Iccrea Banca

Gruppo Bancario Cooperativo Iccrea

Reports and Consolidated and Separate Financial Statements at December 31, 2019

Report and consolidated financial statements at December 31, 2019 of the Iccrea Cooperative Banking Group[1]

Report and separate financial statements at December 31, 2019 of the Parent Company Iccrea Banca SpA

Iccrea Banca SpA
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)

[1] Iccrea Cooperative Banking Group is intended to be the translation of "Gruppo Bancario Cooperativo Iccrea", which is the original name of the officially registered banking group.

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CONSOLIDATED REPORT ON OPERATIONS
December 31, 2019

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CORPORATE BOARDS

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

BOARD OF DIRECTORS

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

* Independent directors

(1) Member of the Risks Committee
(2) Member of the Appointments Committee
(3) Member of the Remuneration Committee
(4) Member of the Affiliated Bank Controls & Interventions Committee

EXECUTIVE COMMITTEE

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

BOARD OF AUDITORS

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

SENIOR MANAGEMENT

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

INTRODUCTION

Shareholders,

In 2019, national economic growth was weak, reflecting in part economic and extra-economic factors worldwide: trade tensions between the United States and China, armed conflicts in different areas of the world, natural disasters, some of which related to climate change. The Italian economy and thus our local territories, is largely integrated internationally.

At the beginning of 2020, we suddenly found ourselves facing a health emergency, the COVID-19 epidemic, whose potential impact on global and national growth cannot yet be quantified with any degree of reliability.

Italy had already experienced a previous crisis that lasted for over a decade, with major impacts on the banking and financial system, which bore most of the related costs.

Public and private institutions have produced a number of forecasts of the impact on the national economy, pointing to a sharp contraction in GDP for 2020 and recovery beginning in 2021. The scale of this recovery will mainly be a function of the measures adopted by the Italian government to provide temporary support for households and businesses, revive investment, reform taxation and simplify regulation. Even more important will be the actions that the European Union takes to sustain the efforts of the individual states. The pandemic is sweeping through all continents, and the speed with which individual countries - after months of economic shutdown - adopt effective measures to reboot short-term and immediate growth will be decisive.

Our Group has chosen to be an engine of sustainable and inclusive growth and make an effective contribution to these developments through the commitment of our mutual banks to lend support to deserving projects of SMEs and indirectly to their employment and support levels for families. Our role, our mission, must be strengthened even further within an economic model based on the principles of mutuality, support for our communities and social inclusion. It must be compatible with the associated principles of sound and prudent management, of careful evaluation of the choices that we will be called upon to make together.

On March 4, 2019, the Iccrea Cooperative Banking Group was entered in the Register of Italian Banking Groups, effective as of January 1, 2019. At the time of registration, the Group was made up of 162 companies, including 142 affiliated mutual banks, the Parent Company Iccrea Banca SpA, and other companies held either by the Iccrea Banca SpA directly or by the affiliated mutual banks themselves. The ICBG is the leading banking group owned entirely by residents of local communities within Italy by way of an ownership structure encompassing about 800,000 member shareholders, nearly all of which are either households or small businesses.

The mutual banking reform, which led to the creation of the mutual banking groups, sought to ensure industry stability, while allowing the Parent Company, when needed, to access capital markets and providing stability mechanisms for the individual members of the Group by way of a system of cross-guarantees. At the same time, the intent of this new legislation was to enhance the overall competitiveness and efficiency of the mutual banking system — while maintaining the close ties to local communities that have always been the vocation of mutual banks, the customers of which are, as a result, largely households and small to mid-sized businesses — by signing “Cohesion Contracts” with the various members of the Group that give the Parent Company powers of management and coordination in order to ensure a uniform strategic direction.

The mutual banks, which account for nearly all of the equity and more than four-fifths of consolidated assets, are the driving force of the entire Group and operate through an extensive branch network with a presence throughout Italy. With the help of the participating product companies, the Parent Company ensures that the affiliated banks are able to provide their customers with all the banking, investment and insurance products needed, thereby ensuring that the Group is able to meet the needs of customers throughout Italy despite the smaller sizes of the mutual banks themselves.

As of December 31, 2019, the new Group had total consolidated assets of €155.5 billion, largely in the form of loans to customers and securities, as well as equity of €10.2 billion and own funds made up largely of tier-1 capital at a level amply in excess of regulatory requirements. The close ties to the community are at the core of stability in liquidity even during periods of crisis, with customer deposits remaining a major component of liabilities, having expanded even more during the year.

In terms of profitability, the Group closed the year with net profit of €245 million. The traditional business model ensures that this performance is largely attributable to net interest income and net fee and commission income, both of which ensure total coverage of overhead costs and of risk. Nonetheless, financial performance is also to be assessed in light of the aforementioned mission of the affiliated banks, which see their ties to and support for their local communities as their primary purpose, as explicitly stated under Article 2 of the mutual banks’ standard articles of association.

The rationalization of the network and of the organizational structure over the years, which continued in 2019 with two more mergers, the substantial process of de-risking that began in earnest in coordination with the Parent Company in 2018, and the definition in 2020 of the new Group strategies represent a starting point for a general relaunch of the Group aimed at ensuring overall stability and efficiency.

In this context, the Parent Company, with the effective collaboration of the affiliates and the other Group companies, began a structured strategic planning process in October 2019, aimed at strengthening the Group’s positioning, maintaining sustainability as a key factor differentiating the Iccrea Cooperative Banking Group in the national financial system. With the proactive participation of the affiliates, we have identified the fundamental drivers of the process: robust capital margins to help absorb risks and finance development; value generation with commercial initiatives and cost rationalization; and further reduction of the NPE ratio target. All of this while continuing to devote great attention to the needs of our local markets and our members.

The process, which saw the Parent Company and the affiliates and other group companies work together synergistically, was nearing completion in the early days of March, when the macroeconomic scenario underpinning the forecasts was abruptly turned on its head as a result of the health emergency, unprecedented in the modern era. The seriousness of the situation, which destabilized the market with a resurgence of volatility to levels higher than those recorded following the financial crisis triggered in 2008 by the bankruptcy of the American investment bank Lehman Brothers, prompted European authorities to intervene with unprecedented speed. They further eased monetary policy, which had already been expansionary for some time due to the persistence of a slow growth, and relaxed capital constraints for banks in order to enable them to continue financing the real economy in this moment of particular tension.

The ECB also decided to suspend its request for strategic plans and related NPE and funding plans, pending the arrival of macroeconomic analyzes and projections that factor in the effects of this new crisis. Despite these developments, the Parent Company, pending an update of the Group's strategic plan - which will have to take account of currently unavailable macroeconomic scenarios updated in the light of the new environment - has in any case deemed it essential to follow through with the most significant initiatives contained in the Plan, such as those focused on boosting the efficiency of operations and strengthening commercial and lending activities.

In any case, the planned interventions and the Group's overall situation allow us to remain close to local communities even in this phase, as we have the capacity to provide guidance to our customers in these highly uncertain times, becoming even more privileged partners of the local economic and social fabric, seeking to mitigate the impacts and risks that will emerge from this new difficult situation.

1. EXECUTIVE SUMMARY

Timeline of the formation of 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 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 application for registration in the register of banking groups

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 mutual 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 **800,000 member shareholders**, nearly all of which are either households or small businesses.

Focus on retail customers

At December 2019 the **number of customers with loans** from the Cooperative Banking Group amounted to **1.4 million, or 88% of retail customers** (households and SMEs). The number of **depositors** is equal to **3.2 million, of which around 95% represented by households and SMEs.**

Capital ratios

Capital soundness demonstrated by a **CET1 ratio equal to 15.5%** and a **TCR equal to 16.3%.**

Liquidity indicators

Sound liquidity position with **LCR and NSFR** from the Group's formation equal on average to **255%** and **130%.**

Liquidity reserves at December 31 equal to about **€30.2 billion.**

Assets

The total consolidated assets of the Iccrea Cooperative Banking Group at December 31, 2019 amounted to €**155.5 billion.**

BALANCE SHEET HIGHLIGHTS FOR THE GROUP AS AT JANUARY 1, 2019

The following provides highlights of the consolidated balance sheet of the Iccrea Cooperative Banking Group at the moment of its creation, prepared based on reporting policies in line with those used to prepare the consolidated financial statements of the Group as at December 31, 2019.

The consolidated figures as at January 1, 2019, have been reconstructed based on the final consolidated figures for the former Iccrea Banking Group as at December 31, 2018, and on the final separate financial reports of the mutual banks and other entities included within the Iccrea Cooperative Banking Group, net of eliminations of intercompany transactions and in application of the same consolidation policies adopted in preparing the Group's consolidated financial statements as at December 31, 2019.

The balance sheet

€/thousands	1/1/2019
Financial assets measured at fair value through profit or loss	1,861,601
Financial assets measured at fair value through other comprehensive income	14,604,998
Financial assets measured at amortized cost	125,779,577
Equity investments	169,714
Property, plant and equipment and intangible assets	2,672,007
Tax assets and other assets	5,084,584
Total assets	**150,172,481**

€/thousands	1/1/2019
Financial liabilities measured at amortized cost	135,904,179
Financial liabilities held for trading	266,203
Financial liabilities designated as at fair value and hedging derivatives	111,983
Provisions for risks and charges and termination benefits	737,120
Other liabilities and tax liabilities	3,345,489
Shareholders' equity	9,807,507
Total liabilities and equity	**150,172,481**

The asset structure of the Iccrea Cooperative Banking Group essentially reflects the nature of the affiliated banks and local banks with high levels of customer funding, a prevalence of lending to households and small businesses, and investments of excess liquidity above all in government securities.

As at January 1, 2019, the assets of the new Group exceeded €150 billion, of which about €83 billion was in loans to customers (included in financial assets measured at amortized cost), with two-thirds of this figure going to households (largely for home loans) and smaller non-financial corporations. Financial assets other than loans to customers, totaling around 36% of total assets, were largely in government securities, with about three-fourths allocated to HTC portfolios, in line with the business model of the local banks. As for direct funding, totaling over €100 billion (included in financial liabilities measured at amortized cost), about 90% was in deposits from customers, with bonds accounting for a more limited portion.

Equity as at January 1 came to €9.8 billion and, compared with the previous year, includes the effects of the application of IFRS 9, which – as for the rest of the Italian banking industry – affected both performing loans and a significant portion of impaired exposures, and bad loans in particular.

The table below shows the main indicators related to the credit risk of the new ICBG as at January 1, 2019, so as to show the trends in these indicators for the first half of the year.

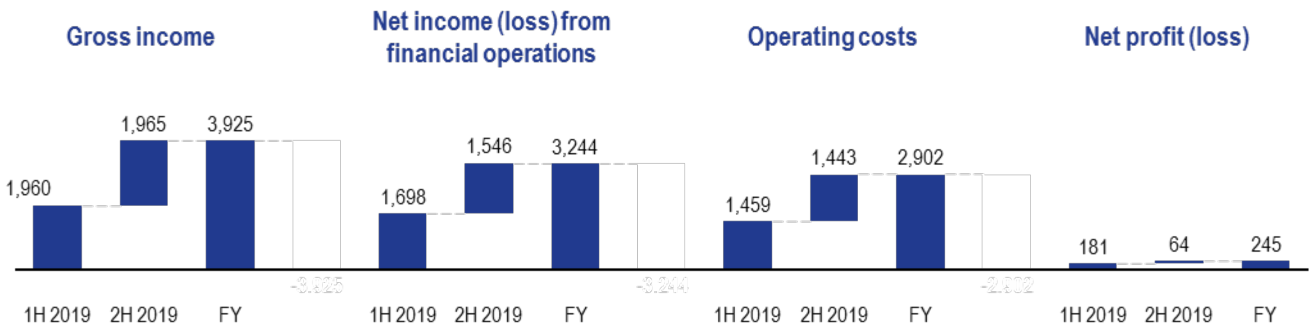
Main ratios	1/1/2019
NPE ratio, gross	14.4%
NPE ratio, net	7.9%
NPE coverage	49.5%
Texas ratio	60.3%

The gross and net NPE ratios benefited from the efforts of the Parent Company in 2018 to improve the risk indicators of the ICBG affiliated banks as a whole, which led to the prudent de-consolidation for accounting purposes of over €4 billion in gross bad debt in 2018 (bringing the gross NPE ratio to 14.4% and the net to 7.9%, from around 19% estimated at the end of 2017). Three-fourths of the total was done by organizing two multi-originator, GACS-backed securitization transactions. The remainder was achieved by way of non-recourse assignments of the portfolio by the mutual banks, partly supported by the Parent Company.

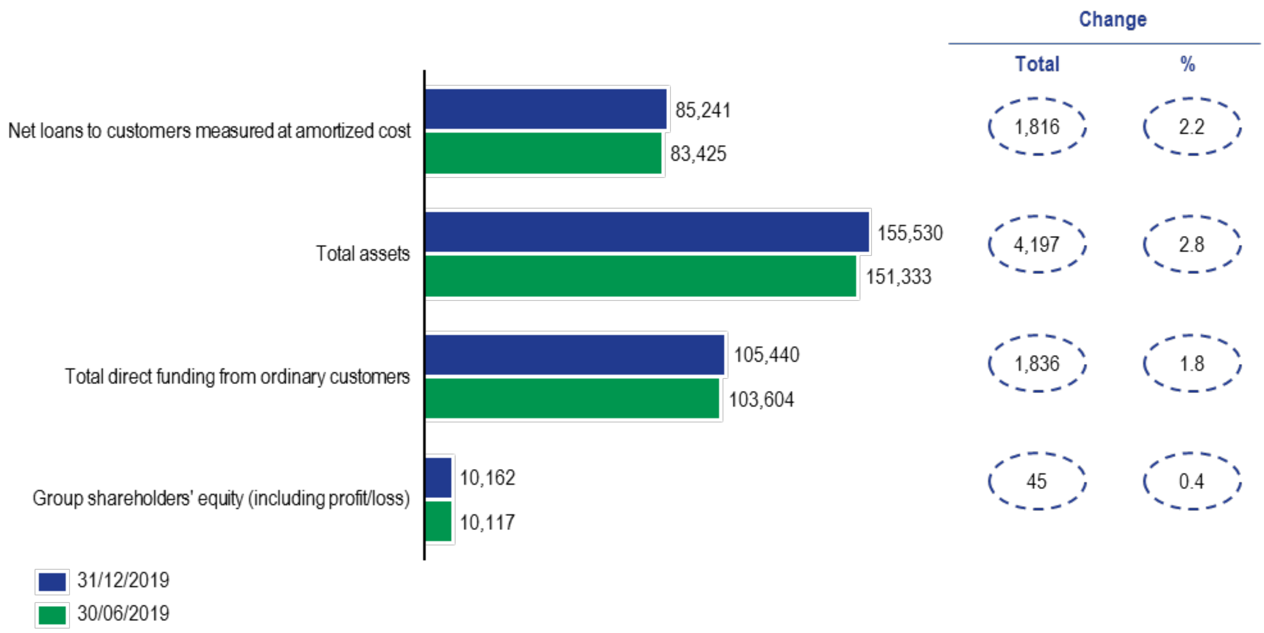
MAIN INDICATORS AT DECEMBER 31, 2019 AND JUNE 30, 2019

PERFORMANCE INDICATORS (amounts in thousands of euros)	31/12/2019	30/06/2019
STRUCTURAL RATIOS		
Net loans to customers measured at amortized cost /total assets	54.8%	55.1%
Direct funding from customers/total liabilities	67.9%	65.3%
Net loans to customers measured at amortized cost /direct funding from customers (loan to deposit ratio)	80.7%	80.0%
Equity (including profit/loss) /total liabilities	6.6%	6.7%
Managed assets/indirect bank funding from ordinary customers	7.7%	
PROFITABILITY RATIOS		
ROE (Net profit)/ net equity including the profit for the period)	2.4%	
ROTE [Net profit/net tangible equity (Equity including profit – intangible assets]	2.4%	
ROA (Net profit/total assets)	0.2%	
Cost/income ratio	73.9%	74.4%
Personnel expenses/gross income	43.3%	42.2%
Net writedowns (writebacks) for credit risk/net loans to customers measured at amortized cost	0.8%	
Net interest income/gross income	59.9%	62.2%
Net fee and commission income /gross income	32.3%	30.9%
Net interest income/Number of employees at end-period	105.8	
Net fee and commission income/Number of employees at end-period	57.1	
Gross income/Number of employees at end-period	176.6	
RISK RATIOS		
Net bad loans/net loans to customers measured at amortized cost	2.2%	3.0%
Writedowns of bad loans/gross bad loans	65.2%	63.9%
Net non-performing loans/net loans to customers measured at amortized cost	6.1%	7.7%
Net UTP loans/net loans to customers measured at amortized cost	3.6%	4.2%
Writedowns of UTP loans/gross UTP loans	38.1%	35.4%
Gross non-performing loans/gross loans to customers measured at amortized cost	11.6%	14.1%
CAPITAL RATIOS - *phased-in*		
Tier 1 ratio	15.5%	15.5%
Common Equity Tier 1 ratio	15.5%	15.5%
Total capital ratio	16.3%	15.8%
Total own funds	11,619,277	11,309,169
of which: Tier 1 capital after filters and deductions	*11,059,993*	*11,131,268*
Risk-weighted assets (RWA)	71,123,849	71,848,046
INCOME STATEMENT, BALANCE SHEET, OPERATIONAL AND STRUCTURAL DATA		
Profit/(loss) pertaining to the Group	238,478	
Gross income	3,924,952	
Operating expenses	2,901,822	
Net loans to customers measured at amortized cost	85,240,858	83,424,929
of which: Net bad loans	*1,854,432*	*2,471,327*
of which: Net UTP loans	*3,057,608*	*3,528,680*
Net non-performing loans	5,208,573	6,426,320
Total direct funding from ordinary customers	105,439,547	103,603,779
Total indirect funding from ordinary customers	40,307,768	
Total funding from ordinary customers (direct + indirect)	145,747,315	
Equity pertaining to the Group (including profit/loss)	10,161,857	10,117,133
Intangible assets	146,462	134,312
Total consolidated assets	155,530,466	151,333,398
Number of branches	2,592	2,600
Number of Group banks	144	144
Number of affiliated mutual banks	140	140
Number of employees at end-period	22,219	22,260
Average number of employees	21,760	21,804

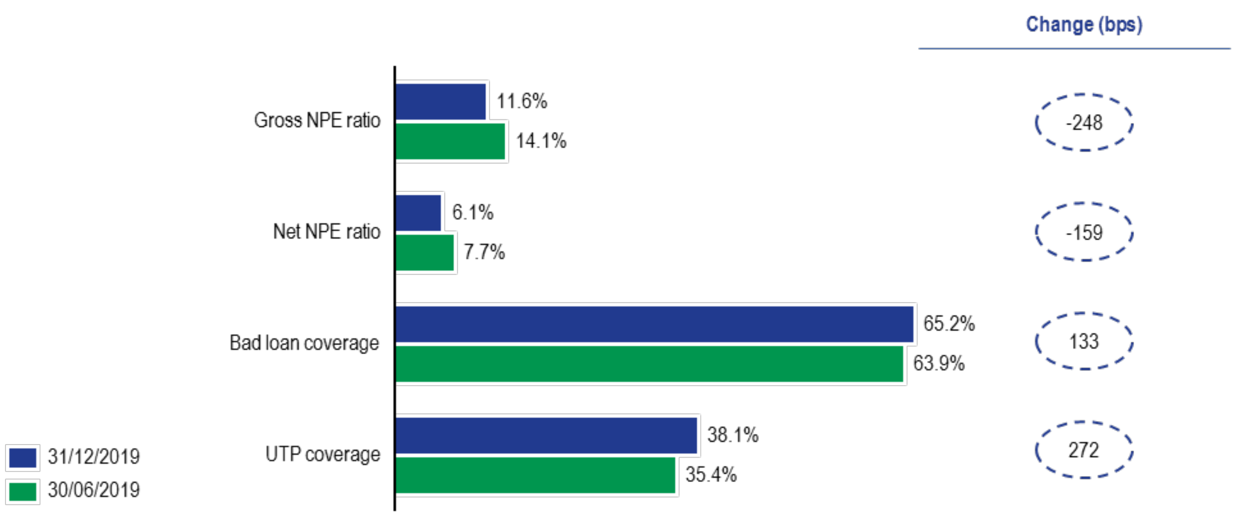
Semi-annual developments in key performance figures (millions of euros)



Key balance-sheet figures (millions of euros)



Key risk indicators (%)



2. ECONOMIC DEVELOPMENTS

THE INTERNATIONAL AND ITALIAN MACROECONOMIC ENVIRONMENT[2] AND THE SITUATION IN BANKING AND THE FINANCIAL MARKETS PRIOR TO THE SPREAD OF COVID-19

The macroeconomic environment

According to the data released by the OECD, world GDP increased by 2.9% in 2019, in line with the projections for 2020, the lowest figure since the financial crisis of 2008-2009. According to the Bank of Italy, economic activity will continue to be negatively affected by the weakness of world trade and manufacturing production. The reduction in global economic growth also reflected trade tensions between the United States and China, which led to a decline in trade between the two countries due to a significant increase in tariffs. Signs of stabilization appeared only towards the end of 2019, thanks to the trade agreement reached by the two countries enabling the US to avoid raising its tariffs further and to cut in half those imposed in September 2019. Expectations of a more orderly withdrawal of the United Kingdom from the EU (Brexit) following Boris Johnson's electoral victory also helped to improve the overall economic situation.

The American economy experienced a sharp slowdown in 2019; GDP grew by 2.3%, compared with 2.9% the year before; projections indicated further softening in 2020 (2%). Household consumption rose, offsetting part of the global uncertainty caused by rising protectionism, thanks to the increase in income and household wealth, and consumer prices grew by about 2% and inflation expectations remained stable at around 1.8%. Investment by firms showed signs of weakening as a result of the slowdown in the world economy and, especially, of trade tensions with China; exports, which fell sharply, were also affected. Given the rising uncertainty concerning the global economy, in 2019 the US Federal Reserve changed direction by adopting more accommodative monetary policy decisions, cutting interest rates by 25 basis points three times in 2019, bringing the federal funds rate to 1.75%.

In the euro area, economic activity was mainly hampered by persistent weakness in manufacturing, aggravated by global trade tensions and the difficulties encountered by the automobile industry. Euro-area GDP rose by 1.2% in 2019, its lowest level since the recession triggered by the sovereign debt crisis in 2010. However, Eurosystem estimates made in December 2019, which do not capture the effects of the crisis sparked by the spread of the coronavirus (COVID-19) epidemic (discussed below), pointed to a decrease in GDP to 1.1% in 2020. Germany, the euro area's leading economy, proved to be particularly vulnerable during the year, with a sudden drop in industrial production in the summer months especially. The negative performance of the manufacturing sector, harbinger of the start of a recessive spiral, was stemmed by the resilience of the service sector, whose expansion further offset the effects of the crisis in the industrial sector. For the area as a whole, economic activity was driven mainly by internal demand, especially household consumption, which rose as employment improved (the unemployment rate was 7.5%) as did wages. Euro-area inflation remained low, averaging 1.2%, still well below the ECB medium-term target of 2%.

As a result of the economic slowdown, the ECB pursued increasingly expansive monetary policy strategies, announcing in the second half of 2019 a new series of targeted longer-term refinancing operations (TLTRO III) tied to lending objectives. In addition, the ECB cut its deposit facility rate to -0.50%, stating that it expects the key ECB interest rates to remain at that level until it has seen the inflation outlook robustly converge to its target. Finally, starting in November 2019 it resumed purchases under the asset purchase program (APP) with a monthly target of €20 billion. The cost of the negative rates was mitigated by the introduction of a two-tier reserve remuneration system by which banks' excess liquidity holdings, that is their reserve holdings in excess of minimum reserve requirements, are remunerated at a rate of zero percent for an amount up to six times the minimum reserve requirement and at a negative rate on deposits above that threshold.

In the international environment described, the Italian economy went through a phase of considerable stagnation throughout 2019, with overall GDP growth of 0.3%. In particular, GDP – after having risen slightly in the first three quarters – remained more or less stagnant from September until the end of the year. This fact was due mainly to the persistent weakness of the manufacturing sector – with industrial production declining by 0.6% in November compared with a year earlier, only partially offset by slightly more favorable performance in construction and, especially, in services. Despite the lack of economic growth, employment tended towards growth (0.7% year on year in the third quarter of 2019) and the unemployment rate fell to 9.7% in November (it was around an average of 10.5% in 2018). The inflation rate – including in relation to the increase in demand for durable and semi-durable goods by households, while disposable income also rose – at December increased by 0.5% compared with twelve months earlier.

[2] The provisional data for the years following 2019 presented in this section do not take into account the corrections needed to reflect the impact of the spread of COVID-19 on the international macroeconomic environment, especially starting from the first half of 2020.

Developments in the credit system and in financial markets

As reported in the Bank of Italy's Economic Bulletin 1/2020, the persistent low interest rate environment in the euro area contributed in 2019 to an increase in lending to the private sector, which stood at 3.7%, a slight acceleration from the 3.5% reported at the end of 2018. This increase is largely attributable to the rise in lending to households, mainly for home purchases. By contrast, lending to firms decelerated, especially in the summer months, relating in part to the contraction in spending on investment. Based on the results of the ECB's bank lending survey, for the first time since the end of 2013, net demand for loans by firms was negative in the fourth quarter of 2019.

In Italy, total lending to the private sector at December 2019 remained essentially stable compared with the preceding twelve months. In particular, in November 2019 loans to non-financial corporations fell by 1.9% compared with twelve months earlier; the growth rate dropped into negative territory, especially as from March 2019. A contributing factor was the marked slowdown in investment owing to the high level of uncertainty, which curbed firms' spending decisions; the availability of own funds probably further contributed to the deceleration in bank loans. Lending to the manufacturing industry and to the service sector weakened in 2019, falling in the latter part of the year, while lending to the construction sector continued to decline considerably. By contrast, lending to households was positive for all of 2019 with an annual growth rate of 2.5% at December 2019, in line with 2018. This was helped by a significant decline in interest rates, especially fixed-rate loans, with an average rate of 1.5%.

Bank funding rose, buoyed by the still robust performance of deposits, especially demand deposits, which have been rising for several years, along with a halt in the drop of the stock of bonds, after almost eight years of ongoing contraction. The recovery in issues of bonds by banks on the wholesale market benefitted in the second half of 2019 from the significant reduction in the sovereign debt spread. Overall, taking into account as well the resource to Eurosystem refinancing and funding by non-residents, total funding rose by an average of around 2% annually compared with 2018.

The interest rates charged by banks in Italy hit historic lows. As an annual average, in 2019 the rates on new loans to firms of less than €1 million remained broadly the same as in 2018, while those on loans for higher amounts fell. Rates charged for mortgage loans to households also reached new lows. As regards deposits, low official rates and large stocks of liquidity are responsible for the persistence of rates on current accounts at close to zero. By contrast, the average rate on new time deposits rose, especially for new longer-term deposits by households. The total cost of the stock of customer funding was lower than for 2018, due to the recomposition of the aggregate towards less onerous forms and a further decrease in the average rate on outstanding bonds. As a result of these dynamics, bank spreads were essentially stable throughout 2019.

As for the performance of the financial markets, 2019 saw a general increase in the risk appetite of investors in international stock markets, translating into a largely positive performance for stock market indexes, with the size of the gains varying by geographical area. A particularly large contribution came from central banks' expansionary monetary policies to support an economic cycle that was tending to slow, and to the lower bond yields, which drove investors to seek higher returns on riskier products.

As indicated, while the intensity differed, all the world's major financial centers posted gains. In particular, the Euro Stoxx index ended 2019 up 23.0% and the US S&P 500 performed even better (+28.9%). The leading Asian stock markets were also broadly positive (the Nikkei 225, +18.2%; the Chinese SSE A-Share, +22.4%).

In Italy – with the first half of 2019 characterized by a high degree of macroeconomic uncertainty, on the basis of an only moderate improvement in the performance of the financial markets – in the second half of the year investors' risk appetite turned upwards, driving the financial markets. This performance is connected to more reassuring news regarding trade tensions between the US and China and expectations of a more orderly Brexit. In this environment, the stock market, especially, saw a sharp improvement in performance: the Italian stock market recorded a considerable improvement overall, ending the year up by about 30% compared with the end of December 2018. Specifically, the FTSE MIB index ended 2019 up 28.3% and the FTSE Italia All Share index up 27.2%.

The performance, risk and capital position of Italian banks

In 2019 the profitability of Italian banks fell compared with the preceding year, mainly owing to the decline in net interest income caused by persistent low interest rates; an increase in taxes also contributed, having benefited in 2018 from the recognition of deferred tax assets due to the first-time adoption of IFRS 9. For significant banks, ROE stood at 5%, down 1% compared with the year before. This performance was in line with that recorded for the euro-area banks, whose profitability remained low in light of the persistent low-interest-rates environment. In Italy, in many cases, in addition to the erosion of net interest income, cost inefficiencies (along with a slight increase in the cost associated with credit risk) also continued to negatively impact banks' long-term outlook. These pessimistic earnings expectations led in part to a price-to-book ratio (ratio of the market value of Italian banks to their book value) of less than 1, below that of the other European banks.

As regards the riskiness of credit, in 2019 Italian banks consolidated the progress made in 2018. The credit quality ratios confirm the improvements, thanks mainly to: smaller inflows of non-performing exposures, standing at around 1.2%, below the pre-crisis levels despite economic stagnation; more effective credit recovery actions undertaken by the major national players; disposals and securitizations completed – equal to €31 billion overall in 2019, in which €23 billion in bad loans and €8 billion in other non-performing exposures, some €6 billion greater than planned at the start of the year.

In December 2019, in Italy non-performing loans (totaling €147 billion) made up 6.7% of total loans (3.3% net) compared with 8.7% at the end of 2018, with an average coverage ratio just slightly up on the end of 2018 (52.4%). Given the significant disposals, especially of bad loans, which have higher levels of coverage than other non-performing exposures, Italian banks continued, as they have for some years, to take action to cover non-performing loans to a greater extent. Despite the progress made, the NPE ratio for Italy's significant banks was still 1.4% higher than the average for European banks.

Although financial stability conditions remained difficult, banks' resilience nonetheless improved despite the existence of risks. In fact, at the end of 2019, Italian banks' CET 1 ratio stood at 13.9%, 40 basis points higher than in the first half of the year, thanks mainly to the increase in own funds.

IMPACTS OF THE SPREAD OF THE COVID-19 VIRUS ON THE MACROECONOMIC ENVIRONMENT

The effects of the spread of the virus on the financial markets and on the macroeconomic forecasts

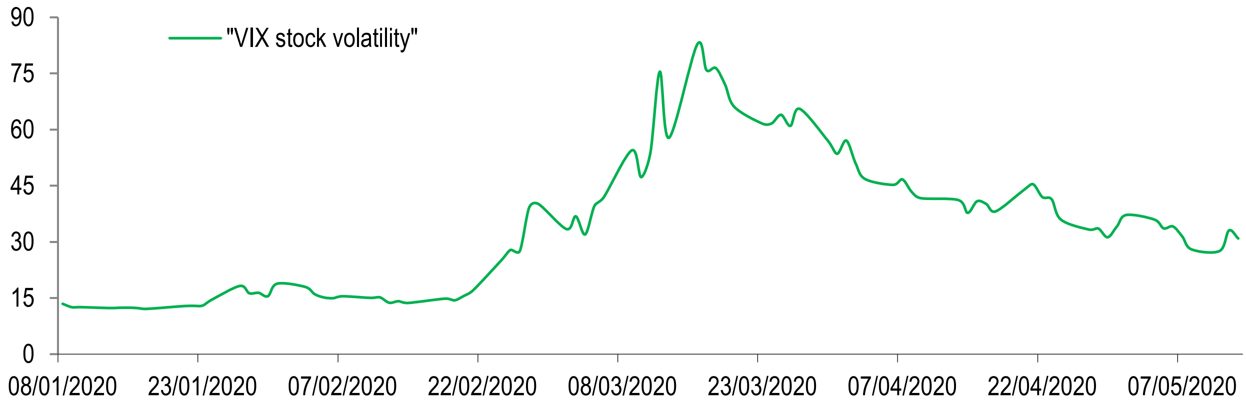
The outlook for macroeconomic conditions has undergone an unexpected reversal as a result of the health emergency, a crisis without precedent in the modern age. Its effects on the real economy and on the financial system, which at this time cannot be estimated with a sufficient degree of accuracy, will also depend on the intensity and the duration of the emergency and on the effectiveness of the measures that have been taken (or that will be adopted in the future, if necessary) by supranational and national authorities.

In particular, between the end of 2019 and the start of 2020, the COVID-19 epidemic spread first in China and, subsequently, in the rest of the world. In China, the epicenter of the contagion, which began in the crowded city of Wuhan with 11 million inhabitants, efforts to contain the virus led to an extended quarantine and to other measures that significantly restricted the mobility of workers and travelers, which had the effect of causing the local and foreign economy to contract. However, these measures had a positive impact in the short term, sharply curtailing the contagion and mortality, especially from March 2020 onward.

The spread of COVID-19 is having major macroeconomic repercussions and there is a climate of rising international tensions in many countries, starting with China, whose effects have extended throughout the rest of the world as a direct consequence of the high degree of globalization and economic and financial interconnection between the various countries.

China's role as a major player in industry and trade – especially as a producer of intermediate goods, mainly computers, electronics and pharmaceuticals – has had a negative domino effect on the business of the rest of the world. The isolation imposed by the spread of COVID-19 has, in fact, weakened the global production chain, depleting final demand for imported goods and services and causing a massive decline in international tourism and business travel.

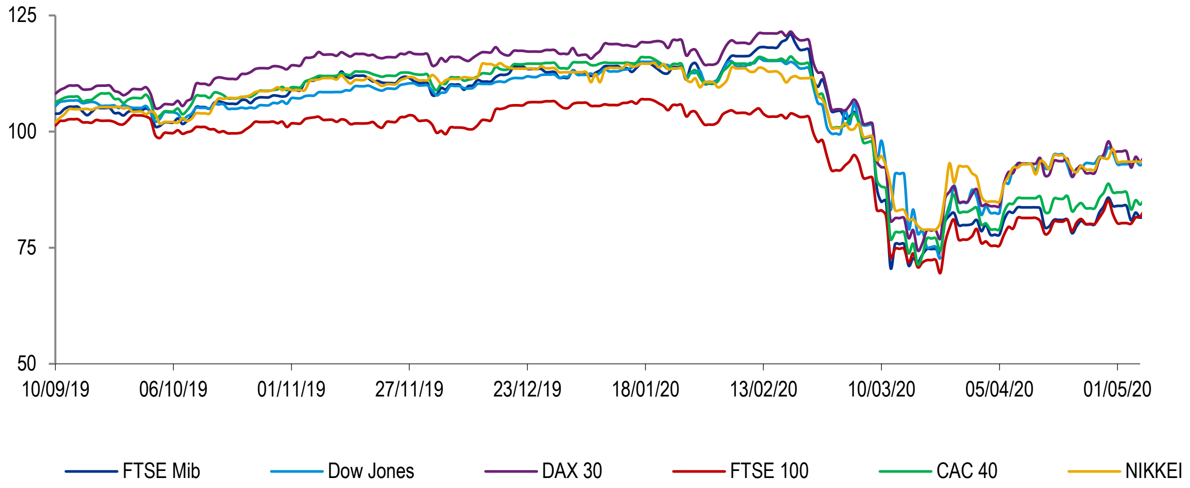
The gradual shutdown of economic activity due to the spread of the COVID-19 epidemic has had an impact on the performance of global financial markets, which had been facing rising tensions since the start of 2020, culminating in the shock registered in mid-March.



Source: Bloomberg

The progressive transmission of the crisis linked to contingent developments from the real economy to the financial markets sparked exceptional volatility in share price movements: the VIX volatility index,[3] which had been basically stable for months, rose 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.

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



Source: Bloomberg. Data on scale of 100

This climate of uncertainty in the financial markets – in addition to being reflected in interest rates, which fell to new lows, particularly the US 10-year rate – triggered a spiral of equity sales, which drastically pushed down their prices; the main stock indexes fell by more than 40% between February and March.

The monetary policy actions decided by the authorities, especially in Europe and the US, between March 10th and 20th, bolstered confidence, prompting a recovery of some of the enormous losses registered.

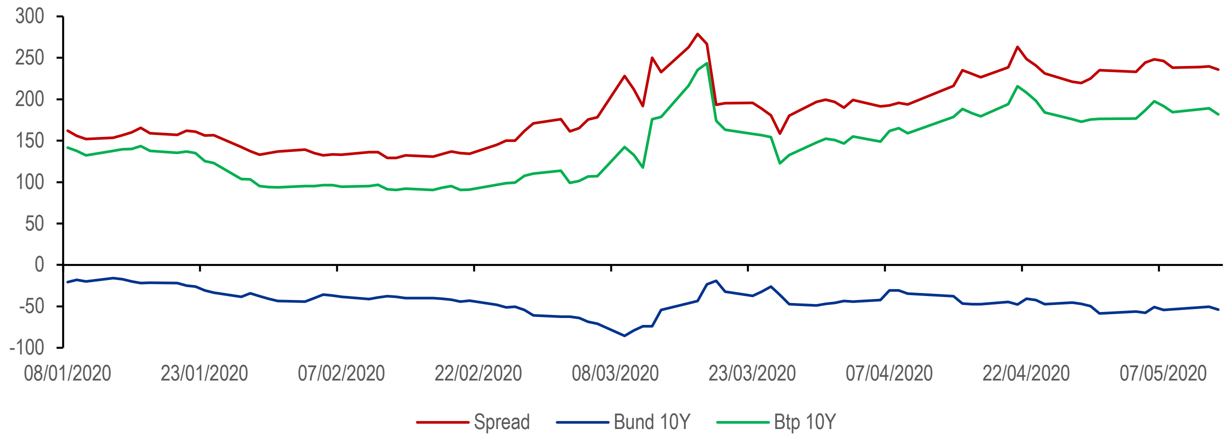
The lack of confidence that pervaded the financial markets, together with the industrial slowdown and the drop in exports, contributed to the downward revisions of estimates for economic growth at global level, at least in the short term. This revision was not limited to countries whose economies have the greatest ties to China (in particular, Japan, South Korea and Australia), but also other countries that were hit hardest by the spread of the virus.

Within this scenario, Italy was among the countries that reported the largest number of infected people, with critical levels concentrated in specific areas of Northern Italy, traditionally the driver of the national economy. The extent of the contagion's spread severely tested the national health system's capacity and reaction time, prompting the Italian authorities to implement extraordinary measures to restrict movement and to close schools and universities, suspend those services and productive activities deemed non-strategic or non-essential, postpone sporting and other public events. During this phase, businesses and public institutions took the necessary steps to maximize the use of remote working, where possible.

The limitations imposed by the Government and the spread of the contagion severely crippled households' propensity to consume, adding to the climate of economic instability, hitting small and medium-sized enterprises especially hard.

The situation that arose as a result of the spread of COVID-19 came on top of existing problems tied to the weakness of the economic recovery, to the high level of total debt and to the deterioration in credit quality. Given this scenario there was a risk of a recession that – in addition to a reduction in production levels and export volumes, and in general lower aggregate demand – could further increase the cost of sovereign debt and, especially, the debt-to-GDP ratio, with potential negative effects on the country's rating.

These dynamics were also reflected in the BTP-Bund spread, which in mid-March exceeded 300 basis points, while the yield on the Bund was rising. The ECB therefore intervened twice to inject confidence in the markets and support the integrity of the banking industry, promoting particularly favorable financial conditions described in more detail below. These actions had the immediate effect of reducing the spread in the days after it reached its peak.



Source: Bloomberg. Figures in basis points

As proof of the uncertainty arising from the lack of estimates concerning the time needed to solve the healthcare emergency, the forecasts produced by the leading research institutions, while converging towards scenarios that were worse than the projections made prior to the spread of the virus, nevertheless differed among themselves. More specifically, on March 20, 2020 Oxford Economics adjusted its forecast for developments in Italy's GDP for the current year, going from a projection of 0.4% growth prior to the COVID-19 crisis to a 3.0% contraction (anticipating potential additional downward revisions), with a clear reversal of the trend in 2021 (Italian GDP +2.8%). Prometeia, in a study published on March 27, 2020, offered more pessimistic projections. While assuming a slow and selective removal of the restrictions on production starting in early May 2020, it forecast that Italian GDP would drop 6.5% (a little greater than the forecast of Confindustria, equal to -6%), with a gradual rebound in the autumn and a reversal of the trend only in 2021, a year in which GDP growth could reach 3.3%. Finally, the International Monetary Fund, in its *World Economic Outlook*, projected that Italian GDP would contract by 9.1%, with forecast growth of 4.8% in 2021.

At the European and world levels as well, the forecasts made following the spread of COVID-19, while still marked by an overall environment of uncertainty, converge towards the downside. Prometeia, in its study, estimated a contraction in GDP of 5.4% for Europe and 1.6% for the world in 2020, while the IMF estimated that world GDP would fall 6.4% and euro-area GDP by 8.8%, before increasing by 2.2% and 3.3% respectively in 2021.

Expected impact on the banking system

The effects of the COVID-19 epidemic could adversely impact the overall technical situation of European banks, even if currently the unpredictability of the effects of the spread of the virus and the measures taken by national and European authorities make it impossible to produce a reliable estimate of that impact.

The global situation that has been created could cause the banks to post lower profitability from normal operations and possibly a deterioration in credit risk, the scale of which depends on the duration and depth of the recession, in addition to the initial technical status of the individual banking groups. In any case, the actions taken to buttress the capital and liquidity position of the European and national banking system by the authorities after the 2008 crisis, tied to efforts to boost overall efficiency and increase de-risking pursued by the banking system in recent years, mean that banks are generally much more resilient to market shocks right now.

As described in more detail further on, the government measures taken to support households and firms to cope with issues connected with the COVID-19 pandemic, and not difficulties deriving from idiosyncratic crises unrelated to COVID-19, have also helped to mitigate the negative effects of current developments on the real economy, thereby mitigating the risks to the banking industry as well. The robust monetary policy decisions taken by the competent bodies and the response of the European supervisory authorities to counter the pro-cyclical effects of the prudential measures envisaged under the existing regulatory framework, launched in March 2020, will also help to stem the effects of the current crisis.

According to the Bank of Italy,[4] the crisis sparked by the pandemic could further weaken Italian banks' profitability as a result of the possible contraction in economic activity, which could exacerbate the decline in interest income and could also cause a drop in fees and commissions that, should the tensions in financial markets persist, could also lead to a fall in subscriptions of asset management products. Small banks and/or those with a traditional business model, which before the pandemic had already been finding it difficult to maintain satisfactory profitability levels, could be hit particularly hard by the shock.

The profitability of Italian banks could also be affected significantly by the potential increase in the cost of risk, especially if the crisis is protracted over time. In fact, although banks have completed massive sales of bad loans in recent years, around half of the NPLs carried by

[4] Financial Stability Report 1/2020.

banks on their balance sheets consist of unlikely-to-pay exposures, which could further worsen in terms of expected recoveries and the resulting increase in their expected losses (and the associated loan loss provisions) give the fact that a large portion of the NPLs have been excluded from the Government's measures to support lending by banks to firms.

Accordingly, banks are currently revising their plans to reduce their NPLs in 2020 to take account of the impact of the pandemic on the flow of new NPLs and on their ability to sell these positions on the market, also considering the Government's measures extending the time allowed for ongoing civil judicial proceedings, which could result in these loans remaining on banks' balance sheets and/or could hamper investment by operators that specialize in purchasing NPLs.

THE RESPONSE OF EU AND ITALIAN AUTHORITIES TO THIS NEW SCENARIO[5]

The evolution of events prompted the EU and Italian authorities in March 2020 to adopt important regulatory measures to ensure the capacity to maintain the necessary financial support for the real economy, supporting measures to suspend instalment payments and maintaining cash support for households and SMEs. These measures accompany those taken by the ECB as part of its ordinary and extraordinary monetary policy actions.

Measures adopted by the European Commission: the Temporary Framework

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, imposing on them 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*). In summary, the measures regard:

- aid in the form of direct grants, repayable advances or 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, for an amount of up to €800,000 per undertaking by December 31, 2020;
- the possibility to receive public guarantees on loans for a limited period, at reduced interest rates, to ensure sufficient liquidity for undertakings that find themselves facing a sudden shortage of liquidity. 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;
- the applicability of reduced interest rates on loans, at least equal to the base rate (1-year IBOR or equivalent) applicable on January 1, 2020, plus the credit risk margins set by the European Commission based on loan counterparty and maturity;
- the possibility to obtain public guarantees and loans channeled through credit institutions or other financial institutions. This aid does not qualify as extraordinary public financial support and should not be assessed under the State aid rules applicable to the banking sector. The credit institutions or other financial institutions should, to the largest extent possible, pass on the advantages of the public guarantee or subsidized interest rates on loans to the final beneficiaries, for example in the form of higher volumes of financing, lower guarantee premiums or lower interest rates;
- short-term export-credit insurance, excluding marketable risks which therefore cannot be covered by export-credit insurance with the support of Member States.

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 it began to conduct, temporarily, 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 this 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 in case of need;
- 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. These operations as a whole are

[5] Based on information available on the date of approval of the financial statements.

intended to support bank lending to those affected most at a financial level by the spread of COVID-19, in particular small and medium-sized enterprises;

- creating a temporary envelope of €120 billion available until the end of 2020, 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;
- additional net asset purchases of €120 billion will be added until the end of the year, ensuring a strong contribution from the private sector purchase programs, through more favorable financing conditions for the real economy;
- 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 18th 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 (CSPP) to non-financial commercial paper of sufficient credit quality eligible for purchase.

In addition, on April 7, 2020 the ECB Governing Council approved a package of measures aimed at further easing eligibility criteria and the risk control system for assets offered as collateral for Eurosystem financing operations, in response to the economic and financial crisis sparked by the coronavirus pandemic. The measures are intended 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.

Finally, at its April 30 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 the period could therefore reach -100 basis points;
- it introduced a new series of pandemic emergency longer-term refinancing operations (PELTROs) to further support liquidity conditions in the euro area financial system, with a series of monthly operations maturing through September 2021;
- since the end of March, purchases have been conducted under the new pandemic emergency purchase program (PEPP), which has an overall envelope of €750 billion. These purchases will continue to be conducted in a flexible manner over time, across asset classes and among jurisdictions;
- 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;
- the principal payments from maturing securities purchased under the APP will continue to be reinvested in full.

Banking supervision measures adopted by the ECB-SSM and by 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 goal in mind, banks were given the power to:

- fully use their capital and liquidity reserves, including those under the Pillar 2 Guidance;
- take advantage of specific relief regarding the composition of regulatory capital in calculating the Pillar 2 Requirements;
- enjoy a certain degree of operational flexibility granted by the competent authorities in implementing specific banking supervision measures;
- benefit from a high degree of flexibility concerning the treatment of non-performing loans (NPLs) in terms of classification of UTP loans and in terms of provisioning in the income statement.

More specifically, the ECB will allow banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance (P2G), the capital conservation buffer (CCB) and the liquidity coverage ratio (LCR), a measure that could be furthered enhanced by an appropriate relaxation of the countercyclical capital buffer (CCB) by the national authorities. In light of the above, the ECB supported the EBA's decision to postpone the 2020 EU-wide stress test to 2021.

As for NPLs, the ECB indicated that:

- for exposures subject to public guarantees granted in the context of State measures taken to combat the effects of COVID-19, supervisors will be given flexibility regarding the classification of debtors as UTP;
- those above exposures will therefore benefit from preferential treatment for NPLs backed by office credit export agencies (minimum coverage expectation equal to 0% for the first 7 years following classification as NPLs);
- for exposures subject to moratoria and not covered by public guarantees, there will be additional flexibility allowed regarding the classification of debtors as UTP;
- with regard to the application of the expected credit losses (ECL) governed by IFRS 9, banks (i) must apply the transitional arrangements provided for by Article 473(a) of the CRR (phase-in of IFRS 9) and (ii) must sufficiently take into account, in the predictive models used to estimate the cost of credit, 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 that "it will 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 20 the Bank of Italy, in line with the actions taken by the ECB and the EBA Guidelines, extended the deadlines for a number of important reporting obligations by banks (60 days for the submission of ICAAP (Internal Capital Adequacy Assessment Process), ILAAP (Internal Liquidity Adequacy Assessment Process), recovery plans, and reports on outsourcing; 150 days for the submission of the first Report on Operational Risks and Safety for banks; and 90 days for NPL plans for less-significant banks).

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 by 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 September 30, 2020 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.

On April 6, the Council of Ministers approved another decree (the “Liquidity Decree”) which introduces 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: access to credit and deferral of some tax payments; bankruptcy and corporate law; 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); (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. This measure will make it possible to free up another €200 billion in SACE’s balance sheet that can be used to grant guarantees on market terms and conditions even after 2020; 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.

These measures are aimed at ensuring business continuity during the emergency. In particular, the prudence and continuity criteria will be assessed in preparing these financial statements on the basis of the information reported in in the most recent annual financial statements closed by the company, while the grounds for dissolving a company owing to the reduction or loss of share capital have been temporarily deactivated.

The decree also introduces measures regarding the bankruptcy laws to prevent companies from initiating bankruptcy or other proceedings based on insolvency until the emergency has ended and to sterilize the emergency period for the purposes of determination of actions to protect creditors.

Finally, with the "Revival Decree", approved in May, the Government introduced additional measures, totaling over €100 billion, to guarantee 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 adopted in support of SMEs consist mainly of grants, capital strengthening, recapitalization of firms in strategic sectors and the issue of SACE guarantees for export credits. In addition, the decree contains measures specifically for safeguarding the banking system and small banks and, especially, for public guarantees for new bank bond issues and public support in the liquidation of small banks (excluding mutual banks).

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 the 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, unlikely-to-pay or forborne. 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 public and private moratoria in response to the COVID-19 epidemic, 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. Given that public and private moratoria should be treated similarly to the extent they have similar purposes and characteristics, the EBA has reserved the right to provide relevant guidelines and criteria.

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 payments services providers (PSPs) 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 has reviewed certain ongoing activities, extending the deadlines of public consultations and, especially, the remittance date for funding plan data and, in coordination with the Basel Committee, the submission date for the QIS based on 2019 data.

With regard to the same issues and in coordination with the EBA, on March 25, 2020 ESMA also issued a statement 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 particular, 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 a significant increase in credit risk.

