.

Other administrative expenses include the ordinary contribution to the National Resolution Fund (BRRD) totaling €52.6 million, the contribution to the National Resolution Fund for bank crises of €20.7 million and the contribution to the Deposit Guarantee Scheme for €34.6 million, reported among other indirect tax and duties.

Pursuant to Article 2427, paragraph 16-bis of the Italian Civil Code, we set out below the fees paid in 2020 to the audit firm EY SpA (and its network) by the Iccrea Group companies:

- statutory audit of the annual accounts (including the auditing of the interim financial statements) for €3.3 million;
- other audit-related services (translations, TLTRO 3 program, GACS III, EMTN Program, signing tax returns) for €2.2 million;
- other non-audit services for €2.7 million.

These amounts are shown net of VAT, Consob fees and expenses.

SECTION 13 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 200

- This section provides details of the provisions and write-backs relating to the following categories of provisions for risks and charges:
- provisions for credit risk in respect of commitments to disburse funds and financial guarantees issued falling within the scope of IFRS 9;
- provisions for other commitments and guarantees not falling within the scope of IFRS 9;
- other provisions for risks and charges.

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

	31/12/2020		
	Provisions	Reallocations of excesses	Total
Commitments to disburse funds Stage 1	(15,359)	21,371	6,012
Commitments to disburse funds Stage 2	(12,279)	3,429	(8,850)
Commitments to disburse funds Stage 3	(20,435)	9,246	(11,189)
Financial guarantees issued Stage 1	(13,462)	11,252	(2,209)
Financial guarantees issued Stage 2	(16,902)	13,813	(3,089)
Financial guarantees issued Stage 3	(36,006)	25,498	(10,508)
Total	**(114,443)**	**84,610**	**(29,833)**

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

13.2 NET PROVISIONS IN RESPECT OF OTHER COMMITMENTS TO DISBURSE FUNDS AND GUARANTEES ISSUED: COMPOSITION

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

13.3 NET PROVISIONS FOR OTHER RISKS AND CHARGES: COMPOSITION

	31/12/2020		
	Provisions	Reallocations of excesses	Total
Legal disputes	(26,107)	13,320	(12,787)
Other	(51,290)	5,105	(46,186)
Total	**(77,397)**	**18,424**	**(58,973)**

The sub-item “Other” mainly includes provisions by Group banks pending the decision by the European Commission regarding the petition for a reduction in the target level of the resources of the DGS for mutual banks from 0.8% of guaranteed deposits to 0.5%.

SECTION 14 - NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT - ITEM 210

14.1 NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT: COMPOSITION

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Property, plant and equipment				
A.1 Operating assets	(181,371)	(9,123)	1	(190,494)
- Owned	(124,017)	(9,123)	1	(133,139)
- Right-of-use assets in respect of leases	(57,355)	-	-	(57,355)
A.2 Investment property	(3,196)	(2,522)	78	(5,641)
- Owned	(3,196)	(2,522)	78	(5,641)
- Right-of-use assets in respect of leases	-	-	-	-
A.3 Inventories	X	(2,251)	-	(2,251)
B. Assets held for sale	**X**	**(449)**	**-**	**(449)**
Total	**(184,568)**	**(14,346)**	**79**	**(198,835)**

SECTION 15 - NET ADJUSTMENTS OF INTANGIBLE ASSETS - ITEM 220

15.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Intangible assets				
A.1 Owned	(30,816)	(1,074)	-	(31,890)
- generated internally by the Bank	(996)	(257)	-	(1,252)
- other	(29,821)	(817)	-	(30,638)
A.2 Acquired under finance leases	-	-	-	-
Total	**(30,816)**	**(1,074)**	**-**	**(31,890)**

SECTION 16 - OTHER OPERATING EXPENSES/INCOME - ITEM 230

16.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
Charges connected with lease services (consultants, insurance, taxes and duties, capital losses)	(38,479)	(33,755)
Reductions in assets and prior-year expenses not attributable to separate line item	(12,219)	(12,713)
Costs of outsourced services	(54)	(43)
Settlement of disputes and claims	(1,148)	(3,007)
Amortization of expenditure for leasehold improvements	(11,110)	(10,349)
Other charges – extraordinary transactions	-	(274)
Other expenses	(19,837)	(23,639)
Total	**(82,847)**	**(83,780)**

16.2 OTHER OPERATING INCOME: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
A) Cost recovery	**283,267**	**288,801**
Recovery of taxes	220,766	211,758
Recovery of sundry charges	22,669	27,743
Insurance premiums	3,355	3,094
Property rental income	-	42
Recovery of costs from customers	12,321	12,796
Recovery of costs on bad loans	24,156	33,368
B) Other income	**127,590**	**142,395**
Insourcing revenues	5,447	1,603
Property rental income	3,352	3,298
Reductions in liabilities and prior-year income not attributable to separate line item	20,491	26,580
Other income from finance leases	15,685	20,640
Other income	64,814	61,540
Accelerated processing fees	17,251	28,168
Consolidation adjustments	550	566
Total	**410,857**	**431,196**

The recovery of taxes and duties (stamp duty and tax in lieu), totaling €220.8 million, mainly regard current accounts, credit cards, savings passbooks and certificates of deposit.

SECTION 17 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 250

17.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

		Total 31/12/2020	Total 31/12/2019
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		2,242	14,163
1. Revaluations		2,242	5,265
2. Gains on disposals		-	8,897
3. Writebacks		-	-
4. Other income		-	-
B. Losses		(9,984)	(3,264)
1. Writedowns		(2,118)	(2,232)
2. Impairment		(7,866)	(200)
3. Losses on disposal		-	(832)
4. Other expenses		-	-
	Net profit (loss)	**(7,742)**	**10,899**
	Total	**(7,742)**	**10,899**

The item reports the financial impact of the equity measurement of investments in associates and value adjustments of equity investments held by Group companies.

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

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

	Revaluations (a)	Writedowns (b)	Exchange rate differences		Net result (a-b+c-d)
			Positive (c)	Negative (d)	
A. Property, plant and equipment	**-**	**(40,118)**	**-**	**-**	**(40,118)**
A.1 Operating assets:	-	-	-	-	-
- Owned	-	-	-	-	-
- Acquired under finance leases	-	-	-	-	-
A.2 Investment property:	-	(40,010)	-	-	(40,010)
- Owned	-	(40,010)	-	-	(40,010)
- Acquired under finance leases	-	-	-	-	-
A.3 Inventories	-	(108)	-	-	(108)
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
- Internally generated	-	-	-	-	-
- Other	-	-	-	-	-
B.2 Acquired under finance leases	-	-	-	-	-
Total	**-**	**(40,118)**	**-**	**-**	**(40,118)**

The item reports gains/losses on the measurement of the properties held by the consolidated real estate investment funds in the amount of €40 million.

SECTION 19 - GOODWILL IMPAIRMENT - ITEM 270

19.1 GOODWILL IMPAIRMENT: COMPOSITION

The item includes the impairment loss on goodwill recognized by the Group mutual banks prior to formation of the Group in respect of business combination (mergers/branch acquisitions). During 2020 impairment loss on goodwill came to €2.8 million.

For more information on the results of the assessment of the recoverability of goodwill, please see the section “Part B - Section 10.3 Other information” of these notes to the financial statements.

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

20.1 GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
A. Property	(275)	2,503
- Gains on disposal	847	4,354
- Losses on disposal	(1,122)	(1,849)
B. Other assets	(359)	(343)
- Gains on disposal	223	587
- Losses on disposal	(582)	(930)
Net gain (loss)	**(634)**	**2,160**

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

21.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
1. Current taxes (-)	(36,446)	(78,932)
2. Change in current taxes from previous period (+/-)	38,358	8,380
3. Reduction of current taxes for the period (+)	17,281	6,431
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	15,395	7,040
4. Change in deferred tax assets (+/-)	(34,332)	(8,652)
5. Change in deferred tax liabilities (+/-)	(14)	682
6. 6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**242**	**(65,049)**

21.2 RECONCILIATION OF THEORETICAL TAX LIABILITY AND ACTUAL TAX LIABILITY RECOGNIZED

31/12/2020		
IRES	**Taxable income**	**Tax**
Profit (loss) before tax on continuing operations (item 290 IS)	202,077	-
Current rate	-	24%
Theoretical tax liability (24%)	-	(48,499)
Greater tax liability due to increases	**285,698**	-
Temporary		
- Changes during the year	214,023	-
Definitive		
- Reversal of temporary differences of previous years	12,617	-
- Changes during the year	59,059	-
Lower tax liability due to decreases	**1,085,991**	-
Temporary		
- Changes during the year	46,660	-
Definitive		
- Reversal of temporary differences of previous years	528,671	-
- Changes during the year	417,033	-
- Deductions up to limit of taxable income	93,628	-
Net increase in entities with tax losses	689,071	-
Taxable income (loss)	90,856	-
Current gross tax (effective tax charge)	-	(21,805)
IRES surtax	-	(1,023)
IRES income from consolidated taxation mechanism	-	10,002
Tax credits	-	164
Current net tax in income statement	-	(12,663)
Changes in current tax/deferred tax assets/deferred tax liabilities(+/-)	-	49,121
Tax liability for the year (a)	-	36,458
IRAP	**Taxable income**	**Tax**
Profit (loss) before tax on continuing operations (item 290 IS)	202,077	-
Current rate	-	4.65%
Theoretical tax liability (ordinary rate 4.65%)	-	(9,397)
Items not included in determination of income	519,276	-
- Revenue and income (-)	(1,331,877)	-
- Costs and charges (+)	1,851,153	-
Greater tax liabilities due to increases	591,924	-
Temporary		
- Changes during the year	32,761	-
Definitive		
- Reversal of temporary differences of previous years	5,286	-
- Changes during the year	553,877	-
Lower tax liability due to decreases	1,094,934	-
Temporary		
- Changes during the year	6,621	-
Definitive		
- Reversal of temporary differences of previous years	304,527	-
- Changes during the year	783,786	-
Net decrease in entities with tax losses	230,373	-
Value of production	448,716	-
Current tax	-	(20,867)
Effect of regional surtaxes/tax relief (+/-)	-	(3,195)
Current tax in income statement	-	(24,063)
Changes in current tax/deferred tax assets/deferred tax liabilities (+/-)	-	(12,432)
Tax liability for the year (b)	-	(36,495)
Tax in lieu	**Taxable income**	**Tax**
Tax in lieu (c)		279
Total income tax expense (item 300 IS) (a+b+c)		242

SECTION 22 - PROFIT (LOSS) AFTER TAXES ON DISCONTINUED OPERATIONS - ITEM 320

22.1 PROFIT (LOSS) AFTER TAXES ON DISCONTINUED OPERATIONS: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
1. Revenue	-	-
2. Expense	-	-
3. Result of measurement of groups of assets and associated liabilities	-	-
4. Gain (loss) on realization	-	15
5. Taxes and duties	-	-
Profit (loss)	**-**	**15**

SECTION 23 - NET PROFIT (LOSS) PERTAINING TO NON-CONTROLLING INTERESTS - ITEM 340

23.1 BREAKDOWN OF ITEM 340 “PROFIT (LOSS) PERTAINING TO NON-CONTROLLING INTERESTS”

	Total 31/12/2020	Total 31/12/2019
Consolidated equity investments with significant non-controlling interests		
1. Banca Mediocredito del F.V.G. S.p.A.	(1,429)	(2,609)
2. BCC Risparmio & Previdenza SGrpA	1,978	3,100
3. Coopersystem Società Cooperativa	5,899	5,288
Other equity investments	79	705
Total	**6,527**	**6,484**

SECTION 24 - OTHER INFORMATION

No other information necessary.

SECTION 25 - EARNINGS PER SHARE

The ordinary shares of the Parent Company, Iccrea Banca, are not traded on a public market and the company does not file its financial statements with CONSOB in order to issue ordinary shares on a public market. Accordingly, IAS 33 does not apply.

25.1 AVERAGE NUMBER OF ORDINARY SHARES IN DILUTED SHARE CAPITAL

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

25.2 OTHER INFORMATION

No further information to report.

PART D – CONSOLIDATED COMPREHENSIVE INCOME

DETAILED BREAKDOWN OF COMPREHENSIVE INCOME

		31/12/2020	31/12/2019
10.	**Net profit (loss) for the period**	**202,320**	**244,963**
	Other comprehensive income not recyclable to profit or loss	**(12,768)**	**2,356**
20.	Equity securities designated as at fair value through other comprehensive income:	(7,568)	21,906
	a) fair value changes	(12,359)	22,281
	b) transfers to other elements of shareholders' equity	4,791	(375)
30.	Financial liabilities measured at fair value through profit or loss (change in credit risk):	-	-
	a) fair value changes	-	-
	b) transfers to other elements of shareholders' equity	-	-
40.	Hedges of equity securities designated as at fair value through other comprehensive income:	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50.	Property, plant and equipment	(103)	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(6,045)	(13,755)
80	Non-current assets held for sale	-	-
90.	Valuation reserves of equity investments accounted for with equity method	-	(3,866)
100.	Income taxes on other comprehensive income not recyclable to profit or loss	949	(1,929)
	Other comprehensive income recyclable to profit or loss	**11,384**	**292,926**
110.	Hedging of investments in foreign operations:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
120.	Foreign exchange differences:	-	-
	a) value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
130.	Cash flow hedges:	(44,612)	9,959
	a) fair value changes	(38,332)	6,286
	b) reversal to income statement	(5,309)	3,314
	c) other changes	(971)	359
	of which: result on net positions	-	-
140.	Hedging instruments (undesignated elements):	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
150.	Financial assets (other than equity securities) measured at fair value through other comprehensive income:	66,055	430,920
	a) fair value changes	70,809	191,220
	b) reversal to income statement	(3,357)	63,875
	- adjustments for credit risk	4,406	(69)
	- gain/loss on realization	(7,764)	63,944
	c) other changes	(1,396)	175,825
160.	Non-current assets and disposal groups held for sale:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
170.	Valuation reserves of equity investments accounted for with equity method:	(1,792)	(1,272)
	a) fair value changes	(1,792)	2,593
	b) reversal to income statement	-	(3,866)
	- impairment adjustments	-	-
	- gain/loss on realization	-	(3,866)
	c) other changes	-	-
180.	Income taxes on other comprehensive income recyclable to profit or loss	(8,267)	(146,681)
190.	**Total other comprehensive income**	**(1,383)**	**295,282**
200.	**Comprehensive income (item 10+190)**	**200,937**	**540,245**
210.	Consolidated comprehensive income pertaining to non-controlling interests	6,484	8,364
220.	**Consolidated comprehensive income pertaining to shareholders of the Parent Company**	**194,453**	**531,881**

PART E - RISK AND RISK MANAGEMENT POLICIES

INTRODUCTION

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

The risk governance policies represent the reference model in organizational and process development and in the systematic execution of all the operational and business activities performed by Group companies and are an integral part of the risk management process (RMP) adopted by the Group, ensuring sound and prudent management and supporting sustainable implementation of the overall risk strategy. The internal control system (ICS) governs the RMP, ensuring the completeness, appropriateness, functionality (in terms of effectiveness and efficiency) and reliability of the policies in a context of strict consistency with the governance framework defined at Group level.

The Risk Management function operates within the internal control system.

THE RISK MANAGEMENT FUNCTION

The Chief Risk Officer area is responsible at the Group level for second-level control activities connected with the management of credit, financial and operational risks, including IT risks. It is the contact for the corporate bodies of the Parent Company for matters within its scope of responsibility, providing an integrated and composite vision of the set of risks that are being assumed and managed by the individual entities and by the Group as a whole.

The organizational structure of the Risk Management function of the Parent Company of the Iccrea Cooperative Banking Group includes the following structures:

- a “Group Risk Management” unit, which (i) supervises and coordinates the organizational units dedicated to the individual risk categories, which within their areas of responsibility are involved in the development and maintenance of the methodological framework for the estimation, integration and management of specific risks, (ii) supports the process of defining the Group risk appetite, identifying any risk mitigation measures where necessary and/or advisable and (iii) develops Group-level stress testing exercises and (iv) contributes to the preparation of the Group restructuring plan;
- a “Mutual Bank Risk Management” unit, which represents the “control center” for the risk profile of the individual affiliated banks, with responsibility for controlling and activating Early Warning System processes, in addition to representing the heads of the territorial Risk Management units and collaborating with Group Risk Management in defining the methodological and operational aspects of the Risk Management process, with particular regard to the aspects concerning the affiliated banks. More specifically, the Early Warning System (EWS) regulates the governance mechanisms between the corporate bodies of the banks and the corporate bodies of the Parent Company and is the tool used to monitor the organization and the financial position and performance of the affiliated Banks, in the interest of their stability and their sound and prudent management. The EWS defines internal operating rules and areas of assessment that, using specific indicators and coded evaluation processes, make it possible to classify the affiliated banks in relation to their riskiness. Each affiliated bank is classified into one of seven risk levels attributable to three overall risk situations (“ordinary”, “strain”, “critical”), which are associated with specific responses of the Parent Company that are graduated in relation to the management constraints associated with the measures (“ordinary”, “coordinated” and “controlled” management). The intervention measures associated with the EWS indicators therefore form an integral part of the strategic/operational plans defined on an individual basis and are implemented by the affiliates involved when preparing the individual RAS, in particular with regard to the definition of the levels of risk propensity/target (risk appetite) and the maximum tolerated and permitted exposure (risk tolerance and risk capacity, respectively);
- units directly reporting to and supporting the CRO (Validation and Support and Coordination of Interdepartmental Initiatives).

Serving within the Parent Company’s “Mutual Bank Risk Management” are area coordinators (the heads of the three Mutual Bank Risk Management Coordination units) and a “Risk Management Territorial Specialist”, representing the local Risk Management specialist. In this context, the Risk Management (RM) Territorial Specialist, with the contribution of associates if appropriate, supports the Risk Management units of the affiliated banks in determining and adopting strategies, policies and processes for the identification, assessment and control of the risks specified by the Risk Management function at the Iccrea Cooperative Banking Group level.

The main duties performed by the Risk Management function are the following:

- defining and developing the framework for the assumption and management of risks pertaining to the Group, which is composed of (i) organizational structures and corporate processes (operating, administrative and business), including line controls; (ii) risk governance policies (policies, limits, responsibilities); and (iii) methodologies and risk measurement and assessment criteria. In this area, the Risk Management function ensures that the framework for the assumption and management of risks is compliant with applicable regulations, in line with market best practice, functional in respect of internal operational conditions and consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) of the Group;

- developing the Risk Appetite Framework and its operational implementation (the Risk Appetite Statement) at the consolidated level and, with the support of the affiliated banks and Group companies, at the individual level, consistent with capital adequacy objectives (ICAAP) and the adequacy of the liquidity profile (ILAAP) of the Group;
- monitoring the risk profile of the individual affiliated banks with the appropriate territorial organization of risk management arrangements and the Early Warning System (EWS) and the Guarantee Mechanism. In this area, the Risk Management function:
  - handles the development and updating of the methodological framework and develops tools for managing the Guarantee Mechanism, as well as assessing, classifying and monitoring the affiliated banks within the scope of EWS management processes;
  - is responsible, through the action of its local units as well, for the determination and adoption by each affiliated bank of strategies, policies and principles for the assessment and measurement of the risks identified at the Group level.
- monitoring developments in the risk profile and the various types of risk to which the Group as a whole and its individual members are exposed, verifying the ongoing consistency between the actual risk assumed and the specified risk objectives. In this context, the Risk Management function:
  - develops methodologies and models for measuring and assessing risks, validating those models, periodically checking their operation, predictive capacity and performance, and their consistency over time with operational practices and regulatory requirements;
  - performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible, identifying any needs for fine tuning/corrective or evolutionary maintenance and providing support – within the scope of its duties – in implementing the associated actions;
  - identifies any risk developments exceeding the limits set out in the Risk Appetite Statement, in the Risk Governance Policies or in external regulations and, in general, potentially harmful or unfavorable situations in order to assess possible mitigation initiatives to implement;
  - analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement and Group policies in this area;
  - assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (ICAAP) and the appropriateness of the Group's liquidity profile (ILAAP);
  - assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to be implemented for the restructuring plan and within resolution procedures;
  - reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining and implementing strategic policy and risk policy and the associated implementation of those policies;
  - within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The Group devotes special attention to managing, assessing and understanding risk. All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Parent Company. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies, updating risk measurement and estimation approaches to ensure consistency with sector best practices;
- the specification of risk limits;
- the periodic monitoring of exposures and compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the Group companies in the long term, systematic and independent Internal Auditing units, etc.).

THE GROUP RISK GOVERNANCE FRAMEWORK

The overall Risk Governance framework developed and adopted by the Group reflects the specific features of the ICBG, whose participatory mechanisms are based on a Cohesion Contract, signed by the banks, that provides for internal stability mechanisms characterized by intercompany mutual support agreements regulated specifically by applicable external legislation.

Accordingly, the complex reference framework that characterizes typical risk governance models and processes reflects and incorporates these specific features by way of the close integration of those models and processes, using shared metrics and efficient and effective operational mechanisms to support the implementation of roles and functions for policy-setting, coordination and control by the Parent Company for all Group banks/companies.

The Risk Appetite Framework (RAF) defined and adopted by the Iccrea Cooperative Banking Group is an integral and key part of the overall risk governance arrangements of the Group, as it is closely correlated with the strategic governance and control processes of the Group and with the internal stability mechanisms. The overall structure of the RAF is articulated at the Group level and is organized at the operational level by company/business unit and operating areas. Its dimensions can be expressed both in terms of metrics and limits and in terms of guidelines/qualitative indicators. In defining the key elements of the Group RAF, and in the definition of the related operating model, consideration had been given not only to applicable regulations but also to the specific aspects that characterize the ICBG as a group whose members are affiliated by contract, with a view to encapsulating those elements within an organic and integrated framework. In this context, therefore, the RAF makes it possible:

- to reinforce knowledge and awareness in the assumption, management and, more generally, governance of corporate risks;
- to rapidly and effectively direct the system for monitoring and communicating the risk profile;
- to guide risk management and mitigation decisions in a manner consistent with developments in the actual levels of risk assumed and managed.

In line with the principles underlying the ICBG Risk Governance model and with the aim of implementing an integrated system for governing, managing and controlling the Group's risks, the Group Risk Appetite Framework takes account of the Risk Governance mechanisms and processes established by applicable legislation and underlying the establishment of the Iccrea Cooperative Banking Group, as discussed in the report on operations.

SECTION 1 - RISKS WITHIN SCOPE OF ACCOUNTING CONSOLIDATION

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 IMPAIRED AND PERFORMING CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR AND GEOGRAPHICAL AREA

A.1.1 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (CARRYING AMOUNT)

	Bad loans	Unlikely to be repaid	Impaired past due exposures	Performing past due positions	Other performing positions	Total
1. Financial assets measured at amortized cost	1,200,015	2,329,459	212,328	1,695,458	145,745,797	151,183,057
2. Financial assets measured at fair value through other comprehensive income	27	2	-	-	7,705,050	7,705,078
3. Financial assets designated as at fair value	-	4	-	-	345,089	345,094
4. Other financial assets mandatorily measured at fair value	18	-	145	34,084	855,982	890,230
5. Financial assets held for sale	-	-	-	-	-	-
Total 31/12/2020	**1,200,060**	**2,329,465**	**212,473**	**1,729,542**	**154,651,918**	**160,123,459**
Total 31/12/2019	**1,854,447**	**3,058,031**	**299,292**	**3,203,961**	**137,649,381**	**146,065,113**

A.1.2 DISTRIBUTION OF CREDIT EXPOSURES BY PORTFOLIO AND CREDIT QUALITY (GROSS AND NET VALUES)

	Impaired assets				Performing assets			
	Gross exposure	Total adjustments	Net exposure	Total partial writeoffs	Gross exposure	Total adjustments	Net exposure	Total (net exposure
1. Financial assets measured at amortized cost	8,445,152	4,703,349	3,741,803	326,084	148,350,320	909,065	147,441,255	151,183,057
2. Financial assets measured at fair value through other comprehensive income	41	12	29	-	7,713,799	8,749	7,705,050	7,705,078
3. Financial assets designated as at fair value	4	-	4	-	X	X	345,089	345,094
4. Other financial assets mandatorily measured at fair value	190	26	164	-	X	X	890,066	890,230
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 31/12/2020	**8,445,386**	**4,703,387**	**3,741,999**	**326,084**	**156,064,119**	**917,815**	**156,381,460**	**160,123,459**
Total 31/12/2019	**10,623,858**	**5,412,087**	**5,211,771**	**411,439**	**140,584,117**	**946,670**	**140,853,342**	**146,065,113**

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	1,393	411	259,936
2. Hedging derivatives	-	-	11,876
Total 31/12/2020	**1,393**	**411**	**271,812**
Total 31/12/2019	**1,161**	**3,043**	**200,873**

* Values to be reported for information purposes

B. DISCLOSURES ON STRUCTURED ENTITIES (OTHER THAN SECURITIZATION VEHICLES)

Consistent with IFRS 12, the Group defines structured entities as entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

A structured entity often has some or all of the following features or attributes:

- restricted activities;
- a narrow and well-defined objective, such as to provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support;
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

The Group has exposures to structured entities that mainly operate as special purpose vehicles for securitizations and closed- or open-end securities/real estate investment funds in which the Group has subscribed units or to which it has lent funds.

For the purpose of this section, transactions carried out with special purpose securitization vehicles are not considered. For more on that type of structured entity, please see section C. Securitization and section E. Disposals in Part E of the notes to the consolidated financial statements.

B.1 CONSOLIDATED STRUCTURED ENTITIES

In the Group, consolidated structured entities are represented by closed-end real estate investment funds over which the Group exercises control in accordance with international accounting standards as a result of the subscription of a number of units sufficient to expose the Group to variable returns from the involvement and give it the ability to manage the underlying portfolio directly or indirectly.

The following table summarizes the on-and off-balance-sheet exposures held by Group companies in respect of those entities.

Type of structured entity	Total assets	Off-balance-sheet exposures
Investment funds	470,664	-

B.2 STRUCTURED ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES

B.2.1. STRUCTURED ENTITIES CONSOLIDATED FOR SUPERVISORY PURPOSES

The Group does not have exposures to structured entities that are unconsolidated for accounting purposes but consolidated for supervisory purposes.

B.2.2. OTHER STRUCTURED ENTITIES

QUALITATIVE DISCLOSURES

The Group has exposures to unconsolidated structured entities, mainly regarding units subscribed and loans granted to securities/real estate investment funds (collective investment undertakings - CIUs).

These entities are not consolidated since the Group only holds minority interests, is not the fund manager and is not able to influence its returns.

During the period under review, the Group did not provide and does not intend to provide financial or other support to unconsolidated structured entities and has not acted as a sponsor of these entities.

QUANTITATIVE DISCLOSURES

	Asset portfolios (*)	Total assets (A)	Liability portfolios	Total liabilities (B)	Net carrying amount (C=A-B)	Maximum exposure to loss risk (E)	Difference between exposure to loss risk and carrying amount (E=D-C)
1. Vehicles	-	-	-	-	-	-	-
2. CIUs							
	HFT	7,578			7,578	7,578	
	MFV	343,163			343,163	343,163	

(*) MFV = financial assets mandatorily measured at fair value; HFT= financial assets held for trading

SECTION 2 – RISKS WITHIN SCOPE OF PRUDENTIAL CONSOLIDATION

1.1 CREDIT RISK

QUALITATIVE DISCLOSURES

1. GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca determines credit risk management policies at the Group level, setting guidelines and coordinating their implementation within the individual entities. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the subsidiaries, in agreement with the Parent Company;
- the Risk Management function supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the credit risk exposure of the Parent Company and all the Group companies.

This model also relies on the current governance structure, which provides for organizational separation between the units responsible for the operational management of lending (the Chief Lending Officer area, hereinafter also the CLO area) and control units (under the Risk Management function).

With regard to management of lending, the mechanisms for interaction between the Parent Company and the Group companies - defined on the basis of the Cohesion Contract – comprise specific credit governance rules, which on the one hand govern the related responsibilities and on the other ensure the compliance of the credit risk framework with the applicable regulatory framework to which the Parent Company is subject.

With regard to the management and coordination role, the Parent Company assumes responsibility for the following areas: lending rules (principles, policies and processes), credit strategies and credit risk limits, management of large exposures, guidelines for the main credit product categories by customer segment, the monitoring and reporting of portfolio credit risk.

In line with these credit governance rules, the Group companies must request the opinion of the CLO area ("credit opinion") before approving new credit lines or significant modifications to existing positions with individual counterparties/groups of connected clients if those facilities exceed predetermined amount thresholds both in absolute value considering the overall risk exposure of the Iccrea Cooperative Banking Group and with regard to compliance with credit risk concentration limits relation to the own funds of the individual Group bank.

The mapping of groups of connected clients, which seeks to identify and assess legal and financial connections between clients is conducted in accordance with principles and rules valid for the entire Banking Group and with the most recent regulatory guidelines in this field (EBA guidelines on connected clients, EBA/GL/2017/15).

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

Credit risk represents the preponderant component of the overall risks to which the Group is exposed, considering that credit exposures account for a dominant share of assets.

In light of this circumstance and in compliance with the applicable provisions concerning the internal control system (see Bank of Italy Circular No. 285/2013, Part One, Title IV, Chapter 3), the Group has adopted a governance structure and operational arrangements to ensure the adequate monitoring of credit risk in the various phases of the process.

Moreover, in relation to the application of the provisions of IFRS 9 and the related initiatives to ensure their implementation, especially as regards the classification and measurement of credit exposures, the Group further strengthened its risk management arrangements, with particular regard to the definition of credit classification and measurement policies, as well as the development of a structured framework of second-level controls of credit exposures, with particular regard to impaired positions.

The entire credit management and control process is governed by internal rules that also define risk control, management and mitigation activities, developing a structured system involving the various organizational units.

The Parent Company, in exercising the powers of strategic management and coordination granted to it under provisions of the Cohesion

Contract, defines the strategies, policies and principles for assessing and measuring risks and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level. With regard to the lending process, the Parent Company defines the credit approval process and the management of the associated risk (management of guarantees, including real estate, monitoring of exposures, classification of risk positions, management and measurement of impaired exposures).

From an organizational point of view, the CLO area assumes responsibility on behalf of the Parent Company and the companies in the direct scope of consolidation (directly owned by the Parent Company) for the supervision of all phases of the lending process from loan approval to the management of non-performing positions.

The main activities of the lending process performed by the CLO area are:

- issuing guidelines for the definition of the loan management model, issuing guidelines for the loan approval and disbursement process, and finalizing and defining/developing the lending authority model for the decision-making bodies;
- approving the general and specific exceptions for Group companies with respect to Group guidelines on customer segments/credit products;
- monitoring the Group's performing portfolio by analyzing and monitoring existing exposures and by issuing opinions (credit opinions) on credit exposures that exceed specified limits;
- defining the framework for assessing the creditworthiness of corporate, retail and banking counterparties;
- assessing the creditworthiness of banks and financial institutions to which the Parent Company and the companies in the direct scope of consolidation have granted credit;
- performing activities connected with the operational management of the rating models, carrying out rating overrides and providing assistance to Group companies in relation to the general principles and the reasons for the ratings assigned to individual counterparties.

With regard to credit monitoring, in addition to the definition of guidelines at Group level and the minimal set of early warning indicators for the interception and management of positions to be "monitored", the CLO area monitors the positions of the Parent Company and the companies within the direct scope that present an increase in credit risk, as well as examining the correct execution of the process implemented by the affiliated banks. Furthermore, the CLO area monitors the "most relevant" positions.

As part of the second-level controls, the Risk Management function has defined the overall methodological and operational framework in this area. It is applicable to the entire Group. The framework, which is governed with a specific body of regulatory and process documentation, covers all the activities and controls aimed at verifying, on a periodic basis, the appropriateness of the classifications of exposures, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

More generally, the Risk Management function oversees the risk management of the individual entities from a consolidated and individual perspective:

- overseeing the measurement of credit risk from a current and forward-looking perspective, considering both conditions of normal operations and stress scenarios;
- monitoring the capacity of the risk limits, including those defined within the RAF/RAS with regard to the associated credit risk metrics;
- defining and updating the methods and measurement models for credit risk, including those used in the performance of credit stress tests, ensuring their ongoing compliance with regulatory developments and market best practice.

2.2 MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

IDENTIFICATION OF RISKS

As noted in the previous section, in compliance with the provisions of Circular no. 285/2013 of the Bank of Italy as updated, the Parent Company determines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level, thus exercising the powers of strategic management and coordination aimed at ensuring the unity of the Group's strategic management and control system, as governed by the Cohesion Contract.

With particular regard to the lending process, the Parent Company governs lending and the management of the related risk. This also comprises the management of guarantees, including real estate, exposure monitoring, the classification of risk positions, and the management and valuation of impaired exposures.

In all of these phases, the Group uses qualitative and quantitative methods for assessing counterparty creditworthiness, supported by IT procedures that undergo periodic verification and maintenance.

With specific reference to the loan approval phase, the Group rules establish the key principles underpinning all phases of the process of approving/renewing loans, together with the roles and associated responsibilities of the various actors involved, specifying the procedures through which the Group intends to assume credit risk in respect of its customers, i.e. by identifying eligible counterparties and the admissible technical forms of credit for each customer segment.

In this specific context, a direct assessment is carried out to ascertain the needs and requirements of the applicant and therefore the purposes of the credit line and to accurately assess the credit risk profile: granting a loan requires an in-depth analysis of the risk associated with (i) the counterparty as well as the economic context in which it operates, (ii) the purpose and characteristics of the transaction to be financed, (iii) the guarantees available and (iv) other forms of credit risk mitigation.

The analysis of the counterparty is conducted so as to assess the overall profitability of the relationship using the associated valuation tools/models. The assessment of creditworthiness focuses, in turn, on an analysis of the borrower’s ability to repay, without prejudice to the principle that credit can only be granted if it is clear how it will be repaid.

Without prejudice to the prudential limits set by applicable regulations, which are commensurate with own funds with regard to both the magnitude of the exposure to the individual counterparty and the total amount of larger exposures, the credit strategies provide for risk limitations on the basis of specific elements, such as, for example, the nature of the transaction (e.g. transactions intended to finance real estate whose repayment will be financed by sale or lease), the situation of the specific real estate market (type of asset, economic sector, geographical area, market demand, etc.), a current and forward-looking evaluation of the asset, the accurate quantification of timing and costs of carrying out the initiative.

In general, given the recent establishment of the Iccrea Cooperative Banking Group, the management, measurement and control systems at the individual affiliated mutual banks are being developed to adapt them to the new consolidated context and evolve them in accordance with industry best practice. In this direction, Group policies were issued for all phases of the lending process and, therefore, the granting and disbursement of credit, management of guarantees, loan monitoring, loan classification, assessment of impaired positions, management of substandard positions and NPLs.

As noted earlier, the central moment of the preliminary phase of the lending process is that linked to the assessment and measurement of the credit risk of the transaction in question. The assessment is based on qualitative/quantitative information and is typically supported by the use of automated rating/scoring models designed to measure the creditworthiness of the counterparty and/or the possibility of proceeding with the transaction.

Ratings plays a key role lending, as they represent an essential element of the assessments made during the loan approval, review and renewal processes. The rating assignment involves an analysis of all the quantitative and qualitative information available to support the application approval process in order to accurately assess the risk profile of the transaction and to monitor the creditworthiness of existing counterparties over time.

For the companies in the direct scope of consolidation, the rating and scoring systems are already fully integrated into credit processes. Lending policies already provide indications concerning the minimum level of the decision-approval bodies - based on the technical form of financing, the guarantees securing the loan and the counterparty rating - and the related mechanisms for exceptions, which are granted and monitored by the Parent Company. Affiliated mutual banks have rating systems to support the loan approval/management process. In view of the recent establishment of the Group and the different information systems used by the mutual banks, a number of activities are being completed to integrate ratings in all the processes of the Group companies.

The evaluation models in use take into consideration:

- the specific features of the different types of counterparties, with particular reference to the Corporate segment (companies/producer households), Retail (consumers) and Institutional (bank counterparties);
- the specific features of the product involved, distinguishing between short, medium and long-term types of credit, or specialized technical forms (leases, factoring, consumer credit).

In general, the evaluation models use all the available updated information on the counterparty/transaction, drawn both from external sources (e.g. the Bank of Italy Central Credit Register and similar association databases, credit bureaus, financial statements, registry events) and internal sources (internal performance information).

The Group adopts a counterparty approach in assigning ratings except in specific cases in which the counterparty assessment is supplemented by a product-perspective evaluation, in consideration of any special features of a business. Using rating/scoring models, the Group assigns the counterparty a representative credit rating, adopting an on-line processing procedure, which is typically accessed through the electronic application processing system but also in batch mode, with the latter being adopted for periodic updating of ratings for all Bank customers (the loan position performance rating).

In compliance with the supervisory provisions governing the correct identification of the risk assumed, or to be assumed, in respect of a “group of connected clients”, any legal or economic connections between clients are detected and evaluated by those responsible for analyzing creditworthiness during the application assessment phase of the lending process.

These objectives are achieved through an analysis that involves the acquisition of all available information such as financial statements, where available at Group level, or aggregated financial statements of the main entities involved, for subsequent processing, ad hoc information on intercompany items of a financial and operating nature that may not be reported in the financial statements, or on operating flows between Group companies, on the presence of centralized treasury operations and, more generally, on the activities, the market and the competitors of the Group and all entities connected with it.

The monitoring process envisaged by the model is independent with respect to classification status (for example, a position on which payments are being made regularly but has been classified as unlikely to pay due to another non-performing exposure in the system). It is based on the following:

- the use of early warning indicators that permit timely detection of risk signals;
- the definition and attribution of responsibilities in the monitoring process;
- the definition and execution of risk mitigation actions;
- the generation of appropriate information flows between the bank and the Parent Company.

More specifically, within the process we distinguish:

- a phase in which early warning signals are identified, using risk indicators to detect exposures affected by an appreciable increase in credit risk in order to analyze their risk profile and take appropriate management actions;
- a management phase, aimed at examining the identified positions and taking, where necessary, specific management actions in order to promptly mitigate the risk of a deterioration in the position.

The identification of the positions under observation, using IT support procedures, can be carried out manually (i.e. based on the “manual” acquisition of information about, for example, significant changes in the corporate group to which the counterparty belongs, failure to comply with covenants, voluntary declarations of difficulties made by the counterparty, news reports, etc.), or using automated processes, i.e. procedures based on a set of indicators (from external or internal sources, regarding the relationship between the bank and the counterparty, or the capital structure and financial resources of the latter) that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship.

Automated identification must be based on a set of indicators that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship (directly related to the client’s relationship with the Bank or the client’s financial structure, based on data from external or internal sources). These indicators are differentiated on two levels (1 and 2) that indicate an increasing degree of risk, In the case of level 2 indicators, the position undergoes an analysis of counterparty creditworthiness, which may involve a re-examination of the borrower, in order to verify the capacity of the client to honor its commitments through to full repayment.

The process of managing “watch list” exposures therefore enables the analysis of the risk profile of “watch list” counterparties and the definition of appropriate management actions in the context of the monitoring processes with a view to returning the position to normal status or mitigating the risk connected with the exposure.

RISK MEASUREMENT AND ASSESSMENT

For the purpose of calculating prudential requirements for credit risk, the Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The adoption of the standardized approach to determine the capital requirement against credit risk involves the subdivision of exposures into portfolios and the application of differentiated prudential treatments to each, possibly using assessments of creditworthiness (external ratings) issued by external agencies (ECAI) or by export credit agencies (ECA) recognized for prudential purposes on the basis of the provisions of Regulation (EU) No. 575/2013.

Depending on the type of counterparty and the sector in which it operates, the Group’s operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral).

For the purposes of determining internal capital for concentration risk for individual counterparties or groups of connected clients, the Group uses the regulatory granularity adjustment (GA) algorithm, based on the Herfindahl index. In accordance with regulatory provisions, the reference portfolio consists of on-balance-sheet and off-balance sheet exposures (the latter considered at their credit equivalent amount) falling within the regulatory portfolios “corporates and other borrowers”, “short-term exposures to corporates” and exposures to corporates included in the asset classes “in default”, “secured by real estate”, “equity exposures” and “other exposures”.

Furthermore, for the purpose of quantifying geo-sectorial concentration risk, the Group adopts the methodology developed by the “Geo-Sectoral Concentration Risk Laboratory” of the Italian Banking Association (ABI), which sets geographical and product categories against a national asset allocation benchmark.

The Group periodically performs stress tests for credit and concentration risks in order to assess - in terms of potential losses - the impact of expected risk developments on the financial profile of the Group and the individual entities under both normal and adverse operating conditions.

The stress test methods are based on regulatory practices and are applied in various management and risk governance processes, starting with the capital adequacy assessment process (ICAAP), as well as in the performance of supervisory exercises.

The methodological and calculation structure of credit stress tests is based on the use of internal risk models and parameters and incorporates a credit risk projection approach (transitions between stages/risk states) and determination of related losses over the scenario years (12-month or lifetime expected credit loss) based on the measurement of IFRS 9 impairment.

The projections of the estimates for the scenario years are performed considering the macroeconomic scenario assumptions in the adopted scenarios (in baseline or adverse conditions), using internally developed models ("satellite" models), which estimate the relationship between risk factors and developments in macroeconomic variables.

The sensitivity analysis of the expected credit loss (ECL) metrics was performed by the Parent Company at the consolidated level pursuant to IFRS 9 for 2020. This analysis was carried out on a representative sub-portfolio of performing loans allocated to Stage 1 and Stage 2 in respect of corporate and retail customers. For the purposes of the sensitivity analysis, the "worst plausible" scenario was used as the main reference scenario, having already been used at the end of 2020 to determine the ECL together with the baseline scenario, i.e. that used as the benchmark for the calculation of the ECL at December 31, 2020. The results show that, at the consolidated level, this simulated measure (based on the conditions prevailing at the reporting date) shows an increase of about 8% in Expected Credit Loss compared with that at December 31, 2020.

With regard to stress testing of single-name concentration risk, the granularity adjustment approach is applied using the PD determined in the adverse scenario, while for the purpose of quantifying the geo-sectorial concentration risk in stress conditions, the calculation provides for an increase in the exposure to the sector (ATECO classification) with the greatest concentration, in addition to the corresponding level of risk tolerance defined in the RAS framework.

RISK MONITORING AND CONTROL

In accordance with supervisory regulations (Bank of Italy Circular no. 285/2013), the Risk Management function performs - at both the consolidated and individual legal entity levels – second-level control activities to verify the adequacy, effectiveness and consistency over time of policies and limits, processes and delegated powers with regard to the credit risk management process, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management function through analysis of developments in the exposure to credit risk of the Group as a whole and of the individual entities.

The Internal Audit unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

The locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives and limits (appetite, tolerance and capacity) at both the consolidated and individual entity levels, with compliance ensured by the monitoring and control activities of the function.

Monitoring and reporting on the credit risk profile is characterized by activities that involve both the business functions and the control functions, in accordance with their respective responsibilities. In particular, monitoring is ensured both by aggregate portfolio performance analyzes and by analyzes carried out on individual positions.

The Risk Management function monitors the credit risk profile – at both the consolidated and individual affiliated bank and Group company level, using an analytical framework and related reporting based on a system of key risk indicators. It is designed to monitor the loan portfolio, at both the time exposures are taken on and during their lifetime, the outcomes of which are reported regularly to top management. In this context, the analytical methods and the related reporting undergo constant fine-tuning in order to represent the drivers underlying developments in credit risks in an ever more effective manner, reflecting changes in the regulatory environment as well as management requirements and to support decision-making.

As noted earlier, Risk Management developed the Group second-level control framework, which comprises control activities aimed at ascertaining, on a periodic basis, the consistency of exposure classifications, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

The control methods envisaged by the framework undergo constant refinement and evolution, with a view to directing second-level controls ever more effectively in response to developments in the credit risks of the Group.

2.3 METHODS FOR MEASURING EXPECTED CREDIT LOSSES

The Group has adopted a framework for determining impairment based on risk assessment models and the corresponding parameters used in operational and management practices by the Parent Company and individual Group entities. In accordance with the provisions of IFRS 9, the methods for measuring expected losses on impaired exposures are based on the following elements:

- a 3-stage (stage allocation) approach, based on changes in credit quality, defined on a model of 12-month expected loss or lifetime expected loss if a significant increase in credit risk is detected. The standard provides for three different categories that reflect the deterioration in credit quality since initial recognition:
  - Stage 1: financial assets originated and/or purchased that do not exhibit objective evidence of impairment at the date of initial recognition or that have not experienced a significant deterioration in their credit quality since the date of initial recognition or which have low credit risk (low credit risk exemption);
  - Stage 2: financial assets whose credit quality has deteriorated significantly since the date of initial recognition;
  - Stage 3: financial assets that exhibit objective evidence of loss at the reporting date. The population of these exposures is consistent with those considered “impaired” under IAS 39.
- application of “point-in-time” formulations of the parameters for measuring credit risk for the purpose of calculating impairment;
- calculation of lifetime expected credit loss for exposures not classified in Stage 1, using lifetime parameters;
- inclusion of forward-looking conditioning in the calculation of ECL, considering the average loss from each scenario and the associated probability-weighted likelihood of each outcome;
- staging and transfers of financial assets between the stages.

In accordance with the standard, the Iccrea Group allocates each asset/tranche to one of the following three stages:

- stage 1, which includes all newly issued exposures and all exposures in respect of counterparties classified as performing that, as at the reporting date, meet the condition for the low credit risk exemption, or that do not show a significant increase in credit risk with respect to the level measured at the date of disbursement or purchase;
- stage 2, which includes all performing positions/tranches that at the time of assessment simultaneously meet the following two conditions: (i) they have a PD greater than the threshold, (ii) they have experienced a significant increase in credit risk with respect to the level measured at the origination date. In the absence of a rating/PD at the reporting date, exposures are generally allocated to stage 2 (without prejudice to the additional considerations and practices addressed below);
- stage 3, which includes all exposures that, as at the evaluation date, are classified as non-performing under the default definition adopted and governed by specific internal rules in conformity with supervisory regulations.

The staging method of the Group was developed on the basis of the following drivers.

The method developed for the loan portfolio envisages:

- the use of the low credit risk (LCR) criterion, under which credit risk is deemed to have not increased significantly if the exposure shows a low level of credit risk at the reporting date, essentially defined as a PD threshold at the reporting date equal to the investment grade threshold;
- the use of quantitative criteria based on rating/scoring systems, involving the analysis and comparison of the PD/rating at origination with the PD/rating at the reporting date. This identifies, on the basis of thresholds of significance defined in terms of the number of notches that a rating has changed, any significant increase in credit risk on the position.
- the use of qualitative staging criteria to identify the riskiest positions in the performing portfolio. These criteria have been defined independently of the use (or not) of the quantitative criteria referred to in the previous point and are based on the identification of objective evidence of impairment, such as the presence of forbearance measures, positions more than 30 days past due or positions under observation (watch list).

The staging methodology developed for the securities portfolio is applicable to the entire portfolio of debt securities outstanding at the reporting date for the various Group entities. Not included in the calculation of impairment, and therefore not subject to the staging mechanism, are shares, equity investments, units of collective investment undertakings, securities classified as held-for-trading and debt securities that do not pass the benchmark test and the SPPI test.

The approach adopted for the securities portfolio provides for the use of the principle of the low credit risk exemption, which allocates exposures with a conditional 12-month PD below the investment grade threshold to stage 1. Positions with a conditional 12-month PD above that threshold are allocated to stage 2.

Group entities with a securities portfolio use the external ratings of an ECAI at the tranche level. For the purpose of assigning a rating to securities exposures at the reporting date, only ECAIs with which a valid information-use agreement is in place are used.

Starting from the allocation of exposures in the different stages, the calculation of expected losses (ECL) is carried out, at the level of each position, on the basis of the estimated risk parameters (EAD, PD, LGD) using internal management models, performed in compliance with the requirements of the applicable accounting standard.

In particular, for the purposes of determining the probability of default (PD), the approach adopted for both the loan portfolio and the securities portfolio envisages:

- the transformation of the "through-the-cycle" PD into (or calculation of) the "point-in-time" (PIT) PD on the time horizon for the most recent historical observations;
- the inclusion of forward-looking scenarios through the application of multipliers generated by internal "satellite" models to the PIT PD and the definition of a series of possible scenarios and the associated probability of occurrence that incorporate future macroeconomic conditions in the estimates;
- the transformation of the 12-month PD into a lifetime PD in order to estimate the PD term structure over the entire residual life of the loans.

Loss Given Default (LGD) is determined using an approach based, in general, on the observation of historical loss rates on non-performing positions and on the application of the danger rate matrices, corresponding to the probability of a counterparty being classified as non-performing, regardless of the intermediate default states.

In order to make the obtain a forward-looking and lifetime LGD, the macroeconomic multipliers (determined using internally estimated satellite models) are applied to the danger rates for each reference period in the first three years, and estimated for the following years as an average of the multipliers for the first three years. For the securities portfolio, the unconditioned LGD measures are the same for both stage 1 and stage 2 exposures. In particular, an unconditioned LGD of 45% is used, subsequently subjected to forward-looking conditioning, consistent with the scenarios and the probabilities of occurrence used for conditioning the PD.

Exposure at Default (EAD) is calculated on the basis of the amortized cost schedules of the individual relationships for both loans and debt securities. For exposures relating to margins, EAD is determined by applying a specific Credit Conversion Factor (CCF) to the nominal value of the position.

For the purposes of calculating ECL under IFRS 9, the risk parameters are estimated from a forward-looking perspective through conditioning to macroeconomic scenarios. The approach adopted consists in the use of implicit multipliers to be applied to the parameters, in particular the PD, estimated on the basis of the scenarios and forecast values for the exogenous macroeconomic variables provided by our external provider. In order to reflect the different forward-looking riskiness of the positions assessed in the ECL estimates, these multipliers are differentiated by type of counterparty, sector of economic activity and geographical area. To determine the macroeconomic conditioning measures to be applied in the calculation, two types of scenarios are used, the first relating to an ordinary economic situation (or "baseline"), the other to an adverse situation ("worst plausible scenario "), which is associated, using judgment, with the corresponding probability of occurrence, also taking account of the greater alignment of the baseline scenario with typical market conditions.

For the conditioning of the LGD parameter to macroeconomic scenarios and the estimation of the corresponding forward-looking measures we use internally estimated "satellite" models.

IMPACT OF COVID-19

As part of the comprehensive set of initiatives launched by the Group for the purposes of managing the COVID-19 emergency on a structural basis, the work connected with the review of the credit risk forecasting metrics was of particular importance, factoring the new analytical determinants associated with this new context into the ordinary measurement processes, and in particular within the IFRS 9 impairment framework for the purposes of estimating expected losses on performing loans (expected credit losses, ECL).[36]

The sharp discontinuity in market conditions generated by the effects of COVID-19, against the continuing extraordinary uncertainty, especially looking forward, has required the implementation of a series of extraordinary measures to incorporate the potential impacts of the pandemic into the impairment model, specifically incorporating the forecasts for the main macroeconomic and financial variables developed by external providers and supervisory authorities into the risk metrics.

At the same time, the introduction of measures to support the economy and customers, with particular reference to the initiatives undertaken by the Group under the provisions of the relevant decree laws, the measures agreed with industry associations and the private initiatives implemented by individual entities led to the implementation of additional methodological changes in the IFRS 9 impairment framework in order to reflect its impact in the calculation of expected credit losses.

The following sections set out the measures taken to adjust the impairment framework in connection with the COVID-19 pandemic, which impacted the calculation of expected credit losses at the reporting date.

[36] Starting with the closure of the 2020 interim financial statements, the Stage 3 impairment add-on was applied so that the reduction in recoveries in the new market conditions engendered by the COVID-19 crisis would be reflected within the analytical process envisaged by the credit assessment policy.

Determining the presence of a significant increase in credit risk (SICR)

The measures implemented in response to the pandemic, with specific regard to determining whether a significant increase in credit risk has occurred, concerned the inclusion of the loan repayment moratoriums for households and micro, small and medium-sized enterprises contained in Decree Law 18/2020 (the "Cure Italy Decree"), as ratified with Law 27/2020. The management of the impact of these support measures included the adaptation of automatic staging mechanisms in order to ensure that the stage allocation criteria were consistent with the methods and purposes of the support measures, while still using an appropriate degree of prudence in assessing such positions in the light of market developments and the expectations expressed over the course of 2020 by the supervisory authorities in this regard.

Measurement of expected losses

The contingent circumstances associated with the COVID-19 emergency made it necessary to take additional specific steps to adjust estimates of expected credit losses and consequently to modify the quantification of IFRS 9 impairment losses to take account of the pandemic. More specifically, in addition to the measures taken to assess the impact of the moratoriums described above, the measures introduced to calculate ECL in order to reflect COVID-19 impacts involved the use of macroeconomic forecast scenarios updated in response to the evolution of the pandemic and market conditions. In particular, in order to enable the adaptation of the IFRS 9 methodological framework to the pandemic, the difficulty of modeling its peculiar characteristics using ordinary tools (satellite models) prompted the use of forward-looking projection metrics (implicit multipliers) to be applied to the risk parameters (PD, LGD) estimated on the basis of the forecast values of the exogenous macroeconomic variables provided by an external provider. These measures were differentiated by type of counterparty, sector of economic activity and geographical area in order to reflect differences in the potential impacts of the pandemic at the sectoral and territorial levels more precisely in the estimate of provisions. The exercise used two different scenarios are considered, a baseline scenario and an alternative scenario, assuming that economic conditions return to normal at the end of the forecast period. The weights of the individual scenarios used for calculating expected credit losses were 90% for the baseline scenario and 10% for the worst plausible scenario.

A sample of the main macroeconomic variables used to apply the forward-looking conditioning factors includes: Italian real GDP growth, the general consumer price index for Italy, the Italian unemployment rate, 3-month Euribor, the 3-year swap rate, the 10-year BTP rate, etc. As regards Italian real GDP growth, in view of the sharp contraction recorded in 2020, forecasts envisage a more rapid recovery in the first forecast year.

2.4 CREDIT RISK MITIGATION TECHNIQUES

As required by Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms (CRR), the Group is strongly committed to compliance with all the requirements for the appropriate application of credit risk mitigation (CRM) techniques in accordance with the standardized approach for the calculation of capital requirements both for internal management and regulatory purposes.

Specific guidelines issued by the Parent Company are currently in force for the Group. They define common rules and principles for the direction, governance and standardized management of risk mitigation techniques, best practices and regulatory requirements in this field.

Specifically, under the current credit policy, the CRM techniques recognized for all capital requirement calculation methods are divided into two general categories:

- funded credit protection, consisting of:
  - collateral, represented by cash deposits, financial instruments that meet certain requirements, and gold. These guarantees can be provided through pledge agreements, transfer of ownership with a guarantee function, repurchase agreements or securities lending arrangements. The Group has implemented systems to a) verify the acceptability of these guarantees and value the assets at the time of acceptance and, where applicable, determine the haircuts to be applied to the collateral; and b) ensure the continuing compliance of the guarantees with eligibility requirements through continuous monitoring, governed and supported appropriately by internal procedures;
  - master netting agreements that involve repurchase agreements, securities lending arrangements, loans with margins as well as OTC derivatives;
  - on-balance-sheet netting;
  - real estate mortgages and property lease transactions involving properties that have the characteristics required by law;
- unfunded credit protection, consisting of unsecured guarantees and credit derivatives.

Unsecured guarantees eligible for CRM purposes consist of all forms of credit protection provided by the entities (providers) specified in Article 201 of the CRR (central governments, central banks, international organizations, public sector entities, regional governments and local authorities, multilateral development banks, supervised intermediaries). Accordingly, guarantees issued by natural persons or legal entities not included in the list indicated in the legislation do not fall within the risk mitigation techniques for calculating capital requirements, but are not excluded from the Group's catalog of guarantees, which comprises not only the guarantees eligible for CRM purposes, but also guarantees not eligible for CRM purposes, as mentioned above.

Credit risk mitigation techniques may include guarantees provided by collective loan guarantee consortia in accordance with applicable regulations in the presence of suitable counter-guarantees (for example the Central Guarantee Fund for SMEs) for the portion they secure.

The different CRM techniques, whether funded or unfunded, are subject to both general and specific eligibility requirements that must be met at the time the guarantee is established and for the entire duration of the guarantee.

The general requirements, which are intended to ensure legal certainty and the effectiveness of the guarantees, mainly concern:

- the binding nature of the legal commitment between the parties and its enforceability in court;
- the technique used to provide the credit protection together with the actions and steps taken and procedures and policies implemented by the lending institution shall be such as to result in credit protection arrangements which are legally effective and enforceable in all relevant jurisdictions. The lending institution shall provide, upon request of the competent authority, the most recent version of the independent, written and reasoned legal opinion or opinions that it used to establish whether its credit protection arrangement or arrangements meet the condition laid down in the first subparagraph" (see Article 194 of the CRR);
- the lending institution shall take all appropriate steps to ensure the effectiveness of the credit protection arrangement and to address the risks related to that arrangement;
- the timeliness with which the guarantee may be liquidated in the event of default;
- the formalization of techniques and operating procedures adequate to ensure continuing compliance over time with the general and specific requirements required for CRM techniques. These procedures must be valid and applied by all Group companies in order to avoid possible inconsistencies in the assessment. Checks shall be carried out in relation to the current legal value of the documentation submitted, the impact of any changes in the regulatory framework and the consequent initiatives to be taken. Risks related to the ineffectiveness, reduction or termination of the protection ("residual risks") as well as valuation and potential concentration risks in respect of specific counterparties shall also be controlled and managed.

Specific requirements are established for the individual CRM techniques in relation to their features and are intended to ensure a high level of effectiveness of the credit protection.

3. IMPAIRED CREDIT EXPOSURES

3.1 MANAGEMENT STRATEGIES AND POLICIES

According to the EBA definition, non-performing exposures satisfy either or both of the following criteria:

- material exposures which are more than 90 days past-due;
- the debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Impaired exposures are classified by increasing degree of severity in the following three categories:

- impaired past due and or overlimit exposures: exposures continuously past due or overlimit by more than 90 days in an amount exceeding the materiality thresholds (a relative materiality threshold equal to 1% of the entire exposure and an absolute materiality threshold of €100 or €500 for retail or corporate counterparties respectively;
- unlikely to pay (UTP) exposures: on- and off-balance sheet exposures for which the institution considers that the obligor is unlikely, without recourse to actions such as realizing security, to pay its credit obligations (principal and/or interest);
- default: on- and off-balance sheet exposures to an obligor in a state of insolvency (even if not declared by a court) or a substantially comparable situation, regardless of any expected loss.

The regulations also require that individual exposures, regardless of the classification of the counterparty, be identified as forborne exposures when they have been granted forbearance measures that meet the regulatory definition of such measures.

Such forborne exposures are in turned distinguished into:

- performing forborne, if the counterparty is classified as performing at the time the forbearance measures are granted and such measures do not require that the counterparty be classified differently;
- non-performing forborne, if the counterparty is already classified in one of the categories of non-performing at the time the forbearance measures are granted and such measures require that the counterparty be classified as non-performing.

Any other types of customer segmentation adopted by the affiliated banks and companies within the direct scope of consolidation for internal management purposes only (for example "watch list exposures") in order to assess of specific situations, whether performed using automated system or manually, are mapped to the above categories, ensuring that the mapping method is immediately understandable and transparent.

In identifying forborne exposures, the regulations require a transaction-by-transaction approach, regardless of their classification (impaired past due and/or overlimit exposures, unlikely to pay exposures or defaults): although the state of financial difficulty must be ascertained at level of the debtor, only the exposures referred to the latter that have actually been granted forbearance measures must be classified as forborne.

These classification rules are further supplemented by that established in IFRS 9, according to which credit exposures must be allocated to three stages (for more details, see the previous discussion). Among impaired exposures, allocation to stage “3” is underscored, which occurs when the customer’s status changes to “non-performing”.

In organizational terms, the Group has governance and operational structures to enable the efficient and sustainable management of impaired loans. Specifically, the individual Group companies will implement their policies for the management and recovery of anomalous positions and NPLs by drafting of internal rules customized to reflect the characteristics of the territory in which they operate, the scale of operations, their business model and related organizational structure, always in compliance with the provisions of Group policy.

For the purposes of identifying non-performing exposures, the Group:

- applies a unified and harmonized definition of NPLs in all Group companies, consistent with the applicable regulatory provisions;
- considers legal and financial connections between counterparties and adopts a group perspective in identifying the exposure of a debtor as impaired (default propagation).

The Parent Company defines the strategy for managing non-performing exposures, which is approved and monitored by its Board of Directors. Specifically, the Parent Company defines the objectives in terms of reducing expected NPE levels at Group level and establishes, with the support of the Group companies, the objectives for the individual companies and the related management strategies to ensure a common commitment and a consistent approach to achieving the objectives. The implementation of the strategy is supported by the Parent Company through the delivery of specialized support services, the provision of tools to facilitate the uniform management of impaired positions and a Group operational plan, which is also approved by the Parent Company’s Board of Directors.

Furthermore, in order to enhance the commitment of the resources dedicated to the management of non-performing exposures in order to achieve the defined objectives, all Group companies have developed a system for measuring the performance of senior management and the organizational structures dedicated to management of non-performing exposures, which promotes, based on specific indicators, the commitment to managing such exposures.

In accordance with the principle of proportionality, the individual Group companies define their own performance evaluation and monitoring systems in line with Group policy. Specifically, it is considered necessary for Group companies to adopt performance indicators that take account of a set of quantitative and qualitative factors, including for example:

- developments in the stock of gross and net non-performing exposures, in line with the Group’s Strategic Plan;
- methods for applying forbearance measures;
- the total amount recovered on the loan portfolio with a focus on collections, liquidations and asset sales;
- the aging of positions by recovery management phases;
- the regular performance of agreed restructuring plans;
- the application of writeoffs;
- the reduction of arrears and the improvement of portfolio quality.

3.2 WRITEOFFS

Writeoff means the derecognition from the financial statements of a loan, or part of a loan, and the consequent recognition of a loss ascertainment that the exposure cannot be collected or it is uneconomic to continue any associated recovery activities under way. It may occur before the legal action to recover the financial assets are completed and does not necessarily entail waiver of the bank’s right to the asset. A writeoff may be total, and therefore regard the entire amount of a financial, or partial (in all those cases in which the claim recognized is smaller than the carrying amount, for example in insolvency proceedings). The amount of the writeoff must always take account of any expenses, including legal costs, accrued and not yet invoiced at the time of analysis.

A writeoff involves:

- the reversal of total writedowns against the gross value of the financial asset;
- for any part exceeding total writedowns, the impairment loss on the financial asset is recognized directly in profit or loss.

Any recoveries from collection after the recognition of the writeoff are recognized in profit or loss as writebacks.

Writeoffs recognized for unrecoverability refer to cases in which the Bank is in possession of documentation certifying the significant probability that the loan may not be recovered, in whole or in part. Specifically, the irrecoverable status of the loan must be attested to by certain and specific circumstances, such as for example:

- the obligor, co-obligors and/or connected guarantors are untraceable or destitute;
- there has been no recovery from enforcement of guarantees or collateral and seizures;
- the period of limitations has passed;
- insolvency proceedings have been closed with incomplete restitution for the bank, in the absence of further guarantees that could be enforced;
- it is impossible to take further action in consideration of the overall financial position and income situation of the obligors and co-obligors (guarantors included);
- all legal or out-of-court actions have, following a careful examination of updated documentation (by way of partial example, commercial information, title searches, searches, etc.), already been carried out or are deemed inappropriate.

Writeoffs recognized because further action would be uneconomic occur when it is recognized, and can be demonstrated, that the costs related to the continuation of loan recovery actions (for example: legal, administrative and other costs) would exceed the value of the financial asset that is expected to be recovered.

3.3 FINANCIAL ASSETS PURCHASED OR ORIGINATED CREDIT-IMPAIRED

Financial assets purchase or originated credit impaired (“POCI”) are credit exposures that are impaired upon initial recognition.

Such exposures may arise both from the purchase of impaired credit exposures from third parties or from the restructuring of impaired exposures that involved the grant of new financing that is significant in absolute or relative terms in proportion to the amount of the original exposure.

These exposures are subject to management, measurement and control in accordance with the principles discussed in the previous section of the consolidated notes to the financial statements. In particular, the expected credit losses recorded at initial recognition in the carrying amount of the instrument are reviewed periodically based on the processes described in the preceding sections.

The expected loss for these exposures is always calculated over their lifetime and the exposures are conventionally reported under stage 3, or stage 2 if, following an improvement in the credit quality of the counterparty since initial recognition, the assets are performing.

Such assets are never classified under stage 1 since the expected credit loss must be calculated on a lifetime basis.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONS AND EXPOSURES GRANTED FORBEARANCE MEASURES

Renegotiations of financial instruments that result in a change in the contractual conditions may be associated with:

- commercial initiatives that may be defined specifically for each customer or applied to categories of customer, perhaps as a result of dedicated initiatives promoted by public bodies or banking associations;
- the renegotiation of financial instruments prompted by the debtor’s financial difficulties (forbearance).

The key objective of granting forbearance measures is to pave the way for non-performing borrowers to exit their non-performing status, or to prevent performing borrowers from reaching a non-performing status. Forbearance measures should always aim to return the exposure to a situation of sustainable repayment.

The status of forborne must be associated with the individual exposure. Accordingly, a forborne exposure can be classified as performing forborne or non-performing forborne depending on the status of the counterparty to which these exposures are attributable.

In order to classify new concessions granted to a customer as forbearance measures, the following must occur:

- compliance of the measures with the notion of “forbearance” provided for in Regulation (EU) 227/2015;
- the borrower must currently or prospectively be in a situation of financial difficulty at the date of the measure is approved.

The applicable regulations define the following concessions to be potentially identifiable as forbearance*:*

- contract modifications granted by a bank in favor of a debtor solely in consideration of the debtor’s financial difficulties;

- the grant of total or partial refinancing by a bank to a debtor in financial difficulties in order to enable the debtor to repay an existing obligation to the bank; this case also includes additional finance operations aimed at the completion-optimization of an existing obligation to the bank;
- contract modifications that can be requested by a debtor under the terms of a contract already agreed by the Bank in the knowledge that the debtor is experiencing financial difficulties (embedded forbearance clauses).

Concessions qualifying as forbearance measures, regardless of the form adopted (renegotiation or refinancing) must therefore give the borrower more favorable treatment compared with to the contractual terms originally agreed with the Group company or compared with the terms conditions that would be granted to other borrowers with the same risk profile. Furthermore, they must be exclusively intended to enable the borrower to honor the new commitments and deadlines.

Contract modifications and renegotiations granted solely for commercial reasons/practice do not qualify as forbearance measures since, even though the modification may be a concession measure, the debtor is not experiencing financial difficulties. Debtors can always request modifications to the contractual terms of their loans without experiencing difficulty in meeting their financial obligations.

Loan moratoriums (payment holidays) granted without discrimination between type of obligation or debtor in order to support areas hit by natural disasters also do not qualify as forbearance measures.

Finally, the forbearance measures must always be financially sustainable for the debtor and not increase costs (main and ancillary), as this might qualify the transaction as usury (Article 644, third paragraph, of the Criminal Code).

Forbearance measures may be short- or long-term depending on the temporary or permanent nature of the financial difficulty. In particular, Short-term forbearance measures are defined as restructured repayment conditions of a temporary nature that do not address the resolution of outstanding arrears and generally do not exceed two years.

An assessment of the financial situation of the debtor should not be limited to exposures with apparent signs of financial difficulties. An assessment of financial difficulties should also be conducted for exposures where the debtor does not have apparent financial difficulties, but where market conditions have changed significantly in a way that could impact the ability to repay.

The assessment of any financial difficulties on the part of a debtor should be based on the situation of the debtor only, disregarding collateral or any guarantees provided by third parties. Furthermore, the notion of “debtor” should include all the natural and legal persons belonging to the debtor’s group: the assessment must comprise such persons in order to determine whether situations of difficulty at the group level could compromise the capacity of the debtor to fulfill its obligations to the Group lender.

For a description of the impact of the economic support measures implemented by the government and trade associations on the SICR assessment process and on the measurement of expected credit losses, please see section 2.3 Methods for measuring expected credit losses.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 - IMPAIRED AND PERFORMING CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR

A.1.1 - PRUDENTIAL CONSOLIDATION - DISTRIBUTION OF FINANCIAL ASSETS BY TIME PAST DUE (CARRYING AMOUNT)

	Stage 1			Stage 2			Stage 3		
	Up to 30 days	From 30 to 90 days	More than 90 days	Up to 30 days	From 30 to 90 days	More than 90 days	Up to 30 days	From 30 to 90 days	More than 90 days
1. Financial assets measured at amortized cost	917,266	14,485	18,516	341,270	266,347	137,401	163,487	148,937	2,355,987
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	24
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
Total 31/12/2020	**917,266**	**14,485**	**18,516**	**341,270**	**266,347**	**137,401**	**163,487**	**148,937**	**2,356,011**
Total 31/12/2019	**1,640,211**	**15,078**	**17,746**	**785,214**	**457,231**	**272,323**	**279,546**	**187,377**	**3,592,396**

A.1.2 - PRUDENTIAL CONSOLIDATION - FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND GUARANTEES ISSUED: DEVELOPMENTS IN TOTAL WRITEDOWNS AND TOTAL PROVISIONS

	Total writedowns									
	Stage 1					Stage 2				
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual writedowns	of which: collective writedowns
Opening balance	**355,303**	**2,849**	**-**	**9,915**	**348,277**	**586,087**	**2,435**	**-**	**12,063**	**576,415**
Increases in financial assets purchased or originated	4,191	540	-	145	4,586	1,633	1,511	-	707	2,437
Derecognition other than write-offs	(4,132)	(552)	-	(33)	(4,651)	(4,922)	(407)	-	(83)	(5,246)
Net writedowns/writebacks for credit risk	(44,092)	(182)	-	(848)	(43,432)	42,680	3,733	-	988	45,425
Contractual modifications without derecognition	-	-	-	-	-	69	-	-	-	69
Change in estimation method	-	-	-	-	-	8	-	-	8	-
Writeoffs not recognized directly through profit or loss	(205)	(1)	-	-	(206)	(413)	-	-	-	(413)
Other changes	(9,092)	(253)	-	(6,746)	(2,630)	(18,060)	(926)	-	(2,580)	(16,362)
Closing balance	**301,973**	**2,401**	**-**	**2,434**	**301,944**	**607,082**	**6,346**	**-**	**11,103**	**602,325**
Recoveries from collection on written-off financial assets	111	-	-	-	111	419	-	-	-	419
Writeoffs recognized directly through profit or loss	(518)	-	-	-	(518)	(1,532)	-	-	-	(1,532)

	Total writedowns						Total provisions for commitments to disburse funds and financial guarantees issued			Total
	Stage 3									
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual writedowns	of which: collective writedowns	of which: purchased and originated credit-impaired financial assets	Stage 1	Stage 2	Stage 3	
Opening balance	**5,409,225**	**162**	**2,569**	**5,358,380**	**52,880**	**18,216**	**85,296**	**44,824**	**71,331**	**6,560,081**
Increases in financial assets purchased or originated	476	2	-	478	-	474	-	-	-	**8,353**
Derecognition other than write-offs	(955,226)	(151)	(2,277)	(954,683)	(2,972)	(1,626)	(16)	(65)	-	**(967,748)**
Net writedowns/writebacks for credit risk	746,399	(1)	305	750,596	(3,893)	1,360	2,497	6,648	22,274	**780,261**
Contractual modifications without derecognition	(37)	-	-	(37)	-	-	(5)	(2)	4	**29**
Change in estimation method	-	-	-	-	-	-	-	-	-	**8**
Writeoffs not recognized directly through profit or loss	(411,306)	-	-	(404,402)	(6,904)	(27)	(1)	-	(18)	**(411,944)**
Other changes	(86,181)	-	(597)	(139,296)	53,215	(1,777)	419	(124)	(717)	**(115,529)**
Closing balance	**4,703,350**	**12**	**-**	**4,611,036**	**92,326**	**16,620**	**88,190**	**51,281**	**92,874**	**5,853,511**
Recoveries from collection on written-off financial assets	7,266	-	-	7,266	-	-	-	-	-	**7,796**
Writeoffs recognized directly through profit or loss	(48,222)	-	-	(47,825)	(397)	-	-	-	-	**(50,272)**

A.1.3 - CONSOLIDATION - FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED: TRANSFERS BETWEEN CREDIT RISK STAGES (GROSS AND NOMINAL VALUES)

	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortized cost	3,677,620	4,267,273	575,316	271,479	324,836	67,294
2. Financial assets measured at fair value through other comprehensive income	35,542	1,730	10	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	944,369	986,471	40,067	17,090	39,504	7,203
Total 31/12/2020	**4,657,531**	**5,255,474**	**615,393**	**288,569**	**364,340**	**74,497**
Total 31/12/2019	**5,442,960**	**4,310,243**	**770,093**	**303,860**	**556,676**	**94,415**

A.1.3A – LOANS INVOLVED IN COVID-19 SUPPORT MEASURES: TRANSFERS BETWEEN CREDIT RISK STAGES (GROSS VALUES)

	Gross values					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
A. Loans measured at amortized cost	**593,039**	**715,471**	**60,574**	**35,098**	**39,604**	**4,578**
A.1 Loans subject to forbearance measures compliant with guidelines	567,927	709,555	52,092	34,634	33,860	4,525
A.2 Loans subject to other forbearance measures	22,864	1,788	8,482	464	5,721	52
A.3 New loans	2,248	4,128	-	-	23	1
B. Loans measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Loans subject to forbearance measures compliant with guidelines	-	-	-	-	-	-
B.2 Loans subject to other forbearance measures	-	-	-	-	-	-
B.3 New loans	-	-	-	-	-	-
Total 31/12/2020	**593,039**	**715,471**	**60,574**	**35,098**	**39,604**	**4,578**

A.1.4 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired assets	Performing assets			
A. On-balance-sheet exposures					
a) Bad loans	16	X	-	16	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to be repaid	1,071	X	658	413	-
- of which: forborne exposures	305	X	304	1	-
c) Impaired past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	4,864	-	4,864	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing assets	X	7,611,336	17,757	7,593,579	-
- of which: forborne exposures	X	-	-	-	-
Total A	**1,087**	**7,616,200**	**18,415**	**7,598,873**	**-**
B. Off-balance-sheet exposures					
a) Impaired	-	X	-	-	-
b) Performing	X	1,250,307	53,006	1,197,301	-
Total B	**-**	**1,250,307**	**53,006**	**1,197,301**	**-**
Total A+B	**1,087**	**8,866,507**	**71,421**	**8,796,174**	**-**

* Values to be reported for information purposes

A.1.5 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired assets	Impaired assets			
A. On-balance-sheet exposures					
a) Bad loans	4,053,593	X	2,853,548	1,200,045	317,564
- of which: forborne exposures	787,452	X	487,493	299,960	34,149
b) Unlikely to be repaid	4,132,566	X	1,803,514	2,329,052	8,520
- of which: forborne exposures	2,341,196	X	969,194	1,372,002	6,968
c) Impaired past due exposures	258,140	X	45,667	212,473	-
- of which: forborne exposures	61,703	X	10,589	51,114	-
d) Performing past due exposures	X	1,797,260	72,572	1,724,688	-
- of which: forborne exposures	X	117,992	10,221	107,771	-
e) Other performing assets	X	147,904,923	827,484	147,077,439	761
- of which: forborne exposures	X	1,537,267	96,051	1,441,215	-
Total A	**8,444,299**	**149,702,183**	**5,602,785**	**152,543,697**	**326,845**
B. Off-balance-sheet exposures					
a) Impaired	378,335	X	90,765	287,570	-
b) Performing	X	26,615,664	88,360	26,527,305	-
Total B	**378,335**	**26,615,664**	**179,125**	**26,814,875**	**-**
Total A+B	**8,822,634**	**176,317,847**	**5,781,910**	**179,358,571**	**326,845**

* Values to be reported for information purposes

A.1.5A LOANS INVOLVED IN COVID-19 SUPPORT MEASURES: GROSS AND NET VALUES

	Gross exposure	Total writedowns and total provisions	Net exposure
A. Bad loans	**606**	**300**	**306**
a) Loans subject to forbearance measures compliant with guidelines	388	102	286
b) Loans subject to other forbearance measures	218	198	20
c) New loans	-	-	-
B. Unlikely to pay	**245,882**	**83,491**	**162,391**
a) Loans subject to forbearance measures compliant with guidelines	136,986	44,845	92,141
b) Loans subject to other forbearance measures	99,554	36,299	63,255
c) New loans	9,341	2,346	6,995
C. Impaired past-due	**33,967**	**1,596**	**32,370**
a) Loans subject to forbearance measures compliant with guidelines	4,847	686	4,161
b) Loans subject to other forbearance measures	28,719	843	27,876
c) New loans	400	67	333
D. Performing past-due	**96,775**	**4,283**	**92,492**
a) Loans subject to forbearance measures compliant with guidelines	56,740	4,140	52,600
b) Loans subject to other forbearance measures	575	25	550
c) New loans	39,460	118	39,342
E. Other performing	**19,951,002**	**226,861**	**19,724,140**
a) Loans subject to forbearance measures compliant with guidelines	13,864,106	215,281	13,648,825
b) Loans subject to other forbearance measures	135,507	3,771	131,736
c) New loans	5,951,389	7,810	5,943,579
Total (A+B+C+D+E)	**20,328,231**	**316,532**	**20,011,700**

A.1.6 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS IMPAIRED POSITIONS

	Bad loans	Unlikely to pay	Impaired past-due
A. Opening gross exposure	**16**	**639**	**-**
- of which: exposures assigned but not derecognized	-	-	-
B. Increases	**-**	**505**	**-**
B.1 from performing exposures	-	288	-
B.2 from purchased or originated impaired financial assets	-	-	-
B.3 from other categories of impaired exposures	-	-	-
B.4 contractual modifications without derecognition	-	-	-
B.5 other increases	-	217	-
C. Decreases	**-**	**72**	**-**
C.1 to performing exposures	-	-	-
C.2 writeoffs	-	-	-
C.3 collections	-	-	-
C.4 realization from disposal	-	-	-
C.5 losses on disposals	-	-	-
C.6 to other categories of impaired exposures	-	-	-
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	-	72	-
D. Closing gross exposure	**16**	**1,071**	**-**
- of which: exposures assigned but not derecognized	-	104	-

A.1.6 BIS - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS FORBORNE EXPOSURES BY CREDIT QUALITY

	Impaired forborne exposures	Performing forborne exposures
A. Opening gross exposure	**96**	**-**
- of which: exposures assigned but not derecognized	-	-
B. Increases	**209**	**-**
B.1 from performing exposures with no forbearance	-	-
B.2 from performing exposures with forbearance	-	X
B.3 from impaired exposures with forbearance	X	-
B.4 from impaired exposures with no forbearance	-	-
B.5 other increases	209	-
C. Decreases	**-**	**-**
C.1 to performing exposures with no forbearance	X	-
C.2 to performing exposures with forbearance	-	X
C.3 to impaired exposures with forbearance	X	-
C.4 writeoffs	-	-
C.5 collections	-	-
C.6 realization from disposal	-	-
C.7 losses on disposals	-	-
C.8 other decreases	-	-
D. Closing gross exposure	**305**	**-**
- of which: exposures assigned but not derecognized	-	-

A.1.7 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS IMPAIRED POSITIONS

	Bad loans	Unlikely to pay	Impaired past-due
A. Opening gross exposure	**5,330,274**	**4,937,609**	**355,349**
- of which: exposures assigned but not derecognized	12,827	28,803	825
B. Increases	**1,070,738**	**1,096,621**	**198,245**
B.1 from performing exposures	110,862	704,243	157,903
B.2 from purchased or originated impaired financial assets	575	-	-
B.3 from other categories of impaired exposures	842,150	112,770	1,011
B.4 contractual modifications without derecognition	-	113	2
B.5 other increases	117,151	279,494	39,328
C. Decreases	**2,347,419**	**1,901,664**	**295,454**
C.1 to performing exposures	289	302,134	74,998
C.2 writeoffs	426,599	44,506	1,043
C.3 collections	526,355	602,155	56,679
C.4 realized on disposals	433,589	20,428	12
C.5 losses on disposals	347,337	44,619	81
C.6 to other categories of impaired exposures	7,103	809,880	138,948
C.7 contractual modifications without derecognition	-	86	2
C.8 other decreases	606,147	77,855	23,690
D. Closing gross exposure	**4,053,593**	**4,132,566**	**258,140**
- of which: exposures assigned but not derecognized	9,232	31,839	1,314

A.1.7 BIS - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS FORBORNE EXPOSURES BY CREDIT QUALITY

	Impaired forborne exposures	Performing forborne exposures
A. Opening gross exposure	**3,663,268**	**1,743,350**
- of which: exposures assigned but not derecognized	116,080	74,180
B. Increases	**766,005**	**862,132**
B.1 from performing exposures with no forbearance	122,472	574,848
B.2 from performing exposures with forbearance	202,777	X
B.3 from impaired exposures with forbearance	X	189,802
B.4 from impaired exposures with no forbearance	132,638	835
B.5 other increases	308,118	96,646
C. Decreases	**1,238,922**	**950,224**
C.1 to performing exposures with no forbearance	X	443,844
C.2 to performing exposures with forbearance	189,802	X
C.3 to impaired exposures with forbearance	X	202,777
C.4 writeoffs	92,512	763
C.5 collections	417,484	242,546
C.6 realization from disposal	129,721	3
C.7 losses on disposals	123,015	27
C.8 other decreases	286,387	60,263
D. Closing gross exposure	**3,190,351**	**1,655,259**
- of which: exposures assigned but not derecognized	33,942	19,682

A.1.8 PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET IMPAIRED CREDIT EXPOSURES TO BANKS: CHANGE IN TOTAL ADJUSTMENTS

	Bad loans		Unlikely to be repaid		Impaired past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**-**	**-**	**215**	**-**	**-**	**-**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-
B. Increases	**-**	**-**	**443**	**304**	**-**	**-**
B.1 writedowns of purchased or originated credit-impaired assets	-	X	5	X	-	X
B.2 other writedowns	-	-	236	102	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 from other categories of impaired positions	-	-	-	-	-	-
B.5 contractual modifications without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	202	202	-	-
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 writebacks from valuations	-	-	-	-	-	-
C.2 writebacks from collections	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 writeoffs	-	-	-	-	-	-
C.5 to other categories of impaired positions	-	-	-	-	-	-
C.6 contractual modifications without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-			-	-
D. Total closing adjustments	**-**	**-**	**658**	**304**	**-**	**-**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-

A.1.9 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET IMPAIRED CREDIT EXPOSURES TO CUSTOMERS: CHANGE IN TOTAL ADJUSTMENTS

	Bad loans		Unlikely to be repaid		Impaired past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**3,475,842**	**509,982**	**1,880,003**	**951,376**	**56,055**	**10,829**
- of which: exposures assigned but not derecognized	4,508	359	8,027	1,787	105	41
B. Increases	**1,339,214**	**430,971**	**823,877**	**433,530**	**46,928**	**13,394**
B.1 writedowns of purchased or originated credit-impaired assets	923	X	700	X	-	X
B.2 other writedowns	689,118	176,958	702,193	347,239	40,830	11,477
B.3 losses on disposal	151,013	56,704	46,426	21,723	60	-
B.4 from other categories of impaired positions	383,892	155,301	19,015	5,033	222	64
B.5 contractual modifications without derecognition	-	-	-	-	-	-
B.6 other increases	114,269	42,008	55,542	59,535	5,816	1,852
C. Decreases	**1,961,508**	**453,461**	**900,364**	**415,712**	**57,318**	**13,633**
C.1 writebacks from valuations	168,474	36,854	110,486	60,880	6,616	3,005
C.2 writebacks from collections	245,915	53,558	145,113	58,159	6,025	537
C.3 gains on disposal	105,021	21,802	33,769	14,705	40	-
C.4 writeoffs	426,599	72,357	44,506	20,119	1,043	36
C.5 to other categories of impaired positions	1,810	268	375,995	154,387	25,324	5,482
C.6 contractual modifications without derecognition	-	-	-	-	-	-
C.7 other decreases	1,013,690	268,622	190,496	107,462	18,270	4,573
D. Total closing adjustments	**2,853,548**	**487,493**	**1,803,514**	**969,194**	**45,667**	**10,589**
- of which: exposures assigned but not derecognized	4,348	176	9,536	3,732	48	1

A.2 - CLASSIFICATION OF EXPOSURES ON THE BASIS OF EXTERNAL AND INTERNAL RATINGS

A.2.1 - PRUDENTIAL CONSOLIDATION - DISTRIBUTION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BY EXTERNAL RATING GRADES (GROSS VALUES)

	External rating grades						Not rated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortized cost	**156,837**	**117,891**	**58,540,870**	**550,490**	**25,208**	**3,426**	**97,411,402**	**156,806,124**
- Stage 1	14,877	75,491	58,050,914	402,304	21,554	3,410	78,514,487	137,083,037
- Stage 2	141,960	42,400	487,553	148,053	3,654	-	10,454,267	11,277,887
- Stage 3	-	-	2,403	134	-	16	8,442,648	8,445,201
B. Financial assets measured at fair value through other comprehensive income	**17,696**	**28,189**	**7,063,487**	**132,918**	**30,471**	**13,004**	**438,458**	**7,724,223**
- Stage 1	17,696	16,286	7,015,983	66,185	6,968	13,004	389,522	7,525,644
- Stage 2	-	11,903	47,504	66,733	23,503	-	48,895	198,538
- Stage 3	-	-	-	-	-	-	41	41
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**1,147**	**1,147**
- Stage 1	-	-	-	-	-	-	1,147	1,147
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A+B+C)	**174,533**	**146,079**	**65,604,358**	**683,409**	**55,679**	**16,429**	**97,851,007**	**164,531,494**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	11,280	11,280
D. Commitments to disburse funds and financial guarantees issued	**243,449**	**94,278**	**509,479**	**92,207**	**-**	**-**	**25,137,146**	**26,076,560**
- Stage 1	243,415	93,474	443,309	90,461	-	-	22,582,649	23,453,309
- Stage 2	34	804	66,169	1,746	-	-	2,171,731	2,240,485
- Stage 3	-	-	1	-	-	-	382,766	382,766
Total (D)	**243,449**	**94,278**	**509,479**	**92,207**	**-**	**-**	**25,137,146**	**26,076,560**
Total (A+B+C+D)	**417,983**	**240,358**	**66,113,836**	**775,616**	**55,679**	**16,429**	**122,988,153**	**190,608,054**

A.2.2 - PRUDENTIAL CONSOLIDATION - DISTRIBUTION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BY INTERNAL RATING GRADES (GROSS VALUES)