With regard to the determination of the expected credit loss (ECL), ESMA clarified that banks must take due account of *(i)* the nature of the COVID-19 shock (whose effects are expected to be temporary) and *(ii)* the impact that the economic support and relief measures (including debt moratoria and public guarantees) will have on the credit risk over the expected life of the instruments. In particular, ESMA stressed that in assessing whether the credit risk has increased significantly, account should be taken, in applying the standard, of only the changes in the lifetime risk of default, i.e. over the entire expected life of the instrument. In light of the public guarantees envisaged in the economic support measures that have been introduced, the calculation of the ECL must take account of the potential enforcement of these guarantees and the strengthening of the credit positions that they make possible.

With reference to IFRS 9 in terms of the implications of relief measures on the derecognition of financial instruments, ESMA clarified that derecognition depends on whether they are substantial. If the support measures of national government or EU institutions take the form of temporary relief to debtors affected by the COVID-19 outbreak and the net economic value of the loan is not significantly affected the modification would be unlikely to be considered substantial as used in the standard.

Finally, 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. If banks find themselves in such a situation, they should consider making post-model management adjustments. More specifically: (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. The IASB also encourages the industry to follow the guidelines provided by the other authorities (especially the ECB, EBA and ESMA), with whom it has engaged.

On April 3 the Basel Committee intervened, stating how the extraordinary measures taken to alleviate the economic and financial impact of COVID-19 must be reflected in capital requirements.

As better explained herein, and based on the foundation of the earlier guidance and recommendations, on April 28, 2020 the European Commission presented a banking package to facilitate lending to households and businesses to mitigate the economic impact of the COVID-19. The package includes an interpretive communication, which confirms the recent statements on the use of flexibility use of the flexibility that is embedded in the existing accounting and prudential rules expressed by international standard setters and European sector authorities, as well as some proposed modifications to EU banking regulations, to be adopted quickly so that they can come into force by the summer. The legislative measures have the stated objective of maximizing banks' lending capacity and to absorb losses related to the COVID-19 outbreak, while remaining consistent with the overall prudential framework.

3. CREATION, AUTHORIZATION AND LAUNCH OF THE ICCREA COOPERATIVE BANKING GROUP

In 2018 and the first few months of 2019, work was completed on the key steps leading up to the creation of the Iccrea Cooperative Banking Group (ICBG).

On April 27, 2018, following 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,[6] Iccrea Banca, with the constant support of the participating mutual banks, began the Group's authorization procedures with the submission of the application to the ECB and the Bank of Italy with the preparation and transmission of the related application and supporting documentation. On July 24, Iccrea Banca received the ECB's declaratory finding in accordance with Article 37-ter, paragraph 2, of the Consolidated Banking Act.

Therefore, in September 2018, with the consolidation of the legislative framework concerning the Law 108/2018 reform, the process of Group participation began with the definition – as per the agreement between the participating mutual banks and the Parent Company – and subsequent approval by shareholders of the changes to the articles of association of the mutual banks based on the standard template for participating mutual banks and of the new rules for shareholders' meetings and the appointment of officers of the Iccrea Cooperative Banking Group.

The participating mutual banks then signed the Cohesion Contract and the Guarantee Agreement, which were submitted to the Bank of Italy and the ECB, along with the amended articles of association, on January 18, 2019 along with the application for entry in the Register of Banking Groups.

With this registration of the Iccrea Cooperative Banking Group (ICBG) with the Register of Banking Groups on March 4, 2019, the authorization process required under the mutual banking reform was completed.

As the reader will be aware, this reform of Italy's Consolidated Banking Act 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, 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. In essence, the reform did not bring changes to the rules in Italy governing the cooperative, local nature of mutual banks, but rather removed any obstacles that, in this increasingly complex market and legislative landscape, could have, over the medium to long term, reduced the ability of mutual banks to serve their communities with their traditional business model and the smaller size of each individual bank.

The Cohesion Contract

The approach adopted calls for formation of a group based on contractual arrangements between a central body and the affiliated mutual banks. The mutual banking group therefore hinges on this "Cohesion Contract" (as per Article 37-bis of the Consolidated Banking Act), by which the affiliated banks grant the Parent Company powers of management and coordination, exercised on a proportionate basis and as a function of the relative health of the affiliated banks themselves (i.e. a risk-based approach).

Signed in January 2019 by all affiliated banks, the ICBG Cohesion Contract establishes the rights and obligations of the members of the Iccrea Cooperative Banking Group and also acknowledges the powers of direction and coordination granted to the Parent Company. These powers are to be exercises, in particular, in areas in such as corporate governance, strategic planning, risk management, internal controls, information systems, and guarantees. In this regard, in addition to the general powers of guidance and coordination of the group and of subsidiaries, the Cohesion Contract also governs the specific powers needed in order to ensure the unity and effectiveness of the systems of management and control at the consolidated level and compliance with the requirements of prudence, with the reporting obligations of the group and all its members, and with other banking and financial-service laws and regulations. To these powers, we can add those that are specifically related to governance of the affiliated banks, particularly as concerns the formation and appointment of corporate bodies and officers by way of provisions in the standard articles of association of the affiliated banks and specific rules of nominations and of meetings of shareholders, rules concerning cases in which the Parent Company may appoint, oppose, or remove one or more members of the boards of directors and of auditors of the affiliated banks, until establishment of a majority, as well as related procedures. As such, these powers entail an exception to the rule maintained in the Consolidated Banking Act for mutual banks that appointment of members of the boards of directors and of auditors is the purview of the competent corporate bodies.

The Parent Company is required to exercise its powers of management and coordination with the goal of ensuring the stability of the Group and all its members in full compliance with the principle of sound, prudent management, while supporting the affiliated banks in their pursuit of the objectives established in their articles of the association and promoting the cooperative spirit and local nature of the mutual banks and of

[6] The mutual banking reform began with Decree Law 18 of February 14, 2016, as amended and ratified with Law 49/2016, which introduced the concept of "mutual banking group" as defined under Article 37 of the Consolidated Banking Act. The provisions of this law are supported by secondary implementing legislation of the mutual banking reform issued by the Bank of Italy (in its circular no. 285 of December 17, 2013, specifically in Part III, Chapters 5 and 6), which was then followed by legislation definitively implementing the reform (November 3, 2016). The primary legislation was supplemented with Decree Law 91 of July 25, 2018, as amended and ratified with Law 108/2018 and as further amended with Law 136 of December 17, 2018. Finally, the amendment with Article 1 paragraph 1072 of Law 145/2018, which introduced point 2-*bis* of Article 38 of Legislative Decree 136 of August 18, 2015, concerning financial reporting for banks, established the procedures for preparing consolidated reports, stating that, in the case of mutual banking groups, as defined under Article 37-*bis* of Legislative Decree 385 of September 1, 1993, the parent company and the mutual banks affiliated by way of "cohesion contracts" represent a single consolidating entity.

the Group as a whole. Involvement of the affiliated banks also occurs in specific occasions for consultation with the mutual banks, as established in the Consolidated Banking Act, in which they issue non-binding opinions to the Parent Company.

Early Warning System

In 2018 and the first half of 2019, within the scope of efforts to launch the ICBG and as an essential prerequisite relating to the evaluation process that resulted in the ECB authorizing the creation of the Group, the Parent Company completed work to define and implement the early warning system (EWS) and to make operational the provisions of internal regulations and implement the Cohesion Contract with regard to the system of cross-guarantees. The early warning system, in particular, is the tool established to monitor the organization and the financial performance and standing of the affiliated banks and is made up of a set of principles, rules, assessment areas, indicators, and mechanisms of classification and interaction between the Parent Company and the affiliated banks, along with the actions that can be taken by the Parent Company in order to effectively exercise the powers of control, intervention, and sanctioning of the affiliated banks in relation to their levels of risk.

The overall set of documentation concerning the EWS, which establishes the model of governance (i.e. roles and responsibilities), the key elements, and related procedures and methods of operation, was produced and approved by the Parent Company and provided to the affiliated banks for adoption.

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 injections of capital or liquidity to support 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 to be carried out by the Parent Company alone, drawing on the financial resources made available by the various members 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.

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.

Support efforts 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) making use of the Ex Post Quota of the readily available funds by way of special-purpose lines of credit or using ex ante funds;
- any other form of intervention deemed appropriate by the Parent Company.

After entering the ICBG in the Register of Banking Groups, the Parent Company issued the internal regulations governing the operation of the cross-guarantees described above, including the principles of governance, the rules of functioning and operation, the roles and responsibilities of the corporate bodies and functions involved in the Guarantee Scheme, the accounting procedures, the rules of prudence, the models of assessment, the policies for investing cross-guarantee funds, and the procedures for activating and managing intercompany support efforts. These measures were transmitted to the mutual banks, which adopted them by way of resolutions of their boards of directors.

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 early warning system thresholds.

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.

In accordance with the Cohesion Contract, the affiliated banks earn a return on funds paid into the Guarantee Scheme. More specifically, affiliated banks that generate a greater guarantee than the assigned amount pay a premium to the affiliated banks generating a guarantee that is lower than the assigned amount. The premium paid/received by the affiliated banks for their contribution to generating/covering the guarantee is calculated by applying a rate of return established annually by the Parent Company in a manner that varies depending on the type of guarantee requirement assigned and generated (both ex ante and ex post).

Implementation of the new governance structure

On January 10, 2019, the shareholders of Iccrea Banca approved the new articles of association, amended in execution of laws and supervisory provisions concerning the establishment of the ICBG by adding new provisions or by adapting or eliminating provisions that were no longer compatible with said laws and regulations.

The main changes include the following:

- the introduction of a new section of articles that describe the special features of the ICBG, especially as concerns the actions of the Parent Company (Article 6), the procedures for the admission, exclusion and withdrawal of ICBG affiliated banks (Articles 7, 8 and 9), and the Guarantee Scheme (Article 10);
- amendments to the provisions concerning the organizational structure. In particular, in accordance with applicable statutory provisions, at least 60% of the ordinary share capital of the Parent Company must be held by the affiliated banks (Article 14.3). The articles of association also state that no shareholder may hold, either directly or indirectly, more than 10% of shares with voting rights (Article 13.2);
- actions aimed at revising the appointment, composition and functioning of the Board of Directors.

As concerns the appointment of the members of the Parent Company's Board of Directors, it should be noted that, in addition to the outgoing members of the board, shareholders holding at least 15% of share capital may also present slates for the appointment of new directors. With regard to the actual composition, the Board of Directors appointed on April 30, 2019, has 15 members, ten of whom were appointed from among the affiliated banks' boards of directors, four are independent and non-executive directors, while one, who also serves on the Executive Committee, only meets the independence requirements. Given that applicable regulations require directors coming from the affiliated banks to be selected based in part on merit and performance, the articles of association state that directors of banks that have been involved in corrective measures or received intercompany support, as well as individuals who have been officers at affiliated banks during the two years prior to such actions, are ineligible for appointment.

In accordance with the role of Parent Company within the ICBG, the responsibilities of the Board of Directors have been updated to include specific responsibilities concerning the affiliated banks, including as regards the appointment of their officers and approval of transactions of strategic importance that concern them.

Finally, board committees now also include a new committee alongside the existing remuneration, risks and appointments committees. Known as the Affiliated Bank Controls & Interventions Committee (ABCI), it is made up solely of independent directors and provides specialist support in evaluating issues related to the classification of the affiliated banks. The committee has advisory and assessment powers within the scope of the Guarantee Scheme and of the system of affiliated bank controls and interventions. The ABCI Committee has also been given the functions of related party transactions committee.

Amendments to the articles of association of the affiliated banks

Within the framework of the aforementioned mutual banking reform and in line with the new provisions of the amended Consolidated Banking Act, new supervisory regulations, and the Cohesion Contract, the standard articles of association of the mutual banks continues to serve as the focal point of the various sources governing these banks. The main changes made to the articles of association of the affiliated banks were made necessary for participation in the Group and to take account of changes in laws and supervisory regulations.

In particular, new provisions have been included that describe the banks' participation in the Group, the powers of management and coordination of the Parent Company, and the obligations defined in the Cohesion Contract and in the Guarantee Scheme, which are exercised in part by way of binding measures of the Parent Company. These powers, as defined in primary legislation and in supervisory regulations, concern observance of the provision of prudent management and of lending, including provisions concerning corporate governance, remuneration and incentive policies and practice, the system of internal controls, the information system and business continuity, allowable investments, risk management and conflicts of interest with related parties, transparency in banking, and provisions concerning usury and money laundering.

Other new, fundamental legislation concerning the configuration of the mutual banking group based on contract, as defined by the Consolidated Banking Act in relation to the means of group support, concern the issuance by a mutual bank and subscription by the Parent Company of the financing shares allowed under Article 150-*ter* of the Consolidated Banking Act. In order to ensure the timeliness of any recapitalization efforts, directors have been given the power to increase capital up to an amount determined by the Parent Company. By law, these financing shares may be subscribed and held solely by the Parent Company, by the guarantee systems established between mutual banks, or by mutual funds for the promotion and development of cooperation.

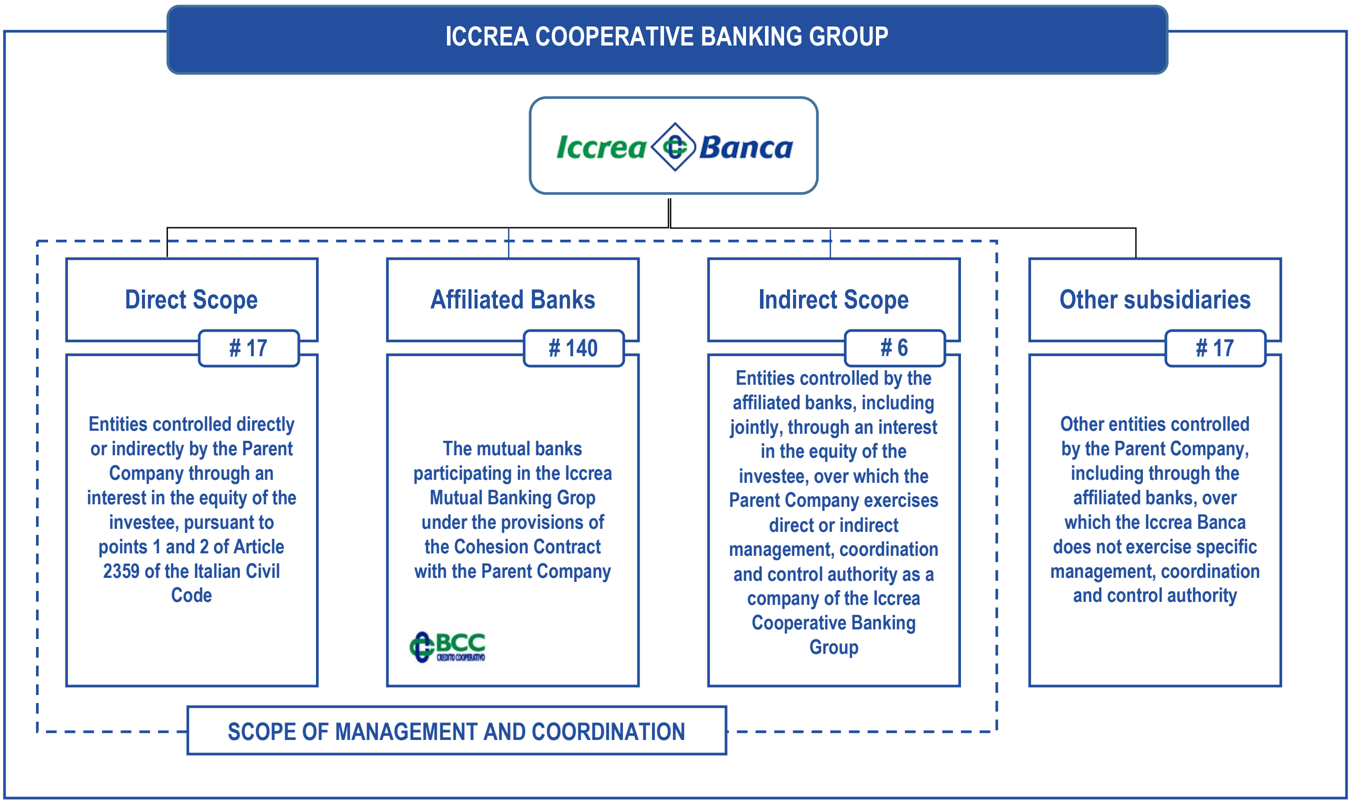
Another provision needed in order to allow for the existence of the mutual banking group concerns the powers of appointment, opposition and revocation of officers of the mutual banks, granted to the Parent Company in certain specific cases. The actual implementation of the powers of the Parent Company is completed by standard rules of appointment and of shareholder meetings adopted by the mutual banks, which describe the forms, methods, terms and phases of appointment and of shareholder meetings, particularly as concerns consultation with the Parent Company. Such consultation ordinarily takes places after the nominations, but may take place in advance in the event of banks that find themselves in any of the situations specifically defined in the Cohesion Contract.

These rules and the articles of association, as prepared by the Parent Company and approved by the supervisory authorities, have been adopted by all of the Group’s affiliated banks.

The organizational structure of the Iccrea Cooperative Banking Group

As at December 31, 2019, the ICBG is structured as follows:

- the Parent Company, Iccrea Banca SpA, which is responsible for the strategic and operational oversight of the Group and for interacting with the supervisory authority;
- 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.



A list of companies included within scope of consolidation of the Iccrea Cooperative Banking Group is provided in the notes to the financial statements (Part A – Accounting Policies, section 3, sub-section 1). This scope of accounting consolidation essentially coincides with the prudential scope of consolidation.

Implementation of the Parent Company's organizational model consistent with the new group structure

Efforts aimed at revising and integrating the entire organization of the Parent Company with a view to creating the Iccrea Cooperative Banking Group, which began during the previous year, have resulted in the definition of a profoundly different organizational structure based on the functional model and on the strategies and operations required by applicable legislation and by the Cohesion Contract, which can be categorized into the following areas: *(i)* management, coordination, guidance and control; *(ii)* the provision of services to the affiliated banks and to the companies of the direct scope; and *(iii)* performance of the activities of the Parent Company.

Within this context, units responsible for the following functions have been established or reinforced:

- the monitoring and guidance of the affiliated banks (including issues related to the Cohesion Contract and the Guarantee Scheme);
- the system of internal controls and integrated risk management;
- financial management and role of issuer on the wholesale market;
- strategic, financial and operational planning and management control;
- the management of consolidated financial, accounting and regulatory information;
- the management of legal and corporate affairs and of relations with the supervisory authorities;
- the coordination and control of performing and non-performing loans;
- the management of operational and organizational levers;
- the definition and implementation of commercial and marketing strategies.

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.

Therefore, in order to take account of the particular characteristics of the ICBG, the Parent Company's organizational model at the launch of the Iccrea Cooperative Banking Group envisaged:

- 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); 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. For more information, see the section herein concerning the system of internal controls (Chapter 11).
- areas that report to the General Manager and which are centered around the following main areas of responsibility:
  - the Area Chief Financial Officer (CFO) Area, an area that ensures the proper management of the Group's financial assets, recommending investment strategies and ensuring financial stability, managing liquidity and funding, and managing related risks. The CFO ensures implementation of the strategies and policies concerning management control and planning, while also ensuring the proper, timely execution of separate and consolidated financial reporting and fulfillment of related accounting, tax and regulatory obligations. This area also manages relations with investors and with ratings agencies;
  - the Chief Operating Officer (COO) Area, an area dedicated to defining strategies and the Group's overall model of operations. This function manages the Procurement Office and organizational issues, while also ensuring the management and development of the real estate portfolios of the Parent Company and of the companies within the direct scope and the tools and approaches for managing these real estate portfolios efficiently and effectively;
  - the Chief Lending Officer (CLO) Area, the area responsible for managing all areas of lending – from loan approval to the management of non-performing loans – and for overseeing and coordinating these activities carried out by the affiliated banks. The CLO also manages credit quality, defines lending policies, and ensures their implementation. This area defines the guidance for taking on and managing credit risk in line with established strategies and objectives and oversees performance of lending and administrative obligations related to the portfolio of non-performing loans;
  - the Chief Business Officer (CBO) Area, the area responsible for defining and implementing the Group's business strategy with the goal of supporting profitability, ensuring the ongoing development of the approach to the market, developing market positioning, and ensuring the strategic and operational support of the mutual banks. This area also oversees the various divisions of business (i.e. Retail, Corporate, Private Banking & Wealth Management), which are responsible for defining and implementing ICBG commercial policies, and the regional market areas, which are responsible for supporting local operations of the business divisions in line with the general strategies of the area and of the Group. The area includes the functions of marketing and commercial planning, as well as functions dedicated to the ongoing process of innovation and digital transformation;

- the Chief Information Officer (CIO) Area, the area that provides information services to the Parent Company and to the other companies of the ICBG based on an outsourcing agreement, including by way of companies of the Group, exercising oversight and coordination over said companies;
- the Chief Human Resources Officer (CHRO) Area, the area responsible for defining the rules for the management and development of human resources in line with the Group's strategic development plans;

- units established or enhanced during the transition from the IBG to the ICBG, including: Communications & Media Relations; General Counsel; Mutual Bank Governance; Public Affairs & Sustainability; and Supervisory Authority Relations. The Mutual Bank Governance unit, in particular, is responsible for contributing to and managing the guidance and coordination efforts called for in the Cohesion Contract with regard to capital and financial management policies and manages relations with the affiliated banks for issues related to the EWS (including official publication of the criteria and outcome of classification and of the EWS directives), the Guarantee Scheme and other Group initiatives that call for the involvement of the affiliated banks. The unit also supports the functions of the Parent Company in implementing the initiatives that have an impact on the affiliated banks.

Completing the Parent Company's organizational structure and model of operations are the various local offices, which are organized based on the specific operational needs of the affiliated banks in order to maintain close relations in carrying out the Parent Company's duties of management and coordination. More specifically, the Parent Company has established a regional network of 11 local offices in order to maintain close contact with the affiliated banks within its various areas of responsibility (mainly Planning & Management Control, Financial Reporting & Administration, Taxes, General Counsel, and Human Resources & Organization). Management and coordination of the local offices is entrusted to the Local Office Coordination unit.

On June 17, 2019, in conjunction with the appointment of the Iccrea Banca SpA Board of Directors, Mauro Pastore was appointed to the position of General Manager. As recommended by the new General Manager, the Board of Directors revised the Parent Company's organizational structure in order to further optimize the structure of senior management and better focus the actions of the Parent Company on achieving the goals that are to be set under the upcoming 2020-2023 Strategic Plan.

The revision of the organizational structure involved those reporting directly to the General Manager, with their number falling from 12 to 6 in order to enhance the effectiveness of managing operations and strengthening the decision–making links with top management, as well as helping to centralize levers for governing costs.

In short, the revision produced a new structure for the areas reporting directly to the General Manager, as indicated below:

- a new Mutual Bank Guidance, Institutional and Legal Relations Area, which also includes the General Counsel office, Supervisory Authority Relations, Public Affairs & Sustainability, Mutual Bank Governance, and the local branch unit, in order to create a single hub to maximize synergies in relations with the affiliated mutual banks, supervisory authorities and institutional counterparties;
- a new Credit and Subsidiary Area, which incorporates the Chief Lending Officer Area, in order to establish a single hub for supervising lending processes and supporting management by coordinating relationships with the companies within the direct scope of consolidation;
- the Chief Operating Officer Area, which now incorporates the "Chief Human Resources Officer" Area in order to foster the unified management of HR costs, the reorganization of activities and people and the conversion of personnel and skills, maximizing synergies between the organization responsible for the development of structures and processes and the management of the related human resources;
- the Chief Business Officer Area, which incorporates the Communication and Media Relations unit in order to maximize synergies in the field of external communication for products and general corporate messaging.

The structure of areas reporting the first reports, in line with the initial structure "the Chief Financial Officer Area" and the "Chief Information Officer Area".

In addition, the following main interventions were carried out:

- with regard to the CFO Area, the Finance unit was revised, with the establishment of the Financial Governance unit, with the aim of enhancing an integrated vision of interest rate, liquidity, exchange rate, market and counterparty risks at a consolidated level. A structure was also set up within the Tax unit, dedicated to the management of the obligations connected with the new Group VAT mechanism initiated on July 1, 2019;
- with regard to the CLO Area, a Collateral Management unit was set up, with responsibility for the centralized supervision of the governance of the guarantees securing loans made originated by Group companies;
- with regard to the COO Area, an Integrated Security unit was established, dedicated to the governance and coordination of information security, business continuity, IT security, and physical and workplace security;
- with regard to the CIO Area, an Incident Management unit was established, enhancing the existing functional role of the Incident Manager, with responsibility for the management of incidents occurring at the Parent Company and significant incidents within the ICBG, including for the purpose of reporting to supervisory authorities;

- finally, a number of additional organizational fine-tuning initiatives were implemented that affected the CRO area, the CAE area and the CBO area.

Between the end of 2019 and the start of 2020, specific organizational arrangements were established in the Data Governance area with the creation of a Data Governance Committee and two organizational units, namely the Data Governance Office, incorporated in the COO Area, which is responsible for the definition of the Group framework, handling coordination with Group companies in order to ensure compliance with the specified standards, and the Data Platform unit, incorporated in the CIO Area, which oversees data governance tools and systems.

With regard to non-board committees:

- the Management Committee was established to advise the General Manager, dealing with strategic guidelines and initiatives, consistent with the indications of the Board of Directors, mainly connected to the management of the relationship with shareholders and the shareholder and organizational arrangements of the Group;
- the Operating Committee was set up to advise the General Manager, addressing areas involving the management of the Group to implement the policy indications of the Board of Directors;
- the Lending Committee was created as the intercompany body responsible for lending and for the assessment of initiatives aimed at improving the overall quality of the loan portfolio. This committee advises the Parent Company on issues of strategic importance and on issuing lending policies for the Group and issues opinions on operations in line with the lending policies issued by the Parent Company;
- the rules and composition of the Executive Committee, the Finance Committee and the Committee for Security, Data Protection & Business Continuity were updated;
- as noted above, the Data Governance Committee was also established.

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

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 1993, with the introduction of the Consolidated Banking Act, mutual banks, which have been operating in Italy since the late 1800s, saw the elimination of certain operational restrictions such that they could now provide all the products and services of other banks – with the sole exception of purely speculative investments – and extend the purchase of shares to all those who live or work within the bank’s territory, regardless of the particular profession, thereby bringing the service model closer to those of other commercial banks, while maintaining their longstanding ties with the local community.

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

More specifically, primary legislation (Articles 33-37 of the Consolidated Banking Act, as amended by the aforementioned legislation governing mutual banking groups, which also introduced Articles 37-*bis* and 37-*ter*) 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 (vii) that at least 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[7], states that no less than 95% of all business shall be conducted within the bank’s territory,[8] and at least 50% of this business shall be in favor of shareholders[9], such that the funding of the bank shall, in essence, go to supporting and financing the economic growth of the traditional area of operations. This legislation ensuring the

[7] 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.

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

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

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

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

local and cooperative nature of mutual banks is confirmed in the mutual banking reform, the objective of which, as confirmed by the Bank of Italy, was solely that of overcoming the legislative and operational limitations typical of cooperatives – which could hinder rapid recapitalization when needed, including by accessing the capital markets – and the inefficiencies related to the limited size of such organizations (see Circular no. 285, Part III, Chapter 5, Section 1, sub-section 1).

The mutual banks are therefore subject to special articles of association: an extensive system of rules and controls surrounding banking activity in order to protect savings and ensure financial stability is intertwined with specific rules safeguarding their mutual nature.

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

As will be described below, the banking services provided are keenly focused on the provision of traditional lending, such as mortgage and business loans, in order to best meet the financing needs of the banks' customers. Direct funding, too, is made up of traditional banking products, such as deposit accounts, repos, current accounts, savings accounts, and bonds. Indirect funding and asset management mainly features 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 services, online banking, and insurance products. It also features treasury services for municipal governments, hospitals, and other public bodies and organizations. All of these features of operations make the affiliated banks 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 investment over the years and to provide contact access to credit for their local communities.

In their pursuit of business objectives centered around social cohesion and the improvement of their local communities, the mutual banks (and 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 reports on social responsibility, which point to a great many products and projects dedicated to their shareholders, to nonprofit 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 solely 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, though 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.

Microcredit, governed by Article 111 of the Consolidated Banking Act and promoted as a tool of social and economic development by providing access to credit for young entrepreneurs with great ideas and initiative but little or no collateral, is another important partnership initiative. 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 reform allows local communities to remain owners of their mutual banks and the mutual banks to maintain an adequate level of operational autonomy, correlated with their degree of risk.

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.

The Iccrea Cooperative Banking Group pursues a strategy aimed at ensuring the stability and development of mutual banks while respecting their territorial, historical, cultural, social and economic identity as enshrined in the "Code of Ethics and Conduct", inspired by the historical principles and ethical values of cooperation in credit activities. 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.

With an approach based on partnership and support between the Parent Company and affiliated banks, the Group promotes the development of competitive capacities and the improvement of mutual bank positioning on the market by leveraging the dominant principle of mutuality as set out in the provisions of the Italian Civil Code from Title VI - "Cooperative societies and mutual insurance undertakings", Chapter I - "Cooperative companies" to Article 2511 et seq., which still distinguishes mutual banks from the traditional banking system.

In order to ensures 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 Group.

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

- projects and other activities aimed at 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; the promotion of sports; civil protection; and the development of local communities and local resources;
- education, research and culture, particularly for young people and the elderly and with an emphasis on cooperation and on 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 historical and literary studies and initiatives, with a particular emphasis on the traditions and customs of the local communities; exhibits and other events tied to local culture; restoration and development of local cultural landmarks.

In the consolidated financial statements of the ICBG for 2019, about 8% of net profit for the year was allocated by the affiliated banks for charitable and mutual purposes. This came in addition to the 3% of net profits of the mutual banks allocated ex lege to the mutual fund for the development of the cooperative movement.

THE MISSION OF THE MUTUAL BANKS: SOCIAL RESPONSIBILITY AND ENVIRONMENTAL PROTECTION

The concept of sustainability is a natural evolution in the community-centric genetic makeup of the mutual banking system. Over the years, the cooperative, mutualistic roots of the mutual banks have spontaneously led affiliated banks to pursue, within their own communities, the sustainable development goals (SDGs) defined in the UN's 2030 Agenda.

At the Iccrea Cooperative Banking Group, we believe that sustainability is an opportunity to reassert the principles and values of cooperation in banking while emphasizing the attention that mutual banks pay to their communities and local economies in respect of the environment and in pursuit of the goals of Article 2 of the articles of association. To this end, the Group has always invested in creating a system of sustainability governance that integrates the environmental, social and governance (ESG) factors in both strategy and operations, supported by a model of operations based on specific centers of responsibility.

At the end of May 2019, we appointed an Executive Director of Sustainability and Consolidated Non-Financial Reporting for the Group, who is responsible for developing the sustainability plan and preparing and approving the consolidated non-financial statement.

This executive director is assisted by two committees:

- the Chiefs Committee for Sustainability, comprising the senior managers of the Parent Company and which is responsible for supporting the Public Affairs & Sustainability unit in setting sustainability goals and in subsequent implementation of the actions needed to achieve those goals;
- the Sustainability Science Committee, comprising ten people who represent the primary stakeholders of the Group and of the mutual banks, as well as from the worlds of academia, business, and industry associations. The primary function of this committee is to provide the executive director with a point of view from outside the organization of strategic importance to the sustainability goals and to the related plan and non-financial statement. The committee is chaired by the executive director and coordinated by its secretary.

In terms of operations, and as a vehicle of dialogue between the mutual banks and the Parent Company, the Public Affairs & Sustainability unit has been created. This unit is dedicated to sustainability management, both in terms of non-financial reporting and for the development plan and integration of ESG concerns. During the previous year, the Public Affairs & Sustainability unit has interacted with all mutual banks to carry out collaborations and other support efforts for mutual banks that demonstrated traits of innovation and of community development.

In 2019, policies concerning the consolidated non-financial statement were also defined in order to govern the roles, responsibilities, stages and timing of the various areas of Iccrea Banca, of the companies within the direct and indirect perimeters, and of the affiliated banks involved in the consolidation of non-financial reporting. Completing these top-level regulations, the process rules for preparation of the non-financial statement, aimed particularly at the affiliated banks, have also been established. These rules detail the phases and various activities involved in gathering the data and other information to be reported. They also describe the certification and tracking of qualitative and quantitative information in accordance with Legislative Decree 254/2016. All of this is in strict correlation with the identification and prioritization of material issues and of the indicators of the chart of accounts.

In 2019, in support and consolidation of the banks' sound operating practices, internal consultations were launched for preparation of the Group's Charters of Commitments concerning the environment and combating climate change and with regard to human rights. These charters establish the commitments and guidelines within these two specific areas for all of the Group's companies and affiliated banks. The charter concerning the environment and combating climate change establishes the Group's commitments to the effective prevention, management and — where possible — reduction of the (direct and indirect) environmental impact of operations in accordance with applicable legislation. The human-rights charter defines the Group's commitment to promoting and safeguarding human rights in accordance with applicable national and international standards.

The Sustainability Plan, under which work began in 2019, contains the sustainable development goals that the Group intends to pursue over the next four years in three strategic areas, which include local economies, the environment, and local communities. These three areas draw their strength from how the mutual banks operate within their communities.

The goals are aligned with several of the 17 sustainable development goals of the United Nations 2030 Agenda, with the principles of Pope Francis's Laudato Si' Encyclical on integral ecology, and the primary paradigms of sustainable economics and finance. The goals of the sustainability plan will concern all of the ICBG and are to be pursued by the Parent Company, its subsidiaries, and the affiliated banks, each within the scope of their respective responsibilities.

For more detailed information on non-financial activities, see the 2019 consolidated non-financial statement, which is included in a separate publication.

The 2019 consolidated non-financial statement has been audited for compliance, in accordance with Article 3(10) of Legislative Decree 254/2016, by EY SpA

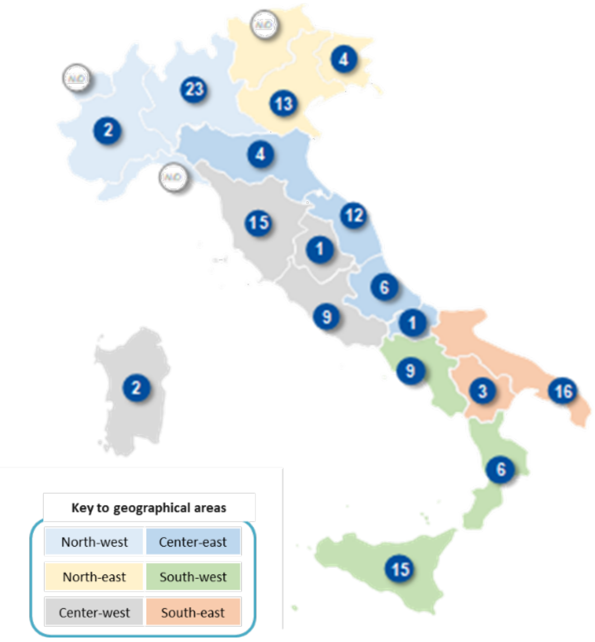
4. EVOLUTION OF THE GROUP'S ORGANIZATION AND BRANCH NETWORK

The network of the 140 mutual banks of the Group and of Banca Sviluppo is fairly homogeneous throughout the country (35% in southern Italy, 35% 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.

In 2019, the number of affiliated banks was reduced as a result of mergers, decreasing to 140 from the 142 as at March 4, 2019, at the time of ICBG's registration with the Italian Board of Banking Groups. More specifically, on April 1, 2019, two mergers were executed that affected four affiliated banks:

- the merger of BCC di Serino into BCC di Capaccio Paestum (which resulted in the creation of BCC di Capaccio Paestum e Serino);
- the merger of BCC di Gradara into RiminiBanca – Credito Cooperativo di Rimini e Valmarecchia (which resulted in the creation of Riviera Banca – Credito Cooperativo di Rimini e Gradara).

Other aggregations of various mutual banks are currently being evaluated and will enable the banks involved to become stronger, achieve economies of scale, and more effectively and efficiently achieve the organization's goals of supporting the local communities in which they operate, while also broadening the geographical areas covered.



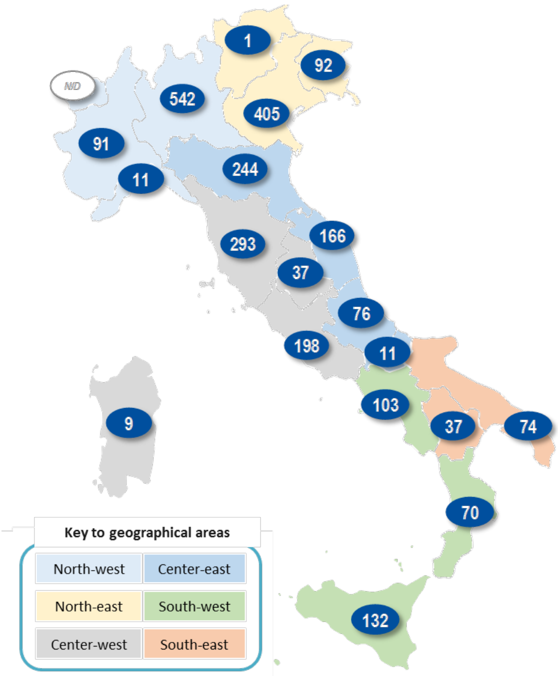
Developments in the Group's network of bank branches

The ICBG is Italy's third-largest banking group in terms of number of branches, with 2,592 branches operated by 140 mutual banks and by Banca Sviluppo, 57% of which are located in the regions of Lombardy, Veneto, Tuscany and Emilia-Romagna.

The branch network has a market share within Italy of 10.7%, with peak shares in the regions of Marche (20%), Calabria (18%), Basilicata (18%), and Veneto (17%).

In recent years, the mutual banking system has also undergone a process of rationalizing the network, which — although manifesting itself to a lesser extent than for Italy's broader banking industry — is to be seen within the context of the affiliated banks' characteristics of having a physical presence close to their communities as being of fundamental importance in their relationships with customers and with the communities themselves. This trend continued in 2019 with the creation of the new Group, a period in which the affiliated banks further rationalized their branch networks by closing branches, some of which were replaced by branches opened in areas that were not adequately served, thereby resulting in only a slight decline in number of branches (down 15 from December 2018).

In order to ensure a proper balance between physical presence and economic sustainability, following creation of the Group, an initial territory-development plan has been defined, the goals of which include increasing the market share of gross banking operations by repositioning branches in more attractive markets and rationalizing the branch network in order to achieve a greater reduction in branches than in recent years.



The ICBG has at least one branch in 1,818 of the 5,221 Italian municipalities served by banks (34.8% of the total). In 84.4% of these municipalities, there is at least one branch of another bank, whereas the Group's branches are the only banking presence in 283 municipalities due to the organization's community-centric mission.

No. of other banks present in the municipalities in which ICBG has a presence	0	1	2	3	more than 3	Total
No. Municipalities	283	221	214	154	946	1,818
% of the total	15.6%	12.1%	11.8%	8.5%	52.0%	100.0%

Lombardy is the Italian region in which the ICBG serves the greatest number of municipalities (426), whereas Tuscany is number one in terms of penetration in municipalities served by at least one bank (63.1%).

Region	Municipalities with banking services	with ICBG branch	(%)	of which ICBG is only presence	(%)
Lombardy	1,081	426	39.4%	80	18.8%
Veneto	487	281	57.7%	27	9.6%
Tuscany	263	166	63.1%	4	2.4%
Emilia–Romagna	318	118	37.1%	3	2.5%
Sicily	277	111	40.1%	24	21.6%
Lazio	225	104	46.2%	17	16.3%
Marche	187	111	59.4%	9	8.1%
Campania	289	88	30.4%	32	36.4%
Calabria	141	64	45.4%	29	45.3%
Piedmont	540	73	13.5%	14	19.2%
Friuli–Venezia Giulia	162	63	38.9%	11	17.5%
Puglia	210	60	28.6%	0	0.0%
Abruzzo	154	63	40.9%	12	19.0%
Basilicata	85	36	42.4%	11	30.6%
Umbria	75	21	28.0%	1	4.8%
Molise	35	13	37.1%	8	61.5%
Liguria	120	10	8.3%	1	10.0%
Sardinia	284	8	2.8%	0	0.0%
Trentino–Alto Adige	261	2	0.8%	0	0.0%
Valle d'Aosta	27	0	0.0%	0	N/A
Total	5,221	1,818	34.8%	283	15.6%

Strategic positioning of the Group's banks

The members banks of the Iccrea Banking Group, including Banca Sviluppo, account for approximately 5% of the Italian market of (performing) loans to customers. In terms of direct funding, net of bonds, market share is at 6%. These market share numbers are the result of the organization's core mutual-banking mission, which calls for having a presence in smaller markets and focuses on typically retail segment of banking customers.

Regionally, the greatest shares of customer loans have come in the regions of Marche, Friuli–Venezia Giulia, and Tuscany, although we also have significant presence in regions that account for significant portions of Italian GDP, including Veneto, Emilia–Romagna and Lombardy. These regional performances can also be seen in the breakdown by counterparty.

Region	Market share – loans to customers	Market share – households	Market share – enterprise
Marche	13.9%	13.8%	15.0%
Friuli–Venezia Giulia	10.5%	10.9%	12.6%
Tuscany	10.5%	9.5%	12.0%
Abruzzo	8.9%	8.9%	9.8%
Basilicata	8.5%	6.2%	12.3%
Veneto	8.9%	9.8%	10.5%
Emilia–Romagna	6.1%	6.7%	6.7%
Calabria	5.3%	5.1%	8.1%
Lazio	2.9%	6.1%	6.3%
Lombardy	4.4%	5.1%	5.8%
Umbria	5.1%	4.1%	5.8%
Molise	4.2%	3.0%	6.3%
Piedmont	4.4%	3.9%	6.2%
Puglia	3.8%	2.7%	5.6%
Sicily	3.2%	2.5%	4.8%
Campania	3.0%	2.0%	4.6%
Sardinia	1.7%	0.7%	3.7%
Liguria	0.7%	0.5%	1.0%
Valle d'Aosta	1.5%	0.3%	2.9%
Trentino–Alto Adige	0.7%	0.2%	1.1%
Total Italy	**4.9%**	**5.6%**	**7.0%**

Source: Based on supervisory and Bank of Italy data as at December 31, 2019. Loans to customers have been allocated based on counterparty residence.

In customer deposits, on the other hand, Marche is the region in which the Group has achieved the greatest market share (14.5%), followed by Tuscany and Friuli–Venezia Giulia.

Region	Market share – customer deposits
Marche	14.5%
Tuscany	12.2%
Veneto	8.9%
Friuli–Venezia Giulia	9.3%
Abruzzo	8.6%
Basilicata	6.2%
Emilia–Romagna	6.2%
Lombardy	5.3%
Umbria	5.3%
Calabria	5.1%
Lazio	8.1%
Sicily	4.3%
Piedmont	1.2%
Puglia	3.7%
Campania	2.7%
Molise	2.4%
Sardinia	1.7%
Liguria	0.5%
Trentino–Alto Adige/Südtirol	0.2%
Valle d'Aosta/Vallée d'Aoste	0.4%
Total Italy	**6.0%**

Source: Based on supervisory and Bank of Italy data as at December 31, 2019. Customer deposits are by counterparty residence.

Distribution of commercial 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 and Marche. The national average number of employees per branch is 5.1. By region, Lombardy has the highest average number (7.5), followed by Piedmont (5.8) and Lazio (5.6). The average distribution of branch employees is the result of a process initiated by the mutual banks some time ago aimed at increasing the efficiency of territorial coverage in which the mutual banks provide a social service, while also, where appropriate, reducing the hours and days open to the public and balancing the needs of serving the community with those of economic sustainability.

Region	No. Branch Employees	No. Group Branches	Employees / Branch
Lombardy	4,065	542	7.5
Veneto	1,785	405	4.4
Tuscany	1,420	293	4.8
Emilia–Romagna	1,147	244	4.7
Lazio	1,118	198	5.6
Marche	734	166	4.4
Piedmont	527	91	5.8
Campania	413	103	4
Sicily	411	132	3.1
Friuli–Venezia Giulia	363	92	3.9
Puglia	318	74	4.3
Calabria	278	70	4
Abruzzo	265	76	3.5
Umbria	134	37	3.6
Basilicata	93	37	2.5
Liguria	50	11	4.5
Sardinia	45	9	5
Molise	11	11	0.9
Trentino–Alto Adige/Südtirol	2	1	2
Total Italy	13,178	2,592	5.1

As at December 2019, the number of customers of the Iccrea Cooperative Banking Group with at least one active financing agreement totaled about 1.4 million. Retail customers accounted for 88% of the total, while the corporate segment came to 11%. In terms of deposits, the number of customers with at least one active account with the ICBG totaled approximately 3.2 million,

Number of customers – Loans to customers

Ordinary customers	No. of Customers	Percent of total
Consumer households	921,932	64.8%
Small and medium-sized businesses	335,598	23.6%
Corporate	157,512	11.1%
Central banks, lenders and other financial companies	3,626	0.3%
Government entities	1,797	0.1%
International	2,637	0.2%
Total	1,423,102	100.0%

Number of customers – Customer deposits

Ordinary customers	No. of Customers	Percent of total
Consumer households	2,635,607	82.0%
Small and medium-sized businesses	412,640	12.8%
Corporate	147,097	4.6%
Central banks, lenders and other financial companies	4,872	0.2%
Government entities	1,159	0.0%
International	13,453	0.4%
Total	3,214,828	100.0%

In terms of ownership structure, shareholders at December 2019 numbered more than 810,000, increasing by over 3% compared with December 31, 2018. Of the total, about 44% of all shareholders were concentrated in northern Italy, with another 44% in central Italy.

Geographical area	No. Shareholders Dec 19	(%)	No. Shareholders Dec 18	Chg Dec 19 – Dec 18
Northwest	239,456	29.55%	232,770	2.87%
Northeast	116,180	14.34%	112,359	3.40%
West-Central	194,827	24.04%	187,953	3.66%
East-Central	162,212	20.02%	156,721	3.50%
Southwest	71,888	8.87%	69,799	2.99%
Southeast	25,754	3.18%	25,129	2.49%
Total	810,317	100%	784,731	3%

5. DEVELOPMENTS IN GROUP OPERATIONS

The following provides an overview of the main balance sheet and income statement figures of the Iccrea Cooperative Banking Group as at December 31, 2019. 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.

FINANCIAL POSITION

Consolidated assets

€/thousands	31/12/2019
Cash and cash equivalents	956,482
Financial assets measured at fair value through profit or loss	1,940,080
Financial assets measured at fair value through other comprehensive income	9,109,726
Financial assets measured at amortized cost	135,869,471
a) due from banks	7,384,246
b) loans to customers	85,240,858
c) securities	43,244,367
Hedging derivatives and value adjustments of macro-hedged financial assets	157,761
Equity investments	88,893
Property, plant and equipment	2,842,541
Intangible assets	146,462
Tax assets	2,135,149
Non-current assets and disposal groups held for sale	33,856
Other assets	2,250,045
Total assets	**155,530,466**

The consolidated assets of the Iccrea Cooperative Banking Group at December 31, 2019, totaled €155.5 billion.

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 €0.2 billion (mainly in government securities held for trading), financial assets designated as at fair value in the amount of €0.4 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 €1.4 billion.

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
Financial assets held for trading	48,643	154,889	1,692	205,225
Debt securities	34,841	1,134	60	36,035
Equity securities	6,237	197	51	6,485
Units in collective investment undertakings	7,521	5,119	-	12,641
Loans	-	-	-	-
Financial derivatives	44	148,440	1,581	150,065
Financial assets designated as at fair value	362,091	-	5,385	367,477
Debt securities	362,091	-	-	362,091
Loans	-	-	5,385	5,385
Financial assets mandatorily measured at fair value	259,373	768,865	339,141	1,367,379
Debt securities	*13,088*	*79,287*	*3,141*	*95,516*
Equity securities	*4,040*	*110*	*25,908*	*30,058*
Units in collective investment undertakings	*242,245*	*198,639*	*47,6122*	*488,496*
Loans	-	*490,828*	*262,480*	*753,309*
Financial assets measured at fair value through profit or loss	**670,107**	**923,754**	**346,218**	**1,940,081**

The portfolio of financial assets measured at fair value through other comprehensive income in the amount of €9.1 billion, is mainly in government securities held in accordance with the HTCS business model. The aggregate also includes, but to a lesser extent, minority interests in the amount of €131 million, which are measured at fair value through other comprehensive income without recycling.

€/thousands	L1	L2	L3	Total
Debt securities	8,877,633	100,439	501	8,978,573
Equity securities	7,722	35,482	87,949	131,153
Financial assets measured at fair value through other comprehensive income	**8,885,355**	**135,921**	**88,450**	**9,109,726**

With regard to financial assets measured at amortized cost, amounts due from banks amounted to approximately €7.4 billion net of debt securities and includes, in addition to exposures related to ordinary liquidity management, the reserve requirement with central banks in the amount of €4.2 billion. In the table below, these exposures to banks are classified according to the stages of risk defined by IFRS 9 for performing positions (stages 1 and 2) and credit-impaired positions (stage 3).

€/thousands	Stages 1 and 2	Stage 3	Total	Percentage %
Due from central banks	4,211,582	-	4,211,582	57.0%
Loans to banks	3,172,240	423	3,172,664	43.0%
Current accounts and demand deposits	592,548	-	592,548	8.0%
Time deposits	79,619	-	79,619	1.1%
Other	2,500,073	423	2,500,497	33.9%
Financial assets measured at amortized cost – Due from banks	**7,383,822**	**423**	**7,384,246**	**100.0%**

Loans to customers show a balance of €85.2 billion net of debt securities, €80 billion of which performing and about €5.2 billion related to impaired positions. Among performing loans, the medium to long-term component amounts to approximately €54.5 billion, while lease financing totals €4.3 billion.

€/thousands	Stages 1 and 2	Stage 3	Total	Percentage %
Current accounts	8,253,047	988,007	9,241,053	10.8%
Repurchase agreements	2,935,176	-	2,935,176	3.4%
Medium/long-term loans	54,521,468	3,622,770	58,144,238	68.2%
Credit cards, personal loans and salary-backed loans	2,148,153	38,177	2,186,330	2.6%
Lease financing	4,292,086	412,496	4,704,582	5.5%
Factoring	492,578	12,126	504,704	0.6%
Other lending	7,389,914	134,860	7,524,774	8.8%
Financial assets measured at amortized cost – Loans to customers	**80,032,422**	**5,208,436**	**85,240,858**	**100.0%**

The following table summarizes the set of financial assets measured at amortized cost classified by stage of risk. Performing loans to customers, before writedowns, account for 88.4% of the total.

€/thousands	Gross value		Total writedowns	
	Stages 1 and 2	Stage 3	Stages 1 and 2	Stage 3
Loans	88,269,334	10,617,139	(853,242)	(5,408,149)
Loans to banks	7,386,992	639	(3,171)	(215)
Loans to customers	80,881,915	10,616,507	(850,071)	(5,407,934)
Debt securities	43,331,124	2,490	(88,301)	(945)
Total financial assets measured at amortized cost	**131,600,458**	**10,619,629**	**(941,543)**	**(5,409,094)**

Debt securities measured at amortized cost (HTC business model) amounted to €43.3 billion, in large part plain-vanilla securities and with fixed and variable-rate coupons and the primary issuer being the Italian government.

Gross non-performing loans amounted to approximately €10.6 billion, for a ratio to total gross loans of 10.7% (11.6% if only loans to ordinary customers are considered). Net impaired loans amounted to €5.2 billion, for a ratio to total net loans of 5.6% (6.1% when considering only ordinary customers). The ratios of net bad loans and unlikely-to-pay positions to net lending are equal to 2% (2.2% for ordinary customers) and 3.3% (3.6% for ordinary customers), respectively.

The coverage ratio for impaired assets was 50.9%. In particular, coverage was 65.2% for bad loans and 38.1% for unlikely-to-pay positions.

Type of exposure	Gross exposure	Writedowns	Net exposure	Coverage
Bad loans	5,329,620	(3,472,960)	1,856,660	65.2%
Unlikely-to-pay positions	4,935,119	(1,879,860)	3,055,260	38.1%
Impaired past-due positions	351,768	(55,115)	296,653	15.7%
Impaired exposures to customers	**10,616,507**	**(5,407,934)**	**5,208,573**	**50.9%**

The particular business model of the affiliated banks[10], 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, in the amount of €91.5 billion at December 31, 2019, have mainly gone to households and small to medium-sized enterprises (SMEs)[11], which accounted for 34.5% and 47.1% of total lending, respectively. As shown in the table below, these segments show a lower NPL ratio than that of the corporate segment.

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	Ratio to total	Ratio to total NPL
Ordinary customers	**90,704,971**	**99.1%**	**88.3%**	**99.0%**	**11.7%**	**100.0%**
Households	31,533,369	34.5%	94.0%	36.6%	6.0%	17.9%
Small and medium-sized businesses	43,067,516	47.1%	88.0%	46.8%	12.0%	48.8%
- Family businesses	8,383,063	9.2%	87.0%	9.0%	13.0%	10.2%
- Micro-businesses, associations and other organizations	8,890,661	9.7%	85.2%	9.4%	14.8%	12.4%
- Other SMEs	25,793,792	28.2%	89.2%	28.5%	10.8%	26.2%
Other non-financial companies	11,131,088	12.2%	68.8%	9.5%	31.2%	32.7%
Other financial companies	4,972,999	5.4%	98.9%	6.1%	1.1%	0.5%
Government entities	**793,451**	**0.9%**	**99.6%**	**1.0%**	**0.4%**	**0.0%**
Total loans to customers	**91,498,422**	**100.0%**	**88.4%**	**100.0%**	**11.6%**	**100.0%**

The Group's lending is concentrated in northern (55%) and central Italy (33.5%), with a lower incidence of impaired loans in the north.

Geographical area	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	NPL Ratio	Ratio to total NPL
North-east	25,549,153	27.9%	89.6%	28.3%	10.4%	25.0%
North-west	24,818,271	27.1%	88.5%	27.2%	11.5%	26.9%
Center	30,652,935	33.5%	87.8%	33.3%	12.2%	35.2%
South and islands	10,478,063	11.5%	87.0%	11.3%	13.0%	12.9%
Total loans to customers	**91,498,422**	**100.0%**	**88.4%**	**100.0%**	**11.6%**	**100.0%**

In terms of the industry segment of counterparties, in addition to households, the segments that saw the greatest lending were real estate, manufacturing, commerce, and services.

Economic segment 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	Ratio to total	Ratio to total NPL
Consumer households	31,533,369	34.5%	94.0%	36.6%	6.0%	17.9%
Primary sector	5,082,960	5.6%	90.3%	5.7%	9.7%	4.6%
Manufacturing	12,686,550	13.9%	88.6%	13.9%	11.4%	13.6%
Commerce	9,538,310	10.4%	87.9%	10.4%	12.1%	10.9%
Real estate and construction	14,374,624	15.7%	70.8%	12.6%	29.2%	39.6%
Services and other	12,516,159	13.7%	89.1%	13.8%	10.9%	12.8%
Government entities	793,451	0.9%	99.6%	1.0%	0.4%	0.0%
Financial companies	4,972,999	5.4%	98.9%	6.1%	1.1%	0.5%
Total loans to customers	**91,498,422**	**100.0%**	**88.4%**	**100.0%**	**11.6%**	**100.0%**

The primary sector saw a higher percentage of lending than the national average, given the nature of the affiliated banks as local banks, whereas the real estate segment, as in the rest of Italy, has suffered most from the effects of the prolonged economic crisis, posting a higher NPL ratio than the Group average.

[10] For details on the characteristics of the mutual banking system, see Chapters 2 and 5.

[11] Small and medium-sized enterprises (SMEs) are those with revenues of less than €50 million.

The particular business model, featuring a prevalence of medium and long-term lending to households and small businesses, is responsible for the high rate of collateral-backed lending. Specifically, 71.2% of impaired positions are backed by collateral, a figure that should be read together with the high level of NPL coverage.

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	58,166,244	63.6%	87.0%	62.6%	13.0%	71.2%
Personal guarantees	14,698,587	16.1%	91.3%	16.6%	8.7%	12.1%
Unsecured	18,633,592	20.4%	90.5%	20.8%	9.5%	16.7%
Total loans to customers	**91,498,422**	**100.0%**	**88.4%**	**100.0%**	**11.6%**	**100.0%**

Equity investments, totaling €88.9 million, mainly represent interests in associates, the most significant of which are the investments in BCC Vita (30%), Satispay (16%), and BCC Assicurazioni (30%).

Property, plant and equipment, totaling €2.8 billion, mainly includes property used in operations (€2.1 billion) as well as properties contributed to consolidated real estate investment funds.

€/thousands	Used in operations	Investment property	Other
Owned assets	1,830,840	697,549	-
Lands and buildings	1,597,318	697,549	
Furnishings	62,485		
Other	171,037		
Right-of-use assets under leases	298,400	7,540	-
Lands and buildings	281,857	7,540	
Furnishings	605		
Other	15,938		
Inventories	-	-	8,212
Property, plant and equipment	**2,129,240**	**705,089**	**8,212**

With regard to intangible assets, goodwill (€26 million) relates to the acquisition of bank assets and liabilities by affiliated banks prior to establishment of the Group as well as to consolidation differences originated by two investees. Other intangible assets (€34 million) refer mainly to user licenses and software.

Tax assets total €2.1 billion and include current taxes of €0.4 billion and deferred tax assets of €1.7 billion, the latter of which includes €1.3 billion under Law 214/2011.

Consolidated liabilities and equity

€/thousands	31/12/2019
Financial liabilities measured at amortized cost	140,832,997
a) due to banks	18,873,746
b) due to customers	105,581,113
c) securities issued	16,378,138
Financial liabilities held for trading	163,728
Financial liabilities designated as at fair value	11,461
Hedging derivatives and value adjustments of macro-hedged financial liabilities	320,606
Tax liabilities	105,945
Other liabilities	3,111,184
Post-employment benefits	306,254
Provisions for risks and charges	445,700
Shareholders' equity	9,994,113
Net profit/(loss) for the period (+/-)	238,478
Total liabilities and equity	**155,530,466**

More specifically, with regard to financial liabilities measured at amortized cost, direct deposits from ordinary customers, excluding repos with institutional counterparties and including outstanding debt securities (bonds and certificates of deposit), totaled about €105.4 billion.

€/thousands	31/12/2019
Current accounts and demand deposits	80,905,313
Time deposits	6,483,273
Securities issued	16,378,138
Bonds	10,589,999
Other securities	5,788,139
Other payables	1,672,823
Financial liabilities at amortized cost – Direct funding from ordinary customers	**105,439,547**

The remainder of liabilities at amortized cost comprises funding from institutional customers (€35.4 billion) and includes: i) €16.5 billion in repurchase agreements, almost entirely with Clearing & Guarantee Fund, and operations on behalf of the Italian Treasury (OPTES); ii) €18.9 billion in amounts due to banks, of which €17.4 billion in targeted longer-term refinancing operations (T-LTROs) with the ECB and €1.5 billion in other amounts due to banks outside the Group for current accounts, deposits and repos.

€/thousands	31/12/2019
Loans	16,519,704
Repos	13,966,184
Other	2,553,520
Due to banks	18,873,746
Due to central banks	17,411,817
Due to banks	1,461,929
Current accounts and demand deposits	306,344
Time deposits	105,736
Loans and repurchase agreements	939,674
Other	110,175
Financial liabilities measured at amortized cost – Funding from institutional customers	**35,393,450**

Financial liabilities held for trading, in the amount of €164 million, include the negative fair value of trading derivatives.

Tax liabilities, totaling €105.9 million, include €86.3 million in deferred tax liabilities on temporarily non-taxable revenues.

Other liabilities amounted to about €3.1 billion, mainly including €1 billion in illiquid portfolio items, €530 million in amounts available to customers, €408 million of taxes payable for withholdings made and amounts to be paid, as well as €226 million in items being processed and other transit items.

Post-employment benefits for the Group totaled €306.3 million (excluding the component paid into pension funds) while the provision for risks and charges, totaling €445.7 million, includes provisions for credit risk in the amount of €201.4 million against commitments to disburse funds and financial guarantees issued.

Consolidated shareholders' equity

Consolidated shareholders' equity totaled €10.2 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 represent the capital of Iccrea Banca held by the affiliated banks consolidated in application of Article 1072 of Law 145/2018.

Reserves, totaling €8.4 billion, include legal reserves of €9.8 billion and a negative IFRS 9 FTA reserve of €1.6 billion.

The Iccrea Cooperative Banking Group closed 2019 with net profit of €238.5 million.

€/thousands	31/12/2019
Share capital	2,313,691
Capital instruments	30,139
Share-premium reserve	146,702
Treasury shares	(1,212,256)
Valuation reserves	254,511
Reserves	8,390,591
Earnings for the year	238,478
Equity pertaining to shareholders of the Parent Company	**10,161,857**
Equity pertaining to non-controlling interests (+/-)	**70,737**
Total shareholders' equity	**10,232,594**

PERFORMANCE

Consolidated income statement

The Group closed the year with net profit of €245 million after taxes of €65 million.

€/thousands	31/12/2019
Net interest income	**2,349,845**
Net fee and commission income	**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	60,076
Net gain/(loss) on disposals	246,469
Gross income	**3,924,953**
Net writedowns/writebacks for credit risk	(666,344)
- Financial assets measured at amortized cost – Loans to customers	*(680,223)*
Gains/losses from contract modifications without cancellations	(14,319)
Net gains/(losses) from financial operations	**3,244,289**
Administrative expenses	(3,018,872)
a) personnel expenses	(1,700,252)
b) other administrative expenses	(1,318,620)
Depreciation, amortization and provisions	(230,365)
Other operating income/expense	347,430
Operating expenses	**(2,901,807)**
Profit/(loss) from equity investments	10,899
Net gain/(loss) from fair value measurement of property, plant and equipment and intangible assets	(22,858)
Impairment of goodwill	(22,671)
Profit/(loss) from disposal of investments	2,160
Profit/(loss) before tax on continuing operations	**310,012**
Income tax expense from continuing operations	(65,049)
Profit/(loss) for the period	**244,963**
Net profit/(loss) pertaining to non-controlling interests	**6,485**
Net income/(loss) pertaining to the Group	**238,478**

Gross income came to about €3.9 billion. Net interest income amounted to €2.3 billion, the net result of interest income of €2.9 billion (on loans to customers in the amount of €2.4 billion) and interest expense of €0.6 billion, mainly relating to amounts due to customers and securities issued.

Interest and similar income

€/thousands	Debt securities	Loans	Other transactions	31/12/2019
Financial assets measured at fair value through profit or loss	8,833	4,744	199	13,775
Financial assets measured at fair value through other comprehensive income	66,018	-	-	66,018
Financial assets measured at amortized cost	352,051	2,406,051	-	2,758,103
Hedging derivatives	-	-	(47,216)	(47,216)
Other assets	-	-	2,905	2,905
Financial liabilities	-	-	118,923	118,923
Interest income and similar income	**426,902**	**2,410,795**	**74,810**	**2,912,506**

Interest and similar expense

€/thousands	Payables	Securities	Other transactions	31/12/2019
Financial liabilities measured at amortized cost	(264,330)	(255,368)	-	(519,698)
Financial liabilities held for trading	-	(251)	(142)	(393)
Financial liabilities designated as at fair value	(400)	(798)	(215)	(1,414)
Other liabilities and provisions	-	-	(1,941)	(1,941)
Hedging derivatives	-	-	2,461	2,461
Financial assets	-	-	(41,677)	(41,677)
Interest and similar expense	**(264,730)**	**(256,417)**	**(41,514)**	**(562,661)**

Net fee and commission income amounted to €1.3 billion 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 around €0.2 billion.

Fee and commission income

€/thousands	31/12/2019
Guarantees issued	26,354
Management, intermediation and advisory services	329,767
Collection and payment services	225,025
Servicing services for securitization transactions	3,725
Services for factoring transactions	4,087
Management of current accounts	522,107
Other services	330,337
Fee and commission income	**1,441,401**

Fee and commission expense

€/thousands	31/12/2019
Guarantees received	(2,473)
Management and intermediation services	(17,463)
Collection and payment services	(24,132)
Other services	(128,771)
Fee and commission expense	**(172,839)**

The net gain on disposals came to €246 million, the net effect of net capital gains deriving from the sale of debt securities in the portfolio, which were partially offset by losses on the sale of, above all, non-performing loans.

Net writedowns for credit risk totaled €667 million, attributable, above all, to provisions for impaired loans aimed at increasing their coverage levels following, in part, the gradual implementation by affiliated banks of the new policies issued by the Parent Company subsequent to creating the ICBG.

Operating expenses, totaling €2.9 billion, are attributable to:

- personnel expenses in the amount of €1.7 billion;
- other administrative expenses in the amount of €1.3 billion, as summarized in the table below.

€/thousands	31/12/2019
IT costs	(188,956)
Costs for real estate and other property	(90,393)
Costs for the purchase of non-professional goods and services	(181,688)
Costs for the purchase of professional goods and services	(271,321)
Advertising and agency expenses	(61,589)
Association dues and supervisory contributions	(83,980)
Charitable donations	(6,066)
Indirect taxes and duties	(312,057)
Other	(122,570)
Other administrative expenses	**(1,318,620)**

CONSOLIDATED OWN FUNDS AND CAPITAL ADEQUACY

Own Funds

The following table offers a breakdown of own funds at December 31, 2019, which amounted to €11.6 billion at the end of 2019.

Capital and capital ratios – €/ thousands	31/12/2019
Share capital	2,313,704
Share-premium reserve	147,180
Treasury shares and repurchase commitments	-1,226,433
Reserves	8,649,127
Profit/(loss) for the period	-13,101
Other comprehensive income	979
Transitional provisions	1,355,639
Goodwill (net of related tax effects)	-24,758
Deductions – deferred tax assets	-56,327
Intangible assets (net of related tax effects)	-120,488
Prudential filters	-18,861
Minority interests	18,283
Common Equity Tier 1 (CET1 ratio)	**11,024,947**
Additional Tier 1 (AT1)	35,046
Tier 1 (T1)	**11,059,993**
Eligible subordinated loans	559,284
Tier 2 (T2)	**559,284**
Total Capital (TC)	**11,619,277**

In light of the special provisions of Article 38 of the Consolidated Banking Act, which establishes the obligation for affiliated banks to allocate at least 70% of annual earnings to reserves, own funds mainly include reserves (€8.6 billion), in addition to share capital in the amount of €2.3 billion.

Adjustments related to the IFRS 9 transitional provisions as per Article 473-*bis* of Regulation (EU) 575/2013, as introduced by Regulation (EU) 2395/2017, have allowed for the offsetting (based on application of the static and dynamic approaches and in accordance with the applicable phase-in percentage of 85%) an increase in writedowns resulting from application of the new expected-credit-loss impairment model introduced by the financial reporting standard (net of the related tax effects) in the amount of €1.356 billion.

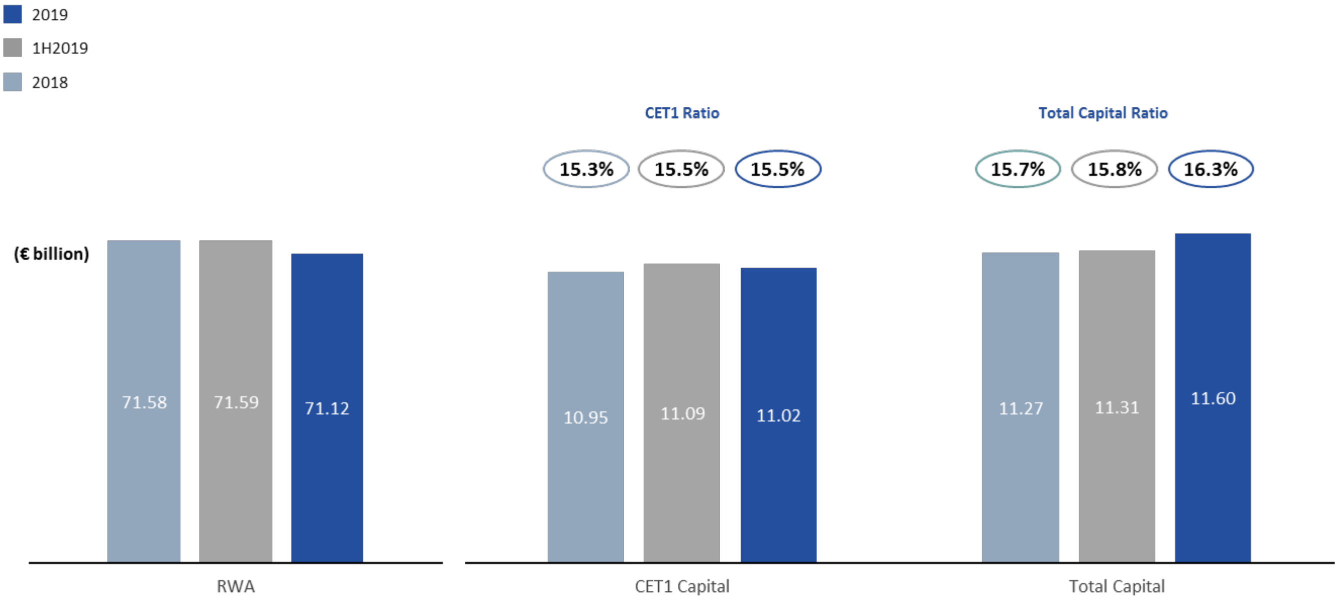
The amount of profit/loss for the year included in own funds takes account of the prudential treatment of profits/losses realized by Group companies in the second half of the year, which, in accordance with the conditions defined under Article 26 of the CRR, resulted in the inclusion of the following:

- for profits, the lesser of profits realized at year end, net of expected dividends,[12] and profits for the half-year, inclusion of which, as the appropriate conditions were met, was authorized by the ECB on November 8, 2019;
- the entire value of losses.

[12] The amount of dividends deducted from the individual profit numbers was determined in accordance with Decision (EU) 2015/656 (ECB/2015/4) and based on formal decisions made by the pertinent corporate bodies. For the affiliated banks specifically, the amount takes account of the restriction of allocation to the mutual funds for the promotion and development of cooperation defined by applicable industry regulations (in the amount of 3% of net profit) as well as of amounts earmarked for charitable or other mutualistic purposes.

Capital adequacy

At December 31, 2019, the CET1 ratio came to 15.5% and the TC ratio came to 16.3%, both of which are higher than the averages for the Italian banking industry as a whole. These capital ratios do not include the capitalization of 2019 earnings, which will take place in 2020, the effect of which is an estimated improvement in capital ratios (assuming no change in RWAs) of between 20 and 25 basis points.



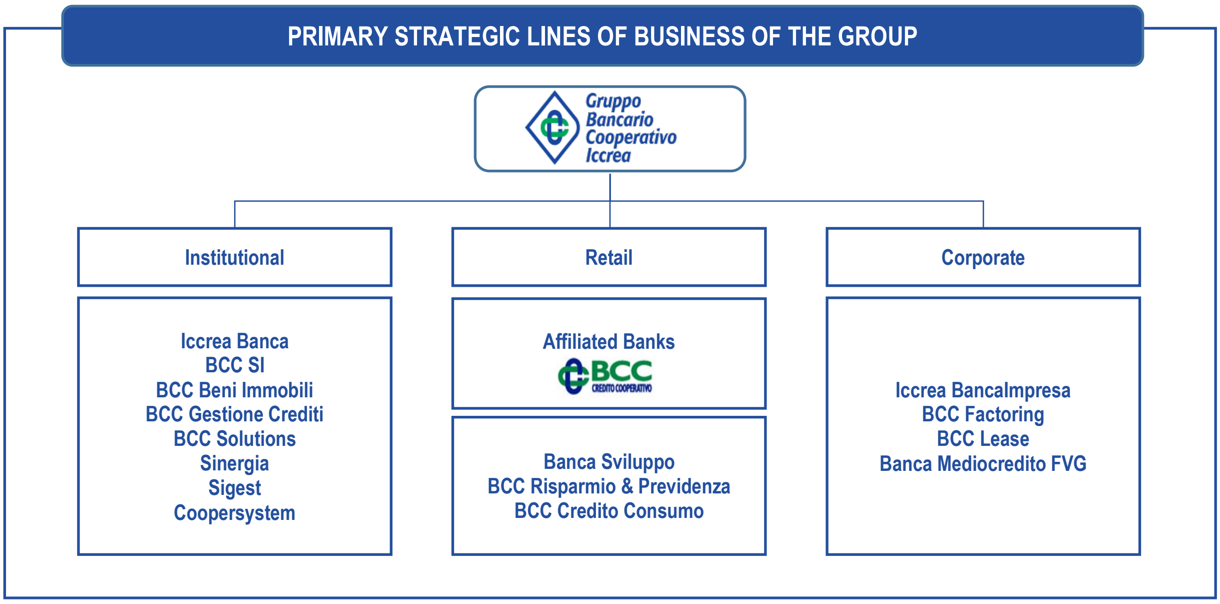
Some of the main dynamics seen during the year impacting the relevant aggregates included:

- the repurchase, from Cassa Centrale Banca and its affiliates, of shares in Iccrea Banca and other subsidiaries by the ICBG affiliated banks, which led to a deduction from own funds of eligible capital instruments in the amount of about €119 million;
- the inclusion in own funds of a tier-2 subordinated instrument for institutional investors, which was placed in November for a total nominal value of €400 million, included among own funds in the amount of about €396 million;
- the reduction in RWAs for credit risk, attributable to actions taken in relation to the NPL portfolio, which posted a reduction in the fourth quarter of about €868 million (€1,071 million in terms of RWAs), due mainly to the effect of completing the GACS III securitization backed by a State guarantee.

6. THE GROUP'S STRATEGIC LINES OF BUSINESS

CONSOLIDATED BANKS AND OTHER COMPANIES

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
Financial assets	454,950	12,403,389	84,717	48,254,391	(6,885,458)	54,311,990
Due from banks	208,109	25,561,628	629,879	9,327,005	(28,342,375)	7,384,246
Due from customers	8,636,403	5,844,189	1,400,123	71,492,772	(2,132,629)	85,240,858
Funding from banks	4,112,344	20,894,699	1,289,712	22,191,280	(29,614,288)	18,873,746
Funding from customers	1,057,054	17,141,526	701,479	86,999,896	(318,842)	105,581,113
Securities and other financial liabilities	3,544,016	5,946,411	76,704	12,914,010	(5,606,382)	16,874,759

€/thousands	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTERSEGMENT TRANSACTIONS	TOTAL
Net interest income	175,488	17,350	67,062	2,059,886	30,060	2,349,845
Net fee and commission income	17,333	174,424	55,261	1,075,343	(53,798)	1,268,563
Other financial expense and income	(7,838)	119,421	(803)	263,331	(67,567)	306,545
Gross income	**184,983**	**311,195**	**121,520**	**3,398,560**	**(91,304)**	**3,924,953**
Net value adjustments	(84,874)	(38,302)	(2,690)	(554,658)	(139)	(680,664)
Net gains/(losses) from financial operations	**100,109**	**272,893**	**118,830**	**2,843,901**	**(91,443)**	**3,244,289**
Operating expenses	(97,897)	(315,946)	(73,089)	(2,426,452)	11,562	(2,901,823)
Other costs and revenues	1,025	(83,511)	280	(25,069)	74,820	(32,455)
Profit/(loss) from continuing operations	**3,236**	**(126,565)**	**46,021**	**392,380**	**(5,061)**	**310,012**
Income tax expense from continuing operations	(5,664)	3,858	(14,267)	(55,905)	6,929	(65,049)
Profit/(loss) for the period	**(2,428)**	**(122,707)**	**31,755**	**336,474**	**1,868**	**244,963**
Profit/(loss) pertaining to non-controlling interests	**(2,605)**	**5,219**	**3,870**	**-**	**-**	**6,485**
Profit/(loss) pertaining to shareholders of the parent company	**177**	**(127,926)**	**27,885**	**336,474**	**1,868**	**238,478**

INSTITUTIONAL BUSINESS AREA

Balance sheet

	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other	
€/thousands	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Cash and cash equivalents	246,137	40,807	2	3	2	2	2		3	4
Financial assets measured at fair value through profit or loss	1,279,864	896,619							-	-
Financial assets measured at fair value through other comprehensive income	367,133	282,946	17	17			3		-	-
Financial assets measured at amortized cost	42,551,042	36,361,573	12,654	16,791	3,331	3,590	6,137	5,512	15,405	13,452
a) due from banks	25,528,379	21,023,839	12,654	16,791	3,331	3,590	6,137	5,512	15,405	13,452
b) loans to customers	5,842,484	3,832,209							-	-
c) securities	11,180,178	1,505,525							-	-
Hedging derivatives and value adjustments of macro-hedged financial assets	5,965	8,465							-	-
Equity investments	1,150,481	1,261,745					100	103	10	210
Property, plant and equipment	17,125	14,221	14,908	13,529	123,437	103,351	4,427	791	82,215	76,749
Intangible assets	53,946	27,043	33,388	18,260	326	120	1,140	1,283	1,090	450
Tax assets	80,178	86,433	1,730	1,688	29	274	855	1,029	3,298	840
Non-current assets and disposal groups held for sale	171,700	146,793	-	1					-	-
Other assets	152,988	182,866	20,671	20,502	10,494	8,099	9,892	11,714	16,644	21,160
Total assets	**46,076,559**	**9,309,510**	**83,370**	**70,792**	**137,620**	**115,436**	**22,557**	**20,432**	**118,665**	**112,865**

	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other	
€/thousands	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2018	31/12/2019
Financial liabilities measured at amortized cost	42,932,558	36,969,235	520	-	58,550	44,471	3,464	5,092	24,141	23,868
a) due to banks	20,782,376	19,424,621			44,766	44,471	290		20,452	19,938
b) due to customers	17,128,866	12,516,909	520	-	13,784	-	3,174	5,092	3,689	3,930
c) securities issued	5,021,316	5,027,706							-	-
Financial liabilities held for trading	381,867	251,128							-	-
Financial liabilities designated as at fair value	424,058	-							-	-
Hedging derivatives and value adjustments of macro-hedged financial liabilities	118,344	63,305							-	-
Tax liabilities	1,407	-			-	252	2	1	1,641	434
Liabilities associated with assets held for sale	155,930	127,598			-	-			-	-
Other liabilities	329,426	308,159	38,704	27,063	21,201	12,839	15,800	10,315	15,229	12,813
Post-employment benefits	18,003	10,176	2,540	2,505	218	196	1,194	1,032	1,327	1,058
Provisions for risks and charges	10,476	9,156	1,454	1,207	46	41	971	2,340	456	1,388
Shareholders' equity	1,831,906	1,606,384	39,923	39,697	55,704	55,797	1,206	1,639	69,021	66,271
Profit/(loss) for the period	(127,417)	(35,632)	230	320	1,901	1,839	(80)	13	6,851	7,033
Total liabilities and equity	**46,076,559**	**39,309,510**	**83,370**	**70,792**	**137,620**	**115,436**	**22,557**	**20,432**	**118,665**	**112,865**

Income statement

	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other	
€/thousands	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**
Net interest income	47,239	79,104	(179)	(170)	(1,401)	(1,011)	(131)	17	(273)	(194)
Net fee and commission income	72,663	87,194	-	-	(11)	(2)	(18)		11,965	14,702
Dividends	51,361	48,963							-	-
Net gain/(loss) on trading	10,479	9,339	(2)	2					-	-
Net gain/(loss) on hedging	(4,607)	(4,884)							-	-
Net gain/(loss) on disposals	25,298	(28,511)							-	345
Net gain/(loss) on financial assets and liabilities at FVTPL	8,779	(14,827)							-	-
Gross income	**211,212**	**176,377**	**(182)**	**(168)**	**(1,412)**	**(1,014)**	**(149)**	**17**	11,692	14,853
Net writedowns/writebacks for credit risk	(38,319)	(4,682)							23	92
Net gains/(losses) from financial operations	**172,893**	**171,695**	**(182)**	**(168)**	**(1,412)**	**(1,014)**	**(149)**	**17**	11,715	14,945
Administrative expenses	(344,109)	(251,741)	(85,872)	(70,569)	(30,682)	(27,916)	(50,764)	(48,517)	(20,476)	(25,873)
a) personnel expenses	(145,802)	(81,290)	(20,257)	(19,073)	(6,466)	(6,642)	(22,547)	(19,750)	(6,432)	(6,024)
b) other administrative expenses	(198,306)	(170,451)	(65,615)	(51,496)	(24,216)	(21,274)	(28,217)	(28,767)	(14,044)	(19,849)
Depreciation, amortization and provisions	(12,301)	(8,829)	(10,961)	(12,105)	(10,095)	(5,561)	(2,560)	(1,470)	(5,918)	(5,896)
Other operating expenses/income	102,812	18,946	97,436	83,368	44,866	37,196	53,539	50,216	24,473	27,363
Operating expenses	**(253,598)**	**(241,624)**	**603**	**694**	**4,089**	**3,719**	**214**	**229**	(1,921)	(4,406)
Profit/(loss) from equity investments	(76,765)	(15,791)							(200)	(350)
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	**(157,470)**	**(85,721)**	**418**	**526**	**2,677**	**2,706**	**66**	**246**	9,594	10,189
Income tax expense from continuing operations	14,283	30,893	(188)	(206)	(776)	(868)	(162)	(233)	(2,743)	(3,156)
Profit/(loss) on discontinued operations after tax	15,770	19,195							-	-
Profit/(loss) for the period	**(127,417)**	**(35,632)**	**230**	**320**	**1,901**	**1,838**	**(97)**	**13**	**6,851**	**7,033**

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 by applicable law and the Cohesion Contract – BCC Sistemi Informatici, BCC Solutions, and Sinergia.

ICCREA BANCA SPA

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

The traditional role of the second-level bank, which, in supporting the operations of the mutual banks, provides - in the spirit of partnership - products, services and advisory services to help them meet the needs of their shareholders, customers, households and local communities, was significantly affected by taking on the new responsibilities of its role and 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

In continuity within the past, operational governance activities are conducted alongside the investment services provided by the Group Finance area, mainly to the affiliated banks and indirectly 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 collection and intermediation service.

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) liquidity management; and iii) capital and money market activities and hedging. Within this context, and taking account of the Guarantee Scheme adopted by the Iccrea Cooperative Banking Group, Group Finance has ensured constant coverage of short and long-term funding needs and related interest-rate, currency and liquidity risk at the separate and consolidated levels. Of no lesser importance, Group Finance has ensured the maintenance of adequate levels of structural liquidity, even under stress conditions.

Finally, Group Finance coordinated and carried out, on behalf of companies of the Group and for the affiliated banks, operations of structured finance, including the securitization of performing and non-performing loans, the latter of which backed by state guarantee, while also serving as sole arranger or co-arranger in up-front and on-going activities. The unit also saw to activities involved in the sale of portfolios of non-performing and UTP loans.

In 2019, with regard to liquidity management, Group Finance ensured that the affiliated banks had the capacity to obtain collateralized funding by way of operations with the ECB and on the market. In auctions of the T-LTRO II program, funding totaled about €12 billion, to which a further €78 million was added in the initial phase by participating in the second auction of the new T-LTRO III program. Access to collateralized funding by way of ECB operations has enabled ICBG companies to stabilize the related cost of funding to -0.40%. Iccrea Banca has also repaid financing to the ECB in the amount of about €1.9 billion, which was replaced with financing obtained by way of market transactions.

Throughout nearly all of 2019, activity on the secured MTS market (repos segment) saw prices only slightly higher or, in certain cases, even lower than deposit facility rates. At December 31, 2019, the average for collateralized funding on the repo market was about €13 billion, above the average for 2018, which was around €10.8 billion, of which €9 billion for the mutual banks.

Within the scope of medium to long-term funding initiatives, a total of €3.17 billion in funding operations were completed during the year. The following were the most important:

- 3 bond issues were made for a total of €741 million and with a weighted average maturity of 4.16 years. Of these placements, 67.5% was concentrated with institutional customers, with the remaining 32.5% going to mutual bank customers; €400 million concerned the aforementioned tier-2 subordinated issue within the European Medium-Term Notes (EMTN) Program with a ten-year maturity and the option for early repayment beginning with year five;
- deposits with mutual banks with a term of more than 12 months totaled €930.5 million, with a weighted average maturity at issue of 1.76 years;
- refinancing with the European Central Bank after obtaining eligibility on January 31, 2019, for the senior security subscribed by BCC CreditoConsumo as part of the securitization transaction for performing loans originated by BCC CreditoConsumo. As at December 31, 2019, the operation, which was completed in December 2018, enabled the security to be refinanced in the amount of €477.3 million;
- tiering accounts of the mutual banks for a total of €817.7 million.

Iccrea Banca's total medium to long-term bond funding outstanding as at December 31, 2019, amounted to €5.04 billion, with a weighted average residual maturity of 1.67 years.

The affiliated banks remain committed to conducting forex transactions through the Forex and Money Market (FXMM) portal for real-time spot, forward and swap trading. In 2019, 96,200 contracts were handled on this portal for a total volume of around €9.5 billion, of which €7 billion in swaps, €2 billion in spot transactions and €100 million in outright transactions.

As for the trading component, a total of €314 billion was traded, mainly by way of the development of swap trading.

Operations in Italian government bonds, structured as market making on the Hi-MTF and ETLX platforms, saw the listing of 115 securities with a total of €3.9 billion traded, an increase of 509% compared with the same period of the previous year. Trading on the Italian bond market (MOT) posted volumes of €2.3 billion, an increase of 26% compared with the same period of 2018.

Total volumes of Italian government notes traded on the institutional investor markets (MTS, BondVision and Bloomberg) amounted to €36.2 billion, down 43% compared with the same period of the previous year.

Within the context of market making for eurobonds, Iccrea Banca listed 265 eurobonds on the Hi-MTF market, 428 eurobonds on the EuroTLX market, and 213 eurobonds on Extramot and Euromot. Total volumes traded on these markets came to about €2.3 billion, a decrease of 11% compared with the same period of the previous year.

As regards OTC derivatives business, Iccrea Banca traded contracts for a nominal volume of about €3.6 billion.

The affiliated banks concluded contracts for a total nominal volume of about €885 million, which is in line with the previous year. Operations of the mutual banks have mainly focused on managing the interest rate risk of their fixed-rate loan portfolios, whereas there has been a reduction in the coverage of interest rate risk related to government-bond positions.

As for Iccrea BancaImpresa, 92 derivative contracts with a total notional value of about €209 million were closed.

On the banking book, trading in derivatives to cover the interest rate risk related to government securities had a total notional value of about €1.4 billion.

With regard to operations carried out on the financial markets by Iccrea Banca on behalf of the mutual banks, 2019 was characterized by volumes traded that were essentially in line with 2018. The total value came to €15.7 billion. The equity segment, in particular, posted a volume increase of around 9% compared with 2018, supported by a rise in the Italian stock market's FTSE MIB index. Despite particularly strong performance in the second half of the year on the back of renewed investor confidence in Italian government securities, the bond market saw a decline of about 17% in volumes traded by the mutual banks for their own portfolios, whereas the retail segment posted a 9% increase in volume.

With regard to primary market activities, Iccrea Banca took part in the placement of the fifteenth issue of the BTP Italia bond. Total subscriptions received by Iccrea Banca on behalf of around 100 mutual banks represented 6.8% of the total amount. With regard to subscriptions coming from the institutional segment, the percentage subscribed by the mutual banks represented approximately 10.2% of the amount reserved for this category of investors.

In 2019, within the scope of structured finance, the organization acted as sole arranger in the securitization of performing loans and as co-arranger in operations for non-performing loans, while also providing financial advisory services for the non-recourse factoring of non-performing loans.

Iccrea Banca also acts as a partner in delivering the entire value chain of securities administrative and settlement services. In addition, it provides a high degree of flexibility in service delivery so that it can also handle and satisfy the complex requirements of specific customers of the affiliated banks.

As of December 2019, securities in custody and administration amounted to about €90 billion. During the year, approximately 30,000 transfers of financial instruments, 2,200 SICAVs, 12 mutual bank migrations, and 3 mergers were carried out in both directions, incoming and outgoing.

Iccrea Banca, as a qualified intermediary (QI) of the mutual banks in relations with the US Internal Revenue Service (IRS), handles all the documentation and organizational and operational aspects connected with new legislation introduced by the American government since of 2018. During the period, 122 NQI mutual banks took advantage of Iccrea Banca's QI service, while 9 mutual banks chose to act as qualified intermediaries themselves.

Payment systems

The payment systems market is undergoing a process of profound renewal, including the growing popularity of digital payments both over the channels made available by banks and by way of innovative solutions being offered to customers by new non-bank operators.

Within this landscape, Iccrea Banca has been developing new services available to the mutual banks, which allow them to be competitive and enhance customer loyalty. These new products will go hand in hand with the traditional ones already in place, with the goal of ensuring fee and commission levels that will counterbalance the decline, which has been going on for several years now, in the profitability of certain products of decreasing popularity due to the changing habits of banking customers (particularly check writing and similar instruments, which are increasingly being replaced with SCTs and SDDs).

Of particular note is the pagoPA technology-partner service, which enables the banks served to activate government entities on the pagoPA government-payments system to manage their collections using an IT platform developed by Iccrea Banca in line with applicable legislation (one government entity was activated in June and others will be following throughout the year).

With a view to taking advantage of business opportunities available in the market, Iccrea Banca has also begun providing operational intermediation and accounting services to new payment institutions, which has resulted in a significant increase in the volume of SDD and SCT transactions, to be followed by other types of transaction (SEDA and payment notices) during the year.

As part of its participation in official government and interbank initiatives, 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 compared with the ordinary established prices.

In short, in the payment-systems segment in 2019, in addition to activating the aforementioned pagoPA technology-partner service for the mutual banks, Iccrea Banca has:

- completed the electronic-billing project for all mutual banks and companies of the group, thereby centralizing, within Iccrea Banca, the management of sending, receiving and archiving invoices, in part in view of activation, from July 1, 2019, of the group's single VAT number;
- optimized the check-image truncation (CIT) procedure;
- managed regulatory changes in the relevant areas (SEPA, cash, etc.);
- launched the "smart safe" project, which will enable merchants (such as large-scale distributors) to deposit cash in safes installed in their points of sale and have that cash credited to their mutual-bank current accounts;
- launched a coin-service project that will enable mutual banks to manage this service centrally with their customers based on existing agreements;
- activated the service of SEPA and Target intermediation for payment institutions (Satispay and LIS Lottomatica);
- participated in the group project PSD2, including analyzing the impact of this directive on the payment services currently offered by mutual banks and on new services that are to be activated by third parties authorized to access customer accounts by way of cooperative solutions (e.g. CBI Globe and others);
- participated in the project for the development and launch, in 2020, of the instant-payments product.

Electronic money

In 2019, Iccrea Banca continued to invest in the electronic money business in order to optimize procedures and strengthen its range of products and services in keeping with strategic policies and to ensure that the business is able to grow. Despite the reduction in volumes as banks that did not join the new Mutual Banking Group left the service, the segment posted virtually stable performance in the main issuing metrics, including some 3.8 million cards in operation (+0.1% vs 2018) and €19.7 billion in transactions (-1.2% vs 2018). Acquiring (both POS and ATM) – with more than 190,000 POS terminals and 4,000 ATMs active and about €13.8 billion in transactions – posted growth of 9.5% compared with 2018.

More specifically, with regard to the affiliated banks:

- in issuing, the entire product line (debit, prepaid and credit cards) posted a 6% increase in transactions, driven mainly by credit cards and prepaid products (+3.6% for debit cards, +10.4% for credit cards, and +20% for prepaid cards);

- the acquiring segment posted significant growth (+14.4%) in POS transactions, which reached €11.8 billion, driven mainly by transactions with international circuit (Visa and MasterCard) products, which grew by 24.2%.

Within this growth environment, fraud in issuing and acquiring in 2019 posted a net improvement compared with 2018. In 2019, the total loss due to fraud decreased in both issuing (-14.6% in non-operating expense) and acquiring (-38% in amounts related to disputes with a financial impact on the merchant) as a result of a more effective management of disputes and a more accurate use of prevention mechanisms. The total loss due to fraud as a ratio to total transactions came to 0.54 bps, which is significantly lower than the market average (of 4.8 bps on total issuing for credit, debit and prepaid cards according to figures published at www.ecb.europa.eu) and is a 19% decrease from the previous year.

Among the main projects and commercial initiatives undertaken that contributed to the performance reported in 2019, the following were particularly important:

- the migration of direct acquiring; the process of migrating the array of merchants to the proprietary acquiring platform has begun, and more than 112,000 POS terminals have been migrated so far. In 2019, the migrated merchants generated 13 million transactions worth a total of €824 million. In addition to ensuring a more effective management of the business's value chain, this operation has led to significant savings as a result of the internal management of processing. In 2019 alone, the migration resulted in savings of €0.8 million, a figure which is expected to reach more than €3 million in 2020;
- *SmartPOS*; in December 2019, the next-generation *SmartPOS* terminals were launched in two versions, "Light" and "Full". Based on the number and type of applications installed, these terminals are an innovative means of supporting business growth for merchants, while also meeting the recent legislative obligations regarding electronic billing.

Information Technology

In addition to the information provided previously in relation to the main projects pursued during the year in payment systems and the electronic money business, and continuing work begun in 2018, the ICT unit was highly committed in 2019 to carrying out projects connected with the start of operations of the ICBG, to further developing the target information system for the affiliated banks (BCC-SI), and to migrating the mutual banks to outsourcing to the technical services providers of mutual banks other than BCC-SI in accordance with the established plan.

As to the first project, development was completed for certain key areas (consolidated financial statements, harmonized supervisory reports, Asset Quality Review), resulting in the completion of software application platforms and the relative data input procedures. More specifically:

- the execution and configuration of the platform for generating financial statements and consolidated supervisory reports was completed, as was its integration in the relative application architecture. The platform was also shared with the affiliated banks for use in financial and individual supervisory reporting;
- the use of the supervisory risk platform for managing reporting data and the process for generating consolidated supervisory reports was extended to the companies that fall within the broader scope of the ICGB.

In addition to completing projects in the key areas mentioned above, other projects important for ICBG's operations were carried out in the following areas: Group register; early warning system (EWS); stress tests for loans and credit risk management; new platform for monitoring RAF/RAS indicators at the Group and the individual affiliated bank levels; repository contracts and IFRS 16 calculation engine; anti-money laundering (definition of the dashboard to support the alignment of the Group risk profile, standardization of the management of customer risk profiles, initiation of monitoring of the main risk factors); balance sheet management (definition of the dashboard for forecasting simulations based on balance sheet and income statement data, on the primary operational profiles, fed with data from the Group companies); collateral management (dashboards for collateralized securities and collateralized loans to support liquidity management operators); Group VAT implementing measures needed to meet the requirements across all the IT systems of the companies participating in Group VAT to ensure its execution; compliance (platform for managing the compliance assessments of and judgments on the affiliated banks).

The service level provided, which is positively correlated with service availability, was in line with the previous year.

In 2019, with a view to increasing the resilience of the Iccrea Cooperative Banking Group's information systems serving both customers and the affiliated banks, annual disaster recovery tests were completed successfully and demonstrated the efficacy of the business continuity and disaster recovery plans.

ICT-related costs in 2019 totaled €96.8 million (excluding capital expenditure in the amount of €42.7 million as well as administrative and personnel expenses and the depreciation of hardware and amortization of software), for an increase of €11.7 million compared with 2018. The most significant cost increases were attributable to:

- an increase in operating costs for software related to the development of projects for the new ICBG that were completed in 2017 and 2018;
- an increase in operating costs for leases on base and application software and hardware as a result of the gradual enhancement of the Parent Company's information system in conjunction with creation the ICBG;
- an increase in project costs, particularly in the area of ICT security in relation to the numerous strategic projects pursued in 2019 (e.g. to enhance the security of ICBG infrastructure).

ICT personnel expenses, in the amount of €15.7 million in 2019, increased by around €0.7 million compared with 2018.

With regard to BCC-SI, ICT costs in 2019 came to €96.8 million (including administrative expenses, personnel expenses, the depreciation of hardware and the amortization of software), while capital expenditures came to €19 million, which is an increase over the €14.2 million of 2018. The most significant increases were due to:

- greater administrative expenses attributable to:
  - non-deductible VAT recognized as a cost beginning on July 1, 2019, whereas the 2018 figure was taxable;
  - the volume of projects of extraordinary importance (e.g. projects in the credit area, in part in response to the ECB);
  - certain extra-budget items in operations during the year (e.g. Office and IRETH licenses, etc.);
- an increase in personnel expenses attributable to:
  - allocations to the provision to support salaries/voluntary termination incentives;
  - a lower impact of the capitalization of employee labor compared with budget estimates.

The plan to migrate the banks that are currently users of other technical services providers to the information system of BCC-SI, as also reported to European regulators, calls for 13 other initiatives in 2020 (two of which have already been completed). Despite the need to adjust time frames in response to the COVID-19 health emergency, the goal is to maintain the established plan.

Activities in 2020 also call for assistance related to nine mergers of Group banks, four of which were completed in the first quarter of 2020, in addition to four projects for the sale of branches by Banca Sviluppo (three of which had been completed as of the date of approval of the financial statements).

RETAIL BUSINESS AREA

Balance sheet

	RETAIL							
	Mutual banks		BCC CreditoConsumo		BCC R&P		Banca Sviluppo	
€/thousands	31/12/2019	1/1/2019	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Cash and cash equivalents	704,675	808,036	49	70	3	2	5,591	10,687
Financial assets measured at fair value through profit or loss	1,697,731	1,436,578	-	-	6,287	6,251	373	483
Financial assets measured at fair value through other comprehensive income	10,215,611	15,415,629	30	30	131	131	1,679	2,834
Financial assets measured at amortized cost	117,443,846	108,208,861	1,208,559	911,468	64,862	55,489	794,769	1,203,469
a) due from banks	9,465,787	6,572,738	256,990	9,491	30,972	31,256	341,968	473,364
b) loans to customers	71,492,772	82,252,468	951,569	901,976	33,890	24,234	378,390	558,363
c) securities	36,485,287	19,383,655	-	-	-	-	74,411	171,742
Hedging derivatives and value adjustments of macro-hedged financial assets	29,845	14,287	-	-	-	-	58	108
Equity investments	48,089	48,651	-	-	-	-	-	-
Property, plant and equipment	2,018,870	1,758,466	187	24	4,647	4,715	42,419	48,248
Intangible assets	33,480	64,465	740	931	688	759	1,188	1,225
Tax assets	1,715,339	1,963,466	10,059	9,410	735	1,276	59,538	59,781
Non-current assets and disposal groups held for sale	33,861	42,365	-	-	-	-	38,590	39,038
Other assets	1,306,295	1,250,865	106,729	44,957	1,655	2,630	69,206	49,299
Total assets	**135,379,560**	**131,056,944**	**1,326,352**	**966,890**	**79,007**	**71,254**	**1,013,412**	**1,415,173**

€/thousands	31/12/2019	1/1/2019	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Financial liabilities measured at amortized cost	122,079,290	118,479,730	1,219,320	870,739	26,588	24,429	742,192	1,185,538
a) due to banks	22,330,321	22,825,720	1,187,190	809,345	26,463	24,403	76,357	105,458
b) due to customers	86,999,896	80,835,406	32,130	61,394	125	26	589,622	917,536
c) securities issued	12,749,073	14,818,604	-	-	-	-	76,213	162,544
Financial liabilities held for trading	2,058	32,878	-	-	-	-	-	-
Financial liabilities designated as at fair value	10,973	40,969	-	-	-	-	488	469
Hedging derivatives and value adjustments of macro-hedged financial liabilities	218,502	87,756	-	-	-	-	3	16
Tax liabilities	97,893	76,553	574	609	461	180	1,226	526
Liabilities associated with assets held for sale	-	-	-	-	-	-	79,669	20,369
Other liabilities	2,620,051	2,603,639	26,451	22,611	11,324	10,617	44,872	60,441
Post-employment benefits	274,445	280,529	252	176	335	355	2,171	3,880
Provisions for risks and charges	340,026	338,290	59	40	2,074	1,336	17,590	22,288
Equity	9,288,762	8,697,879	60,896	60,194	25,826	25,807	124,486	116,499
Profit/(loss) for the period	336,559	312,722	18,799	12,520	12,400	8,529	717	5,147
Total liabilities and equity	**135,379,560**	**131,056,944**	**1,326,352**	**966,890**	**79,007**	**71,254**	**1,013,412**	**1,415,173**

Income statement

	RETAIL							
	Mutual banks		BCC CreditoConsumo		BCC R&P		Banca Sviluppo	
€/thousands	**31/12/2019**	**31/12/2018 PF**	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**
Net interest income	2,059,984	2,306,094	46,598	42,142	-	-	20,464	33,044
Net fee and commission income	1,075,343	911,389	5,231	2,626	40,464	35,303	9,740	14,343
Dividends	3,272	6,092	-	-	10	88		
Bet gain/(loss) on trading activities	15,445	(1,268)	-	-	-		(14)	(34)
Net gain/(loss) on hedging	(3,016)	(1,981)	-	-	-		3	15
Net gain/(loss) on disposals	225,988	148,923	(277)	405	-		(483)	(5,330)
Net gain/(loss) on assets and liabilities at FVTPL	18,660	(24,677)	-		27	(183)	(68)	17
Gross income	**3,395,677**	**3,344,571**	**51,553**	**45,173**	**40,501**	**35,209**	**29,640**	**42,056**
Net writedowns/writebacks for credit risk	(554,235)	(678,282)	(8,293)	(11,692)	-	-	5,603	464
Net gains/(losses) from financial operations	**2,841,441**	**2,666,289**	**43,260**	**33,481**	**40,501**	**35,209**	**35,243**	**42,520**
Administrative expenses	(2,554,277)	(2,497,553)	(17,370)	(17,221)	(21,656)	(21,538)	(36,118)	(53,759)
a) personnel expenses	(1,414,452)	(1,381,045)	(5,482)	(4,933)	(5,623)	(5,217)	(20,358)	(28,509)
b) other administrative expenses	(1,139,824)	(1,116,507)	(11,888)	(12,288)	(16,033)	(16,321)	(15,760)	(25,250)
Depreciation, amortization and provisions	(179,133)	(152,196)	(299)	(64)	(1,476)	(1,366)	(2,714)	(1,659)
Other operating expenses/income	306,514	319,218	2,398	2,226	560	210	3,572	4,204
Operating expenses	**(2,426,895)**	**(2,330,531)**	**(15,271)**	**(15,060)**	**(22,571)**	**(22,695)**	**(35,259)**	**(51,213)**
Profit/(loss) from equity investments	(11)	(626)	-	-	-	-		
Profit/(loss) from disposal of investments	1,883	(304)	-	-	-	-	280	6,987
Net gain/(loss) from FV measurement of property, plant and equipment and intangible assets	(1,283)	(1,257)	-	-	-	-		
Impairment of goodwill	(22,671)	(17,418)	-	-	-	-		
Profit/(loss) before tax on continuing operations	**392,463**	**316,153**	**27,989**	**18,421**	**17,929**	**12,514**	**264**	**(1,705)**
Income tax expense from continuing operations	(55,920)	(3,401)	(9,189)	(5,901)	(5,530)	(3,985)	452	6,852
Profit/(loss) on discontinued operations after tax	15	(31)						
Profit/(loss) for the period	**336,559**	**312,722**	**18,799**	**12,520**	**12,400**	**8,529**	**717**	**5,147**

AFFILIATED BANKS

The segment includes the mutual banks that represent the largest portion of the Group's consolidated assets (more than 80%, net of intercompany items) and basically is the new ICBG's strong point both today and going forward. 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, which is new to the newly-formed ICBG, we provide below a description of the customer base and of the business model generally.