	Internal rating grades							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8
A. Financial assets measured at amortized cost	**11,126,062**	**14,726,781**	**13,209,131**	**5,813,319**	**4,101,794**	**3,187,561**	**6,936,730**	**730,445**
- Stage 1	10,958,673	14,272,050	12,330,505	5,280,560	3,494,227	2,485,124	5,824,693	361,869
- Stage 2	167,390	454,732	878,548	532,759	600,469	672,509	935,709	364,040
- Stage 3	-	0	79	-	7,098	29,928	176,328	4,536
B. Financial assets measured at fair value through other comprehensive income	**3,684**	**2,758**	**398,523**	**6,161**	**2,106**	**-**	**322,564**	**-**
- Stage 1	3,684	2,758	396,443	4,513	-	-	322,564	-
- Stage 2	-	-	2,080	1,648	2,106	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A+B+C)	**11,129,746**	**14,729,539**	**13,607,654**	**5,819,480**	**4,103,900**	**3,187,561**	**7,259,294**	**730,445**
of which: purchased or originated credit-impaired financial assets	-	-	161	-	35	-	192	-
D. Commitments to disburse funds and financial guarantees issued	**356,063**	**6,181,594**	**3,447,365**	**1,925,912**	**1,078,909**	**786,592**	**1,321,591**	**96,845**
- Stage 1	352,984	5,938,479	3,306,581	1,830,668	951,836	665,163	1,184,862	45,231
- Stage 2	3,079	243,114	140,784	95,245	126,034	121,429	126,740	51,614
- Stage 3	-	-	-	-	1,039	-	9,989	-
Total (D)	**356,063**	**6,181,594**	**3,447,365**	**1,925,912**	**1,078,909**	**786,592**	**1,321,591**	**96,845**
Total (A+B+C+D)	**11,485,809**	**20,911,133**	**17,055,019**	**7,745,392**	**5,182,809**	**3,974,153**	**8,580,885**	**827,290**

	Internal rating grades						Not rated	Total
	Class 9	Class 10	Class 11	Class 12	Class 13	Class 14		
A. Financial assets measured at amortized cost	**884,006**	**699,318**	**764,132**	**552,595**	**311,101**	**163,577**	**93,599,572**	**156,806,124**
- Stage 1	545,707	410,014	346,541	48,934	26,146	7,797	80,690,197	137,083,036
- Stage 2	336,195	286,792	416,544	501,375	284,949	154,706	4,691,172	11,277,887
- Stage 3	2,103	2,512	1,048	2,285	6	1,074	8,218,203	8,445,201
B. Financial assets measured at fair value through other comprehensive income							**6,988,427**	**7,724,223**
- Stage 1							6,795,682	7,525,644
- Stage 2							192,704	198,538
- Stage 3							41	41
C. Financial assets held for sale							**1147**	**1147**
- Stage 1							1147	1147
- Stage 2								
- Stage 3								
Total (A+B+C)	**884,006**	**699,318**	**764,132**	**552,595**	**311,101**	**163,577**	**100,589,146**	**164,531,495**
of which: purchased or originated credit-impaired financial assets			96				10,796	11,280
D. Commitments to disburse funds and financial guarantees issued	**199,419**	**173,871**	**105,872**	**80,100**	**26,715**	**19,155**	**10,276,556**	**26,076,559**
- Stage 1	134,471	93,565	58,703	14,019	2,321	1,404	8,873,022	23,453,309
- Stage 2	64,948	79,894	47,169	66,066	24,394	17,751	1,032,224	2,240,485
- Stage 3		412		15			371,310	382,766
Total (D)	**199,419**	**173,871**	**105,872**	**80,100**	**26,715**	**19,155**	**10,276,556**	**26,076,559**
Total (A+B+C+D)	**1,083,425**	**873,189**	**870,004**	**632,695**	**337,816**	**182,732**	**110,865,702**	**190,608,054**

A.3 - DISTRIBUTION OF SECURED CREDIT EXPOSURES BY TYPE OF GUARANTEE

A.3.1 - PRUDENTIAL CONSOLIDATION – ON- AND OFF-BALANCE SHEET SECURED CREDIT EXPOSURES TO BANKS

			Collateral (1)				Unsecured guarantees (2)									
							Credit derivatives					Guarantees				Total (1)+(2)
								Other derivatives								
	Gross exposure	Net exposure	Properties - Mortgages	Properties - Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other	Government entities	Banks	Other financial companies	Other	
1. Secured on-balance-sheet credit exposures:	**619,641**	**618,226**	**-**	**-**	**335,344**	**275,668**	**-**	**-**	**-**	**-**	**95**	**-**	**17**	**851**	**6,251**	**618,226**
1.1 fully secured	619,567	618,155	-	-	335,344	275,668	-	-	-	-	95	-	17	851	6,180	618,155
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	74	71	-	-	-	-	-	-	-	-	-	-	-	-	71	71
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance-sheet credit exposures	**4,942**	**4,922**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,898**	**-**	**1,953**	**4,852**
2.1 fully secured	4,682	4,662	-	-	-	-	-	-	-	-	-	-	2,898	-	1,764	4,662
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	260	260	-	-	-	-	-	-	-	-	-	-	-	-	190	190
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 - PRUDENTIAL CONSOLIDATION – ON- AND OFF-BALANCE SHEET SECURED CREDIT EXPOSURES TO CUSTOMERS

			Collateral (1)				Unsecured guarantees (2)									
							Credit Derivatives					Guarantees				Total (1)+(2)
								Other derivatives								
	Gross exposure	Net exposure	Properties - Mortgages	Properties - Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other	Government entities	Banks	Other financial companies	Other	
1. Secured on-balance-sheet credit exposures:	**80,889,760**	**76,076,684**	**47,162,502**	**2,768,724**	**2,058,960**	**2,382,206**	**-**	**-**	**-**	**12,835**	**14**	**10,219,488**	**417,167**	**587,898**	**8,974,808**	**74,584,604**
1.1 fully secured	72,678,837	68,320,190	46,507,539	2,744,513	2,004,169	2,147,633	-	-	-	-	14	5,229,666	278,851	456,834	8,731,976	68,101,194
- of which: impaired	7,028,532	3,317,178	2,605,401	289,075	3,965	62,102	-	-	-	-	-	105,890	5,523	21,198	220,676	3,313,831
1.2 partially secured	8,210,924	7,756,493	654,963	24,211	54,792	234,573	-	-	-	12,835	-	4,989,822	138,317	131,065	242,833	6,483,410
- of which: impaired	643,060	229,608	156,190	2,082	719	4,798	-	-	-	-	-	19,349	193	5,417	23,687	212,435
2. Secured off-balance-sheet credit exposures::	**10,389,400**	**10,326,839**	**23,388**	**-**	**1,112,044**	**299,173**	**-**	**-**	**-**	**-**	**-**	**263,583**	**65,636**	**97,064**	**8,003,376**	**9,864,264**
2.1 fully secured	8,011,634	7,973,820	18,052	-	1,101,157	252,268	-	-	-	-	-	111,546	16,616	64,546	6,408,792	7,972,977
- of which: impaired	101,545	74,080	1,835	-	473	11,655	-	-	-	-	-	269	1,646	1,528	56,610	74,016
2.2 partially secured	2,377,765	2,353,020	5,336	-	10,887	46,905	-	-	-	-	-	152,037	49,020	32,518	1,594,584	1,891,287
- of which: impaired	96,882	81,667	507	-	641	2,909	-	-	-	-	-	1,832	6	2,460	67,267	75,621

A.4 - PRUDENTIAL CONSOLIDATION - FINANCIAL AND NON-FINANCIAL ASSETS OBTAINED THROUGH ENFORCEMENT OF GUARANTEES RECEIVED

	Derecognized credit exposure	Gross value	Total writedowns	Carrying amount	
					of which obtained during the year
A. Property, plant and equipment	**93,444**	**105,056**	**12,274**	**92,782**	**8,794**
A.1. Used in operations	737	1,264	33	1,231	860
A.2. Investment property	43,447	44,974	5,712	39,263	3,637
A.3. Inventories	49,260	58,817	6,529	52,288	4,298
B. Equity and debt securities	**-**	**-**	**-**	**-**	**-**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets and disposal groups held for sale	**14,461**	**17,623**	**1,676**	**15,947**	**871**
D.1. Property, plant and equipment	14,461	17,623	1,676	15,947	871
D.2. Other assets	-	-	-	-	-
Total 31/12/2020	**107,905**	**122,678**	**13,950**	**108,729**	**9,665**
Total 31/12/2019	**15,490**	**23,452**	**3,637**	**19,815**	**573**

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY SECTOR

	Government entities		Financial companies		Financial companies(of which: insurance undertakings)	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance sheet						
A.1 Bad loans	729	1,788	5,856	14,435	-	-
- of which: forborne exposures	-	-	2,238	3,880	-	-
A.2 Unlikely to be repaid	10	33	25,840	25,617	-	-
- of which: forborne exposures	-	-	10,291	11,264	-	-
A.3 Impaired past due exposures	10,651	53	2,282	607	-	-
- of which: forborne exposures	-	-	639	46	-	-
A.4 Performing exposures	62,857,102	15,207	6,771,799	89,046	145,611	-
- of which: forborne exposures	699		6,024	146	-	-
	62,868,492	**17,081**	**6,805,776**	**129,706**	**145,611**	**-**
B. Off-balance sheet						
B.1 Impaired exposures	252	3	877	62	-	-
B.2 Performing exposures	955,380	623	1,399,749	13,104	618	-
Total (B)	**955,632**	**626**	**1,400,626**	**13,167**	**618**	**-**
Total (A+B) 31/12/2020	**63,824,125**	**17,706**	**8,206,402**	**142,872**	**146,229**	**-**
Total (A+B) 31/12/2019	**50,996,295**	**17,197**	**7,865,820**	**129,412**	**122,744**	**-**

	Non-financial companies		Households	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance sheet				
A.1 Bad loans	800,146	2,088,749	393,314	748,576
- of which: forborne exposures	196,376	355,345	101,346	128,268
A.2 Unlikely to be repaid	1,492,590	1,324,230	810,613	453,634
- of which: forborne exposures	916,162	736,710	445,549	221,220
A.3 Impaired past due exposures	61,090	15,717	138,451	29,289
- of which: forborne exposures	18,717	4,919	31,758	5,624
A.4 Performing exposures	40,071,375	451,795	39,101,851	344,008
- of which: forborne exposures	813,530	63,608	728,733	42,512
Total (A)	**42,425,200**	**3,880,491**	**40,444,228**	**1,575,507**
B. Off-balance sheet				
B.1 Impaired exposures	255,475	84,235	30,967	6,464
B.2 Performing exposures	18,584,026	58,332	3,625,335	16,302
Total (B)	**18,839,500**	**142,567**	**3,656,301**	**22,766**
Total (A+B) 31/12/2020	**61,264,701**	**4,023,058**	**44,100,530**	**1,598,273**
Total (A+B) 31/12/2019	**57,743,775**	**4,627,310**	**42,914,815**	**1,737,876**

B.2 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY GEOGRAPHICAL AREA

	Italy		Other European countries		Americas	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet						
A.1 Bad loans	1,199,065	2,849,655	931	2,196	49	1,669
A.2 Unlikely to be repaid	2,314,656	1,799,140	12,523	3,680	1,152	409
A.3 Impaired past due exposures	212,098	45,589	254	46	109	31
A.4 Performing exposures	148,026,887	896,747	649,357	2,563	83,625	606
TOTAL A	**151,752,706**	**5,591,130**	**663,065**	**8,484**	**84,935**	**2,716**
B. Off-balance-sheet						
B.1 Impaired exposures	287,557	90,765	13	-	-	-
B.2 Performing exposures	24,482,344	87,258	67,958	839	1,542	8
Total B	**24,769,901**	**178,023**	**67,972**	**839**	**1,542**	**8**
Total (A+B) 31/12/2020	**176,522,607**	**5,769,153**	**731,037**	**9,323**	**86,476**	**2,724**
Total (A+B) 31/12/2019	**158,759,813**	**6,496,396**	**624,533**	**11,900**	**87,514**	**2,552**

	Asia		Rest of the world	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet				
A.1 Bad loans	-	12	-	17
A.2 Unlikely to be repaid	488	17	232	268
A.3 Impaired past due exposures	11	1	2	-
A.4 Performing exposures	15,860	82	26,399	58
TOTAL A	**16,359**	**112**	**26,633**	**344**
B. Off-balance-sheet				
B.1 Impaired exposures	-	-	-	-
B.2 Performing exposures	5,557	5	7,088	250
Total B	**5,557**	**5**	**7,088**	**250**
Total (A+B) 31/12/2020	**21,915**	**116**	**33,721**	**593**
Total (A+B) 31/12/2019	**23,401**	**278**	**25,444**	**669**

B.3 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS BY GEOGRAPHICAL AREA

	Italy		Other European countries		Americas	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet						
A.1 Bad loans	-	-	16	-	-	-
A.2 Unlikely to be repaid	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-
A.4 Performing exposures	7,104,906	16,049	443,574	1,205	26,846	486
Total A	**7,104,906**	**16,049**	**443,590**	**1,205**	**26,846**	**486**
B. Off-balance-sheet						
B.1 Impaired exposures	-	-	-	-	-	-
B.2 Performing exposures	979,831	52,986	164,058	13	2,099	-
Total (B)	**979,831**	**52,986**	**164,058**	**13**	**2,099**	**-**
Total (A+B) 31/12/2020	**8,084,737**	**69,034**	**607,647**	**1,218**	**28,945**	**486**
Total (A+B) 31/12/2019	**9,392,285**	**45,947**	**409,906**	**329**	**29,703**	**263**

	Asia		Rest of the world	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet				
A.1 Bad loans	-	-	-	-
A.2 Unlikely to be repaid	-	-	413	658
A.3 Impaired past due exposures	-	-	-	-
A.4 Performing exposures	1,896	3	21,221	14
Total A	**1,896**	**3**	**21,634**	**672**
B. Off-balance-sheet				
B.1 Impaired exposures	-	-	-	-
B.2 Performing exposures	1,835	4	524	4
Total (B)	**1,835**	**4**	**524**	**4**
Total (A+B) 31/12/2020	**3,731**	**7**	**22,158**	**676**
Total (A+B) 31/12/2019	**2,091**	**3**	**42,577**	**234**

B.4 LARGE EXPOSURES

The rules governing the concentration of exposures define a large exposure as one to a customer or group of connected customers that (regardless of the weighted position) is equal to or greater than 10% of the eligible capital of the reporting entity. In addition, at the consolidated level, reporting entities must provide a breakdown of the ten largest exposures to government agencies and the ten largest exposures to unregulated entities operating in the financial sector.

The following reports exposures associated with individual positions or groups of connected customers included in the report of large exposures.

The following represents the situation at December 31, 2020:

- number of positions: 26
- value of exposure: 107,961 million
- weighted value: 4,214 million.

The top 7 positions represent large exposures proper, as they exceed the threshold of 10% of eligible capital.

The remaining positions regard transactions with bank counterparties or unregulated financial counterparties.

C. SECURITIZATIONS

QUALITATIVE DISCLOSURES

In accordance with the definitions provided for in prudential regulations, the Group operates in the securitization market as both an originator, through the assignment of loans to special purpose vehicles (SPVs) for the issue of notes in its own securitizations, and an investor, subscribing the notes issued by third parties in their securitizations.

Own securitizations can be broken down as follows:

- securitization transactions whose notes are placed in whole or in part on the market and originated in order to generate economic benefits from the optimization of the loan portfolio, the diversification of funding sources, the reduction of their cost and the alignment the natural maturities of assets with those of liabilities (securitizations in the strict sense);
- securitization transactions whose notes are retained entirely by the originator and are intended to diversify and leverage available funding tools, through the transformation of the assigned loans into refinanceable securities (self-securitizations). Self-securitization transactions are part of the more general policy of strengthening the Group's liquidity position and do not form part of securitizations in the strict sense since they do not transfer risks outside the Group. For this reason, qualitative information and numerical data on these operations are not included in this section, in accordance with the Bank of Italy instructions contained in Circular 262/2005.

OWN SECURITIZATIONS

The following provides disclosures on own securitizations carried out by the Group and still outstanding at the reporting date, distinguishing between operations carried out during the year and those carried out in previous years.

OWN SECURITIZATIONS CARRIED OUT DURING THE YEAR

"GACS IV" SECURITIZATION

In November 2020 a securitization was completed (the fourth of its kind for the Group) involving multiple portfolios of receivables in respect of mortgage loans or unsecured loans to debtors classified as defaulted. As part of the operation, on December 22, 2020, the assignor banks submitted to the Ministry for the Economy and Finance (MEF) a preliminary application for admission to the State Guarantee Scheme on the liabilities issued (so-called "GACS" – Guarantee of Securitizations of Bad Loans) pursuant to Decree Law 18 of February 14, 2016, ratified with Law 49 of April 8, 2016, subsequently implemented with the MEF Decree of August 3, 2016, the MEF Decree of November 21, 2017 and the MEF Decree of October 10, 2018 and subsequently amended by Law 41 of May 20, 2019 ratifying Decree Law 22 of March 25, 2019 with amendments.

The transaction was carried out with the aim of reducing the stock of bad loans, thereby decreasing their impact on total assets and, consequently, improving the company risk profile. The securitization mechanism and the State guarantee on the senior class of notes made it possible to obtain a higher sale value than in an ordinary market operation and contained the impacts of the disposal.

More specifically, the transaction involved the disposal of a portfolio of loans identified "en bloc" classified as bad loans at the date of sale, originated by Iccrea Banca, Banca Sviluppo, Iccrea BancaImpresa, Banca Mediocredito FVG, and 84 mutual banks belonging to the Group as well as 2 banks not belonging to the ICBG (Banca Ifis and Banca Popolare Valconca) with total value of over €2.3 billion in terms of gross carrying amount, through a securitization carried out in the following phases:

- the assignment without recourse, on November 18, 2020, of the portfolio to the securitization vehicle BCC NPLS 2020 (hereinafter the "SPV") established pursuant to Law 130 of April 30, 1999 as amended;
- the payment of the consideration for the assignment by the SPV, financed through the issue of asset-backed securities, pursuant to the combined provisions of Articles 1 and 5 of Law 130, in the total nominal value of about €585 million, divided into the classes indicated below:
  - €520 million of Senior Notes, maturing in January 2045, rated Baa2 and BBB respectively by Moody's Italia Srl and Scope Rating AG;
  - €41 million of Mezzanine Notes, maturing in January 2045, rated Caa2 and CC respectively by Moody's Italia Srl and Scope Rating AG;
  - €24 million of Junior Notes, maturing in January 2045, and not rated.

In order to meet the requirement to retain a net economic interest of 5% in the transaction, as referred to in Article 6 of Regulation (EU) No. 2017/2402 of the European Parliament and of the Council of December 12, 2017, laying down a general framework for securitization and creating a specific framework for simple, transparent and standardized securitizations and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) no. 1060/2009 and (EU) no. 648/2012, the assignor banks have subscribed - and will undertake to retain for the entire duration of the securitization - at least 5% of the nominal value of each tranche of notes issued in the transaction (the “vertical slice” approach). The remainder of the mezzanine and junior notes were subscribed by a third-party investor independent of the assignors on November 30.

The non-performing loans were derecognized by each of the assignors following the sale of the mezzanine and junior tranches to Bracebridge Capital LLC, which took place on November 30, 2020 for both tranches. More specifically, Bracebridge Capital LLC subscribed (i) 94,40% of the principal of the mezzanine notes, equal on the issue date to €38.7 million at a price equal to 44.51% of the principal amount and (ii) 94.40% of the principal of the junior notes, equal on the issue date to over €22.6 million at a price equal to 0.042% of the principal amount.

The following table summarizes the amount and annual rates of the notes issued:

Tranche	Amount issued (€/millions)	Rate
Senior Notes	520.0	Euribor 6m + 0.25%
Mezzanine Notes	41.0	Euribor 6m + 8.00%
Junior Notes	24.0	Variable Return
Total	**585.0**	

In addition, as part of the transaction:

- the SPV has established a hedging strategy with two non-ICBG operators a with cap option on interest rates in an initial amount equal to the overall nominal value of the senior and mezzanine notes and an amortization plan consistent with that for the notes;
- a cash reserve was set up to manage the risk of any mismatches between the funds generated by collections and the amounts due in respect of the costs of the operation and interest on the senior notes. In accordance with market practice, this reserve was financed at the time of the issue of the notes by an interest-bearing limited recourse loan, equal to €16 million, of which €14.2 million granted by Iccrea Banca, €1.7 million by Banca Ifis and €136 thousand by Banca Valconca. In view of the characteristics of the operation, it does not represent implicit support pursuant to the provisions of Article 250 of the CRR.

The transaction is structured in such a way so that the senior notes can benefit from the State guarantee referred to earlier, pending the deconsolidation by the assignor banks of the loans involved in the transaction in accordance with the IAS/IFRS. In order to obtain admission to the state guarantee scheme, Iccrea Banca – under a specific delegation from the assignor banks – submitted an application to the MEF on December 22, 2020.

The following table shows the positions in respect of the securitization held by the Group at December 31, 2020.

Class	Nominal amount (€/millions)	Fair value (€/millions)
Class A	460.5	472.7
Class B	2.0	0.9
Class C	1.2	-
Limited-recourse loan	14.2	14.2

The operation also provides for:

- the legal separation, once transferred to the SPV, of the securitized assets from the assignors and creditors, as supported by a legal opinion issued on November 30, 2020;
- time call and clean-up call options in order to allow early repayment of notes before maturity:
  - optional redemption: the option can be exercised by the SPV on the first Payment Date immediately following the Payment Date on which the Class A notes are fully redeemed;
  - redemption for tax reasons: the option can be exercised by the SPV upon the occurrence of regulatory or legislative changes, or official interpretations of the competent authorities that entail an increase in costs for the noteholders or the SPV.

In addition, the notes must be redeemed immediately in the event of specific trigger events (non-payment, non-performance of other obligations, insolvency or violations of laws). Note that the SPV may also redeem the notes by way of the full or partial transfer to third parties of the portfolio of bad loans through a competitive auction.

The securitization’s payment waterfall is material in understanding the level of subordination of creditors in the transaction. There are two payment waterfalls. The first Pre-acceleration Priority of Payment is used for payments if the portfolio’s performance is in line with expectations. In the event of Issuer Trigger Events, Redemption for Tax Reasons or Redemption on Final Maturity Date, the Post-acceleration Priority of Payment is used instead. In addition, the waterfall provides for the possibility of changing the payment priority order of certain items in the event of a “subordination event” or if: (i) the aggregate cumulative collections for the period immediately preceding the calculation are 90% lower than the expected collections envisaged for the same date in the securitization contracts; (ii) interest is not paid on the Class A notes;

(iii) the ratio between the present value of recoveries, for which the respective procedure has been completed, and the sum of target prices indicated in the business plan by the servicer is less than 90%. In these circumstances, in the post-acceleration waterfall all interest due on the mezzanine notes is temporarily deferred in favor of payment of the principal of the senior notes until the payment date on which these events cease to obtain.

With regard to the accounting treatment of the transaction, paragraph 3.2.12 of IFRS 9 provides that on derecognition of the financial asset in its entirety, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) shall be recognized in profit or loss for the year.

Consequently, at the conclusion of the transaction, each assignor:

- derecognized the loans involved in the assignment at the time the placement of the mezzanine and junior tranches on the market was settled;
- recognized in the income statement under item "100 - Gain (loss) on the disposal or repurchase of financial assets measured at amortized cost" the overall capital loss determined as the difference between the gross aggregate value at the date of assignment of the loans, less writedowns and inclusive of any collections on the loans attributable to the SPV at the assignment date (equal to about €536.3 million at the consolidated level) and the consideration received (equal to about €476.7 million at the consolidated level); at the consolidated level, the difference showed a total capital loss of about €59.6 million;
- recognized the notes subscribed in its balance sheet, for a total consolidated value of €460.5 million in senior notes, €0.9 million in mezzanine notes and €496 in junior securities.

In view of the intention to continue holding the senior notes, they were assigned to the held-to-collect (HTC) business model. Taking account of the fact that the SPPI test was passed, this enabled measurement at amortized cost, using the effective interest rate method. The placement fees for the senior notes have been added to the value of the securities and are released progressively through profit or loss over the expected life of the notes using the effective interest rate (IRR).

The mezzanine and junior notes subscribed by the Bank were also assigned to the HTC business model, as they are being held on a permanent basis in compliance with the retention rule. As they did not pass the SPPI test, the mezzanine and junior securities are measured at FVTPL.

The placement fees for the mezzanine and junior notes and the structuring fees were recognized through profit or loss.

The securitization has been structured in such a way as to ensure that the senior notes are eligible for the aforementioned State guarantee, pending the deconsolidation by the assignor banks of the exposures involved in the transaction in accordance with the IASs/IFRSs.

OWN SECURITIZATIONS CARRIED OUT IN PREVIOUS YEARS

"GACS I" SECURITIZATION

In June 2018, the Group undertook the first securitization involving non-performing loans that qualified for the State guarantee mechanism for the liabilities issued (the so-called "GACS" mechanism) pursuant to Decree Law 18 of February 14, 2016, with a view to reducing Bank's the stock of bad loans and, consequently, improve the company risk profile.

The transaction saw Iccrea Banca participate as promoter and joint arranger (together with JP Morgan Securities Limited) and 23 other banks (including 21 mutual banks and two banks belonging to the former Iccrea Banking Group) as assignors of the same number of portfolios of non-performing unsecured and mortgage loans, mainly secured by first mortgages, with a total carrying amount of €1.046 billion

The exposures were assigned to a special purpose securitization vehicle denominated "BCC NPLs 2018 Srl", with the simultaneous grant of a servicing contract by the latter to a third-party servicer independent of the assignors.

As part of the transaction, the special purpose vehicle acquired the portfolio from the assignor banks, financing the purchase by issuing (on July 10, 2018) asset-backed securities not listed on any regulated market with a total nominal value of about €323.9 million, divided into the following classes:

- €282 million of senior notes, corresponding to 26.95% of the value of the assigned loans, which have been assigned an investment grade rating of Baa3 by Moody's and BBB- by Scope Rating, subscribed by the assignors in proportion to the exposures assigned;
- €31.4 million of mezzanine notes, corresponding to 3% of the value of the assigned loans, which have been assigned a rating of Caa2 by Moody's and B+ by Scope Rating, which were sold, together with the junior notes and with the exception of highlighted below, to qualified investors without any connection, interest or participation with the assignors;
- €10.46 million of junior notes, corresponding to 1% of the value of the assigned loans, not rated.

In order to meet the requirement to retain a net economic interest of 5% in the transaction, the assignors have undertaken to retain a holding of at least 5% of the nominal value of each tranche of notes issued as part of the securitization (the "vertical slice" approach): in this regard, on July 10, 2018 the assignor banks sold approximately 95% of the mezzanine and junior noes to Good Hill Partners, which subscribed:

- 94.96% of the principal amount of the mezzanine notes at the issue date, equal to €29.8 million at a price equal to 33.063% of the relative principal amount, i.e. €9.8 million; and
- 95% of the principal amount of the junior notes at the issue date, equal to €9.9 million at a price equal to 1.006% of the relative principal amount, i.e. €99.9 thousand.

The following table shows the positions held by the Group in respect of the securitization at the reporting date.

Class	Nominal amount (€/millions)	Fair value (€/millions)
Class A	278.4	229.6
Class B	1.5	0.7
Class C	0.5	-
Limited-recourse loan	12.3	12.3

As noted previously, the securitization was structured to possess the characteristics envisaged by the regulations mentioned earlier so that the senior notes would be eligible for the State guarantee, in view of the deconsolidation by the assignors of the transferred loan portfolio, in accordance with IAS/IFRS. The State guarantee was issued with a measure dated September 7, 2018.

"GACS II" SECURITIZATION

In December 2018, the Group undertook the second securitization involving non-performing loans that qualified for the State guarantee mechanism for the liabilities issued (the so-called "GACS" mechanism) pursuant to Decree Law 18 of February 14, 2016, with a view to reducing Bank's the stock of bad loans and, consequently, ensure that the company's exposure to risk was contained within sustainable limits.

The transaction involved multiple portfolios of unsecured and mortgage loans to debtors classified as defaulted, with an average expected life of 5 years and an estimated maturity of July 2032 (on the basis of the business plan prepared by Italfondiario SpA). As part of the operation, on December 27, 2018 the assignor banks submitted a preliminary application to the Ministry for the Economy and Finance (MEF) for admission to the State guarantee mechanism for the liabilities issued (the so-called "GACS" mechanism) pursuant to Decree Law 18 of February 14, 2016.

The assigned portfolio consists of loans classified as bad loans at the assignment date (December 7, 2018), originated by 73 banks (71 mutual banks and 2 banks of the former Iccrea Banking Group), with a total value of over €2 billion in terms of gross carrying amount, with the establishment of a securitization involving:

- the issue of notes by the SPV with the simultaneous subscription of the senior notes and approximately 5% of the mezzanine and junior notes by the assignors and the subscription of about 95% of the mezzanine and junior notes by an institutional investor independent of the assignors and Iccrea Banca, JP Morgan Securities Plc, with the simultaneous payment of the purchase price. The senior notes were assigned an external rating on December 20, 2018 by two rating agencies;
- the derecognition of the assigned loans on December 20, 2018. The assignment of the non-performing loans produced financial effects as from March 31, 2018. Collections between April 1, 2018, inclusive, and the assignment date of the portfolio, inclusive (December 7, 2018) were transferred to the SPV.

More specifically, a securitization vehicle specifically set up pursuant to Law 130 of April 30, 1999 denominated "BCC NPLs 2018-2 S.r.l." purchased the portfolio from the banks on December 7, financing its purchase by issuing asset-backed securities not listed on any regulated market with a total nominal value of about €558.17 million, as indicated below:

- €478 million of senior Class A Asset Backed Floating Rate Notes due July 2042, granted an investment grade rating of BBB (low) by DBRS Ratings Limited and BBB by Scope Rating, subscribed by the assignors in proportion to the exposures assigned;
- €60.13 million of mezzanine Class B Asset Backed Floating Rate Notes due July 2042, with a CCC rating by DBRS Ratings Limited and B + by Scope Rating;
- €20.04 million of junior Class J Asset Backed Floating Rate and Variable Return Notes securities, unrated.

In order to meet the requirement to retain a net economic interest of 5% in the transaction, the assignors have undertaken to retain a holding of at least 5% of the nominal value of each tranche of notes issued as part of the securitization (the "vertical slice" approach).

In this regard, on December 20, 2018 the mezzanine and junior tranches were sold to J.P. Morgan Securities Plc, which subscribed:

- 94.52% of the principal amount of the mezzanine notes at the issue date, equal to €56.8 million at a price equal to 11.309% of the relative principal amount (corresponding to a subscription price of €6.4 million); and
- 94.58% of the principal amount of the junior notes at the issue date, equal to €18.9 million at a price equal to 0.998% of the relative principal amount (corresponding to a subscription price of €189 thousand).

The following table shows the positions held by the Group in respect of the securitization at the reporting date.

Class	Nominal amount (€/millions)	Fair value (€/millions)
Class A	476.8	455.8
Class B	3.2	0.7
Class C	1.0	-
Limited-recourse loan	13.5	13.5

As noted previously, the securitization was structured to possess the characteristics so that the senior notes would be eligible for the State guarantee, in view of the deconsolidation by the assignors of the transferred loan portfolio, in accordance with IAS/IFRS. The State guarantee was issued with a measure dated March 5, 2019.

GACS III" SECURITIZATION

In December 2019, a securitization was completed (the third of its kind for the Group) involving multiple portfolios of receivables in respect of mortgage loans or unsecured loans to debtors classified as defaulted. As part of the operation, on January 10, 2020, the assignor banks submitted to the Ministry for the Economy and Finance (MEF) a preliminary application for admission to the State Guarantee Scheme on the liabilities issued (so-called "GACS" – Guarantee of Securitization of Bad loans) pursuant to Decree Law 18 of February 14, 2016, ratified with Law 49 of April 8, 2016, subsequently implemented with the MEF Decree of August 3, 2016, the MEF Decree of November 21, 2017 and the MEF Decree of October 10, 2018.

The transaction was carried out with the aim of reducing the stock of bad loans, partly in response to the need to achieve the objectives set by the ECB for the Mutual Banking Group, thereby decreasing their impact on total assets and, consequently, improving the company risk profile. The securitization mechanism and the State guarantee on the senior class of notes made it possible to obtain a higher sale value than in an ordinary market operation and contained the impacts of the disposal.

More specifically, the transaction involved the disposal of a portfolio of loans identified "en bloc" classified as bad loans at the date of sale, originated by Iccrea Banca, Iccrea BancaImpresa, Banca Sviluppo and 65 mutual banks belonging to the Group with total value of over €1.3 billion in terms of gross carrying amount, through a securitization carried out in the following phases:

- the assignment without recourse, on December 2, 2019, of the portfolio to the securitization vehicle BCC NPLS 2019 (hereinafter the "SPV") established pursuant to Law 130 of April 30, 1999 as amended;
- the payment of the consideration for the assignment by the SPV, financed through the issue of asset-backed securities, pursuant to the combined provisions of Articles 1 and 5 of Law 130, in the total nominal value of about €421.2 million, divided into the classes indicated below:
  - €355 million of senior Class A Asset Backed Floating Rate Notes, maturing in January 2044, rated Baa2, BBB + and BBB respectively by Moody's Investor Services, Scope Rating AG and DBRS Ratings Limited;
  - €53 million of mezzanine Class B Asset Backed Floating Rate Notes, maturing in January 2044, rated B3, B- and CCC respectively by Moody's Investor Services, Scope Rating AG and DBRS Ratings Limited;
  - €13.2 million of junior Class J Asset Backed Floating Rate and Variable Return Notes, maturing in January 2044 and not rated.

In order to meet the requirement to retain a net economic interest of 5% in the transaction, as referred to in Article 6 of Regulation (EU) No. 2017/2402 of the European Parliament and of the Council of December 12, 2017, laying down a general framework for securitization and creating a specific framework for simple, transparent and standardized securitizations, the assignor banks have subscribed - and will undertake to retain for the entire duration of the securitization - at least 5% of the nominal value of each tranche of notes issued in the transaction (the "vertical slice" approach). The remainder of the mezzanine and junior notes were subscribed by a third-party investor independent of the assignors and the Parent Company, Iccrea Banca, with the simultaneous payment of the purchase price.

The non-performing loans were derecognized by each of the assignors following the sale of the mezzanine and junior tranches to Bracebridge Capital LLC, which took place on December 19, 2019 for both tranches. More specifically, Bracebridge Capital LLC subscribed (i) 94.57% of the principal of the mezzanine notes, equal on the issue date to €50.1 million at a price equal to 51.26% of the principal amount and (ii) 94.57% of the principal of the junior notes, equal on the issue date to €12.5 million.

The following table summarizes the amount and annual rates of the notes issued.

Class	Nominal amount (€/millions)	Fair value (€/millions)
Class A	353.8	351.6
Class B	2.8	1.7
Class C	0.6	-
Limited-recourse loan	10.6	10.6

As noted previously, the securitization was structured to possess the characteristics envisaged by the regulations mentioned earlier so that the senior notes would be eligible for the State guarantee, in view of the deconsolidation by the assignors of the transferred loan portfolio, in accordance with IAS/IFRS. The State guarantee was issued with a measure dated March 25, 2020.

CREDICO FINANCE 18 SRL SECURITIZATION

A securitization was carried out in the third quarter of 2019 in which 14 mutual banks assigned without recourse an initial portfolio of monetary claims in respect of mortgage and other loans granted to small and medium-sized enterprises to the special purpose vehicle Credico Finance 18 S.r.l. (hereinafter also the SPV), in which the Group does not hold an interest nor do its employees hold positions as corporate officers.

The operation made it possible to raise significant financial resources as an alternative to direct borrowing, enabling a reduction in exposures for the purposes of solvency ratios, without excluding the originator from managing relationships with customers: it is a tool for funding on international markets to finance the Group's lending and falls with the scope of expectations to support for the development of the local economy, in line with the company's strategic guidelines.

The transaction was involved a number of separate contracts, with the operation unfolding as follows:

- the assignment without recourse by the originator banks of a portfolio of performing loans identified as "en block", with a total residual principal amount of about €519.4 million;
- the acquisition of the loans by the SPV, which raised funds by issuing notes tranched into different levels of repayment priority;
- the subscription of the senior Class A1 notes by Société Generale and the senior Class A2 notes by EIB;
- the subscription by the individual originator banks of the 14 tranches of junior Class J securities.

The purchase of the portfolio by the SPV was financed through the issue of two categories of asset backed securities, in the total amount of €519.4, broken down as follows:

- senior Class A notes in the amount of €290 million, maturing April 2057 with a rating assigned by Moody's, Scope Ratings and DBRS Ratings, which are in turn divided into two sub-classes (A1 Notes and A2 Notes) listed on the Euronext Dublin market and subscribed, respectively, by the EIB and Société Generale;
- junior Class J notes in the amount of €229.4 million, maturing expiring April 2057, not rated, unlisted and fully subscribed by the originator banks themselves.

More specifically, the junior securities were divided into 14 series, each of an amount proportional to the value of the loans assigned respectively by the individual participating banks. Each of the banks has subscribed exclusively the series of subordinate securities pertaining to it, with payment of the relative price at par.

The following table summarizes the amount and annual interest rates of the notes issued by the SPV:

Tranche	Amount issued (€/millions)	Rate
Senior Notes – Class A1	90.0	Euribor 3m + 0.58%
Senior Notes – Class A2	200.0	Euribor 3m + 0.8%
Junior Notes – Class J	229.4	Variable Return
Total	**519.4**	

The SPV has not entered into derivative contracts to hedge interest rate risk.

Each assignor bank has established a cash reserve in favor of the SPV (in the form of a limited-recourse loan), as an additional guarantee for payment flows. The cash reserve provides a form of liquidity support to enable the special purpose vehicle to promptly settle payment of the amounts due on the senior notes in the specified percentage shares, as well as to meet the costs of the securitization.

The financing will be repaid in a single instalment at the end of the transaction, or at the time the originating banks should exercise the option to repurchase the loans (clean-up call). The banks have also been granted a partial repurchase option under which they have the right to repurchase without recourse, in one or more instalments, a certain amount of uncollected loans.

The priority of payment of any interest on the financing by the SPV will only exceed that for the interest and principal of the junior notes.

In addition, the assignor banks have been engaged under a special servicing contract with the special purpose vehicle to continue managing the assigned positions. In particular, they will collect the payments on the loans and will handle, if necessary, any litigation in accordance with the criteria specified in the contract. For the services rendered, they will receive an all-inclusive annual fee equal to 0.003% of the performing loans under management and 6% of the amounts recovered on non-performing exposures. Out-of-pocket expenses, including legal fees, will also be reimbursed for the latter receivables, up to contractually specified ceilings.

Given the financial structure of the transaction, the maximum exposure retained by the assignor banks at the reporting date totals €241 million, represented exclusively by the sum of the amount of the junior notes subscribed (equal to €229.4 million) and the value of the liquidity reserve established for the benefit of the SPV (€11.6 million).

As regards the accounting treatment of the transaction, the securitization does not meet the requirements necessary for the derecognition of the assets transferred to the vehicle (loans) since the subscription of the junior securities means that assignor banks have retained all the risks and rewards connected with the loans. In consideration of this circumstance, the assigned assets continue to be recognized in their entirety, while the notes subscribed and held by the assignor banks do not represent new financial instruments acquired by the banks but instead represent guarantees issued against the assigned assets and consequently are not reported in the financial statements.

NEPAL SRL SECURITIZATION

In 2019 BCC di San Giorgio Quinto Valle Agno carried out a non-recourse assignment of non-performing loans, represented by mortgage and other loans to the securitization vehicle "Nepal Srl", established pursuant to Law 130 of April 30, 1999 as amended.

The operation was carried out to reduce the stock of bad loans as a percentage of total assets, consequently improving the company risk profile.

The transaction involved the disposal of a portfolio of non-performing loans originated by BCC di San Giorgio Quinto Valle Agno and 18 other banks not belonging to the Group with a total value of about €734 million in terms of gross carrying amount, of which about €32.6 million were assigned by BCC di San Giorgio Quinto Valle Agno.

As part of the transaction, the SPV acquired the portfolio from the assignor banks, financing part of the purchase by issuing asset-backed securities not listed on any regulated market with a total nominal value of about €181.1 million, divided into the classes indicated below:

- €126.6 million of senior Class A Asset Backed Floating Rate Notes, maturing in 2037;
- €54.5 million of junior Class B Asset Backed Floating Rate and Variable Return Notes, maturing in 2037; and the remainder by paying about €75.7 million to the assignor banks, of which €51.8 million deriving from the subscription of 95% of the junior securities by third-

party investors and €23.9 million from the liquid assets of the SPV connected with recovery activities performed by the securitization's servicer.

As part of the securitization:

the transferring banks subscribed 100% of the Class A notes and 5% of the Class B notes;

- the SPV entered into a servicing agreement with Guber Banca SpA, which is responsible for: (i) the management, administration, recovery and collection of loans; and (ii) certain reporting activities relating to the loans;
- an interest cash reserve was established to support payments to the subscribers of the Senior notes in the applicable order of priority until a trigger event occurs and a recovery expenses cash reserve was set up to pay all costs and expenses incurred in debt collection activities.

With regard to the accounting treatment of the transaction, the securitization meets the requirements for derecognition of the loans since following the sale of 95% of the junior tranche to Guber Banca SpA, Varde Partners, Inc and Barclays Bank Plc, substantially all the risks and rewards connected with the exposures have been transferred. Paragraph 3.2.12 of IFRS 9 states that on derecognition of a financial asset in its entirety, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) shall be recognized in profit or loss for the year.

Consequently, at the conclusion of the operation, BCC di San Giorgio Quinto Valle Agno:

- derecognized the loans involved in the assignment at the time the placement of the junior tranches on the market was settled
- recognized in the income statement under the item "Gain (loss) on the disposal or repurchase of financial assets measured at amortized cost" the overall capital loss determined as the difference between the gross aggregate value at the date of assignment of the loans, less writedowns and inclusive of any collections on the loans attributable to the SPV at the assignment date (equal to about €32.6 million) and the consideration received (equal to about €9.3 million);
- recognized the notes subscribed in its balance sheet, for a value of more than €5.7 million in senior notes, €126 thousand in junior notes.

The following table summarizes the positions in respect of the securitization held by the BCC di San Giorgio Quinto Valle Agno at the reporting date.

Class	Nominal amount (€/millions)	Fair value (€/millions)
Senior	5.8	4.8
Junior	0.1	0.1

LEONE SPV SECURITIZATION

In December 2018, BCC di Milano carried out a non-recourse assignment of a portfolio of non-performing loans, of which €25.8 million in loans classified as bad loans and €1.9 million in loans classified as unlikely to pay as at the assignment date.

The operation was carried out with the aim of reducing the bank's stock of non-performing loans and improving its risk profile.

The exposures were assigned to a securitization vehicle specially created in accordance with Law 130 of April 30, 1999 denominated "Leone SPV S.r.l.". BCC di Milano does not hold an interest in the vehicle nor do its employees hold positions as corporate officers.

The sale price of the loan portfolio was set at €20.9 million. The special purpose vehicle financed the purchase of the loans by issuing asset-backed securities divided into two classes:

- senior notes in the amount of €12.6 million, maturing July 2030 and paying interest half-yearly;
- junior notes in the amount of €8.4 million, maturing July 2030 and paying interest half-yearly.

With regard to the accounting treatment of the transaction, the securitization meets the requirements for derecognition of the loans since substantially all the risks and rewards connected with the exposures have been transferred.

The following table shows the positions held by BCC di Milano in respect of the securitization at the reporting date.

Class	Nominal amount (€/millions)	Fair value (€/millions)
Senior	12.6	9.2
Junior	0.4	0.4

MARMAROLE SPV SECURITIZATION

In 2018, a securitization transaction was completed pursuant to Law 130 of April 30, 1999, with the participation of three mutual banks (BCC Ravennate - BCC Rimini and Gradara (formerly RiminiBanca) and BCC Agrobresciano) and 8 other banks not belonging to the ICBG as assignors of the same number of portfolios of unsecured and mortgage loans, with a total carrying amount of €568.3 million.

The portfolios were purchased by a special purpose vehicle set up pursuant to Law 130, denominated "Marmarole SPV S.r.l.". The SPV financed the purchase of the loans by issuing the following classes of securities:

- €113.9 million of senior Class A Asset Backed Notes, maturing June 2031;
- €48.8 million of junior Class B Asset Backed Notes securities, maturing June 2031.

The securities have not been rated and are not listed on any regulated market.

On February 28, 2018, the senior notes and 5% of the junior notes were subscribed by the assignor banks in proportion to the price received by each for the sale of the related portfolio and the remaining junior notes were subscribed by an unrelated institutional investor.

With regard to the accounting treatment of the transaction, the securitization meets the requirements for derecognition of the loans since substantially all the risks and rewards connected with the exposures have been transferred.

The following table shows the positions held by BCC Ravennate, BCC Rimini and Gradara and BCC Agrobresciano in respect of the securitization at the reporting date.

Class	Nominal amount (€/millions)	Fair value (€/millions)
Class A	26.2	16.2
Class B	0.6	0.6

SPV PROJECT 1714 SECURITIZATION

In December 2018, in line with its NPL reduction targets, Banca Alpi Marittime completed the securitization of a portfolio of loans classified as non-performing with a total gross value of €109.7 million.

The exposures were assigned to a securitization vehicle specially created in accordance with Law 130/99 denominated "SPV Project 1714" which financed the purchase by issuing asset-backed securities divided into two classes:

- €17.2 million of senior notes;
- €11.4 million of junior notes.

Both classes of securities are unrated. The senior notes were subscribed by the bank, while the junior notes were placed with institutional investors.

The bank retained a 5% share of the loans for retention purposes in order to maintain the required net economic interest in the securitization.

With regard to the accounting treatment of the transaction, the securitization meets the requirements for derecognition of the loans in view of the structure of the operation and the fact that substantially all the risks and rewards connected with the exposures have been transferred.

The following table shows the positions held by Banca Alpi Marittime in respect of the securitization at the reporting date.

Class	Nominal amount (€/millions)	Fair value (€/millions)
Senior	14.0	8.2
Junior	3.1	1.9

ICCREA SME CART 2016 SECURITIZTION

In 2016, a securitization was finalized with the assignment of future receivables in an initial portfolio of €1.37 billion of performing lease contracts originated by Iccrea BancaImpresa and the issue of the associated securities by Iccrea SME Cart 2016 S.r.l, with the concomitant payment of the assignment price of €1.37 billion, including €617.5 million of the Class D (junior) notes subscribed by Iccrea BancaImpresa.

The operation was carried out to acquire new funding for lease financing and loans to small and medium-sized enterprises, or projects sponsored by mid-caps, thereby diversifying funding sources and at the same time obtaining new funding (with an expected average life of about 4 years) with an attractive maturity and cost, especially in view of current market conditions. The transaction did not pursue capital objectives, as under the provisions of the relevant supervisory regulations the characteristics of the transaction do not permit any reduction in capital requirements for the assignor bank.

The transaction involved Iccrea Banca as sole arranger. As part of the transaction, on August 10, 2016 the special purpose entity issued ABSs amounting to €1.37 billion.

Tranche	Amount issued (€/millions)	Rate
Senior Notes – Class A1	202.3	Euribor 3m + 0.10%
Senior Notes – Class A2	480.0	Euribor 3m + 0.85%
Senior Notes – Class B	65.0	Euribor 3m + 1.15%
Senior Notes – Class C	9.4	Euribor 3m + 1.20%
Junior Notes – Class D	617.5	Variable Return
Total	**1,374.2**	

The Class A1, A2 and B notes are listed on the Irish Stock Exchange. The Class A1 and A2 are ranked pari passu for payment of interest but are amortized on a different schedule except in the case of post enforcement, in which case amortization will also be pari passu and have priority with respect to all other notes.

The Class C notes were redeemed in December 2018. Redemption of the Class A1 notes began in December 2018 at the end of the two-year revolving period and was completed in 2019. Redemption of the Class A2 started in 2019; at the reporting date they amounted to €134.7 million (28.06% of the original nominal amount).

As regards the accounting treatment of the transaction, the securitization does not meet the requirements necessary for the derecognition of the assets transferred to the vehicle (loans) since the subscription of the junior securities means that assignor banks have retained all the risks and rewards connected with the loans.

THIRD-PARTY SECURITIZATIONS

The Group holds securities in respect of securitizations carried out by third parties in the total amount of €86.1 million.

Financial instruments	Nominal value (€/millions)	Carrying amount (€/millions)
Senior notes	232.5	73.8
Mezzanine notes	12.3	12.3
Total	**244.8**	**86.1**

The Group does not perform any servicer activities for third-party securitizations and does not hold any interest in the related special purpose vehicles.

The main exposures to third-party securitizations include, with a carrying amount of €56 million, senior unrated notes issued by the vehicle company Lucrezia Securitization S.r.l. as part of the interventions of the Institutional Guarantee Fund for the resolution of crises at banks subjected to extraordinary administration procedures by the supervisory authorities (Bank of Italy). These notes are reported among the assets of the Group’s balance sheet under “Financial assets measured at amortized cost”.

The assets underlying these notes securities consist of impaired loans, largely secured in full by real estate.

With regard to the details of the transactions in which the Group operates as an investor, please see table “C.4 Prudential consolidation - Unconsolidated special purpose securitization vehicles”, which among other things reports the Group’s exposure to this type of vehicle.

QUANTITATIVE DISCLOSURES

C.1 - PRUDENTIAL CONSOLIDATION - EXPOSURES IN RESPECT OF MAIN OWN SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

	On-balance-sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks
A. Fully derecognized																		
Non-performing receivables	1,550,058	(972)	3,943		1,203													
Loans	50,405	(333)																
B. Partially derecognized																		
C. Not derecognized																		
Performing receivables					862,890													

Securitization transactions with on-balance-sheet exposures, guarantees and other forms of credit enhancement as underlying assets are reported in the table.

In particular, the “Loans” sub-item includes the exposure for the limited-recourse loans granted by the Parent Company to the securitization vehicles of the GACS transactions. Writedowns/writebacks refer to 2020 only.

C.2 - PRUDENTIAL CONSOLIDATION - EXPOSURES IN RESPECT OF MAIN THIRD-PARTY SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

	On-balance-sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks
Non-performing receivables	66,082	(237)	300	-														
Performing receivables	7,906	(60)	11,998	(4)														

The table reports the exposures assumed by the Group in respect of third-party securitizations. Writedowns/writebacks refer to 2020 only.

C.3 - PRUDENTIAL CONSOLIDATION – INVOLVEMENT IN SPECIAL PURPOSE SECURITIZATION VEHICLES

The Group does not have an involvement in securitization vehicles. The following table reports information on the vehicle companies used by the Group to carry out its own securitizations.

	Registered office	Consolidation	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
1. BCC NPLS 2018 S.r.l.	Conegliano, Via V. Alfieri.1	no	172,922	-	-	222,139	12,992	1,391
2. BCC NPLS 2018-2 S.r.l.	Conegliano, Via V. Alfieri.1	no	415,022	-	-	443,569	14,771	497
3. BCC NPLS 2019 S.r.l.	Conegliano, Via V. Alfieri.1	no	354,286	-	-	341,385	28,280	569
4. BCC NPLS 2020 S.r.l.	Conegliano, Via V. Alfieri.1	no	538,261			520,000	18,251	10,000
5. Credico Finance 18 S.r.l.	Roma, Via Barberini, 47	no	413,898	-	-	208,803	-	229,430
6. Marmarole SPV S.r.l.	Conegliano, Via V. Alfieri.1	no	123,889	-	-	78,902	-	48,850
7.SPV Project 1714 S.r.l.	Milano, Via Pestalozza 12/14	no	20,962	-	-	10,282	-	11,440
8. Leone SPV S.r.l.	Milano, Via San Prospero.4	no	16,429	-	-	9,428	-	7,737
9. Nepal S.r.l.	Milano, Via San Prospero.4	no	141,303	-	-	112,477	-	54,525
10. Iccrea Smecart 2016 S.r.l.	Roma, Via Barberini, 47	no	42,315	-	-	134,669	65,000	617,460

C.4 - PRUDENTIAL CONSOLIDATION - UNCONSOLIDATED SPECIAL PURPOSE SECURITIZATION VEHICLES

	Accounting classification of assets (*)	Total assets	Accounting classification of liabilities	Total liabilities	Net carrying amount	Maximum loss exposure	Difference between loss exposure and carrying amount
	(*)	(A)		(B)	(C=A-B)	(D)	(E=D-C)
A. Own securitizations with full derecognition of assigned assets							
BCC NPLS 2018 S.r.l.	AC	241,913			241,913	241,913	
	MFV	693			693	693	
BCC NPLS 2018-2 S.r.l.	AC	469,311			469,311	469,311	
	MFV	738			738	738	
BCC NPLS 2019 S.r.l.	AC	362,170			362,170	362,170	
	MFV	1,682			1,682	1,682	
BCC NPLS 2020 S.r.l.	AC	486,799			486,799	486,799	
	MFV	944			944	944	
Marmarole SPV S.r.l.	AC	16,173			16,173	16,173	
	MFV	563			563	563	
SPV Project 1714 S.r.l.	AC	10,058			10,058	10,058	
Leone SPV S.r.l.	AC	9,217			9,217	9,217	
	MFV	407			407	407	
Nepal S.r.l.	AC	4,822			4,822	4,822	
	MFV	119			119	119	
B. Own securitizations with no derecognition of assigned assets							
Iccrea Sme Cart 2016 S.r.l.	AC	845,284	PFAC	227,824	617,460	617,460	
Credico Finance 18 S.r.l.	AC	474,860	PFAC	229,430	245,430	245,430	
C. Third-party securitizations							
Lucrezia Securitisation S.r.l. - Padovana Irpinia	AC	32,493			32,493	32,493	
Lucrezia Securitisation S.r.l. - Crediveneto	AC	18,692			18,692	18,692	
Lucrezia Securitisation S.r.l. - Teramo	AC	4,835			4,835	4,835	
Astrea Due SPV S.r.l.	MFV	3,590			3,590	3,590	
Eridano II SPV S.r.l.	AC	11,998			11,998	11,998	
Borghese Uno Srl	AC	3,560			3,560	3,560	
Agresti 6 SPV S.r.l.	AC	618			618	618	
Viveracqua Hydrobond S.r.l.	MFV	709			709	709	
La Colombo SPV S.r.l.	AC	3,315			3,315	3,315	
Argo SPV S.r.l.	AC	2,988			2,988	2,988	
Belvedere SPV S.r.l.	AC	3,321			3,321	3,321	

(*) AC= financial assets measured at amortized cost; MFV = financial assets mandatorily measured at fair value; PFAC = financial liabilities measured at amortized cost

C.5 - PRUDENTIAL CONSOLIDATION – SERVICER ACTIVITIES - COLLECTIONS ON SECURITIZED ASSETS AND REDEMPTION OF SECURITIES ISSUED BY SECURITIZATION VEHICLE

At December 31, 2020, the Group did not perform servicer activities for own securitizations in which the assigned assets had been derecognized pursuant to IFRS 9.

C.6 - PRUDENTIAL CONSOLIDATION - CONSOLIDATED SPECIAL PURPOSE SECURITIZATION VEHICLES

There were no consolidated special purpose securitization vehicles at the reporting date.

D. DISPOSALS

A. FINANCIAL ASSETS ASSIGNED BUT NOT FULLY DERECOGNIZED

QUALITATIVE DISCLOSURES

The operations mainly regard the use of government securities holdings for short- and medium-term repurchase transactions and receivables from customers assigned in the Group's securitization of its own assets.

QUANTITATIVE DISCLOSURES

D.1 - PRUDENTIAL CONSOLIDATION - FINANCIAL ASSETS ASSIGNED BUT FULLY RECOGNIZED AND ASSOCIATED FINANCIAL LIABILITIES: CARRYING AMOUNTS

	Financial assets assigned but fully recognized				Associated financial liabilities		
	Carrying amount	of which: securitized	Carrying amount	of which: securitized	Carrying amount	of which: securitized	Carrying amount
A. Financial assets held for trading	**-**	**-**	**-**	**X**	**-**	**-**	**-**
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated as at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**10,122**	**-**	**10,122**	**-**	**9,312**	**-**	**9,312**
1. Debt securities	10,122	-	10,122	-	9,312	-	9,312
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortized cost	**8,635,549**	**1,407,769**	**7,220,888**	**24,176**	**7,589,150**	**399,682**	**7,188,011**
1. Debt securities	7,220,888	-	7,220,888	-	7,188,011	-	7,188,011
2. Loans	1,414,662	1,407,769	-	24,176	401,139	399,682	-
Total 31/12/2020	**8,645,671**	**1,407,769**	**7,231,009**	**24,176**	**7,598,462**	**399,682**	**7,197,323**
Total 31/12/2019	**12,462,651**	**1,477,444**	**10,970,720**	**29,548**	**11,490,676**	**640,429**	**10,843,905**

D.2 - PRUDENTIAL CONSOLIDATION - FINANCIAL ASSETS ASSIGNED AND PARTIALLY RECOGNIZED AND ASSOCIATED FINANCIAL LIABILITIES: CARRYING AMOUNTS

The table has not been completed because there were no such positions at the reporting date.

D.3 - PRUDENTIAL CONSOLIDATION - DISPOSALS INVOLVING LIABILITIES WITH RECOURSE ONLY ON ASSIGNED ASSETS NOT DERECOGNIZED: FAIR VALUE

	Fully recognized	Partially recognized	Total 31/12/2020	Total 31/12/2019
A. Financial assets held for trading	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets designated as at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**-**	**32,405**
1. Debt securities	-	-	-	65
2. Equity securities	-	-	-	-
3. Loans	-	-	-	32,340
E. Financial assets measured at amortized cost (fair value)	**152,899**	**-**	**152,899**	**272,617**
1. Debt securities	42,417	-	42,417	82,046
2. Loans	110,482	-	110,482	190,571
Total financial assets	**152,899**	**-**	**152,899**	**305,022**
Total associated financial liabilities	**34,142**	**-**	**X**	**36,433**
Net value 31/12/2020	**118,757**	**-**	**118,757**	**X**
Net value 31/12/2019	**268,589**	**-**	**X**	**268,589**

B. FINANCIAL ASSETS ASSIGNED AND DERECOGNIZED WITH RECOGNITION OF CONTINUING INVOLVEMENT

The table has not been completed because there were no such positions at the reporting date.

C. FINANCIAL ASSETS ASSIGNED AND DERECOGNIZED

QUALITATIVE DISCLOSURES

As at December 31, 2020, the Group held shares in investment funds acquired as part of multi-originator assignments of loan portfolios.

In accordance with the provisions of the Bank of Italy Communication of December 23, 2019, information on the transactions carried out by certain Group banks during the year is reported below.

ALBA 2 FUND

In December 2020, BCC di Caravaggio completed the assignment of a portfolio of impaired loans secured by first mortgages to a restricted closed-end alternative real estate investment fund (AIF) denominated ALBA 2 managed by Blue SGR S.p.A. At the assignment date, the gross carrying amount of the loans amounted to €5.1 million.

The purpose of the fund is the collective investment of its capital mainly in real estate, property rights and/or investments in real estate companies, in addition to the professional management and development of the fund’s assets. More specifically, the fund rules provide for investment in real estate, property rights and real estate companies, parts of real estate CIUs, including foreign undertakings, as well as other real estate assets envisaged by applicable legislation in an amount of at least two-thirds of the total value of its assets. The Fund may reduce the typical investment proportion to a minimum of 51% if no less than 20% of its assets are invested in financial instruments representing securitization transactions involving real estate, property rights or loans secured by mortgages. Up to one-third of the Fund’s assets may be invested in financial instruments listed or not listed on regulated markets other than those already mentioned above, parts of Italian and/or foreign CIUs and bank deposits, financial instruments representing securitizations involving real estate, property rights or loans secured by real estate mortgages as well as loans and securities representing loans, including those connected with the disposal of listed or unlisted non-performing mortgage loans, asset backed securities and other assets for which a market exists and which have a value that can be determined with certainty at least every six months. With regard to investments in loans in particular, the Fund may invest in impaired loans or portfolios of impaired loans, sold by banks or financial companies, primarily originating from medium and long-term loans and secured by mortgages on real estate as well as other receivables connected and/or ancillary to the above, even if not secured by a mortgage. In compliance with the provisions of applicable legislation, investments in loans is permitted provided that such loans have a term not exceeding the duration of the Fund.

In return for the disposal of the assets the Bank subscribed a total of €2.9 million in fund units, recognizing a profit of €0.7 million, corresponding to the difference between the aggregate gross value of the loans, net of value adjustments at the same date and including any collections on those loans and pertaining to the fund at the assignment date, and the fair value of the units received, determined in accordance with IFRS 13.

VALUE OF ITALY CREDIT 1 AND VALUE OF ITALY CREDIT 2 FUNDS

In January 2020, BCC di Pisa e Fornacette completed the assignment of a portfolio of impaired loans secured by first mortgages and unsecured loans to two restricted closed-end alternative real estate investment funds (AIF) denominated Value of Italy Credit 1 and Value of Italy Credit 2 managed by Value Italy SGR S.p.A.

The assignment to the Value of Italy Credit 1 Fund involved loans classified as unlikely to pay, whose gross value at the date of sale amounted to €3.8 million, with a net vale of over €2 million. In return for the disposal of the assets the Bank subscribed a total of €2.4 million in fund units, posting a profit of €303 thousand, corresponding to the difference between the aggregate gross value of the loans, net of value adjustments at the same date and including any collections on those loans and pertaining to the fund at the assignment date, and the fair value of the units received, determined in accordance with IFRS 13.

The gross value of the loans assigned to the Value of Italy Credit 2 Fund amounted to €11.8 million, or more than €4.2 million net of impairment losses. In return for the disposal of the assets the Bank subscribed a total of €3.1 million in fund units, posting a loss of €1 million, corresponding to the difference between the aggregate gross value of the loans, net of value adjustments at the same date and including any collections on those loans and pertaining to the fund at the assignment date, and the fair value of the units received, determined in accordance with IFRS 13.

The assignment described above resulted in the complete derecognition of the assigned loans from the assets of the assignor banks, as the assignment transferred substantially all the risks and rewards connected with the assets transferred to the assignee. Similarly, the requirements for the application of IFRS 10 and for the consequent consolidation of the funds in the financial statements do not obtain, despite being exposed to the variable returns deriving from the activities of the fund, since the banks do not have the power or the ability to determine or affect the investment strategies of the fund, a power that the governance system established with the fund rules attributes solely to the asset management company.

The fund units are classified under “Financial assets mandatorily measured at fair value through profit or loss”, since their nature and contractual characteristics mean they do not pass the SPPI test. For further information, please see Part A “Accounting Policies” of these notes to the consolidated financial statements.

The investment in the funds presents a level of risk related to the intrinsic characteristics of the underlying real estate product. The risk profile of the funds is determined using a scoring assessment method, which considers the qualitative and quantitative elements of the risk factors described below:

- market risk, represented by the risk that the value of the fund units will decrease as a result of fluctuations in the value of the assets in which the Fund’s resources are invested (for example, due to the effect of price developments over time in relation to the type of properties and the geographical area in which they are located);
- liquidity risk, consisting in the risk that the fund will be unable (due in part to the low liquidity and the variable valuations of the real estate assets) to meet its commitments in respect of its creditors and investors due to the insufficiency of its funds with respect to liabilities or to the less than optimal balance between readily liquidable assets and enforceable liabilities;
- concentration risk, deriving from an excessive exposure to individual real estate initiatives, individual counterparties, entities belonging to the same economic sector or located in the same geographical area;
- counterparty risk, represented by the risk that the counterparty in one of the transactions will default before final settlement of the cash flows of the transaction, thus affecting the performance of the assets in which the funds invest;
- interest rate risk, represented by the risk of changes in interest rates that could impact loan agreements and any derivative contracts, in particular with regard to interest expense and the differences that the fund is required to pay to credit institutions;
- other risks, such as, but not limited to: changes in the legislative framework, failure to obtain the necessary authorizations, delays or interruptions in the execution of the contracted works, unexpected environmental charges, exceptional events not covered by insurance policies, legal or tax disputes, other operational risks related to the management of the assets or risks related to the use of leverage as governed by the fund rules.

As regards procedures for monitoring these risks, the Group continues to use the management tools they use for other investments in their portfolio and verifies that the operations as a whole are managed in accordance with the law and the fund rules, based on the reports that the asset management company periodically submits to subscribers.

The table reports the underlying assets of the disposals carried out by the Group during the year.

QUANTITATIVE DISCLOSURES

DISPOSALS INVOLVING ASSETS ASSIGNED AND FULLY DERECOGNIZED: CARRYING AMOUNTS

	Performing exposures		Impaired exposures		Total	
	Carrying amount	Total value adjustments	Carrying amount	Carrying amount	Total value adjustments	Carrying amount
A. Financial assets held for trading	**-**	X	X	X	**-**	X
1. Debt securities		X	X	X		X
2. Equity securities		X	X	X		X
3. Loans		X	X	X		X
4. Derivatives		X	X	X		X
B. Other financial assets mandatorily measured at fair value	**-**	X	**-**	**-**	**-**	**-**
1. Debt securities		X				
2. Equity securities		X				
3. Loans		X				
C. Financial assets designated as at fair value	**-**	X	**-**	**-**	**-**	**-**
1. Debt securities		X				
2. Loans		X				
D. Financial assets measured at fair value through other comprehensive income	**-**	-	**-**	**-**	**-**	**-**
1. Debt securities						
2. Equity securities						
3. Loans						
E. Financial assets measured at amortized cost	**-**	**-**	**14,419**	**12,194**	**14,419**	**12,194**
1. Debt securities					-	**-**
2. Loans			14,419	12,194	14,419	12,194
Total financial assets 31/12/2020	**-**	**-**	**14,419**	**12,194**	**14,419**	**12,194**
Total financial assets 31/12/2019	**-**	**-**	**39,697**	**31,568**	**39,697**	**31,568**

D.4 - PRUDENTIAL CONSOLIDATION – TRANSACTIONS IN COVERED BONDS

The section has not been completed as there were no such positions at the reporting date.

E. PRUDENTIAL CONSOLIDATION – MODELS FOR MEASURING CREDIT RISK

The section has not been completed because the Group does not use internal portfolio models for measuring its exposure to credit risk.

1.2 MARKET RISKS

1.2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS

The term supervisory trading book refers to the portfolio consisting of positions intentionally held for subsequent short-term disposal and/or taken on to benefit from short-term differences between purchase and sales prices, or other changes in prices or interest rates. In general, the supervisory trading book is represented by the positions held under an “other” business model, namely “held for sale”, i.e. the portfolio including debt and equity securities, units in collective investment undertakings and derivatives held for trading purposes.

B. MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of market risk management within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

As provided for under the Cohesion Contract, the Parent Company defines market risk management policies, in accordance with the strategic planning and definition of the RAF.

This role is performed through the issue of specific policies and directives and the definition and application of specific governance mechanisms that govern the various stages (definition, approval, monitoring and reporting) that characterize the management of market risks.

RISK MANAGEMENT PROCESSES

Identification of risks

Operations in financial market, especially positions in the trading book, expose the Bank to market risks and other subcategories of risk. The identification of risks is mainly carried out in the process of specifying and updating risk models and metrics for market risks, and involves the following activities:

- the specification and updating of risk metrics, i.e. the evolution by the Risk Management department of measurement and monitoring methods on the basis of developments in markets, regulations and best practice;
- the approval process, conducted before the start of operations in a new financial instrument and the associated definition of the procedures for measuring fair value and risks.

Risk measurement and assessment

Risk Management is the main actor in the processes for development and using measurement models and metrics for market risk.

Updates of the models and metrics are identified by Risk Management in the performance of its duties, including analysis of regulatory requirements, market best practices and input from the business units involved (Finance in particular).

For the purpose of calculating capital requirements for market risks, the ICBG uses the standardized approach, in compliance with the relevant supervisory measures.

At the operational level, internal models are used for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- probabilistic metrics:
  - Value at Risk (VaR) approach, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- deterministic metrics:

- level metrics (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
- analysis of sensitivity and Greeks, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
- stress testing and scenario analysis, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
- loss, which represents the negative financial performance in a specified period of time of both closed and open positions.

Probabilistic metrics

Value at Risk (VaR)

An approach based on historical simulations is used to calculate VaR, (with a sample period of 3 years, confidence level of 99% and holding period of 1 day). The model currently covers the following risk factors:

- interest rates;
- inflation rates;
- exchange rates;
- stocks and stock indices;
- interest rate volatility;
- stock price volatility.

The current model can calculate VaR both for more detailed portfolios and for larger aggregates, permitting considerable granularity in the analysis, control and management of risk profiles and the effects of diversification. The possibility for calculating VaR at multiple levels of synthesis (consistent with the operating strategies of the portfolios and the organizational hierarchy of Finance) and the ability of the model to decompose VaR into different risk determinants make it possible to create an effective system of comparable cross-risk and cross-business limits.

Deterministic metrics

Sensitivity and Greeks of options

Sensitivity measures the risk associated with changes in the theoretical value of a financial position in response to changes in a defined amount of the associated risk factors. It captures the breadth and direction of the change in the form of multiples or monetary changes in the theoretical value without explicit assumptions about the holding period or correlations between risk factors. The main sensitivity indicators currently used are:

- PV01: the change in market value in response to a change of 1 basis point in the zero-coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- IL01 (sensitivity to inflation): the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- Vega sensitivity to inflation: a change of 1 percentage point in implied volatilities on forward inflation rates;
- CR01: a change of 1 basis point in credit spreads;
- Delta: the ratio between the expected change in the price of options and a small change in the prices of the underlying financial assets;
- Delta1%: the change in market value in response to a change of 1% in equity prices;
- Delta Cash Equivalent: the product of the value of the underlying financial asset and the delta;
- Vega1%: the change in market value in response to a change of 1% in the implied volatility of equity prices/indices;
- Correlation sensitivity: the change in the market value in response to a 10% change in implied correlations.

Level metrics

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile.

The nominal position (or equivalent) is determined through the identification of:

- the notional value;
- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);
- the FX open position.

The approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements. These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures

Stress testing and scenarios

Stress tests measure the change in the value of instruments or portfolios in response to unexpected (i.e. extreme) changes in the intensity or correlation of risk factors. Scenario analyses measure the change in the value of instruments or portfolios in response to changes in risk factors in circumstances that reflect actual past situations or expectations of future developments in market variables.

Stress tests and scenario analysis are carried out by measuring the change in the theoretical value of positions in response to changes in the risk factors. The change can be calculated both through the use of linear sensitivity relationships (e.g. deltas) and through the revaluation of positions by applying the specified variations to the risk factors.

Loss

Loss is a risk metric representing the negative financial performance achieved on closed and open positions over a specified period of time.

Loss is determined by identifying, with the specified time interval:

- the component of realized profits and losses;
- the component of latent (unrealized) profits and losses calculated using the mark-to-market/mark-to-model value of open positions.

Loss is equal to the algebraic sum of the two components indicated above, if negative.

In determining loss, foreign currency positions still open are measured at the ECB end-of-day exchange rate.

The metric makes it possible to measure losses connected with the general risk profile of outstanding positions and the management of the portfolio, identifying any deterioration in the profitability of financial operations.

It is helpful in monitoring the performance of the portfolio, given the risk profile assumed, when:

- more sophisticated measurement systems are not present;
- it is impossible to capture all risk factors;
- timely control and management of limits is required.

RISK PREVENTION AND ATTENUATION

Risk Management conducts backtesting of operational measurement models on an ongoing basis. The effectiveness of the calculation model is monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. This approach makes it possible to:

- strengthen the effectiveness of the dialogue between Risk Management and the front office;
- enhance awareness of the actual performance dynamics of the portfolios;
- break down and interpret the sources and causes of daily changes in P&L;
- identify and monitor any risk factors that are not fully captured by the calculation models adopted.

In addition to the backtesting noted earlier, the effective management of market risks is ensured using a comprehensive system of limits, which is a key tool for the management, control and attenuation of risks. The development of this system, which is a key element of the Risk Management Framework, took account of the nature, objectives and operational complexity of the Group.

The overall system of market risk indicators comprises indicators included in and governed by the RAS and more strictly operational indicators set out in the risk governance policies.

The controls established to manage market risks break down into:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the market risk profile and ensure the correct activation of escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage any irregularities;
- the actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- the actions to be taken in the event the limits specified in the risk policies are breached.

MONITORING AND REPORTING

The second-level controls, carried out by the Market & Counterparty Monitoring & Control unit, are aimed at monitoring the Bank's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators and represents a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds.

These activities therefore perform an "ex post" control function in relation to the continuous monitoring of all indicators that signal breaches of assigned risk levels, but they also serve an "ex ante" function in signaling the approach of risk profiles towards the threshold/limit/risk propensity levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/risk limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The market risk control and monitoring activities are governed within a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.

At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In particular, Risk Management performs codified and formalized monitoring and reporting activities within the Risk Appetite Framework and the Risk Policies, with the preparation of periodic reporting to provide appropriate disclosure to the management functions, senior management and the Board of Directors.

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of health emergency.

QUANTITATIVE DISCLOSURES

1. SUPERVISORY TRADING BOOK: DISTRIBUTION BY RESIDUAL MATURITY (REPRICING DATE) OF ON-BALANCE-SHEET FINANCIAL ASSETS AND LIABILITIES AND FINANCIAL DERIVATIVES

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. SUPERVISORY TRADING BOOK: DISTRIBUTION OF EXPOSURES IN EQUITY SECURITIES AND EQUITY INDICES BY MAIN COUNTRIES OF LISTING

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

3. SUPERVISORY TRADING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

With regard to market risks on the trading book, which are managed at the Group level by Iccrea Banca, a risk tolerance of €7 million in 1-day VaR with a 99% confidence level has been established. From the start of the year, the risk profile of all trading operations never breached the RAS limit.

The average VaR of the trading book was €0.95 million, with a minimum of €0.4 million and a maximum of €1.45 million (registered on January 9, 2020).

At December 31, 2020 the VaR was €0.5 million.

Daily VaR Trading Book	Notional (in €/millions)	VaR	
	31/12/2020	Limit	Risk Profile
GBCI	15,505	7	0.50

The following table reports sensitivities by risk factor at December 31, 2020, which correspond to the change in the market value of the trading book as the risk factors change (see section "Deterministic Metrics, Sensitivity and Greeks of Options").

	Sensitivity Value (in €)	Note
Interest Rates	(58,992)	Sensitivity calculated in relation to 1 bp change
Inflation Rates	-	
Credit spread	(42,417)	
Equity	87,066	Sensitivity calculated in relation to 1% change in the share/stock index

1.2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of interest rate risk management for the banking book within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

As provided for under the Cohesion Contract, the Parent Company defines interest rate risk management policies, in accordance with the strategic planning and definition of the RAF.

This role is performed through the issue of specific policies and directives and the definition and application of specific governance mechanisms that govern the various stages (definition, approval, monitoring and reporting) that characterize the management of interest rate risk on the banking book.

RISK MANAGEMENT PROCESSES

Identification of risks

The interest rate risk on the banking book is the risk originated by differences in the maturities and in the timing of the repricing of interest rates on the assets and liabilities in the banking book. In the presence of these differences, fluctuations in interest rates giver rise to both a short-term change in expected profit, through the impact on net interest income, and a long-term impact on the economic value of shareholders' equity, through the change in the market value of assets and liabilities.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, the Group identifies sources of interest rate risk to which it is exposed, classifying them in the following risk sub-categories: the risk deriving from mismatches in maturities (for fixed-rate positions) and repricing dates (for variable-rate positions), or changes in the slope or shape of the yield curve (yield curve risk), basis risk, option risk and credit spread risk on banking book (CSRBB).

Risk measurement and assessment

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- economic value approach: this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book (economic value of equity), construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis. Under this perspective, the analysis is conducted using a static "gone concern" approach, in which we assume the run-off of positions at maturity, without any replacement or renewal, or using a dynamic approach, developing projections for new operations that are consistent with the assumptions defined during strategic planning.
- earnings approach: this seeks to assess the potential effects of adverse interest rate variations on the profitability of the banking book, i.e. net interest income, and on fair value changes recognized through profit or loss or OCI. In this perspective, the analysis is conducted using a dynamic "going-concern" approach, with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged, or a "dynamic balance sheet" view, developing projections for new business that are consistent with the hypotheses defined in strategic planning.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.

The metrics adopted in the economic value approach to measure the sensitivity of the economic value of the banking book (∆EVE – EVE sensitivity) are based on a full evaluation approach. The change in the expected value of the banking book is calculated using an approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time ("bucket sensitivity").

In determining EVE, equity must be excluded from the calculation in order to measure the potential change in value of free capital following changes in the yield curves.

The metrics used in the current earnings approach to measures the sensitivity of the net interest income of the banking book (∆NII – NII sensitivity) are:

- Full Evaluation: the potential impact on net interest income of potential changes in risk-free rates is calculated using a method that provides for the comparison, for a selected time horizon, between expected net interest income in the case of a change in interest rates and expected net interest income in a baseline scenario with no such changes. This methodology is also adopted in stress tests to quantify the impacts on net interest income of possible changes in credit spreads (CSRBB);
- Earnings at Risk: a metric aimed at measuring the loss of profitability due to changes in interest rates, considering, in addition to the impact on net interest income, the effects on changes in the fair value of the instruments recognized (depending on their accounting treatment) in profit or loss or directly in equity;
- Repricing gap: this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The weighting of the exposure for each time bucket for the time between the repricing date and the selected time horizon and the subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income.

The measurement scenarios applied to interest rates are intended to monitor the risk categories to which the Bank may be exposed. Each can be associated with internally developed or regulatory scenarios.

- gap risk: in order to monitor this category of risk, parallel and non-parallel shocks of the risk-free yield curves are used in order to assess the impact on economic value and net interest income; in particular; in order to monitor this risk category, parallel and non-parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged for regulatory purposes, in the standard outlier test, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
- basis risk: the analysis provides for the segmentation of the banking book based on the market parameters to which the items involved are indexed and the analysis of the time series of basis spreads with respect to the pivot rate (3-month Euribor) for the purpose of determining the size of the shocks to be applied to each;
- option risk: the analysis includes a preliminary identification of the automatic/behavioral option components in the assets and liabilities of the Bank's banking book and the subsequent:
    - historical analysis of the observed changes in volatility, to determine the magnitude of the shocks to be applied for the purpose of quantifying the automatic option risk;
    - verification of the impact of interest rate shocks on the behavioral model parameters, for the purpose of quantifying the behavioral option risk.
- CSRBB: internally defined scenarios are used based on prudential assessments and historical analyses of the observed changes in credit spreads.

In order to monitor risk limits, parallel and non-parallel shock scenarios are adopted. To monitor the additional metrics subject to reporting requirements, scenarios involving shocks to the yield curves are also envisaged in addition to those adopted as a reference for the determination of risk limits. As part of stress testing, further scenarios are used on periodic basis to signal potential areas of weakness in the presence of particular market conditions.

Risk prevention and attenuation

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework, taking account of the nature, objectives and complexity of Group operations.

The system of limits (EWS, RAS and Risk Limits) is defined by the Parent Company in accordance with its management and coordination role and implemented through an cascading process with the subsidiaries (where applicable), in line with the risk management model adopted.

In addition to the above system of limits, a comprehensive system of arrangements and controls contributes to defining the overall control model set out and formalized in the associated policy.

The controls established to manage interest rate risk on the banking book break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the interest rate risk profile and activate escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to interest rate risk in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the operating units involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators provided for by the risk governance framework. The effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk limits established;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The interest rate risk control and monitoring activities are performed within the framework of a set of internal regulations. At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

More specifically, the Risk Management function performs monitoring and reporting activities that are codified and formalized within the Risk Appetite Framework and the risk policies, preparing periodic reports and providing appropriate disclosure to the operating units, top management and the Board of Directors.

Stress test framework

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The scenarios used in measuring the exposure to the different sources of risk and in analyzing stress tests are based on both regulatory shocks and, where the regulatory scenarios are not considered fully representative of especially averse conditions, shocks defined internally.

In accordance with regulatory provisions, the Group develops scenarios characterized by larger movements in yield curves than the shocks applied for the continuous monitoring of the IRRBB in order to test the vulnerabilities of the banking book in the presence of stress conditions.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses where appropriate:

- sensitivity analysis: analysis of the exposure to the IRRBB and the CSRBB with respect to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result;
- scenario analysis: analysis consisting in the assessment of the Group's ability to cope with a potential increase in its exposure to IRRBB and CSRBB based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

For each of the risk categories identified it is possible to define the associated risk factor(s), understood as an exogenous variable whose shock can have a negative impact on the economic value of the banking book and/or on the associated net interest income, in terms of smaller-than-expected loss or profit. In this perspective, the identification of risk factors is a preliminary phase in the definition of the shocks associated with stress scenarios.

All the stress scenarios adopted are generally calibrated using the historical simulation approach, based on prudential percentiles of the empirical distributions associated with the various risk parameters, using expert-based adjustments where appropriate in order to integrate forward-looking elements that are not present in the available historical data. To these scenarios, we add "purely" historical scenarios (i.e. without calculating a percentile of the historical empirical distribution), scenarios defined on a judgmental basis and scenarios provided by external sources (e.g. EBA Stress Test scenario).

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of health emergency.

QUANTITATIVE DISCLOSURES

1. BANKING BOOK: DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY (REPRICING DATE)

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. BANKING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

The interest rate risk on the banking book used for management purposes with regard to sensitivity indicators for economic value and net interest income at December 31, 2020 is reported below.

€/millions	Scenario	
	-100 bp	+100 bp
Impact on economic value	- 321	+ 366
Impact on net interest income	- 104	+ 549

1.2.3 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

B. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF EXCHANGE RATE RISK

The exchange rate risk management strategy (the FX risk factor) is based on the analysis of market developments and the different currencies in which operations are denominated. The strategy is differentiated in accordance with the type of operations:

- for major currencies (hard currencies), operators, based on the analysis of economic, macroeconomic and money management data, manage operations both to optimize existing positions and generate a profit;
- for minor currencies (local currencies), exchange rate risk is managed with a view to the total minimization of risks, except in unusual macroeconomic situations, by reducing exposures exceeding the thresholds defined with market operations of the opposite sign.

Trading is carried out on the foreign exchange and foreign exchange derivatives markets both through spot trading and through the management of short/medium-term forward positions (outright operations). The strategy of the desk is therefore aimed at intraday/multiday transactions in order to generate profit from movements in the spot foreign exchange market. Forex swaps are used to engage in forward operations, based on expectations for interest rates and exchange rates, so as to generate a profit from maintaining open short/medium-term positions in foreign currency. Based on its own analyzes, the desk also seeks to improve its profitability by taking positions in options on exchange rates.

All operations are based on techniques and methods defined and agreed at the desk level, based on operating limits assigned to the managers and operational staff that are consistent with the provisions of the risk policies.

C. HEDGING EXCHANGE RATE RISK

Operations are mainly concentrated in major currencies. The Bank adopts a system of daily operating limits on the overall foreign exchange exposure, as well as the net foreign exchange positions in respect of individual currencies. The overall limit is segmented into partial ceilings on the basis of the importance of the various currencies.

QUANTITATIVE DISCLOSURES

1. DISTRIBUTION BY CURRENCY OF ASSETS, LIABILITIES AND DERIVATIVES

	Currency					
	USD	GBP	JPY	CAD	CHF	OTHER
A. Financial assets	**147,060**	**8,780**	**7,434**	**3,991**	**24,421**	**9,243**
A.1 Debt securities	36,387	172	-	33	-	1,297
A.2 Equity securities	19,821	4,454	123	-	21	-
A.3 Loans to banks	45,295	2,508	2,062	3,958	1,196	7,945
A.4 Loans to customers	45,557	1,646	5,249	-	23,204	1
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**10,793**	**5,953**	**850**	**1,061**	**6,914**	**2,063**
C. Financial liabilities	**204,019**	**10,746**	**8,740**	**4,270**	**28,744**	**8,174**
C.1 Due to banks	21,473	1,908	7,522	205	15,884	3,300
C.2 Due to customers	155,428	8,838	1,218	4,065	12,860	4,874
C.3 Debt securities	27,118	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**378**	**155**	**-**	**1**	**9**	**1**
E. Financial derivatives						
- Options						
+ Long position	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives						
+ Long positions	6,565,099	1,377,444	1,365,909	256,087	756,945	317,601
+ Short positions	6,485,067	1,377,326	1,365,987	256,076	757,210	318,801
Total assets	**6,722,953**	**1,392,177**	**1,374,192**	**261,138**	**788,280**	**328,906**
Total liabilities	**6,689,464**	**1,388,227**	**1,374,727**	**260,347**	**785,963**	**326,976**
Difference (+/-)	**33,488**	**3,950**	**(535)**	**792**	**2,318**	**1,930**

2. INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODS

There is no information to report.

1.3 DERIVATIVES AND HEDGING POLICIES

1.3.1 FINANCIAL DERIVATIVES HELD FOR TRADING

A. FINANCIAL DERIVATIVES

A.1 FINANCIAL DERIVATIVES HELD FOR TRADING: END-PERIOD NOTIONAL VALUES

	Total 31/12/2020				Total 31/12/2019			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	Without central counterparties			Central counterparties Covered by netting arrangements	Without central counterparties		
		Covered by netting arrangements	Not covered by netting arrangements			Covered by netting arrangements	Not covered by netting arrangements	
1. Debt securities and interest rates	-	3,361,355	1,478,225	-	-	3,394,053	1,200,836	-
a) Options	-	569,174	325,149	-	-	172,432	386,398	-
b) Swaps	-	2,747,381	1,006,239	-	-	3,221,621	807,628	-
c) Forwards	-	-	146,838	-	-	-	1,110	-
d) Futures	-	44,800	-	-	-	-	5,700	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	-	4,922	4,211	-	-	496	9,325	-
a) Options	-	4,369	-	-	-	496	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	4,211	-	-	-	8,332	-
d) Futures	-	553	-	-	-	-	993	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign currencies and gold	-	13,028,889	727,949	-	-	7,463,454	442,788	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	3,564	3,564	-	-	7,431	7,431	-
c) Forwards	-	13,025,325	724,385	-	-	7,456,023	435,357	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other underlyings	-	-	-	-	-	-	-	-
Total	**-**	**16,395,166**	**2,210,385**	**-**	**-**	**10,858,003**	**1,652,949**	**-**

A.2 FINANCIAL DERIVATIVES HELD FOR TRADING: GROSS POSITIVE AND NEGATIVE FAIR VALUE – BREAKDOWN BY PRODUCT

	31/12/2020				31/12/2019			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		Covered by netting arrangements	Not covered by netting arrangements			Covered by netting arrangements	Not covered by netting arrangements	
1. Positive fair value								
a) Options	-	525	53	-	-	1,016	72	-
b) Interest rate swaps	-	73,199	41,262	-	-	83,936	33,784	-
c) Cross currency swaps	-	73	-	-	-	714	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	130,772	253	-	-	47,684	45	-
f) Futures	-	56	-	-	-	-	36	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**204,625**	**41,568**	**-**	**-**	**133,349**	**33,937**	**-**
2. Negative fair value								
a) Options	-	1,066	434	-	-	739	994	-
b) Interest rate swaps	-	114,395	736	-	-	129,695	888	-
c) Cross currency swaps	-	-	73	-	-	-	711	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	109,400	22,098	-	-	41,899	5,409	-
f) Futures	-	62	-	-	-	-	4	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**224,923**	**23,341**	**-**	**-**	**172,333**	**8,006**	**-**

A.3 OVER-THE-COUNTER FINANCIAL DERIVATIVES HELD FOR TRADING: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY

	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	X	151,518	34,476	1,292,232
- positive fair value	X	1,093	408	39,866
- negative fair value	X	787	7	430
2) Equity securities and equity indices				
- notional value	X	-	4,211	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Foreign currencies and gold				
- notional value	X	3,564	719,015	5,370
- positive fair value	X	-	-	201
- negative fair value	X	73	22,024	18
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other assets				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	-	3,298,464	62,891	-
- positive fair value	-	70,408	3,209	-
- negative fair value	-	115,360	161	-
2) Equity securities and equity indices				
- notional value	-	4,427	-	496
- positive fair value	-	161	-	2
- negative fair value	-	3	-	-
3) Foreign currencies and gold				
- notional value	-	13,001,793	25,263	1,833
- positive fair value	-	130,742	-	103
- negative fair value	-	108,634	765	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other assets				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 RESIDUAL LIFE OF OVER-THE-COUNTER FINANCIAL DERIVATIVES: NOTIONAL VALUES

	Up to 1 year	More than 1 year and up to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	2,261,792	1,795,696	857,092	4,914,580
A.2 Financial derivatives on equity securities and equity indices	6,912	500	1,722	9,134
A.3 Financial derivatives on exchange rates and gold	13,756,838	-	-	13,756,838
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2020	**16,025,541**	**1,796,196**	**858,814**	**18,680,551**
Total 31/12/2019	**9,220,987**	**1,789,452**	**1,500,512**	**12,510,952**

B. CREDIT DERIVATIVES

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

1.3.2 HEDGE ACCOUNTING

QUALITATIVE DISCLOSURES

For the purposes of hedge accounting, the Group applies the provisions contained in IAS 39 since at the time of initial application of IFRS 9 it elected the option provided for in paragraph 7.2.21 of that standard to continue to apply in full the rules of IAS 39 for all types of hedging (micro and macro).