Balance sheet

As a general rule, the structure of the mutual banks' assets 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 140 mutual banks belonging to the Iccrea Cooperative Banking Group as at December 31, 2019, presented in aggregate form and gross of intercompany items. To enable a more immediate understanding of the Group's balance sheet, the following tables contain more condensed schedules of assets and liabilities than provided for in Circular no. 262/05 of the Bank of Italy. The balance sheet at December 31, 2019, is compared with the corresponding data at December 31, 2018.

Total assets at December 31, 2019, amounted to €135.4 billion, up €4.3 billion compared with the figures at January 1, 2019.

Financial assets measured at fair value through profit or loss came to €1.7 billion and mainly include financial assets mandatorily measured at fair value amounting to €1.6 billion (which also encompasses amounts due from the Parent Company for the *ex ante* contribution to the Guarantee Scheme) and assets held for trading of €44.2 million.

The portfolio of financial assets measured at fair value through other comprehensive income totaled €10.2 billion and mainly includes government securities.

With regard to financial assets measured at amortized cost:

- amounts due from banks came to about €11.4 billion, of which €1.9 billion for debt securities and the remainder for current accounts and demand deposits (€2.7 billion), fixed-term deposits (€6.3 billion) and claims on central banks, comprised mainly of reserve requirements (€0.5 billion);
- loans to customers amounted to €106 billion, of which €34.6 billion for debt securities and the remainder for medium/long-term loans to customers (€55 billion), current accounts (€9 billion) and other loans (€6.1 billion). Around €1.2 billion represents operations involving credit cards, personal loans and loans repaid by automatic deductions from wages.

The characteristics of the mutual banks' business model is reflected primarily by the type of customers served.

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 NPLs
Ordinary customers	98.1%	86.7%	97.9%	11.4%	100.0%	50.9%
Households	39.0%	94.0%	41.3%	6.0%	20.6%	40.7%
Small and medium-sized enterprises	46.3%	88.7%	46.3%	11.3%	46.1%	49.4%
Producer households	*10.1%*	*87.4%*	*10.0%*	*12.6%*	*11.2%*	*46.2%*
Micro-enterprises, institutions and associations	*9.9%*	*85.1%*	*9.5%*	*14.9%*	*12.9%*	*50.4%*
Other SMEs	*26.3%*	*90.5%*	*26.9%*	*9.5%*	*22.0%*	*50.4%*
Large corporate	12.9%	66.5%	8.4%	33.5%	32.8%	59.5%
Government entities	0.8%	99.6%	0.9%	0.4%	0.0%	66.1%
Central banks, credit institutions and other financial companies	1.0%	97.8%	1.2%	2.2%	0.0%	33.7%
Total	**100.0%**	**88.6%**	**100.0%**	**11.4%**	**100.0%**	**51.0%**

Total loans disbursed by the mutual banks – equal to €77.9 billion at December 31, 2019, net of intercompany items – were made largely to consumer households and SMEs[13] (39% and 46.3% of total lending, respectively). The aggregate NPL ratio stood at 11.4%, while the coverage ratio for impaired loans was 51%.

A large part of the loans to SMEs are to producer households (sole proprietors) and "micro-enterprises", which are small companies (fewer than 20 employees) in addition to institutions and associations. 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 6% and 11.3%, respectively) thanks to a better understanding of these types of customers. The share of loans to larger firms (8.7% of the total) was more limited and registered a higher NPL ratio.

Financial investments totaled about €44.5 billion and consist almost entirely of government securities (especially those issued by the Italian State). More than four-fifths 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.

Stock of debt securities by accounting portfolio	Ratio to total debt securities
Amortized cost	80.4%
Fair value through profit or loss	0.2%
Fair value through other comprehensive income	19.4%
Total	**100.0%**

Property, plant and equipment, which amounted to about €2 billion, is mainly composed of land and buildings used in operations (€1.9 billion) and other capital goods.

Intangible assets came to €33.5 million, of which €9.1 million in goodwill paid to acquire bank branches prior to the formation of the Iccrea Cooperative Banking Group.

As for liabilities, having strong ties with the territory is the underlying reason for the high proportion of direct funding, in large part represented by funding from customers, especially current accounts and demand deposits, and to a lesser extent bonds and certificates of deposit.

In relation to this, liabilities largely consist of financial liabilities measured at amortized cost. More specifically:

- amounts due to banks totaled €22.3 billion, attributable to loans obtained through T-LTRO operations and refinancing transactions with the Parent Company;
- amounts due to customers amounted to €87 billion, mainly attributable to €79.4 billion for current accounts and demand deposits and €6.2 billion for fixed-term deposits. The remaining portion is made up of financial liabilities for €0.7 billion, amounts due in respect of finance leases for €0.3 billion and other liabilities for €0.4 billion;
- securities issued came to €12.7 billion, of which €6.9 billion represented by bonds and €5.8 billion by certificates of deposit.

Aggregate shareholders' equity amounted to €9.7 billion and consists of €0.9 billion of share capital, with the rest made up of reserves. The mutual banks' profit for the year amounted to €0.3 billion.

Income statement

Net interest income derives from interest and similar income of €2.5 billion, mainly on loans to customers and financial assets measured at fair value through other comprehensive income, against interest and similar expense of €0.5 billion, comprised in equal measure of amounts due to customers and securities issued.

Fee and commission income amounted to €1.3 billion, essentially attributable to the holding and management of current accounts for €517 million and collection and payment services for €378 million. Fee and commission expense totaled €185 million and is ascribable almost entirely to collection and payment services and securities custody and administration services (€157 million).

Other administrative expenses refer largely to professional services for €312 million, indirect taxes and duties for €260 million, consumables and services for €436 million, and information technology for €131 million.

[13] Small and medium-sized businesses (SMEs) are those with revenues of less than €50 million.

BCC CREDITOCONSUMO SPA

Within the scope of lending to retail customers, in 2019 the company continued to distribute consumer credit products (exclusively personal loans) through the mutual-bank branch network and the internet channel, where customers can use a form provided through the Crediper.it website to submit online loan applications.

With the new scope of the mutual bank channel now consolidated, the company has, thanks to the strong boost from and the effective protection of its territories, managed to maintain very high production levels compared with the approved budget (+13.9%) to reach €433 million, a clear increase (+18.9%) compared with the same period of the previous year (€364.6 million at December 31, 2018). This excellent performance, within the context of the new structure of the ICBG, was made possible by the great push in commercial efforts throughout 2019.

The main significant events occurring during 2019 include the following:

- writeoffs of impaired loans totaling around €485 thousand were recognized during the year. The loss generated by these write-offs was very limited due to the significant provisions that had been recognized (to a level of 92%);
- in January, following the eligibility granted by the ECB to the securities connected with the self-securitization operation completed in November 2018, the company signed an agreement with Iccrea Banca (which became responsible for custody of the securities) for the opening of a line of credit backed by guarantees for a total of €600 million;
- in relation to the aforementioned self-securitization operation, the company assigned additional performing loans to the special-purpose vehicle Crediper Consumer S.r.l. The payments for the transfer equal to the amount of the loans received were collected together with the coupons on the two senior and junior securities. These new transfers made it possible to restore the initial value to the portfolio transferred in the amount of approximately €650 million;
- in December, a non-recourse assignment of non-performing loans with a total outstanding value of about €8.2 million was completed. This transaction generated a net loss of about €0.28 million, a very limited amount due to the high level of provisions set aside for the transferred portfolio.

Balance sheet

Financial assets measured at amortized cost totaled €1,208.6 million and largely comprised consumer loans to customers, with the remainder being amounts due from banks (mainly related to the balances on current accounts dedicated to the securitization operation) and other amounts receivable. More specifically, net lending by the company at December 31, 2019, came to €952 million. Provided below is a summary breakdown of gross consumer lending to customers at December 31, 2019, by credit quality and with an indication of the related allowances and coverage percentage:

	Total	Loan loss provision	Coverage %	Market figures (Assofin / KPMG study)
Performing loans	964,452,785	21,671,926	2.3%	1.8%
Impaired past-due positions	9,458,211	4,615,376	48.8%	52.6%
Unlikely-to-pay positions	1,441,638	940,925	65.3%	54.3%
Bad loans	41,889,313	38,532,521	92.0%	75.2%
Total loans to customers	**1,017,241,947**	**65,760,749**	**6.46%**	
Average coverage of NPLs (%)			83.5%	67.1%

Within this context, while the product conduct of the company is amply above the market average in terms of the coverage of both impaired and performing loans, the great work done in terms of increasing the efficiency of credit collection processes, in part as a result of insourcing this activity, has made it possible to slow defaults and contain the allocations to the provision for the writedown of loans, which decreased by 29% compared with the previous year.

Of note among other assets, totaling €106.7 million, is the €102.7 million in amounts due from the special-purpose vehicle in the self-securitization transaction in relation to the advances paid to the vehicle for the installments collected on the portfolio transferred, as well as the €1.3 million in invoices to be issued for insurance fees and commissions. The remainder, in the amount of €2.7 million, is composed of tax receivables in relation to advance payments for the virtual-stamp duty and other receivables.

Financial liabilities measured at amortized cost totaled €1,219.3 million and included amounts due to banks (€1,187.2 million) and to AGOS Ducato (€31.0 million) generated mainly by funding operations, as well as amounts due to customers for the remainder (€1.1 million). Other liabilities came to €26.4 million, of which €12.5 million for fees and commissions payable to the participating mutual banks and €6.6 million for amounts due to Iccrea Banca in relation to the consolidated tax mechanism.

With regard to the mutual banks, it should be noted that, in 2019, fees and commissions were settled for a total of €25.9 million, an increase of 38% compared with the previous year.

Income statement

Profit after taxes came to €18.8 million (€28 million before tax), which is an improvement compared with the previous year (€12.5 million). While operating expenses remained essentially stable, net interest income increased by about €6 million due to an increase in volumes and in efforts to rationalize funding. Portfolio quality remains good, as evidenced by the decline in writedowns of loans.

BCC RISPARMIO & PREVIDENZA SGRPA

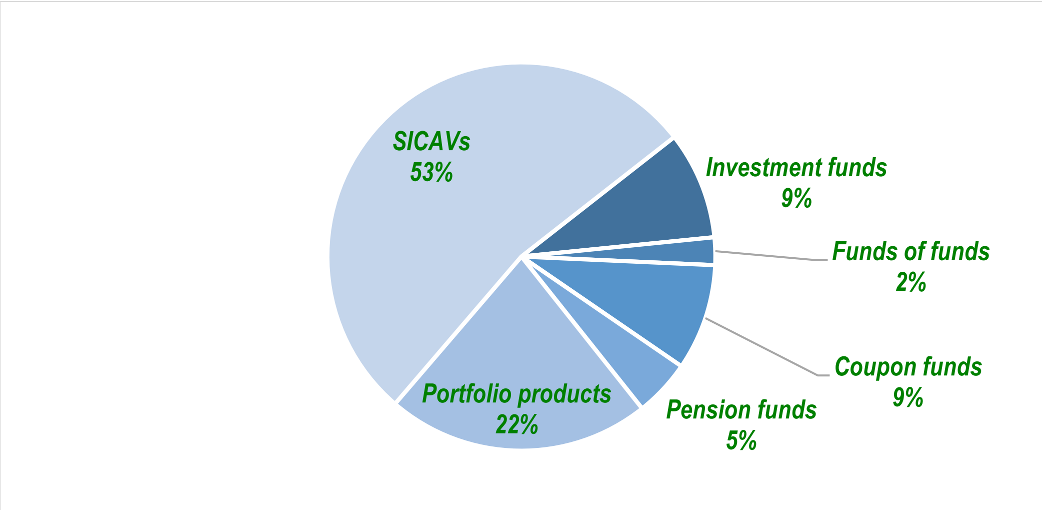
Assets under management

Assets managed or placed by BCC Risparmio & Previdenza as at December 31, 2019, totaled about €17 billion, an overall increase of €2.6 billion compared with 2018 (with about €1.2 billion being due to the performance of the financial markets). Positive funding from supplemental 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) and the negative funding from investment funds. The market effect was positive and contributed around €1.2 billion to the increase in assets under management.

The following is a breakdown of assets under management by product, including an indication of related net funding.

Amounts in €/thousands	31/12/2019	31/12/2018	% change
Asset Management - Total Assets	*16,945,767*	*14,308,091*	*18.4%*
of which: Investment funds	1,519,539	1,502,320	1.1%
of which: Funds of funds	389,592	341,837	14.0%
of which: Coupon funds	1,499,682	1,639,818	-8.5%
of which: Pension fund	804,505	645,979	24.5%
of which: Portfolio products	3,725,408	2,983,201	24.9%
of which: SICAVs	9,007,040	7,194,936	25.2%
Asset Management – Net Funding	*1,184,802*	*270,523*	*>300%*
of which: Investment funds	(101,998)	(100,975)	2.0%
of which: Funds of funds	(3,574)	31,067	113.1%
of which: Coupon funds	(215,663)	(472,765)	53.7%
of which: Pension fund	114,708	110,247	4.0%
of which: Portfolio products	404,965	235,476	72.0%
of which: Third-party SICAVs	986,365	467,473	111.0%

The following chart reports the weight of each investment product as a percentage of total assets under management at December 31, 2019.



Income statement

The 2019 financial year closed with net profit of €12.4 million (€17.9 million before taxes), an increase of 43% compared with 2018. This performance was mainly due to an increase in net fee and commission income, which went from €35.3 million to €40.4 million. A contributing factor in this result were performance fees, which increased from €1.1 million 2018 to €7.9 million in 2019.

Total management fees passed through to the mutual banks in 2019 came to €101 million.

Operating expenses remained essentially unchanged at €22.6 million.

BANCA SVILUPPO SPA

In 2019, Banca Sviluppo was engaged on multiple operational fronts in supporting ordinary operations and pursuing the project to sell its branches to completely dispose of the peripheral network which is to be integrated with the affiliated mutual banks. In this regard, the sale of three branches in the Veneto region was concluded in the first half of the year, and 20 branches were sold in Calabria in the second half. We have also begun the process of reallocating the personnel not transferred with the business units related to the branches. On the whole, the bank had 185 employees at the end of 2019, compared with 359 at the end of 2018 (-48.5%). At December 31, 2019, in line with previous periods, assets that are highly likely to be sold within twelve months have been recognized among disposal groups. In addition to being a part of the bank's NPL reduction plan, these operations are aimed at redefining the business model and strategic position of Banca Sviluppo in light of the bank's new role within the Iccrea Cooperative Banking Group, which is currently being defined within the scope of strategic planning.

This has also led to a process of internal reorganization aimed at improving the bank's operations in response to changing volumes as a result of the sales.

Balance sheet

Trends in balance sheet figures reflect the sale of branches in 2019.

Loans to the company's customers amounted to about €0.5 billion and direct funding to €0.9 billion, in line with the strategies pursued. At December 31, 2019, the annual average value of lending to ordinary customers decreased by 11.7%. Net of the sale of the branches in the regions of Veneto and Calabria, the decrease is notably less at just 1.4% (annual average). The contraction in lending was essentially due to the significant reduction in NPLs, which was not offset by new disbursements.

At December 31, 2019, the bank's equity totaled €125 million, compared with €122 million for 2018, a change mainly due to the allocation of earnings from the previous year.

Compared with December 31, 2018, the gross balance of the NPL portfolio decreased by 44% as a result of the sale of the GACS III portfolio for a total GBV of about €31.1 million, as well as of collections that were not offset by new additions.

Income statement

Profit for the period came to €0.7 million, a performance that is not adequately comparable to that of the previous year given the impact of the disposal of the branch network that is currently under way.

CORPORATE BUSINESS AREA

Balance sheet

	CORPORATE							
	Iccrea BancaImpresa		BCC Lease		BCC Factoring		MCFVG	
€/thousands	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Cash and cash equivalents	11	24	1	2	1	-	3	3
Financial assets measured at fair value through profit or loss	163,019	145,395	-	-	-	-	27,584	33,686
Financial assets measured at fair value through other comprehensive income	365	365	-	-	10	10	140,114	168,617
Financial assets measured at amortized cost	7,335,926	7,616,172	470,677	422,285	497,687	507,305	796,517	862,674
a) due from banks	39,092	44,157	2,543	3,119	5,094	2,737	162,473	238,782
b) loans to customers	7,160,820	7,477,242	468,134	419,166	492,593	504,568	543,380	594,169
c) securities	136,014	94,773	-	-	-	-	90,664	29,724
Equity investments	62,338	57,855	-	-	-	-	-	-
Property, plant and equipment	6,048	6,170	88	-	63	1	11,168	11,280
Intangible assets	178	211	412	426	-	-	149	164
Tax assets	183,959	187,252	5,672	5,887	7,230	7,474	47,538	46,693
Non-current assets and disposal groups held for sale	-	18,384	-	-	-	-	-	-
Other assets	60,027	78,744	15,272	11,999	9,081	6,369	5,810	7,171
Total assets	**7,811,870**	**8,110,574**	**492,123**	**440,598**	**514,072**	**521,160**	**1,028,882**	**1,130,289**

€/thousands	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Financial liabilities measured at amortized cost	6,890,209	7,144,354	437,821	391,255	490,632	495,742	847,443	935,877
a) due to banks	2,978,290	2,159,381	433,337	386,322	485,668	493,707	215,120	239,063
b) due to customers	440,660	648,999	4,483	4,932	4,964	2,034	606,947	671,386
c) securities issued	3,471,260	4,335,974	-	-	-	-	25,377	25,428
Financial liabilities held for trading	34,590	31,498	-	-	-	-	-	226
Hedging derivatives and value adjustments of macro-hedged financial liabilities	12,659	14,528	-	-	-	-	-	-
Tax liabilities	-	-	386	-	-	-	1,722	1,772
Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Other liabilities	83,615	109,262	15,347	11,671	5,734	6,277	59,339	84,429
Post-employment benefits	4,359	4,443	198	167	332	321	418	493
Provisions for risks and charges	49,441	46,061	79	114	487	378	21,077	7,107
Equity	731,663	721,091	28,884	27,716	18,455	18,628	104,267	102,827
Profit/(loss) for the period	5,334	39,336	9,408	9,675	(1,568)	(185)	(5,384)	(2,442)
Total liabilities and equity	**7,811,870**	**8,110,574**	**492,123**	**440,598**	**514,072**	**521,160**	**1,028,882**	**1,130,289**

Income statement

	CORPORATE							
	Iccrea BancaImpresa		BCC Lease		BCC Factoring		MCFVG	
€/thousands	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Net interest income	141,627	155,001	20,154	19,339	3,625	4,237	10,082	10,297
Net fee and commission income	10,108	8,081	(936)	(1,196)	2,940	2,593	5,609	6,963
Dividends	9,242	9,389			-	1		
Net gain/(loss) on trading activities	333	1,644			7	18	(1,819)	10
Net gain/(loss) on hedging	445	313					-	6
Net gain/(loss) on disposals	(3,758)	(1,904)	(326)	(521)			27	312
Net gain/(loss) on financial assets and liabilities at FVTPL	(4,084)	(3,719)					(1,500)	(2,895)
Gross income	**153,913**	**168,804**	**18,893**	**17,621**	**6,572**	**6,848**	**12,398**	**14,692**
Net writedowns/writebacks for credit risk	(74,274)	(72,818)	(5,802)	(4,669)	(1,360)	(793)	(3,438)	(2,298)
Net gains/(losses) from financial operations	**79,639**	**95,985**	**13,090**	**12,952**	**5,212**	**6,056**	**8,960**	**12,394**
Administrative expenses	(62,305)	(64,701)	(8,445)	(7,711)	(7,147)	(7,100)	(14,123)	(13,537)
a) personnel expenses	(33,394)	(32,072)	(2,991)	(2,718)	(3,703)	(3,355)	(6,251)	(6,120)
b) other administrative expenses	(28,911)	(32,629)	(5,454)	(4,994)	(3,444)	(3,745)	(7,872)	(7,417)
Depreciation, amortization and provisions	(4,423)	695	(152)	(279)	(135)	(59)	(1,113)	(3,010)
Other operating expenses/income	(6,715)	(6,818)	5,448	4,787	124	97	1,098	1,218
Operating expenses	**(73,443)**	**(70,825)**	**(3,150)**	**(3,203)**	**(7,158)**	**(7,061)**	**(14,138)**	**(15,329)**
Profit/(loss) from equity investments	4,365	(2,546)						
Profit/(loss) before tax on continuing operations	**10,561**	**22,615**	**9,940**	**9,749**	**(1,945)**	**(1,006)**	**(5,178)**	**(2,935)**
Income tax expense from continuing operations	(5,227)	16,721	(532)	(74)	378	820	(205)	493
Profit/(loss) for the period	**5,334**	**39,336**	**9,408**	**9,675**	**(1,568)**	**(185)**	**(5,384)**	**(2,442)**

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

ICCREA BANCAIMPRESA SPA

As the corporate bank of the ICBG, Iccrea BancaImpresa provides financial consulting, services and solutions for SMEs. Indeed, the bank's mission is to support micro-, small and medium-sized businesses through a broad-based offering that covers all of their various needs.

The industry segments in which the bank operates include leasing, lending, advisory for extraordinary corporate finance, internationalization, insurance services, and support in accessing subsidies and incentives. The products of Iccrea BancaImpresa are distributed mainly by the Group's network of mutual banks with the support of 15 branch offices. The company also has an international presence with offices in Moscow and Tunis.

Through the subsidiary BCC Lease, the company 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.

Beginning in 2018, the Group acquired a 51% stake in Banca Mediocredito del Friuli Venezia Giulia SpA, a bank historically held by the Region of Friuli–Venezia Giulia, with the goal of making it a center specialized in managing subsidized lending, thereby strengthening this offering of products and services for the Group's business customers.

Balance sheet

In 2019, Iccrea BancaImpresa issued about €1.6 billion in new financing, an increase of 5.4% compared with the previous year. A breakdown of this new financing by product is shown in the table below.

Product	*31/12/2019*	*31/12/2018*	*% change*
Medium & long term – New contracts	*1,576,018*	*1,495,323*	*4.9%*
New Leasing	*634,411*	*671,794*	*-5.6%*
of which: Auto	6,773	14,550	-53.5%
of which: Property	182,502	182,937	-0.2%
of which: Nautical	7,937	5,968	33.0%
of which: Equipment	362,040	361,946	0.0%
of which: Industrial vehicles	75,152	106,393	-29.4%
New contracts-Disb. Loans	*894,607*	*804,962*	*11.1%*
Guarantee commitments	*72,799*	*92,242*	*-21.1%*

A breakdown of the bank's loan portfolio by type of borrower and type of financing is shown in the tables below.

€/thousands	31/12/2019	31/12/2018	% change
1. Debt securities	**136,014**	**94,773**	**43.5%**
a) Other financial companies	71,064	42,086	68.9%
b) Non-financial companies	64,950	52,686	23.3%
2. Financing to:	**7,160,820**	**7,477,243**	**-4.3%**
a) Government entities	145,948	132,264	10.4%
b) Other financial companies	151,167	180,727	-16.4%
c) Non-financial companies	6,546,703	6,790,315	-3.6%
d) Family businesses	317,002	373,936	-15.2%
Total	**7,296,834**	**7,572,016**	**-3.6%**

€/thousands	31/12/2019	31/12/2018	% change
Financing	**7,160,820**	**7,477,242**	**-4.2%**
1.1. Current accounts	123,483	168,659	-26.7%
1.2. Repurchase agreements	-	-	
1.3. Medium/long-term loans	2,419,732	2,468,559	-1.9%
1.4. Credit cards, personal loans and salary/pension-backed loans	-	-	
1.5. Lease financing	4,177,635	4,457,313	-6.2%
1.6. Factoring	4,078	4,078	0%
1.7. Other lending	435,892	378,633	15.1%
Debt securities	**136,014**	**94,773**	**43.5%**
1.1. Structured securities	-	-	
1.2. Other debt securities	136,014	94,773	43.5%
Total	**7,296,834**	**7,572,016**	**-3.6%**

As in previous years, non-performing loans were assigned in line with the Group's de-risking strategy.

	Sales in 2019			
Amounts in €/thousands **Numbers in units**	**Unsecured loans**	**GACS III**	**Other loans**	**Total**
No. of contracts	**661**	**165**	**6**	**833**
Gross lending	67,313	94,718	4,668	166,699
Price	2,263	33,332	429	36,023
Gross loss	**65,051**	**61,386**	**4,239**	**130,676**
Coverage	63,449	59,790	3,679	126,917
Net gain/(loss) on sale	**(1,602)**	**(1,596)**	**(560)**	**(3,758)**

In part as a result of these sales, 2019 confirmed the improvement in credit quality seen in previous years, although the risk indicators also reflect the contraction in the overall portfolio, particularly in performing loans.

€/thousands	31/12/2019	31/12/2018	31/12/2017
Gross impaired	1,388,066	1,697,467	1,861,249
Net impaired	659,167	852,973	993,474
Gross NPL ratio	17.1%	20.0%	21.2%
NPL ratio	9.0%	11.2%	12.6%
Coverage ratio	52.5%	49.8%	46.6%

Income statement

In 2019, the bank posted gross operating profit of €10.6 million, compared with €22.6 million for the previous year (a decrease of €16.2 million). Net profit for 2019 came to €5.3 million, compared with the €39.3 million of the previous year, when the bank benefited from the positive effect of the recognition of deferred tax assets generated by first-time application of IFRS 9.

The 10% reduction in gross income compared with 2018 was essentially due to the decreased profitability of the performing-loan portfolio following its re-pricing in response to the new production featuring lower average spreads in relation to improved average PD numbers. During the year, the equity investment in Car Server was sold, and a gain on the sale of €5.8 million was recognized.

The cost-to-income ratio at December 31, 2019, came to 45%, which is essentially in line with the previous year.

BCC LEASE SPA

Balance sheet

The company operates in the various leasing segments typical of the small-ticket market. Financial year 2019 was a year of consolidation and organic growth for the company in relation to the products and channels activated in previous years. Net lending came to €468 million at the end of 2019, an increase on the €420 million posted in 2018.

The year closed with 22,123 new contracts totaling €260.9 million, compared with 21,471 contracts and €246.1 million last year, an increase of 3% in number and of 6% in value. Production trends for the year are shown in the table below.

Amounts in €/thousands - Numbers in units	New contracts					
	31/12/2019		31/12/2018		% change	
	No.	Amount	No.	Amount	No.	Amount
Equipment vendor						
Operating leases	9,504	72,529	9,617	75,447	-1.2%	-3.9%
Equipment leasing	4,775	71,055	4,101	56,767	16.4%	25.2%
Special-purpose financing	5,548	50,561	5,000	37,291	11%	35.6%
Total vendor	**19,827**	**194,145**	**18,718**	**169,505**	**5.9%**	**14.5%**
Mutual banks						
Light commercial vehicle leasing	945	26,690	1,138	28,255	-17%	-5.5%
Equipment leasing	760	16,392	743	16,220	2.3%	1.1%
Heavy vehicle leasing	76	3,821	46	2,715	65.2%	40.7%
Total mutual banks	**1,781**	**46,903**	**1,927**	**47,190**	**-7.6%**	**-0.6%**
Other						
Industrial vehicle leasing – Car Server	95	2,210	246	5,487	-61.4%	-59.7%
Light commercial vehicle leasing – Agents	238	8,037	302	9,146	-21.2%	-12.1%
Heavy vehicle leasing – Agents	182	9,689	278	14,813	-34.5%	-34.6%
Total other	**515**	**19,936**	**826**	**29,446**	**-37.7%**	**-32.3%**
Total overall	**22,123**	**260,984**	**21,471**	**246,141**	**3%**	**6%**

In terms of risk profile, the company closed the year with an NPE ratio of 4.6% and a coverage ratio of 71.4%. The net NPE ratio came to 1.4%.

Income statement

The year closed with net profit of €9.4 million (€9.9 million before taxes), compared with €9.7 million in 2018. The cost-to-income ratio remained essentially unchanged from the previous year (34.7%).

BCC FACTORING SPA

Balance sheet

This subsidiary operates in the factoring industry and provides a mix of financial products and solutions aimed at reducing collection times on billing and increasing liquidity for small and medium enterprise. In 2019, factoring turnover totaled around €2 billion, an increase of 9% compared with the previous year.

Commercial performance at December 31, 2019		
Commercial Volumes	**Current Year**	**% Change Previous Year**
Non-recourse turnover	1,545,477	12.7%
Recourse turnover	457,460	0.7%
Turnover BCC Factoring	**2,002,936**	**9.7%**
Non-recourse outstanding	418,689	-4.5%
Recourse outstanding	145,184	-7.4%
Outstanding BCC Factoring	**563,873**	**-5.2%**

Net lending at December 31, 2019, came to €498 million (with the outstanding at €564 million), while net impaired lending came to about €8 million (NPE ratio of 2.2% gross and 1.6% net).

New Contracts - €/thousands			
Description	**31/12/2019**	**31/12/2018**	**% change**
Turnover	2,002,936	1,825,223	9.7%
Outstanding	563,873	595,008	-5.2%
% Financed	88.30%	85.30%	3.5%
Investment	497,687	507,305	-1.9%

Income statement

The year closed with a net loss of about €1.5 million (€1.9 million before taxes). The company suffered from competitive pressure on interest rates, which had a particularly strong impact on this type of short-term product.

Nonetheless, the company continues to offer synergies with the customer-support efforts of the affiliated banks by completing the catalogue of products available to their business customers.

BANCA MEDIOCREDITO FVG SPA

Banca Mediocredito del Friuli Venezia Giulia SpA, of which the Autonomous Region of Friuli Venezia Giulia has historically been a shareholder and of which control passed to Iccrea Banca in July 2018, specializes in mainly medium and long-term loans and is responsible for the subsidized loan granted through subsidized financing instruments that the Region (in part under Revolving Funds) and other public entities have made available to businesses.

In 2019, work continued on integrating the bank into the Group by adopting the main operating models and policies. The bank participates in the group VAT scheme and, since July 1, in the group tax consolidation scheme.

In 2019, the operations of the bank again focused on lending to businesses in the Friuli–Venezia Giulia region with medium and long-term ordinary and subsidized products, whereas the offering of factoring and leasing products has been eliminated. During the year, a significant portion of non-performing lease exposures were sold in continuation of a strategy aimed at reducing impaired exposures that began in 2017.

Within the scope of strategies of company repositioning, work continued to restore equilibrium to the structure of interest-bearing liabilities with a reduction in the more concentrated, less stable component and a further significant reduction in related costs.

Balance sheet

At December 31, 2019, loans to customers totaled €543 million, compared with €594 million at the end of 2018. Direct funding from customers came to €379 million, decreasing by 8.3% from the end of 2018 due to a conscious strategy implemented by the bank during the year aimed at altering the composition of interest-bearing liabilities.

New lending disbursed to businesses in the Friuli–Venezia Giulia region in 2019 totaled €167 million, of which €94 million related to non-subsidized lending with the remainder being in lending financed with public sector funds.

Gross impaired loans at the end of 2019 decreased significantly from the end of 2018, with the NPE ratio declining from 26.4% at the end of 2018 to 20%, while the net ratio fell from 14.2% to 11.4%.

Income statement

The income statement shows a net loss of €5.4 million (€5.2 million before taxes) at December 31, 2019, compared with a net loss of €2.4 million for 2018. This performance reflects, above all, the negative change in the value of assets measured at fair value (€2.4 million), the decrease in net fee and commission income (€1.3 million), and an increase in the cost of risk (€1.1 million).

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7. 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 SpA), which was established on December 20, 2018—and in application of IFRS 5, on the financial statements of Iccrea Banca the items attributable to the aforementioned branch have been reclassified to the balance sheet and income statement items related to assets held for sale. Given the above, in order to allow for the comparability of the results of the Parent Company with the previous year, in the following reclassified statements the information relating to this business has been included in the relevant items of the separate financial statements.

BALANCE SHEET

Assets

€/thousands	31/12/2019	31/12/2018
Financial assets measured at amortized cost – *Due from banks – Loans and securities*	29,273,773	25,654,753
Financial assets measured at amortized cost – *Due from customers – Loans*	5,843,040	3,832,731
Financial assets measured at amortized cost – *Due from customers – Securities*	7,434,784	6,874,611
Financial assets measured at fair value through profit or loss	1,279,864	896,619
Financial assets measured at fair value through other comprehensive income	367,133	282,946
Equity investments	1,155,401	1,266,772
Other assets	315,037	244,301
Total interest-bearing assets	**45,669,032**	**39,052,732**
Other non-interest-bearing assets	407,527	256,778
Total assets	**46,076,559**	**39,309,510**

Total assets at December 31, 2019, amounted to €46.1 billion, up €39.3 billion compared with the end of the previous year, due mainly to the following factors:

- an increase in financial assets measured at fair value through profit or loss (FVTPL) as a result of investments by the Parent Company (exclusively in debt securities) as manager of the Guarantee Scheme (up €385 million) and an increase in derivatives trading (up €118 million due to similar factors), which was partially offset by a decrease in investments in government securities (down €71 million);
- a decrease in assets mandatorily measured at fair value due mainly to repayment of the Poste Vita insurance policy (-€60 million) that had reached its expiration;
- growth in financial assets measured at fair value through other comprehensive income (FVOCI), attributable to the purchase of government securities (€65 million), banking-industry securities (€10 million), and equity securities (€15 million);
- an increase in amounts due from banks as a result of the liability for reserve requirement funds of the mutual banks (up €3.6 billion) and lending (up €904 million), effects which were partially offset by a decrease in purchases of debt securities (down €886 million) that reached maturity and were largely attributable to Iccrea BancaImpresa;
- growth in amounts due from customers attributable to repo transactions with the Clearing & Guarantee Fund (€1,686 million) and the purchase of government securities (€605 million), effects which were partially offset by expensed writedowns on the Lucrezia 4 notes (-€38 million).

€/thousands	31/12/2019	31/12/2018
Mutual banks	17,955,094	18,104,299
Other credit institutions	11,318,679	7,550,454
Due from banks	**29,273,773**	**25,654,753**

Lending to mutual banks remained essentially stable at about €18 billion. These loans, disbursed with pool collateral, include approximately €9.5 billion in operations with the ECB (T-LTRO II), with the rest being other forms of collateralized financing. Amounts due from other credit institutions (which include debt securities) include €6.6 billion in intercompany receivables. Of this financing, €6.4 billion was granted to Iccrea BancaImpresa and €1.3 million was refinanced by the Parent Company with the central bank by way of the "ABACO" procedure and using €2.5 billion in collateral.

€/thousands	31/12/2019	31/12/2018
Current accounts	309,093	319,673
Medium/long-term loans	69,886	82,856
Repurchase agreements	2,885,420	1,199,151
Other transactions	2,571,123	2,216,073
Impaired assets	7,519	14,978
Due from customers	**5,843,040**	**3,832,731**

Loans to ordinary customers include €2.2 billion in intercompany loans and €2.9 billion in repurchase agreements with the Clearing & Guarantee Fund, which were essentially responsible for the increase compared with the previous year (€1.7 billion). Non-performing exposures also decreased following de-risking operations (as described in greater detail in Part E of the notes to the separate financial statements) by the Parent Company during the year, which involved carrying out a multi-originator operation for a portfolio of NPLs and filing a request with the Ministry for the Economy and Finance for acceptance in the government guarantee scheme known as "GACS".

The investment portfolio referring to HTC securities is mainly made up of government securities and shows a balance at December 2019 of €7.4 billion.

The portfolio of financial assets measured at fair value through profit or loss (€1.3 billion) increased by €383 million from December 31, 2018 (€897 million) due, above all, to the new management of the Guarantee Scheme (+€385 million).

Financial assets measured at fair value through other comprehensive income, referring to the HCTS business model, are mainly made up of government securities and show a balance of €367 million at December 31, 2019.

Equity investments totaled €1.2 billion, a decrease (of €111 million) from December 31, 2018, due to (expensed) writedowns of the subsidiaries Iccrea BancaImpresa (€72.7 million), Banca Sviluppo (€1.6 million) and Securfondo (€2.5 million), the latter of which also undertook a partial redemption of units during the year (€8.5 million). The reduction also reflects the sale of a portion of the stakes held in BCC Vita and BCC Assicurazioni to Cattolica (€42.5 million) in response to a new shareholder agreement. Increases in response to executing an agreement with Cassa Centrale Banca included an increase in the equity interests held in Iccrea BancaImpresa (€2.3 million), Banca Sviluppo (€10.3 million), Sinergia (€1.2 million) and BIT (€1.7 million). The entirety of the stakes in Accademia BCC, which is in liquidation (€0.6 million), and the newly established Ventis SpA (€0.35 million) were also acquired.

Liabilities

€/thousands	31/12/2019	31/12/2018
Financial liabilities measured at amortized cost – *Due to banks*	20,782,376	19,424,621
Financial liabilities measured at amortized cost – *Due to customers*	17,228,036	12,615,042
Financial liabilities measured at amortized cost – *Securities issued*	5,021,316	5,027,706
Financial liabilities held for trading	381,867	251,128
Financial liabilities designated as at fair value	424,058	-
Other liabilities	384,215	335,127
Total interest-bearing liabilities	**44,221,870**	**37,653,624**
Other non-interest-bearing liabilities	150,200	85,134
Shareholders' equity	1,831,906	1,606,384
Profit/(loss) for the period	(127,417)	(35,632)
Total liabilities and equity	**46,076,559**	**39,309,510**

Interest-bearing funding totaled €44.2 billion, an increase (of €6.6 billion) from the previous year due to the following factors:

- an increase in amounts due to banks as a result of the increase in term deposits and in the reserve requirement (€3,242 million), which was partially offset by a decrease in collateralized funding from the ECB with the T-LTRO II (€1,853 million);
- an increase in amounts due to customers due to an increase in repo transactions with the Clearing & Guarantee Fund (€1,999 million), operations on behalf of the Italian Treasury (OPTES) with the Ministry of the Economy and Finance (€2,000 million), and an increase in deposits and current accounts (€640 million);
- a decrease in securities issued as a result of securities reaching maturity (€763 million), which was partially offset by new issues (€739 million);

- an increase in liabilities held for trading, attributable mainly to trading derivatives (€132 million, related to the same phenomenon as described on the asset side);
- the establishment of financial liabilities designated as at fair value related to financing received from the affiliated banks (the *Ex Ante Quota*) in relation to the Guarantee Scheme (€424 million).

€/thousands	31/12/2019	31/12/2018
Mutual banks	8,177,376	4,371,951
Other credit institutions	12,605,000	15,052,669
Due to banks	**20,782,376**	**19,424,621**

Interbank deposits, which include €3,250 million in deposits for reserve obligations for the mutual banks, amounted to €20.8 billion. Amounts due to mutual banks refer to the liquidity held in the daily settlement account in the amount of about €1.6 billion, with the remainder in time deposits.

Amounts due to other credit institutions are largely attributable to loans obtained from the ECB under the T-LTRO II (€11.9 billion), while the remainder refers to intercompany transactions.

€/thousands	31/12/2019	31/12/2018
Current accounts and demand deposits	1,009,117	369,280
Financing	15,789,731	11,791,402
Other payables	429,188	454,359
Due to customers	**17,228,036**	**12,615,041**

Funding from customers came to €17.2 billion, an increase of €4.6 billion from 2018 due to the increase in repo operations (€1,999 million), in OPTES operations (€2,000 million), and in deposits and current-account funding (€640 million).

Securities issued totaled €5.0 billion at December 31, 2019, which is essentially in line with 2018.

Equity

At December 31, 2019, Iccrea Banca's share capital, made up of 27,125,759 ordinary shares with a nominal value of €51.65 each, totaled €1.4 billion, an increase of €250 million from 2018 following efforts to strengthen capital as approved by the shareholders on January 10, 2019, and completed in early April. Shareholders' equity, excluding earnings for the year, amounted to €1.8 billion, an increase of €226 million compared with December 31, 2018. The main changes may be attributed to the positive effects of the aforementioned increase in capital (up €250 million) and the increase in valuation reserves (up €11 million) as a result of the increase in value of the FVOCI portfolio, which was partially offset by the loss carried forward from 2018 (in the amount of €35.6 million).

Income statement

€/thousands	31/12/2019	31/12/2018
Net interest income	**47,239**	**79,104**
Other gains/losses on financial transactions	39,948	(38,883)
Dividends	51,361	48,963
Net fee and commission income	**162,497**	**184,265**
Other operating expenses/income	118,912	31,850
Gross income	**419,958**	**305,306**
Personnel expenses	(153,797)	(90,593)
Other administrative expenses	(272,989)	(243,203)
Net adjustments of property, plant and equipment and intangible assets	(12,083)	(9,626)
Total operating expenses	**(438,869)**	**(343,421)**
Gross operating profit	**(18,911)**	**(38,115)**
Net provisions for risks and charges	(1,289)	(96)
Net losses/recoveries on impairment of loans and other financial transactions	(38,325)	(4,682)
Total provisions and adjustments	**(39,614)**	**(4,778)**
Profit/(loss) from equity investments	(76,765)	(15,791)
Profit/(loss) before tax	**(135,290)**	**(58,691)**
Income tax expense	7,873	23,059
Profit/(loss) for the period	**(127,417)**	**(35,632)**

The structure of Iccrea Banca's income statement was significantly altered in 2019 in response to the need for reorganization brought about by the company's new role as the parent of the ICBG. In particular, it was necessary to alter the size of the operating and control units, to make the investments needed in order to pursue the many projects aimed at establishing the regulatory and operational framework, and to establish the application platforms of the new, more complex banking group, all of which took place within an environment characterized by numerous regulatory changes that called for an extraordinary commitment of financial resources and human capital.

Nonetheless, it is important to note that the loss for 2019 of €127.4 million (vs. a loss of €35.6 million in 2018) is also the result of a conscious policy to reduce the Group's risk profile in response to the writedown of a portfolio of non-performing loans (securitized with notes held by the Parent Company) acquired, prior to the creation of the Group, by mutual banks — now affiliated banks — that featured high levels of risk, which was done by applying a sale scenario in compliance with IFRS 9 (writedowns in the amount of €38 million). Also affecting performance was the need to recognize the impairment of certain controlling interests, particularly in Iccrea BancaImpresa, totaling €77 million. This was done due to misalignments arising in conjunction with first-time adoption of IFRS 9 and its impact on equity reserves.

Additional factors that had an impact on financial performance for the year include:

- the reduction in net interest income (€31.8 million) due, above all, to the decrease in interest rates and consequent generalized drop in yields on both securities and lending, accompanied by a shift in operations with mutual banks that favored forms of secured funding while maintaining high levels of liquidity deposited with the Parent Company;
- the decrease in net fee and commission income (€21.8 million) attributable to the electronic money business and the extraordinary (GACS) securitization operations;
- other gains and losses on financial transactions, totaling €40 million, related to the gain on the sale of Nexi shares (€7.4 million) as well as the gains accrued on Visa, Inc. (€3.6 million), SIA (€5.3 million) and the London Stock Exchange (€1.3 million), on unis of CIUs (€2.5 million), and on the sale of securities in the HTCS portfolio (€5.6 million), partially offset by losses on the Securis Real Estate funds (€13.3 million). A positive impact also came from gains on the sale of government securities in the HTC (€22 million) and FVOCI (€4.2 million) portfolios. The performance of financial transactions for the previous year was significantly influenced by losses recognized on the disposal of the HTCS investment portfolio in execution of the stop-loss strategy following the increase in spread in May 2018;
- the increase in dividends received from Group companies (€2.4 million);
- the increase in other operating income due to new Class 1 (€42.2 million) and Class 2 (€25.9 million) services billed to the affiliated banks and the recovery of project costs (€15.6 million).

In relation to these factors, gross income at December 31, 2019, including other operating income (€118.9 million) related to the reclassification of fees received from the mutual banks for management, coordination and other intercompany services within core operating revenues, came to €419.6 million, an increase of €114.7 million compared with the previous year.

Operating expenses (€438.9 million) increased by €95 million to exceed gross income as a result of increases in: i) personnel expenses (from €90.6 to €153.8 million) due to the expansion of the workforce (from 900 to an average of more than 1,500 FTE); and ii) other administrative expenses (up €30 million) mainly attributable to an increase in IT costs. These expense increases were only partially offset by a decrease in contributions to the Resolution Fund (€6 million) connected with a decrease in the liabilities on which calculation of the contribution is based.

ASSETS HELD FOR SALE – ELECTRONIC MONEY BUSINESS

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

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

Balance sheet

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

€/thousands	31/12/2019
Financial liabilities measured at amortized cost	99,170
b) Due to customers	99,170
Other liabilities	54,789
Post-employment benefits	463
Provisions for risks and charges	1,508
Profit/(loss) for the period (+/-)	15,770
Total liabilities and shareholders' equity	**171,700**

Equity investments include the (95%) interest in Ventis Srl in the amount of €4.9 million.

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

Income statement

€/thousands	31/12/2019
Fee and commission income	379,046
Fee and commission expense	(289,212)
Net fee and commission income	**89,834**
Gross income	**89,834**
Net income/(loss) from financial operations	**89,834**
Administrative expenses:	(82,677)
a) personnel expenses	(7,995)
b) other administrative expenses	(74,682)
Net provisions for risks and charges	(483)
b) other net provisions	(483)
Net losses/recoveries on impairment of loans and other transactions	(6)
Net writedowns/writebacks of property, plant and equipment	(2)
Net writedowns/writebacks of intangible assets	(587)
Other operating expenses/income	16,100
Operating expenses	**(67,655)**
Profit/(loss) before tax on continuing operations	**22,179**
Income tax expense	**(6,410)**
Net profit/(loss) for the period	**15,770**

8. SIGNIFICANT EVENTS DURING THE YEAR

Definition of the mechanisms for exercising the Parent Company's role of management and coordination

In 2019, the Parent Company issued the primary internal rules of the ICBG with the goal, first and foremost, of defining the mechanisms underlying the performance of the duties of management and coordination, as well as of progressively implementing interpretive, methodological and operational frameworks with a view to process standardization (in the areas of governance and operations). Within the scope of the broader, long-term framework, these rules first focused on high-priority areas related to the system of internal controls and the most important areas of operations and oversight.

Alongside the Parent Company's evolution in governance and organization, a process has begun to revise the system of responsibilities that meets the general need of providing the Bank with autonomous centers of decision making, operations and representation in accordance with applicable laws and regulations.

Related internal rules (e.g. rules of the corporate bodies, board committees and management, documentation of delegated powers, etc.) have also been adapted and are subject to continuous updates.

The Parent Company's role of management, coordination and control as defined in the Cohesion Contract hinges upon the use of various mechanisms, including:

- directives, used to issue binding provisions either for all companies of the ICBG or for certain specific companies;
- recommendations, used to provide non-binding guidance of a specific nature and aimed at individual affiliated banks;
- authorizations to execute transactions of strategic importance and opinions regarding specific issues of importance;
- the issuance of clarifications concerning issues that are the object of directives;
- functional hierarchies and inter-function relations as the mechanism of collaboration, coordination and supervision that the Parent Company needs in order to execute its powers of oversight and coordination in the areas specified in the Group's regulations;
- regional assemblies and intercompany operational committees responsible for harmonizing guidance and synchronizing the lines of intervention with the Group's strategies and objectives.

As mentioned above, observance of the measures of the Parent Company is ensured by a risk-based approach to control and intervention proportional to the risk levels of the affiliated banks. The output of the EWS guides determination of the proper point of equilibrium for each bank in exercising both the Parent Company's power and influence over the banks and the autonomy of the banks themselves.

In accordance with applicable regulations (i.e. Bank of Italy Circulars 285 and 288, EBA guidelines on outsourcing[14] and the Bank of Italy letter of October 2018[15]), after creating the ICBG in 2019, the new group policies on the outsourcing of company functions and critical ICT services was defined. These policies pursue the goal of establishing the guidelines to be followed when outsourcing process, procedures, or critical ICT services provided by third parties that are not considered outsourcing arrangements (hereinafter, jointly, "Initiatives").

In 2019, a digital workflow management procedure was developed in order to govern process efficiency and the unambiguous nature of the handling of initiatives throughout the Group and to feed the outsourcing register in real time as envisaged by the aforementioned regulatory framework. The procedure was released in February of this year to a pilot group of group banks and companies. In 2020, the application is to be extended to all group companies concerned.

Following the creation of the ICBG, the Parent Company also conducted a study of all existing outsourcing arrangements and critical ICT services at the Group's banks and other companies. This survey of Initiatives made it possible to harmonize the qualification of these arrangements, to coordinate their continuous monitoring, and to map the services outsourced within the Group (i.e. provided by other ICBG companies). These efforts also helped prepare for the definition of future strategies to rationalize the services provided by companies from outside the Group or to centralize new Initiatives promoted by ICBG banks and companies with internal providers.

[14] EBA/GL/2019/02 Final Report on EBA Draft Guidelines on outsourcing arrangements, in effect as of September 30, 2019.

[15] No. 1204957/18 concerning security measures and control procedures for outsourced IT services or services provided by third parties.

DEFINITION AND IMPLEMENTATION OF THE ICBG STRATEGIC PLAN AND COMMERCIAL STRATEGY

The Group's 2020-2023 strategic plan

In April 2018, as part of the process of filing the request to create the Group, the Parent Company presented an action plan – based on the information available at the time concerning the future affiliated banks – that identified the main strategic levers in developing the new Group, essentially aimed at boosting commercial activities, increasing process efficiency, rationalizing the organization, and reducing risk.

Following the launch of the new ICBG, an even more ambitious plan in terms of developing a business model that would ensure greater profitability through proper initiatives of commercial development, cost rationalization and the reduction of credit and other risks was discussed with the ECB.

Within this context, beginning in November 2019 – and given the macroeconomic landscape prior to the health emergency that already showed signs of weakness in Europe, and in Italy in particular – the Parent Company, with the effective collaboration of the affiliated banks and other companies of the Group, began a structured process of strategic planning aimed at strengthening the Group's position while maintaining sustainability and the focus on the communities and on shareholders as cornerstones in differentiating the Iccrea Cooperative Banking Group within Italy's financial system. With the proactive participation of the affiliated banks, the key drivers were identified, as follows: robust capital margins, aimed at managing risk and financing growth; the creation of value by way of the business plan and cost-rationalization efforts; and further reducing the target NPE ratio.

The process, which saw the Parent Company and the affiliated banks (and other companies of the Group) working in synergy to launch the Group's 2020-2023 strategic plan, was being finalized in early March when the macroeconomic landscape underlying the plan's metrics suffered a rapid inversion in forecasts in response to the spread of the COVID-19 health emergency.

As mentioned, the gravity of the situation, which led to market instability and a return of volatility to levels greater than had been seen following the financial crisis of 2008 with the bankruptcy of the U.S. investment bank Lehman Brothers, prompted the authorities to take action of unprecedented speed, both in monetary policy and by way of the prudential measures described in greater detail above. Within this context, the ECB also decided to suspend the requirement for strategic plans and related NPE and funding plans while they awaited macroeconomic analyses and forecasts that would factor in the effects of this new crisis in this period of such heightened uncertainty.

Pending an updated financial plan for the Group that takes account of this new landscape, including in light of the indications provided by the European authorities, the Parent Company deemed it to be essential to continue with the most important strategic initiatives contained in the plan, focusing on the efficiency of operations and the strengthening of commercial efforts and credit management. Indeed, the Parent Company aspires to become an efficient platform of governance services, of shared services, and of products available to the affiliated banks. As a result, it will be necessary to take on an important challenge of efficiency improvement within a necessary program of investments in order to complete the Group's operating structure, which will make it possible to improve the level of service for the affiliated banks while also revising the model of territorial coverage and the management of professional resources. For the affiliated banks, the improvements to the commercial structure together with the optimization of the Group's organization and network are lines of action deemed to be even more crucial in this new landscape, so as to make it possible to continue ensuring sustainability and the service of our communities.

This set of actions make up the ICBG Transformation Plan approved by the Board of Directors on March 30, 2020, which defines the steps that the Group intends to take quickly during these difficult times, backed by the great support and professionalism of all areas of the Group, aimed at:

- governing the complex industrial and operational transformation;
- properly prioritizing the plan's actions, while identifying a subset of projects of strategic importance;
- ensuring the utmost observance of the plan's milestones;
- efficiently and effectively managing IT capacity and other scarce resources;
- adapting the plan flexibly to the landscape and to regulatory requirements.

Within this context, the main project areas have been organized within a framework that will make it possible to meet the various evolving needs and to be sufficiently simple and effective in monitoring, and the crucial actions of the highest priority have been identified. The project's structure calls for seven vertical areas of specific intervention (i.e. IT Efficiency, Digital Development, Definition of Mutual Bank Morphology and Guidance, Definition of Morphology and Simplification of the Companies of the Direct Scope, Operating Efficiency, Commercial Development, and NPE/Credit Quality) and two horizontal areas, namely COVID-19 and Regulatory Initiatives, in order to cover areas applicable to the entire Group.

In order to ensure the success of these actions, a Transformation Committee has been established, chaired by the General Manager, and a Transformation Office, staffed mainly by ICBG employees.

NPE Strategy and Operational Plan

With regard to NPE management – the plan for which was being defined within the scope of the Group's broader process of strategic planning – the detailed definition of de-risking strategies has been suspended during this period of uncertainty brought about by the health emergency. However, on March 30, 2020, the Iccrea Board of Directors did approve the qualitative and quantitative management strategies for the NPE portfolio in line with regulatory forecasts, industry best practice, and the observations of the supervisory authorities.

The following have been defined in particular:

- the targets of the NPE plan, which will need to be revised as the macroeconomic landscape changes in response to the effects of COVID-19, with the goal of bringing the Group's NPE ratio to 7% by the end of 2023 and bringing the coverage ratio to 56%;
- the strategic operational plan aimed at facilitating achievement of these targets, as well as the enforcement mechanisms put in place in order to improve the Parent Company's guidance and coordination of all affiliated banks as the plan is being implemented;
- the steps to be taken in order to facilitate full compliance with the NPE regulatory guidance published by the ECB on March 2017 (i.e. the Remediation Plan), including the plan for adapting the dataset that will give the Group a data model aimed at the full formulation and monitoring of lending strategies;
- the setup and implementation procedures, in terms of project organization and the road map, in order to implement the operational plan by April 2020.

Implementation of ICBG commercial and marketing strategies

In 2019, the Iccrea Cooperative Banking Group enhanced its model of banking in support of local communities that is typical of the affiliated banks, while maintaining a keen focus on the needs of territory and on meeting the needs of our customers and shareholders. Within this context, the Parent Company has, together with the affiliated banks, consolidated the process of evolving and enhancing the current service model and branch network with a view to transitioning towards a model based on high-quality relationships.

To this end, the following primary areas of development have been identified:

- an offering based on high-value advisory services that call for experts with strong relationship skills dedicated to both individual customers (Affluent, Wealth, and Private Banking, with an emphasis on Insurance Services) and business customers (including SME and Corporate accounts);
- a 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, including by strategically repositioning the ICBG as a key partner for SMEs;
- enhancing customer service capabilities through advanced customer-insight tools and models that provide the mutual banks with the insight they need to develop their customer relationships;
- the launch of a global digital, multichannel strategy.

In 2019, in order to support this evolution, specific projects have been launched, including:

- the bancassurance project with the scope of designing the commercial support structures for the affiliated banks. In order to support the growth and modernization of business, the Group has set the strategic priority of developing the insurance 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;
- the wealth management project, which seeks to develop the advisory models and the role of the dedicated competency center within the Parent Company in order to ensure the quality of the offering and management of investment, funding, life insurance, and other wealth management products. The new business model is aimed at customers and shareholders who need greater sophistication in service levels by activating a wealth/private-banking model that is able to accommodate new flows of customer funding in line with the developed segmentation, while taking advantage of the relationship of trust and the focus on local business that have historically characterized the mutual banks. To this end, the Private & Wealth Management division has already been started up, including populating the various offices and providing training to network employees. In 2020, the wealth-management platform to support consulting activities is to be implemented, for which a financial partner has been selected;

- the project aimed at developing the ICBG's integrated system of customer relationship management (CRM) with the goal of ensuring greater efficacy in analysis by making use of a single digital platform available to affiliated banks, activating marketing automation engine to guide multichannel and multi-step campaigns that focus on the customer, and introducing and monitoring the product sales process from a single point, thereby enabling a multichannel process at the Group level. This is to be gradually implemented with all affiliated banks, beginning with the pilot banks, beginning mid-2020;
- the INTOUR 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;
- the project to reorganize the Group's electronic money business by spinning off the e-money segment of Iccrea Banca and the Ventis S.r.l. ecosystem (both market and value-added services) to Ventis SpA

In 2019, steps were taken in a unified manner, involving various areas and targets, with a view to creating value and growth and enhancing the image of the Group, of the mutual banks, and of the product companies. This included:

- sponsorship of the women's Giro d'Italia and the ForWe account, which helped strengthen the reputation of the newly established ICBG by associating the brand both with the traditional values of mutual banking and of serving and being close to local communities as well as with the promotion of the role that women play in society. This enabled us to establish a powerful synergy between the mutual banks and their communities in a process that enabled the mutual banks, thanks to their extensive presence throughout Italy, to experience this event together with their customers and shareholders. In conjunction with the women's Giro d'Italia, the Group promoted the first current account developed together with the mutual banks;
- Mutuo Day, a sort of "open house" day that the mutual banks offered to their customers and shareholders aimed at promoting the offering of mortgage loans at favorable conditions that remain fixed for a defined period of time;
- the civic-sector initiative that introduces a catalogue of projects and services dedicated to this sector and includes the creation of the new brand Coopera;
- an event for the business customers of the approximately 70 mutual banks participating in the related club, including a contest through April 2020 dedicated to the segment and a new international-business consulting service for businesses interested in internationalization;
- corporate identity for the mutual banks aimed at promoting the union of the branding of the ICBG and the mutual banks;
- the European student loan fund financed with the help of the Italian Ministry of Education and Research under the 2014-2020 NOP, with total funding of €46.5 million. Disbursement of these loans represents an invaluable opportunity to engage with younger customers.

Activation of the Guarantee Scheme and establishment of the readily available funds

During the first half of 2019, the funds underlying the Cross-Guarantee Scheme, the "readily available funds" in the form of a predetermined (Ex Ante Quota) amount established with the Parent Company and a portion that can be called in by the Parent Company if needed (the Ex Post Quota), were determined and established.

The process of monitoring the collateral capacity provided by the affiliated banks in order to guarantee the availability of the ex post funds and has also established differentiated rates of return based on the type of funding need assigned and generated (both ex ante and ex post), as approved by the Parent Company's Board of Directors and communicated to all affiliated banks, has also been defined and activated.

In order to quantify the total amount of these readily available funds, in application of the previsions of the Cohesion Contract, tests aimed at determining the amount needed even under situations of stress are conducted.

Calculations for the readily available funds for financial year 2019 resulted in an amount of €1,339.6 million as follows:

- an Ex Ante Quota of €504.5 million;
- an Ex Post Quota of €835.1 million.

The Ex Ante Quota of the readily available funds has been established by way of financing for a specific transaction (in accordance with Article 2447 of the Italian Civil Code) and was completed based on a financing agreement signed by the Parent Company and the affiliated banks on March 29, 2019. The Ex Ante Quota of the readily available funds was established on April 15, 2019, with disbursement of the financing by the mutual banks to the Parent Company in the amount of €419.6 million and payment of the Parent Company's portion in the amount of €85 million.

The Ex Post Quota of the readily available funds was established with the signing of an irrevocable commitment by the affiliated banks in favor of the Parent Company by way of opening a specific securities-backed line of credit that ensures a constant amount of readily available liquidity.

The Parent Company, for its share of the Ex Post Quota, in the amount of €31.7 million, committed securities to the portfolio dedicated to the Guarantee Scheme.

Group policy concerning the Guarantee Scheme calls for the funds of the Ex Ante Quota to be invested by Iccrea Banca – based on investment policies approved by the company's Board of Directors – in highly liquid assets of limited risk and adequately diversified in order to pursue the objective of the conservation of capital and the ready availability of funds for the implementation of guarantee measures. Therefore, the investment was made solely in debt instruments with a yield to maturity of at least overnight rate set by the European Central Bank and included within the "eligible universe" of securities, i.e.: supranational, euro-area government bonds; covered bonds; ABS; Eurosystem deposits; and financial derivative instruments solely for hedging purposes.

In 2019, the Parent Company launched two initiatives of capital support for a total nominal amount of €23 million by making use solely of the Ex Ante Quota of the readily available funds.

The initiatives taken in favor of Banca Centropadana Credito Cooperativo and of Vival Banca – Banca di Credito Cooperativo di Montecatini Terme, Bientina e S. Pietro in Vincio involved the subscription of tier-2 subordinated loans totaling €15.0 million and €8.0 million, respectively.

The capitalization efforts were allocated proportionately to each mutual bank in accordance with the prudential accounting model related to the Cross-Guarantee Scheme. The portions assigned to each affiliated bank were:

- recognized as indirect financing in a subordinated debt instrument included in own funds by the issuer;
- deducted, prudentially, from the component of own funds by each participating bank consistent with the type of initiative taken in the mutual bank assisted.

Management of the financing for the specific transaction as at December 31, 2019, is presented below by way of the separate reporting schedules within the separate financial statements of the Parent Company in accordance with the Civil Code and with the related accounting standards.

More specifically, assets included about €124 million in cash and cash equivalents held at the central bank (€110.5 million) and Euroclear (€14.3 million) and €385 million in securities. The composition of the investment portfolio respects the principles of the diversification of risk and of liquidity based on the guidelines established in the policies approved by the Iccrea Banca Board of Directors.

€/thousands	31/12/2019
Cash and cash equivalents	110,477
Financial assets measured at fair value through profit or loss	385,110
b) financial assets designated as at fair value	385,110
Financial assets measured at amortized cost	14,334
a) due from banks	14,334
Total assets from the separate balance sheets	**509,922**

The following table shows the breakdown, by issuing country and/or type of instrument, of the debt securities that make up the portfolio, measured at fair value in line with applicable accounting standards.

Country/Type of instrument (€/thousands)	31/12/2019
Austria	1,144
Belgium	10,938
Finland	1,377
France	45,561
Germany	36,214
Ireland	8,015
Italy	132,598
Netherlands	2,304
Supranational	35,548
Spain	79,824
Covered bonds	31,588
Total	**385,111**
of which Italy: subordinated bonds subscribed within the scope of the initiatives:	*23,019*
- Centropadana	*15,018*
- VivalBanca	*8,001*

Liabilities are largely financial liabilities measured at fair value and related to the value of the Ex Ante Quotas attributable to the affiliated banks (€424 million), adjusted taking account of the results of management of the special-purpose financing at December 31, 2019.

Other liabilities refer to the Ex Ante Quota attributable to the Parent Company (about €86 million), which is also adjusted based on the proportional allocation of the income generated by the liquidity at December 31, 2019.

€/thousands	31/12/2019
Financial liabilities designated as at fair value	424,058
Other liabilities	85,864
Total liabilities from the separate balance sheets	**509,922**

The report for the year shows a gain of about €5.4 million, which contributes to the consolidated profit for the Group. Based on the contracts signed, this gain has been allocated to the participants in the Guarantee Scheme based on their respective shares (about €4.5 million to the affiliated mutual banks participating in the special-purpose financing and about €0.9 million to Iccrea Banca).

Items	31/12/2019
Interest income and similar revenues	2,494,387
Interest expense and similar charges	(80,122)
Net interest income	**2,414,265**
Net fee and commission income	**(30,356)**
Net gain/(loss) on other financial assets and liabilities measured at fair value through profit or loss	3,006,052
Overall result of the transaction	**5,389,961**
Allocation to the affiliated banks (change in fair value of financing)	4,482,365
Allocation to the Parent Company (change in fair value of assets and liabilities)	907,596
Result for the year post-allocation	**0**

The process of determining the readily available funds for 2020 was completed in October 2019. Stress testing conducted over the 2019-2021 time horizon show the following classification of readily available funds for the Group for 2020:

- an Ex Ante Quota of €385 million;
- an Ex Post Quota of €797 million.

The Parent Company has notified the affiliated banks of their updated ex ante and ex post quotas. Each bank has then, consequently, increased or decreased their Ex ante and Ex Post Quotas for 2020.

Refinement and testing of the Early Warning System

In the second half of 2019, taking account of the outcome of periodic discussions with the ECB, work was done to further refine the overall framework of the early warning system (EWS). These efforts were part of a routine process of constant reinforcement and development launched by the Group and concerned, in particular: *(i)* operational and methodological aspects concerning the mechanisms for calculating and reporting on certain EWS indicators; *(ii)* technical aspects related to determining the thresholds for capital ratios in order to take account of the new SREP requirements applicable to the Group; and *(ii)* certain aspects related to EWS governance.

With regard to implementation of the EWS framework, work was done in 2019 aimed at implementing the first application of the system, and related periodic (ongoing) monitoring of the risk profile and (quarterly) reporting has begun.

The outcome of these activities show an overall situation of widespread financial, capital and operational equilibrium within the affiliated banks, although there are certain cases of affiliated banks that present limited imbalances in specific segments of operations. For these affiliated banks, which had also been the focus of the first application of the EWS and/or by way of the periodic reporting, the Parent Company has implemented the governance mechanisms envisaged in the Cohesion Contract, which led to the launch and execution by the banks concerned of re-balancing and de-risking initiatives in specific segments of operations.

Upon completion of the process of classifying their technical standing at December 2019, the classified mutual banks received, in a controlled and coordinated manner, specific directives and guidance in which remediation plans and actions, as well as the objectives to be reached in 2019 to improve their respective risk profiles, were defined. During the year, the progress made in relation to these initiatives was monitored with the goal of improving the technical situation of these banks.

For more information on the key aspects of the ICBG's overall EWS, see Part E of the explanatory notes.

Capital increase for Iccrea Banca SpA

In execution of the shareholder resolution of January 10, 2019, and effective as of April 4, 2019, Iccrea Banca completed its paid capital increase reserved for shareholders with the full subscription of the 4,840,272 new ordinary shares with ordinary rights and a per-share issue price of €51.65 (equal to par value), for a total of €250,000,048.80. Nearly all of the capital was subscribed by the affiliated banks.

In addition to providing further coverage in meeting capital ratio targets, this additional capital will go towards reinforcing Iccrea's growth in support of development of the affiliated banks in line with both the traditional nature and mission and the new role of the Bank.

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

In October 2019, an agreement was signed with Cassa Centrale Banca SpA (CCB), the parent company of Italy's second-largest mutual banking group (the Cassa Centrale Banca Mutual Banking Group, or CCB Group), concerning the reorganization of the equity investments held by the mutual banks participating in the two mutual banking groups and of the equity investments held in entities belonging to the two groups.

In particular, this agreement establishes that Iccrea Banca, its affiliated banks, or other parties specified by Iccrea Banca must, over a period of about four years, in full compliance with prudential and/or regulatory limitations and of the terms and conditions defined in the agreement itself, acquire the equity investments in Iccrea held by the CCB Group. In the same way, Cassa Centrale Banca, as parent company of the CCB Group, in full compliance with prudential and/or regulatory limitations, must ensure that the CCB shares held by companies of the Iccrea Group are acquired by CCB Group affiliated banks or by other parties selected by CCB.

As mentioned, the purpose of this agreement is to define the mutual relations within the scope of future shareholding structures so as to avoid situations of entanglement in equity investments held by the companies of one group in companies of the other.

The status of shareholdings of companies of the CCB Group in Iccrea Banca or in other companies of the ICBG at the time of the agreement is summarized below:

Iccrea Banca shares held by the CCB Group

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

Shares in ICBG companies held by the CCB Group

Company	No. shares - banks	No. bank shareholders	No. shares - CCB	Total shares held by CCB Group	%
Iccrea BancaImpresa	45,858	25	-	45,858	0.30%
BCC Retail	33,754	9	-	33,754	3.38%
Banca Sviluppo	4,477,279	44	-	4,477,279	8.51%
BIT - Serv. Inv. Territorio	930	6	-	930	18.6%
Sinergia	37,400	18	-	37,400	3.07%
IN.CRA	119,201	2	-	119,201	12.07%
BCC Energia	22	22	-	22	18.03%
Assicra	88,954	8	-	88,954	18.17%

With regard to the former aspect, in December 2019, in application of the agreement, the affiliated banks purchased 2,188,530 Iccrea Banca shares for a cash outlay of about €115.5 million. Within the scope of this transaction, 16,471 Iccrea Banca shares previously held by the mutual banks of another mutual banking group were also purchased by entities from outside the ICBG for a total of €0.9 million.

As for the second aspect, in the fourth quarter of 2019, the reorganization of the shareholdings of other entities of the two groups were defined, totaling about €23.1 million in favor of the ICBG and €14.4 million in favor of the CCB Group, with the transfer to Iccrea Banca of all equity investments in the Iccrea Group (including Iccrea Banca Impresa, Banca Sviluppo, Sinergia, BCC Retail, BIT and IN.CRA) held by banks of the CCB Group and the transfer of the equity investments held in CCB or in other companies of the CCB Group by Iccrea Banca or by other banks of the Iccrea Group.

Subordinated issue included in Iccrea Banca tier-2 capital and allocation to the affiliated banks

On November 21, within the context of strategic efforts to support and optimize the Group's capital profile at the consolidated level and for the affiliated banks individually, a tier-2, ten-year subordinated instrument with call option from the fifth year and reserved for institutional investors was issued for a total nominal value of about €400 million.

In early 2020, a portion of the funds raised by the Parent Company was allocated to the affiliated banks by way of the affiliated banks issuing subordinated instruments that were subscribed by Iccrea Banca at conditions that were in line with those of the market transaction in the total amount of about €216 million.

De-risking and NPE reduction

Within the course of work to create and launch the mutual banking group and within the broader scope of the plan to improve asset quality (which was reported to the ECB when requesting recognition of the Group), extraordinary asset disposals were planned in order to reduce the level of non-performing exposures (NPLs) by a total of some €7.3 billion over the period 2018-2020. This goal of NPE reduction fell within the Group's overall strategy aimed at: (i) improving the NPE ratio by taking advantage of disposal opportunities that would allow for a rapid reduction of the portfolio by prudentially deconsolidating bad debt at both the separate and consolidated level; (ii) enhancing operational levers in order to optimize the management of NPLs through financial and industrial policies and centralized controls; (iii) enabling the affiliated banks and companies of the direct perimeter active in credit intermediation to focus more on the creation of value, while freeing up resources in order to generate new business.

The program of reducing NPLs reached an initial major milestone in 2018, significantly ahead of schedule, by disposing of a particularly significant amount of NPLs by carrying out both standalone and multi-originator operations coordinated by the Parent Company.

Of particular note among the most significant multi-originator operations coordinated by the Parent Company was, first and foremost, the execution, in 2018, of two securitizations of GACS-backed non-performing loans.

With the first of these transactions ("GACS I" by convention) completed in July 2018, 21 affiliated banks and two other banks of the Group carried out the non-recourse assignment of a portfolio of bad debt with a total value of over €1 billion to a mezzanine securitization vehicle ("BCC NPLs 2018") established in accordance with Law 130/99. This special-purpose vehicle financed the purchase of the loans by issuing three tranches of asset-backed securities (ABS): senior securities, rated Baa3 and BBB by Moody's and Scope Limited, respectively, in the amount of €282 million, subscribed by the sellers and suited to the granting of the state guarantee; mezzanine securities, rated Caa2 and B+ by the same two agencies, in the amount of €31.4 million; and unrated junior securities in the amount of about €10.5 million. The mezzanine and junior tranches have been placed on the market (net of the 5% needed for the seller to comply with the retention mechanism required by applicable legislation).

A total of 73 Group banks (including 71 affiliated banks) participated in the second GACS-backed securitization transaction in December 2018, which concerned a portfolio of bad debt with a total value of about €2 billion, sold to a securitization vehicle ("BCC NPLs 2018-2") established in accordance with Law 130/99. This special-purpose vehicle issued three tranches of asset-backed securities (ABS): senior securities, rated BBBlow and BBB by DBRS and Scope Limited, respectively, in the amount of €478 million, subscribed by the sellers and suited to the granting of the state guarantee; mezzanine securities, rated CCC and B+ by the same two agencies, in the amount of €60.1 million; and unrated junior securities in the amount of about €20 million. Here, too, the mezzanine and junior tranches have been placed on the market (net of the 5% needed for the seller to comply with the retention mechanism).

Both of these transactions resulted in prudential derecognition in accordance with the IASs and IFRSs and with the provisions of the CRR. The senior securities subscribed by the seller are backed by the state.

In 2018, in coordination with the Parent Company, four other non-recourse assignments of non-performing, unsecured loans issued by a number of Group banks and companies for a total of about €94 million were also carried out.

Together with the transactions executed autonomously by the companies and the positive performance for the year, compared with the goal for reducing NPLs in 2018 from €17.2 billion to €15.9 billion, the year-end figure actually reached €13.1 billion. During the first half of 2019, further standalone assignments contribute to a further reduction in impaired exposures to €12.8 billion at June 30, 2019.

Continuing with the program of de-risking aimed at significantly reducing the Group's NPLs, in the second half of 2019 the ICBG executed another multi-originator securitization operation regarding multiple portfolios of mortgage-backed or unsecured loans to non-performing borrowers (GACS-III) and a multi-originator securitization including a request for the Ministry for the Economy and Finance to approve the government guarantee for the liabilities issued, in which the Parent Company acted as the assignor, the promoter and the joint arranger (together with JP Morgan Securities Limited), concerning a portfolio of non-performing residential and/or commercial unsecured (about 30%) and mortgage-backed (about 70%) loans comprising some 17,000 positions with 8,000 borrowers and for a total exposure in excess of €1.3 billion. These loans were originated by 68 ICBG banks participating in the operation for a GBV assigned of €1.2 billion.

Within the context of the operation, on December 2, 2019, the SPV acquired the portfolio from the assignors, financing the purchase by issuing asset-backed securities in accordance with the combined provisions of Articles 1 and 5 of Law 130, for a total nominal value of around €421.2 million and broken down into the following categories:

- €355 million in senior securities maturing in January 2044 with ratings of Baa2, BBB+ and BBB issued by Moody's Investor Services, Scope Ratings AG and DBRS Ratings Limited, respectively;
- €53 million in mezzanine securities maturing in January 2044 with ratings of B3, B- and CCC issued by Moody's Investor Services, Scope Ratings AG and DBRS Ratings Limited, respectively; and
- €13.2 million in unrated junior securities maturing in January 2044.

For the purpose of complying with the obligation to retain a net financial interest in the operation of 5%, as per Article 6 of Regulation (EU) 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 securitization, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU, Regulation (EC) No. 1060/2009 and Regulation (EU) No. 648/2012, the banks have subscribed – and undertake to maintain for the entire duration of the operation – a share of at least 5% in the nominal value of each tranche of securities issued within the scope of the operation (the "vertical slice" approach). The remainder of the mezzanine and junior securities was subscribed by an independent investor from outside the ICBG and the assignors.

The non-performing exposures were derecognized by each assignor and at the consolidated level following the transfer of the mezzanine and junior tranches to Bracebridge Capital LLC on December 19, 2019. Specifically, Bracebridge Capital LLC subscribed: (i) 94.57% of the principal of the mezzanine notes on the date of issue in the amount of around €50 million at a price equal to 51.26% of the related principal (which corresponds to a subscription price of €25.6 million); and (ii) 94.57% of the principal of the junior notes at the date of issue in the amount of €12.4 million at a price equal to 0.008% of the related principle (which corresponds to a subscription price of €1,000).

The total securitized portfolio at the group level includes loans that were classified as non-performing at the assignment date, with a credit claim at the date of economic effectiveness of €1,324.5 million and an aggregate gross book value at the date of legal transfer of the loans, net of writedowns and including any collections on such loans payable to the SPV but received by the banks between the date on which the book value was defined and the assignment date, measured based on accounting records, in the amount of €387 million (of which collections in the amount of €10 million) and assigned for a consideration of €382 million.

The senior notes issued benefited from the aforementioned government guarantee issued in March 2020 in anticipation of deconsolidation of the loans involved in the operation by the assignors in accordance with international financial reporting standards (IAS and IFRS).

With regard to prudential aspects, it should be noted that the significant risk transfer was recognized based on reporting as at December 31, 2019, deconsolidating the securitized portfolio of NPLs for prudential purposes as of that date.

Also in December 2019, a non-recourse assignment was carried out involving non-performing loans with the participation of 40 assignors (37 mutual banks and three companies of the direct scope, i.e. Iccrea BancaImpresa, BCC Lease and Mediocredito del Friuli Venezia Giulia) for a total exposure of about €240 million, with 80% of the total portfolio to be assigned consisting of unsecured loans and the remainder of mortgage-backed loans.

The chart below shows developments in the gross value of the NPLs as per the program released in conjunction with the request for ECB authorization to create the Group and the reductions actually achieved.

In 2020, continuing with implementation of the de-risking program aimed at significantly reducing the Group's NPLs, the ICBG began execution of another multi-originator securitization transaction to be completed by the end of the year and concerning multiple portfolios of mortgage-backed or unsecured loans to non-performing borrowers ("GACS IV").

Based on participation thus far, the operation could concern a total volume of NPLs of between €1.5 and 2 billion.

As with the previous operations, this transaction, too, will be able to be backed by GACS and, in line with industry best practice for similar transactions and with the previous transactions (i.e. "BCC NPLs 2018", "BCC NPLs 2018-2" and "BCC NPL 2019"), calls for the non-recourse assignment of the loans to a securitization vehicle established in accordance with Law 130/1999. The special-purpose vehicle will finance payment of the assignment by issuing three classes of asset-backed securities, the senior and mezzanine of which will be rated and backed by the Italian State. The junior tranche will not be rated. In order to meet the requirements for prudential derecognition of the bad loans both at the consolidated level and at the separate level for each seller, the mezzanine and junior tranches are to be placed on the market for third-party investors independent from the ICBG (while retaining at least 5% of the nominal value in order to comply with the retention rule).

Credico Finance 18 securitization

The securitization of performing loans originated by 14 ICBG banks, for a total exposure transferred of about €520 million, was completed in December 2019. The European Investment Bank also participated in the operation. Upon completion of the operation, a tranche of senior A1 notes was issued for a total of €90 million and of senior A2 notes for a total of €200 million, both rated by DBRS (AAA), Moody's (Aa3) and Scope (AAA), as well as a tranche of unrated junior notes for a total of about €229 million.

The transaction enabled the participating banks to raise new liquidity at an incentivized cost of funding, to improve their commercial positioning within their territories by providing incentivized financing to SMEs, and to promote employment in and the development of the areas of agriculture, female entrepreneurship, and renewable energy.

The participating banks also committed to disbursing the liquidity resulting from subscription of the senior A2 notes by the EIB in the form of financing in favor of SMEs within 24 months from the date of issue of the notes as follows: i) 100% of the liquidity on preferential terms in favor of the SMEs operating in the agriculture industry; and ii) a further 100% of the funds raised at ordinary lending conditions, also to SMEs.

Establishment of the VAT group

On July 1, 2019, the ICBG VAT Group became operational. The ICBG which will therefore benefit from administrative and financial advantages resulting from the application of the provisions of Title V-bis of Presidential Decree 633/1972.

The ICBG has made use of the option granted to mutual banking groups, introduced at the time of ratification of Legislative Decree 119/2018 to take account of the time required to establish such groups, to form the VAT Group with effect from July 1, 2019, having previously signed the cohesion contract pursuant to Art. 37-bis of the Consolidated Banking Act and presented the declaration to establish the VAT Group by April 30, 2019.

The main effect of the VAT Group is the loss of the individual VAT positions of the participants, which has now been replaced by a "collective" VAT position. This means that only transactions between the participants in the VAT Group and external parties are relevant for VAT purposes while transactions between entities participating in the same VAT Group are irrelevant for VAT purposes. Failure to establish the ICBG VAT Group would have resulted in VAT not being deductible for the affiliated banks, with a consequent increase in costs at the Group level estimated at €35 million per year. The composition of the VAT Group is exactly the same as the Group as a whole, as indicated in the Register of Banking

Groups held at the Bank of Italy.

Corporate and commercial relations with Cattolica Assicurazioni

The Boards of Directors of Cattolica Assicurazioni and Iccrea Banca, meeting respectively on July 3 and 5, 2019, resolved to renew their bancassurance partnership until December 31, 2022. Specifically, the renewal of the partnership provides for:

- Cattolica Assicurazioni's acquisition of a further 19% of the share capital of BCC Vita and BCC Assicurazioni (the JVs), increasing its stake to 70% in both insurance companies and consequently reducing Iccrea's interest to 30%, for a total price of €42,463,138 (of which €39,330,000 for the purchase of 19% of BCC Vita and €3,133,138 for the purchase of 19% of BCC Assicurazioni);
- the signing of a new shareholders' agreement relating to the governance of the JVs, consistent with the aforementioned reorganization of the participating interests;
- the continuation of the JVs' insurance brokerage activities through the mutual banks belonging to the ICBG;
- the assumption, by the Parent Company Iccrea Banca, of specific promotional commitments, in accordance with a revised commercial plan mainly focused on the profitability and competitiveness of the products in the range, quality of service to the participating banks and greater penetration of customer markets.

At expiry, the agreements will be automatically renewed for further 12-month periods, without prejudice to the right to renegotiate the contents and duration or, alternatively, to terminate the partnership through the exercise of reciprocal call and put options on the entire interest held by Cattolica (70%), at predetermined conditions and fees, and subject to obtaining the necessary authorizations.

Car Server

On August 1, 2019, in line with the Group's strategy to redefine its positioning in the long-term vehicle leasing segment, a 19.01% interest in Car Server SpA held by Iccrea BancaImpresa was sold for a total of about €18.3 million, giving rise to a capital gain for the Group (about €6 million before tax).

Administration for an affiliated bank

In 2019, BCC di San Biagio Platani was place in compulsory administration in response to violations of anti-money-laundering laws. The relevant units of the Parent Company, in close collaboration with the special administrator, are supporting efforts to verify customers and operations in accordance with applicable legislation.

Mergers of affiliated banks

In 2019, there four mergers involving mutual banks of the Group (BCC San Giuseppe di Petralia Sottana with BCC Valledolmo, BCC Umbria with Banca CRAS, BCC di Riano with Banca di Formello e Trevignano Romano CC, and BCC Pordenonese with Banca di Monastier e del Sile CC), and the related requests for authorization by the supervisory authorities were then filed. Upon completion of the process, the mergers were authorized and took legal effect in January 2020.

Evolutionary/innovative projects and information systems

In 2019, the ICT unit was primarily engaged in pursuing projects aimed at implementing the solutions identified for creation of the ICBG, in developing the information systems of BCC Sistemi Informatici (SicraWeb), and in migrating the affiliated banks of other technical services providers to the BCC-SI information system.

These efforts mainly focused on:

- organizational improvements, including definition of the project for the sale of the IT divisions of Iccrea Banca and Iccrea BancaImpresa to BCC-SI, as approved by the Board of Directors of the Parent Company in January 2020, in order to establish a single group company dedicated to information systems, as well as authorization to submit the request to the Bank of Italy, with the goal of completing the transfer on July 1, 2020;
- technological upgrade to the current IT architecture in a project structured across broad areas of intervention: basic framework, SICRA2 GK, sales network, SICRA2 JEVO, International, Treasury, and web applications; upgrades in data governance and the data platform (data masking, data hub); updating and unification of the models and tools for system patching and hardening; updating and consolidation of the TSM architecture; enhancements to the security of the BCC Sistemi Informatici network based on group guidelines; and strengthening of the security levels for the most important and/or most exposed systems;

- strengthening of security with the creation of the security task force within the scope of the Security and Business Continuity Committee, which also involves the participation of the various control functions, so as to ensure systematic, internal management of security issues. The issues targeted involved the following in particular: definition of a software-development process with a particular emphasis on security by design; completion of work to segment the data network; implementation of tools to manage and monitor system vulnerability assessments; protection of all internet services by way of web application firewalls (WAF) and systems to protect against distributed denial-of-service (DDOS) attacks; strengthening of access procedures for system administrators; and increasing awareness of security issues by way of in-person and intranet training;
- service monitoring: configuration has been completed for the configuration management database (CMDB) underlying the infrastructure monitoring system and serving the systems for all services and related technology chains of Iccrea Banca, Iccrea BancaImpresa and BCC Sistemi Informatici, and which contains data on all ICT services and related technology chains. The CMDB at the heart of the information technology service management (ITSM) suite makes it possible to have detailed data at the individual service level concerning the various events logged (incidents, service requests).

9. PLANNING RELATING TO THE EVOLUTION OF THE REGULATORY AND OPERATIONAL ENVIRONMENT

With regard to organizational and procedural changes, the following initiatives were undertaken by the ICBG in response to the main regulatory developments.

With regard to the evolution of the regulatory framework, it should first of all be noted that there has been a change in the significance attributed to the affiliated banks, in implementation of the ECB's decision of April 18, 2019 which, in accordance with Article 40(2) of Regulation (EU) No 2014/468 (ECB/2014/17), establishes that each of the supervised entities forming part of the supervised Group shall be deemed to be a significant supervised entity. More specifically, the measures taken by the ICBG in relation to primary regulatory developments, in order to achieve organizational and procedural compliance, are described below.

First-time application of IFRS 16

The new accounting standard, which has been applied since January 1, 2019, introduces a definition of leasing based, regardless of contractual form, on two main assumptions (i) the existence of an identified asset that is clearly recognizable and physically distinct from others assets; (ii) the customer has a contractual right to control the exclusive use of the asset (i.e. the supplier does not have a substantive right to substitute the asset, without prejudice to replacement due to the malfunction or improper operation of the asset). The standard sets out principles regarding the recognition, measurement and presentation of the asset in the financial statements, as well as the additional disclosures to be provided in the financial statements of the lessor and the lessee, with the uniform accounting treatment of finance and operating leases.

While there are no substantive differences in the accounting treatment of a finance lease (for lessors and lessees) or an operating lease 8for the lessor), the changes for lessees to the accounting treatment and presentation of operating leases, rentals and similar contracts have been substantial.

For lessees, the impact on the financial statements of the application of IFRS 16 from January 1, 2019 includes - with no change in profitability and final cash flow over the term of the lease –an increase in the assets recognized in the balance sheet (leased assets), an increase in liabilities (lease liabilities), a reduction in administrative expenses (lease payments) and a concomitant increase in financial expense (on the recognized liabilities) and depreciation (of the right of use). With regard to the income statement, considering the entire term of the contract, the financial impact does not change over the time horizon of the leases either by applying the previous IAS 17, or by applying the new IFRS 16, but its distribution over the term of the lease differs.

The Parent Company coordinated the planning activities for the implementation of IFRS 16 - Leases, which began in 2018 in order to assess and specify the qualitative and quantitative impacts of the standard, as well as to identify and implement the applicative and organizational measures necessary for its consistent, comprehensive and effective adoption within the Group as a whole and for each of its member entities and the definition of harmonized transition choices. After assessing the magnitude of the new standard's areas of impact, transition choices were also made.

Please see to the appropriate section of Accounting Policies for a discussion of the accounting and prudential impacts of the application of the standard.

Insurance Distribution Directive (IDD)

In complying with Directive (EU) 2016/97 on insurance distribution (Insurance Distribution Directive - IDD), the Parent Company prepared guidelines and established organizational measures to enable it to manage the activities connected with the distribution of insurance products. The framework initially developed in the course of planning begun in 2018 was revised and strengthened following the formation of the ICBG, in the context of the Parent Company's exercise of management, coordination and control activities. In this regard, interpretive guidelines and operating instructions were provided to the ICBG companies authorized to engage in insurance mediation in order to comply with the timing and procedural requirements for sending the insurance supervisory authority (IVASS) information on holdings and close links, as provided by IVASS Order No 84 of 13 February 2019.

In this context, the Parent Company has developed the following Group policies:

- "Governance and Control of insurance products", which sets out the principles and guidelines for the governance and control of insurance products on the distributor side and the rules of conduct in the distribution of insurance products, subsequently incorporated into the "Group Product Management Policy";
- "Conflicts of interest and incentives in the provision of investment and ancillary services and in the distribution of insurance products", which establishes the organizational and procedural measures to be implemented to ensure appropriate management of conflicts of interest, as well as of remuneration and incentive plans in order to prevent them from adversely impacting customers' interests. This policy was also developed to manage conflicts of interest in the provision of investment services and ancillary services, in compliance with MiFID II regulations;

- “Management and training of personnel involved in the distribution of insurance products”, which sets out the principles and guidelines for the process of managing, training and updating personnel involved in the distribution of insurance products in relation to the minimum knowledge and professional competence requirements established by law.

On September 23, 2019 IVASS and Consob, each within its sphere of competence, published three regulatory measures for consultation. The measures will presumably be issued during 2020, thereby completing the national implementation framework for the IDD.

PSD2 - Payment Services Directive

On July 1, 2019 the Bank of Italy’s measure of March 19, 2019 came into force. It amends the provisions concerning “Transparency in banking and financial operations and services. Fair dealing between intermediaries and customers”. The measure implements the provisions of Directive (EU) 2015/2366 (the Payment Services Directive 2 - PSD2), transposed into Law with Legislative Decree 218/2017, which aims to achieve greater harmonization of the rules existing in the various European countries, to promote the development of an efficient, secure and competitive internal retail payments market, to strengthen protection for users of payment services, to support innovation and to improve the level of security of electronic payment services. As stated in the act issuing the measure, the provisions on PSD2, governed by Section VI of therein, shall apply as of January 1, 2020.

Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 has applied since December 15, 2019. It amends Regulation (EC) No 924/2009 as regards certain charges on cross-border payments in the EU and currency conversion charges.

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. These include: the management and forwarding to the supervisory authority of requests for exemption from the contingency mechanism (the “fallback solution”), pursuant to Article 33(6) of Regulation (EU) 2018/389; the establishment of the process for reporting major operational and security incidents, as governed by the EBA Guidelines on major incident reporting, as well as the fraud reporting process as provided for in the EBA Guidelines on fraud reporting, in light of the 28th update of the Supervisory Provisions for Banks set out in Bank of Italy Circular No 285/2013. The organizational and operational impacts in the field of Fraud Management and Fraud Reporting were identified in order submit the semi-annual report by March 2020, while the detailed roadmap for obtaining the extension envisaged for SCA in e-Commerce on both the issuing and acquiring sides was transmitted to the competent authorities. Activities are under way to start and complete the new exemption procedure (the “fallback solution”) for banks migrated to BCC Sistemi Informatici from other technical services providers after September 14, 2019, in accordance with the operating instructions 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 datasets and information available.

Transparency

The provisions of the Bank of Italy measure of March 19, 2019 concerning the transposition of the changes introduced by PSD2 regarding consumer credit, payment services, consumer protection and the handling of complaints have been in effect since July 1, 2019.

The rules contained in Directive 2014/92/EU on payment accounts (Payment Account Directive, or PAD) have applied since January 1, 2020. The directive was transposed into Italian law with Legislative Decree 37/2017, requiring the Bank of Italy to update, with a measure of June 18, 2019, its Transparency Requirements with a number of provisions concerning new instruments for transparency and fee comparability. The legislation introduces standardized documents - the “Fee Information Document” or FID and the “Statement of Fees”, or SOF - to present fees and commissions applicable to services commonly offered to consumers in a schematic and easily comparable form, thereby facilitating customers’ assessment of the cost of a product and its appropriateness to their needs.

In order to achieve the aforementioned objective, the legislation also introduced a number of changes in the information documents for payment accounts offered to or opened by consumers.

The Parent Company established specific working groups, which led to the creation and dissemination of new documents to the affiliated banks.

Securities Financing Transactions (SFTR)

Article 4 of Regulation (EU) 2015/2365 on the transparency of securities financing transactions (Securities Financing Transactions - SFT) and of reuse, introduces a new reporting obligation requiring counterparties to SFTs to report the details of any SFT they have concluded, modified or terminated. These details must be submitted no later than the working day following the conclusion, modification or termination of the transaction. On April 11, 2019, Regulation (EU) 2019/356 specifying the details of SFTs to be reported to trade repositories and Regulation (EU) 2019/363 laying down implementing technical standards with regard to the format and frequency of reports on the details came into force.

The date of application of the reporting obligation differs based on the type of counterparty (April 11, 2020 for investment firms and credit institutions; October 11, 2010 for insurance and reinsurance undertakings, collective investment undertakings and their management companies, alternative investment funds managed by AIFMs, and institutions for occupational retirement provision; January 11, 2021 for non-financial counterparties). Therefore, the Parent Company promptly began planning to establish guidelines and solutions to assist the ICBG companies that engage in SFTs in meeting this reporting obligation.

Central Securities Depositories Regulation (CSDR) - Settlement internalizer

Pursuant to Article 9 of Regulation (EU) 2014/909 on central securities depositories (CSDR), settlement internalizers must report on a quarterly basis to the competent authorities (Consob) the aggregated volume and value of all securities transactions that they settle outside securities settlement systems. On April 30, 2019, ESMA published its guidelines on internalized settlement reporting in accordance with said Article 9. The Parent Company has planned to define solutions to help the ICBG companies that qualify as settlement internalizers. In this context, for those companies that have so requested, the Parent Company acts as the subject appointed for payment. Submission of the quarterly reports began in July 2019.

Anti-money laundering

On April 8, 2019, the Bank of Italy issued “Provisions on the organization, procedures and internal controls for preventing the use of intermediaries for the purposes of money laundering and terrorist financing”, in order to align national law with European legislation. The measure provides instructions on the requirements, procedures, control systems and the functions of the central contact point, in harmony with Commission Delegated Regulation (EU) 2018/1108, in addition to implementing the Joint Guidelines adopted on September 22, 2017 by the authorities ESMA, EBA and EIOPA under Article 25 of Regulation (EU) 2015/847 on information accompanying transfers of funds. Compliance with the provisions is to be completed by June 1, 2019, with the exception of some environments that are expected to be compliant by January 1, 2020.

With regard to changes in the relevant regulatory environment, the Parent Company updated its internal Group procedure documentation, after conducting a gap analysis of the impact of the new provisions, which involved the territorial AML units.

The changes that Legislative Decree 90/2017 made to the anti-money laundering legislation require, among other things, that periodic data and information identified on the basis of objective criteria concerning transactions that carry the risk of money laundering and terrorist financing be submitted to the Financial Intelligence Unit (FIU). The FIU’s instructions published on March 20, 2019 concerning “objective reports” govern the new type of monthly reporting that began in September 2019, and is required of banks, Poste Italiane, payment institutions and electronic money institutions. In this regard, the Parent Company worked with the responsible IT units to implement measures to ensure that reporting started on time and in the manner required by the applicable regulations.

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 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). Starting from May 2020, in accordance with the participation timeline published by the EPC (European Payments Council), the service will be extended to all mutual banks operating with the BCC SI information system.

Product governance

The Bank of Italy measure of December 5, 2018 containing provisions implementing the EBA Guidelines on product oversight and governance arrangements for retail banking products prompted the Parent Company to undertake specific Product Oversight Governance (POG) planning. The POG requirements for retail banking products entered force on January 1, 2019 for the Parent Company and the directly consolidated subsidiaries and January 1, 2020 for the affiliated banks under the extension granted to the mutual banks by the Bank of Italy. The need to act in response to the regulations harmonized with the objective of establishing a shared and uniform approach within the Group for managing business processes, while respecting the banks’ autonomy in managing their commercial offerings. In this context, an operating product management model was developed for the Iccrea Mutual Banking Group to manage all types of products and services, ensuring uniformity and creating synergies within the Group. The definition of the operating model involved changes in rules and organizational arrangements and therefore created a need to issue a Group policy, approved by the Parent Company on October 24, 2019, within which the various existing rules have been incorporated with the aim ensuring uniform product governance of banking (EBA), financial (MiFID II) and insurance (IDD) products in line with the evolution of the Group's organizational model.

SIC Code of Conduct

On September 12, 2019, a new code of conduct was issued for information systems managed by private operators. The code addresses issued connected with consumer credit and the reliability and punctuality of payments. The changes introduced by European and national privacy legislation made it necessary to issue the code following a complex revision of the old code of conduct. The code of conduct establishes greater protections for consumers listed in credit databases, strengthens security measures, extends its scope to types of customer relationship and mandates more complete information on the processing performed by member companies. The Parent Company, with the collaboration of legal departments and DPOs, prepared the new uniform disclosure model in December 2019, distributing it to the mutual banks, and is assisting the mutual banks in implementing the consequent changes, which were scheduled for completion in mid-March 2020.

Regulation of issuers

The new Prospectus Regulation (Regulation 2017/1129/EU) entered force on July 21, 2019, repealing the earlier Directive 2003/71/EC). As a consequence, Consob amended the Issuers Regulation (Resolution 21016 of July 24, 2019). The main changes include the repeal of the provisions envisaging a simplified prospectus for public offerings of plain vanilla securities other than equity securities issued on a continuous or repeated basis by credit institutions, where the total aggregated consideration in the European Union, calculated for a period of 12 months, is less than €75 million. For such offers, the Prospectus Regulation exempts issuers from the obligation to publish a prospectus.

European Market Infrastructure Regulation (EMIR)

Regulation (EU) no. 2019/834 of May 20, 2019 entered force on June 17, 2019, amending Regulation (EU) no. 648 / 2012 on OTC derivative contracts. Under the new legislation, financial counterparties are required to notify the competent authorities whether they exceed the threshold for the purpose of applying the clearing obligation. The Parent Company coordinated these activities as well as the request for exemption of intercompany OTC derivatives from the clearing obligation.

Compliance with new definition of default (new DoD)

As part of the overall planning connected with compliance with the new definition of default, activities are under way to reassess the risk models and parameters in use at the banks and other companies of the Group in the light of new definition of default, recovering historical data restated on a pro-forma basis to comply with the new definition. Beginning with this reassessment, revalidation and recalibration of the models/parameters, the planning also envisages the adaptation of risk metrics within the framework of the IFRS 9 impairment framework and the credit stress test framework.

Resolution framework – Management Information System

Following the receipt of the 2019 Working Priorities from the Single Resolution Board (SRB), the Iccrea Cooperative Banking Group has launched a project aimed at: (i) meeting the regulator's requests concerning the Bail-In Playbook and Core Resolvability Conditions, (ii) respond to ordinary requirements (SRB/EBA Template and Working Technical Notes), and (iii) build the foundations for adaptation to the resolution framework in a gone concern perspective.

On 13 December 2019 the Group received the 2020 Working Priorities, which require a more specific study than that for 2019.

In this context, with specific reference to the activities connected with the Management Information System, in 2020 the Group is involved in:

- completing the activities initiated in 2019 associated with the automation of the SRB/EBA templates with an annual reporting perspective;
- further improving our capacity to ensure that in the event of a crisis, the resolution measures decided by the SRB can be activated "at any time".