The hedge contracts are transacted on the basis of the provisions of specific company policies and mainly used to manage interest rate risk on the banking book arising from the normal business operations of the individual banks and the Parent Company, pursuing the objective of reducing the risk profile within the limits of the Risk Appetite Framework as defined and quantified by their respective competent bodies. These limits concern the exposure of the Group both in terms of net interest income sensitivity and economic value sensitivity.

In particular, all the hedges established by the affiliated banks with the Parent Company with respect to which the latter enters into an identical and opposite position in derivatives with the market are represented in the same way at the consolidated level: hedges originally established by the affiliated banks regard portfolios of loans to customers, securities holdings and, to a marginal extent, bonds in issue. On the other hand, transactions involving the hedging of loans to customers or securities of a minor nature (mainly by notional amount) between the affiliated banks and the Parent Company, provide for the latter to manage the consequent risk position on a "synthetic" basis, which is reported in the consolidated financial statements through the designation of generic fair value hedges established in respect of interest rate risk. The life cycle of a hedge accounting relationship starts with the so-called "designation" phase. With the designation of the hedging relationship, the company identifies the instruments through which it intends to implement the hedging strategy, as defined by the manager of the risk being hedged and in compliance with the principles established in the Group Hedging Policy, which defines the methods of measuring effectiveness by type of hedge.

Once a hedging relationship has been designated, it must be demonstrated that the hedge is highly effective in offsetting fair value changes attributable to the hedged risk or stabilizing the cash flows attributable to the hedged risk during the period for which the hedge is designated.

The effectiveness of the hedge is demonstrated at the inception date and measured at the periodic reporting dates (March 31, June 30, September 30 and December 31).

The effectiveness of the hedge is measured by conducting so-called effectiveness tests (prospective and retrospective) based on both qualitative and quantitative methods, complying with the criterion of continuity. A hedging relationship is considered effective if at each measurement date both tests (prospective and retrospective) are passed. The failure of the effectiveness test(s) should result in the discontinuance of the hedging relationship, i.e. the termination of hedge accounting.

A. FAIR VALUE HEDGING

Fair value hedging is used to immunize changes in the fair value, attributable to the different risk factors, of financial assets and liabilities or portions of them, of groups of assets/liabilities, of irrevocable commitments and portfolios of financial assets and liabilities.

The Group adopts both specific hedges (micro fair value hedges) and generic hedges (macro fair value hedges). These hedges therefore apply both to well-identified financial instruments (government securities – both fixed rate and indexed to European and Italian inflation – deposits, bond issues, loans and other financing) and to portfolios of fixed-rate and variable-rate financial instruments (government securities, loans).

Within the scope of micro fair value hedging, hedges are mainly used for securities holdings and bonds issued, while macro hedging is applied to portfolios of fixed-rate loans, variable-rate loans and a single portfolio of debt securities classified as FVOCI under the HTCS business model.

The main types of derivatives used are represented by plain or structured interest rate swaps (IRS), and asset and yield swaps (ASW) entered into with third parties to ensure compliance with the requirement to externalize risk, which is necessary to qualify for hedge accounting at the consolidated level, in compliance with the provisions of paragraph 73 of IAS 39. These derivatives are not listed on regulated markets, but are traded on OTC markets.

The effects of designating the hedging relationship begin at the inception of the hedge with the identification of the portion and the type of hedged risk, the hedging strategy and the hedging instrument in accordance with the principles the Group has established concerning the methodology used to assess the effectiveness of the hedging relationship.

B. CASH FLOW HEDGING

Cash flow hedging seeks to hedge the exposure to the variability of future cash flows attributable to particular risks associated with balance sheet items or highly probable forecast transactions or to hedge exchange rate risk.

The Group adopts specific hedges of liabilities (micro cash flow hedges) mainly to transform fixed-rate funding denominated in foreign currency (specifically, US dollars) into fixed-rate funding in euros. The stabilization intent is substantiated by establishing the funding conditions with regard to both the level of exchange rates and the synthetic flow of interest payments obtained through the hedge.

The derivatives used are cross currency swaps (CCS) not listed on regulated markets, transacted with third-party counterparties on OTC markets.

In addition, at December 31, 2020 forward sales of government securities falling under the accounting model in question were outstanding, designating the variability of cash flows deriving from a highly probable forecast transactions as the hedged risk. In particular, the fixing – at the trade date - of the sale price of the hedged instrument make these transactions suitable for inclusion in the cash flow hedge model due to the stabilization of cash flows with respect to the risk that the price of the security could change in the opposite direction with respect to the Bank's strategic intention. These transactions are carried out using combinations of purchases and sales of put and call bondoptions, so as to financially replicate a forward contract. These derivative instruments are traded on OTC circuits.

C. HEDGING OF INVESTMENTS IN FOREIGN OPERATIONS

In 2020, the Group did not undertake hedging of exchange rate risk on foreign currency transactions.

D. HEDGING INSTRUMENTS

Designated hedging transactions, with formal documentation identifying the relationship between the hedged instrument and the hedging instrument, are considered effective if at inception and for the entire duration of the hedging relationship changes in the fair value or the cash flows of the hedged instrument are almost completely offset by changes in the fair value or cash flows of the hedging derivative. The effectiveness of the hedge depends on the extent to which the changes in the fair value of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is quantified by comparing the aforementioned changes, taking account of the intent pursued by the company at the time the hedge was established.

A hedge is effective when the changes in the fair value (or cash flows) of the hedging instrument almost entirely, i.e. within the specified limits, offset the changes in the hedged instrument for the risk being hedged.

Effectiveness is assessed at each annual or interim reporting date using:

- prospective tests aimed at demonstrating that changes in the fair value or cash flows of the hedging instrument attributable to the hedged risk will be such as to offset changes in the fair value or cash flows of the hedged item. They are performed adopting both qualitative (Critical Term Match) and quantitative methods ("cumulative scenario method" or "linear regression method with curve simulation");
- retrospective tests aimed at measuring the actual effectiveness of the hedging relationship between the date of designation and the test date, determining the deviation of hedging relationships from the result that would be achieved with a perfect hedge. These tests are performed using quantitative methods, i.e. the dollar offset method and the volatility risk reduction method.

The main causes of ineffectiveness are attributable to the following:

- a misalignment between the notional of the derivative and the nominal of the hedged instrument at the time of the initial designation or generated subsequently, as in the case of partial repayments or full extinguishment of loans or the repurchase of bonds;
- the approach of the expiry of the transaction.

The ineffectiveness of the hedge is recognized promptly for the purposes of:

- determining the impact on profit or loss;
- assessing the possibility of continuing to apply hedge accounting rules.

If the assessments do not confirm the effectiveness of the hedge, the relationship considered terminated as of the last date from which the relationship was shown to be effective. This date coincides with the beginning of the period in which the effectiveness test was failed. However, if the event or the circumstances that led to the hedging relationship no longer meeting the criteria for effectiveness are identified and it is shown that the hedge was effective before the event or change in the circumstances occurred, hedge accounting is discontinued from the date of the event or change in those circumstances. The hedging derivative, if not extinguished, may be designated as a hedging instrument in another relationship that meets the relevant or be reclassified as a trading instrument.

The Group does not use dynamic hedges, as defined in IFRS 7, paragraph 23C.

E. HEDGED ITEMS

At the Group level, hedged items designated as being in a hedge accounting relationship using micro and macro hedges are mainly government securities, bond issues of the Parent Company and loans to customers in the form of residential mortgages and leases as well as a loan to a company within the direct scope of consolidation.

These hedges are both total and partial and the hedged risk is mainly interest rate risk.

Debt securities held

These are hedged using micro fair value hedges and macro fair value hedges involving IRSs, ASWs and bond options as hedging instruments (for the latter, only as cash flow hedges) as hedging instruments. In fair value hedges, interest rate and inflation risk are hedged for the duration of the obligation, while in cash flow hedges, as discussed above, the risk of changes in the sale price of the underlying instrument is hedged. The effectiveness tests are carried out using the dollar offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

Debt securities issued

The Group currently has active micro fair value hedging relationships for fixed-rate or structured funding and micro cash flow hedges for funding denominated in foreign currency, using IRSs and CCSs, respectively, as hedging instruments. Interest rate risk, and exchange rate risk for foreign currency funding, is hedged for the duration of the obligation. With regard to the latter, the effectiveness tests are carried out using hypothetical derivative approach within the dollar offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

Fixed-rate loans

The Group has designated micro fair value hedges and macro fair value hedges for fixed-rate loans to customers and secured loans to banks, mainly using amortizing IRS as hedging instruments. The interest rate risk is hedged for the entire term of the hedged item. For micro-type hedges, the effectiveness tests are carried out using the dollar-offset method for retrospective assessment and the cumulative scenario method for prospective assessment. For macro hedges of loans, the capacity of the portfolio subject to designation is verified with respect to the notional amount outstanding at the reporting date of the corresponding hedging derivative. Having passed this first test, effectiveness is quantified both retrospectively and prospectively by applying the dollar offset method. For macro hedges of leases, the criterion of the lower between the nominal value of the hedged item and the notional of the hedging derivative is adopted for the purpose of measuring the change in the fair value of the hedged item, performing the retrospective effectiveness test by applying volatility risk reduction method.

Variable-rate loans

The Group has designated micro fair value hedges and macro fair value hedges for variable-rate loans to customers, using caps, floors or collars with an amortizing notional as hedging instruments. The hedged risk is the risk of a rise (decrease) in rates above (below) the strike of the implicit caps (floors) as well as the probability that the benchmark rate is greater (lower) or approaches the strike rate itself. The hedged rate is the contractually determined strike rate for the individual loans granted by the Bank. The identity of the individual loans making up the hedged portfolio in terms of strike rate level compared with Euribor flat (net of the spread), indexing parameter, date of observation of the indexing parameter, frequency of the individual caplet (frequency of repayments of the amortization plan) is a necessary condition. For micro hedges, the effectiveness tests are carried out using the dollar offsetting method for the retrospective profile and the cumulative scenario for the prospective profile. For macro hedges of loans, the capacity of the designated portfolio is checked first of all with respect to the notional value, at the reporting date, of the corresponding hedge derivative and therefore, after passing this first test, effectiveness is quantified retrospectively and prospectively by applying the dollar offsetting method.

IFRS 7 DISCLOSURES ON THE INTEREST RATE BENCHMARK REFORM

Following up on the regulatory framework defined by Regulation (EU) 2016/1011 of the European Parliament and of the Council of June 8, 2016 (the Benchmarks Regulation, BMR), the European Commission issued Regulation (EU) 2020/34 amending IFRS 9, IAS 39 and IFRS 7. These changes introduce provisions aimed at taking account of and underscoring the consequences of the reform of interest rate benchmarks for financial reporting. They also seek to enable allowing companies to continue with the correct application of hedge accounting rules, assuming that the benchmark indices for determining existing interest rates are not changed as a result of the reform of interbank rates.

These disclosures must be provided in particular in the period preceding the replacement of an interest rate benchmark with an alternative reference rate.

The information required by paragraph 24 H of IFRS 7 is provided below:

a) the significant interest rate benchmarks to which the entity's hedging relationships are exposed:

Hedge type	Benchmark
Hedge of loans to customers	1, 3 and 6 month EURIBOR
Hedge of securities holdings	3 and 6 month EURIBOR
Hedge of bonds issued	3 and 6 month EURIBOR

b) the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;

Hedge type	Nominal amount of hedging derivatives (thousands of euros)
Hedge of loans to customers	2,661,138
Hedge of securities holdings	7,926,900
Hedge of bonds issued	133,588

c) for more on how the entity is managing the process to transition to alternative benchmark rates, please see the report on operations;

d) a description of significant assumptions or judgements the entity made in applying those paragraphs, please see the report on operations with regard to transition activities completed, planned or under way with regard to transactions in OTC derivatives involved in hedging relationships designated as being treated with hedge accounting;

e) the nominal amount of the hedging instruments in those hedging relationships is as follows:

Hedge type	Nominal amount of hedging derivatives (thousands of euros)
Hedge of loans to customers	2,661,138
Hedge of securities holdings	7,926,900
Hedge of bonds issued	133,588

QUANTITATIVE DISCLOSURES

A. FINANCIAL HEDGING DERIVATIVES

A.1 FINANCIAL HEDGING DERIVATIVES: END-PERIOD NOTIONAL VALUES

	Total 31/12/2020				Total 31/12/2019			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	Without central counterparties: Covered by netting arrangements	Without central counterparties: Not covered by netting arrangements		Central counterparties	Without central counterparties: Covered by netting arrangements	Without central counterparties: Not covered by netting arrangements	
1. Debt securities and interest rates	**-**	**9,395,024**	**11,813**	**-**	**-**	**8,424,463**	**31,352**	**-**
a) Options	-	1,007,150	-	-	-	752,498	6,159	-
b) Swaps	-	8,387,874	11,813	-	-	7,671,965	25,193	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign currencies and gold	**-**	**73,545**	**-**	**-**	**-**	**52,185**	**2,382**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	52,651	-	-	-	44,508	-	-
c) Forwards	-	20,894	-	-	-	7,677	2,382	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**9,468,569**	**11,813**	**-**	**-**	**8,476,648**	**33,734**	**-**

A.2 FINANCIAL HEDGING DERIVATIVES: GROSS POSITIVE AND NEGATIVE FAIR VALUE - BREAKDOWN BY PRODUCT

	Positive and negative fair value								Change in value used to calculate hedge effectiveness	
	Total 31/12/2020				Total 31/12/2019					
	Over the counter			Organized markets	Over the counter			Organized markets	Total 31/12/2020	Total 31/12/2019
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties				
		Covered by netting arrangements	Not covered by netting arrangements			Covered by netting arrangements	Not covered by netting arrangements			
Positive fair value										
a) Options	-	14	-	-	-	8,612	174	-	-	-
b) Interest rate swaps	-	9,578	-	-	-	38,991	-	-	-	-
c) Cross currency swaps	-	1,455	-	-	-	203	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	715	-	-	-	47	8	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	1	-	-	-	-
Total	**-**	**11,762**	**-**	**-**	**-**	**47,854**	**182**	**-**	**-**	**-**
Negative fair value										
a) Options	-	33,353	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	476,536	1,499	-	-	348,996	2,288	-	-	-
c) Cross currency swaps	-	3,374	-	-	-	334	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	95	-	-	-	33	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**513,358**	**1,499**	**-**	**-**	**349,363**	**2,288**	**-**	**-**	**-**

A.3 OVER-THE-COUNTER FINANCIAL HEDGING DERIVATIVES: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY

	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	X	11,813	-	-
- positive fair value	X	-	-	-
- negative fair value	X	1,499	-	-
2) Equity securities and equity indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Foreign currencies and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Other assets				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	-	8,242,082	1,152,942	-
- positive fair value	-	9,145	447	-
- negative fair value	-	458,114	52,346	-
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	53,261	-	20,284
- positive fair value	-	1,455	-	715
- negative fair value	-	2,816	-	83
4) Other assets				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 RESIDUAL LIFE OF OVER-THE-COUNTER FINANCIAL DERIVATIVES: NOTIONAL VALUES

	up to 1 year	more than 1 year and up to 5 years	more than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	3,383,841	1,985,629	3,969,310	9,338,780
A.2 Financial derivatives on equity securities and equity indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	49,296	24,249	-	73,545
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2020	**3,433,136**	**2,009,878**	**3,969,310**	**9,412,325**
Total 31/12/2019	**3,045,936**	**1,551,776**	**3,912,670**	**8,510,382**

B. CREDIT HEDGING DERIVATIVES

The section has not been completed because there are no such positions.

C. NON-DERIVATIVE HEDGING INSTRUMENTS

The section has not been completed because there are no such positions.

D. HEDGED ITEMS

Although the Group has made use of the exception envisaged by IFRS 9, consisting in the possibility of continuing to apply the provisions governing hedging of IAS 39, the information on the hedged instruments required in this section is provided below.

D.1 FAIR VALUE HEDGES

	Micro hedges: carrying amount	Micro hedges		Macro hedges: carrying amount
		Cumulative value of fair value changes of the hedged instrument	Change in value used to calculate hedge effectiveness	
A. ASSETS				
1. Financial assets measured a fair value through other comprehensive income – hedges of:	**1,586**	**66**	**-**	**45,840**
1.1 Debt securities and interest rates	1,586	66	-	-
1.2 Equity securities and equity indices	-	-	-	-
1.3 Foreign currencies and gold	-	-	-	-
1.4 Loans	-	-	-	-
1.5 Other assets	-	-	-	-
2. Financial assets measured at amortized cost – hedges of:	**6,000,223**	**154,454**	**8,475**	**2,047,716**
1.1 Debt securities and interest rates	6,000,223	154,691	8,475	-
1.2 Equity securities and equity indices	-	-	-	-
1.3 Foreign currencies and gold	-	-	-	-
1.4 Loans	-	(237)	-	-
1.5 Other assets	-	-	-	-
Total 31/12/2020	**6,001,810**	**154,520**	**8,475**	**2,093,556**
Total 31/12/2019	**4,170,062**	**129,867**	**186**	**2,197,923**
B. LIABILITIES				
1. Financial liabilities measured at amortized cost – hedges of:	**100,478**	**(2,616)**	**-**	**46,363**
1.1 Debt securities and interest rates	100,478	(2,616)	-	-
1.2 Foreign currencies and gold	-	-	-	-
1.3 Other assets	-	-	-	-
Total 31/12/2020	**100,478**	**(2,616)**	**-**	**46,363**
Total 31/12/2019	**768,372**	**(4,352)**	**47**	**6,848**

D.2 CASH FLOW HEDGES AND HEDGES OF INVESTMENTS IN FOREIGN OPERATIONS

	Change in value used to calculate hedge effectiveness	Hedge reserves
A. CASH FLOW HEDGES		
1. Assets	(17,656)	(13,816)
1.1 Debt securities and interest rates	(17,656)	(13,816)
1.2 Equity securities and equity indices		-
1.3 Foreign currencies and gold		-
1.4 Loans		-
1.5 Other		-
2. Liabilities	(2,756)	(10,722)
1.1 Debt securities and interest rates	(2,756)	(10,722)
1.2 Foreign currencies and gold		-
1.3 Other		-
Total A 31/12/2020	**(20,412)**	**(24,538)**
Total A 31/12/2019	**8,397**	**6,641**
B. HEDGES OF INVESTMENTS IN FOREIGN OPERATIONS	**X**	**-**
Total A+B 31/12/2020	**(20,412)**	**(24,538)**
Total A+B 31/12/2019	**8,397**	**6,641**

E. EFFECTS OF HEDGING TRANSACTIONS IN EQUITY

The table has not been completed because the Group has made use of the exception envisaged by IFRS 9, consisting in the possibility of continuing to apply the provisions governing hedging of IAS 39.

1.3.3 OTHER INFORMATION ON TRADING AND HEDGING DERIVATIVES

A. FINANCIAL AND CREDIT DERIVATIVES

A.1 OVER-THE-COUNTER FINANCIAL AND CREDIT DERIVATIVES: NET FAIR VALUE BY COUNTERPARTY

	Central counterparties	Banks	Other financial companies	Other
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	-	7,158,605	19,864	1,233,461
- positive fair value	-	13,923	408	39,327
- negative fair value	-	347,678	-	416
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	3,461	-	2,578
- positive fair value	-	-	-	96
- negative fair value	-	77	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5)Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
B. Credit derivatives				
1) Purchases of protection				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Sales of protection				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

1.4 LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of liquidity risk management within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

As provided for by the Cohesion Contract, the Parent Company also defines liquidity risk management policies, in accordance with the strategic planning and definition of the RAF.

In exercising this role, the Parent Company determines the governance model and mechanisms that govern the various stages involved in the management of liquidity and oversight of the associated risks, as well as interactions between business and control units in order to ensure an appropriate level of liquidity at the consolidated and individual levels at the intraday, short and medium/long-term time horizons.

RISK MANAGEMENT PROCESSES

Liquidity risk is identified and monitored at the consolidated and individual levels using the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Group and market conditions.

Identification of risks

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- operational liquidity – divided into two complementary levels:
  - intraday and very short-term liquidity*:* monitored on a daily basis in order to identify sources of risk that impact the Bank's ability to promptly balance very short-term cash inflows and outflows and maintain a volume of liquidity sufficient to ensure compliance with the liquidity coverage ratio (LCR) requirement;
  - short-term liquidity: identification of sources of risk that impact the Bank's ability to meet its expected and unexpected payment obligations over a short-term horizon (up to 12 months);
- structural liquidity - identification of structural mismatches between assets and liabilities maturing at more than 1 year and integration with short-term liquidity management as well as planning of actions and preventing the future creation of short-term liquidity shortfalls.

The Group's liquidity profile, and therefore its exposure to liquidity risk, is closely related to the business model adopted, the composition of the balance sheet - in terms of assets, liabilities and off-balance sheet items - as well as the related maturity profile.

The process of identifying and classifying the risk factors connected with the operational and structural liquidity profiles seeks to define the elements that, in terms of risk exposure, could trigger a deterioration in the Group's liquidity position when endogenous and/or exogenous stress events occur.

Liquidity risk can be generated by various factors both internal and external to the Bank. The sources of liquidity risk can therefore be divided into the following macro-categories:

- endogenous: represented by adverse events specific to the Bank (e.g. a deterioration in the Bank's credit standing and loss of confidence by creditors);
- exogenous: when the origin of the risk is attributable to adverse events that cannot be directly controlled by the Bank (political crises, financial crises, catastrophic events, etc.) that give rise to liquidity tensions in the markets;
- combinations of the previous factors.

Measurement of risks

Measuring liquidity risk involves the activities performed to observe and quantify on a comprehensive, accurate and timely basis the exposure to such risk over the selected observation horizon.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder, in order to:

- monitor the risk profile in “business as usual” conditions, overseeing the overall system of indicators that characterize the Liquidity Risk Framework;
- execute stress testing, which involves the determination of the liquidity position in severe but plausible adverse scenarios, assessing the impact at the consolidated and individual levels.

The risk position is measured with the use of models, specific indicators and additional metrics developed either internally or established in regulations.

The analysis of the maturity profiles depends substantially on assumptions about the future cash flows associated with the various assets and liabilities, both on-balance-sheet and off-balance-sheet, which take account of the economic maturities of the balance sheet elements rather than contractual dates, without neglecting the application of reasonable prudence criteria.

The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, the Group develops two maturity curves: operational and structural.

The operational maturity ladder is used to monitor the short-term liquidity position and is determined both in a business-as-usual scenario and in a stress scenario by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines.

The intraday liquidity position is measured with metrics aimed at monitoring the maximum use of liquidity on an intraday basis, the reserves available at the beginning of each business day to meet liquidity requirements, gross payments sent and received and “time-specific” obligations.

The treasury position is measured on a daily basis by quantifying the liquidity reserves (i.e. counterbalancing capacity, or CBC) and using them to cover any possible negative liquidity balance over the reference time horizon.

This system for monitoring Group operational liquidity makes it possible to monitor:

- management of access to the payments system (operational liquidity management);
- management of the liquidity outflow profile;
- the size and degree of use of liquidity reserves (analysis and active management of the maturity ladder);
- the active management of collateral (cash-collateral management, i.e. refinanceable securities and bank loans);
- the integration of short-term liquidity management actions with structural liquidity requirements.

The structural maturity ladder is used to monitor the overall liquidity position at the consolidated and individual levels at medium/long-term. It is determined by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines. The projection of cash inflows and outflows at the various time bands in the ladder is carried out using two distinct approaches in relation to the purpose of the analysis.

The first approach identifies cash flows based on the contractual maturities of the items considered;

The second approach is based on the adoption of behavioral assumptions, with specific regard to the modeling of demand items and margins on the credit lines granted in both a business-as-usual scenario and in a stress scenario.

This tool is essential for obtaining a view of Group funding requirements and an understanding of the liquidity risk associated with execution of the funding plan, thereby preventing the emergence of future liquidity strains. In addition, the structural maturity ladder makes it possible to control:

- the management of maturity transformation in accordance with the guidelines established by management;
- support for the funding decisions in the funding plan.

Risk prevention and attenuation

Liquidity risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the Liquidity Risk Framework. The definition of this system took account of the nature, objectives and complexity of operations.

The system of limits (EWS, RAS, risk limits and contingencies) is defined by the Parent Company consistent with its policy-setting and coordination role and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the liquidity risk management model adopted.

The system of limits is also accompanied by a comprehensive system of systems and controls that contribute to defining the overall control model set out and formalized in the associated policy.

The controls established to manage liquidity risk break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the liquidity profile and activate escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

Second-level controls, which are performed by Risk Management, are intended to monitor the exposure to liquidity risk in order to prepare reports for transmission to the competent units and to initiate the escalation mechanisms, in collaboration with the management functions, should the specified limits be exceeded. Control activities is based on the assessment and measurement of the positioning of the risk indicators established by the Risk Governance framework. The effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the established risk limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the “magnitude” of the over-limit position.

Liquidity risk control and monitoring activities are carried out within the internal self-regulatory framework. At an operational level, communication between the management functions and Risk Management takes place daily through in-depth discussions on risk developments that increase awareness of the profiles of the risks assumed (in accordance with the specified profitability objectives), thus facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In particular, Risk Management performs codified and formalized monitoring and reporting activities within the Risk Appetite Framework and the Risk Policies, with the preparation of periodic reporting to provide appropriate disclosure to the management functions, senior management and the Board of Directors.

Stress test framework

The Group’s liquidity position is monitored in the normal course of business and under stress conditions. For the latter, a stress test framework has been defined on the basis of the indicators that characterize the Liquidity Risk Framework.

The stress test analyses are used to measure the degree to which the liquidity position can deteriorate in the event of especially adverse market conditions, thereby enabling verification of its robustness.

Accordingly, the objectives of the stress testing are:

- to verify the capacity to cope with unexpected liquidity crises in the first period in which they occur, before activating initiatives to modify the structure of assets or liabilities;
- to assess vulnerabilities in the liquidity profile, evaluating possible connections between the various risk categories as part of the periodic monitoring process;
- to calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits enables the maintenance of a level of liquidity that ensures that any coverage actions do not compromise the Group’s business strategies;
- to identify, in preparing the recovery plan, scenarios that would compromise the survival of the Group if appropriate recovery actions were not taken;
- to test the effectiveness of mitigation actions taken within the Contingency Funding & Recovery Plan and recovery actions provided for in the “near-default” scenarios to be taken in adverse situations in order to limit the Group’s exposure to liquidity risk;
- to verify the feasibility of the funding plan, taking due account of the findings of the stress analysis.

In accordance with regulatory provisions, the Bank develops scenarios characterized by stress scenarios associated with the occurrence of systemic or idiosyncratic events in order to test potential liquidity vulnerabilities.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses:

- sensitivity analysis: analysis of liquidity position to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- scenario analysis: analysis consisting in the assessment of the Bank's ability to cope with a potential deterioration in its liquidity profile based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

The types of stress test that characterize the framework provide for the occurrence of sever but plausible events (scenarios) that can be classified into three categories:

- stress scenarios caused by a systemic event, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy and therefore for the Iccrea Cooperative Banking Group;
- stress scenarios caused by specific events (idiosyncratic), i.e. an event (or combination of events) whose occurrence generates/involves highly adverse consequences for the Iccrea Cooperative Banking Group. In defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Group;
- stress scenarios generated by a combination of specific and systemic events, i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimated inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Group to cope with any liquidity strains.

For each scenario, the Group has incorporated shocks generated by the main risk variables, which have been identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of asset to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of health emergency.

QUANTITATIVE DISCLOSURES

1. DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY

EURO

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Unspecified maturity
A. On-balance-sheet assets	**11,302,563**	**544,325**	**552,607**	**1,464,738**	**6,384,482**	**6,154,642**	**9,408,577**	**74,202,769**	**46,635,864**	**4,680,897**
A.1 Government securities	2,072	-	195,240	126,509	1,043,745	2,328,755	3,046,788	41,785,132	12,402,276	-
A.2 Other debt securities	12,993	112	11,047	27,104	31,274	105,966	51,245	1,339,297	2,216,399	56
A.3 Units in collective investment undertakings	347,060	-	-	-	-	-	-	-	-	-
A.4 Loans	10,940,438	544,213	346,320	1,311,125	5,309,462	3,719,921	6,310,544	31,078,341	32,017,189	4,680,840
- banks	1,327,801	19,500	25,000	10,734	272,842	45,287	656	1,348	-	4,680,691
- customers	9,612,637	524,713	321,320	1,300,391	5,036,620	3,674,634	6,309,888	31,076,993	32,017,189	150
B. On-balance-sheet liabilities	**93,983,574**	**4,408,344**	**650,375**	**653,203**	**4,507,707**	**3,574,298**	**4,539,924**	**40,414,885**	**1,567,992**	**77**
B.1 Deposits and current accounts	93,072,242	57,791	101,827	257,947	634,123	691,313	1,347,622	2,236,763	8,097	-
- banks	309,919	-	-	-	30,331	-	27,007	20,000	-	-
- customers	92,762,323	57,791	101,827	257,947	603,792	691,313	1,320,615	2,216,763	8,097	-
B.2 Debt securities	61,023	76,459	149,618	222,846	1,344,786	1,030,547	2,414,177	7,872,185	603,780	-
B.3 Other liabilities	850,310	4,274,094	398,930	172,410	2,528,798	1,852,438	778,126	30,305,937	956,115	77
C. Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	1,694,052	1,252,563	567,201	1,412,086	12,925	11,047	41,281	475,670	-
- short positions	34	1,675,261	266,467	566,677	1,381,077	12,930	38,643	347,943	1,256,543	-
C.2 Financial derivatives without exchange of principal										
- long positions	172,466	-	96	-	1,847	6,401	6,199	-	-	-
- short positions	473,809	121	-	435	12,897	9,729	21,279	-	-	-
C.3 Deposits and loans to receive										
- long positions	-	4,418,805	-	412,502	626,453	2,809,091	3,594,370	2,825,145	-	-
- short positions	-	497,221	263,731	281,031	1,079,396	2,102,328	5,604,585	4,858,073	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	150,422	192,414	2,761	28,751	782,806	193,847	66,755	205,310	616,421	-
- short positions	1,259,864	182,131	215	679	594	592,811	298,318	40	1,601	-
C.5 Financial guarantees issued	14,034	-	-	-	14	3	1,598	2,710	660	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

OTHER CURRENCIES

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Unspecified maturity
A. On-balance-sheet assets	**63,188**	**235**	**2,448**	**9,686**	**29,400**	**8,794**	**3,620**	**40,977**	**13,501**	**-**
A.1 Government securities	-	-	-	2	724	438	762	21,505	4,250	-
A.2 Other debt securities	4	-	84	-	437	964	179	6,423	1,265	-
A.3 Units in collective investment undertakings	3,682	-	-	-	-	-	-	-	-	-
A.4 Loans	59,502	235	2,364	9,685	28,239	7,392	2,679	13,049	7,986	-
- banks	48,383	59	96	523	4,778	2,331	1,062	5,720	285	-
- customers	11,120	177	2,267	9,162	23,461	5,061	1,616	7,329	7,700	-
B. On-balance-sheet liabilities	**229,550**	**574**	**27,295**	**6,650**	**664**	**351**	**25,432**	**117**	**110**	**-**
B.1 Deposits and current accounts	217,010	574	27,295	98	117	67	134	-	-	-
- banks	2,805	574	27,263	-	-	-	-	-	-	-
- customers	214,206	-	32	98	117	67	134	-	-	-
B.2 Debt securities	-	-	-	-	-	284	25,294	-	-	-
B.3 Other liabilities	12,540	-	-	6,552	547	-	4	117	110	-
C. Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	34	6,093,693	961,593	1,084,601	2,364,310	104,441	34,333	313	144	-
- short positions	-	6,096,894	881,833	1,085,065	2,363,231	103,151	6,779	24,381	199	-
C.2 Financial derivatives without exchange of principal										
- long positions	4,977	-	-	-	-	-	-	-	-	-
- short positions	4,664	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to receive										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

DISCLOSURES ON SELF-SECURITIZATIONS

The Group has implemented securitization transactions in which all the liabilities issued by the vehicle companies involved were underwritten by the Group's banks.

The following provides information on the self-securitization transactions carried out by the banks of the Group and still in place at the reference date of the financial year.

CREDICO FINANCE 9 SECURITIZATION

In 2011, a self-securitization was completed through which 18 mutual banks (of which 14 are members of the ICBG) sold an initial portfolio of performing residential mortgage loans equal to €637.2 million without recourse to the vehicle company Credico Finance 9 S.r.l.. The transaction involved the participation of Iccrea Banca as arranger.

The purchase of the portfolio by the SPV was financed through the issue of two categories of asset backed notes in the total amount of €637.2 million, broken down as follows:

- senior Class A notes amounting to €554.4 million, maturing in November 2050, listed on the Irish Stock Exchange;
- junior Class B notes amounting to €82.8 million, maturing in November 2050, unlisted and fully subscribed by the originator banks.

More specifically, the junior securities were divided into 18 series, each of an amount proportional to the amount of the loans respectively assigned by the individual participating banks. Each of the latter subscribed only the series of notes pertaining to their share, with payment of the relative price at par. To hedge the interest rate risk, the SPV has entered into a derivative contract (swap) with J.P. Morgan Securities Ltd.

Originally, the assignor banks had assumed the role of Limited Recourse Loan Providers, making government securities available to the SPV in order to provide a form of liquidity support. Following the downgrade of Italy by Standard & Poor's and Moody's, Italian government securities ceased to meet the criteria of the rating agencies. Therefore, with this contract modification between the parties involved in the transaction, the liquidity line was replaced by a cash reserve (with the simultaneous return of the government securities to the individual participating banks), which for the banks of the Group amounts to €23.7 million.

The following table reports the main characteristics of the ABSs subscribed by the banks of the Group at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A - Senior	Moody's Aa3 / DBRS AAA	74.3
Class B - Junior	no rating	68.5

CREDICO FINANCE 10 SECURITIZION

In 2012, a self-securitization was completed through which 30 mutual banks (of which 20 are members of the ICBG) sold an initial portfolio of performing residential mortgage loans equal to €1.6 billion without recourse to the vehicle company Credico Finance 10 S.r.l.. The transaction involved the participation of Iccrea Banca as arranger.

The purchase of the portfolio by the SPV was financed through the issue of two categories of asset backed notes, broken down as follows:

- senior Class A notes amounting to €1.3 billion, maturing in October 2050, listed on the Irish Stock Exchange;
- junior Class B notes amounting to €249.3 million, maturing in October 2050, unlisted and fully subscribed by the originator banks.

More specifically, the junior securities were divided into 30 series, each of an amount proportional to the amount of the loans respectively assigned by the individual participating banks. Each of the latter subscribed only the series of notes pertaining to their share, with payment of the relative price at par.

The following table reports the main characteristics of the ABSs subscribed by the banks of the Group at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A - Senior	Moody's Aa3 / DBRS AAA	144.1
Class B - Junior	no rating	188.4

CREDICO FINANCE 12 SECURITIZION

In 2013, a self-securitization was completed through which 35 mutual banks (of which 28 are members of the ICBG) sold an initial portfolio of performing residential mortgage loans equal to €1 billion without recourse to the vehicle company Credico Finance 12 S.r.l.. The transaction involved the participation of Iccrea Banca as arranger.

The purchase of the portfolio by the SPV was financed through the issue of two categories of asset backed notes, broken down as follows:

- senior Class A notes amounting to €916.4 million, maturing in December 2052, listed on the Irish Stock Exchange;

- junior Class B notes amounting to €125 million, maturing in December 2052, unlisted and fully subscribed by the originator banks.

More specifically, the junior securities were divided into 35 series, each of an amount proportional to the amount of the loans respectively assigned by the individual participating banks. Each of the latter subscribed only the series of notes pertaining to their share, with payment of the relative price at par.

The following table reports the main characteristics of the ABSs subscribed by the banks of the Group at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A - Senior	S&P A+ / DBRS AAA	181.3
Class B - Junior	no rating	113.2

CREDICO FINANCE 16 SECURITIZION

In 2016, a self-securitization was completed through which 16 mutual banks (of which 11 are members of the ICBG) sold an initial portfolio of performing residential mortgage loans equal to €660.8 million without recourse to the vehicle company Credico Finance 16 S.r.l.. The transaction involved the participation of Iccrea Banca as arranger.

The purchase of the portfolio by the SPV was financed through the issue of two categories of asset backed notes, broken down as follows:

- senior Class A notes amounting to €561.7 million, maturing in December 2056, listed on the Irish Stock Exchange;
- junior Class B notes amounting to €99.1 million, maturing in December 2056, unlisted and fully subscribed by the originator banks.

More specifically, the junior securities were divided into 16 series, each of an amount proportional to the amount of the loans respectively assigned by the individual participating banks. Each of the latter subscribed only the series of notes pertaining to their share, with payment of the relative price at par.

The following table reports the main characteristics of the ABSs subscribed by the banks of the Group at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A - Senior	Moody's Aa3 / DBRS AAA	191.9
Class B - Junior	no rating	78.7

CREDIPER CONSUMER SECURITIZATION

At the end of 2018, a self-securitization denominated "Crediper Consumo" was completed, in which BCC CreditoConsumo sold a portfolio of performing loans deriving from personal loan contracts with a total value of €650 million to the securitization vehicle Crediper Consumer S.r.l.. The transaction involved the participation of Iccrea Banca as arranger.

As part of the transaction, the SPV issued two classes of notes listed on the Irish Stock Exchange:

- €520 million of Class A notes, corresponding to 80% of the value of the loans sold, which have been assigned an investment grade rating of AA by DBRS Ratings Limited and AA- by Fitch;
- €140.5 million of Class B notes.

All the securities were subscribed by the originator and the Class A notes were used as underlying assets for refinancing operations with the European Central Bank.

DEDALO FINANCE SECURITIZATION

In 2011, Banca Alpi Marittime and two other banks not belonging to the ICBG completed a self-securitization transaction in which they assigned performing residential mortgage loans without recourse to the special purpose vehicle Dedalo Finance S.r.l. with a total value of about €194.6 million (of which €75 million assigned by Banca Alpi Marittime).

The purchase of the portfolio by the SPV was financed through the issue of senior Class A notes in an amount equal to €166.8 million and junior Class B notes in an amount equal to €33.8 million.

The following table reports the main characteristics of the ABSs subscribed by Banca Alpi Marittime at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A - Senior	S&P AAA / Moody's AAA	24.4
Class B - Junior	no rating	13.0

BCC SME FINANCE 1 SECURITIZATION

In 2012, a securitization transaction was completed in which Banca Centromarca, Credito Romagnolo, Banca d'Alba, Emilbanca and another 24 banks not belonging to the Group assigned without recourse performing loans granted to small and medium-sized enterprises to the vehicle BCC SME Finance 1 Srl in the total amount of €2.2 million (of which about €600 milions assigned by ICBG banks).

The SPV financed the purchase of the loans by issuing notes divided into two classes:

- Class A1 senior notes paying an annual floating rate of 6M Euribor plus a spread of 20 bps in the total amount of €2.2 billion, which have been assigned a rating of "A2" by Moody's Investors Service and "A+" by DBRS Ratings Limited;
- junior Class B notes - unrated floating rate notes in the total amount of €656.7 million.

The transaction was restructured in 2017 with the issue of a new Senior A2 notes in the total amount of €449.9 million, the partial reduction of the value of the junior notes and the repayment of all limited-recourse loans granted at the time to the SPV.

The A1 and A2 Class notes, which are listed on the Irish Stock Exchange, were fully repurchased on a pro-rated basis by the originator banks.

The banks carried out financing transactions secured by the ABSs subscribed as part of the securitization, using all of the senior notes described above.

The following table reports the main characteristics of the ABSs subscribed by the banks of the Group at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A2 - Senior	Moody's Aa2 / DBRS AA	103.8
Class B - Junior	no rating	59.4

ALCHERA SECURITIZATION

In 2013, a self-securitization transaction was completed in which Banca Mediocredito del F.V.G. and two other banks not belonging to the Group sold without recourse a portfolio of performing retail mortgage loans to Alchera SPV S.r.l., a company established pursuant to Law 130/99.

The SPV financed the purchase of the loans by issuing bonds divided into two classes:

- senior notes totaling €419 million, of which €112.5 million subscribed by Banca Mediocredito del F.V.G. These securities, which are listed on the Irish Stock Exchange, obtained a rating of A+ from Standard & Poor's Credit Market Services Italy and A from DBRS Ratings Limited;
- junior notes amounting to €240.45 million, of which €64.6 million subscribed by Banca Mediocredito del F.V.G.

The securities were subscribed on a pro-rated basis by the originator banks for refinancing or guarantee purposes.

In 2017, the Alchera transaction was restructured with the assignment of a portfolio of loans from Banca Alpi Marittime amounting to €256 million and the assignment of a further portfolio of loans from Banca Mediocredito del F.V.G. in the total amount of about €238 million.

The following table reports the main characteristics of the ABSs subscribed by the banks of the Group at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A 2013 - Senior	S&P A+ / DBRS AAA	52.2
Class A 2017 - Senior	S&P A+ / DBRS AAA	100.7
Class M 2017 - Mezzanine	S&P A / DBRS AAH	43.2
Class B 2017 - Junior	no rating	97.2

GIANO SECURITIZATION

In 2016, Banca Mediocredito del F.V.G. completed a securitization involving the assignment of a portfolio of performing receivables in respect of leases in the total amount of about €173 million to the securitization vehicle Giano SPV Srl, a company established pursuant to Law 130/99.

The SPV financed the purchase of the receivables by issuing senior notes in the amount of €124.6 million and junior notes of €51 million. All the securities issued as part of the transaction were subscribed by Banca Mediocredito del F.V.G. In the operation, the bank also acted as paying agent and account bank.

The senior notes were used as collateral in a repo transaction with a third-party bank.

The following table reports the main characteristics of the ABSs subscribed by Banca Mediocredito del F.V.G. at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A - Senior	no rating	1.6
Class B - Junior	no rating	51.0

KOBE SECURITIZATION

In 2018, Banca Alpi Marittime and another bank not belonging to the ICBG completed a self-securitization with the assignment without recourse of performing residential mortgage loans in the total amount of about €300.6 million (of which €148.5 million assigned by Banca Alpi Marittime). The purchase of the portfolio by the SPV was financed through the issue of senior Class A notes in the amount of €260 million, mezzanine notes in the amount of €10.5 million and junior Class B notes in the amount of €39.3 million.

The following table reports the main characteristics of the ABSs subscribed by Banca Alpi Marittime at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A - Senior	Moody's AA3 / DBRS AA low	128.4
Class B - Mezzanine	Moody's Ba2 / DBRS BBB high	5.2
Class J - Junior	no rating	39.3

PONTORMO RMBS SECURITIZATION

In 2017, BCC di Pisa e Fornacette and another bank not belonging to the ICBG completed a self-securitization with the assignment of an initial portfolio of mortgage loans, which was restructured in 2019 with the sale of a second portfolio. The transaction involved the assignment of performing residential mortgage loans to the securitization vehicle Pontormo RMBS S.r.l in the total amount of €1.4 billion (of which €393.4 million assigned by BCC di Pisa e Fornacette).

The purchase of the loans by the SPV was financed through the issue of senior Class A notes in the total amount of €986.2 million and junior Class B notes in the amount of €166.4 million.

The following table reports the main characteristics of the ABSs subscribed by BCC di Pisa e Fornacette at the reporting date.

Type of security	Rating	Nominal value (€/millions)
Class A 2017 - Senior	Fitch AA / S&P AA	91.6
Class B 2017 - Junior	no rating	54.1
Class A 2019 - Senior	Fitch AA / S&P AA	126.6
Class B 2019 - Junior	no rating	3.4

1.5 OPERATIONAL RISKS

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISKS

Operational risk means the risk of losses caused by the inadequacy or malfunction of procedures, human resources and internal systems or the occurrence of external events. For example, such losses include those caused by fraud, human error, operational interruptions, system unavailability, breach of contract and natural disasters.

In view of the operations that characterize the Iccrea Cooperative Banking Group, it is exposed to operational risks across the entire organization, including IT risks.

Within the regulatory framework, the deregulation and the globalization of financial and payment services, together with the progressive refinement of the financial technology supporting transactions, are making the activities of the entities belonging to the Group, and thus the associated operational risk engendered by ordinary operations, increasingly complex. The increased complexity of the Group with the arrival of the affiliated banks as well as the growing use of highly automated technology under way in the Group can, in the absence of modifications of the control system, transform the risk of manual errors and data processing errors into the risk of significant system malfunctions, given the increasing recourse to integrated IT infrastructure and applications.

In addition, the growing use of electronic money and electronic or on-line payments generates other potential risks (for example, internal and external fraud, system security, customer data processing and IT and cyber risks) whose comprehensive mastery and mitigation, both upstream and in terms of response and containment, represents a strategic and enabling factor in the development of the business and a prerequisite for ensuring compliance with regulatory and payment-circuit requirements.

In addition, the presence of banks and financial companies in the Group, delivering services on a mass scale (both within the Group and to firms and the public) makes it necessary to ensure an appropriate structure and constant evolution of the system of internal controls and constant attention to preventing the risk of rules violations, incurring administrative penalties, etc.

The various types of operational risk to which the Iccrea Group is structurally exposed include IT risk and reputational risk. This is associated with the banking activities carried out with the public and financial and institutional counterparties, as well as the numerous national and international regulations to which the Group is subject.

GOVERNANCE AND ORGANIZATIONAL MODEL

The organizational model of the Risk Management function, adopted since the launch of the Iccrea Cooperative Banking Group, has undergone development and progressive evolution since 2018. In 2020, the organizational model was refined with a view – among other things – to optimizing the dissemination of risk management directives to the affiliated banks and overseeing the performance of the Risk Management function’s activities at the Parent Group, the Operational & IT Risk Management unit has been established and charged with centralized responsibility for policy-making and coordinating the operational risks for the Iccrea Cooperative Banking Group as a whole. This unit operates as a specialist hub for operational and IT risks, supporting the risk management functions of the companies within the direct scope and the affiliated banks.

With regard to current Group governance arrangements for the internal control system, the Risk Committee of the Board of Directors of the Parent Company provides support to that Board with regard to risks and the internal control system, including aspects concerning the frameworks for the management of operational risk and IT risk.

In particular, the Board Risk Committee:

- supports activities to verify the correct implementation of Group strategies, compliance with policies for the governance and management of operational risk and IT risk, requesting any appropriate technical analyses and acquiring the necessary documentation for the evaluation of management and mitigation actions for the risks involved;
- conducts a preliminary review of the annual activity programs and reports of the Operational & IT Risk Management unit submitted to the Board of Directors;
- expresses its assessment, prior to approval by the Board of Directors, of Group policies on operational and IT risks.

OPERATIONAL RISK MANAGEMENT POLICIES

Consistent with the risk management process, the Operational & IT Risk Management framework is structured into the following phases:

- identification of risks (knowledge): a set of activities directed at identifying operational and IT risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (i.e. operational loss and incident data) and potential risk (assessed through the collection of business expert opinion).
- evaluation/measurement of identified risks (awareness): a set of activities for assessing/measuring Group operational and IT risks.
- risk prevention and attenuation (strategy): a set of activities for the ex-ante identification of the possible ways of preventing and mitigating unfavorable developments in the dynamics of operational and IT risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational and IT risks, and the implementation of measures to ensure that possible risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.
- monitoring and reporting (tracking and control): a set of activities to monitor the Group's risk profile and deliver comprehensive reporting to provide timely, accurate and appropriate support to the decision-making process underlying "Risk Prevention and Mitigation" and "Risk Management and Mitigation".
- risk management and mitigation (reaction and proactivity): a set of activities and actions to support the management of operational and IT risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational and IT risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments (operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

The operational risk assessment framework outlined above also includes legal risk and is integrated with that for assessing IT risk (IT Risk Management Framework), in line with the relevant regulations.

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. The Risk Management function prepares the necessary reporting in this area, bringing it to the attention of the various internal users (Board bodies, senior management, operating units).

IDENTIFICATION, MEASUREMENT AND ASSESSMENT OF RISKS

For the purpose of calculating capital requirements for operational risk, the Iccrea Cooperative Banking Group mainly uses the Basic Indicator Approach (BIA),[37] which provides for the application of a fixed percentage (15%) to the average of the last three observations of the "relevant indicator" determined in accordance with the provisions of the CRR.

Following the creation of the Iccrea Cooperative Banking Group, and the consequent affiliation of the mutual banks, the components of the operational and IT risk management framework already adopted by the companies of the former Iccrea Banking Group were revised and gradual adoption by the affiliated banks has begun.

The methodological aspects underlying the management framework and the related procedures for application to the Group companies were formalized and approved at the end of 2019 as part of specific Group Policies (Operational Risk Management Framework, IT Risk Management Framework, Loss Data Collection, Operational Risk Self-Assessment and IT Risk Self-Assessment), which are currently being adopted by all Group companies. In 2020, activities leading up to the development of the application system to support operational and IT risk management activities continued.

The loss data collection process has currently been adopted by all the Group companies that contribute, with a specified frequency, to the collection of historical events and losses through the Group application solution, which is available to both the companies within the direct scope of the Group and the affiliated banks.

As regards the assessment processes for operational risks (OR-SA) and IT risk (IR-SA), the identification and assessment of prospective risks have been initiated and conducted for certain companies within the direct scope and are continuing in 2020 with regard to application of the process to the affiliated banks. IT risk management activities included the completion, in March 2020, of the annual information risk profile assessment, which involved Iccrea Banca, BCC Sistemi Informatici and Iccrea BancaImpresa.

In 2020, the development of the related application system continued in support of risk assessment processes. With specific regard to IT risk, the application component supporting IR-SA activities has been rolled out and was used to assess the IT risk profile of Iccrea Banca, BCC Sistemi Informatici and Iccrea BancaImpresa

In addition, throughout 2020, in step with the evolution of the management framework and the release of applications, the informational and training effort for the Operational Risk Management framework continued, with specific attention being paid to operating approaches and

[37] One affiliated bank adopts the Traditional Standardized Approach (TSA).

support applications. The Risk Management function also supported the collection of operational loss events at the Group level for QIS and COREP regulatory reporting purposes.

RISK PREVENTION AND ATTENUATION

The units involved in operations perform first-level controls to assess and report any irregularities associated with operational issues.

Second-level control units oversee the appropriateness and effectiveness of the organizational and management arrangements taken to address operational and IT risk within the Group's internal control systems. These include the Operational Risks, Compliance and Anti-Money-Laundering units of the Parent Company, the individual subsidiaries and the affiliated banks. These units are active in planning the system and, above all, in verifying its ongoing operation, assessing its adequacy and effectiveness in managing internal and external risks.

Third-level controls are performed by Internal Audit, which assesses the control system's overall appropriateness and efficiency, as well as its regular operation.

The locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a system of monitoring thresholds and limits (tolerance and capacity), with compliance ensured by the monitoring and control activities of the competent units.

The Group RAS sets out, at the level of the individual legal entities, the main indicators of operational risk, namely:

- maximum operational loss (a monitoring indicator measured at the consolidated level and for the affiliated banks);
- minimum acceptable level in respect of the findings of controls of individual relationships with regard to operational and IT risks (an indicator specified for the entire scope of application of the RAF);
- number of significant incidents (measured at the consolidated level).

Monitoring and reporting

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. In particular, these activities are governed by the unified management framework described earlier and defined within the applicable policies.

In this area, the Risk Management function prepares the necessary periodic reporting, bringing it to the attention of the various internal structures involved (Board of Directors, senior management, operating units).

Risk management and mitigation

Operational and IT risk management and mitigation activities are governed by a set of codified and formalized rules that include:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in the risks assumed;
- the adoption of a set of measures for managing the problems found as part of the risk assessment framework;
- the actions to be taken in the event of breaches of monitoring thresholds or risk tolerances and the risk limits set out in the Risk Appetite Statement;
- the actions to be taken in the event of breaches of the limits defined in risk policies.

QUANTITATIVE DISCLOSURES

As provided for in Circular 285/2013 of the Bank of Italy as updated, for reporting purposes the Group calculates operational risks using the Basic Indicator Approach.

Under the Basic Indicator Approach, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the volume of business, which in the case of Iccrea is the relevant indicator.

In particular, the Group capital requirement, equal to 15% of the average of the last three observations of the relevant indicator at the end of the previous year, amounted to €614 million.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2020	T	4,145,171
- at December 31, 2019	T-1	4,027,636
- at December 31, 2018	T-2	4,118,360
Relevant indicator average		**4,097,055**
Regulatory coefficient		**15%**
Capital requirement		**614,558**

SECTION 3 – RISKS OF INSURANCE UNDERTAKINGS

No information to report.

SECTION 4 – RISKS OF OTHER ENTITIES

The scale of the risks to which “Other entities” are exposed is not material. Accordingly, this section has not been prepared.

PART F - INFORMATION ON CONSOLIDATED CAPITAL

SECTION 1 - CONSOLIDATED CAPITAL

A. QUALITATIVE DISCLOSURES

The Group's strategic priorities include monitoring the amount and dynamics of its capital. Capital constitutes the first bulwark against the risks associated with operations and the main reference parameter for assessments of the Group's solvency by supervisory authorities and investors. It contributes positively to the formation of operating income, funds the Group's technical and financial fixed assets and supports dimensional growth, representing a decisive element in the development phases.

Managing capital adequacy at the consolidated and individual levels involves defining the scale and optimal combination of different capital instruments, in compliance with regulatory constraints and consistent with the risk profile assumed by the Group.

The notion of capital adopted by the Group in its assessments is the "own funds" aggregate as established with Regulation (EU) No. 575/2013 (CRR), broken down into the three components of Common Equity Tier 1 (CET 1), Tier 1 and Tier 2. The capital thus defined, the main resource for supporting corporate risks according to prudential supervisory regulations, is the best foundation for the effective management of risk, both from a strategic and operational standpoint, as it a financial resource capable of absorbing the possible losses produced by the Group's exposure to all the risks it has assumed.

Current and forward-looking capital adequacy is therefore monitored in two spheres:

- regulatory capital to cover Pillar I risks;
- total internal capital to cover Pillar II risks, for ICAAP purposes.

In the evolutionary sizing of the Group's own funds, the specific policies for allocating the net profit of the affiliated banks play an important role, seeking to support the constant strengthening of reserves. In compliance with the specific sector regulations, these banks allocate a large majority of their net profits to indivisible reserves. Capital adequacy compliance is pursued not only through careful policies for the distribution of the available component of profits but also through the prudent management of investments, in particular loans, in line with risk represented by counterparties and the related capital requirements, and with plans for strengthening capitalization based on the expansion of the shareholder base and the issue by the Parent Company of subordinated liabilities or additional equity instruments eligible for inclusion in the relevant own funds aggregates.

More specifically, in order to constant maintain its capital adequacy, the Group has deployed processes and tools to determine the level of internal capital adequate to face any type of risk assumed, as part of an assessment of the current, prospective and "stressed" exposure that takes account of corporate strategies, growth objectives and developments in the reference context.

A careful assessment of the compatibility of projections is carried out annually as part of the process of setting budget targets. Depending on the expected developments in balance sheet and income statement aggregates, any necessary initiatives are taken at this stage to ensure financial balance and the availability of financial resources consistent with the strategic and development objectives of the individual entity and the Group as a whole.

Compliance with supervisory requirements and the consequent adequacy of capital is verified on a quarterly basis. The aspects subject to verification are mainly the ratios connected with the Group's financial structure (loans, impaired exposures, non-current assets, total assets) and the degree of risk coverage.

Additional specific analyzes for the purpose of the preventive assessment of capital adequacy are carried out when necessary prior to extraordinary operations such as mergers and acquisitions, or the sale of assets.

The minimum capital requirements are those established by applicable supervisory regulations (Article 92 of the CRR), according to which the Common Equity Tier 1 ratio must be at least 4.5% of total risk weighted assets ("CET1 capital ratio"), Tier 1 capital must represent at least 6% of total risk weighted assets ("Tier 1 capital ratio") and total own funds must be at least 8% of total weighted assets ("Total capital ratio").

In addition, the competent supervisory authorities periodically issue a specific decision regarding the capital requirements that the Group must comply with following the prudential review and evaluation process ("SREP") conducted pursuant to Article 97 et seq. of Directive 2013/36/EU (CRD IV).

In particular, Article 97 of the CRD IV establishes that the competent authorities shall periodically review the arrangements, strategies, processes and mechanisms that groups and supervised banks implement to face the risks to which they are exposed. With the SREP, the competent authorities therefore review and evaluate the process of determining capital adequacy conducted internally by the Group, analyze its risk profile individually and from an aggregate perspective, including under stress conditions, and assess its contribution to systemic risk; assess the corporate governance system, the operation of corporate bodies, the organizational structure and the internal control system; and verifies compliance with all prudential rules.

With regard to the outcome of the Supervisory Review and Evaluation Process (SREP), on November 17, 2020, the supervisory authorities notified Iccrea Banca that as a result of the COVID-19 pandemic it had taken the pragmatic decision to not adopt a new SREP decision, instead maintaining the prudential requirements determined in 2019 SREP decision for all of 2021.

Accordingly, the consolidated own funds requirements for 2021 remain:

- an additional Pillar 2 requirement (P2R) of 2.5% to be held in the form of Common Equity Tier 1 capital, to be maintained on an ongoing basis, in accordance with Article 16 of Regulation (EU) no. 1024/2013;
- a recommendation for Pillar 2 Guidance (P2G) of 1.25%, which should consist entirely of Common Equity Tier 1 capital and held in addition to the Overall Capital Requirement (OCR).

Given the above, for 2020 the Iccrea Cooperative Banking Group is therefore required to meet:

- a Total SREP Capital Requirement (TSCR) of 10.5%, of which at least 7% shall consist of Common Equity Tier 1 instruments;
- an OCR equal to 13%, of which at least 9.5% shall consist of Common Equity Tier 1 instruments.

With regard to the Group's affiliated banks, the SREP decision did not impose own funds requirements to be met on an individual basis. Therefore, in order to comply with the aforementioned consolidated requirements, mechanisms have been provided for their allocation at individual level within the main risk governance processes (i.e. RAF, EWS), compatibly with the capital resources of each affiliated bank, thus ensuring that the Group's strategies and capital constraints are also reflected at the individual level.

As already mentioned, on March 12, 2020 the ECB, having noted that the banks subject to supervision could have encountered difficulties in ensuring continuous compliance with capital requirements as a result of the COVID-19 emergency and the related impact on their activities, operations and capital and liquidity situation, granted significant supervised entities the possibility of using equity instruments not qualified as Common Equity Tier 1 to meet part of the additional Pillar 2 own funds requirements. In this regard, on April 8, 2020, the ECB notified Iccrea Banca of the decision to change the composition of the additional Pillar 2 own funds requirement notified on December 4, 2019. With this decision, the supervisory authority amended the initial SREP decision, keeping the previous quantitative requirements unchanged but allowing the additional Pillar 2 own funds requirement (P2R) to also be met with Additional Tier 1 and Tier 2 instruments, within the limits of certain percentages. More specifically, at least 56.25% of the P2R shall be held in the form of Common Equity Tier 1 (CET1), with Tier 1 capital accounting for at least 75%.

In response to this decision, the Group conducted studies at both the consolidated and individual levels in order to identify the complete scope of risk governance arrangements strictly connected to the SREP decision and therefore potentially impacted by these changes, with particular regard to the issues of capital adequacy and the effects deriving from the application of capital management and capital allocation approaches.

B. QUANTITATIVE DISCLOSURES

B.1 CONSOLIDATED EQUITY: BREAKDOWN BY TYPE OF ENTITY

The table reports the components of shareholders' equity at carrying amount, adding the Group's equity to that pertaining to non-controlling interests, broken down by the type of consolidated entity. More specifically:

- the column, "Prudential consolidation" reports the amount resulting from consolidation of the companies belonging to the banking group, gross of the financial effects of any transactions that may have been performed with other companies included within the scope of consolidation; fully-consolidated subsidiaries, other than those in the "Banking Group", are measured using the equity method here;
- the column "Other entities" reports the amounts resulting from consolidation, including financial effects deriving from transactions carried out with companies that are part of the banking group;
- the column "Consolidation eliminations and adjustments" shows the adjustments necessary to obtain the figures reported in the financial statements.

	Prudential consolidation	Insurance undertakings	Other entities	Consolidation eliminations and adjustments	Total
1. Share capital	2,371,901	-	-	-	2,371,901
2. Share premium reserve	154,595	-	-	-	154,595
3. Reserves	8,571,186	-	-	-	8,571,186
4. Equity instruments	30,139	-	-	-	30,139
5. (Treasury shares)	(1,247,818)	-	-	-	(1,247,818)
6. Valuation reserves:	253,734	-	-	-	253,734
- Equity securities designated as at fair value through other comprehensive income	(7,630)	-	-	-	(7,630)
- Hedges of equity securities designated as at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	85,385	-	-	-	85,385
- Property, plant and equipment	35	-	-	-	35
- Intangible assets	-	-	-	-	-
- Hedging of investments in foreign operations	-	-	-	-	-
- Cash flow hedges	(24,538)	-	-	-	(24,538)
- Hedging instruments [undesignated elements]	-	-	-	-	-
- Foreign exchange differences	-	-	-	-	-
- Non-current assets held for sale	-	-	-	-	-
- Financial liabilities designated as at fair value through profit or loss (change in own credit rating)	-	-	-	-	-
- Actuarial gains (losses) on defined benefit plans	(57,088)	-	-	-	(57,088)
- Share of valuation reserves of equity investments accounted for using equity method	1,299	-	-	-	1,299
- Special revaluation laws	256,271	-	-	-	256,271
7. Net profit (loss) for the period (+/-)	202,320	-	-	-	202,320
Shareholders' equity	**10,336,056**	**-**	**-**	**-**	**10,336,056**

B.2 VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Prudential consolidation		Insurance undertakings		Other entities		Consolidation eliminations and adjustments		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	90,827	5,442	-	-	-	-	-	-	90,827	5,442
2. Equity securities	6,038	13,668	-	-	-	-	-	-	6,038	13,668
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2020	**96,866**	**19,111**	**-**	**-**	**-**	**-**	**-**	**-**	**96,866**	**19,111**
Total 31/12/2019	**98,457**	**58,130**	**-**	**-**	**-**	**-**	**-**	**-**	**98,457**	**58,130**

B.3 VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: CHANGE FOR THE PERIOD

	Debt securities	Equity securities	Loans
1. Opening balance	**40,895**	**(566)**	**(3)**
2. Increases	**75,491**	**10,936**	**-**
2.1 Fair value gains	55,939	5,191	-
2.2 Writedowns for credit risk	4,363	X	-
2.3 Reversal to income statement of negative reserves: from realization	13,527	X	-
2.4 Transfers to other components of shareholders' equity (equity securities)	-	5,478	-
2.5 Other changes	1,662	267	3
3. Decreases	**31,002**	**18,000**	**-**
3.1 Fair value losses	7,573	17,443	-
3.2 Writebacks for credit risk	1,465	-	-
3.3 Reversal to income statement of positive reserves: from realization	19,242	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	-	436	-
3.5 Other changes	2,723	121	-
4. Closing balance	**85,385**	**(7,630)**	**-**

B.4 VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

Valuation reserves for defined-benefit plans were a negative €57 million, at the end of 2020. The following table reports changes in the period as a result of changes in financial assumptions and the time value effect.

	31/12/2020
1. Opening balance	**(51,742)**
2. Increases	**4,618**
2.1 Actuarial gains from changes in financial assumptions	253
2.2 Actuarial gains from changes in demographic assumptions	1,048
2.3 Other increases	3,318
3. Decreases	**9,964**
3.1 Actuarial losses from changes in financial assumptions	5,601
3.2 Actuarial losses from changes in demographic assumptions	570
3.3 Other decreases	3,793
4. Closing balance	**(57,088)**

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

See the disclosures on own funds and capital adequacy in the Third Pillar disclosures.

PART G - BUSINESS COMBINATIONS

SECTION 1 - TRANSACTIONS CARRIED OUT DURING THE YEAR

During the period no business combinations involving the acquisition of control pursuant to IFRS 3 were carried out.

For corporate reorganization purposes, the following mergers of mutual banks were carried out that had no impact on the consolidated financial statements. In compliance with the accounting practices for such transactions, these operations were accounted for on an unchanged values basis and regarded:

- the merger of BCC di Formello into BCC di Riano, leading to the creation of Banca di Credito Cooperativo della Provincia Romana S.C.;
- the merger of Banca CRAS into BCC Umbria, leading to the creation of Banca Centro Credito Cooperativo Toscana Umbria S.C.;
- the merger of Banca di Credito Cooperativo di Valledolmo into Banca di Credito Cooperativo San Giuseppe di Petralia Sottana, leading to the creation of Banca di Credito Cooperativo San Giuseppe delle Madonie S.C.;
- the merger of BCC di Monastier into BCC Pordenonese, leading to the creation of BCC Pordenonese e Monsile S.C.;
- the merger of BCC Credito Trevigiano S.C. into C.R.A. Brendola, leading to the creation of Banca delle Terre Venete, with effect from October 1, 2020;
- the merger of Banca di Credito Cooperativo San Giuseppe di Mussomeli, Banca di Credito Cooperativo Don Stella Di Resuttano and Banca di Credito Cooperativo di San Biagio Platani into Banca di Credito Cooperativo “G. Toniolo” di San Cataldo, with effect from October 1, 2020.

SECTION 2 – TRANSACTIONS AFTER THE CLOSE OF THE PERIOD

In October 2020 the ECB authorized the merger between BCC del Cilento di Sassano e Vallo di Diano e della Lucania and BCC di Buonabitacolo, leading to the creation of Banca 2021 – CC del Cilento, Vallo di Diano e Lucania S.C, with effect from January 1, 2021

Moreover, as from April 10, 2021, the Banca San Giorgio Quinto Valle Agno - Credito Cooperativo - Società Cooperativa carried out a merger with Banca di Verona Credito Cooperativo Cadidavid s.c.p.a. with legal effect from April 1, 2021.

These transactions will have no impact on the consolidated financial statements since they were carried out on an unchanged values basis for corporate reorganization purposes.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

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

.

PART H - TRANSACTIONS WITH RELATED PARTIES

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table provides information on the remuneration paid in 2020 to key management personnel as required by IAS 24. Key management personnel are managers who have the power and responsibility, directly or indirectly, for the planning, management and control of the Group's activities, including the directors and members of the supervisory bodies.

	Total 31/12/2020				
	Short term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
Key management personnel	9,727	359	-	-	-

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

For the purposes of the preparation of these disclosures, pursuant to IAS 24 a related party is a person or entity who is related to the entity preparing the financial statements.

In application of that standard, the related parties of the Group include:

- unconsolidated subsidiaries;
- associated companies and their subsidiaries;
- key management personnel of the Group;
- members of the immediate family of key management personnel and companies controlled, alone or jointly, by key management personnel or members of their immediate family;
- post-employment benefit plans for Group employees.

The Iccrea Cooperative Banking Group has adopted a document governing the principles and rules applicable to related party transactions in compliance with supervisory regulations contained in Circular no. 263/2006 of the Bank of Italy.

Transactions between the Iccrea Cooperative Banking Group and corporate officers regard normal Group operations and were carried out, where applicable, applying the terms reserved for all employees. Transactions with subsidiaries not consolidated on a line-by-line basis and transactions with associated companies regarded ordinary operations within a multi-functional banking organization.

In compliance with supervisory regulations, all transactions carried out by Group companies with their related parties were carried out in compliance with the principles of substantive and procedural fairness, on terms analogous to those applied to transactions with independent non-Group counterparties. No unusual or atypical transactions were carried out by Group companies with related parties, nor were any such transactions carried out with other counterparties.

The following table summarizes transactions and their financial effects carried out in 2020 with the related parties of the Group other than fully consolidated intercompany transactions.

	Total 31/12/2020			
	Unconsolidated subsidiaries	Associated companies	Key management personnel	Other related parties
Financial assets	26,222	140,708	1,881	12,568
Total other assets	44	1,313	-	-
Financial liabilities	18,194	19,898	3,736	17,722
Total other liabilities	250	2,695	280	34,334
Commitments and financial guarantees issued	5,162	7,016	83	4,186
Commitments and financial guarantees received	5,940	-	1,140	20,689
Provisions for doubtful accounts	-	1,761	-	-

	Total 31/12/2020			
	Unconsolidated subsidiaries	Associated companies	Key management personnel	Other related parties
Interest income	188	249	15	227
Interest expense	(4)	(5)	(5)	(316)
Dividends	19	-	-	-
Fee and commission income	506	15,462	6	4,943
Fee and commission expense	(283)	(75)	-	(167)
Net gain (loss) on trading activities	-	-	-	-
Net gain (loss) on hedging activities	-	-	-	-
Other operating expenses/income	(1,493)	(141)	(40)	(1,235)
Writedowns/writebacks of impaired financial assets	-	-	-	25

PART I - SHARE-BASED PAYMENTS

The Iccrea Cooperative Banking Group has no payment agreements based on its own equity instruments in place.

PART L - OPERATING SEGMENTS

A. PRIMARY REPORTING BASIS

The companies within the Group mainly operate exclusively in the following segments:

- Institutional: business conducted with institutional counterparties (mutual banks, other banks and public institutions), such as payment services, financial intermediation (trading and capital markets), and foreign activities, as well as additional support services for affiliated banks. The segment includes the operations of the Parent Company Iccrea Banca, BCC Sistemi Informatici, BCC Gestione Crediti, BCC Solutions, BCC Beni Immobili, Sinergia, Sigest and Coopersystem;
- Corporate: business focused mainly on financing small and medium-sized companies that are customers of the mutual banks. The segment includes the operations of Iccrea BancaImpresa, BCC Lease, BCC Factoring and Banca Mediocredito del F.V.G.;
- Retail: mainly asset management activities on an individual and collective basis for retail customers (BCC Risparmio&Previdenza), consumer credit (BCC CreditoConsumo) and the traditional banking activities of Banca Sviluppo;
- Mutual banks: includes all of the mutual banks that have joined the Group and the associated Guarantee Scheme.

The following reports a summary income statement and key financial aggregates by business segment. The column reporting inter-segment transactions includes intercompany eliminations between the companies included in different segments.

The breakdown by segment has not change compared with that reported in the annual report at December 31, 2019.

A.1 DISTRIBUTION BY BUSINESS SEGMENT: INCOME STATEMENT

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Net interest income	185,911	62,543	58,223	2,172,861	41,583	2,521,121
Net fee and commission income	32,346	162,948	42,300	1,077,198	(52,832)	1,261,960
Other financial expense and income	953	155,877	(892)	217,056	(82,415)	290,579
Gross income	**219,210**	**381,368**	**99,631**	**3,467,115**	**(93,663)**	**4,073,661**
Net value adjustments	(119,404)	(8,716)	(15,019)	(697,941)	351	(840,729)
Net gains (losses) on financial operations	**99,806**	**372,652**	**84,612**	**2,769,174**	**(93,312)**	**3,232,931**
Operating expenses	(116,580)	(380,679)	(50,712)	(2,473,457)	41,912	(2,979,517)
Other costs and revenues	(8,092)	(64,013)	(494)	(11,168)	32,430	(51,337)
Profit/(loss) from continuing operations before tax	**(24,866)**	**(72,040)**	**33,406**	**284,549**	**(18,971)**	**202,077**
Income tax for the period on continuing operations	8,175	3,877	(9,747)	(7,368)	5,305	242
Profit/(loss) for the period	**(16,691)**	**(68,163)**	**23,659**	**277,181**	**(13,665)**	**202,320**
Profit/(loss) for the period pertaining to non-controlling interests	**(1,429)**	**5,900**	**2,056**	**-**	**-**	**6,527**
Profit/(loss) for the period pertaining to shareholders of the Parent Company	**(15,262)**	**(74,063)**	**21,603**	**277,181**	**(13,665)**	**195,793**

A.2 DISTRIBUTION BY BUSINESS SEGMENT: BALANCE SHEET

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Financial assets	523,244	11,556,079	81,314	58,168,555	(3,111,139)	67,218,053
Due from banks	221,850	32,798,772	639,875	15,232,687	(42,431,710)	6,461,475
Loans to customers	8,712,727	4,443,893	1,098,617	75,145,087	(2,122,510)	87,277,814
Funding from banks	8,061,182	34,013,489	1,526,981	32,215,241	(43,702,597)	32,114,297
Funding from customers	801,063	9,637,075	207,402	98,094,881	(343,723)	108,396,697
Securities and other financial liabilities	75,291	5,265,967	21,526	10,890,737	(1,773,357)	14,480,164

B. SECONDARY REPORTING BASIS

As regards the secondary reporting basis, please note that the Group operates almost exclusively in Italy.

PART M - LEASE DISCLOSURES

SECTION 1 – LESSEE

QUALITATIVE DISCLOSURES

At the reporting date, the Group had 3,196 lease/rental contracts falling within the scope of IFRS 16 as they refer to operating leases involving property, plant and equipment in the following classes of assets:

- capital equipment (printers and other office equipment, personal computers, servers, smartphones/tablets, cars and company vehicles, advanced ATMs, etc.);
- real estate, in particular the premises in which the branches operate and spaces for ATMs.

These assets are mainly intended for use in the normal operations of the company and for this reason they are mainly classified under assets held for use in operations. For more details on the recognition and measurement criteria involved, please see Part A "Accounting Policies" of these notes to the financial statements.

The rental contracts entered into by the Group normally provide for fixed payments for a specified period of time and, with the exception of property leases, do not envisage an extension option. Based on the foregoing, the effective term of the individual leases is taken into account for the purpose of accounting for the rights of use, while in cases in which an extension option is envisaged and its exercise is considered highly probable, the Group considers the contractual term inclusive of the extension period, unless factors or specific situations envisaged within the contract suggest a different assessment. This is because the properties in question are functional to the performance of the activities of the Group companies and non-exercise of the extension option is only considered in cases where impediments have arisen independently on the intentions of the companies themselves, i.e. the decision not to extend the lease was prompted by initially unforeseeable circumstances (e.g. changes of location, increase in lease payments, etc.).

If provided for by the lease agreement, the Group also does not consider early termination options unless factors or specific circumstances make it highly probable that the option will be exercised before the expiry of the lease (such as, for example, the impediments or the specific needs mentioned above).

QUANTITATIVE DISCLOSURES

For further quantitative information concerning the assets acquired by the Group through leases, please see the disclosures provided in the tables in the sections of the notes to the financial statements indicated below:

- part B, assets, section 9, as regards rights of use in respect of leased assets held at the reporting date;
- part B, liabilities, section 1, as regards lease liabilities outstanding at the reporting date;
- part C, section 1, as regards interest expense on leasing liabilities accrued during the year;
- part C, section 14, as regards depreciation of rights of use recognized during the year.

Note that in determining the depreciation rates to be applied to the rights of use in respect of assets acquired under leases, reference has been made to the contractual term of the underlying leases, also taking account any extension/termination options where the probability that they will be exercised is considered high, depending on the nature of the transaction (finance/operating lease) and the type of asset.

The details of the depreciation charges recognized in through profit or loss for the year are shown below, broken down by category of leased assets.

Depreciation	31/12/2020	31/12/2019
a) buildings	49,966	50,124
b) electronic systems	3,138	2,279
c) cars	3,598	2,890
d) other	62	28
Total	**56,764**	**55,321**

SECTION 2 – LESSOR

QUALITATIVE DISCLOSURES

Lease transactions undertaken by Group mutual banks as a lessor are negligible.

At the reporting date, the Group had around 120 leases within the scope of IFRS 16 as they refer to operating leases in which the Group is the lessor, mainly involving real estate.

About 60% of the leases regard assets held for investment purposes, while the remainder involve assets for use in operations. The contracts mainly regard concern the lease of commercial and residential properties. Property, plant and equipment for commercial use are leased to third parties and to Group companies.

The Group mainly enters into finance leases with customers and is active in the real estate, residential, equipment, vehicle and marine lease sectors.

Lease payments for the year are recognized in profit or loss under operating income.

For more details on the recognition and measurement criteria involved, please see Part A “Accounting Policies” of these notes to the financial statements.

QUANTITATIVE DISCLOSURES

1. INFORMATION IN THE BALANCE SHEET AND INCOME STATEMENT

For additional quantitative information on lease transactions undertaken by the Group, please see the disclosures provided in the tables in the sections of the notes to the financial statements indicated below:

- part B, Assets, section 4, as regards lease financing granted by the Group in relation to finance leases;
- part B, assets, section 9, as regards property, plant and equipment leased to others by the Group through rental contracts;
- part C, section 1, as regards interest income on the above lease financing accrued during the year;
- part C, section 16, as regards other income connected with the lease operations undertaken the Group as a lessor.

2. FINANCE LEASES

2.1 CLASSIFICATION BY MATURITY OF PAYMENTS TO BE RECEIVED AND RECONCILIATION WITH LEASE FINANCING RECOGNIZED UNDER ASSETS

	Total 31/12/2020	Total 31/12/2019
	Payment to be received for leases	Payment to be received for leases
Up to 1 year	812,137	839,708
From more than 1 year up to 2 years	722,372	737,307
From more than 2 years up to 3 years	581,869	615,141
From more than 3 years up to 4 years	441,169	453,456
From more than 4 years up to 5 years	322,164	324,653
From more than 5 years	1,799,443	1,929,572
Total payments to be received for leases	**4,679,154**	**4,899,836**
Reconciliation with financing	**1,410,160**	**1,535,000**
Financial income not accrued (-)	718,457	812,465
Unguaranteed residual value (-)	691,703	722,534
Lease financing	**3,268,995**	**3,364,836**

The balance of lease financing does not include past due principal and interest, exposures to terminated leases or writedowns on outstanding financing at the reporting date.

2.2 OTHER INFORMATION

No other information to report.

3. OPERATING LEASES

3.1 CLASSIFICATION BY MATURITY OF PAYMENTS TO BE RECEIVED

	Total 31/12/2020	Total 31/12/2019
	Lease payments to receive	Lease payments to receive
Up to 1 year	3,461	3,531
From more than 1 year up to 2 years	3,227	3,538
From more than 2 years up to 3 years	2,801	3,325
From more than 3 years up to 4 years	2,111	3,176
From more than 4 years up to 5 years	1,467	2,781
From more than 5 years	1,596	5,158
Total	**14,664**	**21,509**

3.2 OTHER INFORMATION

No other information to report.

REPORT OF THE BOARD OF AUDITORS

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

REPORT OF THE BOARD OF AUDITORS

TO THE SHAREHOLDERS' MEETING PURSUANT TO ARTICLE 2429 OF THE CIVIL CODE

Dear Shareholders,

In the year ended December 31, 2020, the Board of Auditors of Iccrea Banca S.p.A. performed its oversight duties in accordance with the Italian Civil Code, Legislative Decree 385/1993 (the Consolidated Banking Act) and Legislative Decree 39/2010 as amended, the provisions of the articles of association, the regulations issued by the authorities performing supervisory and control duties, and the rules of conduct for the Boards of Auditors of unlisted companies recommended by the National Council of the Italian accounting profession, as applicable.

Appointment and activity of the Board of Auditors

The current Board of Auditors was appointed by the Iccrea Banca S.p.A. Shareholders' Meeting on April 30, 2019 for a term of three years and, therefore, until the date of the meeting called to approve the financial statements for the year ended December 31, 2021. The Bank's Board of Auditors is also charged with performing the role of Supervisory Body pursuant to the provisions of Legislative Decree 231 of June 8, 2001, on the basis of the instructions contained in Bank of Italy Circular no. 285 of December 17, 2013.

During 2020, the Board of Auditors (or at least one of its members) participated in all meetings of the Board of Directors, the Executive Committee and the Board Committees. During the year, the Board of

Auditors met independently 80 times to perform the additional oversight duties pertaining to it and 15 times in its capacity as the 231/01 Supervisory Body.

The activities of the Bank and the Iccrea Cooperative Banking Group in 2020

The Report on Operations prepared by the directors provides extensive information on developments in the operations of the Parent Company and the Iccrea Cooperative Banking Group, on key operational events during 2020, on the structural and operational characteristics of the ICBG, on the internal control system, on the prudential regulatory framework and on the main processes performed in this area and on events subsequent to the reporting date.

The Report describes the environment in which the Group operated and the main content and objectives of the 2021-2023 Strategic Plan, which specifies the performance and financial objectives that the ICBG intends to attain over the planning period in order to achieve, compared with market benchmarks, appreciable levels for the main ratios and complete the path undertaken to rationalize overheads and improve operating profitability. The planning cycle must address a macroeconomic climate that has been heavily impacted by the pandemic, the response to which will depend decisively on the effectiveness of the extraordinary measures implemented or planned by the national government, the European institutions and the central bank. The challenges of the operating environment are compounded by developments in the regulatory context, including Resolution Plan issues and the MREL requirement, with very significant impacts on the financial dynamics of the ICBG.

The planning process has, at present, delineated the related system of objectives and is now implementing this at the affiliated banks and other entities of the ICBG.

With regard to external factors, it should be borne in mind that the Comprehensive Assessment exercise conducted by the European supervisory authorities for the ICBG is in its final stage, but its findings have not yet been issued. Taking this into account, the Directors clarify that - following an assessment of the accounting and/or prudential impacts that could derive from the assessment and where appropriate in relation to the findings - a new consolidated planning cycle will be launched.

An element that strongly characterizes the plan is the “transformation” program involving the direct subsidiaries of Iccrea Banca S.p.A., which is intended to rationalize their structures, strengthen their commercial and income potential and, for some, restore a satisfactory state of financial balance. Particular attention should be paid to the need for a rapid return to profitability for the Parent Company, Iccrea

Banca, seeking the optimization of a cost structure that supports its management and coordination activities and its calibration so as to be sustainable in relation to the overall objectives of the ICBG.

Internal control and risk management system

A specific section of the Report on Operations describes the structure and main components of the ICBG internal control system, which is based on the structure envisaged in supervisory regulations calling for three levels of control:

- first-level controls, performed by the corporate units responsible for the business/operating activities;
- second-level controls, performed by the Compliance, AML (Anti-Money Laundering) and Risk Management units;
- third-level controls, performed by Internal Audit.

The Report on Operations provides a description of the organizational arrangements adopted by the second- and third-level control functions, consistent with the specific characteristics of the ICBG and aimed at ensuring effective coverage of control activities both at the Parent Company and its direct subsidiaries and at the affiliated mutual banks. The organizational model of the control functions, which have been outsourced by the ICBG companies to the Parent Company, gives the Parent Company responsibility for the definition of strategies, processes and control methodologies, tools, and planning and reporting standards.

The Board of Auditors regularly exchanged information with the control functions during the year, including through direct participation in the meetings of the Board Committees, receiving information flows generated by those units for the corporate bodies, governed by specific rules.

The Parent Company, Iccrea Banca

With regard to the Parent Company, Iccrea Banca, the results of the monitoring and assessment activities of the control functions found, in brief:

- for Compliance, an average “medium-low” exposure to residual compliance risk, as assessed on the basis of the existing control arrangements in relation to the individual regulations governing this area. The assessment of compliance of regulatory arrangements and processes during the year, while generally positive, nevertheless found a number of areas for improvement;

- for AML, the self-assessment exercise – conducted on the basis of the method recommended in supervisory regulations and applied by the function – found a “low” residual risk (net of the control arrangements). The activities conducted by the Anti-Money Laundering function over the course of the year produced a final overall assessment of “partially satisfactory”, also taking due account of the findings of supervisory inspections conducted during the year and the remediation actions implemented in the second half;
- for Risk Management, the continuous and structured management and reporting of the risks included within the function’s scope of responsibility, with periodic quantitative and qualitative reporting at a variety of frequencies, did not reveal any significant issues concerning the main risk exposures (credit, liquidity, market, interest rate). The function also defined and maintained the methodological framework for the Group risk governance processes (RAF/RAS, ICAAP/ILAAP, EWS), as well as managing the associated processes and the production of the final outputs in agreement and collaboration with the corporate units responsible for the areas of risk examined;
- for Internal Audit, the 2020 Audit Plan envisaged numerous audits, responding in part to requests from the supervisory authorities, in the different areas of “governance”, “market” and “support” in which the taxonomy of Group processes is structured. The audit findings were largely favorable, although certain critical areas and/or areas for improvement in the management of business lines remain.

The Board of Auditors analyzed the findings of the assessments conducted for Iccrea Banca S.p.A. by the control functions, which had produced unsatisfactory judgments concerning certain organizational aspects of control arrangements or compliance issues regarding procedural systems, such as regulatory compliance, and verified the resolution of the irregularities or monitored the implementation of the related intervention plans, urging the directors and management to perform the actions requested.

The affiliated banks

With regard to the larger population of the mutual banks, which during 2020 declined from 140 to 132 following mergers, the key fact to emphasize is the substantial completion of the 2020 Audit Plan, which saw the performance of 1,584 audits (95% of the planned total), of which 945 focusing on “processes”, 54 on the “ICT” area and 585 on the “network”, i.e. the branches of the banks. With regard to the composition of the process audits, the Plan called for a significant share in response to “mandatory” requirements, which accompanied by “consolidated” audits (with the same scope of work for different ICBG entities, both mutual banks and companies of the direct scope of consolidation) and mainly “risk based” audits.

The number of adverse audit findings was small. At present, the unfavorable assessments of the internal control system of the affiliated banks account for less than 10% of the total.

Results qualitatively similar to those of the Internal Audit function are also given in the annual final reports for the affiliated banks prepared by the Compliance and AML functions with the results of their annual audits, which are positive, with medium-low average residual risk levels, net of the control measures in the areas concerned.

As noted in the Report on Operations with regard to the assessment of AML systems, an inspection by the Bank of Italy of the Group’s AML function was completed in the first half of 2020, the results of which were delivered on August 4, 2020. Despite substantial compliance with the new organizational and governance arrangements for AML risk adopted by the Parent Company and implemented by the Board of Directors, a number of management issues were identified. These issues underscore the need for the Parent Company to focus on recent governance and management issues at some mutual banks, and to promptly direct the completion of actions already under way, ensuring that they are fully operational, especially with regard to the refinement and strengthening of the processes and procedures involved. Although the report is not favorable, it does not present any findings of substantial non-compliance subject to penalties. The Parent Company, taking stock of discussions with the supervisory authorities, has launched a series of process and IT measures designed to remedy the weaknesses found.

The Report on Significant Outsourced Functions, prepared annually by the Internal Audit function in accordance with Circular 285/2013, does not identify any significant issues regarding the control and compliance of relations with suppliers of essential or important functions. The gradual completion of the regulatory framework and process rules that the Parent Company is implementing for application to all ICBG affiliated companies and banks, scheduled for 2021, will also enable the achievement of greater uniformity of conduct within the Group and the implementation of complete, adequate and IT-supported compliance safeguards. The audits performed in 2020 by the Internal Audit Function did not reveal any significant critical issues, but only areas for improvement linked in part to the progressive structuring of the Group's control arrangements. Even the ad hoc audits of a sample of affiliated banks did not reveal any significant problems.

With regard to the activity of the Data Protection Officer (DPO) for 2020, the ICBG's organizational model for the protection of personal data calls for centralization of the DPO function at Iccrea Banca S.p.A.. The function is part of the CCO Area (Chief Compliance Officer). The Group DPO reports directly to the Board of Directors and the Board of Auditors of the Parent Company and the companies within the direct scope of consolidation and the affiliated banks that have outsourced the service. Under the provisions of the outsourcing agreements, Iccrea Banca is the DPO for each affiliated bank and company of the ICBG, with the associated responsibilities and obligations being specified in the service level agreements set out in those contracts.

As in the previous year, in 2020 the DPO promoted a set of activities to fully implement the Group's privacy protection model and arrangements. This effort consisted in implementing the same systems at the legal entities of the ICBG, the performance of numerous impact assessments, ongoing consulting with those legal entities, coordination and support in the management of privacy obligations related to government measures connected with the COVID-19 health emergency, management of follow-ups and remediation interventions carried out following the risk assessments conducted by the Group DPO function or the audits performed by Internal Audit. Following the activities and audits performed, the ICBG DPO found that the organizational arrangements required by the regulations had been correctly implemented at the ICBG level.

In order to raise the degree of compliance of privacy safeguards not only in the implementation phase but also during operations, it would be advisable to undertake improvement actions involving first-level controls and their IT implementation, to update of the internal framework of rules and to conduct continuous updating of impact assessments and training activities.

Oversight of the adequacy of the organizational structure

As part of the oversight of the organizational and functional adequacy of governance and business areas, the Board of Auditors - during the meetings of the Risk Committee and the Board of Directors – of the progressive updating and supplementation of the Risk Governance Policies, the Rules, the General Process Rules, the Directives relating both to the internal processes of the Parent Company and the main operating processes of the affiliated banks and the companies within the direct scope of consolidation, in line with the ICBG objective to essentially complete the Group’s rules, with particular regard to the identification, measurement, management and control of risks. Other sources included operational communications and circulars addressing more specialized issues, which are transmitted on an ongoing basis to the affiliated banks and the ICBG companies.

As regards the performance of specific studies and assessments of the appropriateness of organizational structures, the Board of Auditors - in compliance with supervisory instructions – continued in 2020 to monitor the corporate control functions and the state of progress of their structuring of organizational and methodological arrangements, with a focus on the staffing of the units, on the development of methods, operating rules and control instruments, audit support systems and on the training of personnel and managers.

Some two years since the launch of the ICBG, the organization of the corporate control functions has become more structured (thanks in part to the implementation of projects for the organizational review and redesign of their scope of activity) and their methodological and operational tools have been consolidated, thanks to the continuous support and evolution of the IT component. The Board of Auditors would like to emphasize that the structural complexity of the ICBG and its governance mechanisms, and the ever greater legislative and regulatory pressure make it necessary both to periodically reassess staffing requirements to ensure the complete and timely fulfillment of the institutional duties of the functions and to achieve a rapid reduction of the residual shortfall with respect to those requirements.

The Board of Auditors examined the action plans for 2021 submitted by the control functions for both Iccrea Banca and for all ICBG companies. These plans – implemented using criteria that consider external regulatory constraints, risk-based logic and the need to cover business processes – will require a significant effort, progress on which will be audited in 2021, taking due account of developments in the pandemic emergency.

With regard to the adequacy of the organizational structure of the Parent Company, Iccrea Banca S.p.A., it should be emphasized that the launch of the ICBG involved a radical change in the Bank’s mission and a major expansion of the scope of its activities. During 2020, the organizational review measures launched in 2019 by senior management and approved by the Board of Directors continued, with the aim of rationalizing decision-making processes, organizational arrangements and the cost structure. The Board of Auditors, with the support of the Chief Operating Officer's unit, periodically carries out an analysis of the reorganization measures in progress in order to produce a general assessment of the adequacy of the solutions adopted or proposed, especially in relation to the demanding guidance and coordination duties of the Parent Company. In this respect, the effort associated with providing guidance and support to the numerous affiliated banks places severe pressure on the units of the Parent Company (whether operational or control functions), thus requiring periodic assessments and monitoring of adequacy and effectiveness.

Of particular importance is the "transformation" program that the Board of Directors – acting on a proposal of senior management - has launched at the companies of the direct scope (i.e. the direct subsidiaries of Iccrea Banca S.p.A.), aimed at reconfiguring their mission in some cases and, in general, at achieving greater profitability or rebalancing their financial position. In this latter context, the Parent Company's purchase with effect from January 1, 2021 of the ordinary lending business unit previously managed by the wholly owned subsidiary Iccrea BancaImpresa S.p.A., which folded lending operations into Iccrea Banca S.p.A., leaving the subsidiary to focus on lease operations in view of any subsequent reorganization operations.

Corporate governance

The governance mechanisms of Iccrea Banca and the ICBG, as delineated by the body of rules submitted for approval at the time the application was submitted to the supervisory authorities in 2018, contain significant special features and complexities, which derive from the legal-formal structure of the ICBG, from the choices concerning the design of governance arrangements laid out in special legislation and supervisory regulations, from the special functions performed by the Parent Company in performance of its mission of providing management and coordination guidance for the affiliated banks and from the sheer number of banks involved. The Board of Auditors participated closely in the activity of the corporate bodies of the Parent Company, consisting of the body with strategic supervision and management functions (the Board of Directors), the Executive Committee, and the four Board Committees providing advice, preliminary assessments and recommendations to the Board of Directors.

The experience gained has already prompted a revision of the Parent Company's internal governance rules, with particular regard to the board committees. The Board of Auditors informed the Board of Directors on multiple occasions of the need to continue to enhance the efficiency of governance processes in order to render the governance "machine" more efficient and improve the operating conditions of the strategic oversight and management body in responding to the every growing complexity of the issues it is called upon to analyze and decide.

The Board of Auditors periodically reports to the Board of Directors on the main activities carried out and the consequent recommendations. Thanks to its participation in the meetings of the corporate bodies, the Board received the information flows provided for by the corporate rules.

The Board of Auditors conducted its own self-assessment of the adequacy of its membership and the proper and effective functioning of the body, in accordance with the supervisory instructions on corporate governance for banks and with the recommendations in the document "Self-assessment of the Board of Auditors" issued by the National Council of the Italian accounting profession. The Board of Auditors found that its membership was generally appropriate in terms of competence, experience and gender diversity. However, organizational and operational aspects that could stand improvement were identified, with remedial actions now being implemented.

During the year, the members of the Board of Auditors participated in the Board of Directors training program, expressing its intention to supplement this activity, including on an individual basis, with targeted training in the key issues for the performance of its oversight duties.

Relations with the supervisory authorities and prudential supervision

Supervisory review and evaluation process (SREP)

On December 4, 2019 the supervisory authorities notified Iccrea Banca of the results of the SREP decision, which establishes the prudential requirements to be complied with at consolidated level with effect from January 1, 2020 (divided into own funds requirements and quality requirements). This decision was the first assigned at a consolidated level for the Iccrea Cooperative Banking Group and set the following own funds requirements for 2020:

- an additional Pillar 2 requirement (P2R) of 2.5% to be held in the form of Common Equity Tier 1 capital, to be maintained on an ongoing basis, in accordance with Article 16 of Regulation (EU) no. 1024/2013;
- a recommendation for Pillar 2 Guidance (P2G) of 1.25%, which should consist entirely of Common Equity Tier 1 capital and held in addition to the Overall Capital Requirement (OCR).

With regard to the outcome of the Supervisory Review and Evaluation Process (SREP), on November 17, 2020, the supervisory authorities notified Iccrea Banca that as a result of the COVID-19 pandemic it had taken the pragmatic decision to not adopt a new SREP decision, instead maintaining the prudential requirements determined in 2020 SREP decision for all of 2021.

With regard to the Group's affiliated banks, the SREP decision did not impose own funds requirements to be met on an individual basis. Therefore, in order to comply with the aforementioned consolidated requirements, mechanisms have been provided for their allocation at individual level within the main risk governance processes (i.e. RAF, EWS), thus ensuring that the Group's strategies and capital constraints are also reflected at the individual level.

Through participation in the meetings of the Board Committees and of the Board of Directors, as well as information exchanges with the control functions and the Supervisory Authority Relations unit, the Board of Auditors monitored the response to the numerous horizontal issues highlighted in the SREP letter, in the subsequent "operational" letter of 2020 and those connected with specific requests made during the year by the ECB's Joint Supervisory Team.

The state of progress of this process, as with all requests formulated by the supervisory authorities, was subject to periodic reporting. At the initiative of the supervisory authorities, the onset of the COVID-19 emergency led to the deferral of the deadlines for the so-called qualitative part of the SREP letter. At present, a small proportion of the interventions are approaching completion.

Comprehensive Assessment

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

- an asset quality review (AQR) at December 31, 2019, performed using sample analyses (the credit file review) and statistics (the challenger model);
- a stress test to assess the Group's capital strength on a forward-looking basis with respect to two macroeconomic scenarios, the baseline and adverse (both of which include COVID-19 effects).

The Report on Operations describes the current state of progress of the exercise in detail, with the final findings still being developed by the supervisory authorities, who are also discussing the situation with the competent units of the ICBG.

With specific regard to the credit file review, no violations of current policies were found in terms of classification nor were any issues raised with regard to the compliance of the Group criteria defined within those policies. The overall results of the analysis were brought to the attention of the Group companies affected by potential reclassifications or provisioning increases with specific guidelines for dealing with the various cases (essentially linked to portfolio movements that took place in 2020) for the purpose of incorporation into the financial statements as at December 31, 2020. In essence, all the status reclassifications were incorporated and all the requests for additional provisions – a relatively small amount in relation to the size of the Group - relating to the positions sampled by the authorities were recognized with the exception of a limited number of cases that, based on the performance of the credit relationship or other circumstances that emerged after the reference date, did not, in the view of the Group, suggest the need to reclassify the position or modify the related provisioning.

ICAAP and ILAAP

As regards ICAAP and ILAAP, the Board of Auditors oversaw compliance with regulatory requirements, participating in the work of the Risk Committee, noting the structure of the related documents, of the information provided on the state of progress of the processes, of the results, of the improvement measures implemented in compliance with the instructions of banking supervisors.

In the examination of the ICAAP conducted jointly with the Risk Committee, the Board of Auditors found that the processes for identifying and measuring risks were substantially adequate, reinforced by the work carried out both by the central and local units of the Risk Management function. In the most recent ICAAP and ILAAP exercise, carried out in April this year, areas for improvement were identified during the self-assessment, mainly regarding the formalization of existing processes.

That most recent exercise, which as noted was conducted exclusively on a consolidated basis, took as its starting point the qualitative and quantitative composition of the ICBG balance sheet as at December 31, 2020 and the 2021-2023 Strategic Plan. This exercise highlighted compliance with the minimum capital and liquidity requirements both in the baseline scenario and in the adverse scenario, which was prepared using stress scenarios.

Recovery Plan

The preparation and finalization of the Recovery Plan, which took place in January 2021, is also the outcome of discussions on the matter with the ECB Joint Supervisory Team, which for 2020 also envisaged certain measures providing operational relief granted by the supervisory authorities to take account of the COVID-19 health emergency. Compared to the exercise carried out in 2019, the areas for improvement indicated by the JST were implemented and resolved. They had regarded the scenarios adopted, the structure of certain recovery indicators and the recovery options to be activated to restore compliance with prudential requirements.

The exercise highlighted the fact that the Group has recovery options that can bring the Group's overall technical profile (both in terms of capital and liquidity) to sustainable levels within 12 months of the opening of the crisis.

MREL requirement

As indicated in the Report on Operations, in early 2021 Iccrea Banca, as Parent Company, received the decision of the Single Resolution Committee on the determination of the minimum requirement of own funds and eligible liabilities (MREL - Minimum Requirement of Eligible Liabilities) on a consolidated basis, including the subordination requirement, the intermediate targets and the final target to be achieved by January 1, 2024. The Bank is pursuing continuous discussions with the Resolution Authority to define the most appropriate resolution strategy applicable to the particular case of the ICBG and the progressive construction of the Group's internal regulatory framework.

Investigations and inspections

As noted above with regard to the assessment of AML arrangements, in the first half of 2020, an inspection by the Bank of Italy of the Group's AML function was completed, the findings of which were issued on August 4, 2020. Despite substantial compliance with the new organizational and governance arrangements for AML risk adopted by the Parent Company and implemented by the Board of Directors, a number of management issues were identified. These issues underscore the need for the Parent Company to focus on recent governance and management issues at some mutual banks, and to promptly direct the completion of actions already under way, ensuring that they are fully operational, especially with regard to the refinement and strengthening of the processes and procedures involved. While not entirely positive, the report did not find any non-compliance subject to penalties. The Parent Company, taking stock of discussions with the supervisory authorities, has launched a series of process and IT measures designed to remedy the weaknesses found. The matter is constantly monitored by the Board of Auditors, which within the "close liaison" between the oversight bodies of the Group companies has initiated action to raise the awareness and engagement of those bodies in the operational issues associated with AML controls.

At the request of the ECB's Joint Supervisory Team ("JST") as part of its supervisory activity, the Chairman of the Board of Auditors met with the JST on June 3, 2020 to address a specified agenda of issues concerning various aspects of the governance of the Bank, the activity of the control functions and that of the Board of Auditors. The meeting did not identify any problems that would require mention in this report. An additional meeting will be held in the third quarter of 2021.

Oversight of statutory audit activities, the independence of the statutory audit firm and the financial reporting process

The individual and consolidated financial statements of Iccrea Banca S.p.A. at December 31, 2020 undergo statutory audit by the audit firm EY S.p.A. pursuant to Legislative Decree 39 of January 27, 2010 and in execution of the shareholders' resolution of April 30, 2019. The financial statements of the other Group companies also undergo statutory audit by EY S.p.A..

In its capacity as "Internal Control and Audit Committee", the Board of Auditors, pursuant to Legislative Decree no. 39/2010 and Regulation (EU) no. 537/2014, performed its oversight functions in this area, which primarily involved:

a) monitoring the activity of the audit firm, implementing the usual exchange of information on the relevant issues and on the various aspects of its work;
b) ongoing verification of the independence of the audit firm EY S.p.A. in conjunction with the assessment of acceptability of proposals for non-audit engagements of EY S.p.A. or entities belonging to its network.
c) the management of the tender for the engagement to perform the statutory audit of the financial statements and other related audit services for the Parent Company, Iccrea Banca S.p.A., for the consolidated financial statements of the ICBG, for other banks and the financial intermediaries in the register referred to in Article 106 of the Consolidated Banking Act and for the Group asset management company for the financial years 2021-2029 (for two companies in the direct scope, 2022-2030).

As regards the activity referred to in point a), in 2020 the Board met periodically with the audit firm to exchange information, acquiring other information concerning the approach and methods chosen with regard to:

- the audit of the data at June 30, 2020 of both the Parent Company, Iccrea Banca, and the consolidation of the ICBG at the same date, focusing on the audit strategy followed, the IT tools used, the key audit issues that emerged with regard to the affiliated banks with relevance at the consolidated level and the key audit matters of the separate financial statements of the Parent Company;
- the audit plan for the separate 2020 financial statements of Iccrea Bank and the consolidated financial statements of the ICBG, analyzing together with the independent auditors the contents of the operational planning for the performance of the audit, the main components (timing, required resources and specialists), major accounting application issues, operating systems and processes (especially with reference to the affiliated banks), materiality and significance thresholds. The Board of Auditors acquired information on the methodological system adopted by the audit firm, receiving updates on the progress of the audit engagement and on the main issues being examined by the audit firm.

The Board of Auditors provided summary reports on the main issues to the Board of Directors of Iccrea Banca, briefing the directors on the main themes addressed and any problems detected. We have no particular comments in this regard.

With regard to the activities referred to in point b), during 2020 the Board of Auditors performed careful oversight of proposals for non-audit engagements to be performed by members of the network of the statutory auditor, submitted by company units for specific advisory and methodological support needs. The requests - to be submitted in accordance with Regulation (EU) 537/2014 for pre-approval by the "Internal Control and Audit Committee" of the individual public-interest entity (in Italian law Legislative Decree 39/2010 designates the board of auditors for this role) – underwent examination and analysis by the Board of Auditors, which, appropriate, issued its authorization.

A similar procedure was followed for proposals from company units for audit-related engagements for activities to be carried out by the audit firm itself in order to complete various types of operation (e.g. GACS-secured issues, bond issues), which require accounting certifications from the statutory auditor of the entity involved.

The matter was monitored by the Board of Auditors also in the context of the "close liaison" with the oversight bodies of the Group companies, raising the awareness and engagement of those bodies with the activities to be performed by the Board in its capacity as the Internal Control and Audit Committee.

The consolidated financial statements report the fees for 2020 paid to the firm engaged to perform the statutory audit of the accounts and to the entities belonging to its network with regard to the ICBG scope of consolidation. In particular, during 2020, EY S.p.A. was paid an additional €290,000 in fees over those approved by the Shareholders' Meeting for the audit of the separate and consolidated financial statements of Iccrea Banca S.p.A. in relation to the extraordinary and unforeseen additional effort required by the first year of statutory audit activities.

With regard to the rules, procedures and results of the tender referred to in point c), reference is made to the proposal referred to in Regulation (EU) no. 537/2014 that the Board of Auditors prepared for the consequent resolutions by the Shareholders' Meeting called for to approve the separate and consolidated financial statements at December 31, 2020.

During the period under review, the Board, again in light of the duties established by Legislative Decree 39/2010 in its capacity as the Internal Control and Audit Committee, constantly exchanged information with the Chief Financial Officer area of the Parent Company in order to acquire information on the financial reporting process of Iccrea Banca S.p.A., on its main constituent elements (processes, systems, resources) and on its functionality and effectiveness.

From the information acquired, including that gained in discussions with the audit firm, no shortcomings in the administrative and accounting procedures of particular significance were reported with regard to the objective of providing an accurate representation of operational events in compliance with international accounting standards.

Transactions with related parties

The Board took note of the periodic examination by the Committee for Transactions with Related Parties - coinciding with the Affiliated Bank Interventions Committee – of transactions with related parties carried out by the Iccrea Cooperative Banking Group and related amounts at the end of the period. This examination did not reveal any transactions that did not comply with the external regulations or the Group's internal rules.

With regard to the ICBG, in compliance with the related parties rules established under supervisory regulations, the Parent Company defined its policy for such transactions, disseminating it with a specific directive to all Group companies. In 2020, the Board of Directors of Iccrea Banca approved an update of the policy to implement the amendments to the regulations approved by the Bank of Italy with the 33rd update of Circular 285 of 2013 and to fine-tune the provisions in response to experience gained in the period since its issue. Compared with the ordinary arrangements established in supervisory regulations, in certain cases the policy envisages more conservative mechanisms in order to ensure the effective and uniform application of the rules. It should be noted that, also in response to recommendations received from the supervisory authorities, a functional indicator has been included in the Risk Appetite Framework to measure exposures to related parties and persons closely associated with them at both the consolidated level and at the individual level of the Group banks, with a view to strengthening the controls over this type of transaction.

Compliance and Internal Audit carry out periodic audits of the compliance of the regulatory and process arrangements in this area and the application of the policy at all the companies of the Banking Group. The findings of these audits indicate that the completion of the regulatory framework and measures to raise the quality of IT support are areas for improvement.

The draft financial statements report the information relating to transactions with related parties (Part H - Transactions with related parties), in compliance with the provisions of IAS 24.

ICBG remuneration and incentive policies

The Board of Directors of Iccrea Banca S.p.A. approved the “2021 ICBG Remuneration and Incentive Policies”, to be submitted to the Shareholders’ Meeting, together with the “Standard document of remuneration and incentive policies for the affiliated banks” and the “Material risk takers identification process for the Parent Company, companies in the direct scope and associated outcomes”.

Following a comprehensive revision of the policies in previous years that addressed all fundamental aspects of the issue, which was implemented with the cooperation of the relevant units and the Compliance and Risk Management functions, each in its area of responsibility, the current update of the policies presented to the Shareholders’ Meeting includes additional refinements of the various and complex mechanisms for identifying and measuring the objectives of the incentive system and its beneficiaries. The Board of Auditors monitored this additional review carried out by Iccrea Banca under the supervision of the Remuneration Committee, focusing its attention on compliance with regulatory constraints regarding the configuration of the incentive system for the corporate control functions in order to safeguard their independence.

With regard to the 2020 Internal Audit Report on Remuneration and Incentive Policies and Practices, prepared by the Internal Audit function, the analyses found that remuneration practices were generally compliant with the policies approved by the Board of Directors and the Shareholders' Meeting, as well as the applicable supervisory regulations, indicating a number of minor areas for improvement within the internal regulatory system.

Supervisory Body pursuant to Legislative Decree 231/2001

With specific regard to the functions of the Supervisory Body pursuant to Legislative Decree 231/2001, during the period under review the Board of Auditors monitored the functioning and observance of the Compliance Model, receiving the reporting provided for under the Model and acquiring any relevant information from the verification activities of the control functions on the possible presence of cases falling within the criminal risk areas of Legislative Decree 231/01.

During the period under review in this Report, the general tenor of the performance of company operations and of the decisions and conduct of the Board of Directors and management was generally correct and appropriate. There were therefore no significant events or anomalies of relevance under the provisions of Legislative Decree 231/01 during the reference period.

In view of the radical evolution of the governance structure and organization of the Bank and the new offenses introduced in the catalog of Legislative Decree 231/01, during the first quarter of 2021 - upon conclusion of a complex project involving all Company areas and Chiefs and the control functions - the Board of Directors approved the revision of the Compliance Model of Iccrea Banca S.p.A.. The Supervisory Body oversaw the main phases of the project, positively evaluating the contents of the new Model, although refinements are already planned for 2021 in response to organizational changes under way or planned.

COVID-19 emergency

The report on operations prepared by the directors discusses the main impacts on the economic and productive environment of the COVID-19 pandemic in Italy, as well as the organizational and operational measures taken by the Parent Company and the Group companies to mitigate the resulting effects on the operation of business and governance processes. In particular, a Covid-19 Emergency Task Force was set up at the Parent Company to act as an inter-functional emergency unit charged with continuously assessing the evolution of the pandemic, ensuring adequate coordination mechanisms and guaranteeing the harmonization within the Group of interpretations of the regulations and the application of the various provisions and guidelines issued by the Government, Community bodies and other national and EU authorities.

The main issues addressed, analyzed and managed therefore concerned safety and operational continuity, the activation of the initiatives envisaged in government measures and industry agreements, and the actions to be taken to ensure the monitoring of credit developments and the related risk factors, and the measures to adapt the methods and processes of the Group's credit risk assessment and management framework.

Through the disclosures periodically provided to the Board of Directors and the Risk Committee, the Board of Auditors has taken cognizance of the measures indicated above, with the activation of emergency plans and the continuous monitoring of the orderly conduct of the company's daily business.

Specific monitoring and reporting was produced – including for the benefit of the supervisory Authorities, on the liquidity situation of the ICBG and other key performance and financial parameters and indicators. Risk monitoring was therefore strengthened, with the production of periodic reports to the management and oversight bodies on developments in the main indicators on conditions in the financial markets, on liquidity risk (operational and structural) at the level of the ICBG and liquidity subgroups and on market and counterparty risks. The strengthening of reporting on credit risk monitoring in the COVID-19 environment was highly structured.

In its capacity as the 231/01 Supervisory Body, the Board of Auditors assessed the risk of criminal offenses that could potentially be amplified by the COVID-19 emergency, which essentially regarded the protection of employee health, IT risks and risks in relations with the government entities. The audits performed and those still in progress have not found any problems so far.

Non-Financial Statement

The Consolidated Non-Financial Statement (NFS) reports information on the non-financial activities of the Iccrea Cooperative Banking Group, supplementing the financial information provided with the financial statements and with the public disclosure required by prudential regulations. It is prepared in compliance with Legislative Decree 254/2016 and in accordance with Global Reporting Initiative (GRI) Standard 2016.

The Board has taken note of the report issued by the audit firm on May 5, 2021, which reports that there is no evidence to suggest that the ICBG's Non-Financial Statement for the year ended December 31, 2020 has not been prepared in all significant aspects in compliance with the applicable legislation.

On the basis of the information acquired, the Board of Auditors certifies that, during its examination of the Non-Financial Statement, no evidence of non-compliance and/or violation of the applicable regulatory provisions came to its attention.

Further information on the oversight activity of the Board of Auditors

In the light of the oversight activity performed in the period covered by this Report, we report that:

- the Board of Auditors is not aware of transactions carried out during the period under review in this report that did not comply with the principles of correct administration, that were authorized and executed in violation of law or the articles of association or were not performed in the interest of Iccrea Banca S.p.A., in conflict with the resolutions of the Shareholders' Meeting, or were manifestly imprudent or risky, lacking the necessary information in the event of the existence of interests of the directors or were such as to compromise the integrity of corporate assets;
- there were no atypical and/or unusual transactions carried out with third parties, related parties or group companies;
- no complaints were received by the Board of Auditors pursuant to Article 2408 of the Civil Code and that, following the checks performed, no omissions, censurable facts or significant irregularities were found that would merit mention in this report.

In the exercise of its functions, the Board of Auditors exchanged information with the boards of auditors of the banks directly controlled by the Parent Company, as required by supervisory regulations, concerning the administration and control systems and developments in company operations. The Board of Auditors is engaged in activities to ensure "close liaison" with the boards of auditors of the affiliated banks in certain areas of prime interest to the oversight bodies of the banks, such as AML and statutory audit. The Board of Auditors exchanged information with the oversight bodies of the affiliated banks in relation to specific circumstances.

In addition to the information already provided in this report, during the year the Board of Auditors issued the opinions and provided the reports required of it under applicable legislation, supervisory regulations and the articles of association.

The Board of Auditors also declares that:

- it verified compliance with independence requirements on the part of the individual members of the Board of Auditors and that it both periodically and on a case-by-case basis took note of and assessed the notices received from its individual members regarding the number of other positions held/terminated and the related time commitment;
- it found that compliance with the integrity and experience requirements for corporate officers was appropriately assessed by the Board of Directors, as was the verification of other positions held for the purpose of the prohibition on interlocking officerships under Article 36 of Decree Law 201/2011.

Draft financial statements and Report on Operations

The Board of Auditors examined the company financial statements for the year ended December 31, 2020. As the Board is not charged with the statutory audit of the financial statements, we performed an overall summary check of the general layout of the financial statements and their general compliance with the law with regard to their formation and structure, and in this regard we have no particular observations to report. The Board of Auditors also monitored compliance with the procedural rules governing the preparation of the consolidated financial statements.

The Board of Auditors also declares it has examined the following reports prepared by EY S.p.A.:

- the audit reports (individual and consolidated) issued on May 5, 2021 in accordance with Article 14 of Legislative Decree 39/2010 and Article 10 of Regulation (EU) no. 537/2014;

- the additional report issued on May 5, 2020 in accordance with Article 11 of Regulation (EU) no. 537/2014, to the Board of Auditors in its capacity as the Internal Control and Audit Committee. This Report contains the annual confirmation of independence issued pursuant to Article 6, paragraph 2, letter a) of Regulation (EU) no. 537/2014. The Board informed the management body of the audited entity of the outcome of the statutory audit and sent the additional report referred to in Article 11 of Regulation (EU) no. 537/2014 to that body.

The above reports on the audit of the separate financial statements and the consolidated financial statements of the Group indicate that both documents provide a true and fair view of the financial position of Iccrea Banca S.p.A. and the ICBG at December 31, 2020, as well as the performance and cash flows for the year ended on that date in accordance with the International Financial Reporting Standards endorsed by the European Union and the measures issued in implementation of Article 9 of Legislative Decree 38/05 and Article 43 of Legislative Decree 136/15. Moreover, in the opinion of the auditor, the Report on Operations is consistent with the financial statements and the consolidated financial statements of the ICBG at December 31, 2020 and has been prepared in compliance with the law.

The statutory auditor, with whom we met periodically for the purpose of exchanging information, did not report any acts or facts deemed censurable or any irregularities to the Board of Auditors.

In view of all of the foregoing and the content of the reports drafted by the statutory auditor, the Board of Auditors, within the scope of its responsibilities, finds no impediment to the approval of the draft separate financial statements at December 31, 2020 of Iccrea Banca S.p.A. and the allocation of the result for the year proposed by the Board of Directors.

Roma, May 11, 2021

For the Board of Auditors

The Chairman

Fernando Sbarbati

REPORT OF THE AUDIT FIRM

Building a better working world

Iccrea Banca S.p.A.

Consolidated financial statements as at December 31, 2020

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014

EY S.p.A.
Via Lombardia, 31
00187 Roma

Tel: +39 06 324751
Fax: +39 06 324755504
ey.com

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Iccrea Banca S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Gruppo Bancario Cooperativo Iccrea (the "Group"), which comprise the consolidated balance sheet as at December 31, 2020, the income statement, the statement of comprehensive income, the statement of changes in shareholder's equity and the statement of cash flows for the year then ended, and notes to the financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 43 of Legislative Decree n. 136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Iccrea Banca S.p.A. (the "Company") in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EY S.p.A.
Sede Legale: Via Lombardia, 31 - 00187 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

We identified the following key audit matter:

Key Audit Matter	Audit Response
Classification and valuation of financial loans to custormers Financial loans to customers measured at amortized cost, which are reported in line item 40 b) of the balance sheet amounted to 87,278 million Euros and represent approximately 52% of total assets at December 31, 2020. The classification and valuation of loans to customers are relevant for the audit due to the significance of the amount of the loans to the financial statements as a whole and in consideration of the fact that the impairment provisions are determined by the Directors through the use of estimates that have a high degree of complexity and subjectivity. Further, such estimation processes have been revised in order to reflect the context of the current uncertainty regarding macroeconomic development framework resulting from the spread of the Covid-19 pandemic, as well as the government initiatives to support the economy, amongst which, in particular, payment moratoria and new or renegotiation of loans guaranteed by the state. These estimates also considered the preliminary results of the Credit File Review activities as part of the broader Comprehensive Assessment process launched by the European Central Bank ("ECB") on the Gruppo Bancario Cooperativo Iccrea. Amongst the estimation factors, the following are particularly significant: • the identification and calibration of the parameters for determining the significant increase in credit risk compared to the initial recognition date, for the purpose of allocating the exposures in Stage 1 and Stage 2 (non-performing loans); • the definition the models and parameters regarding the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) used for the calculation of one year expected losses (ECL - Expected Credit Losses) for exposures in Stage 1 and lifetime for exposures in Stage 2 based on historical data observations for each risk class along	In relation to this matter, also considering the revisions to the estimation processes regarding impairment losses on a collective basis to reflect the heightened uncertainty deriving from the spread of the Covid-19 pandemic, our audit procedures included, amongst others: ▪ updating the understanding the policies, processes and controls implemented by the Gruppo Bancario Cooperativo Iccrea in relation to the classification and valuation of financial loans to customers and performing tests over key controls, including those concerning IT systems for the purpose of verifying their operating effectiveness; ▪ performing, on a sample basis, substantive procedures aimed at verifying the correct classification and valuation of credit exposures, with particular reference to the exposures affected by the payment moratoria measures; ▪ understanding the methodologies used in relation to statistical valuations and the reasonableness of the assumptions used including the new macroeconomic scenarios and their weighting; ▪ performing compliance and testing procedures, which were aimed at verifying the appropriate determination of the PD, LGD and EAD parameters for the purpose of determining the impairment provisions; ▪ performing comparative analysis procedures for the loan portfolio regarding the most significant differences compared to the closing balances of the preceding year end and the related coverage levels; ▪ verification through analysis of supporting documentation of the accounting for sale transactions of impaired loans, occurring

Key Audit Matter	Audit Response
with forward looking information, including macroeconomic factors; • identification of evidence that presumes that carrying amount the loan is not fully recoverable, with related classification of the exposures in Stage 3 (defaulted loans); • for loans classified in Stage 3, the determination of the criteria for estimating the expected cash flows according to the recovery strategy; • the probability of sale and the related cash flows for the exposures that form part of a disposal plan. Disclosures regarding the evolution of the quality of the financial loans to customers portfolio and the criteria adopted for the classification and valuation are provided in Part A – Accounting policies, Part B - Information on the consolidated balance sheet, Part C - Information on the consolidated income statement and Part E – Risk and risk management policies of the notes to the consolidated financial statements.	during the year, implemented according to the plan aimed at reducing the portfolio of impaired loans; The procedures described above were also carried out with the support of EY network specialists on valuation models for financial instruments and information systems. Finally, we analysed the adequacy of the disclosures provided in the notes to the financial statements.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 43 of Legislative Decree n.136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Gruppo Bancario Cooperativo Iccrea's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Iccrea Banca S.p.A. or to cease operations or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Gruppo Bancario Cooperativo Iccrea's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Iccrea Banca S.p.A., in the general meeting held on June 20, 2010, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2010 to December 21, 2018, which has been subsequently prolonged for the years ending December 31, 2019 and 2020 by the general meeting held on April 29, 2019.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee ("Collegio Sindacale") in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010

The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the Report on Operations of Gruppo Bancario Cooperativo Iccrea as at December 31, 2020, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.
We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations with the consolidated financial statements of Gruppo Bancario Cooperativo Iccrea as at December 31, 2020 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.
In our opinion, the Report on Operations is consistent with the consolidated financial statements of Gruppo Bancario Cooperativo Iccrea as at December 31, 2020 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information has been approved by Directors.
Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information is subject to a separate compliance report signed by us.

Rome, May 5, 2021

EY S.p.A.
Signed by: Wassim Abou Said, Auditor

This report has been translated into the English language solely for the convenience of international readers.

REPORT AND SEPARATE FINANCIAL STATEMENTS OF THE PARENT COMPANY ICCREA BANCA SPA

REPORT ON OPERATIONS

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

The income statement and balance sheet presented below have been reclassified based on management criteria for the purpose of facilitating comparability of information.

Following the Board of Directors' resolution of November 29, 2018, regarding a project to rationalize the electronic money business — which calls for the spin-off of the activities relating to this sector into a new company (Ventis S.p.A.), which was established on December 20, 2018 — in application of IFRS 5, in the separate financial statements of Iccrea Banca the items attributable to the aforementioned branch have been reclassified to the balance sheet and income statement items for assets held for sale. In view of the difficulties of proceeding with the spin-off connected with the pandemic, the spin-off has only been postponed until 2021.

In addition, following the resolution of the Board of Directors of December 13, 2018, work continued on developing the Group's ICT project and, within the scope of the overall reorganization following the creation of the Iccrea Cooperative Banking Group, the sale of the IT business units of Iccrea Banca and Iccrea BancaImpresa to BCC Sistemi Informatici was completed as of July 1, 2020, with the latter company officially becoming the new hub of information systems and technology for the Group. In the financial statements of Iccrea Banca at December 31, 2020, the items related to the IT business unit have been reclassified under the balance sheet and income statement items related to assets held for sale in accordance with IFRS 5.

Given the above, for the purposes of comparability of the results of the Parent Company with the previous year, the figures related to the two business units being sold/sold have been reallocated to the related items of the separate financial statements.

BALANCE SHEET

Assets

€/thousands	31/12/2020	31/12/2019
Financial assets measured at amortized cost – *Due from banks – Loans and securities*	33,192,774	29,273,773
Financial assets measured at amortized cost – *Due from customers – Loans*	4,501,678	5,843,040
Financial assets measured at amortized cost – *Due from customers – Securities*	9,791,187	7,434,784
Financial assets measured at fair value through profit or loss	1,335,470	1,279,864
Financial assets measured at fair value through other comprehensive income	311,207	367,133
Equity investments	1,206,207	1,155,401
Other assets	300,457	315,037
Total interest-bearing assets	**50,638,980**	**45,669,032**
Other non-interest-bearing assets	320,177	407,527
Total assets	**50,959,158**	**46,076,559**

Total assets at December 31, 2020, amounted to €51 billion, up €46.1 billion compared with the end of December 2019, due mainly to the following factors:

- an increase in loans to banks due to greater collateralized lending (+€6.7 billion, all intercompany, including Iccrea BancaImpresa in the amount of €3.6 billion) and uses in current accounts and deposits as well as the reserve requirement funds of the affiliated banks (totaling €0.3 billion), effects which were partially offset by a reduction in investments in debt securities (down €3.3 billion due to the redemption of bonds issued by Iccrea BancaImpresa related to the aforementioned spin-off);
- a decrease in loans to ordinary customers (down to €4.5 billion, -€1.3 billion from the end of December 2019), which largely includes intercompany financing to non-bank companies of the Group (€2.1 billion) and repurchase agreements with the Clearing & Guarantee Fund (€1.8 billion, down €1.1 billion from the end of 2019);
- an increase in amounts due from customers for securities related to the HTC business model (which reached €9.8 billion, largely in government securities; +€2.4 billion compared with the end of the previous year) in implementation of the Group's new T-LTRO III financial strategy, an increase which was partially offset by, above all, a decrease in repurchase agreements with the Clearing & Guarantee Fund (-€1.2 billion);
- a decrease of €55.9 million in financial assets measured at fair value through other comprehensive income, referring to the HCTS business model and mainly made up of government securities, which showed a balance of €311 million at the end of 2020;
- an increase in assets measured at fair value through profit or loss (up €55.6 million to €1.3 billion), the net result of the following factors:
  - an increase in derivatives trading (+€186 million), offset by an analogous trend on the liability side;
  - a decrease in other financial assets mandatorily measured at fair value (-€103 million) due to a contraction in the value of units in CUIs (-€112 million, due to sales of investment funds of around €77 million, capital losses of €28 million almost entirely on "Securis"

real estate funds – about €13 million of which resulting from the calculated liquidity adjustment – and redemptions of these funds for about €6 million), which was only partially offset by an increase in the value of debt securities held, mainly from banks (about €7 million);

- a reduction in assets originally measured at fair value (€22 million) attributable entirely to assets invested by the Parent Company as the manager of the guarantee scheme and resulting from the divestment of debt securities during the fourth quarter;

- an increase in equity investments resulting from the subscription (for a future capital increase) of an interest in BCC Vita (+€22.5 million), the consideration (+€62.9 million) received on the transfer of the ICT division to BCC Sistemi Informatici (against a reduction in the assets transferred, mainly related to property, plant and equipment and intangible assets), and an increase in the interests in Ventis Srl and BCC CreditoConsumo (both in the amount of €2.8 million). All of the above was partially offset by the writedowns of Banca Sviluppo (€1.5 million), Iccrea BancaImpresa (-€23.9 million), Venti Srl (-€7.7 million), BCC Beni Immobili (€5.2 million), and Banca Mediocredito del Friuli Venezia Giulia (€5.5 million).

Loans to banks, in particular, largely include lending to the affiliated banks (€20.8 billion, an increase of €2.9 billion compared with 2019). These loans, disbursed with pool collateral, include approximately €19 billion in operations with the ECB (T-LTRO III in the amount of €18.9 billion and T-LTRO II for the remainder of €78 million), with the residual component being other forms of collateralized financing. Loans to other credit institutions (including debt securities) include €7.4 billion in intercompany lending (about €6.8 billion to Iccrea BancaImpresa) and deposits with third parties for the remainder.

€/thousands	31/12/2020	31/12/2019
Mutual banks	20,824,539	17,955,094
Other credit institutions	12,368,235	11,318,679
Loans to banks	**33,192,774**	**29,273,773**

Liabilities and equity

€/thousands	31/12/2020	31/12/2019
Financial liabilities measured at amortized cost – *Due to banks*	33,889,855	20,782,376
Financial liabilities measured at amortized cost – *Due to customers*	9,740,677	17,228,036
Financial liabilities measured at amortized cost – *Securities issued*	4,186,006	5,021,316
Financial liabilities held for trading	563,511	381,867
Financial liabilities designated as at fair value	340,957	424,058
Other liabilities	391,585	384,215
Total interest-bearing liabilities	**49,112,591**	**44,221,870**
Other non-interest-bearing liabilities	215,700	150,200
Shareholders' equity	1,697,663	1,831,906
Earnings for the year	(66,795)	(127,417)
Total liabilities and equity	**50,959,158**	**46,076,559**

The increase in liabilities and equity in 2020 is attributable entirely to the increase of €4.9 billion in interest-bearing funding, which is the net effect of the following factors:

- an increase of €13.1 billion in amounts due to banks, up to €33.9 billion, due to an increase in time deposits (+€4.4 billion, entirely intercompany), ECB funding (+€7 billion), current accounts and demand deposits (+€1.3 billion), and repos with banks (+€0.4 billion);
- a reduction of €8.3 billion in amounts due to customers and securities issued, which settled at €13.9 billion, due to: (i) a decrease in repurchase agreements with the Clearance & Guarantee Fund (-€7.1 billion); (ii) a reduction in OPTES operations with the MEF (-€1 billion), which was partially offset by a new loan with CDP (+€0.5 billion); (iii) a decrease in securities issued due almost entirely to the redemption of matured securities (-€1.1 billion) and the early settlement of subordinated securities with the affiliated banks (-€134 million) as authorized by the ECB, which was partially offset by new issues in the amount of €0.5 billion;
- an increase in liabilities held for trading, attributable mainly to trading derivatives (€182 million, related to the same phenomenon as described on the asset side);
- a decrease in financial liabilities designated as at fair value related to financing received from the affiliated banks (the *ex ante* portion) in relation to the guarantee scheme (-€83 million) due to repayments made in January 2020.

€/thousands	31/12/2020	31/12/2019
Mutual banks	13,853,920	8,177,376
Other credit institutions	20,035,935	12,605,000
Due to banks	**33,889,855**	**20,782,376**

Amounts due to banks, which include €5.4 billion in deposits with the affiliated banks to meet reserve obligations, include: (i) €13.9 billion in positions with the affiliated banks related to time deposits (€11 billion) and amounts held in the daily settlement account (€2.8 billion); (ii) €20 billion in amounts due to other credit institutions, largely related to financing from the ECB within the scope of T-LTRO III in the amount of €18.9 billion (with the remaining €78 million related to T-LTRO II); and (iii) intercompany positions with companies in the direct scope for the remainder.

€/thousands	31/12/2020	31/12/2019
Current accounts and deposits	941,373	1,009,117
Financing	8,212,042	15,789,731
Other payables	587,262	429,188
Due to customers	**9,740,677**	**17,228,036**

Equity

At December 31, 2020, the share capital of Iccrea Banca, represented by 27,125,759 ordinary shares with a par value of €51.65 each, was equal to €1.4 million, and remains unchanged from 2019. Shareholders' equity, excluding earnings for the year, amounted to €1.7 billion, a decrease (of €134 million) compared with December 31, 2019. The change is mainly due to: the loss carried forward from 2019 (-€127.4 million); the decrease in valuation reserves (-€11.4 million) mainly due to changes in the CFH reserve as a result of the new hedging policy for forward security sales; and the zeroing of the treasury shares reserve (€4.6 million) in accordance with the shareholder resolution.

Income statement

€/thousands	31/12/2020	31/12/2019
Net interest income	**86,457**	**47,239**
Gains/losses on financial transactions	48,177	39,948
Dividends	37,216	51,361
Net fee and commission income	**152,470**	**162,497**
Other operating expenses/income	169,327	118,912
Gross income	**493,647**	**419,958**
Personnel expenses	(196,489)	(153,797)
Other administrative expenses	(305,095)	(272,989)
Net adjustments of property, plant and equipment and intangible assets	(11,671)	(12,083)
Total operating expenses	**(513,256)**	**(438,869)**
Gross operating profit	**(19,608)**	**(18,911)**
Net provisions for risks and charges	(1,875)	(1,289)
Net losses/recoveries on impairment of loans and other financial transactions	(8,706)	(38,325)
Total provisions and adjustments	**(10,581)**	**(39,614)**
Profit/(loss) from equity investments	(44,038)	(76,765)
Profit/(loss) before tax	**(74,227)**	**(135,290)**
Income tax expense	7,432	7,873
Profit/(loss) for the period	**(66,795)**	**(127,417)**

The net loss for 2020 came to €66.8 million, an improvement over the loss at December 2019 (€127.4 million). The main factors that contributed to this performance concerned the following:

- an increase in gross income (+€73.7 million) to €493.7 million, including the following factors:
  - an increase in net interest income (+€39.2 million) attributable to: the increased income on Italian government bonds indexed to Italian and European inflation in the HTC portfolio (+€13.7 million); the net contribution of ECB funding (+€6.8 million); the increase in interest on OPTES operations (+€5.4 million); repos (+€10.1 million); and the interest on the daily settlement account (+€4.8 million). These factors were partially offset by a decrease in interest on the lending of the companies within the direct scope;
  - a decrease in net fee and commission income (-€10 million) due mainly to reduced spending in the use of payment cards (with lower transaction volumes and fewer international ATM withdrawals) and to a reduction in check transactions as a result of governmental restrictions in order to combat COVID-19;
  - an increase in other gains and losses on financial transactions (up €8.2 million compared with the previous year to €48.2 million) driven by increased gains on the sale of 15% of the securities (excluding government securities) held in the HTC portfolio and by the additional sale of FVOCI securities in the HTCS portfolio, which generated gains of €54 million and €2 million, respectively

(+€34 million compared with 2019). These factors were partially offset by the significant reduction in 2020 of the net result on financing activities (down €26 million compared with 2019, going from a net gain of €15 million to a net loss of €11 million), which, in 2019, included a number of extraordinary positive components (the sale of Nexi securities), whereas the year under review was affected by significant losses above all on units in CIUs (-€14.8 million compared with the previous year and essentially all attributable to the Securis funds) and on equity securities in the HTCS portfolio (-€13 million), effects which were only partially mitigated by gains on the trading of securities and derivatives (+€5 million) and on hedging activities (+€1.6 million);

- a decrease in dividends received (down €14.1 million to €37.2 million) due to poorer performance compared with the previous year and/or losses recognized by a number of subsidiaries in 2019;
- an increase in other operating expenses/income (+€50.4 million) due mainly to the increased billing of services related to the new ICBG. Class-1 services increased by €17.7 million (from €42.3 million to €60 million); Class-2 services increased by €19.5 million (from €25.9 million to €45.4 million), and income on project services increased by €9.4 million (from €15.6 million to €25.0 million).

- an increase of €74.4 million in operating expenses to €513.3 million at the end of 2020 due mainly to: (i) an increase in personnel expenses (from €153.8 million to €196.5 million), the combined effect of the new size of the workforce following creation of the ICBG and the extraordinary cost incurred for early retirement incentives (€12.1 million); (ii) a generalized increase in administrative expenses, which reflects, in part, the increase in contributions to the Resolution Fund (+€8.1 million compared with the previous year);
- a decrease in adjustments to controlling interests (-€38.2 million), going from €76.8 million in 2019 (related, above all, to the impairment loss on the interest in Iccrea BancaImpresa) to €44 million. In this regard, impairment was recognized on the interests held in Iccrea BancaImpresa (€24.0 million), Banca Sviluppo (€1.5 million), Ventis (€7.7 million), BCC Beni Immobili (€5.2 million), and Banca Mediocredito FVG (-€5.5 million);
- a decrease in the impairment of loans, from €38.3 million in 2019 – a year in which the bad loans underlying the note of the vehicle “Lucrezia 4” were included in the “sale scenario” and were then sold within the scope of the securitization backed by public guarantee (GACS IV) – to €8.7 million.

ASSETS HELD FOR SALE – ELECTRONIC MONEY BUSINESS UNIT

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

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

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

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

Balance sheet

€/thousands	31/12/2020	31/12/2019
Financial assets measured at amortized cost	580	556
Equity investments	-	4,920
Property, plant and equipment	-	3
Intangible assets	3,380	4,172
Other assets	185,472	162,049
Total assets	**189,432**	**171,700**

€/thousands	31/12/2020	31/12/2019
Financial liabilities measured at amortized cost – Due to customers	108,728	99,170
Other liabilities	59,426	54,789
Post-employment benefits	465	463
Provisions for risks and charges	2,194	1,508
Profit/(loss) for the period (+/-)	18,619	15,770
Total liabilities and equity	**189,432**	**171,700**

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

Income statement

€/thousands	31/12/2020	31/12/2019
Fee and commission income	340,487	379,046
Fee and commission expense	(260,158)	(289,212)
Net fee and commission income	**80,330**	**89,834**
Gross income	**80,330**	**89,834**
Net income/(loss) from financial operations	**80,330**	**89,834**
Administrative expenses:	(69,386)	(82,677)
a) personnel expenses	*(5,492)*	*(7,995)*
b) other administrative expenses	*(63,894)*	*(74,682)*
Net provisions for risks and charges	(444)	(483)
b) other net provisions	*(444)*	*(483)*
Net losses/recoveries on impairment of loans and other transactions	6	(6)
Net writedowns/writebacks of property, plant and equipment	-	(2)
Net writedowns/writebacks of intangible assets	(723)	(587)
Other operating expenses/income	16,295	16,100
Operating expenses	**(54,253)**	**(67,655)**
Profit/(loss) before tax on continuing operations	**26,076**	**22,179**
Income tax expense	**(7,457)**	**(6,410)**
Net profit/(loss) for the period	**18,619**	**15,770**

ASSETS HELD FOR SALE - ICT BUSINESS UNIT

The project to transfer the ICT business unit by Iccrea Banca and Iccrea BancaImpresa with the reorganization and consequent outsourcing of ICT to BCC Sistemi Informatici is part of a broader, more complex ICT strategy initiated by the Parent Company in 2015 and resumed immediately following the establishment of the ICBG.

Given the particular nature of the transformation taking place in the mutual banking segment and within the ICBG specifically, a plan for the development of the ICT segment was defined that encompasses investments in resources, processes and infrastructures in line with the strategies of the Group and calls for:

- in an initial phase, the creation, based on BCC Sistemi Informatici, of a single hub of information systems and technology for the ICBG into which the Group's ICT activities will flow, while safeguarding current operations and processes within a landscape of profound transformation;
- over the medium term, the convergence and full integration of all ICT components of the ICBG into BCC SI by developing the segment to support and facilitate operations and the future processes of the affiliated banks and of the Group.

The expected medium to long-term benefits include a significant increase in service levels and a general improvement in the ICT system, so as to support business growth throughout the Group as a result of the ICT integration, convergence and evolution within the scope of the project. Over the short term, we will see increased levels of ICT integration between the Parent Company and the affiliated banks, particularly within all areas of governance and risk management.

The transferred division consists of the set of assets and liabilities relating to Iccrea Banca's current ICT segment, including the employees, assets, and other legal relationships pertaining to it.

The financial performance and standing of the ICT division is shown below.

Balance sheet

€/thousands	30/06/2020
Property, plant and equipment	12,677
Intangible assets	55,223
Other assets	27,827
Total assets	**95,727**

€/thousands	30/06/2020
Financial liabilities measured at amortized cost	35
b) Lease liabilities	35
Other liabilities	133,735
Post-employment benefits	1,860
Provisions for risks and charges	569
Profit/(Loss) for the period	(40,472)
Total liabilities and shareholders' equity	**95,727**

Income statement

€/thousands	30/06/2020
Fee and commission income	4,056
Fee and commission expense	-
Net fee and commission income	**4,056**
Gross income	**4,056**
Net gains/(losses) from financial operations	**4,056**
Administrative expenses:	(38,435)
a) personnel expenses	*(7,842)*
b) other administrative expenses	*(30,593)*
Net writedowns/writebacks of property, equipment and intangible assets	(2,356)
Net writedowns/writebacks of intangible assets	(6,305)
Other operating expenses/income	2,568
Operating expenses	**(44,528)**
Profit/(loss) before tax on continuing operations	**(40,472)**
Income tax expense	**-**
Profit/(Loss) for the period	**(40,472)**

REORGANIZATION OF THE GROUP'S "CORPORATE" SEGMENT

In order to maximize the potential synergies and efficiencies of the model/process in order to enhance the level of the services provided to the affiliated mutual banks as part of the evolutionary plan for the “Corporate” segment, which provides for the reorganization of the companies within the direct scope operating in that segment, the transfer of Iccrea BancaImpresa's loan operations (ordinary credit, special and foreign credit and extraordinary corporate finance operations) to Iccrea Banca was completed, with the latter retaining solely those activities related to leasing.

This reorganization, consistent with the strategic guidelines of the Group, was carried out with a view to achieving the following objectives: (i) specialization of the activities of the Group's “Corporate” segment in order to improve the levels of service offered to the customers of the mutual banks; (ii) expanding the operational standardization of lending processes and achieving operational synergies on transactions that lend themselves to standardized processing; and (iii) focusing of specialist skills in order to enhance the support provided to the mutual banks in the development and planning of customer activities through the creation of a single hub for business services.

REFERRALS TO OTHER PARTS OF THE FINANCIAL STATEMENTS

This separate report on operations only includes comments on developments in Parent Company operations. For all other information required under the provisions of law and regulations, reference should be made - in the context of the discussion of the specific issues – to the notes to these individual financial statements or to the consolidated financial statements and the related report on operations.

In particular, please see to the notes to these separate financial statements with regard to:

- information on the Bank's transactions with related parties, which are reported in Part H;
- information on financial and operational risks, which are discussed in Part E;
- information on capital, which is reported in Part F.

Readers should instead consult the report on operations in the consolidated financial statements with regard to:

- information on the main risks and uncertainties;
- events subsequent to the balance sheet date and the outlook for operations.

Finally, please consult the report on operations in the consolidated financial statements for more information on the main characteristics of the risk management and internal control systems with regard to the financial reporting process (Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Financial Intermediation.

SEPARATE FINANCIAL STATEMENTS

BALANCE SHEET

Assets		31/12/2020	31/12/2019
10.	Cash and cash equivalents	209,427,984	246,136,800
20.	Financial assets measured at fair value through profit or loss	1,335,469,718	1,279,863,832
	a) financial assets held for trading	573,876,461	393,324,630
	b) financial assets designated as at fair value	363,255,123	385,110,727
	c) other financial assets mandatorily measured at fair value	398,338,133	501,428,475
30.	Financial assets measured at fair value through other comprehensive income	311,207,037	367,132,806
40.	Financial assets measured at amortized cost	47,485,059,511	42,551,041,509
	a) due from banks	33,192,774,434	29,273,773,496
	b) loans to customers	14,292,285,077	13,277,268,013
50.	Hedging derivatives	8,710,139	4,786,773
60.	Value adjustments of financial assets hedged generically (+/-)	1,157,992	1,178,316
70.	Equity investments	1,206,206,868	1,150,480,717
80.	Property, plant and equipment	3,513,953	17,125,137
90.	Intangible assets	2,127,456	53,946,254
100.	Tax assets	91,859,287	80,177,993
	a) current	62,357,835	46,916,278
	b) deferred	29,501,452	33,261,715
110.	Non-current assets and disposal groups held for sale	189,432,272	171,699,899
120.	Other assets	114,985,436	152,988,494
	Total assets	**50,959,157,653**	**46,076,558,530**

Liabilities and shareholders' equity		31/12/2020	31/12/2019
10.	Financial liabilities measured at amortized cost	47,707,808,743	42,932,558,486
	a) due to banks	33,889,854,635	20,782,376,367
	b) due to customers	9,631,948,553	17,128,865,970
	c) securities issued	4,186,005,555	5,021,316,149
20.	Financial liabilities held for trading	563,511,152	381,867,344
30.	Financial liabilities designated as at fair value	340,957,044	424,058,244
40.	Hedging derivatives	173,821,352	118,343,799
60.	Tax liabilities	1,173,410	1,406,576
	b) deferred	1,173,410	1,406,576
70.	Liabilities associated with assets held for sale	170,812,935	155,930,039
80.	Other liabilities	332,159,604	329,426,436
90.	Employee termination benefits	16,179,392	18,002,834
100.	Provisions for risks and charges:	21,866,555	10,475,985
	a) commitments and guarantees granted	69,648	40,987
	c) other provisions for risks and charges	21,796,907	10,434,998
110.	Valuation reserves	38,050,327	49,447,673
140.	Reserves	252,485,541	379,938,902
150.	Share premium reserve	6,081,405	6,081,405
160.	Share capital	1,401,045,452	1,401,045,452
170.	Treasury shares (-)	-	(4,607,698)
180.	Net profit (loss) for the period (+/-)	(66,795,259)	(127,416,948)
	Total liabilities and shareholders' equity	**50,959,157,653**	**46,076,558,530**

INCOME STATEMENT

		31/12/2020	31/12/2019
10.	Interest and similar income	361,633,233	258,311,764
	of which: interest income calculated using effective interest rate method	172,956,543	168,266,103
20.	Interest and similar expense	(275,176,256)	(211,072,334)
30.	**Net interest income**	**86,456,977**	**47,239,430**
40.	Fee and commission income	92,539,854	91,553,095
50.	Fee and commission expense	(24,455,514)	(18,890,069)
60.	**Net fee and commission income (expense)**	**68,084,340**	**72,663,026**
70.	Dividends and similar income	37,216,258	51,360,994
80.	Net gain (loss) on trading activities	15,547,019	10,478,536
90.	Net gain (loss) on hedging activities	(3,000,069)	(4,606,712)
100.	Net gain (loss) on the disposal or repurchase of:	58,882,629	25,297,562
	a) financial assets measured at amortized cost	56,541,149	21,140,210
	b) financial assets measured at fair value through other comprehensive income	1,941,415	4,141,940
	c) financial liabilities	400,066	15,412
110.	Net gain (loss) on financial assets and liabilities measured at fair value through profit or loss	(23,252,401)	8,778,931
	a) financial assets and liabilities designated as at fair value	(2,436,124)	(1,476,313)
	b) other financial assets mandatorily measured at fair value	(20,816,276)	10,255,245
120.	**Gross income**	**239,934,754**	**211,211,768**
130.	Net losses/recoveries for credit risk in respect of:	(8,711,665)	(38,319,233)
	a) financial assets measured at amortized cost	(8,129,970)	(37,965,173)
	b) financial assets measured at fair value through other comprehensive income	(581,695)	(354,060)
150.	**Net income (loss) from financial operations**	**231,223,089**	**172,892,535**
160.	Administrative expenses:	(393,763,404)	(344,108,859)
	a) personnel expenses	(183,154,814)	(145,802,370)
	b) other administrative expenses	(210,608,590)	(198,306,489)
170.	Net provisions for risks and charges	(1,430,632)	(806,471)
	a) commitments and guarantees granted	(28,661)	66,709
	b) net provisions for other risk and charges	(1,401,971)	(873,180)
180.	Net adjustments of property plant and equipment	(1,698,078)	(5,564,097)
190.	Net adjustments of intangible assets	(589,636)	(5,930,010)
200.	Other operating expenses/income	150,464,575	102,811,871
210.	**Operating expenses**	**(247,017,175)**	**(253,597,566)**
220.	Profit (loss) from equity investments	(44,037,820)	(76,764,796)
260.	**Profit (loss) before tax on continuing operations**	**(59,831,905)**	**(157,469,827)**
270.	Income tax expense from continuing operations	14,889,225	14,283,020
280.	**Profit (loss) on continuing operations after tax**	**(44,942,680)**	**(143,186,807)**
290	Profit (loss) on discontinued operations after tax	(21,852,578)	15,769,860
300.	**Profit (loss) for the period**	**(66,795,259)**	**(127,416,948)**

STATEMENT OF COMPREHENSIVE INCOME

		31/12/2020	31/12/2019
10.	**Net profit (loss) for the period**	**(66,795,259)**	**(127,416,948)**
	Other comprehensive income net of taxes not recyclable to profit or loss	**(2,707,683)**	**5,832,773**
20.	Equity securities designated as at fair value through other comprehensive income	(2,485,415)	6,367,578
70.	Defined benefit plans	(222,268)	(534,805)
	Other comprehensive income net of taxes recyclable to profit or loss	**(8,689,664)**	**5,258,442**
120.	Cash flow hedges	(10,003,333)	891,069
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	1,313,670	4,367,372
170.	**Total other comprehensive income net of taxes**	**(11,397,347)**	**11,091,215**
180.	**Comprehensive income (item 10+170)**	**(78,192,605)**	**(116,325,733)**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2020

				Allocation of net profit of previous year		Change in the period								
							Equity transactions							
	As at 31/12/2019	Change in opening balance	As at 1/1/2020	Reserves	Dividends and other destinations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income at 31/12/2020	Shareholders' equity 31/12/2020
Share capital:														
a) ordinary shares	1,401,045,452	X	1,401,045,452	-	X	X	-	-	X	X	X	X	X	1,401,045,452
b) other shares	-	X	-	-	X	X	-	-	X	X	X	X	X	-
Share premium reserve	6,081,405	X	6,081,405	-	X	-	-	X	X	X	X	X	X	6,081,405
Reserves:														
a) earnings	379,938,902	-	379,938,902	(127,416,948)	X	(36,414)	-	-	-	X	X	X	X	252,485,541
b) other	-	-	-	-	X	-	-	X	-	X	-	-	X	-
Valuation reserves	49,447,673	-	49,447,673	X	X	-	X	X	X	X	X	X	(11,397,347)	38,050,326
Equity instruments	-	X	-	X	X	X	X	X	X	-	X	X	X	-
Treasury shares	-4,607,698	X	-4,607,698	X	X	X	4,607,698	-	X	X	X	X	X	-
Net profit (loss) for the period	(127,416,948)	-	(127,416,948)	127,416,948	-	X	X	X	X	X	X	X	(66,795,259)	(66,795,259)
Total shareholders' equity	**1,704,488,787**	**-**	**1,704,488,787**	**-**	**-**	**(36,414)**	**4,607,698**	**-**	**-**	**-**	**-**	**-**	**(78,192,605)**	**1,630,867,465**

STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY 2019

				Allocation of net profit of previous year		Change in the period									
							Equity transactions								
	As at 31/12/2018	Change in opening balance	As at 1/1/2019	Reserves	Dividends and other destinations	Change in reserves	Issue of new shares	Purchase of treasury shares	Interim dividends	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income 31/12/2019	Shareholders’ equity 31/12/2019
Share capital:															
a) ordinary shares	1,151,045,404	X	1,151,045,404	-	X	X	250,000,048	-	X	X	X	X	X	X	1,401,045,452
b) other shares	-	X	-	-	X	X	-	-	X	X	X	X	X	X	-
Share premium reserve	6,081,405	X	6,081,405	-	X	-	-	X	X	X	X	X	X	X	6,081,405
Reserves:															
a) earnings	415,508,556	-	415,508,556	(35,632,098)	X	62,444	-	-	X	-	X	X	X	X	379,938,902
b) other	-	-	-	-	X	-	-	X	X	-	X	-	-	X	-
Valuation reserves	38,356,458	-	38,356,458	X	X	-	X	X	X	X	X	X	X	11,091,215	49,447,673
Equity instruments	-	X	-	X	X	X	X	X	X	X	-	X	X	X	-
Treasury shares	(4,607,698)	X	(4,607,698)	X	X	X	-	-	X	X	X	X	X	X	(4,607,698)
Net profit (loss) for the period	(35,632,098)	-	(35,632,098)	35,632,098	-	X	X	X	X	X	X	X	X	(127,416,948)	(127,416,948)
Total shareholders’ equity	**1,570,752,027**	**-**	**1,570,752,027**	**-**	**-**	**62,444**	**250,000,048**	**-**	**-**	**-**	**-**	**-**	**-**	**(116,325,733)**	**1,704,488,787**

STATEMENT OF CASH FLOWS: INDIRECT METHOD

	31/12/2020	31/12/2019
A. OPERATING ACTIVITIES		
1. Operations	**632,898**	**(50,964,901)**
- net profit (loss) for the period (+/-)	(66,795,259)	(127,416,947)
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	36,298,186	16,667,942
- gains (losses) on hedging activities (-/+)	3,000,069	4,606,712
- net losses/recoveries on impairment (+/-)	8,711,822	38,319,873
- net adjustments of property plant and equipment and intangible assets (+/-)	2,287,714	11,494,107
- net provisions for risks and charges and other costs/revenues (+/-)	54,017,589	78,376,683
- taxes, duties and tax credits to be settled (+/-)	(14,548,969)	(15,583,052)
- net adjustments of disposal groups held for sale net of tax effects (+/-)	-	-
- other adjustments (+/-)	(22,338,254)	(57,430,218)
2. Net cash flows from/used in financial assets	**(5,000,035,150)**	**(6,671,781,783)**
- financial assets held for trading	(189,689,117)	(66,089,279)
- financial assets designated as at fair value	23,084,570	(383,047,360)
- financial assets mandatorily measured at fair value	78,284,054	54,592,782
- financial assets measured at fair through other comprehensive income	124,440,496	(13,598,181)
- financial assets measured at amortized cost	(4,964,429,612)	(6,224,655,249)
- other assets	(71,725,541)	(38,984,496)
3. Net cash flows from/used in financial liabilities	**4,957,965,975**	**6,630,998,425**
- financial liabilities measured at amortized cost	4,764,194,951	5,960,942,641
- financial liabilities held for trading	181,645,807	130,765,308
- financial liabilities designated as at fair value	(86,626,922)	419,575,878
- other liabilities	98,752,139	119,714,598
Net cash flows from/used in operating activities (A)	**(41,436,278)**	**(91,748,259)**
B. INVESTING ACTIVITIES		
1. Cash flows from	**103,804,055**	**50,328,287**
- sale of equity investments	-	-
- dividends on equity investments	36,741,467	50,328,287
- sale of property plant and equipment	14,258,572.81	-
- sale of intangible assets	52,804,014.65	-
- sale of business units	-	-
2. Cash flows used in	**(103,684,290)**	**(3,312,411)**
- purchases of equity investments	(99,763,971)	34,499,730
- purchases of property plant and equipment	(2,345,467)	(4,978,491)
- purchases of intangible assets	(1,574,853)	(32,833,650)
- purchases of business units	-	-
Net cash flows from/used in investing activities (B)	**119,764**	**47,015,876**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	4,607,698.00	-
- issues/purchases of equity instruments	-	250,062,493
- dividend distribution and other	-	-
Net cash flows from/used in financing activities C(+/-)	**4,607,698**	**250,062,493**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C	(36,708,815)	205,330,110

RECONCILIATION

	31/12/2020	31/12/2019
Cash and cash equivalents at beginning of period (E)	246,136,800	40,806,690
Net increase/decrease in cash and cash equivalents (D)	(36,708,815)	205,330,110
Cash and cash equivalents: effect of exchange rate changes (F)	-	-
Cash and cash equivalents at end of period (G)=E+/-D+/-F	209,427,984	246,136,800

NOTES TO THE FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

SECTION 1 – DECLARATION OF CONFORMITY WITH INTERNATIONAL ACCOUNTING STANDARDS

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, the financial statements of Iccrea Banca SpA have been prepared in accordance with the recognition and measurement criteria set out in the accounting standards (IASs/IFRSs) issued by the International Accounting Standards Board (IASB), and the related interpretations of the IFRS Interpretations Committee (IFRS - IC), endorsed by the European Commission as established by Regulation (EC) no. 1606 of July 19, 2002, as amended.

These financial statements have been prepared using the main tables provided for in Circular no. 262 of December 22, 2005 governing the format and rules for the preparation of bank financial statements – 6th update of November 30, 2018 – issued by the Bank of Italy in the exercise of the powers established by Article 43 of Legislative Decree 136/2015.

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

The IASs/IFRSs applied in preparing the financial statements were those endorsed and in force at December 31, 2020, including the IFRIC interpretations.

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, 2020:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
2075/2019	**Amendments to the Conceptual Framework for Financial Reporting** The regulation endorsed the document "Amendments to the Conceptual Framework" issued by the IASB in March 2018, which amended a number of accounting standards and interpretations in order to update the existing references to the previous Conceptual Framework, replacing them with references to the Revised Conceptual Framework. The main amendments regard a new chapter on measurement, improved definitions and guidance, clarification of concepts such as stewardship, prudence and uncertainty in measurement.	Annual reporting periods beginning on or after January 1, 2020.
34/2020[38]	**Amendments to IFRS 9, IAS 39 and IFRS 7** Regulation 34/2020 endorsed the document “Interest Rate Benchmark Reform (amendments to IFRS 9, IAS 39 and IFRS 7), introducing a number of changes regarding hedge accounting with the aim of ensuring that uncertainties about the amount and timing of cash flows deriving from the benchmark reform do not lead to the interruption of existing hedges and difficulties in designating new hedging relationships. More specifically, the IASB has amended the specific accounting requirements so that entities apply these requirements assuming that the benchmark interest rate on which the hedged cash flows and the cash flows of the hedging instrument are based does not change due to the uncertainties associated with the benchmark interest rate reform. The changes apply to all hedging relationships that are directly affected by the benchmark interest rate reform and seek to avoid the interruption of existing cash flow and fair value hedging relationships directly impacted by the reform, which in the absence of this relief would give rise to hedge ineffectiveness and potential hedge accounting failures following the replacement of IBOR with alternative benchmarks. These issues could have given rise to large reclassifications to profit or loss of cash flow hedge reserves and to the termination of hedge accounting for fair value hedges of fixed-rate debt. The amendments concern the requirements for hedge accounting and also have an impact for entities that have elected to continue applying the hedge accounting model under IAS 39.	Annual reporting periods beginning on or after January 1, 2020
551/2020	**Amendments to IFRS 3: Business Combinations** Regulation (EU) no. 2020/551 endorsed the document "Definition of a Business (Amendments to IFRS 3)" issued by the IASB in order to respond to the concerns highlighted by the post implementation review of IFRS 3 Business Combinations regarding the difficulties encountered in the practical application of the definition of a business. The main changes are intended to resolve the issues that arise when an entity determines whether it has acquired a business or a group of assets. More specifically, the changes:	Annual reporting periods beginning on or after January 1, 2020

[38] The publication of Regulation no. 2020/34 concluded the first phase of the IASB project concerning the possible accounting impact of the benchmark reform of with particular regard to the period preceding the replacement of existing benchmark rates with new rates (the so-called pre-replacement issue). At the conclusion of the second phase of the project, which instead focuses on the analysis of the possible accounting impact deriving from the application of the new rates and other issues of lesser urgency (so-called replacement issues), the IASB issued the document "Interest Rate Benchmark Reform - Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16). Very briefly, the document, which is still awaiting endorsement, provides for the possibility of considering the changes resulting from the reform on financial assets, financial liabilities and leases as changes resulting from an update of the benchmark rate as well as the possibility of not terminating hedging relationships solely as a result of the reform. The amendments take effect as from January 1, 2021; early application is permitted.

<table>
<tr><td></td><td>– clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
– remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;
– add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
– narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
– add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.</td><td></td></tr>
<tr><td>1434/2020</td><td>Amendments to IFRS 16 Leases – COVID-19-Related Rent Concessions
With the regulation of October 9, 2020, a number of amendments were introduced to IFRS 16 Leasing to incorporate "COVID-19-Related Rent Concessions" published by the IASB on May 28, 2020 in order to provide a practical, optional and temporary expedient for lessees, i.e. the option of not applying the rules for accounting for lease modifications in the case of concessions granted as a result of COVID-19.
A lessee that makes this election shall account for any change in lease payments resulting from the rent concession connected with COVID-19 the same way it would account for the change applying IFRS 16 if the change were not a lease modification.
The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:
– the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
– any reduction in lease payments affects only payments originally due on or before June 30, 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before June 30, 2021 and increased lease payments that extend beyond June 30, 2021); and
– there is no substantive change to other terms and conditions of the lease.</td><td>Annual reporting periods beginning on or after January 1, 2020. Early application is permitted.</td></tr>
<tr><td>2104/2020</td><td>Amendments to IAS 1 and IAS 8 – Definition of material
The regulation endorsed the document “Amendments to IAS 1 and IAS 8 - Definition of Material” issued by the IASB in October 2018. The amendments are intended to align the definition of “material” with that used in the Conceptual Framework and the standards themselves.
Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of financial statements make on the basis of those financial statements.</td><td>Annual reporting periods beginning on or after January 1, 2020.</td></tr>
</table>

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

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

<table>
<tr><th>ENDORSEMENT REGULATION</th><th>IAS/IFRS AND SHORT DESCRIPTION</th><th>ENTRY INTO FORCE</th></tr>
<tr><td>2097/2020</td><td>Amendments to IFRS 4 - Extension of the Temporary Exemption from Applying IFRS 9
The amendments to IFRS 4 seek to remedy the temporary accounting consequences of the mismatch between the date of entry into force of IFRS 9 Financial Instruments and the date of entry into force of the future IFRS 17 Insurance Contracts. In particular, the amendments to IFRS 4 extend the expiry of the temporary exemption from the application of IFRS 9 until 2023 in order to align the date of entry into force of IFRS 9 with the new IFRS 17.</td><td>Annual reporting periods beginning on or after January 1, 2021</td></tr>
<tr><td>25/2021</td><td>Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform—Phase 2
The amendments provide for specific accounting treatment to distribute changes in the value of financial instruments or leases contracts attributable to the replacement of the benchmark index for determining interest rates over time, thus avoiding immediate repercussions on profit or loss and the unnecessary termination of hedging relationships following the replacement of an interest rate benchmark index.</td><td>Annual reporting periods beginning on or after January 1, 2021</td></tr>
<tr><td>To be determined</td><td>Amendments to IAS 1 – Presentation of Financial Statements: classification of liabilities as current or non-current
The amendments seek to clarify one of the criteria of IAS 1 for the classification of a liability as non-current, i.e. the requirement that an entity must have the right to defer the settlement of the liability for at least 12 months after the end of the reporting period. The changes:
– specify that the right to defer settlement must exist at the end of the reporting period;
– clarify that the classification is unaffected by management’s intentions or expectations regarding the possibility of exercising the right to defer settlement;
– clarify how the terms of a liability impact its classification; and</td><td>Annual reporting periods beginning on or after January 1, 2022</td></tr>
</table>

	– clarify the requirements for the classification of liabilities that an entity intends to settle or could settle with the issue of equity instruments.	
To be determined	**Amendments to IFRS 3, IAS 16 and IAS 37 and Annual Improvements to IFRS Standards 2018–2020** The amendments involve limited-scope modifications of three accounting standards and annual improvements to the following accounting standards – IFRS 1; – IFRS 9; – IFRS 16; – IAS 41.	Annual reporting periods beginning on or after January 1, 2022
To be determined	**IFRS 17 Insurance contracts** The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers. On June 25, 2020, the IASB published the following amendments to IFRS 17: – a reduction in costs with the simplification of certain requirements of the accounting standards; – the simplification of statements of financial performance; – the deferral of the effective date until 2023.	Annual reporting periods beginning on or after January 1, 2023

Rules issued by the IASB that have not yet entered force are not expected to have an impact on the financial position and performance of the Bank.

SECTION 2: GENERAL PREPARATION PRINCIPLES

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

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

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

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

Content of the financial statements and the notes to the financial statements

Balance sheet and income statement

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

Statement of comprehensive income

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

Statement of changes in equity

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

Statement of cash flows

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

Content of the notes to the financial statements

The explanatory notes to the financial statements include the information required by international accounting standards, using the tables provided for in Bank of Italy Circular no. 262/2005 – 6th update of November 30, 2018.

SECTION 3 – EVENTS SUBSEQUENT TO THE REPORTING DATE

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

SECTION 4 – OTHER MATTERS

Consolidated tax mechanism option

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

Risks and uncertainties associated with the use of estimates

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

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

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

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

In particular:

- for allocation to the three stages of credit risk provided for under IFRS 9 of loans and debt securities classified under financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income and the associated calculation of expected losses, the main estimates regard the determination of the parameters representing a significant increase in credit risk, the inclusion of forward-looking factors in determining PD, EAD and LGD and the determination of future cash flows from impaired loans;
- for the quantification of provisions for risks and charges, the estimation of the amount of outlays necessary to discharge liabilities, taking account of the effective probability of having to employ resources to do so.

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

By their nature, estimates may vary from year to year and, therefore, it cannot be ruled out that in subsequent years the current values recorded in the financial statements may differ significantly as a result of changes in the subjective assessments employed. More detailed information on the main issues and variables existing on the market is contained in the Report on Operations.

In line with the ESMA statements published in March and May 2020 as well as with the IOSCO document of April 2020, Consob published two warning notices in April and July 2020 that emphasized the importance of providing updated disclosures on the risks associated with COVID-

19 that may have an impact on performance, financial position or cash flows, on any actions taken or planned to mitigate said risks, on the potential impacts relevant to the estimation of future developments. The attention of management was also drawn to the need to carefully assess the present and future impact of COVID-19 on strategic planning and plan targets, on financial performance, on the financial position and on cash flows, as well as on the going-concern assumption.

With regard to the forward-looking assessments of the impacts of the pandemic on the business as a whole and on the main areas affected, please see the sections “Measures taken in response to the COVID-19 health emergency” and “Outlook” in the consolidated report on operations.

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

The quantification of impairment losses on receivables

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

The great discontinuities in market conditions brought about COVID-19, although lying within the extraordinary uncertainty generated , by the pandemic, especially looking forward, have prompted a number of exceptional in methodology and implementation that have made it possible to incorporate the potential impact of the pandemic into the impairment model, with specific regard to the inclusion of risk metrics for forecasting the main financial and macroeconomic variables contained in the new economic scenarios prepared by external providers and supervisory authorities.

At the same time, the introduction of measures to support customers and the economy, with a particular emphasis on actions taken by the Group in relation to applicable legislative measures enacted in Italy (Decree Law 18 of March 17, 2020, the “Cure Italy Decree”, and Decree Law 23 of April 8, 2020, the “Liquidity Decree”), the measures agreed with industry association and the initiatives undertaken by individual organization led to the introduction of further methodological changes to the IFRS 9 impairment framework in order to take account of the impact of the emergency in calculating expected credit losses.

More specifically, the measures to adapt the impairment framework to incorporate the effects of the COVID-19 pandemic in the calculation of expected credit losses included:

- the use of forecast scenarios updated in response to developments in macroeconomic conditions. In particular, in order to enable the adaptation of the IFRS 9 methodological framework to the pandemic, the difficulty of modeling its peculiar characteristics using ordinary tools (satellite models) prompted the use of forward-looking projection metrics (implicit multipliers) to be applied to the risk parameters (PD, LGD) estimated on the basis of the forecast values of the exogenous macroeconomic variables provided by our external provider (Prometeia), differentiated by type of counterparty, sector of economic activity and geographical area;
- the management of the impacts related to the implementation of customer support measures, with particular regard to loan payment moratoriums and measures to support the liquidity of companies. More specifically, loan moratoriums were managed by adapting automatic staging mechanisms (e.g. halting the count of days past due) in order to make the stage allocation criteria consistent with application of the support measures, considering at the same time an appropriate degree of prudence in the assessment of these positions in the light of the evolution of market conditions and the expectations of the supervisory authorities in this regard. The handling of measures to support liquidity called for the application of coverage levels set to take account of the mitigating effects on credit risk of the specific guarantees to support operations in this area.

These exceptional changes to the IFRS 9 impairment framework in response to COVID-19 were introduced in concert with the ordinary maintenance of the estimation models planned prior to the pandemic, thereby lending continuity to the updating and fine-tuning of the risk parameters (PD and LGD) used to calculate ECL within the IFRS 9 framework, in line with applicable financial reporting standards. These updates over the course of the year led to the development of a version of the models and measurements of the related parameters that are more stable and more accurate in measuring the characteristics of risk typical of the loan portfolios of the affiliated banks and of the Group as a whole.

Contract modifications and forbearance

In light of the severity of the COVID-19 health emergency and its inevitable social and financial repercussions, the Italian government launched a range of financial support measures for the economy (especially for small and medium-sized enterprises, which constitute the backbone of the country’s economy). The main authorities, bodies and standard setters at both the national and EU levels developed various support measures for the European banking system in order to support the economies of the areas affected by the emergency.

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

In this context, they:

- streamlined loan-origination processes and the acceptance of applications by customers given the exceptional nature of this period, while also preserving the principle of sound and prudent credit management;
- enhanced the constant monitoring and control of the measures granted;
- maintained and reinforced the principle of the separation of roles as governed by Group policies with regard to the granting and execution of credit and the close observation of borrowers who had already shown anomalies prior to the pandemic, while assessing the resilience of exposures and the validity of the management strategies undertaken.

The most recent EBA intervention in this regard in 2020 was that of 2 December concerning the updating of the guidelines that banks must apply to legislative or non-legislative moratoriums on the repayment of existing loans. These guidelines were then reflected in the ABI renewals of the initiatives to suspend payments on mortgages and loans already governed by specific agreements with industry and consumer associations.

These last guidelines must first be framed within the context of the effort undertaken by the authorities since the beginning of the pandemic to develop a regulatory framework consisting of certain yet flexible rules for the various forms of payment moratorium available to banks to support their customers. The main stages of this effort are as follows.

The European Banking Authority (EBA) first intervened specifically in this area with a document issued on March 25, 2020 entitled "Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures", which addressed the accounting (and prudential) issues relating to the potential reclassification of loans prompted by public or industry-based moratoriums and by other forms of support adopted in response to the pandemic.

The EBA specified that since public or industry-based moratorium measures granted in response to the pandemic were intended to mitigate systemic risks and not specific needs of individual obligors, they should not automatically lead to reclassification under the definition of "forbearance" of loans benefiting from such measures nor should they automatically lead to prudential classification of positions as non-performing for the purposes of IFRS 9 (and therefore of migration between risk stages).

That said, the EBA also emphasized that, even in these specific circumstances, banks were still required to assess the creditworthiness of obligors who benefit from a moratorium and, consequently and possibly, reclassify obligors whose creditworthiness has deteriorated.

In performing such assessments - which could affect a wide range of borrowers - banks must avoid mechanistic assessments and prioritize analyses using risk-based approaches. Furthermore, in the period directly after the moratorium, institutions should nevertheless pay particular attention to those exposures which experience delays in payments or other signs of deterioration in creditworthiness.

On April 2, 2020, the EBA also published the document "Guidelines on legislative and non-legislative moratoriums on loan repayments applied in the light of the COVID-19 crisis", which sets out detailed guidelines for public and private loan repayment moratoriums applied by September 30, 2020 (extending the time limit from the original June 30, 2020 deadline, as per the EBA decision published on June 18, 2020), so that positions are not classified as exposures subject to forbearance measures or a distressed restructuring. The guidelines also establish that entities must continue to promptly identify situations of possible financial difficulty of debtors and provide for consistent classification in accordance with the regulatory framework.

The EBA guidelines refer both to the moratorium measures imposed ex lege and those initiated by private actors that are of "general" scope, i.e. have been granted by banks in order to prevent systemic risk through the provision of broad support for all companies temporarily in difficulties due to the pandemic. In this regard, the guidelines set out a series of conditions that must all be met for a moratorium measure to be considered of general scope:

- the moratorium must be based on national law or private initiative. In this case, the moratorium must be broadly applied within the banking sector in order to ensure the uniformity of moratoriums granted by the various credit institutions;
- the moratorium has to apply to a broad range of obligors, determined on the basis of general criteria, such as belonging to a certain type of customer segment (retail, SMEs, etc.), location in one of the areas most affected by the pandemic, the type of exposure (mortgage loans, leases, etc.), or belonging to a particularly affected industry sector, etc.;
- the moratorium must only change the schedule of payments and, therefore, temporarily suspend, postpone or reduce principal and/or interest payments. The moratorium, therefore, cannot involve the modification of other loan conditions (such as the interest rate);
- the moratorium must offer the same conditions to all those who benefit from it;
- the moratorium must not apply to loans granted after the launch of the moratorium;
- the moratorium must have been launched in response to the COVID-19 pandemic and applied before June 30, 2020 (the deadline was extended to September 30, 2020 as per the EBA decision published on June 18, 2020).

Moratoriums granted in response to the COVID-19 pandemic impact the identification and reporting of past due amounts, as the counting of days past due takes account of the suspension of payments. Consequently, such measures should lead to a short-term reduction in the classification of exposures as non-performing as a result of the suspension of the deadlines for counting days past due.

Article 18 of the EBA “Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013” of January 18, 2017 established, in relation to moratoriums granted under the provisions of law, that exercising the option to suspend the calculation of days past due during the period of covered by the moratorium, thereby extending the normal period of 90 days, should be assessed as a possible indicator of unlikeliness to pay.

The EBA guidelines of April 2, 2020 referred to above equate moratoriums granted on a private basis in response to COVID-19 to public moratoriums. Consequently, the former also benefit from the interruption of the counting of days past due as long as they comply with the requirements set out in the EBA guidelines. The EBA reiterates that the concessions granted in response to COVID-19, in cases of substantial invariance of the present value of the cash flows following the contract modification, shall not to be considered distressed restructuring, do not involve the transition to default and represent temporary relief for those who are unable to fulfill their contractual obligations due to business disruptions caused by the pandemic.

The EBA emphasizes that the banks shall in any case to evaluate the possible classification of customers benefiting from the moratoriums as unlikely to pay for the purpose of the definition of default, considering the obligor’s ability to meet the new payment plan (regardless of any public guarantee) and excluding the automatic classification of these loans as distressed restructurings.

In this regard, the EBA recognizes that there may be difficulties in carrying out individual assessments for the purposes of classification of positions as non-performing. In this case, banks must adopt a risk-based approach (i.e., taking account of, for example, the sectors most exposed to the long-term effects of the crisis such as transport, tourism, hotels, retail trade). Therefore, it will be important to identify, after the end of COVID-19 moratoriums, those exposures that present payment delays with respect to the new repayment schedules for the purpose of promptly classifying them as non-performing.

If it meets the requirements indicated above, loans benefiting from the application of a moratorium scheme should not be considered subject to a “forbearance measure” unless they were already benefiting from forbearance at the time of application of the moratorium itself.

On September 21, 2020, the EBA announced that it would not extend the date of September 30, 2020 for the expiry of the extraordinary flexibility measures granted to banks concerning the prudential treatment of moratoriums granted in response to the COVID-19 pandemic, specifying that there should be no automatic reclassification of positions requesting the moratorium by September 30, 2020 for the entire period of suspension of payments.

For the exposures for which a legislative or industry-sponsored moratorium was granted by the banks in the period between September 30 and December 31, 2020, the current rules on the prudential treatment of forbearance measures should apply.

In particular:

- unlike during the period covered by the flexibility granted by the EBA, banks should assess an applicant’s possible financial difficulties in settling payments falling due. In case of difficulty, the position affected by the concession measure should be classified as forborne, even in the case of a legislative moratorium;
- in the case of a legislative moratorium, the rules on the definition of default already mentioned provide for a suspension of the count of 90 days of past due payments to classify the company as in default.

As noted earlier, the continuation of the COVID-19 pandemic, taking account of the monitoring of the developments of the pandemic, in particular the impact of the second wave and the consequent new restrictions imposed by many European governments, prompted the EBA to reactivate its guidelines. In particular, in the second amendment of December 2, 2020, the EBA established that for the purposes of the those guidelines, the overall period within which the payment schedule of a given loan agreement is amended in accordance with paragraph 10(c) of the guidelines following the application of general payment moratoriums should not exceed nine months. However, this nine-month maximum limit does not apply to changes in payment schedules agreed for loans granted before September 30, 2020 under a general payment moratorium if the total duration of the changes exceeds nine months.

The Bank, also in line with the guidelines in this regard issued by the Parent Company separately for positions that had already benefited from previous moratoriums compared with those that had never benefited, and for legislative and industry moratoriums with respect to those granted independently by the Bank that did not meet the general requirements governed by the EBA Guidelines, has adapted the operational guidelines for the application of the new regulatory regime.

That said, with regard to the accounting treatment (derecognition versus modification), as part of the aforementioned support measures, the Bank has identified and adopted, among others, the following main lines of action:

- suspending installments and/or extending the maturity of installment transactions, in application of both legislative rules and ABI moratoriums;
- extending the maturity of existing advances;
- granting new medium/long-term loans for borrowers' working capital needs, giving preference, where applicable, the use of eligible guarantees (MCC in particular) and the “consolidation” operations envisaged by the Liquidity Decree.