Benchmarks Regulation (BMR)

Regulation (EU) no. 2016/1011 of the European Parliament and of the Council of June 8, 2016 (the "Benchmarks Regulation", or BMR) defines a new regulatory framework for the benchmark rates Euribor, Libor and Eonia to ensure that market indices and the methodologies used to calculate them are consistent with international principles, seeking to guarantee the integrity of benchmark parameters used in the euro area (including benchmark interest rates) by reducing the use of discretion, improving governance controls and addressing conflicts of interest.

Based on this regulatory framework, the European Money Market Institute - EMMI – the administrator of the Euribor and Eonia indices, found that none of the benchmarks it administered were 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 rates by adopting a hybrid approach that combines transaction data with expert judgement.

On July 2, 2019, the Financial Services and Markets Authority (FSMA), the authority responsible for supervising EMMI, announced that it had completed its assessment of the adjustments made to governance and methodology underlying the calculation of Euribor, finding them compliant with the provisions of the BMR and therefore authorized EMMI to continue its administration of the index in full compliance with the aforementioned regulatory provisions, thereby certifying conformity.

As part of this regulatory and market framework, in July 2019 the ECB sent a communication to banks to obtain information on the actions taken and under way to tackle the global interest rate reform, to which Iccrea Banca replied for the ICBG with a quantitative assessment, expressed in terms of the exposure to the various IBORs (Eonia, Euribor and Libor), and a qualitative assessment of the impacts on specific issues.

Following this preliminary analysis, the Parent Company launched a detailed assessment phase in January 2020 with the aim of identifying the scope of intervention necessary to adapt to the new regulations for the Iccrea Cooperative Banking Group, with particular reference to the IBOR rates (i.e. Eonia, Euribor and Libor).

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.

10. GROUP HUMAN RESOURCES

The workforce of the Iccrea Cooperative Banking Group totaled 22,219 employees at December 31, 2019 (21,760 FTE[16]), distributed as follows:

Category	Number of employees	FTE
Mutual bank employees	18,709	18,294
Direct scope companies	3,062	3,032
Other companies	448	434
Total	**22,219**	**21,760**

The distribution by position is as follows: 410 senior managers (410 FTE), 6,228 middle managers (6,203 FTE), and 15,581 employees in the various professional areas (15,148 FTE).

The trends in new hires and terminations for the Iccrea Cooperative Banking Group during 2019 mainly affected the Parent Company, Iccrea Banca.

The net increase in the workforce of the Parent Company during 2019, of 698 employees (749 new hires, 51 terminations), was mainly due to organizational needs connected with the new model established following creation of the ICBG, which also resulted in a strengthening of the Group's corporate units, in part by integrated a portion of the personnel from the local federations and the mutual banks.

The following table reports end-2019 data for Iccrea Banca only, with comparative figures for end-2018:

Position	31/12/2018		31/12/2019	
	Number of employees	FTE	Number of employees	FTE
Senior management	68	68	105	105
Middle management	577	576	1,024	1,022
Professional areas	490	482	704	695
Total	**1,135**	**1,126**	**1,833**	**1,822**

With a view to strengthening the Parent Company's structures in implementation of the launch of the ICBG, priority has been given to leveraging the personnel of the Group and the banks by promoting the exchange and internal integration of resources, all with a view to maximizing organizational and cost synergies, thus achieving optimal overall sustainability.

More specifically, within the scope of implementation of the new organizational structure, a plan was implemented to bring in some 300 employees (from the second half of 2018 to the first half of 2019) who were previously working with the local federations providing operational and advisory services to the affiliated banks. The goal of this move was twofold—i.e. too ensure continuity in coverage of the services provided and to establish the local offices selected by the Parent Company—in line with the organizational model defined in response to the objectives of the reform.

This plan first involved employees allocated to "mandatory activities" (including all the functions of second and third-level corporate controls, auditing, risk management, compliance, and anti-money laundering), which, based on specific laws and regulations, require centralized government directly by the Parent Company on an outsourcing basis, while also remaining close to local communities.

Development of the plan to integrate the employees from the Group mutual banks and concerned 171 employees hired by way of transfers of employment agreements in accordance with Article 1406, part of whom in order to complete the centralization of the corporate control functions, while the majority (about 130 employees) were deployed to provide operational services and fill staff functions (i.e. functions that, under the previous organizational structure, provided advisory and operational services directly to the affiliated banks, especially administration, planning, human resources, organization, and legal and fiscal affairs), implementing a model that combines the effectiveness of hierarchical management and the interdependency of functions with professional and functional centralization within the units of the Parent Company.

In 2019, in completion of the structure, with particular regard to the corporate control functions, work was virtually completed on integrating employees of the affiliated banks within the ICBG. This centralization of employees within the Parent Company (which also complies with specific guidelines of the ECB) involved about 352 employees (of which 336 in the corporate control functions) hired by way of transfers of employment agreements.

An agreement was signed with the unions on October 7, 2019 for accessing the extraordinary benefits of the Solidarity Fund, which involved the exit of 28 staff from companies in the direct scope of consolidation.

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

Training and development

In the current environment, characterized by growing complexity and rapid change, the training and development of people play a strategic role. In particular, the need to ensure the constant updating of the distinctive skills needed to control processes and work activities with programs targeted at all levels is ever more important.

In this scenario, the 2019 training plan for the personnel of the Parent Company and the companies in the direct scope of consolidation was structured: consistent with the Group's strategic development plans; based on the requests submitted by managers; taking account of regulatory developments; in accordance with the qualification and professional and managerial development needs connected with the expansion of the Group's personnel and the organizational changes in the ICBG

Mandatory training took account of the guidance provided by Compliance and the competent units for risk management and mitigation to ensure constant updating and compliance with regulatory requirements.

The following table shows the number of employees and the total number of training hours actually provided, by type and level during 2019:

Position	Number of employees	Hours of training delivered
Senior management	153	3,081
Middle management	1,709	38,255
Office staff	1,650	35,690
Total	**3,512**	**77,026**

Hours of training by type	31/12/2019
Behavioral	6,776
IT	3,920
Foreign language	4,177
Managerial	1,782
Mandatory	37,562
Technical-specialist	22,808
Total	**77,026**

Source: 2019 NFS (figures include BCC Retail)

Training activities for staff and corporate officers were performed to enhance our capacity to address the complexities and changes associated with the operational start-up of the ICBG. In particular, the programs focused on training connected with the most significant changes deriving from the establishment of the ICBG and on the guidance provided by EBA and ESMA guidelines. The meetings covered issues such as non-financial reporting, remuneration policy, the ICBG regulatory environment, strategy, the regulatory framework, governance and risk management, organizational arrangements and IT.

During 2019, after the signing of the Cohesion Contract, Iccrea established two new lines of activity aimed at the affiliated mutual banks. More specifically: in underscoring the commitment and responsibility of the directors in the performance of their functions and in the development of their collective and individual skills, specific training courses were defined, designed and launched (for recently appointed corporate officers and those already in office) to ensure the quality of the members of the corporate bodies.

To support the development and growth of the Group's workforce, Iccrea also launched a new "training" service for the affiliated mutual banks. The impact of this service, which was rolled out in the second half of the year, was reflected in the extensive use of e-learning training services (over 9,000 people involved for a total of more than 200,000 hours delivered).

Remuneration and incentive policies

In accordance with provisions concerning remuneration and incentive policies and practices within banks and banking groups issued by the Bank of Italy in its 25th update to Circular no. 285/2013 on October 23, 2018, 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, particular as concerns 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 April 30.

With regard to the Group companies within the direct scope, the policies approved by the shareholders of the Parent Company have been adopted by way of formal resolutions of the shareholders of the banks and of the asset management companies, as well as of any other competent bodies for the other companies.

As for the goal of ensuring standardization in the application of the principles underlying the ICBG's remuneration and incentives policies, the related guidelines were issued to the affiliated banks on April 2, 2019. In order to ensure their adoption, a standard was also drafted to assist the affiliated banks and their shareholders with adoption of their own remuneration policies and incentives systems, defined in accordance with the principle of proportionality.

In completion of the process of adapting to changes in legislation, the Parent Company, on June 21, 2019, issued a directive providing the affiliated banks with operational instructions for updating existing individual severance agreements that exceed one year of salary. This process was to be completed by June 30, 2019.

Operating instructions were also issued on the implementation of retention bonuses and golden parachutes in compliance with the regulatory framework and labor law (Circular 27/2019), on the identification of personnel with a material impact (MRTS – Delegated Regulation (EU) no. 604/2013) and Relevant Persons pursuant to transparency regulations, on the compilation of the tables pursuant to Article 450 of the CRR (Guidance and Coordination Notices of March 3 and March 9, 2020 respectively).

Labor relations

With regard to labor relations, the first half of 2019 saw the continuation of constructive dialog with the trade unions, with employee representatives collaborating to find solutions that are to the benefit of employees in terms of employment, career, and remuneration, while providing constant, constructive support throughout the reorganization of the Group's operational and corporate functions. Given the significant organizational changes involving the Parent Company, the first half of the year featured intensive discussion for the disclosures pursuant to Article 12 of the supplemental company agreement and the management of some 400 conciliation procedures pursuant to Article 1406 of the Civil Code for the transition of the corporate control functions from the mutual banks and local federations to Iccrea Banca.

Negotiations for renewal of the collective bargaining agreement of the mutual banks were completed in January. The new agreement calls for: forms of greater organizational flexibility; salary adjustments for employees of the mutual banks, the Raiffeisen banks and all other companies and entities of the mutual banking system; particular emphasis on investments in training and development; measures for ensuring better work-life balance; and provisions that generally aim to reinforce the mutual banks' services for the local communities. The renewed agreement also includes provisions in favor of parenthood and other social measures, including the introduction of time off for volunteering for civil, social and environmental purposes and the possibility of establishing "social time banks". In terms of salaries, the agreement calls for an average increase of €85 per month effective as of January 1, 2019, in line with the raises already implemented for the rest of the banking industry. The agreement reached also calls for the launch of standing discussions aimed at analyzing applicable legislation in terms of the transformations that arise over time in response to full application of the industry reform and any impact it may have on employment.

Discussions continued with the union on various issues in the second half of 2019 as well, regarding both the companies in the direct scope and procedures within the mutual banks.

In April, the procedure for the transfer of the business unit comprising the 20 Calabrian branches of Banca Sviluppo to BCC Mediocrati. The discussions with the social partners ended with the union agreement of October 31, which, in addition to governing the effects on the employment relationship of the 87 employees of the branches being sold, also specified the working conditions of an additional 42 employees of Banca Sviluppo in the Calabria region, the so-called "indirect" personnel, who through the individual transfer of employment contracts to Iccrea Banca or BCC Mediocrati, will continue to serve in their original areas.

Two important agreements were reached with regard to the companies within the direct scope. The union agreement on the performance bonus for this year again provided for the possibility of paying the bonus using a flexible benefits approach, in a percentage selected by the employee, with the disbursement by the company, where the welfare mode is adopted, of an additional contribution of 20% of the value of the bonus. This agreement also established that the meal vouchers of the companies in the direct scope would be distributed electronically as from January 1, 2020. In addition, an agreement was reached on access to the extraordinary benefits of the Solidarity Fund for a maximum of 30 employees meeting pension requirements by June 1, 2023.

Trade union procedures continued at the Group's banks with regard to the reorganization processes undertaken as a result of the revision of the distribution model. In the final part of the year, union procedures were also implemented in relation to two major mergers, both involving banks from different regions: the merger of Banca di Monastier (Veneto) into Banca Pordenonese (Friuli Venezia Giulia) and the merger of Banca Cras (Tuscany) into Banca Umbria, creating Banca Centro. Two transregional banking entities of considerable size originated from these mergers, which were completed with the consequent union agreements.

11. 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, Iccrea Banca, 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.

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, which is discussed in greater detail in a specific section, 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.

The RAF seeks 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 risk management functions must operate within the business model and Group strategy, the Operational Plan and the company incentive system.

Based on the expected developments in the baseline scenario and on possible adverse scenarios, the RAF defines:

- the maximum risk that can be assumed (Risk Capacity);
- the risk propensity objectives (Risk Appetite);
- the tolerance thresholds (Risk Tolerance);
- operating risk limits (Risk Limits) implemented within overall risk governance policies, which are an integral part of the risk management process adopted by the Group.

Within this framework, the risk objectives underlying the development and management of the corporate strategy are formalized within the Risk Appetite Statement (hereinafter "RAS"). In preparing the Group's RAS, the Parent Company takes account of the overall operations and risk exposure of the Group as a whole, the affiliated banks and the financial companies directly controlled by the Parent Company, Iccrea Banca SpA, and included within the scope of management and coordination of the Iccrea Cooperative Banking Group ("Group companies").

The assessment of capital adequacy (ICAAP) and liquidity adequacy (ILAAP) represents the verification of the resilience of the Risk Appetite choices in responding to current and prospective risks associated with the capital profile and the operational and structural liquidity profile.

In consideration of the business model and the economic and market environment in which the Iccrea Cooperative Banking Group operates, the risks identified as significant and subject to assessment through the internal assessment process are the following:

- credit risk: the risk of loss arising from the counterparty's failure to perform its contractual obligations due to inability to repay interest and/or principal (default risk). This category includes the risk arising from losses associated with the reduction in the market value of assets due to deterioration in the counterparty's credit rating (migration risk). One type of this risk is counterparty risk, i.e. the risk that the counterparty to a transaction could default before final settlement of the transaction 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: a "credit valuation adjustment" is an adjustment of market's interim assessment of transactions with a counterparty. That adjustment reflects the current market value of counterparty risk in respect of the entity. It does not reflect the current market value of the entity's credit risk in respect of the counterparty.
- operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational risk includes legal risk, IT risk, compliance risk and reputational risk, i.e. types of risk that 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.

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 2019, in line with the risk profiles included in the related framework.

In terms of capital adequacy, work focused on (i) bringing capital levels to those of our comparable market peers (average CET1 of SSM banks of 14.8%), while supporting the development of the business and the territory; (ii) repositioning capital resources in the financial sector through more prudent strategies in trading operations and in banking operations on the investment book (HTCS); and (iii) containing financial leverage, guaranteeing support to interest income with a significant financial securities portfolio (ratio of average financial portfolio to total assets of SSM banks of 14%) and remaining above our comparable market peers (average leverage ratio of SSM banks of 5.1%).

Similarly, with regard to liquidity adequacy, efforts sought to (i) consolidate the liquidity position and the short and medium-term risk profile and (ii) diversify funding channels through the implementation of initiatives aimed at optimizing the cost of funding (covered bond issue, ABACO operations, international issues, etc.).

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:
  - the continuation of the reduction of the gross NPL stock through: (i) the sale of non-performing loans (NPL plan), including through the use of state-guaranteed securitization transactions (GACS); (ii) the continuation of recovery actions for non-performing exposures, including the centralization of their management; (iii) the set-up of the target model of the Group's platform for the management and recovery of bad loans;
  - the consolidation of impaired loan coverage levels in line with market expectations;
  - the completion of initiatives involving the lending segment through: (i) the sharing and implementation of tools, methods and policies to improve credit quality and reduce the cost of risk; (ii) the launch of commercial initiatives supporting the network in order to promote active loan management;

- market risks:
  - the active management of the investment portfolio (HTCS) with the allocation of capital up the limit of 40% of free capital to size the portfolio;
  - the completion of the initiatives involving the financial sector through the sharing and implementation of tools, methods and policies to optimize the risk-return profile of the portfolio.
- liquidity risk:
  - the reduction of the funding gaps of the individual Group companies through the centralized management of liquidity surpluses in order to optimize the mismatching between Group assets and liabilities;
  - the completion of initiatives involving the financial segment through consolidation of the operating model supporting collateralized operations (securitizations, intermediation with the ECB, ABACO, covered bonds) as well as the offer of asset management services.

UNCERTAINTIES

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

Comprehensive Assessment

Following the formation of the Mutual Banking Group and the subsequent transition of the ICBG to the Single Supervisory Mechanism (SSM) under the direct supervision of the European supervisory authority (the ECB), the latter decided to put the ICBG through a Comprehensive Assessment exercise 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 the first half of 2019, the Parent Company, together with the affiliated banks and following the discussions with the Joint Supervisory Team (JST), carried out the preparatory activities for the Comprehensive Assessment exercise. In particular, as part of the activities aimed at conducting the Asset Quality Review during the first few months of the year, the activities necessary for the preparation of the reference templates were completed and control tools were prepared and deployed to strengthen the data quality processes supporting the exercise. As part of the activities associated with the stress test exercise, in May the templates for Advanced Data Collection activities were transmitted to the supervisory authorities to test the effective operation of procedures as part of the preparatory activities for the exercise.

Following the recent events connected with the spread of COVID-19, the EBA has decided to postpone the performance of the EU-wide stress test to 2021, as it is felt that banks must 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 exercise involving the ICBG will also be postponed.

Resolution planning activities and Minimum Requirement of Eligible Liabilities (MREL)

With regard to the requests of the Resolution Authority in application of the European directive establishing a framework for the recovery and resolution of credit institutions and investment firms (the BRRD), during 2019 Iccrea Banca, as Parent Company, was involved in numerous initiatives and studies as part of the activities relating to the planning of the resolution of the Iccrea Cooperative Banking Group envisaged by the Single Resolution Board.

In particular, during the year, Iccrea Banca prepared and sent the templates requested by the SRB (i.e. Liability Data Report, Critical Functions Report, FMI report, CIR templates) needed to give the Resolution Authority the information necessary to prepare the resolution plan, in accordance with the provisions of Article 11 (1) and section B of the BRRD Annex.

To this end, in the second half of the year, the Working Technical Note (WTN) 2019 was also prepared and sent to the Authority in order to provide more detailed information on: i) the performance, financial position and risk situation of the Group; ii) governance arrangements; iii) the business model, critical functions and internal and external financial interconnections; iv) the Group's IT infrastructure; v) the communication plan in a gone concern situation; and vi) business continuity.

Based on the information provided and the in-depth discussions held, the Resolution Authority issued the preliminary MREL decision, including the intermediate (non-binding) requirement and the target requirement regarding own funds and eligible liabilities, which must be met in June 2021 and June 2022, respectively.

Following this preliminary decision, the Resolution Committee initiated the formal procedure relating to the right of to be hear on the proposed

MREL decision, in which Iccrea Banca presented comments on the factual elements underlying that determination. On the basis of the comments received, during 2020, the Committee will carefully evaluate whether to modify the preliminary determination on the MREL, communicating the outcome of its assessments to Iccrea Banca.

Further elements of uncertainty connected with resolution issues involve the definition of the preferred resolution strategy to be applied in the event of activation of the resolution procedures. In this regard, the SRB announced that during 2020 the legal and operational aspects necessary to identify the solutions deemed most effective in a resolution scenario will be further investigated, taking account of the specific features of the Group and the regulatory developments under way in this area.

Introduction of Pillar I requirements concerning loss coverage and supervisory expectations for loan loss coverage

On 25 April 2019, Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019 was published in the *Official Journal of the European Union*, amending Regulation (EU) 575/2013 (the CRR) with the introduction of provisions concerning the minimum loss coverage for non-performing exposures. The new provisions provide for minimum coverage percentages for non-performing exposures to be respected within certain maximum time periods differentiated by the presence or absence of credit protection. If the coverage is insufficient with respect to the parameters identified by the standard, banks are required to make a deduction from their own funds equal to the negative difference between the provisions set aside and those provided for in the regulation. The treatment therefore falls under Pillar I and is applicable mechanically, with a direct impact on own funds (in particular CET1) and, consequently, capital ratios. Regulation (EU) 2019/630 applies exclusively to non-performing exposures among loans originating after the date of initial application of the regulation (April 26, 2019). Therefore, it does not apply to (i) the existing NPL stock and (ii) to exposures originated before April 26, 2019 that should become non-performing in the future.

In order to take account of the requirements introduced with Regulation (EU) 2019/630, on August 22, 2019 the ECB announced that it had reviewed the requirements issued in March 2018 with the Addendum to its NPL Guidance on supervisory expectations regarding prudential provisioning for impaired exposures as from April 1, 2018 (guidelines that, although non-binding, are considered by the Authority in the dialogue with significant banks in the context of the assessments that lead to the determination of the Pillar II additional requirements). The scope of application of the ECB's supervisory expectations for the new NPLs will be limited to non-performing exposures among loans (including those still in performing status that may subsequently deteriorate) granted before April 26, 2019, therefore not subject to the Pillar I treatment noted above. The NPLs emerging from loans granted as from April 26, 2019 will be subjected solely to the Pillar I treatment mentioned earlier.

The general rules governing NPLs have been supplemented by new and especially restrictive materiality thresholds for past-due credit obligations (whose application will be mandatory as from December 2020) and the EBA prudential guidelines on the definition of default.

The specified minimum provisioning levels, which must be applied on an exposure-by-exposure basis, take account of the degree of credit protection and the vintage of the exposure, with a 3/7/9 year calendar for full coverage of NPLs depending on the presence and type of guarantees securing the exposures. In order to determine which parts of impaired exposures are to be treated as secured or unsecured, the eligibility criteria for credit protection should be applied in accordance with Regulation (EU) 2013/575 (CRR).

As part of the Group's draft SREP decision, the ECB specified the recommendations regarding the achievement of certain coverage levels for the stock of non-performing exposures classified before April 1, 2018, divided as follows:

- for exposures which in 2020 have a vintage of more than 7 years (if secured) or 2 years (if unsecured), a minimum initial coverage level of 50% and 60% respectively has been specified, with a linear phase-in applied in subsequent years to lead to the achievement of 100% coverage in 2025 and 2024, respectively;
- for exposures which in 2020 have a shorter vintage than that referred to in the previous point, upon reaching the 7th year (if secured) or the 2nd year (if unsecured), the percentages defined for the reference year by the linear phase-in approach shall apply.

As noted, the scope of application of the ECB's supervisory expectations for new NPLs is limited to impaired exposures deriving from loans (even if still performing and deteriorating only subsequently) disbursed before April 26, 2019.

The general regulations concerning NPLs have been supplemented by the new, particularly restrictive, provisions concerning the materiality threshold of a past due credit obligation (whose application has been mandatory since December 2020) and the EBA guidelines on the definition of prudential default (taking force as from January 1, 2021).

All these regulatory measures and, in this context in particular, the introduction of the Pillar I and II requirements summarized above, lend further importance to the Group's strategies that have been focused even more closely on the pursuit of ambitious objectives for the disposal of non-performing exposures (and among these, primarily those of older vintage and/or with lower coverage levels).

As part of its strategic planning and capital management activities, the Group gives due consideration not only to traditional factors such as, among others, the level of capitalization, the risks generated, the ability to produce income and funding capacity on the subordinated capital market, but also new drivers deriving from the NPL references discussed above.

The impacts of the measures are currently being evaluated in order to appropriately incorporate within the lending process the loan approval criteria and the procedures for measuring the risk/return profile of new customers, the methods for monitoring loan impairment and the proactive management of deteriorating positions for borrowers who are still operationally sound or have pledged collateral to secure their positions.

Completion of the "Banking Package"

On June 7, 2019, EU Regulation 2019/876, the Directive (EU) 2019/878, Regulation (EU) 2019/877, and Directive (EU) 2019/879 of the European Parliament and of the Council of May 20, 2019 were published in the *Official Journal of the European Union*. The legislation forms an integral and crowning part of the so-called "Banking Package", which seeks to increase the resilience of the European banking and financial system by adapting the European prudential framework to comply with the guidelines agreed internationally by the Basel Committee (BCBS) and the Financial Stability Board (FSB). The measures came into force on June 27, 2019.

With Regulation (EU) 2019/876 (the CRR 2), the provisions of which apply - with some exceptions - from June 28, 2021, the standards issued by the BCBS concerning (i) the capacity to absorb losses (total -loss absorbing capacity, or TLAC) of global systemically important institutions; (ii) new methodologies for calculating capital requirements for market risk; (iii) new methodologies for calculating capital requirements for counterparty risk; (iv) the prudential treatment of exposures to central counterparties; (v) the net stable funding ratio (NSFR); (vi) the leverage ratio. The provisions relating to Pillar III disclosures were also amended to adapt their contents to the above changes, as well as the reporting obligations of banks to the competent authorities.

In particular, mention must be made - due to their importance for the ICBG, of the changes aimed at maintaining, strengthening and extending the application of certain favorable prudential treatments aimed at supporting lending to the real economy and the provisions concerning sustainable finance. Of particular note are the following: the changes to the "supporting factor" rules applicable to exposures to small and medium-sized enterprises, which improve the impact on the calculation of risk-weighted assets of these counterparties; the 25% reduction in capital requirements required for loans granted for the construction of infrastructure classified as corporate or specialized lending exposures; and the reduction from 75% to 35% of the weighting applicable to loans secured by wages.

With regard to Directive (EU) 2019/878 (the CRD 5) the main changes concern the introduction of a uniform method for calculating the capital conservation buffer for systemic risk and the principle of separation between the capital buffer against systemic risk, the countercyclical capital buffer and other specific buffers for other risks.

The changes introduced with Regulation (EU) 2019/877 (the SRMR2) and Directive (EU) 2019/879 (the BRRD2) are mainly aimed at ensuring a sufficient capacity to absorb losses and recapitalize global systemically important institutions.

In the context of measures taken in response to the COVID-19 emergency, on April 28, 2020 the European Commission presented a package of banking measures aimed at facilitating the task of banks in promoting financing for businesses and families in order to mitigate the significant economic impact of COVID-19.

The package includes an interpretative communication, which confirms the recent declarations on the use of flexibility in accounting and prudential rules issued by international standard setters and the European authorities for the sector, as well as some proposed changes of EU banking rules, to be adopted quickly so as to allow its entry into force by the summer.

The legislative proposal has the stated objective of maximizing the ability of credit institutions to lend and absorb losses in the context of the COVID-19 pandemic, while maintaining the consistency of the overall prudential framework.

The measures in question, amending Regulation (EU) 575/2013 (CRR), concern:

- the extension of the transitional provisions introduced to mitigate the impacts of IFRS 9;
- the acceleration of the application date of the revised SME supporting factor and the infrastructure supporting factor and of changes to the calibration of loans secured by wages/pensions;
- the immediate application of the EBA regulatory technical standards on the new prudential treatment of software;
- certain amendments of the Backstop Regulation for NPLs ("calendar provisioning");
- the amendment of the leverage ratio mechanism for offsetting the impact of using the discretion of competent authorities to allow banks to temporarily exclude central bank exposures from the calculation of the leverage ratio. The entry into force of the leverage ratio buffer for G-SIIs has also been postponed to January 1, 2023.

The Group carefully monitors the innovations introduced with the Banking Package both to ensure their application the ordinary activities of monitoring capital adequacy and the quality of prudential and reporting processes and their consideration in the definition of future operating guidelines and the timely start of the adjustment process.

An assessment was made of the risks and uncertainties described above, including those connected with the COVID-19 emergency, to underscore the effect of changes in parameters and market conditions on performance. The Group places a constant focus on the evolution of tools for measuring the potential impact of risks and uncertainties on its operations (specifically sensitivity analysis and stress testing), which enable it to promptly adjust its strategies – in terms of the model for distribution, organization and management/rationalization of costs – to changes in its environment. Risks and uncertainties are also under constant observation through the risk policies adopted by the Group, which the Parent Company promptly updates and adapts to reflect changes in strategy, the operating environment and market expectations. Monitoring and development activities are directed at checking the status of their implementation and their suitability.

The analyzes and evaluations performed indicate that, under current conditions, the Group is able to address the risks and uncertainties to which it is exposed even in the challenging conditions associated with the health emergency, thus confirming the going-concern assumption, including in the light of the current level of capital adequacy and liquidity indicators, and to manage any contingent stress experienced by individual members with the necessary speed and effectiveness thanks to the tried and tested activation of the financial and capital support instruments incorporated in the cross-guarantee mechanism.

12. INTERNAL CAPITAL AND LIQUIDITY ADEQUACY ASSESSMENT PROCESS

Supervisory Review and Evaluation Process (SREP)

On December 4, 2019, the supervisory authorities notified Iccrea Banca 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).

With this decision, which is the first assigned at a consolidated level for the Iccrea Cooperative Banking Group since its establishment, the supervisory authorities have established own funds requirements for 2020 that include:[17]

- 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, thus ensuring that the Group's strategies and capital constraints are also reflected at the individual level.

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

In the first half of 2019, in order to support the launch of the ICBG, the Parent Company, in concert with the affiliated banks, completed projects to define and implement the Internal Capital and Liquidity Adequacy Assessment Processes (ICAAP and ILAAP). The overall ICAAP and ILAAP framework was defined by taking account of both specific provisions of Italy's national supervisory authorities for mutual banking groups and the guidelines issued in November 2018 by the ECB (see the ECB Guide to the internal capital adequacy assessment process and the ECB Guide to the internal liquidity adequacy assessment process).

The respective frameworks, in line with the deadlines set by the supervisory authorities (the Bank of Italy and the ECB), were implemented both on an individual basis by preparing and submitting 140 ICAAP/ILAAP reports and on a consolidated basis by preparing and submitting the Group ICAAP and ILAAP package. More specifically, implementation of the ICAAP and ILAAP processes followed the target operational model, as coordinated by the Parent Company, which involved execution of all respective process phases – i.e. identification, measurement, and assessment of risks under both baseline and adverse scenarios, etc. – that lead to assessment of the adequacy of capital (for the Capital Adequacy Statement - CAS) and liquidity (for the Liquidity Adequacy Statement - LAS). The results of application on an individual basis application were taken into account in the assessments of the decision-making bodies of the affiliated banks and in the broader assessments of the processes conducted on a consolidated basis.

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 (i.e. the ICBG Risk Appetite Statement and Recovery Plan) and had significant capital buffers over the time horizon considered (in 2021, the last year of the plan, the capital buffer is expected to be about €2 billion over the target thresholds);
- from the economic perspective, risk-taking capacity[18] 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

[17] For more on capital requirements, see the section "Uncertainties – Evolution of the context" concerning the easing of prudential requirements announced by the supervisory authorities in response to the development of the COVID-19 pandemic.

[18] Risk-taking capacity is an indicator used to verify capital adequacy by comparing total available capital to total internal capital, given by the total value of internally estimated losses for all significant, measurable risk factors, determined by way of a building-block approach.

longer term, taking account of both baseline operations and the adverse scenario.

Liquidity waiver under Article 8 of the CRR and liquidity situation

On February 1, 2019 Iccrea Banca SpA, acting on behalf of its subsidiary Banca Mediocredito del Friuli Venezia Giulia SpA, submitted to the ECB an application for an exemption on an individual basis to the application of the prudential liquidity requirements, as well as to the liquidity reporting requirements set out in Part Six of Regulation (EU) no. 575/2013, previously granted by the supervisory authorities to Iccrea Banca S.p.A and the subsidiaries Iccrea BancaImpresa SpA and Banca per lo Sviluppo della Cooperazione di Credito SpA (constituting the so-called liquidity subgroup).

Following analysis of the application presented, the European Central Bank granted the exemption on an individual basis to the application of prudential liquidity requirements as well as the reporting and supervisory obligations to which they are subject as a single liquidity subgroup.

During 2019, starting with the launch of the ICBG, the Group's liquidity position remained within the risk limits set under both internal rules and external regulations. The RAS liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) were within their target ranges at values far above the risk appetite thresholds set when preparing the financial plan, with their average values since the launch of the Group being 255% and 130%, respectively.

Liquidity buffers at December 31, totaled around €30.2 billion, about 84% of which was in Italian government securities. In terms of structural liquidity, the regulatory NSFR pointed to adequate levels of stable funding to cover the financing needs generated by the various forms of commercial lending and investment in the financial portfolio.

Recovery Plan

With regard to the recovery framework, on December 28, 2018, Iccrea Banca presented an initial version of the Group's recovery plan developed on the basis of currently available information concerning the scope of the soon-to-be-established Iccrea Cooperative Banking Group and related significant increase in the complexity of the Group. Following establishment of the ICBG, the supervisory authorities requested an update of the plan. Therefore, on July 1, 2019, an updated version of the plan, prepared in order to provide a generalized reinforcement of the entire recovery framework in light of the consolidation of the financial, operational and legal situation resulting from the launch of the Group, was submitted to the authorities.

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.

At the consolidated level, recovery-related assessments found an adequate overall recovery capacity, capable of restoring the performance and financial position of all Group companies in the event of highly adverse scenarios characterized by idiosyncratic and systemic risks.

13. 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.

Centralization of the ICBG's corporate control functions

The Group internal control system underwent a thorough review by the Parent Company as part of the activities undertaken for the establishment of the ICBG. In 2018, the development activity performed led to the definition of the overall organizational framework.

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 with 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.

In this regard, centralization of the corporate control functions can be seen operationally in the various entities of the Group in the form of a model of operations that calls for either:

- oversight and coordination of the locally established corporate control functions, over which the Parent Company assumes functional responsibility;
- the outsourcing of the corporate control functions to the Parent Company, governed by appropriate outsourcing agreements.

The model adopted for the companies within the direct scope

The functional model for the corporate control functions has been implemented operationally by the companies of the direct scope in the following ways:

- for the third-level control function, by outsourcing the corporate control functions to the Parent Company;
- for the second-level control functions, by setting up local corporate control functions and centralizing functional responsibility.

Therefore, for the second-level corporate control functions, the Parent Company has a central organizational unit that is functionally responsible at the Group level. The functions are in Parent Company units and in local units within the various subsidiaries. In order to ensure autonomy of action, the local units are positioned within the organizational hierarchy as reporting directly to their respective boards of directors.

As with the corporate control functions established at the Parent Company, the CCFs of the companies within the direct scope of consolidation also have direct access to the board of directors and the board of auditors without intermediation. They can also access all'information/documentation relevant for the performance of their duties, including through direct contact with company employees, and are not involved in the activities they are called to control.

The responsible officers within the various companies of the direct scope, as selected by the Parent Company and recommended to the subsidiaries (the Board of Directors of the Parent Company passes binding appointment resolutions), are formally appointed or revoked by their respective boards of directors based on an opinion of the board of auditors. As for internal auditing, which is outsourced, also for the second-level corporate control functions the officers appointed for these functions are ordinarily (based on autonomous decisions of the Parent Company) employees of the Parent Company and seconded to the subsidiaries.

Given that the model described above is essentially in line with the previous arrangements within the former Iccrea Banking Group, it has continued to be implemented in pursuit of its mission and prerogatives without any interruption caused by the creation of the ICBG.

The model adopted for the affiliated banks

The model of centralizing the corporate control functions is implemented by the affiliated banks by outsourcing the second and third-level functions to the Parent Company under specific outsourcing agreements.

In terms of governance and responsibility for the overall system of the internal control system, the model adopted assigned responsibility to the Parent Company for defining the processes and control methods, as well as for the tools, mechanisms and standards for planning and reporting activities and for execution of second and third level controls. The outsourced corporate control functions of the affiliated banks are carried out by employees of the Parent Company who possess the required qualifications, particularly in relation to the heads of the various functions.

With regard to selection of the heads of the corporate control functions, the model defined by the ICBG states that this role (and, consequently, the related responsibilities in relation to the corporate bodies) may be assigned in relation to one or more affiliated banks, and so of limited number based on appropriate considerations of scope, effectiveness and efficiency of the structure of the specific function. The goal of this approach is to:

- take account of the particular traits of the ICBG, especially as concerns the organization's size and widespread presence of the affiliated banks throughout Italy;
- pursue the objectives of effectiveness and efficiency in the overall operation of the ICS of the Iccrea Cooperative Banking Group;
- ensure the in-depth analysis, focus and understanding of the specific needs of each the individual banks as necessary in order to accurately exercise the control functions.

Furthermore, for the second-level control functions, this approach is necessary in order to:

- allow those responsible for taking on and managing risks and those who are responsible for their ongoing control to work closely together, as required by applicable laws and regulations, which state that organizational solutions are to be adopted that do not result in excessive distance from operations. For a full understanding of risks, it is critical for there to be constant interaction with the various business units;
- enable those who are responsible for the corporate control functions of the affiliated banks to actually dedicate the time needed to the activities related to the bank(s) for which they are responsible, while also ensuring the most effective interaction with the corporate bodies of the individual bank(s) such that they can perform their duties as defined by applicable legislation.

Proposals for the appointment of the heads of the corporate control functions for each member bank are made (based on opinions of the Risks Committee) by the Board of Directors of the Parent Company as recommended by the head of the corporate control functions of the Group. Approved appointments are reported to the member bank, whose corporate bodies then proceed with the related appointment (along with all obligations related to finalizing the outsourcing agreement).

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.

On November 29, 2019, the Board of Directors appointed the new Chief Audit Executive (CAE), who assumed responsibility for the function on December 9, 2019.

With effect from December 12, 2019, the new Head of the Mutual Bank Audit unit was also appointed, a role previously performed ad interim by the Chief of the function.

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 affiliated 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.

In the fourth quarter of 2019, the activities of the four "professional families" ("Governance and Support", "Finance", "Compliance" and "Credit") set up within the function were boosted, with the aim of harmonizing the analysis and standardizing the actions of the audit teams, as well as sharing knowledge and developing the skills of the personnel.

During the period under review, the implementation of the new methodological and operational framework of the function continued as normal. The audits for 2019 were performed consistently with the guidelines set out in the "2019 Planning Guidelines", approved by the Parent Company's Board of Directors on December 20, 2018 in accordance with a process already consistent with the function's target operating model.

The function continued with the implementation of the new methodological framework in the follow-up process as well: detailed methodological guidance was provided to all the resources of the CAE Area in order to increase the effectiveness of follow-up activities so s to ensure structured and continuous monitoring by the function in the assessment of the effective implementation of remedial actions by the mutual banks/banks/companies involved and to enhance the responsiveness of the mutual banks/banks/companies in performing the remedial actions regarding them.

The function also continued the activities connected with developing a "remote control" system. In particular, the first phase of the project to support the Network Audit unit in its audit activities at the branches of the mutual banks was completed. In parallel, the second phase of the project was also pursued with the completion of the first cluster of indicators (KPIs/KRIs) for lending, anti-money laundering and retail finance, partly with a view to effectively defining the sampling of the operations of the branches of the banks subject to audits.

Both of these project phases will also be extended to "process" audits to support the oversight work of the Mutual Bank Audit unit.

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, in addition to CRO staff and support units (e.g. Validation), 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;
- a "Support and Coordination of Horizontal Initiatives", which operates within the office of the Chief Risk Officer, providing coordinated management of the main initiatives involving the Risk Management function and the functional and interconnection mechanisms linking the function units;
- a "Validation" unit that validates the models developed internally to quantify the risks to which the Group is exposed.

The overall organization of the risk management units of the direct scope companies that under the governance arrangements report to the CRO area of Iccrea Banca, is completed by:

- the Group Risk Management unit for BCC Risparmio e Previdenza, Iccrea BancaImpresa, BCC CreditoConsumo, BCC Factoring, BCC Lease, and Banca Mediocredito del Friuli Venezia Giulia;
- the Mutual Bank Risk Management unit for Banca Sviluppo.

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.

With reference to the above model for the affiliated banks, during the first part of 2019, the activities for defining and approving the documentation underlying the overall ICS were completed, including the outsourcing contract, which describes the scope and procedures for the performance of second-level control activities related to risk management.

In parallel, the associated on-boarding activities were carried out by the Parent Company with a view to enabling the effective activation/implementation of the outsourcing contracts needed to ensure the performance of control services/activities.

With regard to the Risk Management function, the implementation plan of the component responsible for carrying out the outsourced activities (the "territorial component") had been substantially completed.

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.

As part of the implementation of the Compliance Function according to the model designed at the time of setting up the ICBG, in order to take into consideration the special features of the Group, the Affiliate Bank Compliance unit was structured, with a focus on the coordination and operational control of the second-level control model relating to the affiliated banks and the direct scope companies Banca Sviluppo and BCC Sistemi Informatici, consistent with the compliance methods, processes and tools defined within the Function and in accordance with the provisions of the service agreements for the outsourcing of the compliance functions of the affiliated banks. The Compliance Unit of the affiliated banks is organized territorially through Compliance units and local DPOs, who are responsible for performing the operational activities envisaged by the second-level control model for managing compliance risk adopted by the Parent Company, in accordance with the outsourcing contracts referred to earlier.

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.

  With reference to the model outlined above and adopted for the affiliated banks, during the second part of 2019 the following were finalized:

  - the organization/sizing (on-boarding) necessary to enable the effective activation/implementation of the outsourcing agreements needed for the provision of the control services/activities;
  - the definition and approval of the internal rules underlying the outsourcing agreement (AML Policy, AML Function Rules, SOS Procedure, Know-Your-Customer Policy for the affiliated banks, Control Manual, etc.) as well as performance of function's activities provided for in the agreement and in the Parent Company AML Model.

- the AML Direct Scope unit, which handles the coordination and operational supervision of the anti-money laundering control model for the Group subsidiaries, who are subject to the regulatory obligations in question, that have established an anti-money laundering function. In particular, the anti-money laundering functions of the individual companies involved is subject to coordination and monitoring by the AML Direct Scope unit through functional reporting, while maintaining their hierarchical reporting line to their respective boards of directors. For the Parent Company, Iccrea Banca, the function coincides with the AML Direct Scope unit.

  Within the scope of the above model, during 2019 the following were launched:

  - the organizational/IT activities necessary to enable the 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 definition and approval of the internal rules, which also govern the affiliated banks, concerning primarily the AML Policy, the Rules of the AML Function and the "Control Catalog", followed by performance of the function's planned audit activities.

With regard to this latter aspect, in January 2020, the activities involved with the centralization of the anti-money laundering functions of the direct scope companies within the AML Direct Scope unit were begun, with specific reorganization to outsource the functions in a manner essentially equivalent to that adopted for the affiliated banks. The plans provide for completion of the outsourcing of the functions during the first half of 2020.

At the end of 2019/beginning of 2020, the audit of the Group AML process/function was initiated on a consolidated basis, as envisaged in the function's annual plan of. The AML function collaborated effectively with this audit activity.

Beginning on February 10, 2020, the Group AML function underwent an inspection by the Bank of Italy, the findings of which will be shared with the competent corporate bodies.

Director responsible for the Internal Control System

In accordance with the provisions of the Cohesion Contract (pursuant to Article 37-bis of the Consolidated Banking Act and Bank of Italy Circular No. 285/2013, Part Three, Chapter 5), in the second quarter of 2019 the affiliated banks appointed from among their directors a director responsible for the internal control system, 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 affiliated banks, 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 affiliated banks 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 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, which will be carried out in the first half of 2020, will involve the CHRO, CAE, CRO, CCO and CAMLO areas, each in their operational areas of responsibility.

14. OTHER SIGNIFICANT INFORMATION

Iccrea rating

Following the recent volatility experienced in the markets and Italy in general, the rating agencies revised their ratings of the main banks. More specifically, for the Group:

- on March 24, 2020, Fitch Ratings lowered its rating of the medium/long-term debt of Iccrea Banca and Iccrea BancaImpresa from "BB" with a "stable'' outlook to "BB-" with a "negative" outlook;
- 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";
- on April 2, 2020, DBRS Morningstar confirmed its rating of the medium/long-term debt of Iccrea Banca at "BBB (low)", with a revision of the outlook from "stable" to "negative.

Treasury shares

At December 31, 2019, Iccrea Banca SpA held 87,267 shares with a par value of €51.65, repurchased at €52.80 a share, for a total of €4,607,697.60.

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

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

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

Transactions with related parties

In April 2019, Iccrea Banca adopted a Group Policy for the management of conflicts of interest and transactions with related parties.

The Policy is aimed at ensuring the uniform management of transactions involving a conflict of interest for all ICBG entities, identifying the areas of competence and responsibilities of the subsidiaries and 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 articulated organizational and corporate structure.

The cases governed by the new policy are those falling under the provisions of Article 2391 of the Civil Code, the resolutions referred to in Article 136 of the Consolidated Banking Act, any situations of conflict of interest regarding guarantee agreements and intervention systems for affiliated banks and transactions with connected parties.

With particular reference to this latter case, the document in question refers to 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.

The Policy has been implemented by all Group companies and is published on the Iccrea Banca website.

As far as transactions with related parties are concerned, no atypical or unusual transactions were carried out during the period 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 key management personnel of the Group and on balance sheet and income statement positions with the related parties of the Group.

Mutual banks under administration

At December 31, 2019, 11 out of 140 mutual banks were classified in EWS risk classes from "E" to "G", representing an overall "critical" risk situation, equal to 7.9% of the affiliates of the Mutual Banking Group and 5.4% of total assets.

Previously, 10 affiliated banks were classified as "critical", of which 1 improved their overall risk situation, exiting the critical classification, while there were 2 new entrants.

An analysis of the risk profiles of the indicators at December 31, 2019 of the banks in this situation reveals a widespread positioning gap with respect to the threshold levels, especially with regard to asset quality and profitability indicators.

The Parent Company, in compliance with the provisions of the Cohesion Contract and the Group policy on the Early Warning System, performed the following activities with regard to affiliates in a "critical" risk situation during 2019:

- carried out functional technical analyzes to identify a path for overcoming critical issues;
- supported the extraordinary administrators of an affiliate under administration;
- adopted a variety of measures to strengthen the governance of three affiliates;
- determined the amount and procedures for the provision of capital support to 2 affiliates that in December 2019 were the beneficiaries of intervention by the Group cross-collateral Guarantee Scheme, with the subscription of subordinated loans eligible for calculation in own funds;
- specified the corrective actions to be adopted by 4 mutual banks that had been issued EWS Directives;
- monitored the execution of the activities required by the directives and the results;
- shepherded 3 mutual banks in critical condition through mergers, contributing to the development of the industrial merger plans, which were then authorized by the ECB and took effect in early 2020.

In the early months of 2020, the 3 merged mutual banks exited their critical risk situation.

In the same period, mergers were planned for another 7 banks, in addition to the implementation of corrective measures. The industrial plans for three operations, prepared with the support of the Parent Company, will be transmitted in the summer of 2020 to the supervisory authorities for authorization.

Research and development

The Group did not engage in any research and development during the period.

Inspections

The supervisory authorities conducted an inspection at Iccrea Banca SpA from October 7 to December 20, 2019 concerning the operation of Group governance at the consolidated level, with particular regard to the conflict of interest management system, as well as the adequacy and effective implementation of the risk management framework. The structure of the Iccrea Cooperative Banking Group was assessed positively with regard to the issues under examination and efforts to build an adequate organizational framework were deemed appropriate, although the implementation of certain specific areas of the Group's internal rules is still ongoing and inherently connected with the development and activation of the new internal regulatory arrangements and the implementation of the related tools and processes. With specific regard to Group governance, it was noted that the Parent Company has demonstrated its ability to exercise its controls over the affiliated banks.

The inspection examined the framework of the provisions relating to the management of conflict of interest within the Board of Directors and at Group level, focusing on the arrangements to identify, evaluate, mitigate and manage potential conflicts of interest at different levels (the management body, employees, the corporate control function, and local branches of the Parent Company). The arrangements were found to be appropriate as the set of rules and processes implemented was deemed capable of ensuring the impartiality and objectivity of decisions concerning transactions with related parties, while at the risk managers of the affiliated banks, who are employees of the Parent Company but operate at the local level, were found to be independent and equipped with the professional skills necessary to perform their duties effectively.

The risk management function was deemed "generally adequate" and the framework established for the identification, measurement and management of the main material risks was considered positive overall in the context of the formation of the Group, which naturally entailed the definition and consequent gradual activation of the new risk management processes.

15. SUBSEQUENT EVENTS AND OUTLOOK

The COVID-19 emergency

The COVID-19 pandemic is the first truly global crisis since the financial crisis of 2008. However, compared with the financial crisis, we are responding to the health emergency in conditions characterized by (i) a more solid, more resilient banking industry, (ii) a deeply rooted regulatory framework throughout the economy, and (iii) faster, more forceful reactions by the authorities aimed at maintaining the ability of banks to support the real economy and avoid the procyclical effects triggered by certain responses to the 2008 crisis.

The ICBG conducts its operations within Italy. Due to the effects of the partial and temporary shutdown of economic activity connected to the pandemic, 2020 forecasts for Italy's economy are uncertain, and the national landscape will certainly feel the effects that the pandemic is having on the global economy. At the moment, it is not possible to predict the impact this will have of Italy's economy, as it will depend on how long the emergency lasts, on the efficacy of steps taken by the authorities, on 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. It is certainly to be expected that there will be a significant contraction in GDP, due in part to the slowdown in the economic cycle that was already underway prior to the spread of the epidemic. The magnitude of the contraction, however, is difficult to predict at this time, as underscored by the variability in the initial estimates released by leading research institutes, and the economic measures that the Italian government and other 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, will, in any event, certainly contribute to mitigating the recessionary effects of the pandemic. Given the sounder foundations of Europe's banking industry today in terms of capital and liquidity, banking oversight is also moving towards an approach aimed at avoiding procyclical impacts. As mentioned previously, in order to promote the ability of the banking system to continue providing financial support to businesses and households, the ECB has announced a greater use of the margins of flexibility allowed by prudential legislation by loosening certain regulatory restrictions and postponing supervisory initiatives that are not deemed to be of critical importance. Within the scope of these initiatives, and with regard to the ICBG, the supervisory authorities have announced the suspension of the definition (and submission to the authorities) of the NPL strategy and has postponed to an as-yet unspecified future date the Comprehensive Assessment that had been set for March.

Generally speaking, the measures implemented by the authorities enable banks to support the disbursement of credit to businesses and households by making greater use of capital and liquidity levers and benefiting from public guarantees that will be able to support actions governed by national provisions. We are waiting to see if these measures, together with other measures of fiscal policy, are able to mitigate the impact on the profitability Italian banks and, in particular, on risk indicators, at least over the short and medium term.

Indeed, the moratorium granted to borrowers by the Cure Italy decree is not expected to create additional costs for banks given that its provisions are in line with the principal of actuarial neutrality, as also specified by the Bank of Italy. The moratoriums granted by various government measures, in light of specifications provided by international authorities (and by the ESMA and EBA in particular) and based on preliminary analyses, would tend to indicate that the concessions to performing customers (i.e. those that were not already experiencing difficulties independent of the current circumstances) in accordance with the aforementioned decree should be neutral in relation to prevailing policies for assessing credit risk and should not, therefore, lead to automatic changes in the classification of these exposures.

Furthermore, during this period, the public guarantees established through the Law 662/96 Fund and/or Cassa Depositi e Prestiti serve to reinforce the measure to protect the credit of small and medium-sized enterprises. In this regard, and in consideration of the fact that it is reasonable to expect a partial deterioration in credit quality when the moratorium expires, these guarantees should help to reduce the expected future loss on these exposures by applying a lower LGD compared with what the figure would be for positions without guarantees.