Measures to suspend payments and/or extend the maturity of installment transactions or extend the maturities of advances, when granted, involve a modification of the original contract conditions and can be construed as contractual modifications of financial assets, which under

IFRS 9 calls for verification of whether the circumstances permit the asset to continue to be recognized in the financial statements or, conversely, require that the original instrument be derecognized and a new financial instrument be recognized.

As reiterated a number of times in the EBA and ESMA statements cited earlier, these contract modifications must be granted in response to COVID-19 in order to offer broad support to all companies and individuals temporarily in difficulty due to the pandemic in order to prevent systemic risk.

Note that the operational procedures for granting COVID-19 provide for the application of interest to the entire residual liability. This approach implies substantial actuarial neutrality, as also provided for in the Government's explanatory report to the Cure Italy Decree and the EBA statement of April 2, 2020, thus avoiding significant accounting impacts.

The contract modifications in question do not affect the original contractual characteristics and flows of the loans and consequently they do not require derecognition.

Impairment testing of equity investments and goodwill

In compliance with IAS 36, at each reporting date, the Bank verifies that there is no objective evidence that the carrying amounts of equity investments is not recoverable.

The valuation techniques adopted to determine recoverable value are applied on the basis of the data and results of the most recently approved corporate strategic plan, appropriately revised - in particular with regard to the volume of funding and lending, fees and commissions, the cost of risk and forward looking profitability - to take account of the impact of the COVID-19 pandemic and the initiatives and measures implemented by the Group companies in this area.

Probability testing of DTAs

The probability testing conducted to verify the conditions for continuing to recognize existing and new deferred tax assets in the 2020 financial statements was conducted on the basis of the common criteria and methods adopted by the Group, estimating the tax profit or loss (IRES/IRAP) over a 5-year forecast period and verifying that this would be sufficient to ensure recovery of the total amount of DTAs requiring testing.

The estimates and assumptions concerning the recoverability of deferred tax assets were based on the most recently approved strategic plan, appropriately revised - in particular with regard to the volume of funding and lending, fees and commissions, the cost of risk and forward looking profitability - to take account of the impact of the COVID-19 pandemic and the initiatives and measures implemented by the Bank in this area.

As the total estimated taxable income for the analysis period was equal to or greater than the taxable income associated with the deferred tax assets recognized in profit or loss undergoing testing, the test was passed. In addition, with regard to DTAs reversing subsequent to the aforementioned time horizon, a further assessment was carried out that demonstrated their recoverability within a limited and reasonable period of years.

Rights of use in leases

Similarly to the treatment of assets owned outright, IFRS 16 specifies that the right-of-use assets acquired through leases must undergo testing to ascertain if there is evidence that they have incurred an impairment loss. If so, the carrying amount of the asset is compared against its recoverable amount, which is equal to the greater of the fair value and the value in use - the latter understood as the present value of future cash flows originating from the asset. Any adjustments are recognized through profit or loss.

In assessing whether there is any indication that an asset may be impaired, IAS 36 requires an entity to consider the following:

- internal sources of information, such as signs of obsolescence or physical damage of an asset, restructuring plans and closures of branches;
- external sources of information, such as the increase in interest rates or other market rates of return on investments that could cause a significant decrease in the recoverable amount of the asset.

As of 31 December 2020, the Bank had checked:

- developments in the rates used to discount lease payments;
- the presence of unused leased properties.

Amendment of IFRS 16

On May 28, 2020, the IASB published the amendment to IFRS 16 "COVID-19 Related Rent Concessions", endorsed with Regulation (EU) no. 1434/2020, with application of the amendment for financial statements for periods on or after June 1, 2020, with early application permitted. The amendment, which was taken in response to the COVID-19 crisis, allows lessees not to account for temporary reductions and/or suspensions of rent payments granted for the period from the beginning of the pandemic to June 30, 2021 as a direct consequence of COVID-19 as a "lease modification". On the basis of the provisions of IFRS 16, in the event of a change in the original contractual conditions of a lease, it would be necessary to modify the amortization plan of the lease ("lease modification") with consequent recalculation of the liability. The amendment of IFRS 16 makes it possible, as a practical expedient, to treat the unpaid rent as a variable payment, to be recognized as a reduction in costs in the profit or loss, without necessarily having to recalculate the financial liability.

The Bank has not requested any reduction or suspension of rents and, therefore, has not made use of the practical expedient provided for in this amendment.

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

Loans under TLTRO III program are variable rate loans, indexed to ECB rates, with a reward mechanism for determining the final rate applicable to each operation based on the achievement of certain performance objectives for eligible loans in the period April 1, 2019 - March 31, 2021. Interest is settled in arrears. The Bank of Italy will notify the participating banks of achievement of the performance targets on September 10, 2021.

The term of the loans is 3 years, in accordance with the calendar defined by the ECB, with the option of quarterly early repayment, starting from September 2021.

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

The operation essentially has the following financial structure:

- it is a floating-rate transaction indexed to the rate on main refinancing operations (MRO), which is the base rate for the main refinancing operations of the ECB;
- in its basic structure it has a spread of -50 bps in the so-called "special interest rate period" from June 24, 2020 to June 23, 2021;
- in the event of achievement of the goal for the "special reference period" (from March 1, 2020 to March 31, 2021), the structure of the transaction changes as follows:
  - the benchmark rate becomes the rate on the ECB's deposit facility (DF);
  - for the "special interest rate period" a cap of -1.00% is applied to the final rate (deposit facility rate – 50bp).
- in the event the target for the "special reference period" is not achieved but the secondary objective (growth of 1.15% between April 1, 2019 and March 31, 2021) is partially achieved, an intermediate rate between the average MRO and the average deposit facility rate will be applied.

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

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

The final rate applied to each loan will therefore be equal to the sum of:

- the weighted average of the ECB MRO or DF rate;
- the fixed spread;
- the recognition of any performance incentive.

The latter element is determined on the basis of periodic monitoring of developments in net lending in the special period.

On the basis of the monitoring exercise, at the date of October 31, 2020, net lending was reasonably higher than the net lending benchmark. Consequently the conditions for recognizing in profit or loss - for the period June-December 2020 - the incentivized rates granted in recognition of the achievement of the specific performance target, i.e. the greater negative interest rate of 0.50% potentially applicable in the special period, were met. Accordingly, for the calculation of the accrued interest at December 31, 2020, we applied the weighted average rate among those applicable, for each loan, for the period prior to the special interest period (until June 23, 2020) and for the fraction of special interest period (from June 24 to December 31, 2020).

Interest accrued at December 31, 2020, recognized in the income statement under item "10. Interest and similar income", amounted to a total of €92,015,028 (of which €45,715,555 linked to the achievement of the benchmarks described above).

Ex Ante contribution to the Deposit Guarantee Fund

With a notice dated June 30, 2020, the Deposit' Guarantee Fund (DGF) announced, among other things, the amount of the ordinary contribution due from the consortium members for 2020, taking account of the target level of resources that the Fund must achieve. On this occasion, the DGF also provided information concerning the discussions held with the relevant authorities (Bank of Italy and the Ministry for the Economy and Finance) regarding the submission of a petition to the European Commission to reduce the target level of the financial envelop of the DGF from 0.8% of guaranteed deposits to 0.5%.

In view of the DGF's discussions in this regard with national authorities, with specific reference to the payment of the ordinary contribution for 2020 - which was charged to the accounts of the consortium members on July 8 - the amount of the overall contribution was €50 million, a considerably reduction on the €107 million calculated for 2020 on the basis of the plan for achieving the target level of 0.8%.

At the same time, the DGF nevertheless reported the share of the above amount pertaining to each of the consortium members determined on the basis of the allocation criteria in force as well as the higher amount that would to be debited in the event the petition to reduce the target level from 0.8% is not granted.

In this regard, in view of the significant uncertainties regarding the granting by the Commission of the request for a reduction, the DGF specified that, at the moment, the target level remains equal to 0.8% of the guaranteed deposits and that its possible structural reduction to 0.5% would, if anything, be achieved only at the conclusion of the process initiated with the competent authorities.

That said, in the light of discussions held and the information provided in this regard by the DGF, a provision for €233 thousand has been recognized on the basis of the current target level of 0.8% of guaranteed deposits. Together with the component charged by the Fund in June, which was provisionally based on a reduction of the target level to 0.5% of guaranteed deposits, the total amount of the contribution recognized in profit or loss for the year is about €683,000.

Interest rate benchmarks – Benchmark Regulation (BMR)

On the basis of the new regulatory framework defined by Regulation (EU) no. 2016/1011 Regulation (EU) no. 2016/1011 of the European Parliament and of the Council of June 8, 2016 (the "Benchmarks Regulation – BMR")[39], the European Money Market Institute - EMMI - the administrator of the EURIBOR and EONIA indices, concluded that none of the benchmarks it administers was compliant with the BMR. Consequently, it was decided to:

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

On July 2, 2019, the Financial Services and Markets Authority (FSMA), the competent authority for the supervision of the EMMI, announced that it had completed assessment the adjustments made to the governance and methodology underlying the calculation of EURIBOR, finding them compliant with the provisions of the BMR and therefore authorized the EMMI to continue its administration of that index in full compliance with the aforementioned regulatory provisions, thereby certifying compliance.

As part of this regulatory and market framework, in July 2019 the ECB sent the banks a communication seeking information on the actions taken or under way to address the global interest rate reform, to which the Parent Company Iccrea Banca replied for the entire Iccrea Cooperative Banking Group, providing both a qualitative assessment of the exposure to the various IBORs (EONIA, EURIBOR and LIBOR), and a qualitative evaluation of the impacts on specific issues. The same request, with a new information set, was made by the authorities in November 2020 and Iccrea Banca responded last January with disclosures on the Group's operations as at 30/09/2020 indexed to benchmark rates (IBOR and RFR) and on the progress of the BMR project.

Following the preliminary analysis conducted in order to respond to the first ECB request for information, the Parent Company launched an assessment in January 2020, which was completed in July with:

- the identification of the areas of intervention necessary to ensure compliance with the new regulations, with particular regard to IBOR rates (i.e. EONIA, EURIBOR and LIBOR), in the Product & Strategy, Legal & Documentation, Risk & Analytics, Finance & Accounting areas;
- the definition of a masterplan of the interventions to be implemented by December 2021 in order to manage the transition.

In the finance area, the expected impact of the benchmark rate reform on the Bank mainly concerns transactions in OTC derivatives in euros

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

subject to netting, which are carried out for hedge accounting purposes and can be summarized as follows:

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

The planning activities for this issue are primarily focused on the measures necessary to adapt the front to back process for OTC derivatives operations, with particular reference to the adjustment of the valuation framework, the management of collateral, the modification of agreements with counterparties, the management of hedging operations and netting accounting.

In this context, the following main interventions are under way:

- review of the valuation framework, building a new discounting curve based on the €STR rate in place of EONIA;
- any recalibration of existing hedges;
- collateral management which, in addition to implementing the mark-to-market defined on the basis of the new valuation framework, must be remunerated at the new €STR rate;
- revision of contracts with counterparties.

As regards the issue of contractual fallback language, Iccrea Banca has drafted a standard fallback clause, which has been incorporated into existing MCD and CCD contracts through a specific notice sent to customers and has been integrated into the standard contracts for new customers. Work in this initial phase concluded with the definition of a standard written plan, which is currently being adopted.

A plan has also been developed for the definition by 2021 of fallback language for all transactions indexed to benchmark rates, in line with the indications of the Euro Risk Free Rate Working Group.

Other issues

The separate financial statements have been audited by EY SpA, which was engaged for this purpose for the period 2019-2020 in execution of the shareholders' resolution of April 30, 2019.

A.2 – THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

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

Classification of financial assets

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

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

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

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

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

The business model

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

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

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

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

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

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

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

- in the case of an increase in credit risk and, more specifically:

- on the basis of developments in CDS spreads with regard to the securities portfolio, taking due account of all reasonable and supportable information concerning forecasts, approved/authorized as appropriate;
- on the basis of the staging indicator for the loan portfolio;

- in the case of sales that occur near the maturity date, i.e. when they approximate the cash flows that would be generated obtained by not selling the security;
- to manage structural liquidity in order to respond to extreme liquidity situations;
- when the sales are frequent but not material in value terms or are occasional even if material in value terms. Frequency and materiality thresholds have been specified to determine those aggregates:
  - frequency is defined as the number of trading days considered in the period considered;
  - materiality is defined as the percentage ratio between the nominal value of sales and the total nominal value of the instruments held in the portfolio during the period considered.

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

The SPPI test

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

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

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

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

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

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

Classification

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

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

The category therefore includes:

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

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

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

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

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

Recognition

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

Measurement

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

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

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

Derecognition

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

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

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

Recognition of income components

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

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

Classification

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

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

Specifically, the item includes:

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

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

Recognition

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

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

Measurement

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

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

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

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

Derecognition

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

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

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

Recognition of income components

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

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

3 – Financial assets measured at amortized cost

Classification

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

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

Recognition

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

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

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

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

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

Measurement

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

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

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

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

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

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

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

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

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

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

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

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

Derecognition

Financial assets measured at fair value through other comprehensive income are derecognized when the contractual rights to the cash flows expire, are extinguished or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred. Where it is not possible to determine whether substantially all the risks and rewards have been transferred, the financial assets are derecognized if no form of control over it is retained. Conversely, where even a portion of control is retained, the asset continues to be recognized to the extent of the continuing involvement in the asset, measured by the exposure to changes in value of the transferred assets and changes in their cash flows.

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

In certain cases, during the course of the life of financial assets, in particular loans, the terms of the contract may be modified from those in force at the time of initial recognition. In these circumstances, the modified terms must be analyzed to determine whether the original assets can continue to be recognized or must instead be derecognized, with the consequent recognition of new modified financial assets. In general, modifications of contractual terms lead to the derecognition of the financial asset and the recognition of a new asset when they are considered to be "substantial", with the recognition in profit or loss of any difference in carrying amounts. In conducting this assessment, qualitative judgments are called for. To this end, the assessment shall consider:

- the reasons for the modifications, distinguishing, for example, between renegotiations carried out for commercial reasons or in response to the counterparty's financial difficulties:
    - transactions carried out with performing counterparties for reasons other than debtor's financial difficulties, and therefore not related to a change in the creditworthiness of the borrower, are considered commercial renegotiations, which have the main objective of adjusting the cost of credit to market conditions. These cases include all renegotiations aimed at maintaining the commercial relationship with the client, and are therefore carried out with the aim of retaining the counterparty, who might otherwise turn to another bank. In this case, these modifications are considered substantial because if they did not occur, the customer could turn to another financial institution, thus causing the bank to lose future revenue;
    - transactions whose objective is to maximize the recoverable value of the loan are considered renegotiations due to financial difficulties of the counterparty, with the creditor therefore willing to accept a restructuring of the debt on terms potentially favorable to the debtor. In these circumstances, it is generally assumed that there has essentially been no extinguishment of the original cash flows that would therefore require derecognition of the original loan. Consequently, these types of renegotiation represent the majority of cases presented in the financial statements through "modification accounting", in which the difference between the

carrying amount and the recalculated value of the financial asset is recognized in profit or loss by discounting the renegotiated or modified cash flows at the original effective interest rate;

- the presence of specific objective elements that substantially modify the characteristics and/or cash flows of the financial instrument, such that they would entail the derecognition of the instrument and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual terms that would cause the asset to fail the SPPI test or a change in the denomination of the currency of the instrument, as the entity would be exposed to a new risk.

Recognition of income components

Gains or losses in respect of financial assets measured at amortized cost are recognized through profit or loss at the time the assets are derecognized or they incur an impairment loss, and through the process of amortizing the difference between the initial carrying amount and the amount repayable at maturity. Interest calculated using the effective interest rate method in application of the amortized cost approach is also recognized through profit or loss.

4 - Hedging

The Iccrea Mutual Banking Group has elected to exercise the option to continue to apply the rules provided for in IAS 39 governing hedge accounting (the “opt-out” option).

Classification

Risk hedging transactions are intended to neutralize the potential losses recognized on a given element or group of elements attributable to a given risk in the event that risk should actually be realized.

The types of hedges used are as follows:

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

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

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

Recognition

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

Measurement and recognition of income components

Hedging derivatives are measured at fair value.

More specifically:

- in the case of fair value hedges, the change in the fair value connected with the hedged risk on the hedged item is offset in profit or loss with the change in the fair value of the hedging instrument, which is also recognized through profit or loss. Any difference between the two changes, which represents the partial ineffectiveness of the hedge, represents the net impact in profit or loss;
- in the case of cash flow hedges, changes in the fair value of the derivative are recognized through equity in the amount of the effective portion of the hedge. They are recognized through profit or loss only when the change in cash flows in respect of the hedge item actually occurs or if the hedge is ineffective.

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

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

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

Effectiveness is measured at every reporting date through:

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

If the tests do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the above criteria, the hedging derivative is reclassified as a trading instrument and the hedged financial instrument is measured using the criteria normally adopted for instruments of its category. Subsequent changes in the fair value of the derivative are recognized through profit or loss. For cash flow hedges, if the hedged transaction is no longer expected to be carried out, the cumulative gain or loss recognized in the equity reserve is reversed through profit or loss.

5 – Equity investments

Classification

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

Subsidiaries are entities for which the investor has the ability to direct the relevant activities of the entity, by virtue of a legal right or a mere state of fact, and is also be exposed to the variability of the returns deriving from that power.

Under IFRS 10, the requirement of control is met when an investor simultaneously has:

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

Associates comprise companies in which an entity holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Group exercises a significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control.

Joint control is the contractually agreed sharing of control of an arrangement.

Equity interests in subsidiaries, joint ventures and associates held for sale are reported separately in the financial statements as a disposal group and are measured at the lower of the carrying amount and the fair value excluding disposal costs.

Recognition

Equity investments are initially recognized at cost at the settlement date including costs and revenue that are directly attributable to the transaction.

Measurement

Investments in subsidiaries and associates are measured at cost. Where there is evidence that the value of an equity investment may be impaired, its recoverable value is determined, taking account of both its market value and the present value of future cash flows. If this value is lower than the carrying amount, the difference is recognized through profit or loss as an impairment loss.

Impairment testing of equity investments

As required by the IFRS, if there is evidence (triggers) of possible impairment, equity investments undergo impairment testing to determine whether there is objective evidence that the carrying amount of such assets is not fully recoverable and to determine the amount of any writedown.

Impairment indicators are essentially divided into two categories:

- qualitative indicators, such as the posting of losses or in any case a significant divergence with respect to budget targets or the objectives set out in the long-term plans announced to investors, the announcement/start of composition with creditors or restructuring plans, and the downgrading by more than two grades of the rating issued by a specialist agency;
- quantitative indicators consisting of a reduction in fair value below the carrying amount of over 30%, or for a period of more than 24 months, or a carrying amount for the equity investment in the separate financial statements greater than the carrying amount in the consolidated financial statements of the company's net assets and goodwill, or the distribution by the latter of a dividend greater than its comprehensive income. In the presence of evidence of impairment, the size of any writedown is determined on the basis of the difference between the carrying amount and the recoverable value, which is equal to the greater of fair value less costs to sell and the value in use.

Derecognition

Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IFRS 9, as provided for financial instruments.

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

Recognition of income components

Impairment losses are recognized in profit or loss. The recognition of income effects connected with equity-accounted investments is discussed in Section 3 – Scope and methods of consolidation in Part A Accounting Policies: A.1 – General Information.

6 – Property, plant and equipment

Classification

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

Recognition

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

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

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

In the case of recognition of rights of use in respect of leased assets pursuant to IFRS 16, the cost of the right-of-use asset is determined as follows:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

A right-of-use asset shall be recognized at the time in which the leased asset effectively becomes available for use.

Measurement

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

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.

For a right-of-use asset determined in compliance with IFRS 16, after the initial recognition of the asset, a lessee shall measure the right-of-use asset applying a cost model in accordance with IAS 16.

Derecognition

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

Recognition of income components

Depreciation 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. A gain or loss deriving from a change in the fair value of investment property is recognized through profit or loss.

7 – Intangible assets

Classification

Intangible assets are recognized as such if they are identifiable and are based on legal or contractual rights. They include application software.

Right-of-use assets have not been recognized in respect of leases involving intangible assets as such recognition is optional under IFRS 16.

Recognition

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

Intangible assets may be recognized in respect of goodwill arising from business combinations (purchases of business units). The goodwill recognized in business combinations carried out following January 1, 2004 is recognized in an amount equal to the positive difference between the purchase price of the business combination including transaction costs and the fair value of the assets and liabilities acquired if that positive difference represents future economic benefits. Goodwill in respect of business combinations carried out prior to the date of transition to the IFRS are measured on a cost basis and represent the same value as that given using Italian GAAP.

Measurement

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

Derecognition

Intangible assets are derecognized upon disposal or when no future economic benefits are expected to be generated by the use or disposal of the asset.

Recognition of income components

Amortization is recognized through profit or loss. Where there is evidence of possible impairment of the asset, the asset is tested for impairment. Any difference between its carrying amount and recoverable value is recognized in profit or loss. If the reasons for the impairment of intangible assets other than goodwill should cease to obtain, a writeback is recognized in the income statement. The value of the asset after the writeback shall not exceed the value that the asset would have had, net of amortization, in the absence of the prior writedowns for impairment.

8 – Non-current assets and liabilities and disposal groups held for sale

Classification

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

Recognition

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

Measurement and recognition of income components

Following initial recognition in this category, the assets are measured at the lower of their carrying amount and their fair value less costs to sell, with the exception of assets that IFRS 5 requires be measured using the provisions of the relevant accounting standard (for example, financial assets within the scope of IFRS 9). If the assets held for sale can be depreciated, any such depreciation ceases upon classification to non-current assets held for sale. Non-current assets and disposal groups held for sale, as well as “discontinued operations”, and the associated liabilities are reported under specific items of assets (“Non-current assets and disposal groups held for sale”) and liabilities (“Liabilities associated with disposal groups held for sale”).

The results of the measurement, income, expenses and gains/losses upon disposal (net of any tax effect), of “discontinued operations” are reported in the income statement under “Profit (loss) after tax of disposal groups held for sale”.

Derecognition

Non-current assets and disposal groups held for sale are derecognized upon disposal.

9 – Current and deferred taxation

Classification

Income taxes, which are calculated on the basis of national tax law, are accounted for as a cost on an accruals basis, in line with the recognition of the costs and revenue that gave rise to the tax liability. They therefore represent the balance of current taxes and deferred taxes in respect of income for the year. Current tax assets and liabilities report the net tax positions of the companies of the Group in respect of Italian and foreign tax authorities. More specifically, they report the net balance between current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax liability for the period, as determined on the basis of applicable tax law, and current tax assets represented by payments on account and other tax receivables for withholding tax incurred or other tax credits for previous years which the Group companies opted to offset against taxes for subsequent years. Current tax assets also report tax receivables for which the Group companies have requested reimbursement from the competent tax authorities.

While taking account of the adoption of the national consolidated taxation mechanism by the companies forming part of the “direct scope” of the Group (the former Iccrea Banking Group), the tax positions of each Group company are managed separately for administrative purposes.

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

Deferred tax is calculated by applying the tax rates established in applicable tax law, laws already issued or substantially in force at the reporting date that are expected to be applied during the year in which those assets are realized or those assets are extinguished to taxable temporary differences for which it is likely that a tax charge will be incurred and to deductible temporary differences for which it is reasonable certain there were be future taxable income at the time they become deductible (the probability test).

Deferred tax assets and liabilities associated with the same tax and reversing in the same period are set off.

Recognition and measurement

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

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

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

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

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

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

Recognition of income components

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

10 – Provisions for risks and charges

Provisions for commitments and guarantees issued

This sub-item reports provisions estimated in respect of the credit risk on commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules for calculating expected losses in accordance with IFRS 9. In principle, these cases use the same methods for allocation to the three risk stages and the calculation of expected losses that are adopted for financial assets measured at amortized cost or at fair value through other comprehensive income.

This sub-item also includes are provisions for other types of commitments and guarantees issued that, on the basis of their characteristics, do not fall within the scope of application of impairment in accordance with IFRS 9.

Other provisions for risks and charges

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.

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

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.

Recognition

A provision shall be recognized if and only if:

- the company has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Measurement and recognition of income components

The amount recognized is the best estimate of the expenditure required to settle the obligation or to transfer it to third parties at the end of the reporting period and reflects the risks and uncertainties that inevitably surround many events and circumstances.

Where the time value of money is material and the payment dates of the obligation can be estimated reliably, the provision shall is discounted at market rates as of the reporting date.

Provisions are reviewed at every reporting date and are adjusted to reflect the best estimate of the charge required to settle the obligations existing at the close of the period. The impact of the time value of money and that of changes in interest rates are reported in profit or loss under net provisions for the period.

Actuarial gains and losses are recognized immediately in profit or loss.

Derecognition

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

11 – Financial liabilities measured at amortized cost

Classification

Financial liabilities measured at amortized cost include amounts due to banks and customers and securities issued not held for trading in the short term, comprising all technical forms of interbank and customer funding and funding through certificates of deposit and outstanding bond issues, excluding any amounts repurchased.

Recognition

The liabilities are initially recognized at fair value, which is normally equal to the amounts received or the issue price, plus or minus any additional costs or revenue directly attributable to the transaction that are not reimbursed by the creditor. Internal administrative costs are excluded.

Financial liabilities issued on non-market terms are recognized at estimated fair value and the difference with respect to the amount paid or the issue price is taken to the income statement.

Measurement and recognition of income components

Following initial recognition, these liabilities are measured at amortized cost using the effective interest rate method, excluding short-term liabilities, which are recognized in the amount received in keeping with the general principles of materiality and significance. See to the section on assets measured at amortized cost for information on the criteria for determining amortized cost.

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

Derecognition

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

12 – Financial liabilities held for trading

Classification

The item reports the negative value of trading derivatives that are not part of hedging relationships as well as the negative value of embedded derivatives to be separated from hybrid instruments. Liabilities deriving from short positions in by securities trading activities are recognized under “Financial liabilities held for trading”.

Recognition

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

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

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

Measurement

Subsequent to initial recognition, the financial liabilities are recognized at fair value. Refer to the previous section on measuring financial assets at fair value through profit or loss for information on determining fair value.

Derecognition

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

Recognition of income components

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

13 – Financial liabilities designated as at fair value

Classification

This item reports financial liabilities designated as at fair value through profit or loss under the option permitted to entities in IFRS 9 (the “fair value option”). More specifically, financial liabilities are irrevocably designated as at fair value through profit or loss if, and only if, doing so eliminates or significantly reduces an accounting mismatch or if they contain an embedded derivative.

Recognition

Financial liabilities at fair value through profit or loss are initially recognized at the issue date at their fair value, which normally corresponds to the price paid. If the price is different from the fair value, the financial liability is recognized at its fair value and the difference between the price and the fair value is recognized in the income statement.

Measurement

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

- if the change in fair value is attributable to a change in the credit risk of the liability, it shall be recognized in other comprehensive income (equity);
- all other changes in fair value shall be recognized through profit or loss.

The amounts recognized in equity are not subsequently reversed to profit or loss. Pursuant to IFRS 9, this accounting method shall not be applied if would create or enlarge an accounting mismatch in the income statement. In this case, the gains or losses related to the liability falling under this item shall be recognized through profit or loss. With regard to the criteria for determining fair value, please see the section on the measurement of financial liabilities held for trading.

Derecognition

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

Recognition of income components

The result of measurement is recognized through profit or loss.

14 – Foreign currency transactions

Recognition

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

Measurement

At the reporting date, foreign currency items are measured as follows:

- monetary items are translated at the exchange rate prevailing at the reporting date;
- non-monetary items measured at historic cost are translated at the exchange rate prevailing at the transaction date;
- non-monetary items measured at fair value are translated using the exchange rate prevailing at the reporting date.

Recognition of income components

Exchange rate differences in respect of monetary and non-monetary items measured at fair value are recognized through profit or loss under item 80 “Net gain (loss) on trading activities”. If the asset is measured at fair value through other comprehensive income with no recycling to profit or loss of any gain or loss realized on disposal, exchange rate differences are allocated to valuation reserves.

Exchange rate differences resulting from the settlement of monetary items or from the translation of monetary items at exchange rates other than the initial translation rate are recognized through profit or loss in the period in which they emerge.

When gains or losses relating to a non-monetary item are recognized in equity, the exchange rate difference for the item is also recognized in equity. Likewise, when a gain or less is recognized through profit or loss, the corresponding exchange rate difference is also recognized through profit or loss.

15 – Other information

Employee termination benefits

Following the reform of supplementary pension schemes introduced by Legislative Decree 252 of December 5, 2005, changes were made to the way in which employee termination benefits are recognized. The portion of termination benefits accrued through December 31, 2006 is treated as a defined-benefit plan, since the company is required under law to pay the employee an amount determined pursuant to Article 2120 of the Italian Civil Code.

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

Therefore, starting January 1, 2007, the Group:

- continues to recognize the obligation accrued at December 31, 2006 in accordance with the rules for defined-benefit plans, i.e. using the projected unit credit method. This means that it measures the obligation for benefits accrued by employees using actuarial techniques, projecting into the future the amount to pay at the time the employment relationship is termination and discounting the accrued portion. To this end, the projected unit credit method considers each individual service period as the originator of an additional unit of termination benefits to be used in constructing the final obligation by projecting future outflows on the basis of statistical analysis of historical developments and the demographic curve, discounting those flows using a market interest rate. Total actuarial gains and losses are recognized, in line with the provisions of IAS 19, in equity, while the interest cost component of the change in the defined benefit obligation is recognized in profit or loss;
- recognizes the obligation for portions accrued starting January 1, 2007, payable to a supplementary pension scheme or to the treasury fund managed by INPS, on the basis of the contributions owed in each period, as a defined contribution plan for employee service, in profit or loss. More specifically, in the case of termination benefits payable to a supplementary pension scheme that treatment begins at the time of the choice or, if the employee does not exercise any option, as from July 1, 2007.

Recognition of revenue

Revenue is recognized when realized or, in the case of the sale of goods or services, in relation to the extent to which the performance obligation has been satisfied, as specified below.

Specifically:

- interest is recognized on an accruals basis using the contractual interest rate or the effective interest rate where the amortized cost method is applied;
- default interest, if any, is recognized through profit or loss only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;
- commissions for revenue from services are recognized in relation to the effective provision of the services to a customer, as discussed in greater detail below;
- revenue from the placement of funding instruments, calculated on the basis of the difference between transaction price and the fair value of the financial instrument, are recognized in the income statement when the transaction is recognized if the fair value can be determined with reference to parameters or transactions recently observed in the same market in which the instrument is traded. If these amounts cannot be easily determined or the instrument is not highly liquid, the financial instrument is recognized in an amount equal to the transaction price, excluding the commercial margin. The difference between this amount and the fair value is taken to profit or loss over the duration of the transaction through the gradual reduction in the valuation model of the corrective factor reflecting the reduced liquidity of the instrument;
- revenue from the sale of non-financial assets are recognized at the time the performance obligation is satisfied with the transfer of the asset, i.e. when the customer obtains control of the asset.

In application of IFRS 15, which was adopted as from 2018, the following steps are followed in recognizing revenue from contracts with customers

- identification and analysis of the contract signed with the customer to identify the type of revenue. In some specific cases, multiple contracts may have to be combined and accounted for as a single contract;
- identification of the specific performance obligations in the contract. If the goods/services to be transferred are distinct, they qualify as performance obligations and are accounted for separately;

- determination of the transaction price, considering all the performance obligations in the contract. This price may be a fixed amount, but may sometimes include variable or non-monetary consideration;
- allocation of the transaction price to the performance obligations. The transaction price is allocated to the various performance obligations on the basis of the selling prices of each distinct good or service provided contractually. If it is impossible to determine the standalone selling price, it is necessary to estimate it. The assessment must be carried out as from the start date of the contract (the inception date);
- recognition of revenue when the performance obligation is satisfied. Revenue is recognized following the satisfaction of the performance obligation to the customer, i.e. when the latter obtains control of the good or service. Some revenue is recognized at a point in time, while other is accrued over time. It is therefore necessary to identify the moment in which the performance obligation is satisfied. In the case of performance obligations satisfied over time, revenue is recognized over the reference period, selecting an appropriate method to measure the progress made towards complete satisfaction of the performance obligation.

Accruals and deferrals

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

Expenditure for leasehold improvements

Expenses for refurbishments of buildings belonging to third parties that do not have an independent function or use are conventionally classified under “Other assets”. Amortization is performed a period that does not exceed the term of the lease and amortization charges are reported under other operating expenses.

Determination of impairment

Financial assets

At each reporting date, the Bank determines whether there is objective evidence that a financial asset or group of financial assets has incurred a significant increase in the related credit risk since initial recognition and requires the definition of a methodology for calculating the expected loss (ECL) and the related risk parameters necessary to calculate it, namely: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The staging methodology provides for the allocation each exposure/tranche to the three distinct stages on the basis of the following:

- stage 1: this includes instruments/tranches associated with performing loans/securities that, as at the date of analysis, do not show a significant increase in credit risk with respect to the date of disbursement/purchase. In this case, the 12-month expected loss is measured;
- stage 2: this includes instruments/tranches associated with performing loans/securities that, as at the date of analysis, show a significant increase in credit risk with respect to the date of disbursement/purchase. Regardless of the increase in credit risk with respect to the date of disbursement/purchase, satisfaction of two other conditions would also lead to classification in stage 2:
  - positions that at the reporting date have a probability of default in excess of a specified threshold;[40]
  - probation period: positions that at the reporting date are eligible for classification in stage 1 but have been classified in stage 2 at least once in the previous three months;[41]

  in this case, the lifetime expected loss is measured;
- stage 3: this includes all instruments/tranches associated with loans/securities in default, for which the loss is calculated as the difference between the contractual cash flows and expected cash flows, discounted at the effective interest rate of the instrument (lifetime expected loss), which is essentially unchanged compared with the previous accounting standard.

With regard to Expected Credit Loss, the risk parameters necessary for calculating that value have been distinguished by differentiating between the securities portfolio and the loan portfolio.

With regard to the securities portfolio:

[40] This condition holds for positions that at reporting date have a conditional PD at 12 months of more than 20%.

[41] The probation period is not applied to positions assigned to state 2 in the previous three months solely due to the presence of forbearance measures that have lapsed as at the reporting date. This reflects the fact that forbearance is governed by a longer and more stringent probation period (24 months).

- Probability of Default (PD): the PD at 12 months and multi-period PDs were derived from Standard & Poor's matrices by attributing conventional PD measures where PDs other than 0 are not available. The metrics subsequently undergo forward-looking conditioning;
- Loss Given Default (LGD): the LGD measure used is the same for both stage 1 and stage 2 exposures, adopting separate LGD measures for European government securities and other bond exposures. The metrics subsequently undergo forward-looking conditioning;
- Exposure At Default (EAD): for the purposes of quantifying the EAD associated with each securities issue, the gross value of the exposure at the reporting dates is generally used.

With regard to the loan portfolio:

- Probability of Default (PD): the approach defined by the Iccrea Group envisages:
  - where a rating model is available, building, if not already provided by the model, a transition matrix based on rating classes from the model, conditioned to incorporate forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
  - where a rating system is absent, calculating default rates on an annual basis, conditioned to include forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
- Loss Given Default (LGD): the estimate of the LGD for the majority of Group companies is obtained as the ratio of total specific writedowns to total non-performing exposures, in some cases appropriately adjusted for the danger rate matrix;
- Exposure At Default (EAD): the estimation approach for EAD differs by type of portfolio, product and stage to which the exposure has been assigned.

In order to condition the risk parameters for future macroeconomic scenarios, the Group annually estimates the models for obtaining projections of changes in the riskiness of the portfolio (PD) and losses generated by default of the debtor counterparties (LGD), based on a defined time horizon and certain reference variables (default rates, amount of bad loans, etc.).

In order to obtain a probability of default that reflects future macroeconomic conditions, "satellite models" are estimated, differentiated by type of counterparty, which make it possible to explain the relationship linking default rates to a set of explanatory macroeconomic variables. The forecasts of the target variable, the default rate, are obtained through the definition on the basis of two separate scenarios of the future values of each of the macroeconomic variables and the application of the estimated regression coefficients. The results of the satellite model in each of the two distinct scenarios enable the calculation of multiplicative macroeconomic conditioning factors.

For the purpose of applying these multipliers, the Iccrea Group associates the probability of occurrence on a judgmental basis to the two scenarios, used as weights in the calculation of the average multiplier associated with each calendar year.

More specifically, three calendar years are considered subsequent to the estimation date of the satellite models (reference date), while for subsequent years, the multiplier used is equal to the arithmetic mean of the multipliers of the three years.

In order to render the LGD forward looking, the Group estimates a regression model that explains the relationship that links a variable able to approximate losses in the event of system default (for example, gross non-performing loans for the entire system) with a set of explanatory macroeconomic variables, using the same approach adopted to condition the PD to estimate the multipliers.

With regard to exposures classified in stage 3 (credit-impaired assets), even if the definition of "impaired loans" in IAS 39 and IFRS 9 is substantially the same, the inclusion of forward-looking information, such as the consideration of alternative recovery scenarios, incorporated a number of methodological peculiarities. In particular, scenarios for the sale of credit exposures were considered in connection with possible sales of impaired positions connection with the company's objectives for reducing non-performing assets, to which a probability of realization was attributed for consideration in the context of the overall assessments. It follows that, for transferrable non-performing loans, in order to determine the overall expected loss of exposures, the "ordinary" scenario assuming a recovery strategy based on the recovery of receivables through legal action, the enforcement of guarantees, etc. , has been accompanied by scenarios that envisage the sale of the loan as a recovery strategy.

Debt securities

With regard to the debt securities, the methodology envisages using the low credit risk exemption, which, regardless of the presence or not of a rating at origination, allocates to stage 1 exposures that have a rating equal to or better than investment grade at the reporting date.

Equity securities

Equity securities do not undergo impairment testing.

Other non-financial assets

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

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

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

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

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability between willing and knowledgeable market participants in an orderly transaction. In the definition of fair value, a key assumption is that an entity is fully operational (the assumption that an entity is a going concern) and does not have the intention or the need to liquidate, significantly reduce its operations or undertake transactions on unfavorable terms. In other words, fair value is not the amount an entity would receive or would pay in a forced transaction, an involuntary liquidation or a distress sale. Nevertheless, the fair value reflects the credit quality of the instrument as it incorporates counterparty risk.

Financial instruments

With regard to the methods for determining the fair value of financial instruments, please see the information in section A.4 - Fair value disclosures.

Non-financial assets

Investment property is primarily valued using external appraisals, considering transactions at current prices in an active market for similar properties, in the same location and condition and subject to similar conditions for rentals and other contracts.

Financial guarantees

As part of its ordinary banking operations, the Bank grants financial guarantees in the form of letters of credit, acceptances and other guarantees. Commission income earned on guarantees, net of the portion representing the recovery of costs incurred in issuing the guarantee, are recognized on an accruals basis under “Fee and commission income”, taking account of the term and residual value of the guarantees.

Following initial recognition, the liability in respect of each guarantee is measured as the greater of the initial recognition amount less cumulative amortization recognized in profit or loss and the best estimate of the expense required to settle the financial obligation that arose following the granting of the guarantee.

Any losses and value adjustments on such guarantees are reported under “value adjustments”. Writedowns for impairment of guarantees are reported under “Provisions for risk and charges”.

Guarantees are off-balance-sheet transactions and are reported under “Other information” in Part B of the notes to the financial statements.

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

Following adoption of IFRS 9, the Bank has not changed the business model it uses to manage its financial assets and, accordingly, no financial assets have been transferred between portfolios.

A.4 – FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURES

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

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

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

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

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

Mark to market

Classification in Level 1 of the fair value hierarchy represents the mark-to-market approach. For an instrument to be classified in Level 1 of the fair value hierarchy, its value must be based solely on quoted prices in an active market to which the Bank has access at the time of valuation (Level 1 inputs).
A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value. The concept of active market is a key concept in allocating a financial instrument to Level 1. An active market is a market (or dealer, broker, industrial group, pricing service or regulatory agency) in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Thus, the definition implies that the concept of active market is associated with the individual financial instrument and not the market itself, and it is therefore necessary to conduct materiality tests. The Group Fair Value Policy specified the criteria to be used in identifying an active market and the consequent use of the mark-to-market approach.

Comparable approach

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

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

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

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

Mark to model approach

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

A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

The Bank uses mark-to-model approaches in line with methods that are generally accepted and used in the industry. The valuation models comprise techniques based on the discounting of future cash flows and the estimation of volatility. They are reviewed both during their development and periodically thereafter in order to ensure their full consistency with the valuation objectives.

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

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

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

Valuation adjustments are intended to:

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

The factors impacting the need for an adjustment are:

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

With particular regard to units held in unlisted alternative investment funds (so-called AIFs), for the purposes of preparing the 2020 financial statements, a specific project was carried out, coordinated by the Parent Company, aimed at determining the “liquidity adjustment” to be applied to the Net Asset Value (NAV) of the unlisted funds held.

The methodological approach adopted provides for the consideration, in line with market best practice, of the following main elements:

- the average holding period of the individual unlisted funds before they can be sold;
- the characteristics of the individual assets held by the fund and their level of volatility in the holding period considered (degree of uncertainty);
- the level of risk aversion reflected in a prudent threshold which, with reference to the distribution of the possible returns/final value of the asset/portfolio considered, makes it possible to measure any divergence from their expected value.

The use of these elements made it possible to estimate a discount with respect to the NAV, calculated as a percentage adjustment of the risk premium linked to the uncertainty concerning potential unfavorable changes in value before their realization while also taking account of the management costs of the funds not incorporated in the NAVs of the individual unlisted funds.

For 2020, the percentage adjustment applied was respectively 3.69% for real estate funds, 9.55% for private debt-non-performing loan funds, 1.28% for private debt-bond bonds and 9.47% for private equity funds.

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

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

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

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

A.4.2 VALUATION PROCESSES AND SENSITIVITY

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

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

A.4.3 FAIR VALUE HEIRARCHY

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

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

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

As required under paragraph 97 of IFRS 13 and, previously, under IFRS 7, certain fair value disclosures are required for financial instruments measured at fair value for disclosure purposes only (instruments which are measured at amortized cost in the balance sheet).

The Group has specified the following approaches for measuring fair value in these cases:

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

A.4.4 OTHER INFORMATION

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

QUANTITATIVE DISCLOSURES

A.4.5 FAIR VALUE HIERARCHY

A.4.5.1 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS: BREAKDOWN BY FAIR VALUE INPUT LEVEL

	31/12/2020			31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss of which	358,503	948,358	28,609	462,676	778,032	39,156
a) financial assets held for trading	6,201	567,670	5	11,972	381,302	51
b) financial assets designated as at fair value	341,076	22,179	-	362,091	23,019	-
c) other financial assets mandatorily measured at fair value	11,225	358,509	28,604	88,613	373,711	39,105
2. Financial assets measured at fair value through comprehensive income	271,590	32,811	6,806	279,445	72,842	14,846
3. Hedging derivatives	-	8,710	-	-	4,787	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	630,093	989,879	35,415	742,120	855,661	54,002
1. Financial liabilities held for trading	391	563,120	-	630	381,237	-
2. Financial liabilities designated as at fair value	-	340,957	-	-	424,058	-
3. Hedging derivatives	-	173,821	-	-	118,344	-
Total	391	1,077,899	-	630	923,640	-

Paragraph 93 letter c) of IFRS 13 requires that, in addition to reporting the fair value hierarchy, entities shall disclose information on significant transfers between Level 1 and Level 2 and the reasons for the transfer. Please note that there were no such transfers during the period.

In addition, with regard to the quantitative impact on the determination of the fair value of financial derivative instruments, the Credit Value Adjustment (for default risk of counterparties) involved a decrease of about €7 thousand, while the Debt Value Adjustment (for default risk of the Bank) did not give rise to any changes.

A.4.5.2 CHANGE FOR THE PERIOD IN FINANCIAL ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3)

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**39,156**	**51**	**-**	**39,105**	**14,846**	**-**	**-**	**-**
2. Increases	**4,801**	**4**	**-**	**4,797**	**5,330**	**-**	**-**	**-**
2.1 Purchases	2,047	4	-	2,043	4,565	-	-	-
2.2 Profits recognized in:	2,739	-	-	2,739	765	-	-	-
2.2.1 Income statement	2,739	-	-	2,739	-	-	-	-
- of which: capital gains	2,639	-	-	2,639	-	-	-	-
2.2.2 Shareholders' equity	-	X	X	X	765	-	-	-
2.3 Transfers from other levels	15	-	-	15	-	-	-	-
2.4 Other increases	-	-	-	-	-	-	-	-
3. Decreases	**(15,348)**	**(51)**	**-**	**(15,297)**	**(13,370)**	**-**	**-**	**-**
3.1 Sales	(892)	(46)	-	(845)	(5,062)	-	-	-
3.2 Repayments	(12)	-	-	(12)	-	-	-	-
3.3 Losses recognized in:	(4)	(4)	-	-	(3)	-	-	-
3.3.1 Income statement	(4)	(4)	-	-	-	-	-	-
- of which: capital losses	-	-	-	-	-	-	-	-
3.3.2 Shareholders' equity	-	X	X	X	(3)	-	-	-
3.4 Transfers to other levels	(14,440)	-	-	(14,440)	(8,306)	-	-	-
3.5 Other decreases	-	-	-	-	-	-	-	-
4. Closing balance	**28,609**	**5**	**-**	**28,604**	**6,806**	**-**	**-**	**-**

With regard to paragraph 93 letter e) of IFRS 13, the table reports, for Level 3 fair value assessments only and for each category of financial instrument, a reconciliation of the opening and closing balances, with separate indication of the changes that occurred during the period and attributable to purchases, sales and gains/losses, distinguishing in the latter case between those recognized directly in profit or loss and those recognized through other comprehensive income.

Note also that during the year there were no changes in one or more inputs relating to reasonably possible alternative assumptions that would change the fair value significantly.

A.4.5.3 CHANGE FOR THE PERIOD IN FINANCIAL LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3)

The table has not been completed because there were no such positions as at the reporting date.

A.4.5.4 FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE A NON-RECURRING BASIS: BREAKDOWN BY FAIR VALUE INPUT LEVEL

	31/12/2020				31/12/2019			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortized cost	47,485,060	9,548,438	31,020,975	7,389,810	42,551,042	6,947,936	3,902,651	35,676,543
2. Investment property								
3. Non-current assets and disposal groups held for sale	189,432				171,700			
Total	**47,674,492**	**9,548,438**	**31,020,975**	**7,389,810**	**42,722,742**	**6,947,936**	**3,902,651**	**35,676,543**
1. Financial liabilities measured at amortized cost	47,707,809	2,289,566	42,822,391	3,140,426	42,932,558	4,461,100	588,403	37,601,500
2. Liabilities associated with assets held for sale	170,813				155,930			
Total	**47,878,622**	**2,289,566**	**42,822,391**	**3,140,426**	**43,088,488**	**4,461,100**	**588,403**	**37,601,500**

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 the day one P&L came to -€1,856 thousand. The value is equal to the net overall fair value of hedging derivatives recognized at the trade date, in accordance with IFRS 9 (paragraphs B.5.1.2 A letter b).

PART B - INFORMATION ON THE BALANCE SHEET

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

		Total 31/12/2020	Total 31/12/2019
a) Cash		129,048	135,660
b) Demand deposits with central banks		80,380	110,477
	Total	**209,428**	**246,137**

Sub-item b) includes amounts deposited on the PM account with the Bank of Italy, which is used to manage the liquidity of the Guarantee Scheme, in the amount of about €43 million and about €37 million in respect of instant payments.

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 20

2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

	Total 31/12/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**4,586**	**2**	**3**	**8,381**	**6**	**-**
1.1 structured securities	1,865	-	-	510	-	-
1.2 other debt securities	2,722	2	3	7,872	6	-
2. Equity securities	**345**	**3**	**2**	**3,370**	**197**	**51**
3. Units in collective investment undertakings	**987**	**118**	**-**	**176**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	**5,918**	**122**	**5**	**11,927**	**203**	**51**
B. Derivatives						
1. Financial derivatives	**283**	**567,548**	**-**	**44**	**381,099**	**-**
1.1 trading	283	567,548	-	44	381,099	-
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**283**	**567,548**	**-**	**44**	**381,099**	**-**
Total (A+B)	**6,201**	**567,670**	**5**	**11,972**	**381,302**	**51**

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

		Total 31/12/2020	Total 31/12/2019
A. On-balance-sheet assets			
1. Debt securities		4,591	8,388
a) Central banks		-	-
b) Government entities		689	1,918
c) Banks		2,301	4,587
d) Other financial companies		96	1,368
of which: insurance undertakings		-	417
e) Non-financial companies		1,505	514
2. Equity securities		349	3,618
a) Banks		-	62
b) Other financial companies		145	322
of which: insurance undertakings		143	46
c) Non-financial companies		204	3,233
d) Other issuers		-	-
3. Units in collective investment undertakings		1,106	176
4. Loans		-	-
a) Central banks		-	-
b) Government entities		-	-
c) Banks		-	-
d) Other financial companies		-	-
of which: insurance undertakings		-	-
e) Non-financial companies		-	-
f) Households		-	-
	Total (A)	6,046	12,182
B. Derivatives		-	-
a) Central counterparties		527	-
b) Other		567,304	381,143
	Total (B)	567,831	381,143
	Total (A+B)	573,876	393,325

The distribution of assets by economic sector of the debtors or the issuers was carried out on the basis of the classification criteria provided for by the Bank of Italy.

2.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE: COMPOSITION BY TYPE

	Total 31/12/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	341,076	22,179	-	362,091	23,019	-
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	341,076	22,179	-	362,091	23,019	-
2. Loans	-	-	-	-	-	-
1.1 structured securities	-	-	-	-	-	-
1.2 other	-	-	-	-	-	-
Total	341,076	22,179	-	362,091	23,019	-

The amount is entirely attributable to financial instruments subscribed by the Parent Company in accordance with the investment policy for the Ex Ante Quota of the Readily Available Funds connected with the Guarantee Scheme.

2.4 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

		Total 31/12/2020	Total 31/12/2019
1. Debt securities		**363,255**	**385,111**
a) Central banks		-	-
b) Government entities		292,585	311,492
c) Banks		64,788	67,664
d) Other financial companies		5,882	5,955
of which: insurance undertakings		-	-
e) Non-financial companies		-	-
2. Loans		**-**	**-**
a) Central banks		-	-
b) Government entities		-	-
c) Banks		-	-
d) Other financial companies		-	-
of which: insurance undertakings		-	-
e) Non-financial companies		-	-
f) Households		-	-
	Total	363,255	385,111

The distribution of assets by economic sector of the debtors or the issuers was carried out on the basis of the classification criteria provided for by the Bank of Italy.

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

	Total 31/12/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**6,851**	**25,345**	**2,142**	**6,951**	**20,555**	**-**
1.1 structured securities	-	5,095	2,128	-	5,031	-
1.2 other debt securities	6,851	20,250	15	6,951	15,524	-
2. Equity securities	**4,374**	**824**	**26,456**	**3,962**	**-**	**25,824**
3. Units in collective investment undertakings	**-**	**332,340**	**-**	**77,699**	**353,156**	**13,264**
4. Loans	**-**	**-**	**5**	**-**	**-**	**17**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	5	-	-	17
Total	11,225	358,509	28,604	88,613	373,711	39,105

“Units in collective investment undertakings” includes, among others, the units of the closed-end investment funds “Securis Real Estate” managed by Investire SGR SpA:

- Securis Real Estate III, in the amount of €63,424 thousand;
- Fondo Securis Real Estate II, in the amount of €115,421 thousand;
- Fondo Securis Real Estate I, in the amount of €140,312 thousand.

2.6 OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

	Total 31/12/2020	Total 31/12/2019
1.Equity securities	**31,654**	**29,786**
of which: banks	-	760
of which: other financial companies	21,727	20,454
of which: non-financial companies	9,927	8,573
2. Debt securities	**34,339**	**27,507**
a) Central banks	-	-
b) Government entities	-	-
c) Banks	22,191	15,512
d) Other financial companies	7,380	7,131
of which: insurance companies	-	-
e) Non-financial companies	4,768	4,863
3. Units in collective investment undertakings	**332,340**	**444,119**
4. Loans	**5**	**17**
a) Central banks	-	-
b) Government entities	-	-
c) Banks	-	-
d) Other financial companies	5	17
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**398,338**	**501,428**

The distribution of assets by economic sector of the debtors or the issuers was carried out on the basis of the classification criteria provided for by the Bank of Italy.

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – ITEM 30

3.1 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY TYPE

	Total 31/12/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**248,854**	**9,187**	**-**	**273,088**	**36,751**	**-**
1.1 structured securities	6,544	-	-	3,159	-	-
1.2 other debt securities	242,310	9,187	-	269,929	36,751	-
2. Equity securities	**22,736**	**23,624**	**6,806**	**6,357**	**36,091**	**14,846**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	271,590	32,811	6,806	279,445	72,842	14,846

3.2 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY DEBTOR/ISSUER

	Total 31/12/2020	Total 31/12/2019
1. Debt securities	**258,041**	**309,839**
a) Central banks	-	-
b) Government entities	172,685	202,908
c) Banks	31,802	54,690
d) Other financial companies	31,026	33,047
of which: insurance companies	-	-
e) Non-financial companies	22,528	19,193
2. Equity securities	**53,166**	**57,294**
a) Banks	34,120	36,092
b) Other issuers:	19,046	21,202
- other financial companies	13,509	19,952
of which: insurance companies	8,164	12,283
- non-financial companies	5,537	1,250
- other	-	-
3. Loans	**-**	**-**
a) Central banks	-	-
b) Government entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	311,207	367,133

3.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: GROSS VALUE AND TOTAL WRITEOFFS

	Gross amount				Total writeoffs			Total partial writeoffs*
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	225,994	202,422	33,047	-	(102)	(898)	-	-
Loans	-	-	-	-	-	-	-	-
Total 31/12/2020	225,994	202,422	33,047	-	(102)	(898)	-	X
Total 31/12/2019	298,197	121,663	12,170	-	(347)	(181)	-	X
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

3.3A LOANS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME INVOLVED IN COVID-19 SUPPORT MEASURES: GROSS AMOUNT AND TOTAL WRITEOFFS

The table has not been completed because there were no such positions as at the reporting date.

SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTIZED COST - ITEM 40

4.1 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN OF LOANS AND RECEIVABLES WITH BANKS

	Total 31/12/2020						Total 31/12/2019					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
A. Claims on central banks	**3,858,522**	**-**	**-**	**-**	**-**	**3,858,522**	**3,827,730**	**-**	**-**	**-**	**-**	**3,827,730**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	3,858,522	-	-	X	X	X	3,827,730	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**29,334,252**	**-**	**-**	**37,486**	**28,119,186**	**1,323,618**	**25,446,043**	**-**	**-**	**-**	**3,658,717**	**25,611,576**
1. Financing	28,897,188	-	-	-	27,768,602	1,273,218	21,700,649	-	-	-	-	25,528,379
1.1. Current accounts and demand deposits	630,870	-	-	X	X	X	608,175	-	-	X	X	X
1.2. Fixed-term deposits	357,917	-	-	X	X	X	103,248	-	-	X	X	X
1.3. Other financing:	27,908,401	-	-	X	X	X	20,989,227	-	-	X	X	X
- Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	27,908,401	-	-	X	X	X	20,989,227	-	-	X	X	X
2. Debt securities	437,065	-	-	37,486	350,584	50,400	3,745,394	-	-	-	3,658,717	83,197
2.1 Structured securities	-	-	-	-	-	-	1,985	-	-	-	-	25
2.2 Other debt securities	437,065	-	-	37,486	350,584	50,400	3,743,409	-	-	-	3,658,717	83,172
Total	**33,192,774**	**-**	**-**	**37,486**	**28,119,186**	**5,182,140**	**29,273,773**	**-**	**-**	**-**	**3,658,717**	**29,439,306**

Loans connected with pool collateral operations amount to €20,283 million of which €14,183 million granted within the framework of TLTRO with the European Central Bank and included under letter "B", item "Other financing– Other". Securities pledged as collateral amount to €24,277 million net of the haircut applied to the various types of securities.

In addition, during the period financing with the assignment of loans through the "ABACO" procedure continued. At the end of the period loans received from Iccrea BancaImpresa securing the collateral pool amounted to €1,616 million, which net of the haircut decreased to about €1,099 million.

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

	Total 31/12/2020						Total 31/12/2019					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
1. Loans	**4,495,402**	**5,696**	**-**	**-**	**2,388,774**	**2,166,632**	**5,834,965**	**7,519**	**-**	**-**	**-**	**5,842,484**
1.1. Current accounts	276,755	27	-	X	X	X	309,093	28	-	X	X	X
1.2. Repurchase agreements	1,772,307	-	-	X	X	X	2,885,420	-	-	X	X	X
1.3. Medium/long term loans	59,566	5,504	-	X	X	X	69,886	7,377	-	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from pensions/wages	-	-	-	X	X	X	-	-	-	X	X	X
1.5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other loans	2,386,774	166	-	X	X	X	2,570,568	114	-	X	X	X
2. Debt securities	**9,791,187**	**-**	**-**	**9,510,953**	**513,016**	**41,037**	**7,366,734**	**68,050**	**-**	**6,947,936**	**243,934**	**394,752**
2.1 Structured securities	102,092	-	-	5,362	68,102	28,923	-	-	-	-	-	-
2.2 Other debt securities	9,689,095	-	-	9,505,590	444,913	12,115	7,366,734	68,050	-	6,947,936	243,934	394,752
Total	**14,286,589**	**5,696**	**-**	**9,510,953**	**2,901,789**	**2,207,670**	**13,201,699**	**75,569**	**-**	**6,947,936**	**243,934**	**6,237,236**

Amounts due from customers are reported net of writedowns for impairment.

4.3 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: COMPOSITION BY DEBTOR/ISSUER OF LOANS TO CUSTOMERS

	Total 31/12/2020			Total 31/12/2019		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired
1. Debt securities	**9,791,187**	**-**	**-**	**7,366,734**	**68,050**	**-**
a) Government entities	9,664,477	-	-	7,360,140	-	-
b) Other financial companies	98,099	-	-	6,594	68,050	-
of which: insurance companies	6,834	-	-	-	-	-
c) Non-financial companies	28,611	-	-	-	-	-
2. Loans to:	**4,495,402**	**5,696**	**-**	**5,834,965**	**7,519**	**-**
a) Government entities	-	-	-	-	-	-
b) Other financial companies	4,382,814	-	-	5,487,014	-	-
of which: insurance companies	2	-	-	-	-	-
c) Non-financial companies	67,620	646	-	61,485	743	-
d) Households	44,968	5,050	-	286,466	6,776	-
Total	**14,286,589**	**5,696**	**-**	**13,201,699**	**75,569**	**-**

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

	Gross amount				Total writeoffs			Total and partial writeoffs *
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	10,201,552	9,778,048	34,416	-	(3,066)	(4,651)	-	-
Loans	36,931,667	47,396	327,097	30,140	(4,686)	(2,966)	(24,444)	(373)
Total 31/12/2020	**47,133,219**	**9,825,445**	**361,514**	**30,140**	**(7,752)**	**(7,618)**	**(24,444)**	**(373)**
Total 31/12/2019	**42,113,004**	**7,486,496**	**370,656**	**142,601**	**(3,088)**	**(5,099)**	**(67,032)**	**(373)**
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

** Value to be reported for information purposes*

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

	Gross amount				Total writeoffs		
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1. Loans subject to forbearance measures compliant with guidelines	591	-	-	-	6	-	-
2. Loans subject to other forbearance measures	-	-	-	-	-	-	-
3. New loans	-	-	-	-	-	-	-
Total 31/12/2020	**591**	**-**	**-**	**-**	**6**	**-**	**-**
Total 31/12/2019	**-**	**-**	**-**	**-**	**-**	**-**	**-**

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

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

	FV 31/12/2020			NV	FV 31/12/2019			NV
	L1	L2	L3	31/12/2020	L1	L2	L3	31/12/2019
A. Financial derivatives								
1. Fair value	-	6,834	-	321,877	-	4,584	-	50,000
2. Cash flows	-	1,877	-	74,128	-	203	-	13,352
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**8,711**	**-**	**396,005**	**-**	**4,787**	**-**	**63,352**

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

5.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair Value							Cash flows		Investments in foreign operations
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and equity indices	currencies and gold	loans	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	1,455	X	X
2. Financial assets measured at amortized cost	2,559	X	-	-	X	X	X	422	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**2,559**	**-**	**-**	**-**	**-**	**-**	**-**	**1,877**	**-**	**-**
1. Financial liabilities	4,274	-	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**4,274**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

SECTION 6 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY – ITEM 60

6.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	Total 31/12/2020	Total 31/12/2019
1. Positive adjustments	**1,158**	**1,178**
1.1 of specific portfolios:	1,158	1,178
a) financial assets measured at amortized cost	-	-
b) financial assets measured at fair value through comprehensive income	1,158	1,178
1.2 comprehensive	-	-
2. Negative adjustments	**-**	**-**
2.1 of specific portfolios:	-	-
a) financial assets measured at amortized cost	-	-
b) financial assets measured at fair value through comprehensive income	-	-
2.2 comprehensive	-	-
Total	**1,158**	**1,178**

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	% holding	% votes
A. Subsidiaries				
Iccrea BancaImpresa S.p.A.	Rome	Rome	100	100
BCC Beni Immobili S.r.l.	Milan	Rome	100	100
BCC Servizi Assicurativi S.r.l.	Milan	Milan	96.12	96.12
Ventis S.r.l.	Milan	Milan	100	100
Ventis S.pA	Rome	Rome	100	100
Bcc Sistemi Informatici S.p.A.	Milan	Milan	98.88	98.88
BCC Risparmio e Previdenza SGrpA	Milan	Milan	75	75
BCC Gestione Crediti S.p.A.	Rome	Rome	100	100
BCC Solutions S.p.A.	Rome	Rome	100	100
BCC CreditoConsumo S.p.A.	Rome	Udine	100	100
Banca Sviluppo S.p.A.	Rome	Rome	76.51	76.51
Banca MedioCredito FVG S.p.A.	Udine	Udine	27.28	27.28
Iccrea Covered Bond	Rome	Rome	90	90
Bcc Accademia S.c.p.A.	Rome	Rome	100	100
Sinergia	Milan	Treviglio	89.27	89.27
B. Joint ventures				
C. Companies subject to significant influence				
Hbenchmark S.r.l.	Vicenza	Vicenza	9.99	9.99
Hi-Mtf S.p.A.	Milan	Milan	25	25
BCC Vita S.p.A.	Milan	Milan	30	30
BCC Assicurazioni S.p.A.	Milan	Milan	30	30
Satispay S.p.A.	Milan	Milan	13.61	13.61
Bit - Servizi per L'Investimento sul Territorio	Parma	Parma	33.2	33.2

Equity investments are represented by unlisted securities.

7.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

	Carrying amount	Fair value	Dividends received
A. Subsidiaries			
Iccrea BancaImpresa S.p.A.	708,093	-	4,757
BCC Beni Immobili S.r.l.	13,157	-	-
BCC Servizi Assicurativi S.r.l.	944	-	-
Ventis S.r.l.	-	-	-
Ventis S.p.A	350	-	-
Bcc Sistemi Informatici S.p.A.	107,943	-	-
BCC Risparmio e Previdenza SGrpA	22,474	-	9,244
BCC Gestione Crediti S.p.A.	4,021	-	1,878
BCC Solutions S.p.A.	75,700	-	3,729
BCC CreditoConsumo S.p.A.	57,841	-	17,134
Banca Sviluppo S.p.A.	94,256	-	-
Banca Mediocredito FVG S.p.A.	16,544	-	-
Iccrea Covered Bond	12	-	-
Bcc Accademia S.c.p.A.	800	-	-
Sinergia	1,466	-	-
B. Joint ventures			
C. Companies subject to significant influence			
Hbenchmark S.r.l.	500	-	-
Hi-Mtf S.p.A.	1,250	-	-
BCC Vita S.p.A.	84,600	-	-
BCC Assicurazioni	6,447	-	-
Satispay S.p.A.	8,112	-	-
Bit - Servizi per L'Investimento sul Territorio	1,696	-	-
Total	**1,206,206**	**-**	**36,741**

7.3 SIGNIFICANT EQUITY INVESTMENTS: ACCOUNTING DATA

The table has not been completed because the Bank prepares consolidated financial statements pursuant to the provisions of Circular 262 of December 22, 2005 – 6th update.

7.4 NON-SIGNIFICANT EQUITY INVESTMENTS: ACCOUNTING DATA

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

7.5 EQUITY INVESTMENTS: CHANGE FOR THE PERIOD

	Total 31/12/2020	Total 31/12/2019
A. Opening balance	**1,150,481**	**1,263,640**
B. Increases	**101,452**	**14,554**
B.1 Purchases	96,532	14,554
B.2 Writebacks	-	-
B.3 Revaluations	-	-
B.4 Other increases	4,920	-
C. Decreases	**45,726**	**127,713**
C.1 Sales	1,688	42,463
C.2 Impairment losses	44,038	76,765
C.3 Writedowns	-	-
C.4 Other decreases	-	8,485
D. Closing balance	**1,206,207**	**1,150,481**
E. Total revaluations	**-**	**-**
F. Total impairment losses	**120,803**	**76,765**

The sub-item “B.1 Purchases” refers to he acquisition of further interests in: Iccrea Banca Impresa (+€2,069 thousand), Bcc Vita (+€22,500 thousand), Bcc Assicurazioni (+€1,500 thousand), Bcc Sistemi Informatici (+€62,919 thousand, following the sale of the ICT business unit), Sinergia (+€293 thousand), Bcc Credito Consumo (+€2,800 million), Medio Credito FVG (+€620 thousand), Ventis S.r.l. (+€2,800 thousand), Bcc Servizi Assicurativi (ex Retail) (+€519 thousand). Participating interests were also acquired in Iccrea Covered Bond (+€12 thousand), and HBenchmark (+€500 thousand).

The sub-item “C.1 Sales” reports the sale of the interest held in M-Facility (€89 thousand) and the redemption of the closed-end real estate investment fund “Securfondo” (-€1,599 thousand) which reached the end of its life.

The sub-item “C.2 Impairment losses” mainly reflects the impairment recognized on the interest held in Banca Sviluppo in the amount of €1,544 thousand; Iccrea BancaImpresa, in the amount of €23,996 thousand, in Ventis S.r.l., in the amount of €7,720 thousand, Beni Immobili, in the amount of €5,157 thousand and Banca Medio Credito FVG in the amount of €5,476 thousand.

Impairment testing of equity investments

As required by the IFRS, in the presence of triggers that could indicate possible impairment, equity investments undergo impairment testing to assess whether there is objective evidence indicating that the carrying amount of such assets is not fully recoverable and determine the amount of any writedown.

Impairment indicators can essentially be divided into two categories:

- qualitative indicators such as the posting of losses or significant divergences in performance from budget objectives or targets in long-term plans, the announcement/initiation of insolvency proceedings or restructuring plans or a downgrading by a specialized agency;
- quantitative indicators, represented by a reduction in fair value below the carrying amount of more than 30% or for more than 24 months, a carrying amount of an equity investment in the separate financial statements that exceeds the carrying amount in the consolidated financial statements of the net assets and goodwill of the investee or the distribution by the latter of a dividend in excess of its comprehensive income. If there is evidence of impairment, the amount of any impairment loss is determined on the basis of the difference between the carrying amount and the recoverable value, with the latter represented by the greater between the fair value less any costs to sell and the value in use.

As regards the investments held by Iccrea Banca where there is a difference between the carrying amount recognized in the separate financial statements and the fraction of equity recognized in the financial statements of the subsidiary, the impairment tests have been updated.

More specifically, the recoverability of the carrying amount was assessed with various methods, including shareholders’ equity, market multiples, the dividend discount model, equity with inclusion of funding and appraisal value.

7.6 COMMITMENTS IN RESPECT OF INVESTMENTS IN JOINT VENTURES

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

7.7 COMMITMENTS IN RESPECT OF INVESTMENTS IN COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE

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

7.8 SIGNIFICANT RESTRICTIONS

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

7.9 OTHER INFORMATION

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

SECTION 8 – PROPERTY, PLANT AND EQUIPMENT – ITEM 80

8.1 OPERATING PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

	Total 31/12/2020	Total 31/12/2019
1. Owned assets	**291**	**14,633**
a) land	-	-
b) building	-	-
c) movables	206	228
d) electrical plants	44	14,082
e) other	41	323
2. Right-of-use assets acquired under finance leases	**3,223**	**2,492**
a) land	-	-
b) building	997	1,288
c) movables	-	-
d) electrical plants	-	-
e) other	2,227	1,204
Total	**3,514**	**17,125**
of which: obtained through enforcement of guarantees received	-	-

The item “Right-of-use assets acquired under finance leases” includes the right of use connected with leased assets (leased buildings and automobiles) in line with the provisions of the new IFRS 16.

The decrease in the item reflects the disposal of ICT operations to BCC Sistemi Informatici on July 1, 2020.

8.2 INVESTMENT PROPERTY: COMPOSITION OF ASSETS CARRIED AT COST

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

8.3 OPERATING PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF REVALUED ASSETS

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

8.4 INVESTMENT PROPERTY: COMPOSITION OF ASSETS CARRIED AT FAIR VALUE

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

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

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

8.6 OPERATING PROPERTY, PLANT AND EQUIPMENT: CHANGE FOR THE PERIOD

	Land	Buildings	Movables	Electronic plant	Other	Total
A. Opening gross balance	**-**	**1,800**	**3,117**	**25,600**	**4,193**	**34,710**
A.1 Total net writedown	-	512	2,889	11,518	2,665	17,585
A.2 Opening net balance	**-**	**1,288**	**228**	**14,082**	**1,527**	**17,125**
B. Increases:	**-**	**328**	**3**	**-**	**2,018**	**2,349**
B.1 Purchases	-	328	-	-	2,018	2,345
- of which business combinations	-	-	-	-	-	-
B.2 Capitalized improvement costs	-	-	-	-	-	-
B.3 Writebacks	-	-	-	-	-	-
B.4 Fair value gains recognized in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	X	X	X	-
B.7 Other changes	-	-	3	-	-	3
C. Decreases:	**-**	**619**	**25**	**14,038**	**1,277**	**15,960**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	619	25	33	1,021	1,698
C.3 Writedowns for impairment recognized in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Fair value losses recognized in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	X	X	X	-
b) discontinuing operations	-	-	-	-	-	-
C.7 Other changes	-	-	-	14,006	256	14,262
D. Closing net balance	**-**	**997**	**206**	**44**	**2,268**	**3,514**
D.1 Total net writedowns	-	803	2,823	25,556	2,165	31,348
D.2 Closing gross balance	**-**	**1,800**	**3,029**	**25,600**	**4,433**	**34,862**
E. Measurement at cost	-	-	-	-	-	-

8.7 INVESTMENT PROPERTY: CHANGE FOR THE PERIOD

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

8.8 INVENTORIES OF PROPERTY, PLANT AND EQUIPMENT WITHIN THE SCOPE OF IAS 2: CHANGE FOR THE PERIOD

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

8.9 COMMITMENTS TO ACQUIRE PROPERTY, PLANT AND EQUIPMENT

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

SECTION 9 – INTANGIBLE ASSETS – ITEM 90

9.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 31/12/2020		Total 31/12/2019	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**-**	**X**	**-**
A.2 Other intangible assets	**2,127**	**-**	**53,946**	**-**
A.2.1 Assets carried at cost	2,127	-	53,946	-
a) internally generated intangible assets	-	-	-	-
b) other assets	2,127	-	53,946	-
A.2.2 Assets designated at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	2,127	-	53,946	-

The decrease in the item reflects the disposal of ICT operations to BCC Sistemi Informatici on July 1, 2020

9.2 INTANGIBLE ASSETS: CHANGE FOR THE PERIOD

	Goodwill	Other intangible assets internally generated		Other intangible assets: other		Total
		Finite life	Indefinite life	Finite life	Indefinite life	
A. Opening balance	**-**	**-**	**-**	**53,946**	**-**	**53,946**
A.1 Total net writedown	-	-	-	-	-	-
A.2 Opening net balance	**-**	**-**	**-**	**53,946**	**-**	**53,946**
B. Increases	**-**	**-**	**-**	**1,575**	**-**	**1,575**
B.1 Purchases	-	-	-	1,575	-	1,575
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Writebacks	X	-	-	-	-	-
B.4 Fair value gains recognized in	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**53,394**	**-**	**53,394**
C.1 Sales	-	-	-	-	-	-
C.2 Writedowns	-	-	-	590	-	590
- Amortization	X	-	-	590	-	590
- Impairment	-	-	-	-	-	-
+ equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Fair value losses recognized in	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	52,804	-	52,804
D. Closing net balance	**-**	**-**	**-**	**2,127**	**-**	**2,127**
D.1 Total net writedown	-	-	-	-	-	-
E. Closing gross balance	**-**	**-**	**-**	**2,127**	**-**	**2,127**
F. Measurement at cost	-	-	-	-	-	-

9.3 INTANGIBLE ASSETS: OTHER INFORMATION

Under the provisions of IAS 38, paragraphs 122 and 124, we report:

- there are no revalued intangible assets; consequently, there are no impediments to the distribution to shareholders of gains on revalued intangible assets (IAS 38, paragraph 124, letter b);
- there are no intangible assets acquired with government grants (IAS 38, paragraph 122, letter c);
- there are no intangible assets pledged as security for liabilities (IAS 38, paragraph 122, letter d);
- there are no intangible assets involved in lease transactions.

SECTION 10 - TAX ASSETS AND LIABILITIES – ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

10.1 DEFERRED TAX ASSETS: COMPOSITION

	IRES	IRAP	TOTAL	IRES	IRAP	TOTAL
	31/12/2020			31/12/2019		
1) Recognized in income statement	**21,879**	**28**	**21,907**	**31,296**	**32**	**31,328**
a) DTA pursuant to Law 214/2011	**2,444**	**28**	**2,472**	**2,627**	**32**	**2,658**
Goodwill and other intangible assets recognized at 31.12.2014	2,316	28	2,344	2,627	32	2,658
Tax losses/negative value of production as per Law 214/2011	128	-	128	-	-	-
b) Other	**19,435**	**-**	**19,435**	**28,669**	**-**	**28,669**
Writedowns of amounts due from banks	1,547	-	1,547	395	-	395
Writedowns of loans to customers	109	-	109	123	-	123
Goodwill and other intangible assets	-	-	-	-	-	-
Tax losses	9,631	-	9,631	23,128	-	23,128
Writedowns of financial assets held for trading and financial assets measured at fair value	-	-	-	-	-	-
Writedowns of securities in circulation	-	-	-	-	-	-
Writedowns of financial liabilities held for trading and financial liabilities measured at fair value	-	-	-	-	-	-
Writedowns of impairment of guarantees issued recognized under liabilities	-	-	-	-	-	-
Provisions for risks and charges	5,839	-	5,839	2,693	-	2,693
Costs of predominantly administrative nature	-	-	-	21	-	21
Difference between tax value and carrying amount of property, plant and equipment and intangible assets	-	-	-	-	-	-
Other	2,309	-	2,309	2,309	-	2,309
- Recognized in shareholders' equity	**6,372**	**1,222**	**7,594**	**1,642**	**292**	**1,934**
a) Valuation reserves:	**2,049**	**415**	**2,464**	**1,440**	**292**	**1,731**
Capital losses on financial assets measured through OCI	2,049	415	2,464	1,440	292	1,731
b) Other:	**4,323**	**807**	**5,130**	**203**	**-**	**203**
Actuarial gains/losses on provisions for employees	341	-	341	203	-	203
Other	3,982	807	4,789	-	-	-
A. Total deferred tax assets	**28,252**	**1,250**	**29,501**	**32,938**	**323**	**33,262**
B. Offsetting with deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets - Total 100 b)	**28,252**	**1,250**	**29,501**	**32,938**	**323**	**33,262**

10.2 DEFERRED TAX LIABILITIES: COMPOSITION

	IRES 31/12/2020	IRAP 31/12/2020	TOTAL	IRES 31/12/2019	IRAP 31/12/2019	TOTAL
1) Deferred tax liabilities recognized in income statement:	**-**	**-**	**-**	**-**	**-**	**-**
Writedowns of loans to customers deducted in separate section of tax return (not recognized in income statement)	-	-	-	-	-	-
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	-	-	-	-	-	-
Other	-	-	-	-	-	-
2) Deferred tax liabilities recognized in shareholders' equity:	**976**	**198**	**1,173**	**1,170**	**237**	**1,407**
Valuation reserves:						
Capital gains on financial assets measured through OCI	976	198	1,173	1,170	237	1,407
Revaluation of property	-	-	-	-	-	-
Other	-	-	-	-	-	-
A. Total deferred tax liabilities	**976**	**198**	**1,173**	**1,170**	**237**	**1,407**
B. Offsetting with deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets -Total sub-item 60 b)	**976**	**198**	**1,173**	**1,170**	**237**	**1,407**

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

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**31,328**	**37,461**
2. Increases	**5,138**	**599**
2.1 Deferred tax assets recognized during the period	5,138	599
a) in respect of previous period	215	14
b) due to change in accounting policies	-	-
c) writebacks	-	-
d) other	4,923	585
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**14,558**	**6,732**
3.1 Deferred tax assets derecognized during the period	876	6,220
a) reversals	876	309
b) writedowns for supervening non-recoverability	-	4,527
c) due to changes in accounting policies	-	-
d) other	-	1,384
3.2 Reduction in tax rates	-	-
3.3 Other decreases	13,681	512
a) transformation in tax credits pursuant to Law 214/2011	185	60
b) other	13,496	452
4. Closing balance	**21,907**	**31,328**

10.3 BIS CHANGES IN DEFERRED TAX ASSETS PURSUANT TO LAW 214/2011

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**2,658**	**2,719**
2. Increases	**128**	**-**
3. Decreases	**315**	**60**
3.1 Reversals	130	-
3.2 Conversion into tax credits	185	60
a) arising from losses for the year	185	60
b) arising from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**2,472**	**2,658**

10.4 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN INCOME STATEMENT)

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

10.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**1,934**	**6,020**
2. Increases	**5,660**	**203**
2.1 Deferred tax assets recognized during the period	5,660	203
a) in respect of previous periods	80	-
b) due to change in accounting policies	-	-
c) other	5,580	203
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**4,289**
3.1 Deferred tax assets derecognized during the period	-	4,289
a) reversals	-	4,289
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**7,594**	**1,934**

10.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**1,407**	**10**
2. Increases	**-**	**1,396**
2.1 Deferred tax liabilities recognized during the period	-	1,396
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	-
c) other	-	1,396
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**233**	**-**
3.1 Deferred tax liabilities derecognized during the period	233	-
a) reversals	-	-
b) due to change in accounting policies	233	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,173**	**1,407**

10.7 OTHER INFORMATION

As regards the Bank's tax position:

- for the financial years 2016, 2017, 2018 and 2019 (for which the tax assessment time limit has not expired), no formal notice of assessment has yet been received;
- in November 2014, the Bank received a notice of liquidation from the Revenue Agency, Provincial Directorate of Brescia for the year 2013 concerning the registration fees of €104,770.00 for an order assigning amounts for seizure by third parties. Following adverse rulings in the first two levels of adjudication, the Bank has appealed to the Court of Cassation.

The recovery of the DTAs pursuant to Law 214/2011 is certain under the provisions of the law and does not take account of the profit generating capacity of the Bank.

DTAs other than those referred to in Law 214/2011 are recognized to the extent that their recovery is probable. This probability was assessed using the probability test.

With regard to the probability test conducted, the tax income or loss (IRES/IRAP) was estimated over a five-year forecast period (from 2021 to 2025), and the sufficiency of the estimated taxable income to absorb the temporary deductible differences that gave rise to the recognition of DTAs that will be reversed in the reference period was verified. In addition, with regard to DTAs reversing subsequent to the aforementioned time horizon, a further assessment was carried out that demonstrated their recoverability within a limited and reasonable period of years.

The estimations and assumptions concerning the recoverability of deferred tax assets were made on the basis of the latest approved strategic plan, appropriately revised - in particular with regard to the volume of funding and lending, fees and commissions, the cost of risk and forward looking profitability - to take account of the impact of the COVID-19 pandemic and the initiatives and measures implemented by the Bank in this area.

The test used the IRES and IRAP rates in force at the reporting date.

As regards the recoverability test for prepaid IRES of the Parent Company and the other companies participating in the tax consolidation mechanism, the projections for expected profitability prepared by the competent units of the Parent Company indicate the tax consolidation mechanism will be able to absorb all recognized DTAs by 2026, even those that by definition could be carried forward indefinitely (i.e. DTAs on tax losses and the ACE) and those for which reversal is expected beyond the observation period.

The following table shows the composition of current tax assets at the reporting date.

	IRES	IRAP	OTHER	TOTAL	IRES	IRAP	OTHER	TOTAL
	31/12/2020				31/12/2019			
Current tax liabilities (-)	-	-	-	-	-	-	-	-
Payments on account (+)	35,046	6,707	-	41,753	33,907	6,707	-	40,614
Other tax receivables (+)	15,370	5,050	-	20,420	2,592	3,650	-	6,242
Tax credit pursuant to Law 214/2011 (+)	185	-	-	185	60	-	-	60
Withholding tax (+)	-	-	-	-	-	-	-	-
Debtor balance of item 60 a) of liabilities	-	-	-	-	-	-	-	-
Creditor balance	50,601	11,757	-	62,358	36,560	10,356	-	46,916
Non-offsettable tax receivables: principal	-	-	-	-	-	-	-	-
Non-offsettable tax receivables: interest	-	-	-	-	-	-	-	-
Balance of non-offsettable tax receivables	-	-	-	-	-	-	-	-
Creditor balance of item 110 a) of assets	**50,601**	**11,757**	**-**	**62,358**	**36,560**	**10,356**	**-**	**46,916**

SECTION 11 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 110 OF ASSETS AND ITEM 70 OF LIABILITIES

11.1 CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY TYPE

	31/12/2020	31/12/2019
A. Assets held for sale		
A.1 Financial assets	580	556
A.2 Equity investments	-	4,920
A.3 Property, plant and equipment	-	3
of which: obtained through enforcement of guarantees received	-	-
A.4 Intangible assets	3,381	4,172
A.5 Other non-current assets	185,472	162,049
Total A	**189,432**	**171,700**
of which carried at cost	189,432	171,700
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated as at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortized cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which carried at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
C. Liabilities associated with assets held for sale		
C.1 Debt	108,728	99,170
C.2 Securities	-	-
C.3 Other liabilities	62,085	56,760
Total C	**170,813**	**155,930**
of which carried at cost	170,813	155,930
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortized cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated as at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total D	**-**	**-**
of which carried at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-

During the period, the Bank classified the assets and liabilities of the electronic money operations of Iccrea Banca under non-current assets and disposal groups held for sale and associated liabilities.

SECTION 12 - OTHER ASSETS – ITEM 120

12.1 OTHER ASSETS: COMPOSITION

	31/12/2020	31/12/2019
Receivables for future premiums on derivatives	11,266,503	9,981,930
Fees and commissions and interest to be received	3,958,642	3,574,880
Tax receivables due from central govt. tax authorities and other tax agencies (including VAT credits)	2,803,226	9,426,893
Items in transit between branches and items being processed	38,182	3,441,656
Financial assets in respect of loans granted for a specific transaction	71,677,285	85,863,877
Accrued income not attributable to separate line item	26,698	-
Prepaid expenses not attributable to separate line item	262,260	8,404,931
Subsidiaries – Group VAT	4,956,817	15,914,201
Tax consolidation mechanism	11,276,609	13,463,167
Other (security deposits, assets not attributable to other items)	8,719,213	2,916,959
Total	**114,985,436**	**152,988,494**

The item “Financial assets in respect of loans granted for a specific transaction” regards the Parent Company’s contribution to the Guarantee Scheme.

LIABILITIES

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

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

	Total 31/12/2020				Total 31/12/2019			
	Carrying amount	Fair value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to central banks	**18,885,985**	X	X	X	**11,912,682**	X	X	X
2. Due to banks	**15,003,870**	X	X	X	**8,869,694**	X	X	X
2.1 Current accounts and demand deposits	3,297,431	X	X	X	1,989,866	X	X	X
2.2 Fixed term deposits	10,951,417	X	X	X	6,618,971	X	X	X
2.3 Loans	751,396	X	X	X	258,552	X	X	X
2.3.1 Repurchase agreements	451,538	X	X	X	19,778	X	X	X
2.3.2 Other	299,858	X	X	X	238,774	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-	X	X	X	-	X	X	X
2.6 Other payables	3,626	X	X	X	2,306	X	X	X
Total	33,889,855	-	33,801,540	596,759	20,782,376	-	20,611,443	265,186

The item “Due to central banks” mainly represents financing from the ECB (TLTRO-II and TLTRO III).

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

	Total 31/12/2020				Total 31/12/2019			
	Carrying amount	Fair value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and demand deposits	886,361	X	X	X	959,107	X	X	X
2. Fixed-term deposits	55,012	X	X	X	50,011	X	X	X
3. Loans	8,212,042	X	X	X	15,789,731	X	X	X
3.1 Repurchase agreements	6,712,276	X	X	X	13,789,953	X	X	X
3.2 Other	1,499,767	X	X	X	1,999,778	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	3,227	X	X	X	2,512	X	X	X
6. Other liabilities	475,306	X	X	X	327,506	X	X	X
Total	9,631,949	-	7,097,326	2,543,666	17,128,866	-	8,740,853	8,080,248

The sub-item “Repurchase agreements” is composed entirely of transactions with the Clearing and Guarantee Fund.
The sub-item “Lease liabilities” regards the liability represented by future payments to lessors until the end of the term of the lease agreement, in accordance with IFRS 16.
The item “Other payables” comprises bankers’ drafts issued but not yet presented for settlement and sundry other payables.

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

	31/12/2020 Total				31/12/2019 Total			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	4,186,006	2,289,566	1,923,524	-	5,021,316	4,461,100	588,403	-
1.1 structured	-	-	-	-	1,607	-	1,613	-
1.2 other	4,186,006	2,289,566	1,923,524	-	5,019,710	4,461,100	586,790	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	**4,186,006**	**2,289,566**	**1,923,524**	**-**	**5,021,316**	**4,461,100**	**588,403**	**-**

The item comprises bonds issued by the Bank and hedged against interest rate risk using derivatives, the amount of which is adjusted by changes in fair value attributable to the hedged risk accrued as of the reporting date, as well as unhedged bonds issued measured at amortized cost. The fair value of securities issued is calculated by discounting future cash flows using the swap yield curve as at the reporting date.
The sub-item “1.2 Bonds - other” includes subordinated securities amounting to €433 million.

1.4 BREAKDOWN OF SUBORDINATED DEBT/SECURITIES

	31/12/2020	31/12/2019
A.1 Subordinated debt	**-**	**-**
- banks	-	-
- customers	-	-
B.1 Subordinated securities	**433,475**	**602,376**
- banks	433,475	602,376
- customers	-	-
Total	**433,475**	**602,376**

At December 31, 2020 the following bonds were in issue:

- issue date March 6, 2014, Maturity date March 6, 2021, initial nominal value of €200 million, residual nominal value at December 31, 2020: €33.977 million; annual interest rate 4.75% fixed gross, interest paid annually in arrears, repayment through periodic amortization as from the third year in 5 equal annual instalments.
- issue date November 28, 2019, Maturity date November 28, 2029, residual nominal value at December 31, 2020: €396.724 million, interest rate 4.125%, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.