These areas of intervention are of particular importance for the Iccrea Cooperative Banking Group and, of course, for the affiliated banks, especially considering the business model which is aimed at supporting households and small and medium-sized enterprises, customer segments to which the main support measures approved by the Italian government are directed.

Based on the data as at December 31, 2019, the composition of the Group's portfolio of performing loans is allocated almost entirely to households and small and mid-sized businesses (81% of the total, with 47% SMEs and 34% consumers).

Should certain market conditions arise in response to the current circumstances, and with a view to shoring up the potential worsening of credit risk, further potential benefits could come from government measures aimed at facilitating the sale of impaired exposures as per Article 55 of the decree.

These uncertainties could also have an impact on the factors underlying the forward-looking models required by IFRS 9 for the calculation of expected losses on credit positions. In a context of such great uncertainty, these scenarios could, in any event, produce extremely volatile, procyclical results. To this end, on March 20, 2020, the ECB issued a timely call for banks to take account of long-term outlooks characterized by adequate stability in their analyses for the purposes of calculating the cost of credit, in line with the implicit requirements of that financial reporting standard. At the same time, the ECB also reported that it would soon be providing banks with macroeconomic scenarios for the purpose of applying the provisioning policies of IFRS 9.

With regard to the portfolio of government securities, the impact on the stability of own funds and, consequently, on capital ratios in this current market landscape are limited. Given the classification and ALM policies adopted by the Group and the guidelines provided over time by the Parent Company since 2018, the amount of securities held in the HTCS and FVTPL portfolios is not significant. As at December 31, 2019, the Group held instruments in these two categories totaling approximately €9.4 billion. Looking forward, and in relation to the more recent status of the HTCS and FVTPL portfolios, the sensitivity analysis conducted has confirmed a relatively low level of exposure to the risk of price volatility in the portfolios that have had a direct impact on levels of capitalization, assuming that an increase of 10 bps in the BTP-Bund spread corresponds to a potential negative impact on capital ratios of about 3 bps.

In this regard, it should be noted that, in line with the guidelines of the Parent Company and in close coordination with the pertinent corporate units, management is keenly focused on the impact of the ECB's monetary policy and on the related effects on the stock markets.

This same level of attention is also being paid to the careful assessment of the potential impact that could arise in relation to certain financial aggregates, such as provisions for risks and liabilities (e.g. onerous contracts); the residual value of property, plant and equipment, intangible assets, and right-of-use assets; and the recoverability of deferred taxes taking account of the potential effects of the provisions of the Cure Italy decree in terms of the conversion of tax credits.

Organizational and operational measures to deal with the emergency in operations due to the pandemic

In addition to the potential financial and economic impact, the health emergency arising with the spread of the COVID-19 virus has had a series of particularly significant effects on operations and management. In terms of adapting operations and the organization, the Group pays the utmost attention to the recommendations of the authorities aimed at safeguarding public health and the interests of the consumer by adapting our operations, organization, and business-continuity plan in a timely manner.Right from the first manifestations of the dramatic health and social emergency in the nation, the Group has been totally committed to providing an effective response to the situation in order to ensure the necessary safety in the workplace and in relations with customers and with stakeholders generally, as well as the business and service continuity of all group members. This also involved the immediate creation of a specific emergency unit within the Parent Company that has been constantly engaged in assessing the evolving situation and making the necessary decisions, particularly with regard to safety and business continuity. This crisis unit guided and coordinated all actions taken to ensure the safety of employees, customers and vendors and issued all necessary communications for internal and external stakeholders.The main solutions adopted in dealing with the emergency, so as to mitigate risks and ensure service continuity, have been based primarily on the timely, widespread use of remote working, on adjustments to support the implementation of government measures to support liquidity, and on the coordinated management of branch opening hours for the public.It should be noted, first of all, that the Group adheres to the protocol of intent established between Federcasse and the trade unions for the mutual banking industry (which is constantly updated) 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. In this regard, remote working for nearly all corporate staff and a large part of the personnel of branches and other offices that are open to the public immediately arose as the most effective way to protect employee health without compromising the orderly conduction of operations.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 critical 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 COVID-19 emergency, customers have been kept informed by way of the timely posting of in-branch notices and using 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.We also immediately implemented solutions aimed at providing the aid established in the various measures issued by Italy's Government and Parliament and at ensuring the quality of daily information and reporting in order to ensure the accurate execution of this aid and of the related effects, particularly in terms of the quality of the loan portfolio. These reports and disclosures will also have a direct impact on specific new supervisory disclosures.

Governance intervention for an affiliated bank

As a result of certain extraordinary events and, in particular, the legal issues that have concerned one of the bank's officers, BCC del Crotonese has been placed under a "red alert" in terms of risk, which is connected with a form of special administration. In order to ensure the sound, reliable functioning of governance processes, and as we await the replacement of the members of the bank's board of directors, the Parent Company has appointed a member of senior management to act as the senior deputy chairman of the board as well as two other executives to serve on the board itself. Finally, another executive from the Parent Company joined the mutual bank in question to serve as the deputy general manager.

CONCLUSIONS

To our shareholders: The year 2019 was the first year of operations of the newly configured Iccrea Cooperative Banking Group. It has been a particularly challenging year in a context that, itself, was characterized by slow economic growth and the proliferation of projects and other developments required by increasingly pressing legislation impacting the banking industry. We have had to direct our efforts to best meet the changing needs as we enter this new European landscape and have had to reach adequate levels of process and risk management in just a few months for a group that features significant levels of operational complexity. The financial statements of the Parent Company show a net loss due, in part, to the need to make the significant levels of investment needed to create the organization's new architecture and to improve the services provided to the affiliated banks. Every area of the organization has been impacted by projects targeting these purposes, including the commercial and financial units, risk management, administration, data governance, technology development, and the support of mutual bank operations.It has been necessary to alter the size of the units of operations and control, to make the investments needed in order to pursue the many projects aimed at establishing the regulatory and operational framework, and to establish the application platforms of the Group, all of which took place within a landscape that was characterized by numerous regulatory changes that called for an extraordinary commitment of financial resources and human capital.Nonetheless, the loss of €127.4 million is also the result of a specific financial policy aimed at reducing the Group's risk profile in response to the writedown of a portfolio of non-performing loans acquired, prior to the creation of the Group, by mutual banks — now affiliated banks — that featured high levels of risk. Also affecting performance was the need to recognize the impairment of certain controlling interests totaling €77 million. This was done due to misalignments arising in conjunction with first-time adoption of IFRS 9 and its impact on equity reserves.We recommend that this net loss be carried forward. Conversely, consolidated net profit for the Iccrea Cooperative Banking Group (of €245 million) is in line with the estimates for the previous year, as part of a process that has, however, led to a significant reduction in the levels of risk of our loan portfolio and increased coverage levels. We have also been committed to looking to the future and all the challenges to be overcome in relation to this new health emergency, which will not leave our economy unscathed by its various negative consequences. Within this context, which will continue to be characterized by low medium-term interest rates, there must be an increased awareness that the actions of the Group's business plan must continue to be aimed at regaining significant levels of operating efficiency, reducing costs, and enhancing commercial efforts with a view to increasing penetration in our various target markets.We would like to thank the mutual banks, which have continued to maintain mutually beneficial business relationships in a range of areas and have worked alongside us through this first year of operations for the Iccrea Cooperative Banking Group. In accordance with the roles that have been established by the Cohesion Contract, and above all by engaging and working with the mutual banks in the Parent Company's decision-making processes, we will be laying the groundwork for developing actions aimed at achieving the objectives set out in the plan, the financial levers of which are to be defined as soon as the significant uncertainties of the current macroeconomic landscape have been overcome.We would also like to recognize all those who, in their respective roles – whether directors, auditors or employees – have worked hard in all the Group's banks and other companies and helped to implement this unified organizational configuration. Finally, we would like to thank the ECB and the Bank of Italy for their constructive, beneficial collaboration and for all the invaluable guidance provided.

Rome, May 29, 2020

The Board of Directors

ATTACHMENT – 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**	**381,413**	**49,448**	**-**	**(127,417)**	**1,704,489**
Net profit of consolidated companies	912,646	8,026,406	213,986	30,139	385,168	**9,568,346**
Elimination of Group company dividends		58,781			(58,781)	**-**
Net profit of companies accounted for using equity method		(35,092)	4,825		3,034	**(27,233)**
Adjustment of intercompany writedowns (revaluations)		(75,151)			75,151	**-**
Goodwill		15,564				**15,564**
Other consolidation adjustments		(1,046,884)	(13,748)		(38,677)	**(1,099,309)**
Consolidated shareholders' equity	**2,381,110**	**7,321,401**	**254,982**	**30,139**	**244,963**	**10,232,594**
Non-controlling interests	**67,418**	**(3,637)**	**471**		**6,485**	**70,737**
Group shareholders' equity	**2,313,692**	**7,325,037**	**254,511**	**30,139**	**238,478**	**10,161,857**

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Assets		31/12/2019	31/12/2018
10.	Cash and cash equivalents	956,482	129,087
20.	Financial assets measured at fair value through profit or loss	1,940,080	577,664
	a) financial assets held for trading	205,225	327,506
	b) financial assets measured at fair value	367,476	-
	c) other financial assets mandatorily measured at fair value	1,367,379	250,158
30.	Financial assets measured at fair value through other comprehensive income	9,109,726	454,817
40.	Financial assets measured at amortized cost	135,869,471	38,832,682
	a) due from banks	8,405,860	19,242,306
	b) loans to customers	127,463,611	19,590,376
50.	Hedging derivatives	17,816	7,715
60.	Value adjustments of financial assets hedged generically (+/-)	139,945	750
70.	Equity investments	88,893	120,962
90.	Property, plant and equipment	2,842,541	709,930
100.	Intangible assets	146,462	68,711
	- goodwill	25,868	16,722
110.	Tax assets	2,135,149	423,077
	a) current	432,725	110,879
	b) deferred	1,702,424	312,198
120.	Non-current assets and disposal groups held for sale	33,856	39,026
130.	Other assets	2,250,045	454,897
	Total assets	**155,530,466**	**41,819,318**

The comparative figures at December 31, 2018 refer to the consolidated financial statements of the fomer Iccrea Banking Group.

Liabilities and shareholders' equity		31/12/2019	31/12/2018
10.	Financial liabilities measured at amortized cost	140,832,997	39,118,221
	a) due to banks	18,873,746	19,236,824
	b) due to customers	105,581,113	14,781,287
	c) securities issued	16,378,138	5,100,110
20.	Financial liabilities held for trading	163,728	245,456
30.	Financial liabilities measured at fair value	11,461	469
40.	Hedging derivatives	321,431	69,033
50.	Value adjustments of financial liabilities hedged generically (+/-)	(825)	-
60.	Tax liabilities	105,945	4,439
	a) current	19,113	1,193
	b) deferred	86,832	3,246
70.	Liabilities associated with assets held for sale	-	20,369
80.	Other liabilities	3,111,184	615,869
90.	Employee termination benefits	306,254	24,696
100.	Provisions for risks and charges	445,700	88,971
	a) commitments and guarantees issued	205,309	21,492
	c) other provisions for risk and charges	240,391	67,479
120.	Valuation reserves	254,511	43,322
140.	Equity instruments	30,139	-
150.	Reserves	8,390,589	337,408
160.	Share premium reserves	146,702	6,081
170.	Share capital	2,313,691	1,151,045
180.	Treasury shares (-)	(1,212,256)	(4,608)
190.	Non-controlling interests (+/-)	70,737	92,879
200.	Net profit (loss) for the period (+/-)	238,478	5,667
	Total liabilities and shareholders' equity	**155,530,466**	**41,819,318**

The comparative figures at December 31, 2018 refer to the consolidated financial statements of the fomer Iccrea Banking Group.

CONSOLIDATED INCOME STATEMENT

		31/12/2019	31/12/2018
10.	Interest and similar income	2,912,506	566,484
	of which: interest income calculated using effective interest rate method	2,846,033	422,257
20.	Interest and similar expense	(562,661)	(230,605)
30.	**Net interest income**	**2,349,845**	**335,879**
40.	Fee and commission income	1,441,401	651,082
50.	Fee and commission expense	(172,838)	(395,658)
60.	**Net fee and commission income (expense)**	**1,268,563**	**255,424**
70.	Dividends and similar income	4,373	8,707
80.	Net gain (loss) on trading activities	19,752	10,245
90.	Net gain (loss) on hedging activities	(4,772)	(4,564)
100.	Net gain (loss) on the disposal or repurchase of:	246,469	(35,517)
	a) financial assets measured at amortized cost	151,666	27,768
	b) financial assets measured at fair value through other comprehensive income	94,420	(64,210)
	c) financial liabilities	383	925
110.	Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss	40,722	(1,720)
	a) financial assets and liabilities measured at fair value	3,168	33
	b) other financial assets mandatorily measured at fair value	37,554	(1,753)
120.	**Gross income**	**3,924,952**	**568,454**
130.	Net losses/recoveries for credit risk in respect of:	(666,344)	(97,656)
	a) financial assets measured at amortized cost	(667,458)	(96,826)
	b) financial assets measured at fair value through other comprehensive income	1,114	(830)
140.	Gains/losses from contractual modifications without derecognition	(14,319)	208
150.	**Net income (loss) from financial operations**	**3,244,289**	**471,006**
180.	**Net income (loss) from financial and insurance operations**	**3,244,289**	**471,006**
190.	Administrative expenses:	(3,018,872)	(552,391)
	a) personnel expenses	(1,700,252)	(204,066)
	b) other administrative expenses	(1,318,620)	(348,325)
200.	Net provisions for risks and charges	(30,568)	(1,564)
	a) commitments and guarantees issued	(13,569)	2,999
	b) other net provisions	(16,999)	(4,563)
210.	Net adjustments of property, plant and equipment	(178,472)	(22,625)
220.	Net adjustments of intangible assets	(21,325)	(11,196)
230.	Other operating expenses/income	347,415	97,296
240.	**Operating costs**	**(2,901,822)**	**(490,480)**
250.	Profit (loss) from equity investments	10,899	8,382
260.	Net gain (loss) from valuation at fair value of property, plant and equipment and intangible assets	(22,858)	(20,052)
270.	Goodwill impairment	(22,671)	(4,965)
280.	Profit (loss) from disposal of investments	2,160	6,988
290.	**Profit (loss) before tax on continuing operations**	**309,997**	**(29,121)**
300.	Income tax expense from continuing operations	(65,049)	36,623
310.	**Profit (loss) after tax on continuing operations**	**244,948**	**7,502**
320.	Profit (loss) after tax on discontinued operations	15	-
330.	**Net profit (loss) for the period**	**244,963**	**7,502**
340.	Net profit (loss) for the period – non-controlling interests	6,485	1,835
350.	**Net profit (loss) for the period – shareholders of the Parent Company**	**238,478**	**5,667**

The comparative figures at December 31, 2018 refer to the consolidated financial statements of the fomer Iccrea Banking Group.

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

		31/12/2019	31/12/2018
10.	**Net profit (loss) for the period**	**244,963**	**7,502**
	Other comprehensive income net of taxes not recyclable to profit or loss	**2,356**	**(5,460)**
20.	Equity securities designated as at fair through other comprehensive income	16,520	(5,795)
70.	Defined-benefit plans	(11,259)	335
90.	Quota delle riserve da valutazione delle partecipazioni valutate a patrimonio netto	(2,905)	-
	Other comprehensive income net of taxes recyclable to profit or loss	**292,926**	**(10,260)**
120.	Cash-flow hedges	7,231	500
140.	Financial assets (other than equity investments) measured at fair value through other comprehensive income	286,864	(8,051)
160.	Share of valuation reserves of equity investments accounted for with equity method	(1,169)	(2,709)
170.	**Total other comprehensive income net of taxes**	**295,282**	**(15,720)**
180.	**Comprehensive income (Item 10+170)**	**540,245**	**(8,217)**
190.	**Comprehensive income pertaining to non-controlling interests**	**8,364**	**2,627**
200.	**Comprehensive income pertaining to shareholders of the Parent Company**	**531,881**	**(10,844)**

The comparative figures at December 31, 2018 refer to the consolidated financial statements of the fomer Iccrea Banking Group.

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 31/12/2019	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**	**43,329**	**249,320**	**(387,075)**						**531,881**	**10,161,857**		
Shareholders' equity pertaining to non-controlling interests	**92,878**		**92,878**			**(18,550)**	**(11,955)**								**8,364**	**70,737**		

The columns "As at 31/12/2018", "As at 1/1/2019" and "Allocation of net profit of previous period" refer to the former Iccrea Banking Group. The balance sheet figures at January 1, 2019 of the mutual banks and the other entities of the Iccrea Cooperative Banking Group are reported in the column "Effect of formation of ICBG".

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY 2018

				Allocation of net profit of previous period		Change in the period												
							Equity transactions											
	As at 31/12/2017	Change in opening balance	As at 01/01/2018	Reserves	Dividends and other destinations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Change in equity holdings	Comprehensive income 2018	Shareholders' equity as at 31/12/2018	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests
Share capital:																	
a) ordinary shares	1,202,140		1,202,140										55,102		1,257,242	1,151,045	106,197
b) other shares	985		985												985		985
Share premium reserve	5,211		5,211			1,335							4,207		10,753	6,081	4,672
Reserves:																	
a) earnings	389,712	(82,595)	307,117	35,504	(6,184)								(20,582)		315,855	337,409	(21,554)
b) other																	
Valuation reserves	73,576	(13,792)	59,784											(15,720)	44,064	43,321	743
Equity instruments																	
Treasury shares	(30,847)		(30,847)				26,239								(4,608)	(4,608)	
Net profit (loss) for the period	35,504		35,504	(35,504)	(6,184)									7,502	7,502	5,667	1,835
Total shareholders' equity	**1,676,281**	**(96,387)**	**1,579,894**		**(6,184)**	**1,335**	**26,239**						**38,727**	**(8,217)**	**1,631,794**	**1,538,916**	**92,878**
Shareholders' equity pertaining to shareholders of Parent Company	**1,610,858**	**(89,703)**	**1,521,155**			**1,335**	**26,239**						**1,031**	**(10,844)**	**1,538,916**		
Shareholders' equity pertaining to non-controlling interests	**65,423**	**(6,685)**	**58,738**		**(6,184)**								**37,697**	**2,627**	**92,878**		

The comparative figures at December 31, 2018 refer to the consolidated financial statements of the fomer Iccrea Banking Group.

CONSOLIDATED STATEMENT OF CASH FLOWS: INDIRECT METHOD 2019

	31/12/2019
A. OPERATING ACTIVITIES	
1. Operations	**1,085,017**
- net profit (loss) for the period (+/-)	244,963
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	(33,638)
- gains (losses) on hedging activities (-/+)	2,349
- net losses/recoveries on impairment (+/-)	389,045
- net adjustments of property, plant and equipment and intangible assets (+/-)	199,539
- net provisions for risks and charges and other costs/revenues (+/-)	216,211
- taxes, duties and tax credits to be settled (+/-)	56,761
- other adjustments (+/-)	9,786
2. Net cash flows from/used in financial assets	**(5,039,080)**
- financial assets held for trading	136,367
- financial assets measured at fair value	(290,019)
- other assets mandatorily measured at fair value	108,811
- financial assets measured at fair value through other comprehensive income	5,795,791
- financial assets measured at amortized cost	(10,298,616)
- other assets	(491,414)
3. Net cash flows from/used in financial liabilities	**4,234,619**
- financial liabilities measured at amortized cost	4,637,354
- financial liabilities held for trading	(102,475)
- financial liabilities measured at fair value	(29,977)
- other liabilities	(270,283)
Net cash flows from/used in operating activities	**280,556**
B. INVESTING ACTIVITIES	
1. Cash flow from	**124,188**
- sales of equity investments	55,288
- dividends on equity investments	4,373
- sales of property, plant and equipment	58,204
- sales of intangible assets	6,323
2. Cash flow used in	**(251,830)**
- purchase of equity investments	(23,219)
- purchases of property, plant and equipment	(174,686)
- purchases of intangible assets	(53,924)
Net cash flows from/used in investing activities	**(127,641)**
C. FINANCING ACTIVITIES	
- issues/purchases of own shares	(123,381)
- dividend distribution and other	(6,184)
Net cash flows from/used in investing activities	**(129,565)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**23,351**

Key
(+) generated
(-) used in

RECONCILIATION

	31/12/2019
Cash and cash equivalents at beginning of period	129,087
Effect of formation of ICBG at 1/1/2019	804,044
Net increase/decrease in cash and cash equivalents	23,351
Cash and cash equivalents: effect of exchange rate changes	-
Cash and cash equivalents at end of period	956,482

The opening balance for cash and cash equivalents at the beginning of the period refer to the former Iccrea Banking Group. The balance sheet figures at January 1, 2019 of the mutual banks and the other entities of the Iccrea Cooperative Banking Group are reported in the column "Effect of formation of ICBG at 1/1/2019".

CONSOLIDATED STATEMENT OF CASH FLOWS: INDIRECT METHOD 2018

	31/12/2018
A. OPERATING ACTIVITIES	
1. Operations	**115,345**
- net profit (loss) for the period (+/-)	7,502
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	(24,439)
- gains (losses) on hedging activities (-/+)	4,617
- net losses/recoveries on impairment (+/-)	102,621
- net adjustments of property, plant and equipment and intangible assets (+/-)	40,524
- net provisions for risks and charges and other costs/revenues (+/-)	(18)
- taxes, duties and tax credits to be settled (+/-)	(3,135)
- other adjustments (+/-)	(12,327)
2. Net cash flows from/used in financial assets	**(3,844,519)**
- financial assets held for trading	(7,774)
- other assets mandatorily measured at fair value	(61,403)
- financial assets measured at fair value through other comprehensive income	2,349,047
- financial assets measured at amortized cost	(5,965,058)
- other assets	(159,332)
3. Net cash flows from/used in financial liabilities	**3,787,659**
- financial liabilities measured at amortized cost	3,857,886
- financial liabilities held for trading	(110,994)
- financial liabilities measured at fair value	(23)
- other liabilities	40,790
Net cash flows from/used in operating activities	**58,484**
B. INVESTING ACTIVITIES	
1. Cash flow from	**36,197**
- sales of equity investments	-
- dividends on equity investments	8,707
- sales of property, plant and equipment	26,802
- sales of intangible assets	688
2. Cash flow used in	**(75,709)**
- purchase of equity investments	(9,286)
- purchases of property, plant and equipment	(30,784)
- purchases of intangible assets	(35,639)
Net cash flows from/used in investing activities	**(39,512)**
C. FINANCING ACTIVITIES	
- issues/purchases of own shares	26,239
- issues/purchases of capital instruments	(20,581)
- dividend distribution and other	(6,184)
- sales/purchases of control of non-group entities	
Net cash flows from/used in investing activities	**(526)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**18,446**

Key
(+) generated
(-) used in

RECONCILIATION

	31/12/2018
Cash and cash equivalents at beginning of period	110,641
Net increase/decrease in cash and cash equivalents	18,446
Cash and cash equivalents: effect of exchange rate changes	-
Cash and cash equivalents at end of period	129,087

The comparative figures at December 31, 2018 refer to the former Iccrea Banking Group.

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.

The accounting policies adopted in recognizing and measuring leases in the preparation of these financial statements have been modified with respect to those adopted for the preparation of the 2018 financial statements. These changes were prompted by the mandatory application, as of January 1 2019, of IFRS 16 "Leases", endorsed by the European Commission with Regulation (EU) no. 2017/1986, which replaced IAS 17 in governing the classification and measurement of leases.

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, 2019:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
1986/2017	**IFRS 16 Leases** The new standard, which replaces IAS 17, modifies the definition of a lease and establishes that lessees shall recognize assets and liabilities for a lease. The objective of IFRS 16 is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents transactions. This information therefore gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. The new definition of lease is based on based on control, expressed as the right to use (right of use) an identified asset. This makes it possible to distinguish leases from service contracts, specifying as discriminants the identification of the asset, the right to substitute it, the right to obtain substantially all the economic benefits deriving from the use of the asset and the right to direct the use of the identified asset. Transactions excluded from the scope of application of the principle include, in particular: • licenses of intellectual property granted by a lessor within the scope of IFRS 15 "Revenue from Contracts with Customers"; • rights held by a lessee under licensing agreements within the scope of IAS 38 "Intangible Assets", as clarified by IFRIC with the "Cloud Computing Arrangement". The standard also permits the application of an exception to the recognition requirement for: • short-term leases, with a contractual term of 12 months or less; • leases in which the underlying asset is of low value. More specifically, under the definition in IFRS 16, a lease is a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. The two conditions necessary for the existence of a lease are: • the existence of an identified and physically distinct asset; • the right to control the use of the asset, which is the lessee's right to obtain substantially all the economic benefits deriving from its use, including the right to direct the use of the asset. This feature is excluded or limited where the lessor has a substantive right to substitute the asset. In addition to "leases" proper, lease contracts also include, for example, contracts for rent, hire, lease and free loans. For a contract that contains a lease component and additional non-lease components (such as in the case of the lease of an asset and the provision of connected maintenance services), the standard establishes that each lease component shall be recognized separately from the non-lease components. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for all lease components as a single lease component, where it is not possible to separate the components. The most significant changes introduced with the standard regard the lessee, who shall apply a single accounting model, eliminating the distinction between operating lease and finance lease. For any lease, the lessee shall recognize, respectively, under liabilities and assets in the balance sheet: • a lease liability, equal to the present value of future payments due on the lease determined using the discount	Annual reporting periods beginning on or after January 1, 2019

	rate specified at the inception of the lease; • a right-of-use asset, equal to the lease liability plus initial direct costs. The lessee must measure the right-of-use asset by applying the cost model. The income statement will essentially reflect the depreciation charge for the right-of-use asset, recognized under operating expenses, and the interest accrued on the lease liability, recognized in net interest income. The distinction between operating and finance leases remains for the lessor, for which the approach under IFRS 16 does not introduce substantial changes with respect to IAS 17. The standard was endorsed by the European Commission on November 9, 2017 with Regulation no. 2017/1986 and takes affect starting from January 1, 2019. For the initial application of the standard, full or modified retrospective application is permitted. The full retrospective option provides for the application of IFRS 16 for the year 2018, recognizing the impact in shareholders' equity at January 1, 2018 as if the IFRS 16 had always been applied, with the restatement of the comparative data. The modified retrospective option provides instead: • for 2018 the application of IAS 17 without the need to restate the comparative data; • for 2019 the application of IFRS 16 with the recognition in shareholders' equity at January 1, 2019 (under reserves) of the cumulative effect of the new standard as at the date of initial application only of existing contracts at that date and the disclosure of the impact of initial application of the standard in the notes to the financial statements.	
498/2018	**Amendments to IFRS 9 Financial instruments - Prepayment Features with Negative Compensation** The amendments clarify the classification of certain financial assets with prepayment features when IFRS 9 is applied. More specifically: • for financial assets, they also permit measurement at amortized cost or, depending on the business model, at fair value through other comprehensive income, for loans that, in the event of early repayment, require a lender to make a payment (negative compensation payment); • for financial liabilities measured at amortized cost, they clarify the accounting for a modification that does not result in the derecognition of the financial liability. In these cases, at the date of the modification the adjustment of the amortized cost of the liability, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the effective interest rate, shall be recognized in profit or loss.	Annual reporting periods beginning on or after January 1, 2019
1595/2018	**IFRIC 23 – Accounting for uncertainties in income taxes** On June 7, 2017, the International Accounting Standards Board (IASB) published IFRIC 23 "Uncertainty over Income Tax Treatments" to govern the recognition and measurement requirements of IAS 12 "Income Taxes" in case of uncertainty concerning the tax treatment of certain items of the financial statements. The interpretation was introduced in the Member States of the European Union with Regulation (EU) 2018/1595 of October 23, 2018 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards. The interpretation takes effect for annual reporting periods beginning on or after January 1, 2019. Early application is permitted. IFRIC 23 clarifies how to apply the recognition and measurement requirements referred to in IAS 12 when there is uncertainty about the tax treatment of items for the purposes of income tax. In assessing how an uncertain tax treatment affects the determination of taxable income, an entity shall assume that the taxation authority will examine amounts it has a right to examine and have full knowledge of all related information. Under the interpretation, an entity shall determine if it is probable that an uncertain tax treatment will be accepted by the taxation authority. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine taxable income consistently with the tax treatment used or planned to be used in its income tax filings. Conversely, if an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable income.	Annual reporting periods beginning on or after January 1, 2019
237/2019	**Amendments to IAS28** The amendments clarify that the provisions of IFRS 9 should be used to represent long-term interests in associates or joint ventures for which the equity method is not applied.	Annual reporting periods beginning on or after January 1, 2019
402/2019	**Amendments to IAS 19** The amendments specify how entities should determine employee benefits following amendments, curtailments or settlements of defined benefit plans.	Annual reporting periods beginning on or after January 1, 2019
412/2019	**Annual improvements to IFRS Standards 2015-2017 cycle** The improvements modify the IFRS in response to issues mainly concerning IFRS 3 – Business combinations, IFRS 11 – Joint arrangements, IAS 12 – Income taxes and IAS 23 – Borrowing costs.	Annual reporting periods beginning on or after January 1, 2019

The amendments and additions provided for in the endorsed rules, with the exception of the issue specified below with regard to the first-time application of IFRS 16, have not had a material impact on the financial position or performance of the Group.

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

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
To be determined	**IFRS 17 Insurance contracts** The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers.	Annual reporting periods beginning on or after January 1, 2022
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
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
2020/2104	**Amendments to IAS 1 and IAS 8: Definition of materiality** The amendments are intended to align the definition of "material" with that used in the Conceptual Framework and the standards themselves. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of financial statements make on the basis of those financial statements.	Annual reporting periods beginning on or after January 1, 2020
2020/34	**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 changes apply to all hedging relationships that are directly affected by the benchmark interest rate reform. The amendments 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.	Annual reporting periods beginning on or after January 1, 2020
To be determined	**Amendments to IAS 1 – Presentation of Financial Statements: classification of liabilities as current or non-current** The amendments seek to clarify one of the criteria of IAS 1 for the classification of a liability as non-current, i.e. the requirement that an entity must have the right to defer the settlement of the liability for at least 12 months after the end of the reporting period. The changes: • specify that the right to defer settlement must exist at the end of the reporting period; • clarify that the classification is unaffected by management's intentions or expectations regarding the possibility of exercising the right to defer settlement; • clarify how the terms of a liability impact its classification; and • clarify the requirements for the classification of liabilities that an entity intends to settle or could settle with the issue of equity instruments.	Annual reporting periods beginning on or after January 1, 2022
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	Amendment to IFRS 16 Leases – COVID-19-Related Rent Concessions The amendments seek to provide lessees relief from the application of IFRS 16 guidelines on accounting for lease modifications with regard to rent concessions granted as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a rent concession granted by a lessor in connection	Annual reporting periods beginning on or after June 1, 2020. Early application is permitted.

	with COVID-19 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.	

The following discusses the implementation of IFRS 16 – Leases.

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.

Compliance with IFRS 16

On January 13, 2016, the IASB published IFRS 16 – Leases, which is intended to replace IAS 17 - Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard establishes a new definition of lease and introduces a criterion based on the notion of control (right of use) of an identified asset for a specified period of time. This definition makes it possible to distinguish lease contracts from service supply contracts, identifying the discriminating features of leases as:

- the identification of the asset;
- the right to substitute the asset;
- the right to obtain substantially all the economic benefits from the use of the asset;
- the right to direct the use of the asset underlying the contract.

In the light of the new criteria for identifying leases, it follows that contracts for rent, hire and other such arrangements also fall within the scope of application of the new rules.

IFRS 16 also introduces significant changes in accounting for lease transactions in the financial statements of the lessee: the standard establishes a single accounting model for the recognition and measurement of leases for the lessee, providing for the recognition of the right of use in respect of the leased asset, regardless of whether the operation involves a finance or operating lease, with the concomitant recognition of a liability for lease payments still to be paid to the lessor. At the same time, the new standard provides for the recognition in profit or loss of the depreciation charges for the “right of use” asset and the interest expense accrued on the liability, in the place of lease payments (for operating leases) accruing for the period.

A number of changes have also been made to the requirements for disclosures in the notes to the financial statements, which among other things must at least contain:

- a breakdown of the different classes of leased assets;
- a maturity analysis of the lease liabilities;
- relevant information for the assessment of leases (for example the presence or absence of termination options, extension options, etc.).

In addition to the disclosure requirements established in the accounting standard, other disclosures are mandated by an ESMA communication of October 22, 2019, concerning in particular the lease term, the discount rate used in recognizing financial liabilities, the criteria for the recognition of impairment on right-of-use assets and, last but not least, the choices made by the entity on first-time application of the standard (e.g. with regard to the delimitation of the scope of application of the new provisions to low-value and short-term leases).

In addition, with regard to the recognition of rights of use in respect of software, the Iccrea Cooperative Banking Group intends to exclude such rights from the scope of application of IFRS 16, due in part to the clarifications provided by the Cloud Computing Arrangement issued by IFRIC in September 2018.

In general, the application of the new standard gives rise to:

- an increase in assets due to the recognition of the right of use;

- an increase in liabilities due to the recognition of lease liabilities for future lease payments through to the expiry of the contract;
- a reduction in administrative expenses due to non-recognition of lease payments as previously required under IAS 17;
- an increase in financial expense for interest expense on the lease liabilities;
- an increase in depreciation charges for the rights of use, which are systematically depreciated on a straight-line basis over the useful life of the assets.

These effects do not change the overall cash flows and total final cost of the lease. With regard to the overall cost, the impact on profit or loss does not vary over the term of the lease contract compared with the treatment under previous accounting standards, but only distributes them differently over time.

Finally, the standard does not introduce significant changes for lessors, for which the regulatory framework established with IAS 17 remains essentially unchanged.

Leases within the scope of IFRS 16

In order to account properly for leases under the provisions of IFRS 16, both in the transition to the new standard and on an ongoing basis, it is necessary to:

- identify and manage the operating leases outstanding at January 1, 2019 that meet the definition of lease under IFRS 16 and the contracts to which the exceptions apply;
- calculate the value of the right of use acquired with the lease and the lease liability.

The analysis of the contracts falling within the scope of application of the standard regarded in particular:

- real estate;
- cars;
- hardware;
- other technologies (tablets, telephones, ATMs, etc.).

Real estate had the greatest impact in terms of an increase in property, plant and equipment as a result of the recognition of rights of use and the related lease liabilities. The buildings are mostly used for banking (branches) and headquarters operations.

Other leases regard assets such as cars and hardware. Auto leases regard refer cars assigned to employees or Group companies for business use. These contracts usually take the form of “long-term rentals”, and are therefore of multi-year duration and usually do not include a purchase option.

Term of leases – determination of useful life

The term of a lease is determined on the basis of the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

The duration of the useful life of right-of-use assets was defined both at first-time application of the standard and at initial recognition of the leases, based on the facts and circumstances existing at that particular date. The reasons for any exercise of the options provided for in the contracts were therefore evaluated.

The following provides a number of rules established for the types of assets involved in the most common and significant leases held within the Iccrea Cooperative Banking Group.

Real estate

The identification of the lease term is a very important issue since the form, legislation and commercial practices surrounding real estate leases vary significantly. Based on historical experience, the Group has included, in addition to the non-cancellable period, the first contractual renewal period in the useful life in the event that renewal depends exclusively on the lessee.

Accordingly, both on the date of FTA and on initial recognition of a lease under IFRS 16, the first reasonably certain contract renewal was considered, unless there were actual and concrete facts and circumstances that would lead to a different conclusion. In the case of a rental contract for a building with a term of 6 years with a tacit renewal option at the end of the first six-year period, the term considered for the determination of the useful life of the right-of-use asset is 12 years, unless there are elements or specific situations within the contract that would lead to a different conclusion.

Automobiles

For this type of asset, the useful life considered at FTA and at initial recognition of leases within the scope of application is considered to be the effective term of the contract.

Other capital equipment

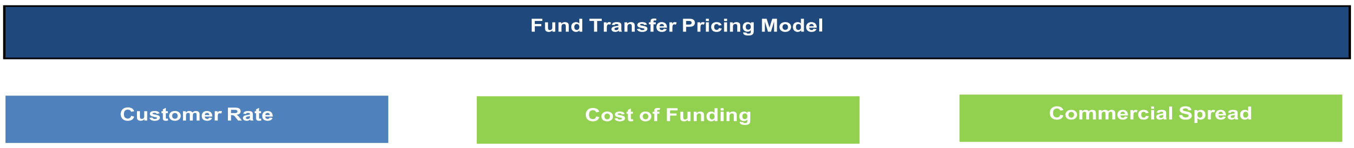
For this type of asset, the useful life considered at FTA and at initial recognition of leases within the scope of application is considered to be the effective term of the contract.

Discounting lease liabilities

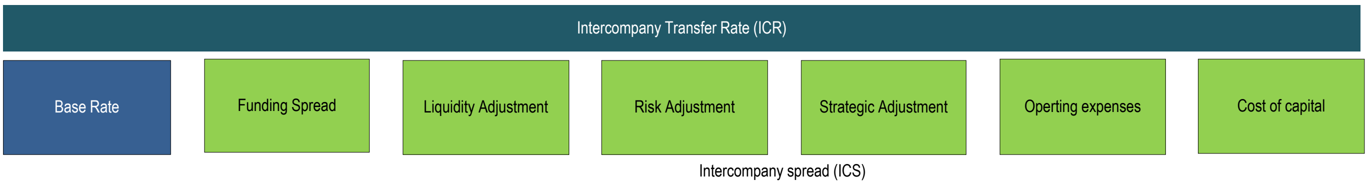
As required by IFRS 16, the discount rate is equal to the rate implicit in the lease, where this can be determined.

Alternatively, the rate used in determining intercompany fund transfer pricing (FTP) is adopted. The model adopted by the Group is based on a building block approach, the components of which reflect the type of operations and the management choices made for strategic purposes in the management of interest rate risk and liquidity risk. The framework is reviewed at least annually, discussed within the Finance Committee in line with the Strategic Plan and approved by the Board of Directors of the Parent Company.

The pricing model used is summarized as follows:



With specific regard to the cost of funding, internally denominated the intercompany rate (ICR), the following chart shows the individual components used in the determination:



More specifically, the ICR is composed of a base rate, which reflects the risk linked to the change in interest rates, plus the intercompany spread (ICS). The main characteristics and metrics for the individual components included in determining the IR are listed below:

- base rate: expresses the risk associated with changes in interest rates, representing the cost of hedging the interest rate risk originated by the management of financial risks (e.g. maturity transformation) and is measured as the rate of the risk-free market curve value for the reference currency in the transaction. The base rate is a function of the following financial characteristics: type of rate (fixed or variable), maturity and method of repayment of the capital (in installments or at maturity);
- funding spread: expresses the increase in the cost of the bank's funding compared with the cost implicit in the base rate, reflecting the bank's specific creditworthiness. It is a function of the maturity and the repayment plan;
- liquidity adjustment: reflects the liquidity benefit associated with transactions eligible for central bank operations or secured by dedicated funding or the indirect cost associated with holding a buffer of liquid assets;
- risk adjustment: reflects the cost of hedging the risks deriving from the optional components to be hedged or transfer to the ALM center. The type of option currently available is connected to basis risk, i.e. the additional cost to hedge the basis risk implicit in certain variable rate transactions, reflecting the risk of different volatilities between the market rate to which the transaction is linked and the base rate used by ALM for hedging purposes;

- strategic adjustment: the component reflecting the risk-adjusted profitability objectives of the ALM center in respect of the capital allocated for the interest rate risk on the banking book and promoting certain commercial strategies defined by management.

In consideration of the nature of the components included in the determination of the ICR as well as the metrics described in the Liquidity Risk Policy of the ICBG, the economic and financial characteristics of the ICR are felt to be consistent with the requirements of IFRS 16.

Accordingly, the curve used by the ICBG as a discount rate to be applied to lease payments, in the absence of an implicit interest rate in the lease as defined in Appendix A of IFRS 16, has the following characteristics:

- credit standing of lessee: use of the ICS to quantify the risk components of the ICBG;
- length of the lease: use of the ICR curve aligned with the maturities of the individual leases approximated on a quarterly basis;
- nature and quality of collateral provided: use of the ICR that represents an overall cost of ICBG funding on the market. This rate includes cost components for both secured and unsecured funding;
- economic environment in which the transaction occurs: Italian market.

Lease components and non-lease components

Where possible, service components (non-lease components) are accounted for separately from the lease components. Where it is not possible to separate the two types of component or where the non-lease components are not material, they have been included in the determination of the lease liability and the associated right-of-use asset.

Transition rules

The Iccrea Cooperative Banking Group has elected to adopt the "cumulative catch-up approach" for first-time adoption of the new standard.

Under this approach, the lessee shall apply the standard retrospectively, recognizing any cumulative impact of IFRS 16 on equity at the initial application date (as retained earnings/loss carryforward), without restating comparative information.

Very briefly, under this approach:

- comparative data is not restated;
- any cumulative impact on shareholders' equity is recognized as at the date of initial application (as retained earnings/loss carryforward);
- the accounting treatment previously applied to finance leases continues unchanged;
- a set of practical expedients can be adopted for contracts with certain characteristics that were previously classified as operating leases;
- adequate supplementary disclosures must be provided on the effects of application of the approach.

The application of the cumulative catch-up approach requires the recognition of lease liabilities at the date of initial application for all leases that were classified under the previous accounting rules as operating leases without considering payments made before the transition date, recognizing subsequent payments only and using the incremental borrowing rate at the transition date instead of the lease inception date. In addition, in determining the carrying amount at the transition date, the lessee is permitted to use the assessments performed at the transition date regarding the exercise of extension or termination options.

The right-of-use asset can be recognized and measured at the date of initial application either:

- retrospectively, as if IFRS 16 had always been applied since the inception of the operating lease, but discounted using the incremental borrowing rate at the transition date;
- in an amount equal to the lease liability calculated as described previously, adjusted by the amount of any prepaid or accrued lease payments on the lease at the transition date.

The ICBG elected to apply the second option, recognizing an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments on leases at the transition date.

In addition, the standard also envisages the possibility of applying a number of specific transition rules and practical expedients to leases that had previously been classified as operating leases. The expedients that the Group has elected to adopt at first-time application are as follows:

- the exclusion from the scope of application of leases with a residual term of less than 12 months from the date of initial application (short-term leases);

- the exclusion from the scope of application of leases for which the underlying asset has a market value when new equal to or less than €5 thousand (low-value leases);
- assessment of the onerous nature of leases performed pursuant to IAS 37 immediately prior to the date of initial application of the standard.

The lease payments in respect of short-term and low-value leases are recognized in profit or loss on an accruals basis as they were in the past.

The impact of first-time application of IFRS 16

As a result of the adoption of the cumulative catch-up approach, the application of IFRS 16 did not have any impact on the Group's equity as at the date of initial application (January 1, 2019), only producing an increase in assets following the recognition of new right-of-use assets in the amount of about €292 million, as well as lease liabilities of about €291 million. The difference between the two values is attributable to the reclassification of accruals/prepayments.

In order to better represent any differences with the scope of leases under IAS 17 and comply with the disclosure requirements of paragraph C12 of IFRS 16, the following table reconciles the two scope, reporting:

- commitments in respect of operating leases presented in application of IAS 17 at December 31, 2018;
- lease liabilities recognized in the balance sheet at the date of initial application.

For the purposes of reconciling lease liabilities as at January 1, 2019, leases previously classified as finance leases and still accounted for as they were under IAS 17 have also been included.

Lease commitments at 31.12.2018 (former IAS 17)	Financial liabilities at 1.1.2019 (IFRS 16)	Difference
304,023	291,466	12,557

The difference is essentially attributable to the effect of discounting on operating leases using the incremental borrowing rate on the date of initial application.

In this regard, it should be noted that:

- lease liabilities were discounted at the rate observed on January 1, 2019 for the maturities of the individual contracts, as estimated in accordance with the criteria previously discussed;
- the weighted average of the lessee's incremental borrowing rate applied to the lease liabilities, in cases where it was not possible to apply the implicit interest rate, recognized in the balance sheet at the date of initial application, is equal to 4.30856%.

With regard to property, plant and equipment, the categories of right-of-use assets are specified below. In particular, the right-of-use assets acquired under leases of real estate are indicated in sub-item "b) buildings", while those relating to hardware are reported in sub-item "d) electronic systems".

Right-of-use assets acquired under leases (*€/thousands*)	1/1/2019
1. Property, plant and equipment used in operations	**292,473**
a) land	-
b) buildings	281,329
c) furnishings	5,324
d) electronic systems	5,749
e) other	71
2. Investment property	**-**
a) land	-
b) buildings	-
Total	**292,473**

- The differences at January 1, 2019 between financial liabilities and the right-of-use assets acquired under leases is essentially attributable to the prepayments at December 31, 2019 reclassified under rights of use.
- Finally, as regards the impact on the own funds aggregate and on the Group's overall risk-weighted assets (RWA), note that:

- in view of the absence of any impact on the Group's shareholders' equity, the own funds aggregate did not change as a result of initial application of IFRS 16;
- the increase in RWA following the recognition of the right-of-use assets that, pursuant to Regulation (EU) no. 575/2013 (the CRR), receive a weighting of 100% had an impact of 6 bps on the Group's CET 1 as at the date of initial application of the standard.

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.

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 Mutual Banking Group based on a system of cross-guarantees, on which extensive discussion is provided in the report on operations.

The establishment of the Mutual Banking Group took effect for accounting purposes as from January 1, 2019. Accordingly, the comparative figures for the previous year are represented by the balances of the previous Iccrea Banking Group.

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.

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.

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. The factors estimated for the main items include:

- 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 the determination of deferred tax items, the degree of reasonable certainty – if any – that sufficient future taxable income will be available when the items may be deducted (deductible temporary differences).

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.

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

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 140 affiliated mutual banks, which together with Iccrea Banca SpA comprise the Consolidating Entity;
- the financial statements of the companies over which, in application of IFRS 10, IFRS 11 and IAS 28, Iccrea Banca and the affiliated mutual banks exercise control, joint control or significant influence.