1.5 BREAKDOWN OF STRUCTURED DEBT

As at the reporting date the Bank did not hold structured securities.

1.6 LIABILITIES IN RESPECT OF FINANCE LEASES

Right of use	Falling due within 5 years	Falling due after 5 years
Land	-	-
Buildings	1,015	-
Movables	-	-
Electrical plant	-	-
Other	2,212	-

Lease liabilities regard property leases and automobile rentals, in accordance with the provisions of IFRS16.

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 31/12/2020					Total 31/12/2019				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	133	153	-	-	153	290	312	-	-	312
2. Due to customers	125	120	-	-	120	332	313	-	-	313
3. Debt securities	-	-	-	-		-	-	-	-	X
3.1 Bonds	-	-	-	-		-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3. Other	-	-	-	-		-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**258**	**273**	**-**	**-**	**273**	**622**	**625**	**-**	**-**	**625**
B. Derivatives										
1. Financial derivatives		117	563,120	-		X	5	381,237	-	X
1.1 Trading	X	117	563,120	-	X	X	5	381,237	-	X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives		-	-	-		X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**117**	**563,120**	**-**	**X**	**X**	**5**	**381,237**	**-**	**X**
Total (A+B)	**X**	**391**	**563,120**	**-**	**X**	**X**	**630**	**381,237**	**-**	**X**

Key:
NV= nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3
Fair value*= Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

2.2 BREAKDOWN OF “FINANCIAL LIABILITIES HELD FOR TRADING”: SUBORDINATED LIABILITIES

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

2.3 BREAKDOWN OF “FINANCIAL LIABILITIES HELD FOR TRADING”: STRUCTURED LIABILITIES

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

SECTION 3 - FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE - ITEM 30

3.1 FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE: COMPOSITION BY TYPE

	Total 31/12/2020					Total 31/12/2019				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**337,431**	**-**	**340,957**	**-**	**340,957**	**419,576**	**-**	**424,058**	**-**	**424,058**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	337,431	-	340,957	-	X	419,576	-	424,058	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees issued	-	X	X	X	X	X	X	X	X	X
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees issued	-	X	X	X	X	X	X	X	X	X
3. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
Total	**337,431**	**-**	**340,957**	**-**	**340,957**	**419,576**	**-**	**424,058**	**-**	**424,058**

Key:
NV= Nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3
Fair value*= Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

The entire amount is represented by the affiliated banks' Ex Ante Quota of the contribution to the Guarantee Scheme, adjusted to take account of net interest and commissions on the loan.

3.2 BREAKDOWN OF "FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE": SUBORDINATED LIABILITIES

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

SECTION 4 - HEDGING DERIVATIVES – ITEM 40

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

	Fair value 31/12/2020			NV	Fair value 31/12/2019			NV
	L1	L2	L3	31/12/2020	L1	L2	L3	31/12/2019
A) Financial derivatives	**-**	**173,821**	**-**	**4,595,948**	**-**	**118,344**	**-**	**4,216,965**
1) Fair value	-	151,146	-	3,923,876	-	118,009	-	4,185,810
2) Cash flows	-	22,676	-	672,071	-	334	-	31,155
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**173,821**	**-**	**4,595,948**	**-**	**118,344**	**-**	**4,216,965**

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

4.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair value							Cash flow		Foreign investments
	Specific									
	Debt securities and interest rates	Equity securities and stock indices	Foreign currencies and gold	Credit	Commodities	Other	Generic	Specific	Generic	
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortized cost	149,161	X	-	-	X	X	X	19,302	X	X
3. Portfolio	X	X	X	X	X	X	1,181	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**149,161**	**-**	**-**	**-**	**-**	**-**	**1,181**	**19,302**	**-**	**-**
1. Financial liabilities	804	X	-	-	-	-	X	3,374	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**804**	**-**	**-**	**-**	**-**	**-**	**-**	**3,374**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

SECTION 5 ADJUSTMENTS OF GENERICALLY HEDGED LIABILITIES - ITEM 50

There were no such positions as of the reporting date.

SECTION 6 – TAX LIABILITIES– ITEM 60

See section 10 under assets.

SECTION 7 – LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE – ITEM 70

See section 11 under assets.

SECTION 8 – OTHER LIABILITIES – ITEM 80

8.1 OTHER LIABILITIES: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
Amounts due to social security institutions and State	13,777,104	15,057,837
Amounts available to customers	6,825,606	7,724,016
Liabilities for future premiums on derivatives	3,696,457	4,697,637
Tax payables due to tax authorities	28,050,658	48,178,389
Payables due to employees	25,515,631	12,728,104
Financial liabilities in respect of loans granted for a specific transaction	71,677,285	85,863,931
Accrued expenses not attributable to separate line item	112,909	112,909
Deferred income not attributable to separate line item	5,343,730	5,574,269
Items in transit and items being processed	71,570,765	37,553,801
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)	75,835,705	81,529,109
Subsidiaries – Group VAT	186,052	8,216,849
Consolidated taxation mechanism	29,567,700	22,189,585
Total	**332,159,604**	**329,426,436**

The sub-item "Financial liabilities in respect of loans granted for a specific transaction" regards the Parent Company's contribution to the Guarantee Scheme.

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	Total 31/12/2020	Total 31/12/2019
A. Opening balance	**18,003**	**10,176**
B. Increases	**1,327**	**8,615**
B.1 Provisions for the period	652	963
B.2 Other increases	674	7,651
C. Decreases	**3,150**	**788**
C.1 Benefit payments	1,116	788
C.2 Other decreases	2,035	-
D. Closing balance	**16,179**	**18,003**
Total	16,179	18,003

The decrease registered under sub-item “Decreases” – Other decreases” reflects the decrease in personnel due to disposal of ICT operations to BCC Sistemi Informatici.

9.2 OTHER INFORMATION

	Total 31/12/2020	Total 31/12/2019
Opening amount (civil code rules)	**16,705**	**9,630**
Increases	652	7,888
Decreases	(2,315)	(814)
Closing amount (civil code rules)	**15,042**	**16,705**
Surplus / (Deficit)	1,137	1,298
Employee termination benefits provision IAS 19	16,179	18,003

Employee termination benefits cover the entire entitlement accrued as at the reporting date by employees, in conformity with applicable law, the collective bargaining agreement and supplementary company-level contract. The liability calculated pursuant to Art. 2120 of the Civil Code amounted to €15,042 thousand.

The actuarial assumptions used by an independent actuary to calculate the liability as at the reporting date are as follows:

- demographic parameters: drawn from ISTAT’s 2004 mortality tables and the INPS disability tables. As regards the probability of leaving work for reasons other than death, the calculation used turnover rates consistent with past experience, with the annual rate of exit from work set at 1.50%;
- financial parameters: the valuations were calculated on the basis of the Euro Composite AA curve at 31/12/2020;
- economic parameters: the rate of inflation was assumed to be 0.80% while the rate of increase in salaries was 2.10% for all categories of employee and used only for seniority purposes.

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

		Total 31/12/2020	Total 31/12/2019
1. Provisions for credit risk in respect of commitments and financial guarantees issued		70	41
2. Provisions for other commitments and guarantees issued		-	-
3. Company pension plans		-	-
4. Other provisions for risks and charges		21,797	10,435
4.1 legal disputes		3,735	5,254
4.2 personnel expense		13,837	1,692
4.3 other		4,224	3,489
	Total	21,867	10,476

The sub-item “legal disputes” includes €17 thousand for revocatory actions and €3,718 thousand for litigation and disputes.

The sub-item “personnel expenses” includes seniority bonuses for employees and €12,055 thousand for early termination incentives.

10.2 PROVISIONS FOR RISKS AND CHARGES: CHANGE FOR THE PERIOD

	Provisions in respect of commitments and other guarantees issued	Retirement provisions	Other provisions	Total
A. Opening balance	**-**	**-**	**10,435**	**10,435**
B. Increases	**-**	**-**	**14,554**	**14,554**
B.1 Provisions for the year	-	-	14,554	14,554
B.2 Changes due to passage of time	-	-	-	-
B.3 Changes due to changes in the discount rate	-	-	-	-
B.4 Other increases	-	-	-	-
- of which: business combinations	-	-	-	-
C. Decreases	**-**	**-**	**3,192**	**3,192**
C.1 Use during the period	-	-	2,951	2,951
C.2 Changes due changes in the discount rate	-	-	-	-
C.3 Other decreases	-	-	242	242
- of which: business combinations	-	-	-	-
D. Closing balance	**-**	**-**	**21,797**	**21,797**

10.3 PROVISIONS FOR CREDIT RISK IN RESPECT OF COMMITMENTS AND FINANCIAL GUARANTEES ISSUED

	Provisions for credit risk in respect of commitments and financial guarantees issued							
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
1. Commitments to disburse funds	-	-	-	-	-	-	-	-
2. Financial guarantees issued	52	18	-	70	35	6	-	41
Total	52	18	-	70	35	6	-	41

10.4 PROVISIONS IN RESPECT OF OTHER COMMITMENTS AND GUARANTEES ISSUED

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

10.5 DEFINED-BENEFIT COMPANY PENSION PLANS

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

10.6 PROVISIONS - OTHER

“Other” main regards the provision of €3,489 thousand for Deposit Guarantee Fund interventions.

SECTION 11 – REDEEMABLE SHARES - ITEM 120

There were no such shares as of the reporting date.

SECTION 12 - SHAREHOLDERS' EQUITY - ITEMS 110, 130, 140, 150, 160, 170 AND 180

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

	Total 31/12/2020	Total 31/12/2019
A. Share capital		
A.1 Ordinary shares	1,401,045	1,401,045
A.2 Savings shares	-	-
A.3 Preference shares	-	-
A.4 Other shares	-	-
B. Treasury shares		
B.1 Ordinary shares	-	4,608
B.2 Savings shares	-	-
B.3 Preference shares	-	-
B.4 Other shares	-	-

12.2 SHARE CAPITAL – NUMBER OF SHARES OF THE PARENT COMPANY: CHANGE FOR THE PERIOD

	Ordinary	Other
A. Shares at the start of the year	**27,125,759**	**-**
- fully paid	27,125,759	-
- partially paid	-	-
A.1 Treasury shares (-)	(87,267)	-
A.2 Shares in circulation: opening balance	**27,038,492**	**-**
B. Increases	**87,267**	**-**
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	87,267	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**27,125,759**	**-**
D.1 Treasury shares(+)	-	-
D.2 Shares at the end of the year	27,125,759	-
- fully paid	27,125,759	-
- partially paid	-	-

12.3 SHARE CAPITAL: OTHER INFORMATION

Share capital is represented only by ordinary shares equal to subscribed share capital, fully paid up.

12.4 EARNINGS RESERVES: OTHER INFORMATION

Reserves amount to €252,486 thousand and include: the legal reserve (€50,785 thousand), the reserve established in the articles of association (€205 thousand), the extraordinary reserve (€337,299 thousand), a IAS FTA reserve (€15,378 thousand), a reserve from IFRS 9 FTA (€9,922 thousand), a reserve (€1,843 thousand) created following the transfer of the Corporate business unit to Iccrea BancaImpresa in 2007, a negative reserve (€236 thousand) from the merger of Bcc Multimedia, a positive reserve (€162 thousand) relate to the transfer of properties to BCC Beni Immobili and a positive reserve (€234 thousand) related to the transfer of the "Branch Services" business unit to Banca Sviluppo; a negative earnings reserve on equity securities sold (€56 thousand). Reserves also include the loss carryforward from 2018 in the amount of €35.6 million and from 2019 in the amount of €127.4 million, for a total €163 million. Pursuant to the provisions of the articles of association, at least one-tenth of net profit for the period shall be allocated to the legal reserve until that reserve is equal to one-fifth of share capital. The remaining nine-tenths are available for allocation by the Shareholders' Meeting, which decides on the basis of a proposal of the Board of Directors.

AVAILABILITY AND FORMATION OF EQUITY RESERVES

Pursuant to Art. 2427, nos. 4 and 7 bis of the Civil Code, the following table reports the composition of the Bank's shareholders' equity, indicating the origin, availability and possible distribution of the various components.

	Amount	Possible uses (*)	Available amount	Summary of uses in last three years	
				For loss coverage	Other
Share capital	1,401,045				
Share premium account	6,081				
Treasury shares	-				
Reserves:					
a) legal reserve	50,785	B	50,785		
b) reserve in articles of association	205	A – B – C	205		
c) extraordinary reserve	337,299	A – B – C	337,299		
d) other reserves	1,946	A – B – C	1,983		
e) FTA reserve	25,300	A – B – C	25,300		
Valuation reserves:					
a) Financial assets measured at fair value through other comprehensive income (FVOCI)	(12,670)		-		
b) Cash flow hedges	1,366		-		
c) Actuarial gains (losses) on defined-benefit plans	(2,708)				
Valuation reserves (Law 342 of 22/11/2000)	52,062	A – B – C(**)	52,062		
Retained earnings (loss carryforward)	(163,049)				
Net profit (loss) for the period	(66,795)				
Total	**1,630,867**				

(*)a = capital increase; b = loss coverage; c = distribution to shareholders

(**) if the reserve is used to cover losses, profits may not be distributed until the reserve has been restored or reduced to a corresponding extent. Any such reduction must be approved by the Extraordinary Shareholders' Meeting without the need to comply with the provisions of paragraphs 2 and 3 of Article 2445 of the Civil Code. If the reserve is not allocated to share capital, it may only be reduced in compliance with the provisions of paragraphs 2 and 3 of Article 2445 of the Civil Code. If it is distributed to shareholders, it shall form part of the taxable income of the company and the shareholders.

12.5 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

There were no such positions as of the reporting date.

12.6 OTHER INFORMATION

There were no such positions as of the reporting date.

OTHER INFORMATION

1 GUARANTEES ISSUED AND COMMITMENTS (OTHER THAN THOSE DESIGNATED AS AT FAIR VALUE)

	Nominal value of financial guarantees issued and commitments			Total	Total
	Stage 1	Stage 2	Stage 3	31/12/2020	31/12/2019
Commitments to disburse funds	**6,676,514**	**25,914**	**-**	**6,702,428**	**5,171,661**
a) Central banks	-	-	-	-	-
b) Government entities	-	-	-	-	-
c) Banks	5,146,828	13,084	-	5,159,912	4,278,611
d) Other financial companies	1,426,237	12,829	-	1,439,067	795,470
e) Non-financial companies	103,449	-	-	103,449	97,581
f) Households	-	-	-	-	-
Financial guarantees issued	**78,420**	**1,718**	**-**	**80,138**	**78,297**
a) Central banks	-	-	-	-	-
b) Government entities	-	-	-	-	-
c) Banks	70,283	1,520	-	71,803	69,919
d) Other financial companies	5,195	108	-	5,303	5,346
e) Non-financial companies	2,942	90	-	3,032	3,032
f) Households	-	-	-	-	-

The nominal value of “commitments to disburse funds” represents the amount that the Bank could be called upon to disburse at the request of the counterparty net of amounts already disbursed and gross of total provisions.

The nominal value of “financial guarantees issued” represents the maximum about the Bank could be called upon to pay in event the guarantees are enforced. It reports the nominal value net of enforcements of unsecured financial guarantees issued by the Bank and repayments by the secured debtor and gross of total provisions.

2 OTHER COMMITMENTS AND GUARANTEES ISSUED

There were no such positions as of the reporting date.

3 ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

	Amount 31/12/2020	Amount 31/12/2019
1. Financial assets measured at fair value through profit or loss	347,120	375,871
2. Financial assets measured at fair value through other comprehensive income	24,934	192,953
3. Financial assets measured at amortized cost	2,466,120	3,562,847
4. Property, plant and equipment	-	-
of which: property, plant and equipment classified as inventories	-	-

4 MANAGEMENT AND INTERMEDIATION SERVICES

	Amount 31/12/2020
1. Order execution on behalf of customers	**19,500,703**
a) Purchases	12,236,829
1. settled	12,226,441
2. not settled	10,388
b) Sales	7,263,874
1. settled	7,249,820
2. not settles	14,053
2. Asset management (individual)	**-**
3. Securities custody and administration	**668,578,906**
a) Third-party securities held as part of custodian bank services (excluding asset management)	80,001
1. Securities issued by consolidated companies	-
2. other securities	80,001
b) Other third-party securities on deposit (excluding asset management): other	81,988,381
1. Securities issued by consolidated companies	3,713,832
2. other securities	78,274,549
c) Third-party securities deposited with third parties	81,987,885
d) Securities owned by bank deposited with third parties	586,510,523
4. Other transactions	**-**

5 FINANCIAL ASSETS OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

	Gross amount of financial assets (a)	Financial liabilities offset (b)	Net amount of financial assets reported (c=a-b)	Related amounts not offset		Net amount (f=c-d-e)	Net amount
				Financial instruments (d)	Cash collateral received (e)	31/12/2020	31/12/2019
1. Derivatives	740,206	5,413	734,793	232,918	222,250	279,625	256,156
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2020	**740,206**	**5,413**	**734,793**	**232,918**	**222,250**	**279,625**	**X**
Total 31/12/2019	**593,737**	**47,441**	**546,296**	**207,882**	**82,259**	**X**	**256,156**

6 FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

	Gross amount of financial liabilities (a)	Financial assets offset (b)	Net amount of financial liabilities reported (c=a-b)	Related amounts not offset		Net amount (f=c-d-e)	Net amount
				Financial instruments (d)	Cash collateral received (e)	31/12/2020	31/12/2019
1. Derivatives	929,259	5,413	923,846	111,447	174,986	637,413	459,578
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2020	**929,259**	**5,413**	**923,846**	**111,447**	**174,986**	**637,413**	**X**
Total 31/12/2019	**756,470**	**47,441**	**709,029**	**102,728**	**146,723**	**X**	**459,578**

7 SECURITIES LENDING TRANSACTIONS

No information to report.

8 DISCLOSURES ON JOINT ARRANGEMENTS

No information to report.

PART C - INFORMATION ON THE INCOME STATEMENT

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

	Debt securities	Loans	Other transactions	Total 31/12/2020	Total 31/12/2019
1. Financial assets measured at fair value through profit or loss	**4,668**	**-**	**-**	**4,668**	**3,992**
1.1 Financial assets held for trading	559	-	-	559	732
1.2 Financial assets designated at fair value	3,357	-	-	3,357	2,494
1.3 Other financial assets mandatorily at fair value	752	-	-	752	765
2. Financial assets measured at fair value through other comprehensive income	**2,632**	**-**	**X**	**2,632**	**3,101**
3. Financial assets measured at amortized cost	**128,060**	**28,264**	**X**	**156,324**	**165,165**
3.1 Due from banks	57,115	7,543	X	64,657	66,633
3.2 Loans to customers	70,945	20,722	X	91,667	98,532
4. Hedging derivatives	**X**	**X**	**47**	**47**	**(19,099)**
5. Other assets	**X**	**X**	**281**	**281**	**1,771**
6. Financial liabilities	**X**	**X**	**X**	**197,681**	**103,382**
Total	**135,360**	**28,264**	**327**	**361,633**	**258,312**
of which: interest income on impaired financial assets	-	142	-	142	1,131
of which: interest income from finance leases	-	-	-	-	-

1.2 INTEREST AND SIMILAR INCOME: OTHER INFORMATION

1.2.1 INTEREST INCOME ON FOREIGN-CURRENCY FINANCIAL ASSETS

	31/12/2020	31/12/2019
1. Mortgage loans	-	-
2. Current accounts and deposits	412	988
3. Other loans	382	704
4. Debt securities	547	-
5. Other	55	-
Total	**1,397**	**1,692**

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 31/12/2020	Total 31/12/2019
1. Financial liabilities measured at amortized cost	**(45,376)**	**(77,335)**	**X**	**(122,711)**	**(128,253)**
1.1 Due to central banks	(99)	X	X	(99)	(285)
1.2 Due to banks	(40,986)	X	X	(40,986)	(36,828)
1.3 Due to customers	(4,291)	X	X	(4,291)	(4,373)
1.4 Securities issued	X	(77,335)	X	(77,335)	(86,767)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	**X**	**X**	**(230)**	**(230)**	**(1,987)**
5. Hedging derivatives	**X**	**X**	**200**	**200**	**2,029**
6. Financial assets	**X**	**X**	**X**	**(152,436)**	**(82,861)**
Total	**(45,376)**	**(77,335)**	**(29)**	**(275,176)**	**(211,072)**
of which: interest expense on lease liabilities	(70)	-	-	(70)	(64)

1.4 INTEREST AND SIMILAR EXPENSE: OTHER INFORMATION

1.4.1 INTEREST EXPENSE ON FOREIGN-CURRENCY LIABILITIES

	31/12/2020	31/12/2019
1. Current accounts and deposits	(1,018)	(3,023)
2. Loans	-	
3. Other	(2,444)	(126)
Total	**(3,463)**	**(3,149)**

1.5 DIFFERENCES ON HEDGING TRANSACTIONS

	31/12/2020	31/12/2019
A. Positive differences on hedging transactions:	14,693	2,029
B. Negative differences on hedging transactions:	(14,446)	(19,099)
C. Balance (A-B)	**247**	**(17,071)**

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	31/12/2020	31/12/2019
a) guarantees issued	643	1,845
b) credit derivatives	-	-
c) management, intermediation and advisory services:	38,474	30,110
1. Trading in financial instruments	4,377	3,981
2. foreign exchange	41	157
3. asset management (individual)	-	-
4. securities custody and administration	5,956	6,082
5. depository services	-	-
6. securities placement	24,107	17,165
7. order collection and transmission	1,491	2,018
8. advisory services	2,502	707
8.1 concerning investments	-	-
8.2 concerning financial structure	2,502	707
9. distribution of third-party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other	-	-
d) collection and payment services	39,059	38,902
e) servicing activities for securitizations	-	-
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) holding and management of current accounts	211	218
j) other services	14,152	20,479
Total	**92,540**	**91,553**

The increase in “C.6 securities placement” reflects fees and commissions from the GACS IV securitization.

2.2 FEE AND COMMISSION INCOME: DISTRIBUTION CHANNELS FOR PRODUCTS AND SERVICES

	Total 31/12/2020	Total 31/12/2019
a) own branches:	**24,107**	**17,165**
1. asset management	-	-
2. securities placement	24,107	17,165
3. third-party services and products	-	-
b) off-premises distribution:	**-**	**-**
1. asset management	-	-
2. securities placement	-	-
3. third-party services and products	-	-
c) other distribution channels:	**-**	**-**
1. asset management	-	-
2. securities placement	-	-
3. third-party services and products	-	-

2.3 FEE AND COMMISSION EXPENSE: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
a) guarantees received	(796)	(2,635)
b) credit derivatives	-	-
c) management and intermediation services:	(19,151)	(9,946)
1. trading in financial instruments	(1,370)	(1,334)
2. foreign exchange	(11)	(35)
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. securities custody and administration	(5,227)	(3,995)
5. placement of financial instruments	(12,542)	(4,581)
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	(2,763)	(3,000)
e) other services	(1,746)	(3,309)
Total	**(24,456)**	**(18,890)**

The sub-item “a) guarantees received” reports fee and commission expense (Parent Company share and mutual bank share) in respect of the ex post commitments for the Guarantee Scheme.

The increase in “C.5 placement of financial instruments”” reflects fees and commissions from the GACS IV securitization.

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 31/12/2020		Total 31/12/2019	
	Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading	-	-	20	-
B. Other financial assets mandatorily measured at fair value	146	20	433	-
C. Financial assets measured at fair value through other comprehensive income	309	-	685	-
D. Equity investments	36,741	-	50,223	-
Total	37,197	20	51,361	-

Dividends received mainly regard:

- BCC Credito Consumo €17.1 million;
- BCC Risparmio& Previdenza €9.2 million;
- Iccrea BancaImpresa €4.7 million;
- BCC Gestione Crediti €1.8 million;
- BCC Solutions S.p.A. €3.7 million.

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses	Net gain (loss) (A+B) – (C+D)
1. Financial assets held for trading	**48**	**14,027**	**(310)**	**(2,118)**	**11,647**
1.1 Debt securities	28	13,553	(41)	(1,498)	12,043
1.2 Equity securities	3	322	(255)	(457)	(387)
1.3 Units in collective investment undertakings	17	110	(14)	(163)	(50)
1.4 Loans	-	-	-	-	-
1.5 Other	-	41	-	-	41
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**	**133,695**
4. Derivatives	**184,580**	**82,838**	**(177,262)**	**(88,024)**	**(129,795)**
4.1 Financial derivatives:	184,580	82,838	(177,262)	(88,024)	(129,795)
- on debt securities and interest rates	181,795	82,838	(177,203)	(86,161)	1,269
- on equity securities and equity indices	2,785	-	(59)	(1,863)	863
- on foreign currencies and gold	X	X	X	X	(131,927)
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	184,628	96,865	(177,572)	(90,142)	15,547

SECTION 5 - NET GAIN (LOSS) ON HEDGING ACTIVITIES – ITEM 90

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
A. Gain on:		
A.1 Fair value hedges	502	20,193
A.2 Hedged financial assets (fair value)	75,606	78,764
A.3 Hedged financial liabilities (fair value)	506	260
A.4 Cash flow hedges	36	1,034
A.5 Assets and liabilities in foreign currencies	2,955	-
Total income on hedging activities (A)	**79,606**	**100,251**
B. Loss on:		
B.1 Fair value hedges	(74,809)	(81,628)
B.2 Hedged financial assets (fair value)	(3,377)	(20,249)
B.3 Hedged financial liabilities (fair value)	(74)	(570)
B.4 Cash flow hedges	(2,268)	-
B.5 Assets and liabilities in foreign currencies	(2,077)	(2,411)
Total expense on hedging activities (B)	**(82,606)**	**(104,858)**
C. Net gain (loss) on hedging activities (A - B)	**(3,000)**	**(4,607)**
of which: net gain (loss) of hedges of net positions	-	-

SECTION 6 - GAIN (LOSS) ON DISPOSAL OR REPURCHASE – ITEM 100

This reports the positive or negative balances between the gains and losses realized with the sale of financial assets or repurchase of financial liabilities other than those held for trading or designated as at fair value.

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

			Total 31/12/2020			Total 31/12/2019
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortized cost	85,316	(28,775)	56,541	23,014	(1,874)	21,140
1.1 Due from banks	1,434	(10)	1,423	3	(1)	3
1.2 Loans to customers	83,883	(28,765)	55,118	23,011	(1,873)	21,138
2. Financial assets measured at fair value through other comprehensive income	4,763	(2,822)	1,941	9,626	(5,484)	4,142
2.1 Debt securities	4,763	(2,822)	1,941	9,626	(5,484)	4,142
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**90,080**	**(31,597)**	**58,483**	**32,640**	**(7,358)**	**25,282**
Financial liabilities measured at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	731	(331)	400	711	(696)	15
Total liabilities (B)	**731**	**(331)**	**400**	**711**	**(696)**	**15**

SECTION 7 - NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 110

7.1 NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF FINANCIAL ASSETS AND LIABILITIES DESIGNATED AS AT FAIR VALUE

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) - (C+D)]
1. Financial assets	**2,760**	**124**	**(1,531)**	**(263)**	**1,090**
1.1 Debt securities	2,760	124	(1,531)	(263)	1,090
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**697**	**-**	**(4,222)**	**-**	**(3,526)**
2.1 Securities issued	-	-	-	-	-
2.2 Due to banks	697	-	(4,222)	-	(3,526)
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**3,457**	**124**	**(5,753)**	**(263)**	**(2,436)**

7.2 NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) - (C+D)]
1. Financial assets	**4,730**	**4,661**	**(29,737)**	**(469)**	**(20,816)**
1.1 Debt securities	137	49	(532)	-	(346)
1.2 Equity securities	4,586	645	(267)	-	4,964
1.3 Units in collective investment undertakings	-	3,967	(28,938)	(469)	(25,441)
1.4 Loans	6	-	-	-	6
2. Financial assets: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**4,730**	**4,661**	**(29,737)**	**(469)**	**(20,816)**

The capital losses on CIUs of €28 million are mainly attributable to the “Securis” real estate funds, of which about €13 million resulting from the liquidity adjustment.

SECTION 8 - NET LOSSES/RECOVERIES FOR CREDIT RISK – ITEM 130

8.1 NET LOSSES/RECOVERIES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST: COMPOSITION

	Losses (1)			Recoveries (2)		Total	Total
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3	31/12/2020	31/12/2019
A. Due from banks	**(4,096)**	**-**	**-**	**58**	**-**	**(4,038)**	**864**
- loans	(4,096)	-	-	-	-	(4,096)	864
- debt securities	-	-	-	58	-	58	-
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-	-
B. Loans to customers	**(3,346)**	**(147)**	**(1,333)**	**312**	**424**	**(4,092)**	**(38,829)**
- loans	(453)	(147)	(1,333)	202	424	(1,308)	263
- debt securities	(2,893)	-	-	109	-	(2,783)	(39,092)
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-	-
Total	**(7,442)**	**(147)**	**(1,333)**	**369**	**424**	**(8,130)**	**(37,965)**

8.1A NET LOSSES/RECOVERIES FOR CREDIT RISK IN RESPECT OF LOANS MEASURED AT AMORTIZED COST INVOLVED IN COVID-19 SUPPORT MEASURES: COMPOSITION

There were no such positions as of the reporting date.

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

	Losses (1)			Recoveries(2)		Total	Total
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3	31/12/2020	31/12/2019
A. Debt securities	(586)	-	-	5	-	(582)	(354)
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: loans purchased or originated credit-impaired	-	-	-	-	-	-	-
Total	**(586)**	**-**	**-**	**5**	**-**	**(582)**	**(354)**

8.2.A NET LOSSES FOR CREDIT RISK IN RESPECT OF LOANS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME INVOLVED IN COVID-19 MEASURES: COMPOSITION

There were no such positions as of the reporting date.

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

There were no such positions as of the reporting date.

SECTION 10 - ADMINISTRATIVE EXPENSES – ITEM 160

10.1 PERSONNEL EXPENSES: COMPOSITION

		Total 31/12/2020	Total 31/12/2019
1) Employees		(185,443)	(147,522)
a) wages and salaries		(116,476)	(99,150)
b) social security contributions		(30,857)	(26,669)
c) termination benefits		(2,315)	(1,576)
d) pension expenses		-	-
e) allocation to employee termination benefit provision		(292)	(226)
f) allocation to provision for post-employment benefits and similar obligations:		-	-
- defined contribution		-	-
- defined benefit		-	-
g) payments to external pension funds:		(10,868)	(9,253)
- defined contribution		(10,868)	(9,253)
- defined benefit		-	-
h) costs in respect of agreements to make payments in own equity instruments		-	-
i) other employee benefits		(24,634)	(10,648)
2) Other personnel		(393)	(140)
3) Board of Directors and members of Board of Auditors		(3,226)	(2,798)
5) Recovery of expenses for employees seconded to other companies		-	-
6) Reimbursement of expenses for third-party employees seconded to the Company		8,322	7,198
h) costs in respect of agreements to make payments in own equity instruments		(2,415)	(2,540)
	Total	(183,155)	(145,802)

Personnel expenses increased (from 1,500 to over 1,700 average FTE) due to the expansion of the Group's workforce following the reorganization involved with the formation of the ICBG.

"Other employee benefits" increased as a result of the provision for early termination incentives of about €12 million.

10.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

	Total 31/12/2020	Total 31/12/2019
Employees:	**1,759**	**1,512**
a) senior management	96	86
b) middle management	983	826
c) other employees	680	600
Other personnel	**-**	**-**
Total	1,759	1,512

The average number of employees is calculated as the weighted average number of employees using the number of months worked during the year as weights. Part-time employees are included at 50%.

10.3 DEFINED-BENEFIT COMPANY PENSION PLANS: TOTAL COSTS

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

10.4 OTHER EMPLOYEE BENEFITS

		31/12/2020	31/12/2019
early termination incentives and the income support fund		(16,852)	(2,846)
meal vouchers		(2,371)	(2,217)
insurance policies for the employees		(1,456)	(1,005)
healthcare		-	-
training		(976)	(1,332)
training Leg. Decree 81/08		-	-
other benefits		(2,979)	(3,248)
	Total	**(24,634)**	**(10,648)**

10.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

		Total 31/12/2020	Total 31/12/2019
Information technology		(76,780)	(81,889)
Property and movables		(404)	(28,855)
- rental and fees		(404)	(28,855)
Goods and services		(5,203)	(3,839)
- telephone and data transmission		(2,355)	(1,277)
- asset transport and counting		(355)	(45)
- electricity, heating and water		(196)	(398)
- transportation and travel		(1,905)	(1,929)
- office supplies and printed materials		(96)	(191)
- subscriptions, magazines and newspapers		(296)	-
Professional services		(56,528)	(39,998)
- professional fees (other than audit fees)		(46,258)	(32,674)
- audit fees		(2,054)	(589)
- legal and notary costs		(8,216)	(6,732)
- court costs, information and title searches		-	(4)
Administrative services		(3,654)	(5,213)
Insurance		(1,063)	(687)
Promotional, advertising and entertainment expenses		(3,185)	(5,734)
Association dues		(2,260)	(2,274)
Donations		(513)	-
Other		(26,830)	(4,323)
Indirect taxes and duties		(34,188)	(25,493)
- stamp duty		(286)	(3,442)
- other indirect taxes and duties		(33,902)	(22,051)
	Total	**(210,609)**	**(198,306)**

The change in Other administrative expenses is mainly attributable to an increase in the contribution to the National Resolution Fund (BRRD) (+€8.0 million) as a result of the decrease in the liabilities considered in calculating the contribution; the decrease in IT costs reflects the reclassification of those costs for the first half of the year under “assets held for sale” following the disposal of the ICT business unit on July 1, 2020 to BCC Sistemi Informatici.

SECTION 11 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 170

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

	31/12/2020		
	Provisions	Reallocation of excesses	Total
Commitments to disburse funds Stage 1	(17)	-	(17)
Commitments to disburse funds Stage 2	-	-	-
Commitments to disburse funds Stage 3	-	-	-
Financial guarantees issued Stage 1	-	-	-
Financial guarantees issued Stage 2	(12)	-	(12)
Financial guarantees issued Stage 3	-	-	-
Total	**(29)**	**-**	**(29)**

Provisions and reversals also include the effect of the passage of time (discounting effect).

For further details on the impairment model adopted by the Bank and used to determine the net provisions shown in the table, see Part A “Accounting Policies” of the notes to the financial statements.

11.2 NET PROVISIONS IN RESPECT OF OTHER COMMITMENTS TO DISBURSE FUNDS AND GUARANTEES ISSUED: COMPOSITION

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

11.3 NET PROVISIONS FOR OTHER RISKS AND CHARGES: COMPOSITION

	31/12/2020		
	Provisions	Reallocation of excesses	Total
Legal disputes	(196)	279	83
Other	(1,502)	17	(1,485)
Total	**(1,698)**	**296**	**(1,402)**

SECTION 12 - NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT - ITEM 180

12.1 NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT: COMPOSITION

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Property, plant and equipment				
A.1 Operating assets	(1,698)	-	-	(1,698)
- owned	(90)	-	-	(90)
- right-of-use assets acquired under leases	(1,608)	-	-	(1,608)
A.2 Investment property	-	-	-	-
- owned	-	-	-	-
- right-of-use assets acquired under leases	-	-	-	-
A.3 Inventories	X	-	-	-
B. Assets held for sale	**X**	**-**	**-**	**-**
Total	**(1,698)**	**-**	**-**	**(1,698)**

SECTION 13 - NET ADJUSTMENTS OF INTANGIBLE ASSETS - ITEM 190

13.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Intangible assets				
A.1 Owned	(590)	-	-	(590)
- generated internally by the Bank	-	-	-	-
- other	(590)	-	-	(590)
A.2 Right-of-use assets acquired under leases	-	-	-	-
B. Assets held for sale	**X**	**-**	**-**	**-**
Total	**(590)**	**-**	**-**	**(590)**

SECTION 14 - OTHER OPERATING EXPENSES - ITEM 200

14.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
Charges connected with lease services (consultants, insurance, taxes and duties, capital losses)	-	-
Reductions in assets and prior-year expenses not attributable to separate line item	(8)	-
Costs of outsourced services	-	-
Settlement of disputes and claims	-	-
Amortization of expenditure for leasehold improvements	-	-
Other charges – extraordinary transactions	-	-
Other charges	(1,400)	(1,995)
Total	**(1,407)**	**(1,995)**

14.2 OTHER OPERATING INCOME: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
A) Recoveries	**25,396**	**1,019**
Recovery of taxes	291	320
Recovery of sundry charges	25,068	700
Insurance premiums	-	-
Property rental income	-	-
Recovery of costs from customers	-	-
Recovery of costs on bad debts	36	-
B) Other income	**126,476**	**103,787**
Insourcing revenues	105,240	901
Property rental income	-	-
Reductions in liabilities and prior-year income not attributable to separate line item	370	494
Other income from finance leases	-	-
Other income	20,866	102,392
Fees and commissions on accelerated application processing	-	-
Total	**151,872**	**104,807**

SECTION 15 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 220

15.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
A. Income	**-**	**-**
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Expenses	**(44,038)**	**(76,765)**
1. Writedowns	-	-
2. Impairment losses	(44,038)	(76,765)
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	**(44,038)**	**(76,765)**

The amount regards the impairment recognized on the investments in Iccrea BancaImpresa (€24 million), Banca Sviluppo (€1.5 million), Ventis S.r.l (€7.7 million), Bcc Beni Immobili (€5 million) and Medio Credito FVG (€5.5 million).

SECTION 16 - NET ADJUSTMENT TO FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS - ITEM 230

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

SECTION 17 - GOODWILL IMPAIRMENT - ITEM 240

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

SECTION 18 - GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS - ITEM 250

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

SECTION 19 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS – ITEM 270

19.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
1. Current taxes(-)	3,344	12,908
2. Change in current taxes from previous period (+/-)	(172)	1,038
3. Reduction of current taxes for the period (+)	7,457	6,410
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	185	60
4. Change in deferred tax assets (+/-)	4,076	(6,133)
5. Change in deferred tax liabilities (+/-)	-	-
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**14,889**	**14,283**

19.2 RECONCILIATION OF THEORETICAL TAX LIABILITY AND ACTUAL TAX LIABILITY RECOGNIZED

IRES	31/12/2020		31/12/2019	
	Taxable income	Tax	Taxable income	Tax
Profit (loss) before tax on continuing operations (item 260 IS)	(54,356)		(157,470)	
Current rate		-		-
Theoretical tax liability (24%)		13,045		37,793
Greater tax liability due to increases (taxable income)/Greater tax liability due to increases (tax)	23,787	-	177,291	-
Temporary				
- Changes during the year	20,444		6,674	
Definitive				
- Changes during the year	3,344		170,617	
Lower tax liability due to decreases	72,372	-	69,997	-
Temporary				
- Changes during the year	3,605		1,289	
Definitive				
- Changes during the year	68,767		68,708	
Taxable income (loss)	-		89,818	
Current gross tax		-		-
IRES surtax		-		-
Tax credits		3,344		12,908
Current net tax in income statement		3,344		-
Changes in current tax/deferred tax assets/deferred tax liabilities(+/-)		11,547		12,908
Tax liability for the year		14,891		1,614

IRAP	31/12/2020		31/12/2019	
	Taxable income	Tax	Taxable income	Tax
Profit (loss) before tax for IRAP purposes (item 260 IS)	(54,356)		(157,470)	
Current rate		-		-
Theoretical tax liability (ordinary rate 4.65%)		2,528		-
Items not included in determination of income	294,291	-	368,682	-
- Revenue and income (-)	(150,465)		(103,030)	
- Costs and charges (+)	444,755		471,712	
Greater tax liabilities due to increases (taxable income)/ Greater tax liabilities due to increases (tax)		-		-
Temporary	-		103,337	
Definitive				
- Changes during the year	152,417		103,337	
Lower tax liability due to decreases		-		-
Temporary	-		387,814	
- Changes during the year	28		-	
Definitive				
- Changes during the year	396,828		387,814	
Value of production				
Current tax		-		-
Effect of regional surtaxes/tax relief (+/-)		-		-
Current tax in income statement		-		-
Changes in current tax/deferred tax assets/deferred tax liabilities (+/-)		(2)		(239)
Tax liability for the year		(2)		-
TAX IN LIEU	**31/12/2020**		**31/12/2019**	
	Taxable income	**Tax**	**Taxable income**	**Tax**
Tax in lieu (c)		-		-
Total income tax expense (item 270 IS)		14,889		14,522

SECTION 20 - PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX - ITEM 290

20.1 PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX: COMPOSITION

	Total 31/12/2020	Total 31/12/2019
1. Revenue	356,788	395,146
2. Expense	(330,711)	(372,966)
3. Result of measurement of groups of assets and associated liabilities	-	-
4. Gain (loss) on realization	(40,472)	-
5. Taxes and duties	(7,457)	(6,410)
Profit (loss)	**(21,853)**	**15,770**

The amount regards the Bank's electronic money operations and the profit and loss items pertaining to the ICT business unit sold to BCC Sistemi Informatici on July 1, 2020.

20.2 BREAKDOWN OF INCOME TAXES ON DISCONTINUED OPERATIONS

	31/12/2020	31/12/2019
1. Current taxes (-)	(7,457)	(6,410)
2. Change in deferred tax assets (+/-)	-	-
3. Change in deferred tax liabilities (-/+)	-	-
4. Income taxes for the period (-1+/-2+/-3)	**(7,457)**	**(6,410)**

The amount is entirely accounted for by the Bank's electronic money operations.

SECTION 21 – OTHER INFORMATION

No other information necessary.

SECTION 22 - EARNINGS PER SHARE

22.1 AVERAGE NUMBER OF ORDINARY SHARES IN DILUTED SHARE CAPITAL

The section is not completed in these notes to the financial statements. The table reports no data and has therefore not been completed.

22.2 OTHER INFORMATION

The section is not completed in these notes to the financial statements. The table reports no data and has therefore not been completed.

PART D - COMPREHENSIVE INCOME

BREAKDOWN OF COMPREHENSIVE INCOME

		31/12/2020	31/12/2019
10.	**Net profit (loss) for the period**	**(66,795)**	**(127,417)**
	Other comprehensive income not recyclable to profit or loss	**(2,708)**	**5,833**
20.	Equity securities designated as at fair value through other comprehensive income:	(3,713)	9,514
	a) fair value changes	(3,713)	9,514
	b) transfers to other elements of shareholders' equity	-	-
30.	Financial liabilities measured at fair value through profit or loss (change in credit risk):	-	-
	a) fair value changes	-	-
	b) transfers to other elements of shareholders' equity	-	-
40.	Hedges of equity securities designated as at fair value through other comprehensive income:	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(307)	(738)
80.	Non-current assets held for sale	-	-
90.	Valuation reserves of equity investments accounted for with equity method	-	-
100.	Income taxes on other comprehensive income not recyclable to profit or loss	1,312	(2,943)
	Other comprehensive income recyclable to profit or loss	**(8,690)**	**5,258**
110.	Hedging of investments in foreign operations:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
120.	Foreign exchange differences:	-	-
	a) value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
130.	Cash flow hedges:	(14,946)	1,331
	a) fair value changes	(17,925)	(1,948)
	b) reversal to income statement	2,979	3,280
	c) other changes	-	-
	of which: result on net positions	-	-
140.	Hedging instruments (undesignated elements):	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
150.	Financial assets (other than equity securities) measured at fair value through other comprehensive income:	1,729	6,467
	a) fair value changes	1,489	2,545
	b) reversal to income statement	241	3,922
	- adjustments for credit risk	472	119
	- gain/loss on realization	(231)	3,802
	c) other changes	-	-
160.	Non-current assets and disposal groups held for sale:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
170.	Valuation reserves of equity investments accounted for with equity method:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	- impairment adjustments	-	-
	- gain/loss on realization	-	-
	c) other changes	-	-
180.	Income taxes on other comprehensive income recyclable to profit or loss	4,527	(2,539)
190.	**Total other comprehensive income**	**(11,397)**	**11,091**
200.	**Comprehensive income (item 10+190)**	**(78,193)**	**(116,326)**

PART E - RISK AND RISK MANAGEMENT POLICIES

INTRODUCTION

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

The risk governance policies represent the reference model in organizational and process development and in the systematic execution of all the operational and business activities performed by Group companies and are an integral part of the risk management process (RMP) adopted by the Group, ensuring sound and prudent management and supporting sustainable implementation of the overall risk strategy. The internal control system (ICS) governs the RMP, ensuring the completeness, appropriateness, functionality (in terms of effectiveness and efficiency) and reliability of the policies in a context of strict consistency with the governance framework defined at Group level.

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

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

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

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

THE GROUP INTERNAL CONTROL SYSTEM

The Iccrea Mutual Banking Group has developed a centralized governance model for the corporate control functions, on the basis of which the Parent Company regulates the operational criteria and main powers of the corporate control functions, determining their interrelations and relations with top management. The Parent Company is responsible for defining a unified system that enables effective control of the strategic decisions of the Group as a whole and of the operational equilibrium of its individual members. To this end, the Group has established appropriate corporate control functions, endowed with autonomy and independence, reporting directly to the Parent Company's Board of Directors. In particular, the following Areas have been established:

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

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

THE INTERNAL AUDIT FUNCTION

Working through the units it coordinates, the Chief Audit Executive area performs third-level controls, which seek to assess the completeness, functionality and adequacy of the internal control system, the information system, the risk management process, as well as the so-called Risk Appetite Framework, and to provide suggestions and recommendations to improve the effectiveness and efficiency of the organization and the risk management and control policies and processes of the Group. The manager of the Chief Audit Executive Area is the Chief Audit Executive (CAE). The CAE directs and supervises, with the support of the individual internal audit managers of the Group banks and companies and the managers of the other units of the Function, the internal auditing of the Parent Company and the companies within the scope of the Parent Company's management and coordination functions, consistent with the provisions of the Cohesion Contract and by the general rules of the Function. The CAE is also the Internal Audit Manager (IAM) of the Parent Company, Iccrea Banca.

Among its other activities, Internal Audit performs the following functions:

- unifies the internal audit process within the Group, including through its management, coordination, supervision and control activities, in order to assess the Group's overall internal control system;
- maintains direct relations with the corporate bodies of the Parent Company, reporting to them on the results of audit activities involving the entire Group;
- manages relations with the supervisory authorities with regard to Internal Audit issues concerning the Group;
- ensures the uniformity of the processes, methodologies and tools used in the performance of the audit activities, identifying all initiatives designed to ensure the functionality, effectiveness and efficiency of internal audit activities;
- provides an integrated vision in the planning of audit activities, centralizing the preparation of audit plans on a multi-year and annual basis for the Parent Company, the companies within the scope of the Parent Company's management and coordination functions - carried out with the support of the IAMs of the banks and Group companies - and managing any related changes/additions, liaising with the corporate bodies of the banks and companies involved;
- coordinates, through the units of the Function (central and local offices), the implementation of all internal audit activities (e.g. risk assessment, preparation of audit plans, auditing processes, the branches of the affiliated banks and information systems, reporting, follow-up, etc.) for the Group;
- coordinates, with the support of the competent unit of the Function, consolidated audit activities, i.e. those regarding issues concerning the entire Group;
- ensures the implementation of any extraordinary inspections approved by the Board of Directors, at the request of the corporate bodies and/or the senior management of the Parent Company and/or of the other Group banks/companies, as well as the supervisory authorities;
- monitors, with the support of the units of the Function, the progress of internal audit activities at the Group level with respect to plans;
- coordinates, with the support of the units of the Function, the implementation of the consulting activities requested by the corporate bodies and/or the senior management of the Parent Company and/or of the other Group banks/companies;
- provides appropriate reporting to the corporate bodies of the Group banks and companies on the activities performed by central and peripheral internal audit units;
- monitors and ensures compliance, with the support of the IAMs, with the service level agreements concerning internal audit services performed under outsourcing contracts with the Group banks and companies;
- performs and monitors follow-up activities with the support of the IAMs;
- coordinates, with the support of the unit managers of the Function, the resources allocated to the Function;
- contributes, in coordination with the Human Resources function with regard to the Group training system, to the planning and implementation of training programs for the skill areas within the scope of their responsibilities;
- reports to the corporate bodies and/or the senior management of the Parent Company, in coordination with the Human Resources function, any shortfalls of resources, ensuring that the resources available are appropriate and sufficient for the execution of the approved plans;

- ensures the implementation of and compliance with the overall Quality Assurance and Improvement Program of internal audit activities, in compliance with the International Professional Practices Framework for internal audit and the principles and rules of conduct of the Code of Ethics.

THE RISK MANAGEMENT FUNCTION

The Chief Risk Officer area is responsible at the Group level for second-level control activities connected with the management of credit, financial and operational risks, including IT risks. It is the contact for the corporate bodies of the Parent Company for matters within its scope of responsibility, providing an integrated and composite vision of the set of risks that are being assumed and managed by the individual entities and by the Group as a whole.

The organizational structure of the Risk Management function of the Parent Company of the Iccrea Mutual Banking Group includes the following structures:

- a "Group Risk Management" unit, which ensures the supervision and coordination of the organizational units dedicated to the individual risk categories, which within their areas of responsibility are involved in the development and maintenance of the methodological framework for the assumption and management of specific risks, as well as risk assessment and monitoring and identification of any mitigation measures;
- a "Mutual Bank Risk Management" unit, which represents the "control center" for the risk profile of the individual affiliated banks, with responsibility for controlling and activating Early Warning System processes, in addition to representing the heads of the territorial Risk Management units and collaborating with Group Risk Management in defining the methodological and operational aspects of the Risk Management process, with particular regard to the aspects concerning the affiliated banks;
- units reporting directly (e.g. Validation) and supporting the CRO.

Serving within the Parent Company's "Mutual Bank Risk Management" are area coordinators (the heads of the three Mutual Bank Risk Management Coordination units) and a "Risk Management Territorial Specialist", representing the local Risk Management specialist. In this context, the Risk Management (RM) Territorial Specialist, with the contribution of associates if appropriate, supports the Risk Management units of the affiliated banks in determining and adopting strategies, policies and processes for the identification, assessment and control of the risks specified by the Risk Management function at the Iccrea Mutual Banking Group level.

The main duties performed by the Risk Management function are the following:

- participating in the definition and development of the framework for the assumption and management of risks pertaining to the Group, ensuring that it is:
  - compliant with applicable regulations, in line with market best practice and consistent with internal operational conditions;
  - consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the ICAAP and the ILAAP of the Group.

The risk assumption and management framework consists of:

- organizational structures and corporate processes (operating, administrative and business), including line controls;
- risk governance policies (policies, limits, responsibilities);
- methodologies and risk measurement and assessment criteria;
- supporting applications.
- developing the Risk Appetite Framework and its operational implementation (the Risk Appetite Statement) at the consolidated level and, with the support of the affiliated banks and Group companies, at the individual level, consistent with capital adequacy objectives in relation to the assumed and/or assumable risks (ICAAP) and the adequacy of the liquidity profile (ILAAP) of the Group;
- acting as a "control center" for the risk profile of the individual affiliated banks with the appropriate territorial organization of risk management arrangements and the Early Warning System (EWS) and the Guarantee Mechanism. In this area:
  - it handles the development and updating of the methodological framework and develops appropriate tools for the operation of the Guarantee Mechanism, as well as analyzing, controlling, assessing, classifying and monitoring the affiliated banks within the scope of EWS management processes;
  - it directs, through the action of its local units as well, for the determination and adoption by each affiliated bank of strategies, policies and principles for the assessment and measurement of the risks identified at the Group level.
- monitoring developments in the risk profile and the exposure to the various types of risk to which the Group as a whole and its individual members are exposed, verifying the ongoing consistency between the actual risk assumed and the specified risk objectives. In this context, it:

- develops methodologies and models for measuring and assessing risks, validating those models, periodically checking their operation, predictive capacity and performance, and their consistency over time with operational practices and regulatory requirements;
- performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible, identifying any needs for fine tuning/corrective or evolutionary maintenance and providing support – within the scope of its duties – in implementing the associated actions;
- identifies any risk developments exceeding the limits set out in the Risk Appetite Statement, in the Risk Governance Policies or in external regulations and, in general, potentially harmful or unfavorable situations in order to assess possible mitigation initiatives to implement;
- analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement;
- 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);
- assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to resolve the issues;
- reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining strategic policy and risk policy and the associated implementation of those policies;
- within the scope of its duties, performing tasks required for the purpose of supervisory reporting, inspections and regulations.

The manager of the Chief Risk Officer Area is the Chief Risk Officer.

THE COMPLIANCE FUNCTION

The Compliance function is the Group's second-level control function, which adopts a risk-based approach in the management of compliance risk. The Group Compliance function is performed within the Chief Compliance Officer Area. The manager of the Chief Compliance Officer Area is the Chief Compliance Officer. The Chief Compliance Officer directs and supervises, with the support of the individual heads of the compliance functions of the affiliated banks and Group companies (compliance officers) and the managers of the other organizational units of the Function, the process of managing compliance risk, directing and coordinating the performance of compliance activities for the Group, consistent with the provisions of the Cohesion Contract, and the Function's policies and rules. In this context, based on the Group's organizational and operational model and the agreements for the outsourcing of the compliance function of the affiliated banks, the Function identifies, evaluates and monitors the applicable regulations for the entire Group, measuring and assessing the impact of those regulations on company processes and procedures. It also develops prevention and control policies, in compliance with the level of risk and the limits specified in the Risk Appetite Framework. The Chief Compliance Officer is responsible for the Compliance Function of Iccrea Banca.

Among its other activities, Compliance performs the following functions:

- unifies the compliance process, including through its management, coordination, supervision and control activities, in order to assess the overall management of compliance risk;
- monitors regulatory developments, identifying on an ongoing basis the scope of application of regulatory changes, the risks for which it is responsible and the related impact on corporate processes and procedures, coordinating the associated activities of the various company units involved;
- collaborates with the competent units in accordance with the guidelines received from the Board of Directors in defining the structure, the organizational reporting flows, duties, responsibilities and the operating model, including the definition of internal rules in its area of responsibility, the risk measurement methods, procedures for overseeing regulatory developments, tools to support the activity and standards of representation and reporting;
- provides the planning and reporting guidance for the activities it performs in order to ensure that the Parent Company's corporate bodies have a unified view of the Group's compliance risk;
- supervises and coordinates, through the Function's units, the process of verifying the adequacy and effectiveness of processes, procedures, company structures and measures adopted to ensure compliance with regulatory requirements, monitoring the status of the action plans in this area;
- recommends organizational and procedural changes designed to ensure adequate monitoring of compliance risks;
- collaborates with the competent units in developing the Risk Appetite Framework and the Risk Appetite Statement, based on the provisions of applicable internal and external rules and regulations;

- maintains direct relations and prepares reporting flows for the corporate bodies of the Parent Company and the units involved in order to periodically communicate its assessment of the state of the compliance risk safeguards installed and recommends the initiatives to be taken for their adaptation to legislative developments;
- formulates opinions regarding proposed new products/services/markets, changes in company processes or related organizational arrangements, coordinating the activities performed at the Group level;
- supervises the management and execution of the compliance activities carried out by the Bank's specialist units;
- with the support of the Function's units, provides advisory services to the various corporate units and to the corporate bodies of the Parent Company, including through participation in working groups for the development/revision of internal processes, coordinating activities performed at the Group level;
- coordinates, in collaboration with the Human Resources function, the overall Group training system and the processes that govern its operation, planning and implementing training initiatives in the areas for which it is responsible;
- provides advisory opinions on the appointment or removal of the heads of the compliance functions of the affiliated banks and the other Group companies and gives its opinions on the management policies of the associated managers proposed by their respective boards of directors;
- manages relations with the supervisory authorities for matters in its area of responsibility and ensures compliance with informational supervisory requirements, inspections and regulatory measures.

THE ANTI-MONEY LAUNDERING FUNCTION

The Anti-Money Laundering function is the Group-level organization responsible for second-level activities connected with preventing and countering money laundering and terrorist financing operations, constantly verifying that control arrangements and information systems are capable of ensuring compliance with the applicable laws and regulations in this area. The Group Anti-Money Laundering function is performed by the Chief AML Officer Area. The head of the Chief AML Officer Area is the Chief AML Officer. The Chief AML Officer is responsible for the definition of guidelines, organizational principles and policies regarding the governance of the risk of money laundering and terrorist financing and oversees their implementation by the relevant organizational units and peripheral structures. The Chief AML Officer is responsible for the Anti-Money Laundering function of Iccrea Banca and has been granted authority for reporting suspicious transactions for Iccrea Banca by the Board of Directors, after consulting the Board of Auditors. Among other duties, it performs the following functions:

- identifies on an ongoing basis the applicable laws and regulations in this field in order to measure and assess their associated impact on the processes, procedures and corporate units involved;
- collaborates with the competent units on the drafting of internal rules and issues guidelines and procedures, support tools as well as planning and reporting standards, establishing the associated deadlines for the receipt of information flows from the individual entities;
- verifies the reliability of the information system for the performance of customer due diligence, data retention and reporting of suspicious transactions;
- coordinates the annual self-assessment exercise for money laundering and terrorist financing risks;
- remotely monitors the activities carried out by the individual affiliated banks and the companies within the direct scope of consolidation, using IT tools and reporting received from the individual entities as well as specific key risk indicators that enable identification of any deficiencies in the control framework and in the risk management methods at the individual entities, and supervision of the evolution of the main risk factors by means of performance statistics at the level of individual entities, territorial area and reference period;
- performs sample checks using a risk-based approach at the peripheral units for anti-money laundering activities carried out on an outsourcing basis on behalf of the affiliated banks, in the light of the results of the remote controls and the analysis of reporting received from the individual entities. This is done in order to verify the degree to which policies, methodologies, criteria, instruments and metrics defined at central level have been incorporated in the arrangements established at those entities;
- recommends organizational and procedural changes to ensure adequate monitoring of money laundering and terrorist financing risks, at the same time verifying their implementation against the action plans prepared in this area. It also provides recommendations to the boards of directors on the appointment, removal and replacement of the AML officers of the mutual banks, of the Heads of peripheral AML offices and of the Suspicious Transaction Report (STR) delegates at those peripheral offices. For companies included in the direct scope of consolidation, it provides advisory opinions on proposals to appoint or remove STR delegates to the boards of directors of the individual entities;
- identifies anti-money laundering ICT requirements in relation to developments in the regulatory framework and the corporate business, as well as to strengthening the internal framework, in order to ensure the consistency of the anti-money laundering applications in use and the sharing of the Group's information assets;

- ensures compliance with the service level agreements relating to the anti-money laundering services governed in the outsourcing contracts with the affiliated banks;
- formulates opinions regarding proposed new products/services/markets, changes in company processes or related organizational arrangements and advises the various units and top management, including through participation in working groups for the development/revision of internal processes;
- maintains a unified dialogue with the competent supervisory authorities on issues concerning the Group and provides support, where required and/or necessary, in the management of any requests and/or inspections at the individual entity level;
- coordinates, in collaboration with the Human Resources function, the overall Group training system and the processes that govern its operation, planning and implementing training initiatives in the areas for which it is responsible;
- provides unified reporting to the corporate bodies of the Parent Company concerning the management and mitigation of money laundering and terrorist financing risks at the Group level;
- promptly informs the corporate bodies of violations or significant deficiencies uncovered in the performance of its duties.

THE RISK CULTURE

The Group devotes special attention to managing, assessing and understanding risk. All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Parent Company. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies;
- the specification of risk limits;
- the periodic monitoring of exposures (aggregate and others) with verification of compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the Group companies in the long term, systematic and independent Internal Auditing units, etc.).

THE GROUP RISK GOVERNANCE FRAMEWORK

The overall Risk Governance framework developed by Iccrea Banca and adopted by the Group reflects the specific features of the Iccrea Mutual Banking Group as a group whose participatory mechanisms are based on a Cohesion Contract, signed by the banks, that provides for internal stability mechanisms characterized by intercompany mutual support agreements regulated specifically by applicable external legislation.

Accordingly, the complex reference framework that characterizes typical risk governance models and processes reflects and incorporates these specific features by way of the close integration of those models and processes, using shared metrics and efficient and effective operational mechanisms to support the implementation of roles and functions for policy-setting, coordination and control by the Parent Company for all of the participating banks/companies.

The Risk Appetite Framework (RAF) defined and adopted by the Iccrea Mutual Banking Group is an integral and key part of the overall risk governance arrangements of the Group, as it is closely correlated with the strategic governance and control processes of the ICBG and with the internal stability mechanisms specific to the Group itself. The overall structure of the RAF is articulated at the Group level and is organized at the operational level by company/business unit and operating areas. Its dimensions can be expressed both in terms of metrics and limits and in terms of guidelines/qualitative indicators. In defining the key elements of the Group RAF, and in the definition of the related operating model, consideration had been given not only to applicable regulations but also to the specific aspects that characterize the ICBG as a group whose members are affiliated by contract, with a view to encapsulating those elements within an organic and integrated framework. In this context, therefore, the RAF makes it possible:

- to reinforce knowledge and awareness in the assumption, management and, more generally, governance of corporate risks;
- to rapidly and effectively direct the system for monitoring and communicating the risk profile;
- to guide risk management and mitigation decisions in a manner consistent with developments in the actual levels of risk assumed and managed.

In line with the principles underlying the ICBG Risk Governance model and with the aim of implementing an integrated system for governing, managing and controlling the Group's risks, the Group Risk Appetite Framework takes account of the risk governance mechanisms and processes established by applicable legislation and underlying the establishment of the Iccrea Mutual Banking Group.

Risk Appetite Statement (RAS)

The Risk Appetite Statement (RAS) is the instrument through which risk objectives are defined and formalized consistent with the maximum risk that can be assumed, the business model and the strategic guidelines, taking into account the corporate and organizational structure, thus translating the corporate strategy into objectives and qualitative-quantitative limits defined for development and risk management activities.

The RAS therefore has the objective of explicating a forward-looking view of the desired risk profile for each operating and business segment (the so-called Risk Strategy), defining for all corporate and organizational dimensions of the Group the risk propensity objectives (Risk Appetite) with the related tolerance thresholds (Risk Tolerance) within which the operating functions must operate in the pursuit of corporate strategies, in line with the maximum risk that can be assumed (Risk Capacity).

The operational definition of the RAF is applied to the corporate dimensions (Group, subsidiaries, affiliated banks) by defining the indicators and the related threshold levels included in the RAS, taking into account the outcomes of the main risk governance processes of the Group such as: the internal capital adequacy and liquidity assessment process (ICAAP/ILAAP), the treatment of entities identified as material within the group recovery plan (Recovery Plan) and the Early Warning System (EWS). These processes and mechanisms represent the Group's main stability and recovery instruments.

Accordingly, within the overall Risk Appetite framework, the decision-making processes underlying ordinary and extraordinary management actions to be taken if it should prove necessary to reduce the level of risk below the threshold levels specifically set out in the RAS are defined for the various analytical dimensions (Group, subsidiaries, affiliated banks). Given these action plans/rebalancing initiatives, the operating methods for monitoring their effectiveness have also been defined in order to ensure oversight and inform the corporate bodies of the successful outcome of the actions undertaken.

The implementation of the risk strategy underlies the definition of organizational arrangements to verify that exposure to the different risks is consistent with the specified risk appetite. In this perspective, the Group's risk appetite framework, integrated with the Group's governance processes and applied to the various analytical dimensions, is structured in a series of qualitative-quantitative indicators designed to fully monitor the risk profile and the technical situation of the Group as a whole and of the individual companies of which it is composed.

These indicators are based on a comprehensive system of company limits applied to all levels of the corporate organization and can be grouped by nature and purpose.

More specifically, the overall system of indicators that make up the Group Risk Appetite Framework can be represented and classified as:

- risk indicators: qualitative and quantitative indicators attributable to the different risk profiles to which the Group and its components are exposed. These indicators, which are applied at all levels and analytical dimensions, are integrated and form an integral part of the Risk Management Framework (RMF) in order to ensure and support the implementation of corporate strategies in accordance with the principles of stability and prudence;
- performance indicators: qualitative and quantitative indicators attributable to the different analytical dimensions, which are integrated with the other strategic processes of the ICBG (e.g. planning and control, remuneration policies, etc.) in order to preserve the sustainability of the business and performance, including risk-adjusted performance, of the Group and its components. They also enable appropriate oversight and follow-up of development and internal stability strategies (monitoring and follow-up of rebalancing and recovery plans if present);
- early warning indicators: qualitative and quantitative indicators reflecting the external market, idiosyncratic and macroeconomic environment, whose main function is to signal the deterioration of the internal and external operating environment, whose impact can undermine the overall stability of the Group and its individual components in relation to the different risk profiles/operating segments.

Beginning with the RAS, consistent operating limits are specified, the latter being defined within the framework of the overall Risk Governance Policies. These in turn constitute the internal regulatory implementation of the rules for the assumption and management of risks and are an integral part of the risk management process adopted by the Group, ensuring sound and prudent management and supporting the sustainable implementation of the overall risk strategy.

Risk governance policies

The risk governance policies represent the reference model in organizational and process development and in the systematic execution of all the operational and business activities performed by Group companies and are an integral part of the risk management process (RMP) adopted by the Group, ensuring sound and prudent management and supporting sustainable implementation of the overall risk strategy.

The internal control system (ICS) governs the RMP, in general ensuring the completeness, appropriateness, functionality (in terms of effectiveness and efficiency) and reliability of the policies in a context of strict consistency with the Risk Appetite Framework defined at Group level. The structure of the internal control system was designed in accordance with the organizational structure of the Group and, in its operational implementation, takes account of the specific operations and associated risk profiles of each of the Group companies.

The so-called first level of the ICS comprises all operational and business units, with controls integrated within the business processes of those units (e.g. hierarchical, systematic and sample controls) or through dedicated control units reporting to the heads of the operational areas or performed at the back-office level or incorporated in IT procedures.

The corporate control functions operate within the ICS. They are independent and dedicated to ensuring the correct and efficient operation of the system: Internal Audit – third-level controls; Compliance, Anti-Money Laundering (AML), Risk Management – second-level controls.

In this context, the Group develops and implements its business model through a corporate, organizational and operational model that ensures the coordinated use of human resources, technologies and methodologies on the basis of an internal regulatory framework that defines the governance structures of the management and control arrangements, management policies (rules, delegated powers and limits) and processes through which activities are performed. Risk management processes are a component of the Bank’s organizational structure, forming part of all operational sectors in which risk is assumed and managed. For each sector, they provide for the identification, assessment (or measurement), monitoring, prevention and mitigation of those risks, also defining the systems (criteria, methods and means) with which those activities are performed.

For each operational and business segment, the practical implementation of the general model represented by the Risk Management Process is set out in the framework of rules defined and developed by the Parent Company (policies, rules, directives, etc.) and within each Group company (rules, policies, procedures, manuals, etc.) and the consequent implementation of infrastructure (organizational, IT, methodological) to support the performance of activities by the organizational units established for that purpose.

The risk limits represent the more detailed configuration of the Risk Appetite Framework, addressing specific aspects connected with the operations associated with the various operational and business segments in which the Group’s members operate. These limits are implemented and governed within the corporate risk management policies and processes and are calibrated to ensure consistency with the respective levels of the risk indicators included in the RAS and which affect the same risk profile/operating segment.

At a general level the risk limits are calibrated so as to signal situations in which the operations in progress are not consistent with the guidelines defined by the strategic and operational plans at group level or on an individual basis; as well as reporting situations in which the evolution of the risk profile could compromise the achievement of the target risk levels/risk appetite defined in the SAR or the compliance with the maximum tolerated/permitted exposure levels.

The risk limits are assigned to the individual internal organizational units responsible for assuming risk, called risk taking units, in compliance with the activities for which they are responsible and taking into account the risks to which they are exposed in carrying out their activities and processes. The assignment of clear and unequivocal operating limits determines the responsibility of the individual “risk taking unit” to operate in compliance with the assigned limit. The operational functions of the Bank and of the company involved are called upon to comply with the first line controls in the performance of the activities for which they are responsible and to comply with the internal policies defined on the various risk profiles.

INTERNAL CAPITAL AND LIQUIDITY ADEQUACY ASSESSMENT PROCESSES (ICAAP AND ILAAP)

The internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP) are performed, in accordance with the provisions of the applicable legislation and the requirements of the supervisory authorities, at a consolidated level and at the individual level for the individual affiliated banks of the ICBG, and they represent complex business processes for the Group. Their main objectives are as follows:

- to define an informed and prudent strategy by informing the corporate bodies of the level of risk to which the Group and its individual components are exposed;
- to improve the synergies deriving from the integration of capital management, strategic planning and RAF (Risk Appetite Framework) processes;
- to share and disseminate a corporate culture centered on risk management;
- to develop advanced risk measurement, control and attenuation tools for all company risks;

In the definition of ICAAP and ILAAP at the consolidated and individual levels, Iccrea Banca takes account of:

- the characteristics, size and complexity of the operations of the Group and its individual components and reference markets;
- the provisions of the Cohesion Contract in terms of management and coordination;
- the requirements established by the applicable prudential regulations and banking system practices;
- the time horizon considered in the strategic planning phase in order to assess the adequacy of the Group's capital and liquidity profile from a forward-looking perspective.

In particular, within this context, the Parent Company, pursuant to the provisions of the Cohesion Contract, defines the set of elements that characterize the ICAAP and ILAAP frameworks of the ICBG and its individual members, namely:

- it defines the capital and liquidity adequacy assessment processes (ICAAP and ILAAP) that apply at the Group level and for individual affiliated banks;
- it defines the rules and criteria that the affiliated banks must apply in determining the ICAAP/ILAAP at the individual level, including the definition of stress scenarios, taking due account of the principle of proportionality.

The individual affiliated banks incorporate and implement the rules and criteria defined by the Parent Company regarding ICAAP and ILAAP at the individual level, as well as contributing, within the scope of their responsibilities and with the support of the Parent Company, to analyses and activities instrumental to the assessment of Group capital and liquidity adequacy (consolidated ICAAP and ILAAP).

In general, the internal capital and liquidity adequacy assessment processes are performed at least annually in a coordinated manner with the activities related to the RAF and Strategic Planning. Instructions and requests for updates, including infra-annually, may be received from both the supervisory authorities and from the corporate bodies/functions in the performance of their respective assessment and control tasks/roles (e.g. the Board of Directors, the Risks Committee, the Board of Auditors, etc.).

The activities focus on the following relevant profiles and/or events:

- changes in the legal or organizational structure, activity or financial situation that may substantially affect the ICAAP/ILAAP;
- the reasonableness and severity of the stress scenarios used for the assessment of capital and liquidity adequacy;
- the representativeness of the levels/threshold used for the evaluation;
- legal and regulatory compliance;
- extraordinary exogenous or endogenous events that could substantially affect the ICAAP/ILAAP.

From an operational point of view, the execution of the ICAAP and ILAAP is coordinated by the head of the Risk Management function, acting through the central units of the Parent Company and local offices, for the purpose of both ongoing analysis and assessment of adequacy and for the preparation of the annual report to be submitted to the supervisory authorities. The various company units are involved in the ICAAP and ILAAP, each within the scope of its responsibilities, in order to assess the specific operations and related risk exposure of the Parent Company and the individual Group companies.

The ICAAP and ILAAP analyses consider a three-year forecast horizon and the assessments are conducted using a dynamic approach, i.e. including economic and financial developments consistent with the multi-year strategic plan, considered for both normal business conditions and for possible stress events. The stress test system adopted by the Parent Company is consistent with the regulatory provisions and guidelines issued by the supervisory authorities for the ICAAP and ILAAP and is part of the broader stress testing framework (ST Program) defined by Iccrea Banca to support the main risk governance processes.

In accordance with the relevant supervisory guidelines, the overall methodological framework defined for the internal assessment of capital and liquidity adequacy considers three different perspectives, which are defined internally and integrated between themselves. In summary, the analytical perspectives adopted are the following:

- the regulatory perspective, which seeks to verify the ability to comply, over the entire forecast period, with the minimum requirements set out in prudential regulations in both normal business conditions and in adverse conditions;
- the economic perspective, which seeks to assess the capacity of the capital & liquidity adequacy profiles to support unexpected losses and expected and unexpected liquidity needs for all risks that could lead to a deterioration of the current and prospective position of the Group and the individual affiliated banks in the pursuit of the corporate strategy;
- internal rules perspective, which seeks to analyze the capital & liquidity adequacy profiles in relation to all the risks deemed relevant (both Pillar I and Pillar II), while also taking account of any changes in legal, regulatory and accounting rules, through the integration and comparison of regulatory metrics/constraints and internal management assessments.

INTERNAL CRISIS MANAGEMENT PROCESSES – RECOVERY PLAN

The Recovery Framework is integrated into the Group's overall Risk Governance system, which provides for the channeling of specific critical situations at individual entities (affiliated banks in situations of difficulty) into recovery paths (internal remediation/resolution) that can be activated through the EWS process.

Accordingly, given the support provided to the stability of the Group from a "going concern" perspective by dedicated processes such as the EWS and RAF/RAS, the Recovery Framework is activated if such critical situations, due to their intensity or number of the parties involved (the individual dimension), are such as to compromise the resilience of the profiles/indicators at the consolidated level.

In this case, the activation of the Recovery Framework and the associated Group Recovery Plan represents a situation in which the overall instability of the Group (the lack of resilience of the consolidated profiles) is addressed with an overall recovery strategy, under which the internal remedial plans (on an individual basis) to be deployed are accompanied by additional measures defined at the Group level.

At the operational level, the recovery process is initiated centrally by the Parent Company in conjunction with the breach of the threshold levels of the indicators defined at the Group level (breach of a Group recovery trigger).

This assessment process can be broken down into three key moments:

- detection of a breach of the consolidated indicators and analysis of the breach: following detection of the breach of a Group recovery indicator, an in-depth analysis is performed with a dual purpose: i) to identify the underlying causes of the breach; ii) to identify the affiliated banks and/or Group companies within the direct scope of consolidation that gave rise to the breach at the Group level. Assessments with a view to recovery (i.e. the activation of recovery processes) are also performed in the event of detection of breaches of the indicators assigned to Material Legal Entities in accordance with the requirements of the relevant EBA Recommendation;
- analysis of the resilience of internal recovery mechanisms: in order to assess whether the conditions are met for recommending the formal opening of a state of crisis (the prerogative of the Board of Directors of the Parent Company), an in-depth analysis is carried out to obtain a preliminary assessment of whether the breach detected is attributable to events/cases that may represent a temporary breach of the threshold levels and, subsequently, to assess whether the individual "remedial plans/initiatives" activated/to be activated for the banks/companies involved are sufficient to restore overall stability to the Group in a timely manner. if the assessments find that the breach of the threshold levels of the Group Recovery indicators is not temporary, accompanied by a simultaneous finding that the remedial plans would only be partially effective or ineffective, a proposed resolution to open a state of crisis is submitted by the Recovery Committee to the Board of Directors of the Parent Company;
- activation of the Recovery Plan: following the opening of the state of crisis, which involves the activation of the Group Restructuring Plan, ordinary operational practices cease and the initiatives that the Parent Company can take to manage the recovery scenario are identified (i.e. selection of the recovery options included in the short list, responsibilities for execution, execution times, communication plan etc.), to accompany the internal remediation plans activated or to be activated for the banks/companies involved.

INTERNAL STABILITY MECHANISMS – GUARANTEE SCHEME

Under the terms of the Guarantee Scheme, each participating bank assumes, jointly and severally, within the limit of the individual guarantee obligation, the obligations of any other participating bank that fails to discharge its obligations to its creditors (the External Guarantee). The guarantee obligation of each participating bank is commensurate with the respective risk-weighted exposures and is limited to the capital resources the minimum capital requirement of each participating bank (free capital), without prejudice to compliance with those requirements by the affiliated banks.

The Parent Company implements the financial support measures necessary to ensure the solvency and liquidity of the individual participating banks (the Intercompany Support Initiatives) to be applied against the guarantee obligation of each participating bank, up to the limit of free capital. In particular, this is to ensure compliance with the prudential requirements and the requirements of the supervisory authorities as well as to avoid, where necessary, being subject to resolution procedures or compulsory receivership.

In order to ensure that the Parent Company has ready access to the funds and financial resources necessary to perform guarantee interventions, the participating banks undertake to establish Readily Available Funds, represented by a pre-established share held by the Parent Company (the Ex Ante Quota) and a share that can be called up by the Parent Company in case of need (the Ex Post Quota).

The Readily Available Funds- - Ex Ante Quota and Ex Post Quota - are allocated to each participating bank in proportion to the risk-weighted exposures, with a fixed minimum and up to the maximum limit of free capital at the individual level, consistent with the applicable limit on the guarantee obligation.

If one of the participating banks is unable to meet the obligation to establish the Readily Available Funds pursuant to the provisions of the Guarantee Scheme, that obligation will be discharged by the other participating banks that have free capital, to an extent proportional to the free capital remaining after their respective fulfillment of the contribution obligation determined on the basis of risk-weighted exposures. If the guarantee interventions require financial resources that exceed the Readily Available Funds, the Parent Company may request additional contributions from the participating banks to supplement them the funds available.

Intercompany support therefore represents the tool through which the solvency and liquidity of the Parent Company and the individual affiliated banks are ensured.

SECTION 1 – CREDIT RISK

QUALITATIVE DISCLOSURES

1. GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Mutual Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca coordinates and directs the credit risk assumption policies of the individual companies and affiliated banks. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the individual entities, in agreement with the Parent Company;
- the Risk Management function supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the credit risk exposure of the Parent Company and all the Group companies.

This model also relies on the current governance structure, which provides for organizational separation between the units responsible for the operational management of lending (the Chief Lending Officer area, hereinafter also the CLO area) and control units (under the Risk Management function).

With regard to management of lending, the mechanisms for interaction between the Parent Company and the Group companies - defined on the basis of the Cohesion Contract – comprise specific credit governance rules, which on the one hand govern the related responsibilities and on the other ensure the compliance of the credit risk framework with the applicable regulatory framework to which the Parent Company is subject.

With regard to the management and coordination role, which is also being implemented in accordance with the principles envisaged in the Cohesion Contract, the Parent Company assumes responsibility for the following areas: lending rules (principles, policies and processes), credit strategies and credit risk limits, management of large exposures, guidelines for the main credit product categories by customer segment, the monitoring and reporting of portfolio credit risk.

In line with these credit governance rules, the Group companies must request the opinion of the CLO area (“credit opinion”) before approving new credit lines or significant modifications to existing positions with individual counterparties/groups of connected clients if those facilities exceed predetermined amount thresholds both in absolute value considering the overall risk exposure of the Group and with regard to compliance with credit risk concentration limits relation to the own funds of the individual Group bank.

The mapping of groups of connected clients, which seeks to identify and assess legal and financial connections between clients is conducted in accordance with principles and rules valid for the entire Banking Group and with the most recent regulatory guidelines in this field (EBA guidelines on connected clients, EBA/GL/2017/15).

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

Credit risk represents the preponderant component of the overall risks to which the Group is exposed, considering that credit exposures account for a dominant share of assets.

In light of this circumstance and in compliance with the applicable provisions concerning the internal control system (see Circular No. 285/2013, Part One, Title IV, Chapter 3), Iccrea Banca has adopted a governance structure and operational arrangements to ensure the adequate monitoring of credit risk at the Group level in the various phases of the process.

Moreover, in relation to the application of the provisions of IFRS 9 and the related initiatives to ensure their implementation, especially as regards the classification and measurement of credit exposures, the Group further strengthened its risk management arrangements, with particular regard to the definition of credit classification and measurement policies, as well as the development of a structured framework of second-level controls of credit exposures, with particular regard to impaired positions.

The entire credit management and control process is governed by internal rules that also define risk control, management and mitigation activities, developing a structured system involving the various organizational units.

The Parent Company, in exercising the powers of strategic management and coordination granted to it under provisions of the Cohesion Contract, defines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level. With particular regard to the lending process, the Parent Company defines guidelines for the credit approval process and the management of the associated risk (management of guarantees, including real estate, monitoring of exposures, classification of risk positions, management and measurement of impaired exposures).

From an organizational point of view, the CLO area assumes responsibility on behalf of the Parent Company and the companies in the direct scope of consolidation (directly owned by the Parent Company) for the supervision of all phases of the lending process - from loan approval to the management of non-performing positions – and for the performance of management and coordination activities with respect to the affiliated banks. It is also responsible for overseeing credit quality, defining lending policies and verifying their application.

The main activities of the lending process performed by the CLO area are:

- issuing guidelines for the definition of the loan management model, issuing guidelines for the loan approval and disbursement process, and finalizing and defining/developing the lending authority model for the decision-making bodies;
- approving the general and specific exceptions for Group companies with respect to Group guidelines on customer segments/credit products;
- monitoring the Group's performing portfolio by analyzing and monitoring existing exposures and by issuing opinions (credit opinions) on credit exposures that exceed specified limits;
- defining the framework for assessing the creditworthiness of corporate, retail and banking counterparties;
- assessing the creditworthiness of banks and financial institutions to which the Parent Company and the companies in the direct scope of consolidation have granted credit;
- performing activities connected with the operational management of the rating models, carrying out rating overrides and providing assistance to Group companies in relation to the general principles and the reasons for the ratings assigned to individual counterparties.

With regard to credit monitoring, in addition to the definition of guidelines at Group level and the minimal set of early warning indicators for the interception and management of positions to be "monitored", the CLO area monitors the positions of the Parent Company and the companies within the direct scope of consolidation that present an increase in credit risk, as well as examining the correct execution of the process implemented by the affiliated banks. Furthermore, the CLO area monitors the "most relevant" positions.

As part of the second-level controls, the Risk Management function has defined the overall methodological and operational framework in this area. It is applicable to the entire Group. The framework, which is governed with a specific body of regulatory and process documentation, covers all the activities and controls aimed at verifying, on a periodic basis, the appropriateness of the classifications of exposures, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

More generally, the Risk Management function oversees the risk management of the individual entities from a consolidated and individual perspective:

- overseeing the measurement of credit risk from a current and forward-looking perspective, considering both conditions of normal operations and stress scenarios;
- monitoring the capacity of the risk limits, including those defined within the RAF/RAS with regard to the associated credit risk metrics;
- defining and updating the methods and measurement models for credit risk, including those used in the performance of credit stress tests, ensuring their ongoing compliance with regulatory developments and market best practice.

2.1 MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

IDENTIFICATION OF RISKS

As noted in the previous section, in compliance with the provisions of Circular no. 285/2013 of the Bank of Italy as updated, the Parent Company determines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level, thus exercising the powers of strategic management and coordination aimed at ensuring the unity of the Group's strategic management and control system, as governed by the Cohesion Contract.

With particular regard to the lending process, the Parent Company governs lending and the management of the related risk. This also comprises the management of guarantees, including real estate, exposure monitoring, the classification of risk positions, and the management and valuation of impaired exposures.

In all of these phases, the Group uses qualitative and quantitative methods for assessing counterparty creditworthiness, supported by IT procedures that undergo periodic verification and maintenance.

With specific reference to the loan approval phase, the Group rules establish the key principles underpinning all phases of the process of approving/renewing loans, together with the roles and associated responsibilities of the various actors involved, specifying the procedures through which the Group intends to assume credit risk in respect of its customers, i.e. by identifying eligible counterparties and the admissible technical forms of credit for each customer segment.

In this specific context, a direct assessment is carried out to ascertain the needs and requirements of the applicant and therefore the purposes of the credit line and to accurately assess the credit risk profile: granting a loan requires an in-depth analysis of the risk associated:

- with the counterparty as well as the economic context in which it operates;
- with the purpose and characteristics of the transaction to be financed;
- with the guarantees available;
- with other forms of credit risk mitigation.

The analysis of the counterparty is conducted by each bank so as to assess the overall profitability of the relationship using the associated valuation tools/models. The assessment of creditworthiness focuses, in turn, on an analysis of the borrower's ability to repay, without prejudice to the principle that credit can only be granted if it is clear how it will be repaid.

Without prejudice to the prudential limits set by applicable regulations, which are commensurate with own funds with regard to both the magnitude of the exposure to the individual counterparty and the total amount of larger exposures, the credit strategies provide for risk limitations on the basis of specific elements, such as, for example, the nature of the transaction (e.g. transactions intended to finance real estate whose repayment will be financed by sale or lease), the situation of the specific real estate market (type of asset, economic sector, geographical area, market demand, etc.), a current and forward-looking evaluation of the asset, the accurate quantification of timing and costs of carrying out the initiative.

In general, given the recent establishment of the Iccrea Mutual Banking Group, the management, measurement and control systems at the individual affiliated mutual banks are being developed to adapt them to the new consolidated context and evolve them in accordance with industry best practice. In this direction, Group policies were issued for all phases of the lending process and, therefore, the granting and disbursement of credit, management of guarantees, loan monitoring, loan classification, assessment of impaired positions, management of substandard positions and NPLs.

As noted earlier, the central moment of the preliminary phase of the lending process is that linked to the assessment and measurement of the credit risk of the transaction in question. The assessment is based on qualitative/quantitative information and is typically supported by the use of automated rating/scoring models designed to measure the creditworthiness of the counterparty and/or the possibility of proceeding with the transaction.

Ratings plays a key role lending, as they represent an essential element of the assessments made during the loan approval, review and renewal processes. The rating assignment involves an analysis of all the quantitative and qualitative information available to support the application approval process in order to accurately assess the risk profile of the transaction and to monitor the creditworthiness of existing counterparties over time.

For the companies in the direct scope of consolidation, the rating and scoring systems are already fully integrated into credit processes. Lending policies already provide indications concerning the minimum level of the decision-approval bodies - based on the technical form of financing, the guarantees securing the loan and the counterparty rating - and the related mechanisms for exceptions, which are granted and monitored by the Parent Company. Affiliated mutual banks have rating systems to support the loan approval/management process. In view of the recent establishment of the Group and the different information systems used by the mutual banks, a number of activities are being completed to integrate ratings in all the processes of the Group companies.

The evaluation models in use take into consideration:

- the specific features of the different types of counterparties, with particular reference to the Corporate segment (companies/producer households), Retail (consumers) and Institutional (bank counterparties);
- the specific features of the product involved, distinguishing between short, medium and long-term types of credit, or specialized technical forms (leases, factoring, consumer credit).

In general, the evaluation models use all the available updated information on the counterparty/transaction, drawn both from external sources (e.g. the Bank of Italy Central Credit Register and similar association databases, credit bureaus, financial statements, registry events) and internal sources (internal performance information).

The Group adopts a counterparty approach in assigning ratings except in specific cases in which the counterparty assessment is supplemented by a product-perspective evaluation, in consideration of any special features of a business. Using rating/scoring models, the Group assigns the counterparty a representative credit rating, adopting an on-line processing procedure, which is typically accessed through the electronic application processing system but also in batch mode, with the latter being adopted for periodic updating of ratings for all Bank customers (the loan position performance rating).

In compliance with the supervisory provisions governing the correct identification of the risk assumed, or to be assumed, in respect of a "group of connected clients", any legal or economic connections between clients are detected and evaluated by those responsible for analyzing creditworthiness during the application assessment phase of the lending process.

These objectives are achieved through an analysis that involves the acquisition of all available information such as financial statements, where available at Group level, or aggregated financial statements of the main entities involved, for subsequent processing, ad hoc information on intercompany items of a financial and operating nature that may not be reported in the financial statements, or on operating flows between Group companies, on the presence of centralized treasury operations and, more generally, on the activities, the market and the competitors of the Group and all entities connected with it.

The monitoring process envisaged by the model is independent with respect to classification status (for example, a position on which payments are being made regularly but has been classified as unlikely to pay due to another non-performing exposure in the system). It is based on the following:

- the use of early warning indicators that permit timely detection of risk signals;
- the definition and attribution of responsibilities in the monitoring process;
- the definition and execution of risk mitigation actions;
- the generation of appropriate information flows between the bank and the Parent Company.

More specifically, within the process we distinguish:

- a phase in which early warning signals are identified, using risk indicators to detect exposures affected by an appreciable increase in credit risk in order to analyze their risk profile and take appropriate management actions;
- a management phase, aimed at examining the identified positions and taking, where necessary, specific management actions in order to promptly mitigate the risk of a deterioration in the position.

The identification of the positions under observation, using IT support procedures, can be carried out manually (i.e. based on the "manual" acquisition of information about, for example, significant changes in the corporate group to which the counterparty belongs, failure to comply with covenants, voluntary declarations of difficulties made by the counterparty, news reports, etc.), or using automated processes, i.e. procedures based on a set of indicators (from external or internal sources, regarding the relationship between the bank and the counterparty, or the capital structure and financial resources of the latter) that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship.

Automated identification must be based on a set of indicators that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship (directly related to the client's relationship with the Bank or the client's financial structure, based on data from external or internal sources). These indicators are differentiated on two levels (1 and 2) that indicate an increasing degree of risk, In the case of level 2 indicators, the position undergoes an analysis of counterparty creditworthiness, which may involve a re-examination of the borrower, in order to verify the capacity of the client to honor its commitments through to full repayment.

The process of managing "watchlist" exposures therefore enables the analysis of the risk profile of "watchlist" counterparties and the definition of appropriate management actions in the context of the monitoring processes with a view to returning the position to normal status or mitigating the risk connected with the exposure.

RISK MEASUREMENT AND ASSESSMENT

For the purpose of calculating prudential requirements for credit risk, the Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The adoption of the standardized approach to determine the capital requirement against credit risk involves the subdivision of exposures into portfolios and the application of differentiated prudential treatments to each, possibly using assessments of creditworthiness (external ratings) issued by external agencies (ECAI) or by export credit agencies (ECA) recognized for prudential purposes on the basis of the provisions of Regulation (EU) 575/2013.

Depending on the type of counterparty and the sector in which it operates, the Group's operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral).

For the purposes of determining internal capital for concentration risk for individual counterparties or groups of connected clients, the Group uses the regulatory granularity adjustment (GA) algorithm, based on the Herfindahl index. In accordance with regulatory provisions, the reference portfolio consists of on-balance-sheet and off-balance sheet exposures (the latter considered at their credit equivalent amount) falling within the regulatory portfolios "corporates and other borrowers", "short-term exposures to corporates" and exposures to corporates included in the asset classes "in default", "secured by real estate", "equity exposures" and "other exposures".

Furthermore, for the purpose of quantifying geo-sectorial concentration risk, the Group adopts the methodology developed by the "Geo-Sectoral Concentration Risk Laboratory" of the Italian Banking Association (ABI), which sets geographical and product categories against a national asset allocation benchmark.

The Group periodically performs stress tests for credit and concentration risks in order to assess - in terms of potential losses - the impact of expected risk developments on the financial profile of the Group and the individual entities under both normal and adverse operating conditions.

The stress test methods are based on regulatory practices and are applied in various management and risk governance processes, starting with the capital adequacy assessment process (ICAAP), as well as in the performance of supervisory exercises.

The methodological and calculation structure of credit stress tests is based on the use of internal risk models and parameters and incorporates a credit risk projection approach (transitions between stages/risk states) and determination of related losses over the scenario years (12-month or lifetime expected credit loss) based on the measurement of IFRS 9 impairment.

The projections of the estimates for the scenario years are performed considering the macroeconomic scenario assumptions in the adopted scenarios (in baseline or adverse conditions), using internally developed models (“satellite” models), which estimate the relationship between risk factors and developments in macroeconomic variables.

The sensitivity analysis of the expected credit loss (ECL) metrics was performed by the Parent Company at the consolidated level pursuant to IFRS 9 for 2020. This analysis was carried out on a sub-portfolio of performing loans and securities representative of the Group, given the general similarity of the nature, characteristics and composition of the portfolio across the various entities of the Iccrea Mutual Banking Group, increasing the probability of occurrence of the worst macroeconomic scenario used at the end of 2020 for the determination of the ECL by 50%. The results show that, at the consolidated level, this simulated measure (based on the conditions prevailing at the reporting date) shows an increase in the average portfolio coverage of 5.6 bps compared with that at December 31, 2019.

With regard to stress testing of single-name concentration risk, the granularity adjustment approach is applied using the PD determined in the adverse scenario, while for the purpose of quantifying the geo-sectorial concentration risk in stress conditions, the calculation provides for an increase in the exposure to the sector (ATECO classification) with the greatest concentration, in addition to the corresponding level of risk tolerance defined in the RAS framework.

RISK MONITORING AND CONTROL

In accordance with supervisory regulations (Bank of Italy Circular no. 285/2013), the Risk Management function performs - at both the consolidated and individual legal entity levels – second-level control activities to verify the adequacy, effectiveness and consistency over time of policies and limits, processes and delegated powers with regard to the credit risk management process, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management function through analysis of developments in the exposure to credit risk of the Group as a whole and of the individual entities.

The Internal Audit unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

The locus of the strategic and operational management of credit risk is the Group’s Risk Appetite Statement, through a comprehensive system of risk objectives and limits (appetite, tolerance and capacity) at both the consolidated and individual entity levels, with compliance ensured by the monitoring and control activities of the function.

Monitoring and reporting on the credit risk profile is characterized by activities that involve both the business functions and the control functions, in accordance with their respective responsibilities. In particular, monitoring is ensured both by aggregate portfolio performance analyzes and by analyzes carried out on individual positions.

The Risk Management function monitors the credit risk profile – at both the consolidated and individual affiliated bank and Group company level, using an analytical framework and related reporting based on a system of key risk indicators. It is designed to monitor the loan portfolio, at both the time exposures are taken on and during their lifetime, the outcomes of which are reported regularly to top management. In this context, the analytical methods and the related reporting undergo constant fine-tuning in order to represent the drivers underlying developments in credit risks in an ever more effective manner, reflecting changes in the regulatory environment as well as management requirements and to support decision-making.

As noted earlier, Risk Management developed the Group second-level control framework, which comprises control activities aimed at ascertaining, on a periodic basis, the consistency of exposure classifications, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

The control methods envisaged by the framework, the first operational application of which was launched at the end of the first half of the year for the entire Group, undergo constant refinement and evolution, with a view to directing second-level controls ever more effectively in response to developments in the credit risks of the Group.

2.2 METHODS FOR MEASURING EXPECTED LOSSES

Iccrea Banca has adopted a framework for determining impairment based on risk assessment models and the corresponding parameters used in operational and management practices by the Parent Company and individual Group entities. In accordance with the provisions of IFRS 9, the methods for measuring expected losses on impaired exposures are based on the following elements:

- a 3-stage (stage allocation) approach, based on changes in credit quality, defined on a model of 12-month expected loss or lifetime expected loss if a significant increase in credit risk is detected. The standard provides for three different categories that reflect the deterioration in credit quality since initial recognition:
  - Stage 1: financial assets originated and/or purchased that do not exhibit objective evidence of impairment at the date of initial recognition or that have not experienced a significant deterioration in their credit quality since the date of initial recognition or which have low credit risk (low credit risk exemption);
  - Stage 2: financial assets whose credit quality has deteriorated significantly since the date of initial recognition;
  - Stage 3: financial assets that exhibit objective evidence of loss at the reporting date. The population of these exposures is consistent with those considered "impaired" under IAS 39.
- application of "point-in-time" formulations of the parameters for measuring credit risk for the purpose of calculating impairment;
- calculation of lifetime expected credit loss for exposures not classified in Stage 1, using lifetime parameters;
- inclusion of forward-looking conditioning in the calculation of ECL, considering the average loss from each scenario and the associated probability-weighted likelihood of each outcome;
- staging and transfers of financial assets between the stages.

In accordance with the standard, the Iccrea Group allocates each asset/tranche to one of the following three stages:

- stage 1, which includes all newly issued exposures and all exposures in respect of counterparties classified as performing that, as at the reporting date, meet the condition for the low credit risk exemption (PD less than 0.30%), or that do not show a significant increase in credit risk with respect to the level measured at the date of disbursement or purchase;
- stage 2, which includes all performing positions/tranches that at the time of assessment simultaneously meet the following two conditions: (i) they have a PD greater than the threshold for the low credit risk exemption; (ii) they have experienced a significant increase in credit risk with respect to the level measured at the origination date; in the absence of a rating/PD at the reporting date, exposures are generally allocated to stage 2 (without prejudice to the additional considerations and practices addressed below);
- stage 3, which includes all exposures that, as at the evaluation date, are classified as non-performing under the default definition adopted. They are governed by specific internal rules in conformity with supervisory regulations.

The staging method of the Group was developed on the basis of the following drivers.

The method developed for the loan portfolio envisages:

- the use of the low credit risk (LCR) criterion, under which credit risk is deemed to have not increased significantly if the exposure shows a low level of credit risk at the reporting date, essentially defined as a PD threshold of 0.30% at the reporting date;
- the use of quantitative criteria based on rating/scoring systems, involving the analysis and comparison of the PD/rating at origination with the PD/rating at the reporting date. This identifies, on the basis of thresholds of significance defined in terms of the number of notches that a rating has changed, any significant increase in credit risk on the position.
- the use of qualitative staging criteria to identify the riskiest positions in the performing portfolio. These criteria have been defined independently of the use (or not) of the quantitative criteria referred to in the previous point and are based on the identification of objective evidence of impairment, such as the presence of forbearance measures, positions more than 30 days past due or positions under observation (watchlist);

The staging methodology developed for the securities portfolio is applicable to the entire portfolio of debt securities outstanding at the reporting date for the various Group entities. Not included in the calculation of impairment, and therefore not subject to the staging mechanism, are shares, equity investments, units of collective investment undertakings, securities classified as held-for-trading and debt securities that do not pass the benchmark test and the SPPI test.

The approach adopted for the securities portfolio provides for the use of the principle of the low credit risk exemption, which allocates to stage 1 exposures with a conditional 12-month PD below the investment grade threshold. Exposures with a conditional 12-month PD above that threshold are allocated to stage 2.

Group entities with a securities portfolio use the external ratings of an ECAI at the tranche level. For the purpose of assigning a rating to securities exposures at the reporting date, only ECAIs with which a valid information-use agreement is in place are used.

Starting from the allocation of exposures in the different stages, the calculation of expected losses (ECL) is carried out, at the level of each position, on the basis of the estimated risk parameters (EAD, PD, LGD) using internal management models, performed in compliance with the requirements of the applicable accounting standard.

In particular, for the purposes of determining the probability of default (PD), the approach adopted for both the loan portfolio and the securities portfolio envisages:

- the transformation of the "through-the-cycle" PD into (or calculation of) the "point-in-time" (PIT) PD on the time horizon for the most recent historical observations;
- the inclusion of forward-looking scenarios through the application of multipliers generated by internal "satellite" models to the PIT PD and the definition of a series of possible scenarios and the associated probability of occurrence that incorporate future macroeconomic conditions in the estimates;
- the transformation of the 12-month PD into a lifetime PD in order to estimate the PD term structure over the entire residual life of the loans.

Loss Given Default (LGD) is determined using an approach based, in general, on the observation of historical loss rates on non-performing positions and on the application of the danger rate matrices, corresponding to the probability of a counterparty being classified as non-performing, regardless of the intermediate default states.

In order to make the obtain a forward-looking and lifetime LGD, the macroeconomic multipliers (determined using internally estimated satellite models) are applied for each reference period in the first three years, and estimated for the following years as an average of the multipliers for the first three years. For the securities portfolio, the unconditioned LGD measures are the same for both stage 1 and stage 2 exposures. In particular, an unconditioned LGD of 45% is used, subsequently subjected to forward-looking conditioning, consistent with the scenarios and the probabilities of occurrence used for conditioning the PD.

Exposure at Default (EAD) is calculated on the basis of the amortized cost schedules of the individual relationships for both loans and debt securities. For exposures relating to margins, EAD is determined by applying a specific Credit Conversion Factor (CCF) to the nominal value of the position.

For the purposes of calculating ECL under IFRS 9, the risk parameters are estimated from a forward-looking perspective through conditioning to macroeconomic scenarios. The approach adopted consists in the use of implicit multipliers to be applied to the parameters, in particular the PD, estimated on the basis of the scenarios and forecast values for the exogenous macroeconomic variables provided by our external provider. In order to reflect the different forward-looking riskiness of the positions assessed in the ECL estimates, these multipliers are differentiated by type of counterparty, sector of economic activity and geographical area. To determine the macroeconomic conditioning measures to be applied in the calculation, two types of scenarios are used, the first relating to an ordinary economic situation (or "baseline"), the other to an adverse situation ("worst plausible scenario "), which is associated, using judgment, with the corresponding probability of occurrence, also taking account of the greater alignment of the baseline scenario with typical market conditions.

For the conditioning of the LGD parameter to macroeconomic scenarios and the estimation of the corresponding forward-looking measures we use internally estimated "satellite" models.

MODIFICATIONS DUE TO COVID-19

As part of the comprehensive set of initiatives launched by the Group for the purposes of managing the COVID-19 emergency on a structural basis, the work connected with the review of the credit risk forecasting metrics was of particular importance, factoring the new analytical determinants associated with this new context into the ordinary measurement processes, and in particular within the IFRS 9 impairment framework for the purposes of estimating expected losses on performing loans (expected credit losses, ECL).[42]

The sharp discontinuity in market conditions generated by the effects of COVID-19, against the continuing extraordinary uncertainty, especially looking forward, has required the implementation of a series of extraordinary measures to incorporate the potential impacts of the pandemic into the impairment model, specifically incorporating the forecasts for the main macroeconomic and financial variables developed by external providers and supervisory authorities into the risk metrics.

At the same time, the introduction of measures to support the economy and customers, with particular reference to the initiatives undertaken by the Group under the provisions of the relevant decree laws, the measures agreed with industry associations and the private initiatives implemented by individual entities led to the implementation of additional methodological changes in the IFRS 9 impairment framework in order to reflect its impact in the calculation of expected credit losses.

The following sections set out the measures taken to adjust the impairment framework in connection with the COVID-19 pandemic, which impacted the calculation of expected credit losses at the reporting date (December 31, 2020).

[42] Starting with the closure of the 2020 half-year financial statements, the Stage 3 impairment add-on was applied so that the reduction in recoveries in the new market conditions engendered by the COVID-19 crisis would be reflected within the analytical process envisaged by the credit assessment policy.

Determining the presence of a significant increase in credit risk (SICR)

The measures implemented in response to the pandemic, with specific regard to determining whether a significant increase in credit risk has occurred, concerned the inclusion of the loan repayment moratoriums for households and micro, small and medium-sized enterprises contained in Decree Law 18/2020 (the "Cure Italy Decree"), as ratified with Law 27/2020. The management of the impact of these support measures included the adaptation of automatic staging mechanisms in order to ensure that the stage allocation criteria were consistent with the methods and purposes of the support measures, while still using an appropriate degree of prudence in assessing such positions in the light of market developments and the expectations expressed over the course of 2020 by the supervisory authorities in this regard.

Measurement of expected losses

The contingent circumstances associated with the COVID-19 emergency made it necessary to take additional specific steps to adjust estimates of expected credit losses and consequently to modify the quantification of IFRS 9 impairment losses to take account of the pandemic. More specifically, in addition to the measures taken to assess the impact of the moratoriums described above, the measures introduced to calculate ECL in order to reflect COVID-19 impacts involved the use of macroeconomic forecast scenarios updated in response to the evolution of the pandemic and market conditions. In particular, in order to enable the adaptation of the IFRS 9 methodological framework to the pandemic, the difficulty of modeling its peculiar characteristics using ordinary tools (satellite models) prompted the use of forward-looking projection metrics (implicit multipliers) to be applied to the risk parameters (PD, LGD) estimated on the basis of the forecast values of the exogenous macroeconomic variables provided by an external provider. These measures were differentiated by type of counterparty, sector of economic activity and geographical area in order to reflect differences in the potential impacts of the pandemic at the sectoral and territorial levels more precisely in the estimate of provisions. The exercise used two different scenarios are considered, a baseline scenario and an alternative scenario, assuming that economic conditions return to normal at the end of the forecast period. The weights of the individual scenarios used for calculating expected credit losses were 90% for the baseline scenario and 10% for the worst plausible scenario.

A sample of the main macroeconomic variables used to apply the forward-looking conditioning factors includes: Italian real GDP growth, the general consumer price index for Italy, the Italian unemployment rate, 3-month Euribor, the 3-year swap rate, the 10-year BTP rate, etc. As regards Italian real GDP growth, in view of the sharp contraction recorded in 2020, forecasts envisage a more rapid recovery in the first forecast year.

2.3 CREDIT RISK MITIGATION TECHNIQUES

As required by Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms (CRR), the Group is strongly committed to compliance with all the requirements for the appropriate application of credit risk mitigation (CRM) techniques in accordance with the standardized approach for the calculation of capital requirements both for internal management and regulatory purposes.

Specific guidelines issued by the Parent Company are currently in force for the Group. They define common rules and principles for the direction, governance and standardized management of risk mitigation techniques, best practices and regulatory requirements in this field.

Specifically, under the current credit policy, the CRM techniques recognized for all capital requirement calculation methods are divided into two general categories:

- funded credit protection, consisting of:
  - collateral, represented by cash deposits, financial instruments that meet certain requirements, and gold. These guarantees can be provided through pledge agreements, transfer of ownership with a guarantee function, repurchase agreements or securities lending arrangements. The Group has implemented systems to a) verify the acceptability of these guarantees and value the assets at the time of acceptance and, where applicable, determine the haircuts to be applied to the collateral; and b) ensure the continuing compliance of the guarantees with eligibility requirements through continuous monitoring, governed and supported appropriately by internal procedures;
  - master netting agreements that involve repurchase agreements, securities lending arrangements, loans with margins as well as OTC derivatives;
  - on-balance-sheet netting;
  - real estate mortgages and property lease transactions involving properties that have the characteristics required by law;
- unfunded credit protection, consisting of: (i) unsecured guarantees; (ii) credit derivatives.

Unsecured guarantees eligible for CRM purposes consist of all forms of credit protection provided by the entities (providers) specified in Article 201 of the CRR (central governments, central banks, international organizations, public sector entities, regional governments and local authorities, multilateral development banks, supervised intermediaries). Accordingly, guarantees issued by natural persons or legal entities not included in the list indicated in the legislation do not fall within the risk mitigation techniques for calculating capital requirements, but are not excluded from the Group's catalog of guarantees, which comprises not only the guarantees eligible for CRM purposes, but also guarantees not eligible for CRM purposes, as mentioned above.

Credit risk mitigation techniques may include guarantees provided by collective loan guarantee consortia in accordance with applicable regulations in the presence of suitable counter-guarantees (for example the Central Guarantee Fund for SMEs) for the portion they secure.

The different CRM techniques, whether funded or unfunded, are subject to both general and specific eligibility requirements that must be met at the time the guarantee is established and for the entire duration of the guarantee.

The general requirements, which are intended to ensure legal certainty and the effectiveness of the guarantees, mainly concern:

- the binding nature of the legal commitment between the parties and its enforceability in court;
- the technique used to provide the credit protection together with the actions and steps taken and procedures and policies implemented by the lending institution shall be such as to result in credit protection arrangements which are legally effective and enforceable in all relevant jurisdictions. The lending institution shall provide, upon request of the competent authority, the most recent version of the independent, written and reasoned legal opinion or opinions that it used to establish whether its credit protection arrangement or arrangements meet the condition laid down in the first subparagraph" (see Article 194 of the CRR);
- the lending institution shall take all appropriate steps to ensure the effectiveness of the credit protection arrangement and to address the risks related to that arrangement;
- the timeliness with which the guarantee may be liquidated in the event of default;
- the formalization of techniques and operating procedures adequate to ensure continuing compliance over time with the general and specific requirements required for CRM techniques. These procedures must be valid and applied by all Group companies in order to avoid possible inconsistencies in the assessment. Checks shall be carried out in relation to the current legal value of the documentation submitted, the impact of any changes in the regulatory framework and the consequent initiatives to be taken. Risks related to the ineffectiveness, reduction or termination of the protection ("residual risks") as well as valuation and potential concentration risks in respect of specific counterparties shall also be controlled and managed.

Specific requirements are established for the individual CRM techniques in relation to their features and are intended to ensure a high level of effectiveness of the credit protection.

3. IMPAIRED CREDIT EXPOSURES

3.1 MANAGEMENT STRATEGIES AND POLICIES

According to the EBA definition, non-performing exposures satisfy either or both of the following criteria:

- material exposures which are more than 90 days past-due;
- the debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Impaired exposures are classified by increasing degree of severity in the following three categories:

- impaired past due and or overlimit exposures: exposures continuously past due or overlimit by more than 90 days in an amount exceeding the materiality thresholds (a relative materiality threshold equal to 1% of the entire exposure and an absolute materiality threshold of €100 or €500 for retail or corporate counterparties respectively;
- unlikely to pay (UTP) exposures: on- and off-balance sheet exposures for which the institution considers that the obligor is unlikely, without recourse to actions such as realizing security, to pay its credit obligations (principal and/or interest);
- default: on- and off-balance sheet exposures to an obligor in a state of insolvency (even if not declared by a court) or a substantially comparable situation, regardless of any expected loss.

The regulations also require that individual exposures, regardless of the classification of the counterparty, be identified as forborne exposures when they have been granted forbearance measures that meet the regulatory definition of such measures.

Such forborne exposures are in turned distinguished into:

- performing forborne, if the counterparty is classified as performing at the time the forbearance measures are granted and such measures do not require that the counterparty be classified differently;
- non-performing forborne, if the counterparty is already classified in one of the categories of non-performing at the time the forbearance measures are granted and such measures require that the counterparty be classified as non-performing.

Any other types of customer segmentation adopted by the affiliated banks and companies within the direct scope of consolidation for internal management purposes only (for example "watch list exposures") in order to assess of specific situations, whether performed using automated system or manually, are mapped to the above categories, ensuring that the mapping method is immediately understandable and transparent.

In identifying forborne exposures, the regulations require a transaction-by-transaction approach, regardless of their classification (impaired past due and/or overlimit exposures, unlikely to pay exposures or defaults): although the state of financial difficulty must be ascertained at level of the debtor, only the exposures referred to the latter that have actually been granted forbearance measures must be classified as forborne.

These classification rules are further supplemented by that established in IFRS 9, according to which credit exposures must be allocated to three stages (for more details, see the previous discussion). Among impaired exposures, allocation to stage "3" is underscored, which occurs when the customer's status changes to "non-performing".

In organizational terms, the Group has governance and operational structures to enable the efficient and sustainable management of impaired loans. Specifically, the individual Group companies will implement their policies for the management and recovery of anomalous positions and NPLs by drafting of internal rules customized to reflect the characteristics of the territory in which they operate, the scale of operations, their business model and related organizational structure, always in compliance with the provisions of Group policy.

For the purposes of identifying non-performing exposures, the Group:

- applies a unified and harmonized definition of NPLs in all Group companies, consistent with the applicable regulatory provisions;
- considers legal and financial connections between counterparties and adopts a group perspective in identifying the exposure of a debtor as impaired (default propagation).

The Parent Company defines the strategy for managing non-performing exposures, which is approved and monitored by its Board of Directors. Specifically, the Parent Company defines the objectives in terms of reducing expected NPE levels at Group level and establishes, with the support of the Group companies, the objectives for the individual companies and the related management strategies to ensure a common commitment and a consistent approach to achieving the objectives. The implementation of the strategy is supported by the Parent Company through the delivery of specialized support services, the provision of tools to facilitate the uniform management of impaired positions and a Group operational plan, which is also approved by the Parent Company's Board of Directors.

Furthermore, in order to enhance the commitment of the resources dedicated to the management of non-performing exposures in order to achieve the defined objectives, all Group companies have developed a system for measuring the performance of senior management and the organizational structures dedicated to management of non-performing exposures, which promotes, based on specific indicators, the commitment to managing such exposures.

In accordance with the principle of proportionality, the individual Group companies define their own performance evaluation and monitoring systems in line with Group policy. Specifically, it is considered necessary for Group companies to adopt performance indicators that take account of a set of quantitative and qualitative factors, including for example:

- developments in the stock of gross and net non-performing exposures, in line with the Group's Strategic Plan;
- methods for applying forbearance measures;
- the total amount recovered on the loan portfolio with a focus on collections, liquidations and asset sales;
- the aging of positions by recovery management phases;
- the regular performance of agreed restructuring plans;
- the application of writeoffs;
- the reduction of arrears and the improvement of portfolio quality.

3.2 WRITE-OFF

Writeoff means the derecognition from the bank's financial statements of a loan, or part of a loan, and the consequent recognition of a loss ascertainment that the exposure cannot be collected or it is uneconomic to continue any associated recovery activities under way. It may occur before the legal action to recover the financial assets are completed and does not necessarily entail waiver of the bank's right to the asset. A writeoff may be total, and therefore regard the entire amount of a financial, or partial (in all those cases in which the claim recognized is smaller than the carrying amount, for example in insolvency proceedings). The amount of the writeoff must always take account of any expenses, including legal costs, accrued and not yet invoiced at the time of analysis.

A writeoff involves:

- the reversal of total writedowns against the gross value of the financial asset;
- for any part exceeding total writedowns, the impairment loss on the financial asset is recognized directly in profit or loss.

Any recoveries from collection after the recognition of the writeoff are recognized in profit or loss as writebacks.

Writeoffs recognized for unrecoverability refer to cases in which the Bank is in possession of documentation certifying the significant probability that the loan may not be recovered, in whole or in part. Specifically, the irrecoverable status of the loan must be attested to by certain and specific circumstances, such as for example:

- the obligor, co-obligors and/or connected guarantors are untraceable or destitute;
- there has been no recovery from enforcement of guarantees or collateral and seizures;
- the period of limitations has passed;
- insolvency proceedings have been closed with incomplete restitution for the bank, in the absence of further guarantees that could be enforced;
- it is impossible to take further action in consideration of the overall financial position and income situation of the obligors and co-obligors (guarantors included);
- all legal or out-of-court actions have, following a careful examination of updated documentation (by way of partial example, commercial information, title searches, searches, etc.), already been carried out or are deemed inappropriate.

Writeoffs recognized because further action would be uneconomic occur when it is recognized, and can be demonstrated, that the costs related to the continuation of loan recovery actions (for example: legal, administrative and other costs) would exceed the value of the financial asset that is expected to be recovered.

3.3 FINANCIAL ASSETS PURCHASED OR ORIGINATED CREDIT-IMPAIRED

Financial assets purchase or originated credit impaired ("POCI") are credit exposures that are impaired upon initial recognition.

Such exposures may arise both from the purchase of impaired credit exposures from third parties or from the restructuring of impaired exposures that involved the grant of new financing that is significant in absolute or relative terms in proportion to the amount of the original exposure.

These exposures are managed, measured and monitored in accordance with the principles discussed in previous sections. In particular, the expected credit losses recorded at initial recognition in the carrying amount of the instrument are reviewed periodically based on the processes described in the preceding sections.

The expected loss for these exposures is always calculated over their lifetime and the exposures are conventionally reported under stage 3, or stage 2 if, following an improvement in the credit quality of the counterparty since initial recognition, the assets are performing.

Such assets are never classified under stage 1 since the expected credit loss must be calculated on a lifetime basis.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONS AND EXPOSURES GRANTED FORBEARANCE MEASURES

Renegotiations of financial instruments that result in a change in the contractual conditions may be associated with:

- commercial initiatives that may be defined specifically for each customer or applied to categories of customer, perhaps as a result of dedicated initiatives promoted by public bodies or banking associations;
- the renegotiation of financial instruments prompted by the debtor's financial difficulties (forbearance).

The key objective of granting forbearance measures is to pave the way for non-performing borrowers to exit their non-performing status, or to prevent performing borrowers from reaching a non-performing status. Forbearance measures should always aim to return the exposure to a situation of sustainable repayment.

The status of forborne must be associated with the individual exposure. Accordingly, a forborne exposure can be classified as performing forborne or non-performing forborne depending on the status of the counterparty to which these exposures are attributable.

In order to classify new concessions granted to a customer as forbearance measures, the following must occur:

- compliance of the measures with the notion of "forbearance" provided for in Regulation (EU) 227/2015;
- the borrower must currently or prospectively be in a situation of financial difficulty at the date of the measure is approved.

The applicable regulations define the following concessions to be potentially identifiable as forbearance*:*

- contract modifications granted by a bank in favor of a debtor solely in consideration of the debtor's financial difficulties;

- the grant of total or partial refinancing by a bank to a debtor in financial difficulties in order to enable the debtor to repay an existing obligation to the bank; this case also includes additional finance operations aimed at the completion-optimization of an existing obligation to the bank;
- contract modifications that can be requested by a debtor under the terms of a contract already agreed by the Bank in the knowledge that the debtor is experiencing financial difficulties (embedded forbearance clauses).

Concessions qualifying as forbearance measures, regardless of the form adopted (renegotiation or refinancing) must therefore give the borrower more favorable treatment compared with to the contractual terms originally agreed with the Group company or compared with the terms conditions that would be granted to other borrowers with the same risk profile. Furthermore, they must be exclusively intended to enable the borrower to honor the new commitments and deadlines.

Contract modifications and renegotiations granted solely for commercial reasons/practice do not qualify as forbearance measures since, even though the modification may be a concession measure, the debtor is not experiencing financial difficulties. Debtors can always request modifications to the contractual terms of their loans without experiencing difficulty in meeting their financial obligations.

Loan moratoriums (payment holidays) granted without discrimination between type of obligation or debtor in order to support areas hit by natural disasters also do not qualify as forbearance measures.

Finally, the forbearance measures must always be financially sustainable for the debtor and not increase costs (main and ancillary), as this might qualify the transaction as usury (Article 644, third paragraph, of the Criminal Code).

Forbearance measures may be short- or long-term depending on the temporary or permanent nature of the financial difficulty. In particular, Short-term forbearance measures are defined as restructured repayment conditions of a temporary nature that do not address the resolution of outstanding arrears and generally do not exceed two years.

An assessment of the financial situation of the debtor should not be limited to exposures with apparent signs of financial difficulties. An assessment of financial difficulties should also be conducted for exposures where the debtor does not have apparent financial difficulties, but where market conditions have changed significantly in a way that could impact the ability to repay.

The assessment of any financial difficulties on the part of a debtor should be based on the situation of the debtor only, disregarding collateral or any guarantees provided by third parties. Furthermore, the notion of “debtor” should include all the natural and legal persons belonging to the debtor’s group: the assessment must comprise such persons in order to determine whether situations of difficulty at the group level could compromise the capacity of the debtor to fulfill its obligations to the Group lender.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 IMPAIRED AND PERFORMING CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR

A.1.1 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (CARRYING AMOUNT)

	Bad loans	Unlikely to be repaid	Impaired past due exposures	Performing past due positions	Other performing positions	Total
1. Financial assets measured at amortized cost	4,496	1,136	65	176	47,479,187	47,485,060
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	258,041	258,041
3. Financial assets designated as at fair value	-	-	-	-	363,255	363,255
4. Other financial assets mandatorily measured at fair value	-	-	-	-	34,344	34,344
5. Financial assets held for sale	-	-	-	-	580	580
Total 31/12/2020	4,496	1,136	65	176	48,135,407	48,141,280
Total 31/12/2019	74,343	1,226	-	453	43,198,048	43,274,070

A.1.2 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (GROSS AND NET VALUES)

	Impaired				Unimpaired			Total (net exposure)
	Gross exposure	Total writedowns	Net exposure	Total partial writeoffs *	Gross exposure	Total writedowns	Net exposure	
1. Financial assets measured at amortized cost	30,140	24,444	5,696	373	47,494,733	15,369	47,479,363	47,485,060
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	259,042	1,000	258,041	258,041
3. Financial assets designated as at fair value	-	-	-	-	X	X	363,255	363,255
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	34,344	34,344
5. Financial assets held for sale	-	-	-	-	583	3	580	580
Total 31/12/2020	30,140	24,444	5,696	373	47,754,357	16,373	48,135,584	48,141,280
Total 31/12/2019	142,601	67,032	75,569	373	42,794,591	8,724	43,198,501	43,274,070

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	572,422
2. Hedging derivatives	-	-	8,710
Total 31/12/2020	-	-	581,132
Total 31/12/2019	-	-	394,318

A.1.3 DISTRIBUTION OF FINANCIAL ASSETS BY TIME PAST DUE (CARRYING AMOUNT)

	Stage 1			Stage 2			Stage 3		
	Up to 30 days	From 30 to 90 days	More than 90 days	Up to 30 days	From 30 to 90 days	More than 90 days	Up to 30 days	From 30 to 90 days	More than 90 days
1. Financial assets measured at amortized cost	61	-	-	-	115	-	-	33	4,801
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
Total 31/12/2020	**61**	**-**	**-**	**-**	**115**	**-**	**-**	**33**	**4,801**
Total 31/12/2019	**241**	**39**	**-**	**-**	**-**	**173**	**-**	**38**	**75,003**

A.1.4 FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND GUARANTEES ISSUED: DEVELOPMENTS IN TOTAL WRITEDOWNS AND TOTAL PROVISIONS

	Total writedowns									
	Stage 1					Stage 1				
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortized cost	Financial assets measured at fair value through other	Financial assets held for sale	of which: individual writedowns	of which: collective writedowns
Opening balance	**3,088**	**347**	**8**	**-**	**3,443**	**5,099**	**181**	**-**	**-**	**5,281**
Increases in financial assets purchased or originated	-	-	-	-	-	-	-	-	-	-
Derecognition other than write-offs	3	-	-	-	3	-	-	-	-	-
Net writedowns/writebacks for credit risk	4,667	(245)	(6)	-	4,417	2,518	717	-	-	3,235
Contractual modifications without derecognition	-	-	-	-	-	-	-	-	-	-
Change in estimation method	-	-	-	-	-	-	-	-	-	-
Writeoffs not recognized directly through profit or loss	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-
Closing balance	**7,752**	**102**	**3**	**-**	**7,857**	**7,618**	**898**	**-**	**-**	**8,516**
Recoveries from collection on written-off financial assets	-	-	-	-	-	-	-	-	-	-
Writeoffs recognized directly through profit or loss	-	-	-	-	-	-	-	-	-	-

	Total writedowns						Total provisions for commitments to disburse funds and financial guarantees issued			Total
	Stage 3					of which: purchased and originated credit-impaired				
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual writedowns	of which: collective writedowns		Stage 1	Stage 2	Stage 3	
Opening balance	**67,032**	**-**	**-**	**67,032**	**-**	**-**	**35**	**6**	**-**	**75,797**
Increases in financial assets purchased or originated	-	-	-	-	-	-	-	-	-	**-**
Derecognition other than write-offs	4,592	-	-	4,592	-	-	-	-	-	**4,595**
Net writedowns/writebacks for credit risk	(37,973)	-	-	(37,973)	-	-	17	12	-	**(30,292)**
Contractual modifications without derecognition	-	-	-	-	-	-	-	-	-	**-**
Change in estimation method	-	-	-	-	-	-	-	-	-	**-**
Writeoffs not recognized directly through profit or loss	23	-	-	23	-	-	-	-	-	**23**
Other changes	-	-	-	-	-	-	-	-	-	**-**
Closing balance	**24,444**	**-**	**-**	**24,444**	**-**	**-**	**52**	**18**	**-**	**40,887**
Recoveries from collection on written-off financial assets	-	-	-	-	-	-	-	-	-	**-**
Writeoffs recognized directly through profit or loss	1	-	-	1	-	-	-	-	-	**1**

A.1.5 FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED: TRANSFERS BETWEEN CREDIT RISK STAGES (GROSS AND NOMINAL VALUES)

	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortized cost	101,247	-	187	-	66	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	80	-	-	-	-	-
Total 31/12/2020	**101,327**	**-**	**187**	**-**	**66**	**-**
Total 31/12/2019	**421,645**	**2,507**	**-**	**-**	**-**	**49**

A.1.5A LOANS INVOLVED IN COVID-19 SUPPORT MEASURES: TRANSFERS BETWEEN CREDIT RISK STAGES (GROSS VALUES)

The table has not been completed because there were no such positions at the reporting date.

A.1.6 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired assets	Unimpaired assets			
A. On-balance-sheet exposures					
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to be repaid	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Impaired past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Unimpaired past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other unimpaired assets	X	33,321,038	7,182	33,313,856	-
- of which: forborne exposures	X	-	-	-	-
Total A	**-**	**33,321,038**	**7,182**	**33,313,856**	**-**
B. Off-balance-sheet exposures					
a) Impaired	-	X	-	-	-
b) Unimpaired	X	5,709,655	53	5,709,602	-
Total B	**-**	**5,709,655**	**53**	**5,709,602**	**-**
Total A+B	**-**	**39,030,693**	**7,235**	**39,023,458**	**-**

* Values to be reported for information purposes

A.1.7 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired assets	Impaired assets			
A. On-balance-sheet exposures					
a) Bad loans	28,561	X	24,066	4,496	373
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to be repaid	1,514	X	377	1,136	-
- of which: forborne exposures	1,062	X	341	721	-
c) Impaired past due exposures	66	X	1	65	-
- of which: forborne exposures	66	X	1	65	-
d) Unimpaired past due exposures	X	178	2	176	-
- of which: forborne exposures	X	-	-	-	-
e) Other unimpaired assets	X	14,835,332	9,189	14,826,143	-
- of which: forborne exposures	X	371	10	361	-
Total A	**30,140**	**14,835,510**	**33,635**	**14,832,015**	**373**
B. Off-balance-sheet exposures					
a) Impaired	-	X	-	-	-
b) Unimpaired	X	3,512,311	17	3,512,294	-
Total B	**-**	**3,512,311**	**17**	**3,512,294**	**-**
Total A+B	**30,140**	**18,347,821**	**33,652**	**18,344,309**	**373**

* Values to be reported for information purposes

A.1.7A LOANS INVOLVED IN COVID-19 SUPPORT MEASURES: GROSS AND NET VALUES

	Gross exposure	Total writedowns and total provisions	Net exposure
A. Bad loans	**-**	**-**	**-**
a) Loans subject to forbearance measures compliant with guidelines	-	-	-
b) Loans subject to other forbearance measures	-	-	-
c) New loans	-	-	-
B. Unlikely to pay	**-**	**-**	**-**
a) Loans subject to forbearance measures compliant with guidelines	-	-	-
b) Loans subject to other forbearance measures	-	-	-
c) New loans	-	-	-
C. Impaired past-due	**-**	**-**	**-**
a) Loans subject to forbearance measures compliant with guidelines	-	-	-
b) Loans subject to other forbearance measures	-	-	-
c) New loans	-	-	-
D. Performing past-due	**-**	**-**	**-**
a) Loans subject to forbearance measures compliant with guidelines	-	-	-
b) Loans subject to other forbearance measures	-	-	-
c) New loans	-	-	-
E. Other performing	**591**	**6**	**585**
a) Loans subject to forbearance measures compliant with guidelines	591	6	585
b) Loans subject to other forbearance measures	-	-	-
c) New loans	-	-	-
Total (A+B+C+D+E)	**591**	**6**	**585**

A.1.8 BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS IMPAIRED POSITIONS

The table has not been completed because there were no such positions at the reporting date.

A.1.8 BIS ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS FORBORNE EXPOSURES BY CREDIT QUALITY

The table has not been completed because there were no such positions at the reporting date.

A.1.9 ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS IMPAIRED POSITIONS

	Bad loans	Unlikely to pay	Impaired past-due
A. Opening gross exposure	**141,203**	**1,398**	**-**
- of which: exposures assigned but not derecognized	-	-	-
B. Increases	**169**	**187**	**66**
B.1 from performing exposures	-	187	66
B.2 from purchased or originated impaired financial assets	-	-	-
B.3 from other categories of impaired exposures	-	-	-
B.4 contractual modifications without derecognition	-	-	-
B.5 other increases	169	-	-
C. Decreases	**112,811**	**71**	**-**
C.1 to performing exposures	-	-	-
C.2 writeoffs	88	-	-
C.3 collections	106,258	71	-
C.4 realized on disposals	1,990	-	-
C.5 losses on disposals	289	-	-
C.6 to other categories of impaired exposures	-	-	-
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	4,186	-	-
D. Closing gross exposure	**28,561**	**1,514**	**66**
- of which: exposures assigned but not derecognized	-	-	-

A.1.9BIS ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS FORBORNE EXPOSURES BY CREDIT QUALITY

	Impaired forborne exposures	Unimpaired forborne exposures
A. Opening gross exposure	**869**	**-**
- of which: exposures assigned but not derecognized	-	-
B. Increases	**288**	**371**
B.1 from performing exposures	252	371
B.2 from purchased or originated impaired financial assets	-	X
B.3 from other categories of impaired exposures	X	-
B.4 contractual modifications without derecognition	-	-
B.5 other increases	36	-
C. Decreases	**29**	**-**
C.1 to performing exposures	X	-
C.2 writeoffs	-	X
C.3 collections	X	-
C.4 realized on disposals	-	-
C.5 losses on disposals	29	-
C.6 to other categories of impaired exposures	-	-
C.7 contractual modifications without derecognition	-	-
C.8 other decreases	-	-
D. Closing gross exposure	**1,128**	**371**
- of which: exposures assigned but not derecognized	-	-

A.1.10 E ON-BALANCE-SHEET IMPAIRED CREDIT EXPOSURES TO BANKS: CHANGE IN TOTAL ADJUSTMENTS

The table has not been completed because there were no such positions at the reporting date.

A.1.11 ON-BALANCE-SHEET IMPAIRED CREDIT EXPOSURES TO CUSTOMERS: CHANGE IN TOTAL ADJUSTMENTS

	Bad loans		Unlikely to be repaid		Impaired past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**66,860**	**-**	**172**	**128**	**-**	**-**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-
B. Increases	**952**	**-**	**271**	**271**	**1**	**1**
B.1 writedowns of purchased or originated credit-impaired assets	-	X	-	X	-	X
B.2 other writedowns	544	-	268	268	1	1
B.3 losses on disposal	289	-	-	-	-	-
B.4 from other categories of impaired positions	-	-	-	-	-	-
B.5 contractual modifications without derecognition	-	-	-	-	-	-
B.6 other increases	119	-	4	4	-	-
C. Decreases	**43,747**	**-**	**65**	**58**	**-**	**-**
C.1 writebacks from valuations	677	-	65	58	-	-
C.2 writebacks from collections	38,044	-	-	-	-	-
C.3 gains on disposal	377	-	-	-	-	-
C.4 writeoffs	88	-	-	-	-	-
C.5 to other categories of impaired positions	-	-	-	-	-	-
C.6 contractual modifications without derecognition	-	-	-	-	-	-
C.7 other decreases	4,561	-	-	-	-	-
D. Total closing adjustments	**24,066**	**-**	**377**	**341**	**1**	**1**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-

A.2 - CLASSIFICATION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BY EXTERNAL RATING GRADES

A.2.1 DISTRIBUTION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BY EXTERNAL RATING GRADES (GROSS VALUES)

	External rating grades						Not rated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortized cost	**149,204**	**61,154**	**25,912,974**	**6,572**	**40**	**-**	**21,394,929**	**47,524,873**
- Stage 1	7,245	19,509	25,877,645	-	-	-	21,228,821	47,133,219
- Stage 2	141,960	41,645	35,329	6,572	40	-	135,968	361,514
- Stage 3	-	-	-	-	-	-	30,140	30,140
B. Financial assets measured at fair value through other comprehensive income	**6,898**	**13,743**	**217,116**	**15,231**	**1,586**	**-**	**4,468**	**259,042**
- Stage 1	6,898	12,074	201,570	984	-	-	4,468	225,994
- Stage 2	-	1,669	15,545	14,247	1,586	-	-	33,047
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**583**	**583**
- Stage 1	-	-	-	-	-	-	583	583
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A+B+C)	**156,102**	**74,897**	**26,130,090**	**21,803**	**1,625**	**-**	**21,399,980**	**47,784,497**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
D. Commitments to disburse funds and financial guarantees issued	**211,481**	**16,587**	**756,170**	**5,124**	**-**	**-**	**5,793,204**	**6,782,566**
- Stage 1	211,477	15,783	746,203	4,693	-	-	5,776,778	6,754,934
- Stage 2	5	804	9,967	431	-	-	16,426	27,632
- Stage 3	-	-	-	-	-	-	-	-
Total (D)	**211,481**	**16,587**	**756,170**	**5,124**	**-**	**-**	**5,793,204**	**6,782,566**
Total (A+B+C+D)	**(367,583)**	**(91,484)**	**(26,886,260)**	**(26,927)**	**(1,625)**	**-**	**(27,193,184)**	**(54,567,064)**

The distribution of the exposures shown in the table shows the breakdown by rating grade of the debtors referred to in the prudential regulations of the Bank of Italy and are provided by the Fitch rating agency as the ECAI (External Credit Assessment Institution).

A.2.2 DISTRIBUTION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BY INTERNAL RATING GRADES

The table has not been completed because as at the reporting date external ratings were used.

A.3 DISTRIBUTION OF SECURED CREDIT EXPOSURES BY TYPE OF GUARANTEE

A.3.1 ON- AND OFF-BALANCE SHEET SECURED CREDIT EXPOSURES TO BANKS

			Collateral (1)				Unsecured guarantees (2)									
							Credit derivatives					Guarantees				
								Other derivatives								
	Gross exposure	Net exposure	Properties - Mortgages	Properties - Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other	Government entities	Banks	Other financial companies	Other	Total (1)+(2)
1. Secured on-balance-sheet credit exposures:	**20,563,133**	**20,561,905**	**953**	**-**	**19,989,232**	**569,870**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,850**	**20,561,905**
1.1 fully secured	20,563,133	20,561,905	953	-	19,989,232	569,870	-	-	-	-	-	-	-	-	1,850	20,561,905
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance-sheet credit exposures:	**4,657**	**4,636**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,898**	**-**	**1,738**	**4,636**
2.1 fully secured	4,657	4,636	-	-	-	-	-	-	-	-	-	-	2,898	-	1,738	4,636
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 ON- AND OFF-BALANCE SHEET SECURED CREDIT EXPOSURES TO CUSTOMERS

			Collateral (1)				Unsecured guarantees (2)									
							Credit derivatives					Guarantees				
								Other derivatives								
	Gross exposure	Net exposure	Properties - Mortgages	Properties - Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other	Government entities	Banks	Other financial companies	Other	Total (1)+(2)
1. Secured on-balance-sheet credit exposures:	**2,210,055**	**2,191,134**	**50,200**	**-**	**2,133,092**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**179**	**2,183,472**
1.1 fully secured	2,208,996	2,190,252	49,741	-	2,133,031	-	-	-	-	-	-	-	-	-	179	2,182,952
- of which: impaired	23,907	5,406	5,240	-	-	-	-	-	-	-	-	-	-	-	166	5,406
1.2 partially secured	1,059	882	459	-	61	-	-	-	-	-	-	-	-	-	-	520
- of which: impaired	266	95	75	-	-	-	-	-	-	-	-	-	-	-	-	75
2. Secured off-balance-sheet credit exposures:	**1,069,409**	**1,069,409**	**-**	**-**	**1,069,409**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,069,409**
2.1 fully secured	1,069,409	1,069,409	-	-	1,069,409	-	-	-	-	-	-	-	-	-	-	1,069,409
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.4 FINANCIAL AND NON-FINANCIAL ASSETS OBTAINED THROUGH ENFORCEMENT OF GUARANTEES RECEIVED

The table has not been completed because there were no such positions at the reporting date.

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY SECTOR

	Government entities		Financial companies		Financial companies (of which: insurance undertakings)	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance sheet						
A.1 Bad loans	-	-	-	1,629	-	-
- of which: forborne exposures		-	-	-	-	-
A.2 Unlikely to be repaid		-	-	-	-	-
- of which: forborne exposures		-	-	-	-	-
A.3 Impaired past due exposures		-	-	-	-	-
- of which: forborne exposures		-	-	-	-	-
A.4 Unimpaired exposures	10,130,436	2,178	4,525,302	6,414	-	-
- of which: forborne exposures		-	-	-	-	-
Total (A)	**10,130,436**	**2,178**	**4,525,302**	**8,043**	**-**	**-**
B. Off-balance sheet						
B.1 Impaired exposures	-	-	-	-	-	-
B.2 Unimpaired exposures	2	-	1,435,589	1	-	-
Total (B)	**2**	**-**	**1,435,589**	**1**	**-**	**-**
Total (A+B) 31/12/2020	**10,130,438**	**2,178**	**5,960,892**	**8,044**	**-**	**-**
Total (A+B) 31/12/2019	**7,876,460**	**1,085**	**6,417,416**	**44,382**	**-**	**-**

	Non-financial companies		Households	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance sheet				
A.1 Bad loans	327	6,546	4,168	15,891
- of which: forborne exposures	-	-	-	-
A.2 Unlikely to be repaid	319	144	817	233
- of which: forborne exposures	319	144	402	197
A.3 Impaired past due exposures	-	-	65	1
- of which: forborne exposures	-	-	65	1
A.4 Unimpaired exposures	125,033	364	45,548	235
- of which: forborne exposures	-	-	361	10
Total (A)	**125,678**	**7,054**	**50,598**	**16,360**
B. Off-balance sheet				
B.1 Impaired exposures	-	-	-	-
B.2 Unimpaired exposures	106,465	16	9,562	-
Total (B)	**106,465**	**16**	**9,562**	**-**
Total (A+B) 31/12/2020	**232,143**	**7,070**	**60,160**	**16,360**
Total (A+B) 31/12/2019	**187,402**	**10,646**	**303,360**	**17,766**

B.2 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY GEOGRAPHICAL AREA

	Italy		Other European countries		Americas	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet						
A.1 Bad loans	4,496	22,436	-	-	-	1,629
A.2 Unlikely to be repaid	1,136	377	-	-	-	-
A.3 Impaired past due exposures	65	1	-	-	-	-
A.4 Unimpaired exposures	14,528,996	8,761	268,286	387	22,969	43
TOTAL A	**14,534,693**	**31,575**	**268,286**	**387**	**22,969**	**1,672**
B. Off-balance-sheet						
B.1 Impaired exposures	-	-	-	-	-	-
B.2 Unimpaired exposures	1,547,959	17	3,656	-	2	-
Total B	**1,547,959**	**17**	**3,656**	**-**	**2**	**-**
Total (A+B) 31/12/2020	**16,082,652**	**31,592**	**271,943**	**387**	**22,971**	**1,672**
Total (A+B) 31/12/2019	**14,462,211**	**71,997**	**279,858**	**223**	**26,729**	**1,654**

	Asia		Rest of the world	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet				
A.1 Bad loans	-	-	-	-
A.2 Unlikely to be repaid	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-
A.4 Unimpaired exposures	1,091	-	4,976	1
TOTAL A	**1,091**	**-**	**4,976**	**1**
B. Off-balance-sheet				
B.1 Impaired exposures	-	-	-	-
B.2 Unimpaired exposures	-	-	-	-
Total B	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**1,091**	**-**	**4,976**	**1**
Total (A+B) 31/12/2019	**5,976**	**3**	**9,864**	**2**

B.3 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS BY GEOGRAPHICAL AREA

	Italy		Other European countries		Americas	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet						
A.1 Bad loans	-	-	-	-	-	-
A.2 Unlikely to be repaid	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-
A.4 Unimpaired exposures	32,970,286	6,017	306,682	1,038	15,561	119
Total (A)	**32,970,286**	**6,017**	**306,682**	**1,038**	**15,561**	**119**
B. Off-balance-sheet						
B.1 Impaired exposures	-	-	-	-	-	-
B.2 Unimpaired exposures	5,503,992	33	164,058	13	1,743	-
Total (B)	**5,503,992**	**33**	**164,058**	**13**	**1,743**	**-**
Total (A+B) 31/12/2020	**38,474,278**	**6,050**	**470,739**	**1,051**	**17,304**	**119**
Total (A+B) 31/12/2019	**33,719,404**	**1,546**	**271,338**	**272**	**15,761**	**90**

		Asia		Rest of the world	
		Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet					
A.1 Bad loans		-	-	-	-
A.2 Unlikely to be repaid		-	-	-	-
A.3 Impaired past due exposures		-	-	-	-
A.4 Unimpaired exposures		1,615	3	19,711	4
	Total (A)	**1,615**	**3**	**19,711**	**4**
B. Off-balance-sheet					
B.1 Impaired exposures		-	-	-	-
B.2 Unimpaired exposures		1,834	4	37,975	4
	Total (B)	**1,834**	**4**	**37,975**	**4**
Total (A+B)	**31/12/2020**	**3,450**	**7**	**57,686**	**7**
Total (A+B)	**31/12/2019**	**2,079**	**3**	**21,356**	**7**

B.4 LARGE EXPOSURES

a) Amount (carrying amount)	77,283,629
b) Amount (weighted value)	293,763
c) Number	7

C. SECURITIZATIONS

QUALITATIVE DISCLOSURES

On March 1, 2019, the Board of Directors of Iccrea Banca, as the Parent Company and Central Body, which together with the affiliated mutual banks, composes the reporting entity and, together with the subsidiaries, the "Iccrea Mutual Banking Group", approved the implementation of a multioriginator securitization of a portfolio of non-performing loans, submitting to the Ministry for the Economy and Finance (MEF) an application for admission to the State Guarantee Scheme on the liabilities issued (so-called "GACS") pursuant to Decree Law 18 of February 14, 2016, ratified with Law 49 of April 8, 2016, implemented with the MEF Decree of August 3, 2016, the MEF Decree of November 21, 2017 and the MEF Decree of October 10, 2018.and subsequently amended by Law 41 of May 20, 2019 ratifying with amendment Decree Law 22 of March 25, 2019 (hereinafter the "Transaction"), in which Iccrea Banca acts as both the assignor and the promoter and joint arranger (together with JP Morgan Securities Limited) of the securitization.

The Transaction provided for Iccrea Banca, Banca Sviluppo and Iccrea BancaImpresa, as well as 65 mutual banks belonging to the Iccrea Mutual Banking Group, to sell pursuant to Law 130 of April 30, 1999 the same number of portfolios of unsecured or mortgage loans, mainly secured by first mortgages, deriving from loans classified as defaulted at the assignment for a total credit claim of about €1.3 billion, to a special purpose securitization vehicle specifically formed for the Transaction denominated "BCC NPLs 2019 Srl", with the concomitant grant of a servicing engagement by the latter to a third-party servicer independent of the ICBG.

As part of the Transaction, on December 2, 2019 the SPV acquired the portfolio from the assignors, financed through the issue of asset-backed securities, pursuant to the combined provisions of Articles 1 and 5 of Law 130, in the total nominal value of about €421.2 million, divided into the classes indicated below:

- €355,000,000.00 of senior notes, maturing in January 2044, rated Baa2, BBB + and BBB respectively by Moody's Investor Services, Scope Rating AG and DBRS Ratings Limited;
- €53,000,000.00 of mezzanine notes, maturing in January 2044, rated B3, B- and CCC respectively by Moody's Investor Services, Scope Rating AG and DBRS Ratings Limited;
- €13,200,000.00 of junior notes, maturing in January 2044 and not rated.

Tranche	Amount issued (euros)	Rate
Senior Notes	355,000,000	Euribor 6m + 0.30%
Mezzanine Notes	53,000,000	Euribor 6m + 6.50%
Junior Notes	13,200,000	12% + Class J Notes Variable Return (any additional return)
Total	**421,200,000**	

The notes are not listed on a regulated market.

In order to meet the requirement to retain a net economic interest of 5% in the Transaction, as referred to in Article 6 of Regulation (EU) No. 2017/2402 of the European Parliament and of the Council of December 12, 2017, laying down a general framework for securitization and creating a specific framework for simple, transparent and standardized securitizations and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulation (EC) No. 648/2012, the banks subscribed and undertook to retain for the entire duration of the securitization at least 5% of the nominal value of each tranche of notes issued in the Transaction (the "vertical slice" approach). The remainder of the mezzanine and junior notes were subscribed by an independent third-party investor.

In addition, as part of the Transaction:

- the SPV has entered into two derivative contracts to hedge interest rate risk;
- a cash reserve was set up in an amount equal to 3% of the nominal value of the senior notes (€10.65 million) to manage the risk of any mismatches between the funds generated by collections and the amounts due in respect of the senior costs of the Transaction and interest on the senior notes. In accordance with market practice, this reserve was financed at the time of the issue of the notes by an interest-bearing limited recourse loan granted by Iccrea.

The securitization has been structured in such a way as to ensure that the senior notes are eligible for the aforementioned State guarantee, given the deconsolidation by the assignor banks of the exposures involved in the Transaction in accordance with the IASs/IFRSs. For the purposes of admission to the State Guarantee Scheme, Iccrea Banca - as the Parent Company of the ICBG and by way of specific delegation from the banks – submitted an application to the MEF. The documentation was transmitted by Iccrea by means of a single certified e-mail message, containing the documentation relating to the operation as a whole. The banks also delegated Iccrea to transmit the documentation relating to the Transaction to the competent supervisory authorities in order to obtain recognition of the significant transfer of risk for prudential purposes. On January 10, 2020, a preliminary application was submitted to the MEF to obtain GACS coverage for the senior notes.

The operation also provides for:

- the legal separation, once transferred to the SPV, of the securitized assets from the assignors and creditors, as supported by a legal opinion from Orrick Herrington & Sutcliffell, issued on December 19, 2019;

- time call and clean-up call options in order to allow early repayment of notes before maturity:
  - Optional Redemption: the option can be exercised by the SPV on the first Payment Date immediately following the Payment Date on which the Class A notes are fully redeemed;
  - Redemption for Tax Reasons: the option can be exercised by the SPV upon the occurrence of regulatory or legislative changes, or official interpretations of the competent authorities that entail an increase in costs for the noteholders or the SPV.

In addition, the notes must be redeemed immediately in the event of specific trigger events (non-payment, non-performance of other obligations, insolvency or violations of laws).

Note that the SPV may also carry out repayments through the partial or full sale to third parties of the portfolio of non-performing loans, as part of a competitive auction.

Finally, as part of the Transaction, at the time of the issue of the notes, a cash reserve was established in the form of a limited-recourse loan granted by Iccrea Banca. Based on the characteristics of the Transaction, these circumstances do not constitute implicit support for the Transaction by the ICBG pursuant to Article 250 of the CRR.

The securitization's payment waterfall is material in understanding the level of subordination of creditors in the transaction. There are two payment waterfalls. The first Pre-acceleration Priority of Payment is used for payments if the portfolio's performance is in line with expectations. In the event of Issuer Trigger Events, Redemption for Tax Reasons or Redemption on Final Maturity Date, the Post-acceleration Priority of Payment is used instead.

In addition, the waterfall provides for the possibility of changing the payment priority order of certain items in the event of a "subordination event" or if: (i) the aggregate cumulative collections for the period immediately preceding the calculation are 90% lower than the expected collections envisaged for the same date in the securitization contracts; (ii) interest is not paid on the Class A notes; (iii) the ratio between the present value of recoveries, for which the respective procedure has been completed, and the sum of target prices indicated in the business plan by the servicer is less than 90%.

In these circumstances, in the post-acceleration waterfall all interest due on the mezzanine notes is temporarily deferred in favor of payment of the principal of the senior notes until the payment date on which these events cease to obtain.

With regard to Iccrea Banca SpA, the credit claim at the date of economic effectiveness is equal to €11,525,779.1 and the gross value at the date of legal transfer of the loans net of writedowns and inclusive of any collections on those loans pertaining to the SPV received by the Bank between the date of determination of the carrying amount and the assignment date, certified on the basis of the accounting records, of €2,524,328.5 (of which collections equal to €62,747.23) assigned for €3,390,011.15.

The following table shows the positions in respect of the securitization held by Iccrea Banca SpA following the issue:

Class	Nominal amount	Fair value	ISIN
Class A	3,149,000	3,149,000	IT0005394348
Class B	23,507	12,101	IT0005394355
Class C	5,855	-	IT0005394363
Limited-recourse loan	10,900,000	10,859,259	

On February 7, 2020, the Board of Directors of Iccrea Banca, as the Parent Company and Central Body, which together with the affiliated mutual banks, composes the reporting entity and, together with the subsidiaries, the "Iccrea Mutual Banking Group", approved the implementation of a multioriginator securitization of a portfolio of non-performing loans, submitting to the Ministry for the Economy and Finance (MEF) an application for admission to the State Guarantee Scheme on the liabilities issued (so-called "GACS") pursuant to Decree Law 18 of February 14, 2016, ratified with Law 49 of April 8, 2016, implemented with the MEF Decree of August 3, 2016, the MEF Decree of November 21, 2017 and the MEF Decree of October 10, 2018.and subsequently amended by Law 41 of May 20, 2019 ratifying with amendment Decree Law 22 of March 25, 2019 (hereinafter the "Transaction"), in which Iccrea Banca acts as both the assignor and the promoter and joint arranger (together with JP Morgan Securities Limited) of the securitization.

The Transaction provided for Iccrea Banca, Banca Sviluppo, Iccrea BancaImpresa and Mediocredito FVG, as well as 84 mutual banks belonging to the Iccrea Mutual Banking Group (hereinafter, the ICBG assignor banks) and two banks not belonging to the ICBG, Banca Ifis and Banca Popolare Valconca (hereinafter the "Open Market Banks" and, together with the ICBG, the "Banks" or the "Assignor Banks"), to sell pursuant to Law 130 of April 30, 1999 (hereinafter, "Law 130") the same number of portfolios of unsecured or mortgage loans, mainly secured by first mortgages, deriving from loans classified as defaulted at the assignment (hereinafter, the "Portfolio") for a total credit claim of about €2.3 billion at the date of economic effectiveness [43], to a special purpose securitization vehicle specifically formed for the Transaction denominated "BCC NPLs 2020 S.r.l." (the SPV), with the concomitant grant of a servicing engagement by the latter to a third-party servicer independent of the ICBG.

As part of the Transaction, on November 18, 2020 the SPV acquired the portfolio from the assignors, financed through the issue of asset-

[43] The date of economic effectiveness is generally established at December 31, 2019, March 31, 2020 and June 30, 2020 or, for a limited number of banks, August 31, 2020.

backed securities, pursuant to the combined provisions of Articles 1 and 5 of Law 130, in the total nominal value of about €585 million, divided into the classes indicated below

- €520,000,000.00 of senior notes, maturing in January 2045, rated Baa2, and BBB respectively by Moody's Italia Srl and Scope Rating AG;
- €41,000,000.00 of mezzanine notes, maturing in January 2045, rated Caa2 and CC respectively by Moody's Italia Srl and Scope Rating AG;
- €24,000,000.00 of junior notes, maturing in January 2045 and not rated

As noted, the transfer by the Banks to the SPV of the non-performing loans included in the portfolio took place on November 18, 2020 at a price equal to about 22.9% of the related claim at the date of economic effectiveness.

The transfer of non-performing loans to the Vehicle produces economic effects from the date of economic effectiveness. Collections from customers from the day following the date of economic effectiveness up to and including the date of transfer of the portfolio, or November 18, 2020, were transferred to the SPV.

The subsequent finalization of the operation involved:

- the issue of the notes by the SPV with simultaneous subscription of all the senior notes and about 5% of the mezzanine and junior Notes by the Assignor Banks and the subscription of about 95% of the mezzanine and junior notes by an institutional investor independent of the Assignor Banks, Bracebridge Capital LLC, with simultaneous payment of the purchase price and, consequently, derecognition of the assigned loans;
- the preliminary request for GACS support (submitted by Iccrea Banca on December 22, 2020).

The following table summarizes the amount and annual rates of the notes issued:

Tranche	Amount issued (euros)	Rate
Senior Notes	520,000,000	Euribor 6m + 0.25%
Mezzanine Notes	41,000,000	Euribor 6m + 8%
Junior Notes	24,000,000	10% + Class J Notes Variable Return (any additional return)
Total	**585,000,000**	

The notes are not listed on a regulated market.

In order to meet the requirement to retain a net economic interest of 5% in the Transaction, as referred to in Article 6 of Regulation (EU) No. 2017/2402 of the European Parliament and of the Council of December 12, 2017, laying down a general framework for securitization and creating a specific framework for simple, transparent and standardized securitizations and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulation (EC) No. 648/2012, the banks subscribed and undertook to retain for the entire duration of the securitization at least 5% of the nominal value of each tranche of notes issued in the Transaction (the "vertical slice" approach). The remainder of the mezzanine and junior notes were subscribed by an independent third-party investor on November 30.

In addition, as part of the Transaction:

- the SPV has entered into two derivative contracts to hedge interest rate risk with third parties independent of the Assignor Banks;
- a cash reserve was set up to manage the risk of any mismatches between the funds generated by collections and the amounts due in respect of the senior costs of the Transaction and interest on the senior notes. In accordance with market practice, this reserve was financed at the time of the issue of the notes by an interest-bearing limited recourse loan, for a total amount of €16 million, granted by Iccrea Banca (€14,168,985), Banca Ifis (€1,694,677) and Banca Valconca (€136,338). In view of the characteristics of the operation, it does not represent implicit support pursuant to the provisions of Article 250 of the CRR.

The securitization has been structured in such a way as to ensure that the senior notes are eligible for the aforementioned State guarantee, given the deconsolidation by the assignor banks of the exposures involved in the Transaction in accordance with the IASs/IFRSs. For the purposes of admission to the State Guarantee Scheme, Iccrea Banca - as the Parent Company of the ICBG and by way of specific delegation from the banks – submitted an application to the MEF. The documentation was transmitted by Iccrea by means of a single certified e-mail message, containing the documentation relating to the operation as a whole. The banks also delegated Iccrea to transmit the documentation relating to the Transaction to the competent supervisory authorities in order to obtain recognition of the significant transfer of risk for prudential purposes. More specifically, in accordance with the above scheme, on November 18, 2020, the Assignor Banks and the SPV signed a loan assignment agreement under which they assigned without recourse the bad loan portfolios to the SPV with a total claim of about €2.3 billion. In order to finance the purchase of these portfolios, on November 30, 2020, the SPV issued €520,000,000.00 in Class A Asset Backed Floating Rate Notes, maturing in January 2045, €41,000,000.00 Class B in Asset Backed Floating Rate Notes, maturing in January 2045 and €24,000,000.00 in Class J Asset Backed Floating Rate and Variable Return Notes maturing in January 2045.

Each assignor subscribed a pro-rated amount of senior securities issued. Furthermore, in application of the retention rule provided for by Article 6 of Regulation (EU) 2017/2402 of the European Parliament and of the Council, each assignor undertakes to retain about 5% of the mezzanine and junior notes subscribed for the entire duration of the transaction.[44]

On December 22, 2020 a preliminary application was submitted to the MEF to obtain GACS coverage for the senior notes.

The derecognition of the bad loans by each of the Assignor Banks took place following the sale of the mezzanine and junior tranches to Bracebridge Capital LLC. The sale took place for both tranches on November 30, 2020. In particular, Bracebridge Capital LLC subscribed (i) 94.40% of the principal amount of the mezzanine notes on the issue date equal to €38,703,317 at a price equal to 44.51% of the related principal amount (corresponding to a subscription price of €17,228,640) and (ii) 94.40% of the principal amount of the junior notes at the issue date equal to €22,655,588.00 at a price equal to 0.042% of the relative principal amount (corresponding to a subscription price of €9,440).

The following table shows the positions in respect of the securitization held by Iccrea Banca SpA following the issue:

Class	Nominal amount	Fair value	ISIN
Class A	67,629,000.00	67,629,000.00	IT0005428245
Class B	409,966.00	182,494.87	IT0005428286
Class C	239,980	99,99	IT0005428294
Limited-recourse loan	14,168,985	14,168,985	

[44] More specifically, the amount retained in the net economic interest was distributed among the Assignor Banks as follows:

Retention of individual assignor = MAX (X; Y)

Where:

X = 5% of the entire tranche, allocated among the assignors on the basis of the ration of the claim of the individual assignor and the total claim represented by the portfolio.

Y = 5% of the virtual tranche attributed to the individual assignor.

QUANTITATIVE DISCLOSURES

C.1 EXPOSURES IN RESPECT OF MAIN OWN SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

		On-balance-sheet exposures						Guarantees issued						Credit lines					
		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
		Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks
A. Fully derecognized																			
BCC NPLS 20 19/44 CL A	impaired exposures	2,863	(165)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 20 19/44 TV	impaired exposures	-	-	14	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 20 19/44 TV CL J	impaired exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans	impaired exposures	10,454	(70)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 20 20/45 TV CL A	impaired exposures	68,092	(10)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 20 20/45 TV CL B	impaired exposures	-	-	185	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 20 20/45 TV CL J	impaired exposures	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans	impaired exposures	14,076	(93)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The exposures reported in the table regard to the securitization transaction referred to below, carried out pursuant to Law 130/91, different from the self-securitization transactions in which at the time of issue the Bank repurchased the full amount of the notes issued by the special purpose vehicle.

More specifically, at the reporting date, the Bank's overall exposure to "own" securitizations - which led to the full derecognition the securitized exposures - comprises:

I. ABSs issued by the special purpose vehicle BCC NPLs 2019 S.r.l. as part of the multioriginator securitization ("GACS III") carried out in 2019 and involving a portfolio of non-performing loans assigned by 68 mutual banks, in which the senior class of notes benefits from the State guarantee ("GACS ") pursuant to Decree Law 18/2016 ratified with Law 49/2016. In particular, the Bank has subscribed:
   a) Class A Asset Backed Floating Rate Notes, ISIN IT0005394348, maturing in January 2044, in the amount of €3,149 thousand, with a carrying amount at the reporting date of €2,863 thousand, with total writedowns of €165 thousand, recognized by the Bank in assets under item 40. "Financial assets measured at amortized cost";
   b) Class B Asset Backed Floating Rate Notes, ISIN IT0005394355, maturing in January 2044, in the amount of €23 thousand, with a carrying amount at the reporting date of €14thousand; recognized under item 20. "Financial assets measured at fair value through profit or loss: c) other financial assets mandatorily measured at fair value", since they did not pass the SPPI test at initial recognition;
   c) Class J Asset Fixed Rate and Variable Return Notes due, ISIN IT0005394363, maturing in January 2044, in the amount of €6 thousand, with a carrying amount at the reporting date of zero, recognized under item 20. "Financial assets measured at fair value through profit or loss: c) other financial assets mandatorily measured at fair value", since they did not pass the SPPI test at initial recognition.

II. an interest-bearing limited-recourse loan granted to the SPV BCC NPLs 2019 S.r.l as a cash reserve to manage the risk of mismatches between the funds raised from collections and amounts due for the senior costs of the Transaction and interest on the senior notes, maturing in January 2044, in the amount of €10,900 thousand, with a carrying amount at the reporting date of €10,454 thousand, with total writedowns of €70 thousand, recognized by the Bank in assets under item 40. "Financial assets measured at amortized cost".

The exposures reported in the table regard to the securitization transaction referred to below, carried out pursuant to Law 130/91, different from the self-securitization transactions in which at the time of issue the Bank repurchased the full amount of the notes issued by the special purpose vehicle.

More specifically, at the reporting date, the Bank's overall exposure to "own" securitizations - which led to the full derecognition the securitized exposures – comprises

I. ABSs issued by the special purpose vehicle BCC NPLs 2020 S.r.l. as part of the multioriginator securitization ("GACS III") carried out in 2020 and involving a portfolio of non-performing loans assigned by 84 mutual banks, in which the senior class of notes benefits from the State guarantee ("GACS ") pursuant to Decree Law 18/2016 ratified with Law 49/2016. In particular, the Bank has subscribed:

   a) Class A Asset Backed Floating Rate Notes, ISIN IT0005428245, maturing in January 2045, in the amount of €67,629 thousand, with a carrying amount at the reporting date of €68,092 thousand, with total writedowns of €10 thousand, recognized by the Bank in assets under item 40. "Financial assets measured at amortized cost";
   b) Class B Asset Backed Floating Rate Notes, ISIN IT0005428286, maturing in January 2045, in the amount of €410 thousand, with a carrying amount at the reporting date of €185 thousand; recognized under item 20. "Financial assets measured at fair value through profit or loss: c) other financial assets mandatorily measured at fair value", since they did not pass the SPPI test at initial recognition;
   c) Class J Asset Fixed Rate and Variable Return Notes due, ISIN IT0005428294, maturing in January 2045, in the amount of €240 thousand, with a carrying amount at the reporting date of €2 thousand; recognized under item 20. "Financial assets measured at fair value through profit or loss: c) other financial assets mandatorily measured at fair value", since they did not pass the SPPI test at initial recognition.

II. an interest-bearing limited-recourse loan granted to the SPV BCC NPLs 2020 S.r.l as a cash reserve to manage the risk of mismatches between the funds raised from collections and amounts due for the senior costs of the Transaction and interest on the senior notes, maturing in January 2045, in the amount of €14,169 thousand, with a carrying amount at the reporting date of €14,075 thousand, with total writedowns of €93 thousand, recognized by the Bank in assets under item 40. "Financial assets measured at amortized cost".

C.2 EXPOSURES IN RESPECT OF MAIN THIRD-PARTY SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

		On-balance-sheet exposures						Guarantees issued						Credit lines					
		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
		Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks	Net exposure	Writedowns / writebacks
A. Fully derecognized																			
LUCREZIA SECURISATION SRL - TERAMO	impaired exposures	106	(1,054)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LUCREZIA SECURISATION SRL - CREDIVENETO	impaired exposures	1,023	(578)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans	impaired exposures	12,037	(81)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans	impaired exposures	12,330	(89)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LUCREZIA SECURISATION SRL - PADOVANA IRPINIA	impaired exposures	1,750	(2,184)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The exposures reported in the table refer to securities held and loans disbursed by the Bank in respect of third-party securitizations that, at the reporting date, totaled €27,246 thousand (carrying amount).

More specifically, they regard:

- unrated securities issued by the special purpose vehicle "Lucrezia Securitization S.r.l." in connection with the securitization of portfolios of bad loans acquired as part of the intervention to resolve crises at the following mutual banks:
  - Banca Padovana and BCC Irpina (nominal value in portfolio €6,746 thousand, writedowns of €2,184 thousand);
  - Crediveneto (nominal value in portfolio €2,463 thousand, writedowns of €578 thousand);
  - BCC Teramo (nominal value in portfolio €1,385 thousand, writedowns of €1,054 thousand);
- interest bearing limited-recourse loans granted to special purpose vehicles as a cash reserve to manage the risk of mismatches between the funds generated from collections and the amounts due in respect of the senior costs of the transactions and interest on the senior notes, namely:
  - BCC NPLs 2018 S.r.l. as part of the multioriginator securitization transaction ("GACS I") carried out in 2018. In involved a portfolio of non-performing loans assigned by 23 mutual banks, in which the senior class benefits from a State guarantee ("GACS") pursuant to Decree Law 18/2016, ratified with Law 49/2016 (nominal amount disbursed €14,125 thousand, writedowns of €81 thousand);
  - BCC NPLs 2018-2 S.r.l. as part of the multioriginator securitization transaction ("GACS II") carried out in 2018. It involved a portfolio of non-performing loans assigned by 73 mutual banks, in which the senior class benefits from a State guarantee ("GACS") pursuant to Decree Law 18/2016 ratified with Law. 49/2016 (nominal amount disbursed €16,140 thousand, writedowns of €89 thousand);

C.3 SPECIAL PURPOSE SECURITIZATION VEHICLES

	Registered office	Consolidation	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
1. BCC NPL 2018	Via V. Alfieri n. 1 31015 CONEGLIANO (TV) Italia	no	172,922			222,139	12,992	1,391
2. BCC NPL 2018-2	Via V. Alfieri n. 1 31015 CONEGLIANO (TV) Italia	no	415,022			443,569	14,771	497
3. BCC NPLS 2019	Via V. Alfieri n. 1 31015 CONEGLIANO (TV) Italia	no	354,286			341,385	28,280	569
4. BCC NPLS 2020	Via V. Alfieri n. 1 31015 CONEGLIANO (TV) Italia	no	538,261			520,000	18,251	10

C.4 UNCONSOLIDATED SPECIAL PURPOSE SECURITIZATION VEHICLES

In accordance with the Bank of Italy instructions contained in Circular 262/2005, the disclosures envisaged for this section are not provided as the Bank prepares consolidated financial statements, which readers are invited to consult.

C.5 SERVICER ACTIVITIES – OWN SECURITIZATIONS: COLLECTIONS ON SECURITIZED ASSETS AND REDEMPTION OF SECURITIES ISSUED BY SECURITIZATION VEHICLE

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

D. DISCLOSURES ON UNCONSOLIDATED STRUCTURED ENTITIES (OTHER THAN SECURITIZATION VEHICLES)

	Classification under assets (*)	Total assets (A)	Classification under liabilities	Total liabilities (B)	Net carrying amount (C=A-B)	Maximum loss exposure (D)	Difference between loss exposure and carrying amount (E=D-C)
1. Vehicle company							
1. CIU							
	Other financial assets mandatorily measured at fair value	332,340			332,340	332,340	-
	Financial assets held for trading	1,106			1,106	1,106	-

E. DISPOSALS

A. FINANCIAL ASSETS ASSIGNED BUT NOT FULLY DERECOGNIZED

QUALITATIVE DISCLOSURES

The operations mainly regard the use of government securities holdings for short- and medium-term repurchase transactions and receivables from customers assigned in the Group’s securitization of its own assets.

QUANTITATIVE DISCLOSURES

E.1 FINANCIAL ASSETS ASSIGNED BUT FULLY RECOGNIZED AND ASSOCIATED FINANCIAL LIABILITIES: CARRYING AMOUNTS

	Financial assets assigned but fully recognized				Associated financial liabilities		
	Carrying amount	of which: securitized	of which: sold with agreement to repurchase	of which: impaired	Carrying amount	of which: securitized	of which: sold with agreement to repurchase
A. Financial assets held for trading	**-**	**-**	**-**	**X**	**-**	**-**	**-**
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated as at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortized cost	**772,800**	**-**	**772,800**	**-**	**825,675**	**-**	**825,675**
1. Debt securities	772,800	-	772,800	-	825,675	-	825,675
2. Loans	-	-	-	-	-	-	-
Total 31/12/2020	**772,800**	**-**	**772,800**	**-**	**825,675**	**-**	**825,675**
Total 31/12/2019	**1,020,328**	**-**	**1,020,328**	**-**	**1,048,901**	**-**	**1,048,901**

E.2 –FINANCIAL ASSETS ASSIGNED AND PARTIALLY RECOGNIZED AND ASSOCIATED FINANCIAL LIABILITIES: CARRYING AMOUNTS

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

E.3 DISPOSALS INVOLVING LIABILITIES WITH RECOURSE ONLY ON ASSIGNED ASSETS NOT DERECOGNIZED: FAIR VALUE

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

B. FINANCIAL ASSETS ASSIGNED AND DERECOGNIZED WITH RECOGNITION OF CONTINUING INVOLVEMENT

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

F. MODELS FOR MEASURING CREDIT RISK

The section has not been completed because the Bank does not use internal portfolio models for measuring its exposure to credit risk.

SECTION 2 MARKET RISKS

2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS

The term trading book refers to the portfolio consisting of positions intentionally held for subsequent short-term disposal and/or taken on to benefit from short-term differences between purchase and sales prices, or other changes in prices or interest rates. In general, the supervisory trading book is represented by the positions held under an “other” business model, namely “held for sale”, i.e. the portfolio including debt and equity securities, units in collective investment undertakings and derivatives held for trading purposes.

B. MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of market risk management within the entire Iccrea Mutual Banking Group in compliance with the principles of sound and prudent management.

As provided for under the Cohesion Contract, the Parent Company defines market risk management policies, in accordance with the strategic planning and definition of the RAF.

This role is performed through the issue of specific policies and directives and the definition and application of specific governance mechanisms that govern the various stages (definition, approval, monitoring and reporting) that characterize the management of market risks.

RISK MANAGEMENT PROCESSES

Identification of risks

Operations in financial market, especially positions in the trading book, expose the Bank to market risks and other subcategories of risk. The identification of risks is mainly carried out in the process of specifying and updating risk models and metrics for market risks, and involves the following activities:

- the specification and updating of risk metrics, i.e. the evolution by the Risk Management department of measurement and monitoring methods on the basis of developments in markets, regulations and best practice;
- the approval process, conducted before the start of operations in a new financial instrument and the associated definition of the procedures for measuring fair value and risks.

Risk measurement and assessment

Risk Management is the main actor in the processes for development and using measurement models and metrics for market risk.

Updates of the models and metrics are identified by Risk Management in the performance of its duties, including analysis of regulatory requirements, market best practices and input from the business units involved (Finance in particular).

The measurement activities performed by the Risk Management unit involve:

- verification and validation of the market and price parameters used as inputs in the front office and market risk management applications;
- verification of the quality of the identifying information of the financial instruments;
- validation of the fair value of the financial instruments held by the Group;
- oversight and validation of the production of all risk metrics.

For the purpose of calculating capital requirements for market risks, the ICBG uses the standardized approach, in compliance with the relevant supervisory measures.

At the operational level, internal models are used for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- probabilistic metrics:
    - Value at Risk (VaR) approach, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- deterministic metrics:
    - level metrics (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
    - analysis of sensitivity and Greeks, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
    - stress testing and scenario analysis, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
    - loss, which represents the negative financial performance in a specified period of time of both closed and open positions.

Probabilistic metrics

Value at Risk (VaR)

An approach based on historical simulations is used to calculate VaR, (with a sample period of 3 years, confidence level of 99% and holding period of 1 day). The model currently covers the following risk factors:

- interest rates;
- inflation rates;
- exchange rates;
- stocks and stock indices;
- interest rate volatility;
- stock price volatility.

The current model can calculate VaR both for more detailed portfolios and for larger aggregates, permitting considerable granularity in the analysis, control and management of risk profiles and the effects of diversification. The possibility for calculating VaR at multiple levels of synthesis (consistent with the operating strategies of the portfolios and the organizational hierarchy of Finance) and the ability of the model to decompose VaR into different risk determinants make it possible to create an effective system of comparable cross-risk and cross-business limits.

Deterministic metrics

Sensitivity and Greeks of options

Sensitivity measures the risk associated with changes in the theoretical value of a financial position in response to changes in a defined amount of the associated risk factors. It captures the breadth and direction of the change in the form of multiples or monetary changes in the theoretical value without explicit assumptions about the holding period or correlations between risk factors. The main sensitivity indicators currently used are:

- PV01: the change in market value in response to a change of 1 basis point in the zero-coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- IL01 (sensitivity to inflation): the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- Vega sensitivity to inflation: a change of 1 percentage point in implied volatilities on forward inflation rates;
- CR01: a change of 1 basis point in credit spreads;
- Delta: the ratio between the expected change in the price of options and a small change in the prices of the underlying financial assets;
- Delta1%: the change in market value in response to a change of 1% in equity prices;
- Delta Cash Equivalent: the product of the value of the underlying financial asset and the delta;

- Vega1%: the change in market value in response to a change of 1% in the implied volatility of equity prices/indices;
- Correlation sensitivity: the change in the market value in response to a 10% change in implied correlations.

Level metrics

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile.

The nominal position (or equivalent) is determined through the identification of:

- the notional value;
- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);
- the FX open position.

The approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements. These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures

Stress testing and scenarios

Stress tests measure the change in the value of instruments or portfolios in response to unexpected (i.e. extreme) changes in the intensity or correlation of risk factors. Scenario analyses measure the change in the value of instruments or portfolios in response to changes in risk factors in circumstances that reflect actual past situations or expectations of future developments in market variables.

Stress tests and scenario analysis are carried out by measuring the change in the theoretical value of positions in response to changes in the risk factors. The change can be calculated both through the use of linear sensitivity relationships (e.g. deltas) and through the revaluation of positions by applying the specified variations to the risk factors.

Loss

Loss is a risk metric representing the negative financial performance achieved on closed and open positions over a specified period of time.

Loss is determined by identifying, with the specified time interval:

- the component of realized profits and losses;
- the component of latent (unrealized) profits and losses calculated using the mark-to-market/mark-to-model value of open positions.

Loss is equal to the algebraic sum of the two components indicated above, if negative.

In determining loss, foreign currency positions still open are measured at the ECB end-of-day exchange rate.

The metric makes it possible to measure losses connected with the general risk profile of outstanding positions and the management of the portfolio, identifying any deterioration in the profitability of financial operations.

It is helpful in monitoring the performance of the portfolio, given the risk profile assumed, when:

- more sophisticated measurement systems are not present;
- it is impossible to capture all risk factors;
- timely control and management of limits is required.

RISK PREVENTION AND ATTENUATION

Risk Management conducts backtesting of operational measurement models on an ongoing basis. The effectiveness of the calculation model is monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. This approach makes it possible to:

- strengthen the effectiveness of the dialogue between Risk Management and the front office;
- enhance awareness of the actual performance dynamics of the portfolios;

- break down and interpret the sources and causes of daily changes in P&L;
- identify and monitor any risk factors that are not fully captured by the calculation models adopted.

In addition to the backtesting noted earlier, the effective management of market risks is ensured using a comprehensive system of limits, which is a key tool for the management, control and attenuation of risks. The development of this system, which is a key element of the Risk Management Framework, took account of the nature, objectives and operational complexity of the Group.

The overall system of market risk indicators comprises indicators included in and governed by the RAS and more strictly operational indicators set out in the risk governance policies.

The controls established to manage market risks break down into:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the market risk profile and ensure the correct activation of escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

MONITORING AND REPORTING

The second-level controls, carried out by the Market & Counterparty Monitoring & Control unit, are aimed at monitoring the Bank's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators and represents a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds.

These activities therefore perform an "ex post" control function in relation to the continuous monitoring of all indicators that signal breaches of assigned risk levels, but they also serve an "ex ante" function in signaling the approach of risk profiles towards the threshold/limit/risk propensity levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/risk limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The market risk control and monitoring activities are governed within a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.

At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In this area, Risk Management is responsible for preparing periodic reporting on the various risk factors, providing appropriate disclosure to the operating lines, senior management and the Board of Directors.

RISK MANAGEMENT AND MITIGATION

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage any irregularities;
- the actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- the actions to be taken in the event the limits specified in the risk policies are breached.

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of health emergency.

QUANTITATIVE DISCLOSURES

1. SUPERVISORY TRADING BOOK: DISTRIBUTION BY RESIDUAL MATURITY (REPRICING DATE) OF ON-BALANCE-SHEET FINANCIAL ASSETS AND LIABILITIES AND FINANCIAL DERIVATIVES

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. SUPERVISORY TRADING BOOK: DISTRIBUTION OF EXPOSURES IN EQUITY SECURITIES AND EQUITY INDICES BY MAIN COUNTRIES OF LISTING

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

3. SUPERVISORY TRADING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

With regard to market risks on the trading book, a 1-day VaR limit of €2.2 million has been established, calculated with a confidence level of 99%. The Market Risk Policy also specifies VaR limits for the different portfolios, measured using the same method. The indicator never breached the limits at either the full book or individual portfolio level.

The average VaR of the trading book was equal to €0.38 million, with a minimum of €0.13 million and a maximum of €0.92 million (on March 5, 2020).

At December 31, 2020 the VaR was equal to €0.39 million.

	Sensitivity Value (in €)	Notes
Interest Rates	16,967	Sensitivity calculated in relation to 1 bp change
Inflation Rates	8	
Credit spread	13,886	
Equity	24,753	Sensitivity calculated in relation to 1% change in share/equity index

2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of interest rate risk management for the banking book within the entire Iccrea Mutual Banking Group in compliance with the principles of sound and prudent management.

As provided for under the Cohesion Contract, the Parent Company defines interest rate risk management policies, in accordance with the strategic planning and definition of the RAF.

This role is performed through the issue of specific policies and directives and the definition and application of specific governance mechanisms that govern the various stages (definition, approval, monitoring and reporting) that characterize the management of interest rate risk on the banking book.

RISK MANAGEMENT PROCESSES

Identification of risks

The interest rate risk on the banking book is the risk originated by differences in the maturities and in the timing of the repricing of interest rates on the assets and liabilities in the banking book. In the presence of these differences, fluctuations in interest rates giver rise to both a short-term change in expected profit, through the impact on net interest income, and a long-term impact on the economic value of shareholders' equity, through the change in the market value of assets and liabilities.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, the Group identifies sources of interest rate risk to which it is exposed, classifying them in the following risk sub-categories: repricing risk, yield curve risk, basis risk, option risk and credit spread risk on banking book (CSRBB).

Risk measurement

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- current earnings approach: this seeks to assess the potential effects of adverse interest rate variations on an income variable, i.e. net interest income. In this perspective, the analysis is conducted using a dynamic "going-concern" approach, with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged, or a "dynamic balance sheet" view, developing projections for new business that are consistent with the hypotheses defined in strategic planning.
- economic value approach: this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book (economic value of equity), construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis. Under this perspective, the analysis is conducted using a static "gone concern" approach, in which we assume the run-off of positions at maturity, without any replacement or renewal, or using a dynamic approach, developing projections for new operations that are consistent with the assumptions defined during strategic planning.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.

The metrics adopted in the economic value approach to measure the sensitivity of the economic value of the banking book (ΔEVE – EVE sensitivity) are based on a full evaluation approach. The change in the expected value of the banking book is calculated using an approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time (“bucket sensitivity”).

In determining EVE, equity must be excluded from the calculation in order to measure the potential change in value of free capital following changes in the yield curves.

The metrics used in the current earnings approach to measures the sensitivity of the net interest income of the banking book (∆NII – NII sensitivity) are:

- Full revaluation: the potential impact on net interest margin of hypothetical changes in risk-free rates is calculated using a “full revaluation” method that compares, over a selected time horizon, expected prospective net interest income in the event of changes in interest rates with expected net interest income in a “base” scenario of no variations. This approach is also used to quantify the impact on net interest income of possible variations in credit spreads (CSRBBs).;
- Earnings at Risk: a metric aimed at measuring the loss of profitability due to changes in interest rates, considering, in addition to the impact on net interest income, the effects on changes in the fair value of the instruments recognized (depending on their accounting treatment) in profit or loss or directly in equity;
- Repricing gap: this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The weighting of the exposure for each time bucket for the time between the repricing date and the selected time horizon and the subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income.

The measurement scenarios applied to interest rates are intended to monitor the risk categories to which the Group may be exposed. Each can be associated with internally developed or regulatory scenarios.

- gap risk: in order to monitor this category of risk, parallel and non-parallel shocks of the risk-free yield curves are used in order to assess the impact on economic value and net interest income; in particular; in order to monitor this risk category, parallel and non-parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged for regulatory purposes, in the standard outlier test, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
- basis risk: the analysis provides for the segmentation of the banking book based on the market parameters to which the items involved are indexed and the analysis of the time series of basis spreads with respect to the pivot rate (3-month Euribor) for the purpose of determining the size of the shocks to be applied to each;
- option risk: the analysis includes a preliminary identification of the automatic/behavioral option components in the assets and liabilities of the Group banking book and the subsequent:
    - historical analysis of the observed changes in volatility, to determine the magnitude of the shocks to be applied for the purpose of quantifying the automatic option risk;
    - verification of the impact of interest rate shocks on the behavioral model parameters, for the purpose of quantifying the behavioral option risk.
- CSRBB: internally defined scenarios are used based on prudential assessments and historical analyses of the observed changes in credit spreads.

In order to monitor risk limits, parallel and non-parallel shock scenarios are adopted. To monitor the additional metrics subject to reporting requirements, scenarios involving shocks to the yield curves are also envisaged in addition to those adopted as a reference for the determination of risk limits. As part of stress testing, further scenarios are used on periodic basis to signal potential areas of weakness in the presence of particular market conditions.

Risk prevention and attenuation

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework, taking account of the nature, objectives and complexity of Group operations.

The system of limits (EWS, RAS and Risk Limits) is defined by the Parent Company in accordance with its management and coordination role and implemented through an cascading process with the subsidiaries (where applicable), in line with the risk management model adopted.

In addition to the above system of limits, a comprehensive system of arrangements and controls contributes to defining the overall control model set out and formalized in the associated policy.

The controls established to manage interest rate risk on the banking book break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the interest rate risk profile and activate escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

The controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to interest rate risk in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the operating units involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators provided for by the risk governance framework. The effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk limits established;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The interest rate risk control and monitoring activities are performed within the framework of a set of internal regulations. At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

More specifically, the Risk Management function performs monitoring and reporting activities that are codified and formalized within the Risk Appetite Framework and the risk policies, preparing periodic reports and providing appropriate disclosure to the operating units, top management and the Board of Directors.

Stress test framework

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The scenarios used in measuring the exposure to the different sources of risk and in analyzing stress tests are based on both regulatory shocks and shocks defined internally by the Group.

In accordance with regulatory provisions, the Group develops scenarios characterized by larger movements in yield curves than the shocks applied for the continuous monitoring of the IRRBB in order to test the vulnerabilities of the banking book in the presence of stress conditions.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses:

- sensitivity analysis: analysis of the exposure to the IRRBB and the CSRBB with respect to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result;
- scenario analysis: analysis consisting in the assessment of the Group's ability to cope with a potential increase in its exposure to IRRBB and CSRBB based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

The identification of risk categories is a starting point and a linkage among the main strategic processes to manage risk management (Risk Appetite Framework, Internal Capital Equity Assessment Process, Contingency & Recovery Plan) and is aimed at limiting the set of risk factors/parameters for which stress scenarios are developed.

For each of the risk categories identified it is possible to define the associated risk factor(s), understood as an exogenous variable whose shock can have a negative impact on the economic value of the banking book and/or on the associated net interest income, in terms of smaller-than-expected loss or profit. In this perspective, the identification of risk factors is a preliminary phase in the definition of the shocks associated with stress scenarios.

All the stress scenarios adopted are generally calibrated using the historical simulation approach, based on prudential percentiles of the empirical distributions associated with the various risk parameters, using expert-based adjustments where appropriate in order to integrate forward-looking elements that are not present in the available historical data. To these scenarios, we add “purely” historical scenarios (i.e. without calculating a percentile of the historical empirical distribution), scenarios defined on a judgmental basis and scenarios provided by external sources (e.g. EBA Stress Test scenario).

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of health emergency.

QUANTITATIVE DISCLOSURES

1. BANKING BOOK: DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY (REPRICING DATE)

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. BANKING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

The interest rate risk on the banking book used for management purposes with regard to sensitivity indicators for economic value and net interest income at December 31, 2020 is reported below.

€/millions	Scenario	
	-100 bp	+100 bp
Impact on economic value	- 18	+ 46
Impact on net interest income	+ 1	+ 38

2.3 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF EXCHANGE RATE RISK

The exchange rate risk management strategy (the FX risk factor) is based on the analysis of market developments and the different currencies in which operations are denominated.

The strategy is differentiated in accordance with the type of operations:

- for major currencies (hard currencies), operators, based on the analysis of economic, macroeconomic and money management data, manage operations both to optimize existing positions and generate a profit;
- for minor currencies (local currencies), exchange rate risk is managed with a view to the total minimization of risks, except in unusual macroeconomic situations, by reducing exposures exceeding the thresholds defined with market operations of the opposite sign.

Trading is carried out on the foreign exchange and foreign exchange derivatives markets both through spot trading and through the management of short/medium-term forward positions (outright operations). The strategy of the desk is therefore aimed at intraday/multiday transactions in order to generate profit from movements in the spot foreign exchange market. Forex swaps are used to engage in forward operations, based on expectations for interest rates and exchange rates, so as to generate a profit from maintaining open short/medium-term positions in foreign currency. Based on its own analyzes, the desk also seeks to improve its profitability by taking positions in options on exchange rates.

All operations are based on techniques and methods defined and agreed at the desk level, based on operating limits assigned to the managers and operational staff that are consistent with the provisions of the risk policies.

B. HEDGING EXCHANGE RATE RISK

Operations are mainly concentrated in major currencies. The Bank adopts a system of daily operating limits on the overall foreign exchange exposure, as well as the net foreign exchange positions in respect of individual currencies. The overall limit is segmented into partial ceilings on the basis of the importance of the various currencies.

QUANTITATIVE DISCLOSURES

3. DISTRIBUTION BY CURRENCY OF ASSETS, LIABILITIES AND DERIVATIVES

	Currencies					
	USD	GBP	JPY	CAD	CHF	OTHER
A. Financial assets	**113,092**	**8,784**	**8,516**	**3,939**	**23,960**	**8,642**
A.1 Debt securities	30,703	172				808
A.2 Equity securities	18,101	4,374	50		-	
A.3 Loans to banks	53,729	4,238	8,467	3,939	23,960	7,834
A.4 Loans to customers	10,559	-				
A.5 Other financial assets						
B. Other assets	**7,116**	**4,373**	**667**	**788**	**5,194**	**1,523**
C. Financial liabilities	**198,242**	**12,705**	**8,938**	**4,760**	**29,257**	**9,188**
C.1 Due to banks	170,912	12,705	8,917	4,760	29,257	9,143
C.2 Due to customers	211		21			44
C.3 Debt securities	27,118					
C.4 Other financial liabilities						
D. Other liabilities	**178**					**1**
E. Financial derivatives						
- Options						
+ Long position						
+ Short positions						
- Other derivatives						
+ Long positions	6,568,661	1,377,557	1,366,679	256,162	757,313	317,830
+ Short positions	6,488,917	1,377,639	1,366,809	256,075	757,239	318,843
Total assets	**6,688,869**	**1,390,714**	**1,375,862**	**260,890**	**786,468**	**327,995**
Total liabilities	**6,687,338**	**1,390,344**	**1,375,747**	**260,835**	**786,495**	**328,032**
Difference (+/-)	**1,531**	**370**	**115**	**54**	**(28)**	**(37)**

4. INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODS

There is no information to report.

SECTION 3 DERIVATIVES AND HEDGING POLICIES

3.1 FINANCIAL DERIVATIVES HELD FOR TRADING

A. FINANCIAL DERIVATIVES

A.1 FINANCIAL DERIVATIVES HELD FOR TRADING: END-PERIOD NOTIONAL VALUES

	Total 31/12/2020				Total 31/12/2019			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	Without central counterparties: Covered by netting arrangements	Without central counterparties: Not covered by netting arrangements		Central counterparties	Without central counterparties: Covered by netting arrangements	Without central counterparties: Not covered by netting arrangements	
1. Debt securities and interest rates	-	12,199,750	1,546,874	-	-	11,148,908	1,261,997	-
a) Options	-	1,877,080	324,107	-	-	1,260,158	383,621	-
b) Swaps	-	10,277,870	1,057,742	-	-	9,888,750	870,505	-
c) Forwards	-	-	165,024	-	-	-	2,171	-
d) Futures	-	44,800	-	-	-	-	5,700	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	-	4,922	4,211	-	-	496	9,325	-
a) Options	-	4,369	-	-	-	496	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	4,211	-	-	-	8,332	-
d) Futures	-	553	-	-	-	-	993	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign currencies and gold	-	13,062,486	723,098	-	-	7,494,404	429,630	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	3,564	3,564	-	-	7,431	7,431	-
c) Forwards	-	13,058,922	719,534	-	-	7,486,973	422,199	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other underlyings	-	-	-	-	-	-	-	-
Total	**-**	**25,267,158**	**2,274,183**	**-**	**-**	**18,643,808**	**1,700,953**	**-**

A.2 FINANCIAL DERIVATIVES HELD FOR TRADING: GROSS POSITIVE AND NEGATIVE FAIR VALUE – BREAKDOWN BY PRODUCT

	31/12/2020				31/12/2019			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
	Central counterparties	Covered by netting arrangements	Not covered by netting arrangements	Organized markets	Central counterparties	Covered by netting arrangements	Not covered by netting arrangements	Organized markets
1. Positive fair value								
a) Options	-	21,428	53	-	-	9,877	71	-
b) Interest rate swaps	-	368,465	50,707	-	-	295,339	47,586	-
c) Cross currency swaps	-	73	-	-	-	714	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	131,811	79	-	-	47,826	33	-
f) Futures	-	56	-	-	-	-	36	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**521,834**	**50,840**	**-**	**-**	**353,756**	**47,726**	**-**
2. Negative fair value								
a) Options	-	21,678	436	-	-	9,381	1,000	-
b) Interest rate swaps	-	413,924	46	-	-	342,856	74	-
c) Cross currency swaps	-	-	73	-	-	-	711	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	109,781	22,079	-	-	42,173	5,384	-
f) Futures	-	62	-	-	-	-	4	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**545,446**	**22,635**	**-**	**-**	**394,410**	**7,172**	**-**

A.3 OVER-THE-COUNTER FINANCIAL DERIVATIVES HELD FOR TRADING: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY

	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	X	1,478,990	14,612	53,273
- positive fair value	X	50,824	-	-
- negative fair value	X	517	7	14
2) Equity securities and equity indices				
- notional value	X	-	4,211	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Foreign currencies and gold				
- notional value	X	4,083	719,015	-
- positive fair value	X	15	-	-
- negative fair value	X	73	22,024	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other assets				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	-	11,725,659	474,091	-
- positive fair value	-	386,130	3,656	-
- negative fair value	-	410,149	25,513	-
2) Equity securities and equity indices				
- notional value	-	4,427	-	496
- positive fair value	-	161	-	2
- negative fair value	-	3	-	-
3) Foreign currencies and gold				
- notional value	-	13,037,223	25,263	-
- positive fair value	-	131,884	-	-
- negative fair value	-	109,016	765	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other assets				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 RESIDUAL LIFE OF OVER-THE-COUNTER FINANCIAL DERIVATIVES: NOTIONAL VALUES

	Up to 1 year	More than 1 year and up to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	4,881,907	3,496,421	5,368,297	13,746,624
A.2 Financial derivatives on equity securities and equity indices	6,912	500	1,722	9,134
A.3 Financial derivatives on exchange rates and gold	13,785,461	122	-	13,785,584
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2020	**18,674,280**	**3,497,043**	**5,370,019**	**27,541,342**
Total 31/12/2019	**11,279,300**	**3,483,291**	**5,582,170**	**20,344,760**

B. CREDIT DERIVATIVES

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

3.2 HEDGE ACCOUNTING

QUALITATIVE DISCLOSURES

For the purposes of hedge accounting, Iccrea Banca, Parent Company of the ICBG, applies the provisions contained in IAS 39 since at the time of initial application of IFRS 9 it elected the option provided for in paragraph 7.2.21 of that standard to continue to apply in full the rules of IAS 39 for all types of hedging (micro and macro).

The hedge contracts are transacted on the basis of the provisions of specific company policies and mainly used to manage interest rate risk on the banking book arising from the normal business operations of the individual banks and the Parent Company, pursuing the objective of reducing the risk profile within the limits of the Risk Appetite Framework as defined and quantified by the competent bodies. These limits concern the exposure of the Bank both in terms of net interest income sensitivity and economic value sensitivity.

The life cycle of a hedge accounting relationship starts with the so-called “designation” phase. With the designation of the hedging relationship, the company declares the methods and the instruments through which it intends to implement the hedging strategy, as defined by the manager of the risk being hedged, as well as the methods of measuring the effectiveness of the hedge. This phase is the responsibility of the manager of the risk being hedged, who draws on the technical functions involved in the hedge accounting process defined in the associated policy.

Once a hedging relationship has been designated, it must be demonstrated that the hedge is highly effective in offsetting fair value changes or stabilizing the cash flows attributable to the hedged risk during the period for which the hedge is designated.

The effectiveness of the hedge is demonstrated at the inception date and measured at the periodic reporting dates (March 31, June 30, September 30 and December 31), as well as on a monthly basis for internal transaction monitoring purposes.

The effectiveness of the hedge is measured by conducting so-called effectiveness tests (prospective and retrospective) based on both qualitative and quantitative methods, complying with the criterion of continuity. A hedging relationship is considered effective if at each measurement date both tests (prospective and retrospective) are passed. The failure of the effectiveness test(s) should result in the discontinuance of the hedging relationship, i.e. the termination of hedge accounting.

A. FAIR VALUE HEDGING

Fair value hedging is used to immunize changes in the fair value, attributable to the different risk factors, of assets and liabilities or portions of them, of groups of assets/liabilities, of irrevocable commitments and portfolios of financial assets and liabilities.

Iccrea Banca adopts both specific hedges (micro fair value hedges) and generic hedges (macro fair value hedges). These hedges therefore apply both to well-identified financial instruments (government securities – both fixed rate and indexed to European and Italian inflation – deposits, bond issues, loans and other financing) and to portfolios of fixed-rate financial instruments (securities holdings).

Within the scope of micro fair value hedging, hedges are mainly used for securities holdings, bonds issued and one hedge of a loan granted to a subsidiary, while macro hedging is applied to a portfolio of corporate securities.

The main types of derivatives used are represented by plain or structured interest rate swaps (IRS), asset and yield swaps (ASW), overnight index swaps (OIS) and options on interest rates entered into with third parties. These derivatives are not listed on regulated markets, but are traded on OTC markets.

The effects of designating the hedging relationship begin at the inception of the hedge with the identification of the portion and the type of hedged risk, the hedging strategy and the hedging instrument in accordance with the principles the Group has established concerning the methodology used to assess the effectiveness of the hedging relationship.

B. CASH FLOW HEDGING

Cash flow hedging seeks to hedge the exposure to the variability of future cash flows attributable to particular risks associated with balance sheet items or highly probable forecast transactions or to hedge exchange rate risk.

Iccrea Banca adopts specific hedges (micro cash flow hedges) mainly to transform fixed-rate funding denominated in foreign currency (specifically, US dollars) into fixed-rate funding in euros. The stabilization intent is substantiated by establishing the funding conditions with regard to both the level of exchange rates and the synthetic flow of interest payments obtained through the hedge.

We have also established micro CFHs in place as at December 31, 2020 of the (a) US dollar-denominated "Italian Republic USD, b) inflation-linked BTPs, c) CCTs and d) the forward sale of securities through a combination of bond options.

The derivatives used are interest rate swaps (IRS) for euro-denominated hedges and CCSs for US dollar-denominated hedges not listed on regulated markets, transacted with third party counterparties on OTC markets.

C. HEDGING OF INVESTMENTS IN FOREIGN OPERATIONS

In 2020, there were no hedges of exchange rate risk on foreign currency transactions.

D. HEDGING INSTRUMENTS

Designated hedging transactions, with formal documentation identifying the relationship between the hedged instrument and the hedging instrument, are considered effective if at inception and for the entire duration of the hedging relationship changes in the fair value or the cash flows of the hedged instrument are almost completely offset by changes in the fair value or cash flows of the hedging derivative. The effectiveness of the hedge depends on the extent to which the changes in the fair value of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is quantified by comparing the aforementioned changes, taking account of the intent pursued by the company at the time the hedge was established.

A hedge is effective when the changes in the fair value (or cash flows) of the hedging instrument almost entirely, i.e. within the specified limits, offset the changes in the hedged instrument for the risk being hedged.

Effectiveness is assessed at each annual or interim reporting date using:

- prospective tests aimed at demonstrating that changes in the fair value or cash flows of the hedging instrument attributable to the hedged risk will be such as to offset changes in the fair value or cash flows of the hedged item. They are performed adopting both qualitative (Critical Term Match) and quantitative methods ("cumulative scenario method" or "linear regression method with curve simulation");
- retrospective tests aimed at measuring the actual effectiveness of the hedging relationship between the date of designation and the test date, determining the deviation of hedging relationships from the result that would be achieved with a perfect hedge. These tests are performed using quantitative methods, i.e. the dollar offset method and the volatility risk reduction method.

The main causes of ineffectiveness are attributable to the following:

- a misalignment between the notional of the derivative and the nominal of the hedged instrument at the time of the initial designation or generated subsequently, as in the case of the repurchase of bonds;
- the approach of the expiry of the transaction.

The ineffectiveness of the hedge is recognized promptly for the purposes of:

- determining the impact on profit or loss;
- assessing the possibility of continuing to apply hedge accounting rules.

If the assessments do not confirm the effectiveness of the hedge, the relationship considered terminated as of the last date from which the relationship was shown to be effective. This date coincides with the beginning of the period in which the effectiveness test was failed. However, if the event or the circumstances that led to the hedging relationship no longer meeting the criteria for effectiveness are identified and it is shown that the hedge was effective before the event or change in the circumstances occurred, hedge accounting is discontinued from the date of the event or change in those circumstances. The hedging derivative, if not extinguished, may be designated as a hedging instrument in another relationship that meets the relevant or be reclassified as a trading instrument.

The Bank does not use dynamic hedges, as defined in IFRS 7, paragraph 23C.

E. HEDGED ITEMS

Hedged items designated as being in a hedge accounting relationship using micro and macro hedges are mainly government securities, corporate securities, bond issues and a loan to a company within the direct scope of consolidation.

These hedges are both total and partial and the hedged risk is mainly interest rate risk.

Debt securities held

These are hedged using micro fair value hedges and macro fair value hedges involving IRSs, ASWs and OISs as hedging instruments. Where present, interest rate and inflation risk are hedged for the duration of the obligation. The effectiveness tests are carried out using the dollar offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

Debt securities issued

Iccrea Banca currently has active micro fair value hedging relationships for fixed-rate or structured funding and micro cash flow hedges for funding denominated in foreign currency, using IRSs and CCSs, respectively, as hedging instruments. Interest rate risk, and exchange rate risk for foreign currency funding, is hedged for the duration of the obligation. The effectiveness tests are carried out using hypothetical derivative approach within the dollar offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

Fixed-rate loans

Iccrea Banca has designated a micro fair value hedge of a fixed-rate loan to a company within the direct scope of consolidation, mainly using IRSs and OISs as hedging instruments. The interest rate risk is hedged for the entire term of the hedged item. For micro-type hedges, the effectiveness tests are carried out using the dollar-offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

IFRS 7 DISCLOSURES ON THE INTEREST RATE BENCHMARK REFORM

Following up on the regulatory framework defined by Regulation (EU) 2016/1011 of the European Parliament and of the Council of June 8, 2016 (the Benchmarks Regulation, BMR), the European Commission issued Regulation (EU) 2020/34 amending IFRS 9, IAS 39 and IFRS 7. These changes introduce provisions aimed at taking account of and underscoring the consequences of the reform of interest rate benchmarks for financial reporting. They also seek to enable allowing companies to continue with the correct application of hedge accounting rules, assuming that the benchmark indices for determining existing interest rates are not changed as a result of the reform of interbank rates.

These disclosures must be provided in particular in the period preceding the replacement of an interest rate benchmark with an alternative reference rate.

The information required by paragraph 24 H of IFRS 7 is provided below:

f) the significant interest rate benchmarks to which the entity's hedging relationships are exposed:

Hedge type	Benchmark
Hedge of loans to customers	1, 3 and 6 month EURIBOR
Hedge of securities holdings	3 and 6 month EURIBOR
Hedge of bonds issued	3 and 6 month EURIBOR

g) the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;

Hedge type	Nominal amount of hedging derivatives
Hedge of loans to customers	12,204
Hedge of securities holdings	116,892
Hedge of bonds issued	4,799,302
Total	**4,928,398**

h) for more on how the Parent Company is managing the transition process, please Part A "Accounting Policies";

i) for more on the Parent Company's direct management of the transition process and on transition activities planned or under way with regard to transactions in OTC derivatives involved in services provided to the affiliated banks, please see Part A "Accounting Policies";

j) the nominal amount of the hedging instruments in those hedging relationships is as follows:

Hedge type	Nominal amount of hedging derivatives
Hedge of loans to customers	12,204
Hedge of securities holdings	116,892
Hedge of bonds issued	4,799,302
Total	**4,928,398**

QUANTITATIVE DISCLOSURES

A. FINANCIAL HEDGING DERIVATIVES

A.1 FINANCIAL HEDGING DERIVATIVES: END-PERIOD NOTIONAL VALUES

	Total 31/12/2020				Total 31/12/2019			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		Covered by netting arrangements	Not covered by netting arrangements			Covered by netting arrangements	Not covered by netting arrangements	
1. Debt securities and interest rates	**-**	**4,939,302**	**-**	**-**	**-**	**4,235,810**	**-**	**-**
a) Options	-	397,600	-	-	-	-	-	-
b) Swaps	-	4,541,702	-	-	-	4,235,810	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign currencies and gold	**-**	**52,651**	**-**	**-**	**-**	**44,508**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	52,651	-	-	-	44,508	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**4,991,953**	**-**	**-**	**-**	**4,280,318**	**-**	**-**

A.2 FINANCIAL HEDGING DERIVATIVES: GROSS POSITIVE AND NEGATIVE FAIR VALUE - BREAKDOWN BY PRODUCT

	Positive and negative fair value								Change in value used to calculate hedge effectiveness	
	Total 31/12/2020				Total 31/12/2019					
	Over the counter			Organized markets	Over the counter			Organized markets	Total 31/12/2020	Total 31/12/2019
		Without central counterparties				Without central counterparties				
	Central counterparties	Covered by netting arrangements	Not covered by netting arrangements		Central counterparties	Covered by netting arrangements	Not covered by netting arrangements			
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	7,256	-	-	-	31,685	-	-	-	-
c) Cross currency swaps	-	1,455	-	-	-	203	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**8,710**	**-**	**-**	**-**	**31,888**	**-**	**-**	**-**	**-**
Negative fair value										
a) Options	-	12,813	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	157,635	-	-	-	145,111	-	-	-	-
c) Cross currency swaps	-	3,374	-	-	-	334	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
Positive fair value	-	-	-	-	-	-	-	-	-	-
Total	**-**	**173,821**	**-**	**-**	**-**	**145,445**	**-**	**-**	**-**	**-**

A.3 OVER-THE-COUNTER FINANCIAL HEDGING DERIVATIVES : NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY

	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity securities and equity indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Foreign currencies and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Other assets				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	-	4,197,561	741,742	-
- positive fair value	-	7,256	-	-
- negative fair value	-	144,024	26,994	-
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	52,651	-	-
- positive fair value	-	1,455	-	-
- negative fair value	-	2,803	-	-
4) Other assets				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 RESIDUAL LIFE OF OVER-THE-COUNTER FINANCIAL DERIVATIVES: NOTIONAL VALUES

	up to 1 year	more than 1 year and up to 5 years	more than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	2,621,927	1,090,226	1,227,150	4,939,302
A.2 Financial derivatives on equity securities and equity indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	28,523	24,128	-	52,651
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2020	**2,650,449**	**1,114,354**	**1,227,150**	**4,991,953**
Total 31/12/2019	**2,017,600**	**641,924**	**1,620,794**	**4,280,318**

B. HEDGING CREDIT DERIVATIVES

The section has not been completed because there are no such positions.

C. -DERIVATIVE HEDGING INSTRUMENTS

The section has not been completed because the Bank has exercised the option provided for in paragraph 7.2.21 of IFRS 9 to continue applying the provisions on hedge accounting envisaged by IAS 39

D. HEDGED ITEMS

D.1 FAIR VALUE HEDGES

	Micro hedges: carrying amount	Micro hedges – net positions: carrying amount of assets or liabilities (before netting)	Micro hedges			Macro hedges: carrying amount
			Cumulative value of fair value changes of the hedged instrument	Discontinuance of hedge: cumulative value of residual changes in fair value	Change in value used to calculate hedge effectiveness	
A. ASSETS						
1. Financial assets measured a fair value through other comprehensive income – hedges of:	**1,450**	**-**	**66**	**-**	**-**	**41,700**
1.1 Debt securities and interest rates	1,450	-	66	-	-	x
1.2 Equity securities and equity indices	-	-	-	-	-	x
1.3 Foreign currencies and gold	-	-	-	-	-	x
1.4 Loans	-	-	-	-	-	x
1.5 Other assets	-	-	-	-	-	x
2. Financial assets measured at amortized cost – hedges of:	**4,251,764**	**-**	**118,277**	**-**	**-**	**-**
1.1 Debt securities and interest rates	4,251,764	-	118,277	-	-	x
1.2 Equity securities and equity indices	-	-	-	-	-	x
1.3 Foreign currencies and gold	-	-	-	-	-	x
1.4 Loans	-	-	-	-	-	x
1.5 Other assets	-	-	-	-	-	x
Total 31/12/2020	**4,253,214**	**-**	**118,343**	**-**	**-**	**41,700**
Total 31/12/2019	**3,211,188**	**3,211,188**	**76,949**	**-**	**-**	**45,700**
B. LIABILITIES						
1. Financial liabilities measured at amortized cost – hedges of:	**88,551**	**-**	**(2,679)**	**-**	**-**	**-**
1.1 Debt securities and interest rates	88,551	-	(2,679)	-	-	x
1.2 Foreign currencies and gold	-	-	-	-	-	x
1.3 Other assets	-	-	-	-	-	x
Total 31/12/2020	**88,551**	**-**	**(2,679)**	**-**	**-**	**-**
Total 31/12/2019	**696,078**	**696,078**	**(3,112)**	**-**	**-**	**-**

D.2 CASH FLOW HEDGES AND HEDGES OF INVESTMENTS IN FOREIGN OPERATIONS

		Change in value used to calculate hedge effectiveness	Hedge reserves	Discontinuance of hedge: cumulative value of hedge reserves
A. CASH FLOW HEDGES				
1. Assets		-	-	-
1.1 Debt securities and interest rates			-	-
1.2 Equity securities and equity indices			-	-
1.3 Foreign currencies and gold			-	-
1.4 Loans		-	-	-
1.5 Other			-	-
2. Liabilities		(2,756)	(9,692)	-
1.1 Debt securities and interest rates		(2,756)	(9,692)	-
1.2 Foreign currencies and gold		-	-	-
1.3 Other		-	-	-
Total A	**31/12/2020**	**1,034**	**311**	**-**
Total A	**31/12/2019**	**1,034**	**311**	**-**
B. HEDGES OF INVESTMENTS IN FOREIGN OPERATIONS		**X**	**-**	**-**
Total A+B	**31/12/2020**	**(2,756)**	**(9,692)**	**-**
Total A+B	**31/12/2019**	**1,034**	**311**	**-**

E. EFFECTS OF HEDGING TRANSACTIONS IN EQUITY

E.1 - RECONCILIATION OF EQUITY COMPONENTS

	Reserve from cash flow hedges					Reserve from hedge of investments in foreign operations				
	Debt securities and interest rates	Equity securities and equity indices	Foreign currencies and gold	Loans	Other	Debt securities and interest rates	Equity securities and equity indices	Foreign currencies and gold	Loans	Other
Opening balance	**311**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Fair value changes (effective portion)	(11,997)	-	-	-	-	-	-	-	-	-
Reversal to profit or loss	1,994	-	-	-	-	-	-	-	-	-
of which: forecast transactions no longer expected	-	-	-	-	-	X	X	X	X	X
Other changes	-	-	-	-	-	-	-	-	-	-
of which: transfers to initial carrying amount of hedged instruments	-	-	-	-	-	X	X	X	X	X
Closing balance	**(9,692)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

3.3 OTHER INFORMATION ON TRADING AND HEDGING DERIVATIVES

A. FINANCIAL AND CREDIT DERIVATIVES

A.1 OVER-THE-COUNTER FINANCIAL AND CREDIT DERIVATIVES: NET FAIR VALUE BY COUNTERPARTY

	Central counterparties	Banks	Other financial companies	Other
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	-	5,266,040	-	-
- positive fair value	-	949	-	-
- negative fair value	-	279,604	-	-
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5)Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
B. Credit derivatives				
1) Purchases of protection				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Sales of protection				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

SECTION 4 - LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

Iccrea Banca, in its capacity as the Parent Company of the ICBG, is responsible for the management, coordination and control of liquidity risk management within the entire Iccrea Mutual Banking Group in compliance with the principles of sound and prudent management.

As provided for under the Cohesion Contract, the Parent Company defines liquidity risk management policies, in accordance with the strategic planning and definition of the RAF.

In exercising this role, the Parent Company determines the governance model and mechanisms that govern the various stages involved in the management of liquidity and oversight of the associated risks, as well as interactions between business and control units in order to ensure an appropriate level of liquidity at the consolidated and individual levels at the intraday, short and medium/long-term time horizons.

RISK MANAGEMENT PROCESSES

Liquidity risk is identified and monitored using the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Bank and market conditions.

Identification of risks

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- operational liquidity – divided into two complementary levels:
  - intraday and very short-term liquidity*:* monitored on a daily basis in order to identify sources of risk that impact the Bank's ability to promptly balance very short-term cash inflows and outflows and maintain a volume of liquidity sufficient to ensure compliance with the liquidity coverage ratio (LCR) requirement;
  - short-term liquidity: identification of sources of risk that impact the Bank's ability to meet its expected and unexpected payment obligations over a short-term horizon (up to 12 months);
- structural liquidity - identification of structural mismatches between assets and liabilities maturing at more than 1 year and integration with short-term liquidity management as well as planning of actions and preventing the future creation of short-term liquidity shortfalls.

The Bank's liquidity profile, and therefore its exposure to liquidity risk, is closely related to the business model adopted, the composition of the balance sheet - in terms of assets, liabilities and off-balance sheet items - as well as the related maturity profile.

The process of identifying and classifying the risk factors connected with the operational and structural liquidity profiles seeks to define the elements that, in terms of risk exposure, could trigger a deterioration in the liquidity position when endogenous and/or exogenous stress events occur.

Liquidity risk can be generated by various factors both internal and external to the Bank. The sources of liquidity risk can therefore be divided into the following macro-categories:

- endogenous: represented by adverse events specific to the Bank (e.g. a deterioration in the Bank's credit standing and loss of confidence by creditors);
- exogenous: when the origin of the risk is attributable to adverse events that cannot be directly controlled by the Bank (political crises, financial crises, catastrophic events, etc.) that give rise to liquidity tensions in the markets;
- combinations of the previous factors.

Measurement of risks

Measuring liquidity risk involves the activities performed to observe and quantify on a comprehensive, accurate and timely basis the exposure to such risk over the selected observation horizon.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder in order to:

- monitor the risk profile in "business as usual" conditions, overseeing the overall system of indicators that characterize the Liquidity Risk Framework;
- execute stress testing, which involves the determination of the liquidity position in severe but plausible adverse scenarios, assessing the impact at the consolidated and individual levels.

The risk position is measured with the use of models, specific indicators and additional metrics developed either internally or established in regulations.

The analysis of the maturity profiles depends substantially on assumptions about the future cash flows associated with the various assets and liabilities, both on-balance-sheet and off-balance-sheet, which take account of the economic maturities of the balance sheet elements rather than contractual dates, without neglecting the application of reasonable prudence criteria.

The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, two maturity curves are developed: operational and structural.

The operational maturity ladder is used to monitor the short-term liquidity position and is determined both in a business-as-usual scenario and in a stress scenario by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines.

The intraday liquidity position is measured with metrics aimed at monitoring the maximum use of liquidity on an intraday basis, the reserves available at the beginning of each business day to meet liquidity requirements, gross payments sent and received and "time-specific" obligations.

The treasury position is measured on a daily basis by quantifying the liquidity reserves (i.e. counterbalancing capacity, or CBC) and using them to cover any possible negative liquidity balance over the reference time horizon.

This system for monitoring operational liquidity makes it possible to monitor:

- management of access to the payments system (operational liquidity management);
- management of the liquidity outflow profile;
- the size and degree of use of liquidity reserves (analysis and active management of the maturity ladder);
- the active management of collateral (cash-collateral management, i.e. refinanceable securities and bank loans);
- the integration of short-term liquidity management actions with structural liquidity requirements.

The structural maturity ladder is used to monitor the overall liquidity position, both at short and medium/long-term. It is determined by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines. The projection of cash inflows and outflows at the various time bands in the ladder is carried out using two distinct approaches in relation to the purpose of the analysis.

- The first approach identifies cash flows based on the contractual maturities of the items considered;
- The second approach is based on the adoption of behavioral assumptions, with specific regard to the modeling of demand items and margins on the credit lines granted in both a business-as-usual scenario and in a stress scenario.

This tool is essential for obtaining a view of funding requirements and an understanding of the liquidity risk associated with execution of the funding plan, thereby preventing the emergence of future liquidity strains. In addition, the structural maturity ladder makes it possible to control:

- the management of maturity transformation in accordance with the guidelines established by management;
- support for the funding decisions in the funding plan.

Risk prevention and attenuation

Liquidity risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the Liquidity Risk Framework. The definition of this system took account of the nature, objectives and complexity of operations.

The system of limits (RAS, risk limits and contingencies) is defined by the Parent Company consistent with its policy-setting and coordination role and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the liquidity risk management model adopted.

The system of limits is also accompanied by a comprehensive system of systems and controls that contribute to defining the overall control model set out and formalized in the associated policy.

The controls established to manage liquidity risk break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the liquidity profile and activate escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

Control activities are carried out by the Risk Management function and are intended to monitor the exposure to liquidity risk in order to prepare reports for transmission to the competent units and to initiate the escalation mechanisms should the specified limits be exceeded. Control activities is based on the assessment and measurement of the risk profile with respect to the risk indicators established by the Risk Governance framework and are an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/risk limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

Liquidity risk control and monitoring activities are carried out within the internal self-regulatory framework. At an operational level, communication between the management functions and Risk Management takes place daily through in-depth discussions on risk developments that increase awareness of the profiles of the risks assumed (in accordance with the specified profitability objectives), thus facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In particular, Risk Management performs codified and formalized monitoring and reporting activities within the Risk Appetite Framework and the Risk Policies, with the preparation of periodic reporting to provide appropriate disclosure to the management functions, senior management and the Board of Directors.

Stress test framework

The liquidity position is monitored in the normal course of business and under stress conditions. For the latter, a stress test framework has been defined on the basis of the indicators that characterize the Liquidity Risk Framework.

The stress test analyses are used to measure the degree to which the liquidity position can deteriorate in the event of especially adverse market conditions, thereby enabling verification of its robustness.

Accordingly, the objectives of the stress testing are:

- to verify the capacity to cope with unexpected liquidity crises in the first period in which they occur, before activating initiatives to modify the structure of assets or liabilities;
- to assess vulnerabilities in the liquidity profile, evaluating possible connections between the various risk categories as part of the periodic monitoring process;
- to calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits enables the maintenance of a level of liquidity that ensures that any coverage actions do not compromise business strategies;
- to identify, in preparing the recovery plan, scenarios that would compromise the survival of the Bank if appropriate recovery actions were not taken;
- to test the effectiveness of mitigation actions taken within the Contingency Funding & Recovery Plan and recovery actions provided for in the "near-default" scenarios to be taken in adverse situations in order to limit the exposure to liquidity risk;
- verify the feasibility of the funding plan, taking due account of the findings of the stress analysis.

In accordance with regulatory provisions, the Bank develops scenarios characterized by stress scenarios associated with the occurrence of systemic or idiosyncratic events in order to test potential liquidity vulnerabilities.

In line with the applicable regulatory guidelines, various types of mutually complementary analyses have been adopted:

- sensitivity analysis: analysis of liquidity position to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- scenario analysis: analysis consisting in the assessment of the Bank's ability to cope with a potential deterioration in its liquidity profile based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

The types of stress test that characterize the framework provide for the occurrence of sever but plausible events (scenarios) that can be classified into three categories:

- stress scenarios caused by a systemic event, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy and therefore for the Bank;
- stress scenarios caused by specific events (idiosyncratic), i.e. an event (or combination of events) whose occurrence generates/involves highly adverse consequences for the Bank. In defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Bank;
- stress scenarios generated by a combination of specific and systemic events, i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimated inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Bank to cope with any liquidity strains.

Shocks generated by the main risk variables have been incorporated for each scenario, identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

The stress scenarios do not take account of the effects of exchanges rates on currencies, as exchange rate risk is assumed to be negligible and/or essentially offset.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of asset to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of health emergency.

QUANTITATIVE DISCLOSURES

1. DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY

EURO

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Unspecified maturity
On-balance-sheet assets	**2,281,749**	**1,995,860**	**1,019,280**	**573,759**	**3,468,369**	**1,679,178**	**2,807,139**	**25,378,743**	**5,073,511**	**3,858,522**
A.1 Government securities	-	-	1,100	19,844	72,413	429,261	364,794	6,475,487	2,392,523	-
A.2 Other debt securities	1	-	2,001	5,181	12,644	27,164	25,011	216,405	481,525	-
A.3 Units in collective investment undertakings	332,851	-	-	-	-	-	-	-	-	-
A.4 Loans	1,948,897	1,995,860	1,016,179	548,734	3,383,311	1,222,753	2,417,334	18,686,851	2,199,463	3,858,522
- banks	1,417,227	1,723,623	984,502	481,701	1,877,914	835,816	1,742,778	17,802,608	2,035,226	3,858,522
- customers	531,671	272,237	31,677	67,033	1,505,397	386,938	674,556	884,242	164,237	-
On-balance-sheet liabilities	**11,370,182**	**4,185,869**	**34,019**	**86,971**	**3,209,410**	**2,068,802**	**2,325,783**	**23,437,274**	**1,345,106**	**-**
B.1 Deposits and current accounts	10,780,896	-	34,005	75,623	876,664	228,578	1,184,967	1,640,750	139,700	-
- banks	9,894,611	-	34,005	20,609	876,745	228,578	1,184,967	1,640,750	139,700	-
- customers	886,285	-	-	55,014	(80)	-	-	-	-	-
B.2 Debt securities	1,272	-	-	11,323	672,509	256,784	781,822	2,093,763	399,650	-
B.3 Other liabilities	588,014	4,185,869	14	25	1,660,237	1,583,440	358,994	19,702,761	805,756	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	2,260	1,695,281	1,252,491	567,448	1,413,311	13,472	11,857	206,836	993,229	-
- short positions	552	1,693,141	934,484	566,925	1,382,701	14,508	40,001	347,912	1,256,542	-
C.2 Financial derivatives without exchange of principal										
- long positions	538,685	-	96	-	1,694	6,401	6,199	-	-	-
- short positions	534,664	48	-	16	7,418	9,564	20,707	-	-	-
C.3 Deposits and loans to receive										
- long positions	-	4,421,805	-	412,502	626,453	2,809,091	3,594,370	2,825,145	-	-
- short positions	-	500,221	263,731	281,031	1,079,396	2,102,328	5,604,585	4,858,073	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	-	181,730	-	-	730,065	157,615	-	-	-	-
- short positions	-	181,730	-	-	-	589,444	298,235	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

OTHER CURRENCIES

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years		More than 5 years	Unspecified maturity
On-balance-sheet assets	**46,336**	**3,038**	**6,997**	**19,811**	**20,244**	**17,782**	**1,251**	**25,755**		**1,702**	**-**
A.1 Government securities	-	-	-	2	715	4	721	21,196		437	-
A.2 Other debt securities	-	-	84	-	22	29	151	4,560		1,265	-
A.3 Units in collective investment undertakings	594	-	-	-	-	-	-	-		-	-
A.4 Loans	45,742	3,038	6,913	19,809	19,507	17,749	379	-		-	-
- banks	45,742	3,038	6,913	19,041	17,131	10,310	379	-		-	-
- customers	-	-	-	769	2,375	7,439	-	-		-	-
On-balance-sheet liabilities	**122,353**	**13,490**	**45,580**	**31,611**	**11,772**	**8,201**	**30,432**	**117**		**110**	**-**
B.1 Deposits and current accounts	122,353	13,490	45,580	25,059	11,225	7,894	3,077	-		-	-
- banks	122,197	13,490	45,580	25,059	11,225	7,894	3,077	-		-	-
- customers	156	-	-	-	-	-	-	-		-	-
B.2 Debt securities	-	-	-	-	-	307	27,355	-		-	-
B.3 Other liabilities	-	-	-	6,552	547	-	-	117		110	-
Off-balance-sheet transactions											
C.1 Financial derivatives with exchange of principal											
- long positions		553	6,095,049	961,471	1,084,928	2,365,464	105,004	35,653	313	144	-
- short positions		2,262	6,096,788	881,776	1,085,394	2,364,501	103,725	7,653	24,382	199	-
C.2 Financial derivatives without exchange of principal											
- long positions		4,977		-	-	-	-	-	-	-	-
- short positions		4,664		-	-	-	-	-	-	-	-
C.3 Deposits and loans to receive											
- long positions		88	415	-	-	-	-	-	-	-	-
- short positions		88	415	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds											
- long positions		186	320	-	-	-	-	-	-	-	-
- short positions		186	320	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued		-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received		-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal											
- long positions		-	-	-	-	-	-	-	-	-	-
- short positions		-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal											
- long positions		-	-	-	-	-	-	-	-	-	-
- short positions		-	-	-	-	-	-	-	-	-	-

SECTION 5 - OPERATIONAL RISKS

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISKS

Operational risk means the risk of losses caused by the inadequacy or malfunction of procedures, human resources and internal systems or the occurrence of external events. For example, such losses include those caused by fraud, human error, operational interruptions, system unavailability, breach of contract and natural disasters.

The various types of operational risk to which the Bank is structurally exposed therefore include IT risk and reputational risk. This is associated with the banking activities carried out with the public and financial and institutional counterparties, as well as the numerous national and international regulations to which the Bank is subject.

The organizational model adopted by the Bank within the Group to manage and monitor operational risks is structured into two levels:

- at the Parent Company, the Operational & IT Risk Management unit has been established, reporting to Group Risk Management within the CRO area, which is responsible for operational and IT risks and is charged with:
  - responsibility for policy-making and coordinating risk management activities for the Iccrea Mutual Banking Group concerning operational and IT risks. This unit operates as a specialist hub for this area;
  - responsibility for supporting the Risk Management functions of the direct scope subsidiaries and, through the Mutual Bank Risk Management Coordination unit, the risk management functions of the affiliated banks;
- at the affiliated banks and direct scope subsidiaries, the Risk Management units report to their boards of directors and are responsible, among other duties, for monitoring and managing developments in the exposure to operational and IT risks.

The methodological aspects underlying the management framework and the related methods of application to the Group companies were formalized and approved at the end of 2019 as part of specific Group policies (Operational Risk Management Framework, IT Risk Management Framework, Loss Data Collection, Operational Risk Self Assessment and IT Risk Self Assessment).

This framework has been developed in accordance with the typical phases of the operational risk management process, namely:

- identification of risks (knowledge): a set of activities directed at identifying operational and IT risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (i.e. operational loss data) and potential risk (assessed through the collection of business expert opinion).
- evaluation/measurement of identified risks (awareness): a set of activities for assessing/measuring Group operational and IT risks.
- risk prevention and attenuation (strategy): a set of activities for the ex-ante identification of the possible ways of preventing and mitigating unfavorable developments in the dynamics of operational and IT risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational and IT risks, and the implementation of measures to ensure that possible risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.
- monitoring and reporting (tracking and control): a set of activities to monitor the Group's risk profile and deliver comprehensive reporting to provide timely, accurate and appropriate support to the decision-making process underlying "Risk Prevention and Mitigation" and "Risk Management and Mitigation".
- risk management and mitigation (reaction and proactivity): a set of activities and actions to support the management of operational and IT risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to operational risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments (operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

The loss data collection process has currently been adopted by Iccrea Banca and all the Group companies that contribute, with a specified frequency, to the collection of historical events and losses through the Group application solution, which is available to both the companies within the direct scope of the Group and the affiliated banks.

As regards the assessment processes for operational risks (OR-SA) and IT risk (IR-SA), the identification and assessment of prospective risks have been initiated and conducted for certain companies within the direct scope, including Iccrea Banca and other mutual banks. In 2020, the development of the related application system also continued.

With specific reference to IT risk, the application component supporting IR-SA activities has been rolled out and was used to assess the IT risk profile at December 31, 2020 of Iccrea Banca and BCC Sistemi Informatici, the latter of which is the prime supplier of ICT services to the Bank.

In addition, 2020 also saw a significant informational and training effort for the Operational Risk Management framework, with specific attention being paid to operating approaches and support applications.

The Parent Company's Operational Risk Management function also supported the collection of operational loss events at the Group level for management reporting use and for QIS and COREP regulatory reporting purposes.

With regard to the monitoring activities of the Incident Management Process, significant incidents were monitored continuously, from the time of their occurrence until closure of the incident, with the performance of assessment activities in the event of incidents with specific characteristics or for which particular risk factors were identified. Specific periodic reporting is prepared for these activities.

QUANTITATIVE DISCLOSURES

As provided for in Circular no. 285/2013 of the Bank of Italy as updated, for reporting purposes the Bank calculates operational risks using the Basic Indicator Approach. Under the Basic Indicator Approach, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the volume of business, which in the case of the Bank is "gross income". In particular, the Bank's capital requirement, equal to 15% of the average of the last three observations of gross income at the end of the previous year (December 31, 2020), amounted to €52,494 thousand.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2020	T	328,873
- at December 31, 2019	T-1	382,036
- at December 31, 2018	T-2	338,964
Relevant indicator average		**349,958**
Regulatory coefficient		**15%**
Capital requirement		**52,494**

PART F - INFORMATION ON CAPITAL

SECTION 1 – COMPANY CAPITAL

A. QUALITATIVE DISCLOSURES

Shareholders' equity (share capital, share premium reserve, reserves, equity instruments, own shares, valuation reserves, redeemable shares, profit/loss for the period) represents the Bank's capital, i.e. the sum of financial resources used for achieving the corporate purpose and dealing with the risks of business. Therefore, equity represents the main safeguard against the risks of the banking business and, as such, the amount of capital must be sufficient to ensure an appropriate degree of independence in development and growth and guarantee the soundness and stability of the company on an ongoing basis.

B. QUANTITATIVE DISCLOSURES

B.1 COMPANY CAPITAL: COMPOSITION

	31/12/2020	31/12/2019
1. Share capital	1,401,045	1,401,045
2. Share premium reserve	6,081	6,081
3. Reserves	252,486	379,939
- earnings	252,486	379,939
a) legal	50,785	50,785
b) established in bylaws	205	205
c) treasury shares	-	4,608
d) other	201,496	324,341
- other	-	-
4. Equity instruments	-	-
5. (Treasury shares)	-	(4,608)
6. Valuation reserves:	38,050	49,448
- Equity securities designated as at fair value through other comprehensive income	(3,136)	(651)
- Hedges of equity securities designated as at fair value through other comprehensive income	-	-
- Financial assets measured at fair value through other comprehensive income	1,524	211
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedging of investments in foreign operations	-	-
- Cash flow hedges	(9,692)	311
- Hedging instruments [undesignated elements]	-	-
- Foreign exchange differences	-	-
- Non-current assets held for sale	-	-
- Financial liabilities designated as at fair value through profit or loss (change in own credit rating)	-	-
- Actuarial gains (losses) on defined benefit plans	(2,708)	(2,485)
- Share of valuation reserves of equity investments accounted for using equity method	-	-
- Special revaluation laws	52,062	52,062
7. Net profit (loss) for the period	(66,795)	(127,417)
Total	**1,630,867**	**1,704,489**

B.2 - VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Total 31/12/2020		Total 31/12/2019	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,705	(181)	799	(588)
2. Equity securities	1,504	(4,640)	2,001	(2,652)
3. Loans	-	-	-	-
Total	**3,210**	**(4,821)**	**2,800**	**(3,240)**

B.3 VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: CHANGE FOR THE PERIOD

	Debt securities	Equity securities	Loans
1. Opening balance	**211**	**(651)**	**-**
2. Increases	**1,969**	**1,375**	**-**
2.1 Fair value gains	1,121	1,375	-
2.2 Writedowns for credit risk	472	X	-
2.3 Reversal to income statement of negative reserves: from realization	376	X	-
2.4 Transfers to other components of shareholders' equity (equity securities)	-	-	-
2.5 Other changes	-	-	-
3. Decreases	**656**	**3,860**	**-**
3.1 Fair value losses	125	3,860	-
3.2 Writebacks for credit risk	-	-	-
3.3 Reversal to income statement of positive reserves: from realization	531	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	-	-	-
3.5 Other changes	-	-	-
4. Closing balance	**1,524**	**(3,136)**	**-**

B.4 - VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

	31/12/2020		31/12/2019	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
Gain (loss) from change in financial assumptions	-	-	-	-
Gain (loss) from time value effect	-	(222)	-	(535)
Total	**-**	**(222)**	**-**	**(535)**

SECTION 2 - OWN FUNDS AND CAPITAL RATIOS

See the disclosures on own funds and capital adequacy in the Third Pillar disclosures.

PART G - BUSINESS COMBINATIONS

The section was not completed as there were no such positions as of the reporting date.

PART H - TRANSACTIONS WITH RELATED PARTIES

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table provides information on the remuneration paid in 2020 to key management personnel as required by IAS 24. Key management personnel are managers who have the power and responsibility, directly or indirectly, for the planning, management and control of the Bank's activities, including the directors and members of the supervisory bodies.

	Total 31/12/2020				
	Short term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
Key management personnel	8,126	330	-	-	-

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

For the purposes of the preparation of these disclosures, pursuant to IAS 24 a related party is a person or entity who is related to the reporting entity:

a) a person or close family member of that person is related to an reporting entity if that person:

   i. has control or joint control of the reporting entity;
   ii. has a significant influence over the reporting entity;
   iii. or is one of the key management personnel of the reporting entity or one of its parent companies.

b) an entity is related to a reporting entity if any of the following conditions apply:

   i. the entity and the reporting entity are part of the same group (which means that each parent, subsidiary and group company is related to the others);
   ii. an entity is an associated or joint venture of the other entity (or an associate or joint venture belonging to the group to which the other entity belongs);
   iii. both entities are joint ventures of the same third party;
   iv. an entity is a joint venture of a third-party entity and the other entity is an associate of the third-party entity;
   v. the entity is represented by a post-employment benefit plan for the employees of the reporting entity or an entity related to it. If the reporting entity is itself a plan of this type, the employers who sponsor it are also related to the reporting entity;
   vi. the entity is controlled or jointly controlled by a person identified in point (a);
   vii. a person identified in point (a)(i) has a significant influence over the entity or is one of the key management personnel of the entity (or its parent);
   viii. the entity, or any member of a group to which it belongs, provides management services with strategic responsibilities to the reporting entity or to the parent company of the reporting entity.

In December 2011, the Bank of Italy issued the rules governing related party transactions contained in Circular 263/2006, with which it sought to strengthen the arrangements for managing the risk that the proximity of certain persons to a bank's decision-makers could compromise the impartiality and objectivity of decisions concerning the granting of loans and other transactions with them, with possible distortions of the resource allocation process, the exposure of the bank to risks that are not adequately measured or monitored, and potential losses for depositors and shareholders.

Iccrea Banca has adopted a document governing the principles and rules applicable to related party transactions in compliance with regulations of the supervisory authorities.

In compliance with supervisory regulations, all transactions carried out by the Bank with its related parties were carried out in compliance with the principles of substantive and procedural fairness, on terms analogous to those applied to transactions with independent counterparties. No unusual or atypical transactions were carried out with related parties, nor were any such transactions carried out with other counterparties.

The following table summarizes the financial effects of transactions with the related parties of the Bank.

	At 31/12/2020			
	Group companies	Subsidiaries	Associated companies	Key management personnel
Financial assets	31,595,713	107,746	-	-
Total other assets	59,910	-	-	-
Financial liabilities	15,500,553	17,792	-	-
Total other liabilities	59,471	-	-	-
Commitments and financial guarantees issued	4,992,680	-	-	-
Commitments and financial guarantees received	-	-	-	-
Provisions for doubtful loans	-	-	-	-

	At 31/12/2020			
	Group companies	Subsidiaries	Associated companies	Key management personnel
Interest income	93,118	168	-	-
Interest expense	(173,568)	-	-	-
Dividends	36,741	-	-	-
Fee and commission income	58,130	223	-	-
Fee and commission expense	(11,297)	-	-	-
Other operating expenses/income	(4,158)	-	-	-
Net gain (loss) on trading activities	169,607	-	-	-
Net gain (loss) on hedging activities	-	-	-	-
Writedowns/writebacks of impaired financial assets		-	-	-

PART I - SHARE-BASED PAYMENTS

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

PART L - OPERATING SEGMENTS

Exercising of the option granted by IFRS 8, segment information is presented solely with regard to the consolidated financial statements.

PART M - LEASE DISCLOSURES

SECTION 1 – LESSEE

QUALITATIVE DISCLOSURES

Iccrea Banca's leases essentially regard property and car leases.

At December 31, 2020, the Bank held 230 leases, of which 36 relating to property leases, (39 assets), and 194 relating to cars (226 assets) for total right-of-use assets of €3,223 thousand.

The properties are mostly used for banking and general management activities. Based on historical experience, the Bank includes the first lease extension in computing the lease term, in addition to the non-cancellable period, if renewal depends exclusively on the lessee. Therefore, both at the date of FTA and upon initial recognition of a contract under IFRS 16, the first reasonably certain lease extension has been considered, unless there is effective evidence of relevant facts and circumstances that would counsel a different assessment. Therefore, in the case of a lease for property with a term of 6 years and a tacit renewal option at the end of the first six-year period, the term considered in determining the useful life of the right of use is 12 years, unless there are facts or circumstances that suggest a different assessment.

Car leases regard contracts for cars assigned to employees for business use. These contracts usually come in the form of "long-term rentals", and are therefore have a multi-year term and usually do not include a final purchase option.

During 2020, with the transfer of the ICT business unit to BCC Sistemi Informatici, 2 vehicle leases were transferred for a total net value of €35 thousand.

As already indicated in the accounting policies, the Group has elected to exercise the exemptions permitted by IFRS 16 for short-term leases (term of less than or equal to 12 months) and low-value leases (where the value of the asset is less than or equal to €5,000).

QUANTITATIVE DISCLOSURES

Part B of the notes to the financial statements reports right-of-use assets acquired with leases in the amount of €3,223 thousand (Table 8.1 – Operating property, plant and equipment: composition of assets carried at cost); with leases liabilities of €3,227 thousand reported in Table 1.2 - Financial liabilities measured at amortized cost: composition of amounts due to customers.

Part C Income statement reports interest in respect of lease liabilities of about €70 thousand (Table 1.3 Interest and similar expense, Financial liabilities measured at amortized cost: amounts due to customers)

The following table breaks down depreciation charges (reported in Table 12.1 on the income statement) for right-of-use assets into the various categories.

The right of use relating to leased assets (rental of properties and cars) has been recognized under the sub-item "Assets acquired under finance leases" as required by IFRS 16.

	Property	Automobiles	Total 2020	Total 2019
a) Initial value	1,288	1,204	2,492	3,490
b) Purchases	328	2,053	2,380	-
c) Sales	-	(41)	(41)	-
d) Depreciation	(619)	(990)	(1,608)	(998)
e) Assets acquired under finance leases	**997**	**2,226**	**3,223**	**2,492**

The sub-item c) Sales reports the gross value of the transfer of two vehicle leases to BCC Sistemi Informatici.

There were no other developments warranting disclosure in this section.

SECTION 2 – LESSOR

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

ATTACHMENTS - ACCOUNTS OF THE GUARANTEE SCHEME

DOCUMENT OBJECTIVE

Under the provisions of the Guarantee Scheme, which is governed by legislation and the Cohesion Contract, each bank participating in the Iccrea Mutual Banking Group (ICBG) has paid in a guarantee contribution - commensurate with its risk-weighted exposures and limited to capital in excess of the mandatory requirements at the individual level - in order to give the Parent Company readily available funds (RAFs) to undertake financial support interventions to ensure the solvency and liquidity of the individual affiliated banks.

The RAFs are represented by:

- an Ex Ante Quota established at the Parent Company through loans for a specific transaction pursuant to Article 2447-bis, letter b) and Article 2447-decies of the Italian Civil Code; and
- an Ex Post Quota that can be called up by the Parent Company in case of need, established with an irrevocable commitment of the affiliated banks to the Parent Company.

The objective of this document is to present the separate accounts of the loan for a specific transaction and to report on the overall management of the funds underlying the operation of the Guarantee Scheme (Ex Ante Quota and Ex Post Quota) for 2020, consistent with the provisions of Article 6.3[45] of the Cohesion Contract and Article 4.3[46] of the Loan Agreement.[47]

The loan, pursuant to Article 3 of the Loan Agreement ("Purpose of the loan"), is intended exclusively for the realization of the transaction,[48] whose objective is the establishment and management of the Ex Ante Quota of the RFA for the purpose of implementing the guarantee interventions aimed at safeguarding solvency and the liquidity of the affiliated banks.

Contribution to the Guarantee Scheme

In order to guarantee that the Parent Company has ready access to the financial resources necessary to implement guarantee interventions, in April 2019 the participating banks established the readily available funds (RAF), represented by an Ex Ante Quota pre-established at the Parent Company and an Ex Post Quota that can be called up by the Parent Company in case of need, making contributions in the technical forms provided for in the Cohesion Contract.

The Cohesion Contract provides for the ICBG to conduct stress tests of the participating banks to quantify their potential capital requirements in an adverse scenario and verify the necessary volume of Group funds. The calculation of the RAFs for 2020 indicated a potential capital requirement of €1,182 million, broken down as follows:

- an Ex Ante Quota of €385 million (compared with an estimated €505 million for 2019);
- an Ex Post Quota of €797 million (compared with an estimated €835 million for 2019).

Each bank and the Parent Company adjusted their Ex Ante and Ex Post Quota for 2020 up or down as appropriate.

In particular, 133 participants saw their Ex Ante Quotas decrease compared with the amount established in 2019, with the Parent Company crediting their settlement accounts in January 2020 of in the total amount of €105.17 million. Conversely, 4 participants saw their Ex Ante Quotas increase compared with the amount established in 2019, with the Parent Company debiting their settlement accounts in the total amount of €3.6 million. At the same time, the mutual banks recognized the adjustment of the loan for a specific transaction pursuant to Article 2447 bis, letter b) and Article 2447-decies of the Civil Code.

As regards the Ex Post Quotas, 121 affiliated banks reduced the credit line granted to the Parent Company in the total amount of €196.44 million (consequently reducing the securities guaranteeing the liquidity line opened by the Parent Company for them), while 15 banks increased the agreed credit line in the total amount of €51.6 million (consequently increasing the collateral guaranteeing the line opened by the Parent Company for them). At the same time, the Parent Company adjusted the liquidity lines opened for each mutual bank by the same amounts.

For its Ex Post Quota, the Parent Company increased securities pledged to the securities holdings of the Guarantee Scheme by €106.9 million.

---

45 "Within the context of the operation of the Guarantee Agreement the Parent Company shall prepare at least annually a periodic report on the participation of the affiliated banks in the Guarantee Agreement and in the formation of the Ex Ante Funds and the Ex Post Funds"

46 "…monitoring of the execution of the Transaction shall be performed by the Lending Parties on the basis of the disclosures and reporting periodically made available by the Beneficiary, also pursuant to the provisions of the Cohesion Contract".

47 The Cohesion Contract was signed by the Parent Company and the affiliated banks in accordance with the provisions of Article 37-bis, paragraph 3, of the Consolidated Banking Act, while the Loan Agreement was signed by the affiliated banks, as the Lending Parties, and by the Parent Company, as the Beneficiary, in order to create the loan for a specific transaction referred to in Articles 2447-bis, letter b) and 2447-decies of the Civil Code.

48 See Article 4.1 of the Loan Agreement ("Description of the transaction").

Interventions of the Guarantee Scheme

In compliance with the provisions of the applicable legislation, the Cohesion Contract establishes that the Intercompany Support Interventions (hereafter interventions) necessary to ensure the solvency and liquidity of the individual participating banks shall be carried out solely by the Parent Company.

The Parent Company carries out the interventions, drawing on the overall RAFs of the Guarantee Scheme, taking account of the indications of the EWS and ensuring compliance with the prudential requirements and the requests of the supervisory authorities, within the limit of the free capital of the participating banks. The interventions may consist of:

- capital support interventions to be carried out through capitalization measures (including the subscription of financing actions pursuant to Article 150-ter of the Consolidated Banking Act through the Ex Ante Quota of the RAFs);
- liquidity support interventions to be carried out through financing measures in support of liquidity (for example, financing transactions with appropriately defined maturity or securities lending);
- interventions in any other technical form deemed appropriate by the Parent Company.

In 2019, the Parent Company undertook two capital support interventions in the total nominal amount of €23 million,[49] with the exclusive use of the Ex-Ante Quota of the RAFs. The capitalization interventions were attributed on a pro-rated basis to each mutual bank, in accordance with the "Accounting and prudential model for the Cross-Guarantee Scheme".[50] The share of each affiliated bank in the intervention was:

- recognized in the accounts as indirect financing in a subordinated debt instrument included in own funds by the issuer;
- deduced, for prudential purposes, from the component of own funds of each participating bank consistent with the type of intervention carried out at the beneficiary bank.

On the basis of the "mark to model" valuations, in accordance with the method envisaged in the Parent Company's fair value policy, the end-2020 prices of the subordinated securities subscribed by the Parent Company in 2019 for capital support interventions for Vival Banca and Banca Centropadana are reported below:

ISIN	Issue	Nominal amount	Mark to model prices
IT0005397010	Vival Banca	8,000,000	99.266
IT0005395634	Banca Centropadana	5,000,000	94.786
IT0005395626	Banca Centropadana	10,000,000	94.786

The Parent Company did not carry out any support interventions.

[49] The first intervention was carried out to give Banca Centropadana the capital necessary to support the costs of restructuring actions, with the subscription by the Guarantee Scheme of two subordinated Tier 2 loans issued by the bank in the total amount of €15 million. The second intervention was carried out In order to rebalance the financial position of Vival Banca, with the subscription by the Guarantee Scheme of a subordinated Tier 2 loan in the nominal amount of €8 million.

[50] See Guidance and Coordination Directive ICR-OUT-0291-2019-DIR of 9/4/2019 ("Documentation governing the operation of the Cross-Guarantee Scheme".

Investment of the Ex Ante Quota of the RAFs

Pursuant to Article 5 of the Loan Agreement, the Parent Company invests the Ex Ante funds in liquid and enforceable assets, in accordance with the prescriptions, limits and requirements set out in the Investment Policy for the Ex Ante Quota of the RAFs.[51]

The following table shows the details of the performance of the investments in 2020:

Country	31/12/2020	31/12/2019	Delta
Austria	1,154,053	1,143,411	10,642
Belgium	11,010,576	10,938,206	72,370
Finland	1,393,460	1,377,314	16,146
France	45,596,771	45,560,955	35,816
Germany	36,408,171	36,214,142	194,029
Ireland	8,062,174	8,014,450	47,724
Italy	91,442,622	109,578,169	(18,135,547)
Netherlands	2,337,324	2,304,298	33,026
Supranational	45,795,893	35,548,138	10,247,755
Spain	80,197,105	79,824,417	372,688
Covered bonds	17,678,245	31,587,856	(13,909,611)
Subordinated bonds subscribed as part of interventions:	22,178,728	23,019,372	(840,644)
- Centropadana	14,236,474	15,018,443	(781,969)
- VivalBanca	7,942,254	8,000,929	(58,675)
Liquidity	49,379,207	124,811,447	(75,432,240)
Total	**412,634,330**	**509,922,175**	**(97,287,845)**

The substantial decrease in funds held as liquidity (€75.4 million) by the Parent Company at the end of the year compared with December 2019, is mainly due to the reimbursement to the participating banks of excess contributions (about €105 million) they had paid in 2019 compared with the quantification of the RAFs for 2020, on the basis of the annual RAF adjustment model (see the section “Contribution to the Guarantee Scheme”).

Value of the transaction

On a quarterly basis, the Parent Company determines the fair value of the transaction as a result of the overall performance of the resources invested and deployed and periodically notifies the individual mutual banks of the value of their contribution to the specific transaction, equal to the pro-rated share of the total.

Pursuant to Article 4.1 of the Loan Agreement, the revenues of the transaction consist of the investment yields[52] and the returns deriving from the implementation of the interventions. Costs are made up of management costs and possible losses deriving from the transaction and investments.

Pursuant to Article 12 of the Loan Agreement, the Parent Company pays the affiliated banks remuneration related to developments in the transaction and investment activities on the basis of the adjustments to the fair value of the loan and the accounting effects of the interventions undertaken by the Parent Company.

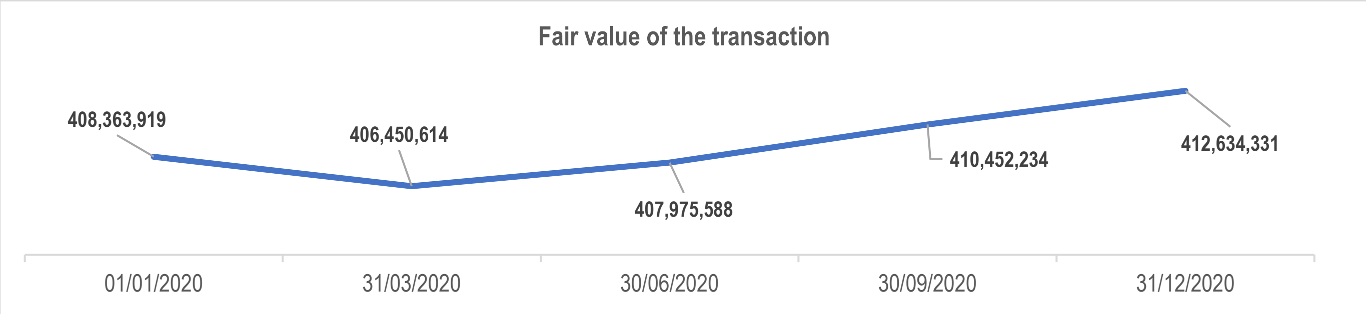
[51] The Investment Policy for the Ex Ante Quota of the RAFs is part of the documentation of the Guarantee Scheme, approved by the Board of Directors of the Parent Company on February 28, 2019 and transmitted to the mutual banks on April 9, 2019 with a Guidance and Coordination Directive (prot. ICR-OUT-0291-2019-DIR). The Investment Policy was subsequently amended by the Board of Directors on December 20, 2019.

[52] See Article 5 of the Loan Agreement.

The following table provides a breakdown of the fair value notified periodically in 2019 and the associated changes with respect to the fair value of the transaction at January 1, 2020:

Reference date (euros)	Fair value	Change in *fair* value since January 1, 2020[53]
01/01/2020	408,363,919	
31/03/2020	406,450,614	(1,913,305)
30/06/2020	407,975,588	(388,331)
30/09/2020	410,452,234	2,088,315
31/12/2020	412,634,331	4,270,412

Developments in the value of the transaction are indicated below:



The quarterly change in the fair value of the transaction was attributed on a pro-rated basis to each affiliated bank and the Parent Company on the basis of their participation in the Ex Ante quota of the Guarantee Scheme in accordance with the model used by the Parent Company for the managing the separate accounts of the loan.[54]

The following table shows all the components that determined the change in the overall fair value of the investments at December 31, 2020.

	31/12/2020
Interest income on securities	3,357,272
Interest expense	(124,827)
Fee and commission expense	(51,632)
Gain/loss on securities at fair value[55]	(139,367)
Plus/minus on securities at fair value [56]	1,228,965
Overall performance of GS	**4,270,412**

See the following section for a breakdown of the individual items.

[53] With a reference date of 31/03/2020 the notice was transmitted to the affiliated banks on April 15, 2020 with Guidance and Coordination Notice Prot. ICR-OUT- 00353-2020-DIR "Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 31/03/2020" and Guidance and Coordination Notice Prot. ICR-OUT- 00354-2020-DG "Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 31/03/2020".

With a reference date of 30/06/2020 the notice was transmitted to the affiliated banks on July 15, 2020 with Guidance and Coordination Notice Prot. ICR-OUT- 01042-2020-DG "Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 30/06/2020".

With a reference date of 30/09/2020 the notice was transmitted to the affiliated banks on October 12, 2020 with Guidance and Coordination Notice Prot. ICR-OUT- 01095-2020-DG "Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 30/09/2020".

With a reference date of 31/12/2020 the notice was transmitted to the affiliated banks on January 12, 2021 with Guidance and Coordination Notice Prot. ICR-OUT- 00004-2021-DG "Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 31/12/2020".

[54] The model provides for all financial components that affect the financial statements of Iccrea Banca in relation to the management of the funds relating to the transaction, whether generated by valuation or income and charges connected with the management of the funds, to be offset in profit or loss by an item of the opposite sign in order to attribute to the providers of the financing with the net result of the overall management of the funds during the period in question.

[55] The item reports gains actually realized on securities.

[56] The item reports the increase recognized on the basis of the application of the valuation model.

ACCOUNTS OF THE LOAN FOR A SPECIFIC TRANSACTION

The rules governing the loan for a specific transaction require the adoption of dedicated/separate accounts that ensure the segregation and the separation of income and all other amounts generated by the investment of the liquidity of the loan from the resources of the Parent Company and the companies of the Group.
The model used by the Parent Company to manage the separate accounts of the loan provides for all financial components that affect the financial statements of Iccrea Banca in relation to the management of the funds relating to the transaction, whether generated by valuation or income and charges connected to the management of the funds to be offset in profit or loss by an item of the opposite sign in order to provide the providers of the financing with the net proceeds of the overall management of the funds during the period in question.

Balance sheet – Assets

The following tables are stated in euros.

Assets	31/12/2020	31/12/2019
10. Cash and cash equivalents	43,514,489	110,477,252
20. Financial assets measured at fair value through profit or loss	363,255,123	385,110,727
b) financial assets designated as at fair value	363,255,123	385,110,727
40. Financial assets measured at amortized cost	5,694,718	14,334,195
a) due from banks	5,694,718	14,334,195
120. Other	170,000	-
Total assets	**412,634,330**	**509,922,174**

Cash and cash equivalents

The amounts regard resources not invested in securities and held on the account of the Guarantee Scheme at the Bank of Italy.

Financial assets measured at fair value

Assets measured at fair value regard financial instruments subscribed by the Parent Company in accordance with the Investment Policy for the Ex Ante Quota of the readily available funds. The following table provides a breakdown of the financial instruments subscribed:

Country (euros)	31/12/2020	31/12/2019
Austria	1,154,053	1,143,411
Belgium	11,010,576	10,938,206
Finland	1,393,460	1,377,314
France	45,596,771	45,560,955
Germany	36,408,171	36,214,142
Ireland	8,062,174	8,014,450
Italy	91,442,622	109,578,169
Netherlands	2,337,324	2,304,298
Supranational	45,795,893	35,548,138
Spain	80,197,105	79,824,417
Covered bonds	17,678,245	31,587,856
Subordinated bonds subscribed as part of interventions:	22,178,728	23,019,372
- Centropadana	14,236,474	15,018,443
- VivalBanca	7,942,254	8,000,929
Total	**363,255,123**	**385,110,727**

Financial assets measured at amortized cost – due from banks

The item includes cash and cash equivalents held on an account with Euroclear Bank SA.

Other

The item includes the interest accrued on the subordinated loan issued by Vival Banca, paid to the Parent Company with a value date of December 30, 2020. The interest, collected on January 4, 2021, was recognized under "Financial assets measured at amortized cost, other" (item 40) after the close of the year.

Balance sheet – liabilities

The following tables are stated in euros.

Liabilities	31/12/2020	31/12/2019
30. Financial liabilities designated as at fair value	340,957,045	424,058,244
80. Other liabilities	71,677,285	85,863,930
Total liabilities	**412,634,330**	**509,922,174**

Financial liabilities designated as at fair value

The item includes the Ex Ante Quota of the affiliated banks (€318.36 million), adjusted to account for the performance of the dedicated loan at December 31, 2020, and the fair value of the indirect financing in subordinated debt securities issued by Banca Centropadana and VivalBanca (totaling €22.60 million) pertaining to the affiliated banks. The increase (€3.52 million) mainly reflects the change in fair value of financial instruments held.

Other liabilities

Other liabilities mainly regard the Ex Ante Quota pertaining to the Parent Company (€67 million), adjusted to account for the performance of the dedicated loan at December 31, 2020 and the indirect financing in subordinated debt securities issued by Banca Centropadana and VivalBanca (totaling €4.67 million) pertaining to the Parent Company. The increase (€0.74 millions) mainly reflects the change in fair value of financial instruments held.

Income statement

(euros)	31/12/2020	31/12/2019
10. Interest and similar income	3,357,272	2,494,387
20. Interest and similar expense	(124,827)	(80,122)
30. Net interest income	**3,232,445**	**2,414,265**
50. Fee and commission expense	(51,632)	(30,356)
60. Net fee and commission income (expense)	**(51,632)**	**(30,356)**
110.a Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss	1,089,599	3,006,052
of which gain/loss on debt securities	*(139,367)*	*942,685*
of which minus/plus on debt securities	*1,228,966*	*2,063,367*
Performance of GS	**4,270,412**	**5,389,961**
110.a Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss of which portion allocated to affiliated banks[57]	(3,525,723)	(4,482,365)
Other operating expenses/income – of which Ex Ante Quota pertaining to Parent Company[58]	(744,689)	(907,596)
300. Net profit (loss) for the period	-	-

The model provides that all the income components affecting the Iccrea Banca financial statements in relation to the management of the funds connected with the transaction, whether they derive from valuation or from income and charges connected with the management of the funds, be offset through the recognition of an item of the opposite sign that allocates to the lenders the performance achieved on managing the loan funds during the relevant period. This is the reason the profit/loss for the period is zero.

[57] In Iccrea's income statement, item 110.a. Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss is reported net of the share re-allocated to the affiliated banks (equal to -€3,525,723). The item breaks down as follows:

110.a	Net gain (loss) on financial assets and liabilities measured at fair value through profit or loss	(2,436,124)
	– of which assets and liabilities designated as at fair value	1,089,599
	▪ of which gain/loss on debt securities	(139,367)
	▪ of which minus/plus on debt securities	1,228,966
	– of which: change in value of financial liabilities designated as at fair value (share attributed to mutual banks)	(3,525,723)

[58] In the income statement, the change in the Ex Ante Quota pertaining to the Parent Company is reported under item 210. Other operating expenses/income

Interest and similar income

Interest income includes interest accrued on financial instruments held.

Interest and similar expense

Interest expense includes interest paid on the Euroclear account (amounting to €26,088 euro) and the PM account held at the Bank of Italy (€98,739).

Fee and commission expense

The item includes custody fees and expenses paid to Euroclear Bank SA (€45,812) and account fees paid to the Bank of Italy (€5,819).

Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss - a) financial assets and liabilities designated as at fair value

The item includes the increase in the fair value of the financial instruments subscribed in accordance with the Investment Policy for the Ex Ante Quotas of the readily available funds, less the quota for the period reattributed to the affiliated banks on a pro-rated basis in accordance with the accounting model established for the dedicated loan.

110.a Financial assets and liabilities designated as at fair value	**(2,436,124)**
of which: Net gain (loss) of financial assets and liabilities designated as at fair value	1,089,599
of which: Change in the value of financial liabilities designated as at fair value	(3,525,723)

Other operating expenses

This item includes the changes in the value of the Ex Ante Quota pertaining to the Parent Company associated with the result of the management of the dedicated loan at December 31, 2020.

APPLICATION OF THE COMPENSATION MECHANISM FOR 2020

In accordance with the provisions of Article 7 letter h of the Cohesion Contract, the contributions paid by the participating banks to the Guarantee System are remunerated. More specifically, participating banks that generate a larger guarantee requirement than that attributed pay a premium to participating banks that generate a smaller guarantee requirement than that attributed to them.

The model for applying the compensation mechanism is defined in Annex A to the Guarantee Scheme Policy.

The premium paid/collected by the participating banks for their contribution to the generation/coverage of the requirement is determined by applying a rate of remuneration (differentiated by type of requirement attributed and generated: Ex Ante and Ex Post).

For 2020, the Parent Company has set the rate of remuneration applied to the compensated funds of the:

- Ex Ante Quota equal to the daily average yield for the previous year of the 5-year Italian government bond between 1/10/2018 and 30/09/2019 equal to 1.566% (Bloomberg ticker GBTPGR05);
- Ex Post Quota equal to average 3-month Euribor recorded in the period between 1/10/2018 and 30/9/2019 (equal to -0.335%) plus a spread of 0.50%, equivalent to a final rate of 0.165%, taking account of 1-year money market returns (in consideration of the annual update of the underlying values).

The aggregate results are shown below:

With regard to the Ex Ante Quota:

- 117 received a premium for the contributions paid to the Guarantee Scheme. This premium, totaling about €229,499, was commensurate with the difference between the Ex Ante Quota assigned and the greater of between the requirement generated and the floor established for the Ex Ante Quota;
- this financial expense was charged to the 20 banks that generated a guarantee requirement greater than the contribution paid to the system.

With regard to the Ex Post Quota:

- 98 Banks received a premium for the credit line granted to the Parent Company. This premium, totaling about €556,590, was commensurate with the difference between the Ex Post Quota assigned and the Ex Post requirement generated;
- this financial expense was charged to the 39 banks that generated a guarantee requirement greater than the contribution paid to the system.

The amounts were settled through the Parent Company in arrears at December 31, 2020 with the debiting or crediting of the settlement accounts of each bank.

REPORT OF THE AUDIT FIRM

Iccrea Banca S.p.A.

Financial statements as at December 31, 2020

Independent auditor’s report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014

EY S.p.A.
Via Lombardia, 31
00187 Roma

Tel: +39 06 324751
Fax: +39 06 324755504
ey.com

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Iccrea Banca S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Iccrea Banca S.p.A. (the "Company"), which comprise the balance sheet as at December 31, 2020, and the income statement, the statement of comprehensive income, the statement of changes in shareholder's equity and the statement of cash flows for the year then ended, and notes to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 43 of Legislative Decree n. 136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EY S.p.A.
Sede Legale: Via Lombardia, 31 - 00187 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

Building a better working world

We identified the following key audit matters:

Key Audit Matters	Audit Response
Classification and valuation of financial loans to customers Loans to customers measured at amortized cost, which are reported in line item 40 b) of the balance sheet assets, amount to Euro 4,501 million, representing 9% of total assets. The classification and valuation of loans to customers are relevant for the audit due to the significance of the amount of the loans to the financial statements as a whole and in consideration of the fact that the impairment provisions are determined by the Directors through the use of estimates that have a high degree of complexity and subjectivity. Further, such estimation processes have been revised in order to reflect the context of the current uncertainty regarding macroeconomic development framework resulting from the spread of the Covid-19 pandemic, as well as the government initiatives to support the economy, amongst which, in particular, payment moratoria and new or renegotiation of loans guaranteed by the state. These estimates also considered the preliminary results of the Credit File Review activities as part of the broader Comprehensive Assessment process launched by the European Central Bank ("ECB") on the Gruppo Bancario Cooperativo Iccrea. Amongst the estimation factors, the following se are particularly significant: • the identification and calibration of the parameters for determining the significant increase in credit risk compared to the initial recognition date, for the purpose of allocating the exposures in Stage 1 and Stage 2 (non-performing loans); • the definition of the models and parameters regarding the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) used for the calculation of one year expected losses (ECL - Expected Credit Losses) for exposures in Stage 1 and lifetime for	In relation to this matter, also considering the revisions to the estimation processes of impairment losses on a collective basis to reflect the heightened uncertainty deriving from the spread of Covid-19 pandemic, our audit procedures included, amongst others: ▪ updating the understanding the policies, processes and controls implemented by the Company in relation to the classification and valuation of financial loans to customers and performing tests over key controls, including those concerning IT systems for the purpose of verifying their operating effectiveness; ▪ performing, on a sample basis, substantive procedures aimed at verifying the correct classification and valuation of the loan exposures, with particular reference to the exposures affected by the payment moratoria measures; ▪ understanding the methodologies used in relation to statistical valuations and the reasonableness of the assumptions used including the new macroeconomic scenarios and their weighting; ▪ performing compliance and testing procedures, which were aimed at verifying the appropriate determination of the PD, LGD and EAD parameters for the purpose of determining the impairment provisions; ▪ performing comparative analysis procedures for the loan portfolio regarding the most significant differences compared to the closing balances of the preceding year end and the related coverage levels; ▪ verification through analysis of supporting documentation of the accounting for sale transactions of impaired loans, occurring during the year, implemented according to the plan aimed at reducing the portfolio of impaired loans.

exposures in Stage 2 based on historical data observations for each risk class along with forward looking information, including macroeconomic factors;

- identification of evidence that presumes that the carrying amount of the loan is not fully recoverable, with related classification of the exposures in Stage 3 (defaulted loans);
- for loans classified in Stage 3, the determination of the criteria for estimating the expected cash flows according to the recovery strategy.

Disclosures regarding the evolution of the quality of the financial loans to customers portfolio and the criteria adopted for the classification and valuation are provided in Part A – Accounting policies, Part B - Information on the balance sheet, Part C - Information on the income statement and Part E – Risk and risk management policies of the notes to the financial statements.

The procedures described above were also carried out with the support of EY network specialists on valuation models for financial instruments and information systems.

Finally, we analysed the adequacy of the disclosures provided in the notes to the financial statements.

Measurement of equity investments

Equity investments, which are reported in line item 70 of the balance sheet, amounted to Euro 1,206 million at December 31, 2020. At least on an annual basis, the Company's management assesses whether there are indicators of impairment of equity investments, consistent with the Company's strategy for managing legal entities and, if such indicators are present, assesses the recoverable amount of those assets (impairment testing) in accordance with IAS 36 "Impairment of Assets". In particular, during the year, impairment losses of Euro 44 million were recognized, mainly in respect of the subsidiaries.
The process and procedures for determining the recoverable value of equity investments are based on assumptions that by their very nature involve the use of management judgment, especially with regard to the identification of impairment indicators and the determination of the long-term growth rates.

In relation to this key matter, our audit procedures included, amongst others:

- analysing the procedure and key controls established by the Company concerning the identification of any impairment of equity investments;
- analysing the impairment test procedure approved by the Board of Directors on April 22, 2021;
- analysing the report of the external consultant who assisted the Company in determining the recoverable value of the individual equity investments as part of the impairment testing;
- discussing with management the information that emerged from their analysis regarding the results achieved in 2020 of the main subsidiaries and their future prospects, taking into account the changes in the context and the macroeconomic scenario due to the spread of the Covid-19 pandemic;
- verifying the assumptions underlying long- term growth rates;

Due to the judgment required of management and the complexity of the assumptions used in estimating the recoverable amount of the equity investments, increased during 2020 due to the health emergency related to the Covid-19 pandemic, which significantly affected the current economic conditions and prospective macroeconomic scenarios and which required an update of the assessment processes and methodologies, we considered this is a key audit matter. Disclosures regarding impairment testing of equity investments is provided in Part A – Section 5 Equity investments and Part B – Section 7.5 Equity investments – Changes for the period of the notes to the financial statements.	▪ verifying the mathematical accuracy of the calculations in the impairment testing performed by the Company. The procedures described above were also carried out with the support of EY network specialists on business valuation models. Finally, we analysed the adequacy of the disclosures provided in the notes to the financial statements.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 43 of Legislative Decree n.136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Iccrea Banca S.p.A., in the general meeting held on April 22, 2010, engaged us to perform the audits of the financial statements for each of the years ending December 31, 2010 to December 21, 2018, which has been subsequently prolonged for the years ending December 31, 2019 and 2020 by the general meeting held on April 29, 2019.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee ("Collegio Sindacale") in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010

The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the Report on Operations of Iccrea Banca S.p.A. as at December 31, 2020, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations with the financial statements of Iccrea Banca S.p.A. as at December 31, 2020 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations is consistent with the financial statements of Iccrea Banca S.p.A. as at December 31, 2020 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Rome, May 5, 2021

EY S.p.A.
Signed by: Wassim Abou Said, Auditor

This report has been translated into the English language solely for the convenience of international readers.