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

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

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

		Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
A.	Consolidated on a line-by-line basis					
1	Iccrea Banca SpA	Rome				
2	BCC di Bari S.C.	Bari				
3	Banca dell'Elba - Credito Cooperativo S.C.	Portoferraio				
4	Credito Cooperativo Mediocrati S.C.	Rende				
5	BCC di Buccino e dei Comuni Cilentani S.C.	Agropoli				
6	Credito Cooperativo Romegnolo - BCC di Cesena E Gatteo - S.C.	Cesena				
7	Emil Banca - Credito Cooperativo S.C.	Bologna				
8	Banca di Monastier e del Sile - Credito Cooperativo S.C.	Monastier di Treviso				
9	BCC Umbria - Credito Cooperativo S.C.	Perugia				
10	Banca Cremasca e Mantuana - Credito Cooperativo S.C.	Crema				
11	Banca della Marca Credito Cooperativo S.C.	Orsago				
12	Credito Cooperativo Friuli (CrediFriuli) S.C.	Udine				
13	BCC dell'Adriatico Teramano S.C.	Atri				
14	Banca di Taranto – Banca di Credito Cooperativo S.C.	Taranto				
15	Banca del Catanzarese - Credito Cooperativo S.C.	Marcellinara				
16	BCC di Massafra S.C.	Massafra				
17	BCC di Cagliari S.C.	Cagliari				
18	Banca di Andria di Credito Cooperativo S.C.	Andria				
19	BCC Agrigentino S.C.	Agrigento				
20	BCC di Naples S.C.	Naples				
21	BCC di Putignano S.C.	Putignano				
22	Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	Pistoia				
23	BCC di Borghetto Lodigiano S.C.	Borghetto Lodigiano				
24	BCC di Valledolmo S.C.	Valledolmo				
25	Banca di Ancona e Falconara Marittima Credito Cooperativo S.C.	Ancona				
26	BCC di Montepaone S.C.	Montepaone				
27	BCC di Basciano S.C.	Basciano				
28	Banca del Cilento di Sassano e Vallo Di Diano e Della Lucania - Credito Cooperativo S.C.	Vallo Della Lucania				
29	BCC della Valle del Trigno S.C.	San Salvo				
30	Valpolicella Benaco Banca Credito Cooperativo S.C.	Costermano Sul Garda				
31	Banca Veronese Credito Cooperativo di Concamarise S.C.	Bovolone				
32	Banca Centropadana Credito Cooperativo S.C.	Lodi				
33	Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	Firenzuola				
34	BCC di Roma S.C.	Rome				
35	BCC Brianza e Laghi S.C.	Lesmo				
36	BCC di Altofonte e Caccamo S.C.	Altofonte				
37	Banca di Anghiari e Stia - Credito Cooperativo S.C.	Anghiari				
38	BCC di Avetrana S.C.	Avetrana				
39	BCC Pordenonese S.C.	Azzano Decimo				
40	Banca di Pescia e Cascina - Credito Cooperativo S.C.	Pescia				
41	BCC di Arborea S.C.	Arborea				
42	BCC Campania Centro - Cassa Rurale e Artigiana S.C.	Battipaglia				
43	BCC di Bellegra S.C.	Bellegra				
44	Cassa Rurale e Artigiana di Binasco - Credito Cooperativo S.C.	Binasco				
45	Cassa Rurale e Artigiana di Brendola Credito Cooperativo S.C.	Brendola				
46	BCC di Busto Garolfo e Buguggiate S.C.	Busto Garolfo				
47	BCC di Buonabitacolo S.C.	Buonabitacolo				
48	Banca di Verona Credito Cooperativo Cadidavid S.C.	Verona				
49	Cassa Rurale e Artigiana di Cantù BCC S.C.	Cantù				
50	BCC di Capaccio Paestum e Serino S.C	Capaccio Paestum				
51	BCC Abruzzese - Cappelle sul Tavo S.C.	Cappelle Sul Tavo				
52	BCC del Basso Sebino S.C.	Capriolo				

		Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
53	BCC di Carate Brianza S.C.	Carate Brianza				
54	Credito Cooperativo di Caravaggio Adda e Cremasco - Cassa Rurale S.C.	Caravaggio				
55	BCC di Terra d'Otranto S.C.	Carmiano				
56	Banca Alpi Marittime Credito Cooperativo Carrù S.C.	Carrù				
57	BCC di Venezia, Padova e Rovigo - Banca Annia S.C.	Cartura				
58	BCC di Milan S.C.	Carugate				
59	Credito Padano Banca di Credito Cooperativo S.C.	Cremona				
60	Banca dei Sibillini - Credito Cooperativo di Casavecchia S.C.	Pieve Torina				
61	Credito Cooperativo Valdarno Fiorentino Banca di Cascia S.C.	Reggello				
62	Cassa Rurale e Artigiana di Castellana Grotte Credito Cooperativo S.C.	Castellana Grotte				
63	BCC di Castiglione Messer Raimondo e Pianella S.C.	Castiglione Messer Raimondo				
64	Banca del Piceno Credito Cooperativo S.C.	Acquaviva Picena				
65	Cereabanca 1897 Credito Cooperativo S.C.	Cerea				
66	Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	Chiusi				
67	BCC di Cittanova S.C.	Cittanova				
68	BCC dell'Oglio e del Serio S.C.	Calcio				
69	Banca della Valsassina Credito Cooperativo S.C.	Cremeno				
70	BCC di Fano S.C.	Fano				
71	BCC di Alba, Langhe, Roero e del Canavese S.C.	Alba				
72	Credito Cooperativo Cassa Rurale ed Artigiana di Erchie S.C.	Erchie				
73	Credito Cooperativo Ravennate, Forlivese e Imolese S.C.	Faenza				
74	Banca di Filottrano - Credito Cooperativo di Filottrano e Camerano S.C.	Filottrano				
75	BCC di Gaudiano di Lavello S.C.	Lavello				
76	Banca di Pisa e Fornacette Credito Cooperativo S.C.	Pisa				
77	BCC di Gambatesa S.C.	Gambatesa				
78	BCC Agrobresciano S.C.	Ghedi				
79	BCC del Crotonese - Credito Cooperativo S.C.	Crotone				
80	BCC Basilicata - Credito Cooperativo di Laurenzana e Comuni Lucani S.C.	Laurenzana				
81	BCC Valle del Torto S.C.	Lercara Friddi				
82	BCC di Leverano S.C.	Leverano				
83	BCC di Canosa - Loconia S.C.	Canosa Di Puglia				
84	BCC di Lezzeno S.C.	Lezzeno				
85	Chiantibanca - Credito Cooperativo S.C.	Monteriggioni				
86	BCC del Garda - BCC Colli Morenici del Garda S.C.	Montichiari				
87	BCC di Mozzanica S.C.	Mozzanica				
88	BCC di Marina di Ginosa S.C.	Ginosa				
89	BCC di Nettuno S.C.	Nettuno				
90	BCC del Metauro S.C.	Terre Roveresche				
91	BCC di Ostra e Morro D'alba S.C.	Ostra				
92	BCC di Ostra Vetere S.C.	Ostra Vetere				
93	BCC di Ostuni S.C.	Ostuni				
94	BCC di Oppido Lucano e Ripacandida S.C.	Oppido Lucano				
95	BCC di Pachino S.C.	Pachino				
96	Banca di Udine Credito Cooperativo S.C.	Udine				
97	Credito Cooperativo Cassa Rurale e Artigiana di Paliano S.C.	Paliano				
98	Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	Pietrasanta				
99	Banca Patavina Credito Cooperativo di Sant'Elena e Piove di Sacco S.C.	Sant'Elena				
100	BCC di Pergola e Corinaldo S.C.	Pergola				
101	BCC Vicentino - Pojana Maggiore S.C.	Pojana Maggiore				
102	BCC di Pontassieve S.C.	Pontassieve				
103	Cassa Rurale e Artigiana dell'Agro Pontino - BCC S.C.	Pontinia				
104	BCC di Pratola Peligna S.C.	Pratola Peligna				
105	CentRomerca Banca - Credito Cooperativo di Treviso e Venezia, S.C.	Treviso				
106	BCC di Recanati e Colmurano S.C.	Recanati				
107	Banca di Ripatransone e del Fermano - Credito Cooperativo S.C.	Ripatransone				
108	Cassa Rurale e Artigiana di Rivarolo Mantuano Credito Cooperativo S.C.	Rivarolo Mantovano				
109	BCC di Riano S.C.	Riano				
110	BCC di San Biagio Platani S.C.	San Biagio Platani				
111	Banca San Giorgio Quinto Valle Agno - Credito Cooperativo S.C.	Fara Vicentino				
112	Banca del Valdarno - Credito Cooperativo S.C.	San Giovanni Valdarno				
113	BCC di Formello e Trevignano Romeno S.C.	Formello				
114	Banca di Pesaro Credito Cooperativo S.C.	Pesaro				
115	BCC di Santeramo In Colle S.C.	Santeramo In Colle				
116	Banca TEMA - Terre Etrusche e di Maremma S.C.	Orbetello				
117	BCC di Scafati e Cetara S.C.	Scafati				
118	BCC Bergamo e Valli S.C.	Sorisole				
119	BCC di Spinazzola S.C.	Spinazzola				
120	BCC di Staranzano e Villesse S.C.	Staranzano				
121	Banca Cras Credito Cooperativo Toscano - Siena S.C.	Sovicille				

		Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
122	Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese S.C.	Vibo Valentia				
123	Cassa Rurale - BCC di Treviglio S.C.	Treviglio				
124	BCC di Triuggio e della Valle del Lambro S.C.	Triuggio				
125	BCC della Valle del Fitalia S.C.	Longi				
126	Credito Trevigiano – Banca di Credito Cooperativo - S.C.	Vedelago				
127	Banca Alta Toscana Credito Cooperativo S.C.	Quarrata				
128	BCC Bergamasca e Orobica S.C.	Cologno Al Serio				
129	Banca Don Rizzo - Credito Cooperativo della Sicilia Occidentale S.C.	Alcamo				
130	BCC Don Stella di Resuttano S.C.	Resuttano				
131	BCC dei Colli Albani S.C.	Genzano Di Roma				
132	BCC G. Toniolo di San Cataldo S.C.	San Cataldo				
133	BCC Mutuo Soccorso di Gangi S.C.	Gangi				
134	Banca San Francesco Credito Cooperativo S.C.	Canicattì				
135	BCC San Giuseppe di Mussomeli S.C.	Mussomeli				
136	BCC S. Giuseppe di Petralia Sottana S.C.	Petralia Sottana				
137	BCC San Michele di Caltanissetta e Pietraperzia S.C.	Caltanissetta				
138	BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	Casagiove				
139	BCC degli Ulivi - Terra di Bari S.C.	Palo Del Colle				
140	RivieraBanca Credito Cooperativo di Rimini e Gradara S.C.	Rimini				
141	BCC di San Marco dei Cavoti e del Sannio - Calvi S.C.	San Marco Dei Cavoti				
142	BCC Risparmio&Previdenza SGrpA	Milan	1	Iccrea Banca SpA	75.00	75.00
143	Iccrea BancaImpresa SpA	Rome	1	Iccrea Banca SpA	99.72	99.72
				Banca di Monastier e del Sile - Credito Cooperativo S.C.	0.03	0.03
				Banca della Marca Credito Cooperativo S.C.	0.02	0.02
				Banca Veronese Credito Cooperativo di Concamarise S.C.	0.01	0.01
				Cassa Rurale e Artigiana di Brendola Credito Cooperativo S.C.	-	-
				Banca del Piceno Credito Cooperativo S.C.	0.01	0.01
				Chiantibanca - Credito Cooperativo S.C.	0.08	0.08
				BCC di Scafati e Cetara S.C.	0.03	0.03
				Banca Cras Credito Cooperativo Toscano - Siena S.C.	0.02	0.02
				BCC della Valle del Fitalia S.C.	-	-
				Banca Alta Toscana Credito Cooperativo S.C.	0.01	0.01
				Banca San Francesco Credito Cooperativo S.C.	-	-
				BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	0.02	0.02
				RivieraBanca Credito Cooperativo di Rimini e Gradara S.C.	-	-
144	BCC Factoring SpA	Rome	1	Iccrea BancaImpresa SpA	100.00	100.00
145	Banca Sviluppo SpA	Rome	1	Iccrea Banca SpA	76.52	76.52
				BCC di Roma S.C.	1.44	1.44
				BCC di Alba, Langhe, Roero e Del Canavese S.C.	0.76	0.76
				BCC Pordenonese S.C.	0.22	0.22
				BCC G. Toniolo di San Cataldo S.C.	0.15	0.15
				Emil Banca - Credito Cooperativo S.C.	0.70	0.70
				BCC di Bari S.C.	0.03	0.03
				Credito Cooperativo Mediocrati S.C.	0.12	0.12
				BCC di Buccino e dei Comuni Cilentani S.C.	0.12	0.12
				Banca di Monastier e del Sile - Credito Cooperativo S.C.	0.52	0.52
				BCC Umbria - Credito Cooperativo S.C.	0.21	0.21
				Banca della Marca Credito Cooperativo S.C.	0.88	0.88
				Credito Cooperativo Friuli (CrediFriuli) S.C.	0.16	0.16
				Bcc dell'Adriatico Teramano	0.04	0.04
				Banca di Taranto	0.02	0.02
				Bcc del Catanzarese	0.04	0.04
				Bcc Massafra	0.02	0.02
				Bcc di Cagliari	0.04	0.04
				Banca di Andria Di Credito Cooperativo S.C.	0.02	0.02
				BCC Agrigentino	0.02	0.02
				Bcc Putignano	0.01	0.01
				Bcc Borghetto Lodigiano	0.07	0.07
				BCC di Valledolmo S.C.	0.01	0.01
				BCC di Montepaone S.C.	0.02	0.02
				Banca del Cilento di Sassano e Vallo Di Diano e Della Lucania - Credito Cooperativo S.C.	0.17	0.17
				Bcc Valle del Trigno	0.04	0.04
				Valpolicella Benaco Banca Credito Cooperativo S.C.	0.24	0.24
				Banca Veronese Credito Cooperativo di Concamarise	0.23	0.23
				Banca Centropadana	0.39	0.39
				Bcc di Altofonte e Caccamo	0.02	0.02
				Bcc Anghiari e Stia	0.03	0.03
				Bcc Pescia e Cascina	0.20	0.20
				Bcc di Arborea	0.06	0.06

	Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
			Investor	% holding	
			BCC di Cittanova S.C.	0.05	0.05
			BCC di Fano S.C.	0.18	0.18
			BCC di Gambatesa S.C.	0.03	0.03
			RivieraBanca Credito Cooperativo di Rimini e Gradara S.C.	0.45	0.45
			BCC di Mozzanica S.C.	0.01	0.01
			BCC del Metauro S.C.	0.11	0.11
			BCC di Ostuni S.C.	0.03	0.03
			BCC di Pachino S.C.	0.09	0.09
			BCC di Riano S.C.	0.02	0.02
			Credito Cooperativo Valdarno Fiorentino Banca di Cascia S.C.	0.13	0.13
			Banca di Pesaro Credito Cooperativo S.C.	0.09	0.09
			Banca San Francesco Credito Cooperativo S.C.	0.08	0.08
			BCC Campania Centro - Cassa Rurale e Artigiana S.C.	0.10	0.10
			Bcc di Bellegra	0.05	0.05
			Cassa Rurale ed Artigiana di Brendola - Credito Cooperativo	0.56	0.56
			Banca di Verona Credito Cooperativo Cadidavid S.C.	0.21	0.21
			Cassa Rurale e Artigiana di Cantù BCC S.C.	0.43	0.43
			Banca di Credito Cooperativo di Capaccio Paestum e Serino S.C.	0.09	-
			BCC del Basso Sebino S.C.	0.06	0.06
			BCC Abruzzese - Cappelle Sul Tavo S.C.	0.09	0.09
			BCC di Carate Brianza S.C.	0.38	0.38
			BCC di Terra D'Otranto S.C.	0.05	0.05
			Banca Alpi Marittime Credito Cooperativo Carrù S.C.	0.35	0.35
			BCC di Milano S.C.	0.46	0.46
			Credito Cooperativo Valdarno Fiorentino Banca di Cascia S.C.	0.07	0.07
			Cassa Rurale e Artigiana di Castellana Grotte Credito Cooperativo S.C.	0.11	0.11
			BCC di Castiglione Messer Raimondo e Pianella S.C	0.18	0.18
			Cereabanca 1897 Credito Cooperativo S.C.	0.14	0.14
			Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	0.30	0.30
			BCC di Cittanova S.C.	0.05	0.05
			BCC di Fano S.C.	0.18	0.18
			Credito Cooperativo Cassa Rurale Ed Artigiana Di Erchie S.C.	0.03	0.03
			Credito Cooperativo Ravennate, Forlivese E Imolese S.C.	0.66	0.66
			BCC di Gaudiano Di Lavello S.C.	0.03	0.03
			BCC di Gambatesa S.C.	0.03	0.03
			BCC Agrobresciano S.C.	0.17	0.17
			Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	0.36	0.36
			BCC del Crotonese - Credito Cooperativo S.C.	0.04	0.04
			BCC Basilicata - Credito Cooperativo Di Laurenzana e Comuni Lucani S.C.	0.05	0.05
			BCC di Leverano S.C.	0.06	0.06
			BCC di Canosa - Loconia S.C.	0.04	0.04
			BCC del Garda - BCC Colli Morenici Del Garda S.C.	0.23	0.23
			BCC di Mozzanica S.C.	0.01	0.01
			BCC di Marina Di Ginosa S.C.	0.03	0.03
			BCC di Nettuno S.C.	0.05	0.05
			BCC del Metauro S.C.	0.11	0.11
			BCC di Ostra Vetere S.C.	0.05	0.05
			BCC di Ostuni S.C.	0.03	0.03
			BCC di Oppido Lucano E Ripacandida S.C.	0.03	0.03
			BCC di Pachino S.C.	0.09	0.09
			Credito Cooperativo Cassa Rurale e Artigiana di Paliano S.C.	0.03	0.03
			Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	0.24	0.24
			Banca Patavina Credito Cooperativo di Sant'Elena e Piove di Sacco S.C.	0.84	0.84
			BCC di Pergola e Corinaldo S.C.	0.09	0.09
			BCC Vicentino - Pojana Maggiore S.C.	0.25	0.25
			BCC di Pontassieve S.C.	0.12	0.12
			Cassa Rurale e Artigiana dell'Agro Pontino - BCC S.C.	0.10	0.10
			BCC di Pratola Peligna S.C.	0.09	0.09
			Centromarca Banca - Credito Cooperativo di Treviso e Venezia, S.C.	0.91	0.91

		Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
				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 Riano S.C.	0.02	0.02
				BCC di San Biagio Platani S.C.	0.03	0.03
				BCC di Formello e Trevignano Romano S.C.	0.07	0.07
				Banca di Pesaro Credito Cooperativo S.C.	0.09	0.09
				Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	0.09	0.09
				BCC di Santeramo In Colle S.C.	0.09	0.09
				BCC di Scafati e Cetara S.C.	0.06	0.06
				BCC Bergamo e Valli S.C.	0.13	0.13
				BCC di Spinazzola S.C.	0.03	0.03
				BCC di Staranzano e Villesse S.C.	0.12	0.12
				Banca Cras Credito Cooperativo Toscano - Siena S.C.	0.29	0.29
				Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese S.C.	0.05	0.05
				BCC di Triuggio e della Valle del Lambro S.C.	0.08	0.08
				Banca Alta Toscana Credito Cooperativo S.C.	0.32	0.32
				BCC Bergamasca e Orobica S.C.	0.25	0.25
				BCC Don Stella di Resuttano S.C.	0.01	0.01
				BCC Mutuo Soccorso di Gangi S.C.	0.02	0.02
				Banca San Francesco Credito Cooperativo S.C.	0.08	0.08
				BCC San Giuseppe di Mussomeli S.C.	0.01	0.01
				BCC San Michele di Caltanissetta e Pietraperzia S.C.	0.05	0.05
				BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	0.09	0.09
				BCC degli Ulivi - Terra di Bari S.C.	0.05	0.05
				BCC di San Marco Dei Cavoti e Del Sannio - Calvi S.C.	0.07	0.07
				Banca TEMA - Terre Etrusche e di Maremma S.C.	0.32	0.32
				BCC di Venezia, Padova E Rovigo - Banca Annia S.C.	0.40	0.40
				BCC dei Colli Albani S.C.	0.06	0.06
				Banca del Piceno Credito Cooperativo S.C.	0.12	0.12
				Credito Cooperativo Di Caravaggio Adda e Cremasco - Cassa Rurale S.C.	0.03	0.03
146	Banca Mediocredito del F.V.G. SpA	Udine	1	Iccrea Banca SpA	26.84	26.84
			1	Iccrea BancaImpresa SpA	24.71	24.71
147	BCC Gestione Crediti SpA	Rome	1	Iccrea Banca SpA	100.00	100.00
148	BCC Solutions SpA	Rome	1	Iccrea Banca SpA	100.00	100.00
149	BCC Beni Immobili S.r.l.	Rome	1	Iccrea Banca SpA	100.00	100.00
150	BCC Lease SpA	Rome	1	Iccrea BancaImpresa SpA	100.00	100.00
151	BCC CreditoConsumo SpA	Rome	1	Iccrea Banca SpA	96.00	96.00
152	BCC Sistemi Informatici SpA	Milan	1	Iccrea Banca SpA	98.53	98.53
				Iccrea BancaImpresa SpA	-	-
				Banca Sviluppo SpA	-	-
153	Coopersystem Societa' Cooperativa	Florence	1	Banca di Anghiari E Stia - Credito Cooperativo S.C.	-	5.00
				Vival Banca - BCC di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	0.01	5.00
				Chiantibanca - Credito Cooperativo S.C.	0.09	5.00
				Banca del Valdarno - Credito Cooperativo S.C.	-	5.00
				Banca di Pescia e Cascina - Credito Cooperativo S.C.	0.01	5.00
				Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	0.01	5.00
				BCC di Pontassieve S.C.	-	5.00
				Banca dell'Elba - Credito Cooperativo S.C.	0.01	5.00
				Banca del Valdarno - Credito Cooperativo S.C.	0.08	5.00
				Banca Alta Toscana Credito Cooperativo S.C.	0.40	5.00
				Banca Cras Credito Cooperativo Toscano - Siena S.C.	0.06	5.00
				Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	0.05	5.00
				BCC Umbria - Credito Cooperativo S.C.	0.04	5.00
				Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	0.01	5.00
				Banca TEMA - Terre Etrusche e di Maremma S.C.	0.02	5.00
154	Sigest S.r.l.	Calcinaia	1	BCC Pisa e Fornacette Credito Cooperativo S.C.	100.00	100.00
155	Sinergia - Sistema di Servizi – S.c.a.r.l.	Milan	1	Iccrea Banca SpA	71.46	0.59
				BCC di Milano S.C.	2.92	0.59
				BCC dell'Oglio e Del Serio S.C.	1.75	0.59
				Credito Cooperativo Di Caravaggio Adda e Cremasco - Cassa Rurale S.C.	2.33	0.59
				Cassa Rurale - BCC di Treviglio S.C.	1.17	0.59
				Cassa Rurale e Artigiana di Brendola Credito Cooperativo S.C.	1.17	0.59
				BCC Bergamo e Valli S.C.	1.17	0.59

Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
		Investor	% holding	
		BCC Brianza e Laghi S.C.	1.17	0.59
		Credito Padano Banca di Credito Cooperativo S.C.	1.17	0.59
		Banca Centropadana Credito Cooperativo S.C.	1.17	0.59
		BCC di Carate Brianza S.C.	0.59	0.59
		Cassa Rurale e Artigiana di Rivarolo Mantovano Credito Cooperativo S.C.	0.58	0.59
		Cassa Rurale e Artigiana di Cantù BCC S.C.	0.58	0.59
		BCC di Mozzanica S.C.	0.58	0.59
		BCC del Basso Sebino S.C.	0.58	0.59
		BCC Agrobresciano S.C.	0.58	0.59
		BCC del Garda - BCC Colli Morenici Del Garda S.C.	0.58	0.59
		BCC di Lezzeno S.C.	0.58	0.59
		BCC Bergamasca e Orobica S.C.	0.58	0.59
		Banca Veronese Credito Cooperativo di Concamarise S.C.	0.58	0.59
		Banca della Valsassina Credito Cooperativo S.C.	0.58	0.59
		BCC di Busto Garolfo e Buguggiate S.C.	0.58	0.59
		BCC di Triuggio e della Valle del Lambro S.C.	0.58	0.59
		Cassa Rurale e Artigiana di Binasco - Credito Cooperativo S.C.	0.58	0.59
		BCC di Borghetto Lodigiano S.C.	0.58	0.59
		Banca Cremasca e Mantovana - Credito Cooperativo S.C.	1.17	0.59
		Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	0.03	0.59
		Chiantibanca - Credito Cooperativo S.C.	0.02	0.59
		Banca TEMA - Terre Etrusche e di Maremma S.C.	0.03	0.59
		BCC Umbria - Credito Cooperativo S.C.	0.02	0.59
		Banca Cras Credito Cooperativo Toscano - Siena S.C.	0.02	0.59
		Cassa Rurale e Artigiana dell'Agro Pontino - BCC S.C.	0.02	0.59
		Credito Cooperativo Cassa Rurale e Artigiana di Paliano S.C.	0.02	0.59
		Banca di Pescia e Cascina - Credito Cooperativo S.C.	0.02	0.59
		BCC di Castiglione Messer Raimondo e Pianella S.C.	0.02	0.59
		Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	0.02	0.59
		Credito Cooperativo Mediocrati S.C.	0.02	0.59
		BCC del Crotonese - Credito Cooperativo S.C.	0.02	0.59
		Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese S.C.	0.02	0.59
		Banca del Catanzarese - Credito Cooperativo S.C.	0.02	0.59
		Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	0.02	0.59
		BCC di Roma S.C.	0.01	0.59
		BCC San Michele di Caltanissetta e Pietraperzia S.C.	0.01	0.59
		BCC G. Toniolo di San Cataldo S.C.	0.01	0.59
		BCC San Giuseppe di Mussomeli S.C.	0.01	0.59
		BCC di Ostuni S.C.	0.01	0.59
		BCC di Gambatesa S.C.	0.01	0.59
		BCC Don Stella di Resuttano S.C.	0.01	0.59
		BCC di Pachino S.C.	0.01	0.59
		BCC di Cittanova S.C.	0.01	0.59
		BCC Abruzzese - Cappelle Sul Tavo S.C.	0.01	0.59
		BCC di Pratola Peligna S.C.	0.01	0.59
		BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	0.01	0.59
		Banca San Francesco Credito Cooperativo S.C.	0.01	0.59
		BCC di San Biagio Platani S.C.	0.01	0.59
		BCC Mutuo Soccorso di Gangi S.C.	0.01	0.59
		Banca del Valdarno - Credito Cooperativo S.C.	0.01	0.59
		Banca Alta Toscana Credito Cooperativo S.C.	0.02	0.59
		BCC di Leverano S.C.	0.01	0.59
		BCC Vicentino - Pojana Maggiore S.C.	0.01	0.59
		Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	0.01	0.59
		BCC di Altofonte e Caccamo S.C.	0.01	0.59
		Banca Alpi Marittime Credito Cooperativo Carrù S.C.	0.01	0.59
		BCC di Terra D'Otranto S.C.	0.01	0.59
		BCC S. Giuseppe di Petralia Sottana S.C.	0.01	0.59
		BCC di Spinazzola S.C.	0.01	0.59
		BCC Campania Centro - Cassa Rurale e Artigiana S.C.	0.01	0.59
		BCC degli Ulivi - Terra di Bari S.C.	0.01	0.59
		BCC di Arborea S.C.	0.01	0.59

		Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
				Cassa Rurale e Artigiana di Castellana Grotte Credito Cooperativo S.C.	0.01	0.59
				BCC di Nettuno S.C.	0.01	0.59
				BCC di Canosa - Loconia S.C.	0.01	0.59
				BCC di Pontassieve S.C.	0.01	0.59
				BCC della Valle del Fitalia S.C.	0.01	0.59
				Credito Cooperativo Valdarno Fiorentino Banca Di Cascia S.C.	0.01	0.59
				BCC di Basciano S.C.	0.01	0.59
				BCC della Valle del Trigno S.C.	0.01	0.59
				BCC di Formello e Trevignano Romano S.C.	0.01	0.59
				BCC di Riano S.C.	0.01	0.59
				BCC di Bellegra S.C.	0.01	0.59
				BCC dei Colli Albani S.C.	0.02	0.59
				BCC dell'Adriatico Teramano S.C.	0.01	0.59
				Valpolicella Benaco Banca Credito Cooperativo S.C.	0.01	0.59
				Banca di Anghiari E Stia - Credito Cooperativo S.C.	0.01	0.59
				BCC di Montepaone S.C.	0.01	0.59
				BCC di Buccino e dei Comuni Cilentani S.C. e dei Comuni Cilentani S.C.	0.02	0.59
				Banca di Taranto – Banca di Credito Cooperativo S.C.	0.01	0.59
				BCC Agrigentino S.C.	0.01	0.59
				Banca del Cilento di Sassano e Vallo Di Diano e Della Lucania - Credito Cooperativo S.C.	0.01	0.59
				BCC di Cagliari S.C.	0.01	0.59
				BCC di Valledolmo S.C.	0.01	0.59
				Banca di Monastier e del Sile - Credito Cooperativo S.C.	0.01	0.59
				Banca della Marca Credito Cooperativo S.C.	0.01	0.59
				BCC di Bari S.C.	0.01	0.59
				BCC di Napoli S.C.	0.01	0.59
				Banca di Andria Di Credito Cooperativo S.C.	0.01	0.59
				BCC di Putignano S.C.	0.01	0.59
				BCC di Buonabitacolo S.C.	0.01	0.59
				BCC di Gaudiano Di Lavello S.C.	0.01	0.59
156	Fondo Securis Real Estate	Rome	4	Iccrea Banca SpA	56.55	56.55
				Iccrea BancaImpresa SpA	21.47	21.47
				BCC Brianza e Laghi S.C.	1.18	1.18
157	Fondo Securis Real Estate II	Rome	4	Iccrea Banca SpA	84.78	84.78
158	Fondo Securis Real Estate III	Rome	4	Iccrea BancaImpresa SpA	34.69	34.69
				Iccrea Banca SpA	54.85	54.85
159	Securfondo	Rome	4	Iccrea Banca SpA	54.39	54.39
160	Fondo Il Ruscello	Milan	4	BCC di Milano S.C.	100.00	100.00
161	Fondo Sistema BCC	Rome	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 Pordenonese S.C.	6.67	6.67
				BCC di San Marco Dei Cavoti e Del Sannio - Calvi S.C.	10.56	10.56
162	Asset Bancari V	Rome	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
163	Fondo Platone	Treviso	4	Banca di Monastier e del Sile - Credito Cooperativo S.C.	100.00	100.00
164	Lucrezia Securitisation S.r.l.	Rome	4	Iccrea Banca SpA	-	-

Key:
A) Type of relationship: 1 = majority of voting rights in ordinary shareholders' meeting; 4 = other forms of control.
B) Votes available in ordinary shareholders' meeting.
For the vehicle Lucrezia Securitization S.r.l., the fourth securitization ("Lucrezia 4") was consolidated owing to the substantive control of the cash flows associated with the operation.

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

Introduction

The concept of Mutual 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 mutual 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 mutual 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".

The Mutual 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 mutual 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 mutual 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[19] notwithstanding the provisions of those accounting standards.

An authoritative option has been issued on the consolidation of the financial statements of mutual 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;

[19] 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 140 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.[20] 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 31, 2019 the Group had no interests in joint arrangements.

[20] 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.

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 Securfondo, Fondo Securis Real Estate, Fondo Securis Real Estate II, Fondo Securis Real Estate III, Fondo Sistema-BCC, Fondo Asset Bancari V, Fondo II Ruscello and Fondo Platone.

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.

The liquidation of Securfondo was completed in February 2020, following the complete disposal of its real estate assets.

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 fourth securitization managed by the vehicle Lucrezia Securitisation S.r.l. (the Lucrezia 4 operation) has been consolidated since 2017, of which Iccrea Banca has subscribed all of the notes issued by the vehicle in respect of a securitization originated by mutual banks (BCC Romagnolo, BCC Annia, BCC Patavina, BCC Agrobresciano).

The segregated assets of the Iccrea Sme Cart 2016 S.r.l. operation originated by Iccrea BancaImpresa has been consolidated through consolidation of Iccrea BancaImpresa, which has not derecognized the underlying loans.

3. INVESTMENTS IN SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

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. SpA	48.45%	48.45%	-
2. BCC Risparmio&Previdenza SGrpA	25.00%	25.00%	2,125
3. Coopersystem Società Cooperativa	99.21%	25%	-

(1) Percentage of votes in ordinary shareholders' meeting

Following the agreement signed with Cassa Centrale Banca SpA, the parent company of the second national mutual banking group, with defining the reorganization of the investments held by the mutual banks participating in the two mutual banking groups, as well as the investments in entities belonging to the two groups, the non-controlling interests in Banca Sviluppo and Sinergia have become insignificant.

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	1,028,882	3	964,214	11,317	847,443	98,883	10,082	12,398	(14,138)	(5,178)	(5,384)	-	(5,384)	4,248	(1,136)
2. BCC Risparmio & Previdenza SGrpA	79,007	3	71,280	5,335	26,588	38,226	-	40,501	(22,571)	17,929	12,400	-	12,400	3	12,403
3. Coopersystem Società Cooperativa	26,883	-	11,660	5,065	3,941	13,274	(165)	(165)	7,036	6,871	5,330	-	5,330		5,330

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, 2019, 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 to happen in 2022. 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 on May 29, 2020, no events occurred that would entail a modification of the financial data approved at that meeting. As regards the events related to the spread of the COVID-19 virus, which are extensively discussed in the report on operations, pursuant to IAS 10, these events are deemed non-adjusting for the purposes of the results presented in these financial statements. At present, no reliable prospective estimates can be produced for their impact on the company business. For more information and an initial assessment of the main areas of impact, please see the discussion in the report on operations.

SECTION 5 – 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.

Other issues

The consolidated 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 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 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 value of the loan are considered renegotiations due to financial difficulties of the counterparty, with the creditor therefore willing to accept a restructuring of the debt on terms potentially favorable to the debtor. In these circumstances, it is generally assumed that there has essentially been no extinguishment of the original cash flows that would therefore require derecognition of the original loan. Consequently, these types of renegotiation represent the majority of cases presented in the financial statements through "modification accounting", in which the difference between the carrying amount and the recalculated value of the financial asset is recognized in profit or loss by discounting the renegotiated or modified cash flows at the original effective interest rate;
- the presence of specific objective elements that substantially modify the characteristics and/or cash flows of the financial instrument, such that they would entail the derecognition of the instrument and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual terms that would cause the asset to fail the SPPI test or a change in the denomination of the currency of the instrument, as the entity would be exposed to a new risk.

Recognition of income components

Interest on financial assets measured at amortized cost is recognized under "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[21] 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;
- 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 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 accounting standards referred to earlier and by IAS 36, if there is evidence (triggers) of possible impairment, equity investments undergo impairment testing to determine whether there is objective evidence that the carrying amount of such assets is not fully recoverable and to determine the amount of any writedown.

Impairment indicators are essentially divided into two categories:

- qualitative indicators, such as the posting of losses or in any case a significant divergence with respect to budget targets or the objectives set out in the long-term plans announced to investors, the announcement/start of composition with creditors or restructuring plans, and the downgrading by more than two grades of the rating issued by a specialist agency;
- quantitative indicators consisting of a reduction in fair value below the carrying amount of over 30%, or for a period of more than 24 months, 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.

[21] 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..

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

Gains (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”.

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.

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, which was adopted as from 2018, the following steps are followed in recognizing revenue from contracts with customers

- identification and analysis of the contract signed with the customer to identify the type of revenue. In some specific cases, multiple contracts may have to be combined and accounted for as a single contract;
- identification of the specific performance obligations in the contract. If the goods/services to be transferred are distinct, they qualify as performance obligations and are accounted for separately;
- determination of the transaction price, considering all the performance obligations in the contract. This price may be a fixed amount, but may sometimes include variable or non-monetary consideration;
- allocation of the transaction price to the performance obligations. The transaction price is allocated to the various performance obligations on the basis of the selling prices of each distinct good or service provided contractually. If it is impossible to determine the standalone selling price, it is necessary to estimate it. The assessment must be carried out as from the start date of the contract (the inception date);
- recognition of revenue when the performance obligation is satisfied. Revenue is recognized following the satisfaction of the performance obligation to the customer, i.e. when the latter obtains control of the good or service. Some revenue is recognized at a point in time, while other is accrued over time. It is therefore necessary to identify the moment in which the performance obligation is satisfied. In the case of performance obligations satisfied over time, revenue is recognized over the reference period, selecting an appropriate method to measure the progress made towards complete satisfaction of the performance obligation.

Accruals and deferrals

Accruals and deferrals reporting costs and revenue accruing in the period on assets and liabilities are recognized as adjustments to the assets and liabilities to which they refer. In the absence of such assets or liabilities, they are recognized under “Other assets” 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, while the income components of financial assets measured at fair value are determined using the effective interest rate method provided for in the amortized cost approach.

The amount at which the financial asset or financial liability 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 and, for financial assets, 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 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.

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.

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 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 undergo 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 sue 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 (based on the information produced pursuant to Bank of Italy Circular 284) 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 annually estimates/updates 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 in particular).

These econometric models, called "satellite models" are differentiated by type of counterparty and make it possible to correlate the target variable (default rates) to a set of explanatory macroeconomic variables. The forecasts of the target variable 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 to the PDs and the danger rate, the Group associates the probability of occurrence on a judgmental basis to the two scenarios, used as weights in the calculation of the average multiplier associated with each calendar year.

More specifically, three calendar years are considered subsequent to the estimation date of the satellite models (reference date), while for subsequent years, it is assumed that the economic cycle can be contained within a time horizon of three years, therefore the multiplier used is equal to the arithmetic mean of the multipliers of the three years.

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 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 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 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 value is determined on the basis of value in use, i.e. present value, as estimated using a rate representing the time value of money, the specific risks of the asset and the margin generated by relationships in place at the valuation date over a time horizon equal to the residual term of those relationships.

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

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

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

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

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

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

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 liability in respect of each guarantee is measured as the greater of the initial recognition amount less cumulative amortization recognized in profit or loss and the best estimate of the expense required to settle the financial obligation that arose following the granting of the guarantee.

Any losses and value adjustments on such guarantees are reported under “value adjustments”. Writedowns for impairment of guarantees are reported under “Provisions for risk and charges”.

Guarantees are off-balance-sheet transactions and are reported under “Other information” in Part B of the notes to the financial statements.

Business combinations

The transfer of control of an entity (or a group of integrated activities and assets, conducted and managed together) is a business combination.

IFRS 3 requires that an acquirer be identified for all business combinations. The acquirer is the entity that obtains control over another entity or group of activities. If it is not possible to identify a controlling entity using the definition of control described earlier, such as for example in the case of an exchange of equity interests, the acquirer must be identified using other factors such as: the entity whose fair value is significantly greater, the entity that possibly pays cash or the entity that issues new equity instruments.

The acquisition (and therefore the first consolidation of the acquired entity) must be accounted for on the date on which the acquirer actually obtains control over the entity or the assets acquired. When the business combination is achieved in a single exchange transaction, the date of exchange normally coincides with the acquisition date. However, it is always necessary to check for any agreements between the parties that may involve a transfer of control before the exchange date.

The consideration transferred as part of a business combination is determined as the sum of the fair value, at the exchange date, of the assets transferred, the liabilities incurred or assumed and the equity instruments issued by the acquirer in exchange for control.

In transactions involving payment in cash (or when payment is made using financial instruments comparable to cash) the consideration is the agreed price, possibly discounted if payment will be made in installments over a period longer than short term. If payment is made using an instrument other than cash, such as through the issue of equity instruments, the price is equal to the fair value of the means of payment net of costs directly attributable to the equity issue.

The consideration in a business combination at the acquisition date includes adjustments subordinated to future events if envisaged in the transfer agreements and only if they are probable, reliably determinable and made within the twelve months following the date of acquisition of control, while indemnities for a reduction in the value of the assets used are not included as they are already considered in the fair value of the equity instruments or as a reduction in the premium or increase in the discount on the initial issue of debt instruments, where applicable.

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

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

Business combinations are accounted for using the acquisition method, under which the identifiable assets acquired (including any intangible assets previously not recognized by the acquiree) and the identifiable liabilities assumed (including contingent liabilities) must be recognized at their respective fair values on the acquisition date. Furthermore, for each business combination, any non-controlling interests in the acquiree can be recognized at fair value (with a consequent increase in the consideration transferred) or as a proportion of the share of the non-controlling interests in the identifiable net assets of the acquiree.

If control is obtained in stages, the acquirer shall recalculate the interest previously held in the acquiree at its respective fair value on the acquisition date and record any difference with respect to the previous carrying amount through profit or loss. The excess of the consideration transferred (represented by the fair value of the assets transferred, the liabilities incurred or the equity instruments issued by the acquirer), increased by the value of any non-controlling interest (determined as indicated above), and the fair value of the interest previously held by the acquirer, over the fair value of the assets and liabilities acquired must be recognized as goodwill. However, if the latter exceed the sum of the consideration, non-controlling interest and the fair value of the interest previously held, the difference is recognized in profit or loss.

Following initial recognition, goodwill is measured at cost net of accumulated impairment losses. For the purpose of impairment testing, the goodwill acquired in a business combination is allocated, from the acquisition date, to each cash generating unit of the Group that is expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to those units.

If goodwill has been allocated to a cash-generating unit and the entity disposes of part of the assets of the unit, the goodwill associated with the transferred asset is included in the carrying amount of the asset when determining the gain or loss on disposal. The goodwill associated with the transferred asset is determined on the basis of the relative values of the transferred asset and the part retained by the cash-generating unit.

Business combinations can be accounted for provisionally by the end of the reporting period in which the combination occurs, with the accounting to be completed within twelve months of the acquisition date.

If the business combination is carried out for reorganizational purposes, i.e. between two or more entities or businesses that already belong to the same group and the combination does not involve a change in control regardless of the extent of non-controlling interests before and after the business combination (business combinations of entities under common control), the transaction is considered to be without economic substance. Accordingly, in the absence of specific instructions in the IASs/IFRSs and in compliance with the presumptions of IAS 8 which require that - in the absence of a specific standard – an entity shall use of its judgment in applying an accounting policy that provides relevant, reliable, prudent information that reflects the economic substance of the transaction, such combinations are accounted for preserving the values in the financial statements of the acquiree in those of the acquirer.

Mergers are the form of business combination that represents the most complete form of combination, as they involve both the legal and economic unification of the participating parties.

Mergers, whether they are mergers of equals, i.e. with the establishment of a new legal entity following the combination, or the combination of one entity into another surviving entity, are treated in accordance with the criteria illustrated previously, and in particular:

- if the transaction involves the transfer of control of an entity, it is treated as a business combination within the scope of IFRS 3;
- if the transaction does not involve the transfer of control, it is accounted for by preserving the values in the financial statements of the merged entity in the surviving entity.

A.3 – DISCLOSURES ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

In execution of shareholders' resolutions passed in December 2018 and following the establishment and launch of the Iccrea Cooperative Banking Group, at the beginning of the year 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. For more information, please see the disclosures in the report on operations.

The following table reports the reclassified carrying amount at January 1, 2019 of the reclassified assets as at that date and still recognized at the reporting date as they have not been 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	257,849	-
Debt securities	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortized cost	31/12/2019	3,459,698	-

A.3.2 RECLASSIFIED FINANCIAL ASSETS: CHANGE IN BUSINESS MODEL, FAIR VALUE AND IMPACT ON COMPREHENSIVE INCOME

Type of financial instrument	Original portfolio	New portfolio	Fair value at 31/12/2019	Gains/losses through profit or loss without transfer (before taxes)	Gains/losses through OCI without transfer (before taxes)
				31/12/2019	31/12/2019
Debt securities	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortized cost	3,406,405		(53,293)

A.3.3 RECLASSIFIED FINANCIAL ASSETS: CHANGE IN BUSINESS MODEL AND EFFECTIVE INTEREST RATE

For qualitative disclosures on changes in the business model during the year as referred to in IFRS 7, paragraph 12B, letter b), please see the discussion in the report on operations. 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 Group Fair Value Policy specified the criteria to be used in identifying an active market and the consequent use of the mark-to-market approach.

The definition of "active market" is broader than that of "regulated market": regulated markets are defined as the markets included in the list provided for by Article 63, paragraph 2, of the Consolidated Finance Act (TUF) and in the special section of the same list (see Article 67, paragraph 1, of the TUF). These markets are managed by companies authorized by Consob that operate in accordance with the provisions of the TUF and under the supervision of Consob itself.

Other markets in addition to regulated markets include organized trading systems (Multilateral Trading Systems and Systematic Internalizers) defined, pursuant to Legislative Decree 58/98, as a "set of rules and structures, including automated structures, which make exchange possible, on an ongoing or periodic basis, in order to collect and transmit orders for transactions in financial instruments and to settle these orders, for the purpose of concluding contracts": although normally the financial instruments listed on these markets fall within the definition of instruments listed on active markets, there may be situations in which officially listed instruments are not liquid due to low trading volumes. In such cases, quoted prices cannot be considered representative of the fair value of an instrument. Generally speaking, multilateral trading facilities (MTF) can be considered active markets if they are characterized by continuous and significant trading and/or by the presence of binding prices provided by the market maker, such as to ensure the formation of prices that actually represent the fair value of the instrument.

Financial instruments are also listed on regulated markets in other countries, and therefore not regulated by Consob, whose prices are available daily. These prices are considered representative of the fair value of the financial instruments insofar as they represent the result of a regular transaction and not only of offers to buy or sell. Finally, other markets, while not regulated, can also be considered active markets (e.g. platforms such as Bloomberg or Markit). Electronic over-the-counter (OTC) trading circuits are considered active markets to the extent that the quotations provided actually represent the price at which a normal transaction would occur. Similarly, the quotes published by brokers are representative of fair value if they reflect the actual price level of the instrument in a liquid market (that is, they are not indicative prices, but rather binding offers).

Ultimately, in order to consider a market active, the significance of the price observed on the market itself is of particular importance and, for this reason, the following factors are considered:

- bid-ask spreads: the difference between the price at which an intermediary undertakes to sell the securities (ask) and the price at which it undertakes to buy them (bid). The larger the spread, the lower the liquidity of the market and therefore the significance of the price;
- breadth and depth of the trading book: the first concept refers to the presence of offers of large dimensions, while the depth of the book means the existence of both purchase and sell orders for numerous price levels;
- number of contributors: number of market participants providing purchase or sell offers for a specific instrument. The larger the number of active market participants, the greater the significance of the price;
- availability of information on the terms and conditions of transactions;
- price volatility: presence of daily prices of the instrument outside a certain range. The lower the volatility of the prices, the greater the significance of the price.

Comparable Approach

As already noted, the fair value of financial instruments classified in Level 2 can be determined using two different approaches: the so-called comparable approach, which presupposes the use of prices quoted on active markets for similar assets or liabilities or the prices of identical assets or liabilities on inactive markets, and the model valuation approach (or mark to model), which uses valuation techniques based on observable inputs concerning the instrument itself or similar instruments.

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

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

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

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

Mark-to-model approach

In the absence of quoted prices for the instrument or for comparable instruments, valuation models are adopted. Valuation models must always maximize the use of market inputs. Accordingly, they must make priority use of observable market inputs (e.g. interest rates and yield curves observable at commonly quoted intervals, volatilities, credit spreads, etc.).

In the absence of directly or indirectly observable inputs or where they are insufficient to determine the fair value of an instrument, inputs that are not observable on the market be used (discretionary estimates and assumptions). With the consequent allocation of the estimate obtained to Level 3 of the fair value hierarchy.

The mark-to-model technique therefore does not give rise to a single classification within the fair value hierarchy. Depending on the observability and materiality of the inputs used in the valuation model, an instrument could be assigned to Level 2 or Level 3.

A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

The 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.

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. 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 (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.

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”);
- insurance policies and postal savings bonds whose fair values are approximated, respectively, by the surrender and repayment value, which pursuant to current legislation represent the exit price for these instruments.

Finally, the following are normally considered Level 3:

- debt securities not listed on an active market and measured using approaches that mainly employ unobservable inputs;
- debt securities whose fair value is equal to the prices provided by brokers/market makers determined with a valuation model based on unobservable inputs;
- equity securities and issued financial liabilities for which there are no prices quoted on active markets at the valuation date and which are mainly valued using techniques based on unobservable market data;
- OTC financial derivatives entered into with institutional counterparties and measured using pricing models similar to those used for Level 2 valuations but from which they differ in the degree of observability of the inputs used in the pricing techniques;
- financial derivatives entered into with customers for which the fair value adjustment taking account of default risk is significant with respect to the total value of the financial instrument.

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

	31/12/2019			31/12/2018		
	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	670,107	923,755	346,218	133,739	331,046	112,877
a) financial assets held for trading	48,643	154,890	1,692	78,863	246,695	1,946
b) financial assets designated as at fair value	362,091	-	5,385	-	-	-
c) other financial assets mandatorily measured at fair value	259,373	768,865	339.141	54,876	84,351	110,931
2. Financial assets measured at fair value through comprehensive income	8,885,355	135,921	88,450	364,122	49,976	40,721
3. Hedging derivatives	55	17,761	-	-	7,715	-
4. Property, plant and equipment	12,177	529,201	18,192	12,592	458,666	3,527
5. Intangible assets	-	-	-	-	-	-
Total	9,567,694	1,606,638	452,860	510,453	847,403	157,125
1. Financial liabilities held for trading	630	162,211	887	3,515	241,940	-
2. Financial liabilities designated as at fair value	7,933	3,528	-	469	-	-
3. Hedging derivatives	22	321,409	-	-	69,033	-
Total	8,585	487,148	887	3,984	310,973	-

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	112,877	1,946	-	110,931	40,721	-	3,527	-
2. Increases	446,133	943	8,160	437,030	136,245	-	16,630	3,196
2.1 Purchases	84,735	8	309	84,418	-	-	2,873	-
2.2 Profits recognized in:	21,090	129	256	20,705	4,360	-	-	-
2.2.1 Income statement	21,090	129	256	20,705	4,360	-	-	-
- of which: capital gains	14,872	-	37	14,835	2,470	-	-	-
2.2.2 Shareholders' equity	-	X	X	-	-	-	-	-
2.3 Transfers from other levels	7,371	10	625	6,736	1,197	-	-	-
2.4 Other increases	332,937	796	6,970	325,171	130,688	-	13,757	3,196
3. Decreases	212,792	1,197	2,775	208,820	88,516	-	1,965	3,196
3.1 Sales	5,784	530	-	5,254	24,083	-	857	-
3.2 Repayments	169,632	-	844	168,788	6,407	-	-	-
3.3 Losses recognized in:	9,119	12	656	8,451	990	-	1,108	-
3.3.1 Income statement	9,119	12	656	8,451	990	-	1,108	-
- of which: capital losses	4,355	2	157	4,196	724	-	665	-
3.3.2 Shareholders' equity	-	X	X	-	-	-	-	-
3.4 Transfers to other levels	11,519	189	-	11,330	47,261	-	-	-
3.5 Other decreases	16,738	466	1,275	14,997	9,775	-	-	3,196
4. Closing balance	346,218	1,692	5,385	339,141	88,450	-	18,192	-

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	**-**	**-**	**-**
2. Increases	**1,000**	**-**	**-**
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	1,000	-	-
3. Decreases	**113**	**-**	**-**
3.1. Repayments	-	-	-
3.2. Repurchases	-	-	-
3.3 Profits recognized in:	113	-	-
3.3.1 Income statement	113	-	-
- of which: capital gains	113	-	-
3.3.2 Shareholders' equity	X	-	-
3.4 Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**887**	**-**	**-**

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

	31/12/2019				31/12/2018			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortized cost	135,869,471	41,571,185	6,414,821	95,520,407	38,832,682	6,105,347	287,851	33,267,616
2. Investment property	157,696	-	1,030	167,502	14,219	-	-	14,219
3. Non-current assets and disposal groups held for sale	33,856	-	104	7,518	39,026	-	2,897	36,141
Total	**136,061,023**	**41,571,185**	**6,415,955**	**95,695,427**	**38,885,927**	**6,105,347**	**290,748**	**33,317,977**
1. Financial liabilities measured at amortized cost	140,832,997	1,067,445	31,608,462	107,370,324	39,118,221	2,604,167	2,482,237	33,799,804
2. Liabilities associated with assets held for sale	-	-	-	-	20,369	96	-	-
Total	**140,832,997**	**1,067,445**	**31,608,462**	**107,370,324**	**39,138,590**	**2,604,263**	**2,482,237**	**33,799,804**

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

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

During the period under review, 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 positive impact of about €357 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 31/12/2019	Total 31/12/2018
a) Cash	842,225	129,085
b) Demand deposits with central banks	114,257	2
Total	956,482	129,087

The item “Demand deposits with central banks” includes deposits with the Bank of Italy, including €110.5 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 31/12/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**34,841**	**1,134**	**60**	**76,496**	**507**	**170**
1.1 structured securities	1,480	-	10	273	153	151
1.2 other debt securities	33,361	1,134	50	76,222	354	19
2. Equity securities	**6,237**	**197**	**51**	**1,900**	**21**	**219**
3. Units in collective investment undertakings	**7,521**	**5,119**	**-**	**454**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	48,599	6,450	111	78,850	528	390
B. Derivatives						
1. Financial derivatives	**44**	**148,440**	**1,581**	**14**	**246,168**	**1,557**
1.1 trading	44	148,440	1,581	14	246,168	1,557
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	44	148,440	1,581	14	246,168	1,557
Total (A+B)	48,643	154,890	1,692	78,864	246,696	1,946

The sub-item A.1 – 1.2 “other debt securities” mainly includes government securities held for trading, in the amount of about €24.2 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 31/12/2019	Total 31/12/2018
A. On-balance-sheet assets		
1. Debt securities	**36,035**	**77,173**
a) Central banks	-	-
b) Government entities	24,183	72,451
c) Banks	5,787	2,209
d) Other financial companies	4,256	1,995
of which: insurance undertakings	818	636
e) Non-financial companies	1,809	518
2. Equity securities	**6,485**	**2,141**
a) Banks	169	-
b) Other financial companies	741	72
of which: insurance undertakings	398	-
c) Non-financial companies	5,575	2,069
d) Other issuers	-	-
3. Units in collective investment undertakings	**12,640**	**454**
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)	**55,160**	**79,768**
B. Derivatives		
a) Central counterparties	-	-
b) Other	150,065	247,738
Total (B)	**150,065**	**247,738**
Total (A+B)	**205,225**	**327,506**

2.3 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE: COMPOSITION BY TYPE

	Total 31/12/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**362,091**	**-**	**-**	**-**	**-**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	362,091	-	-	-	-	-
2. Loans	**-**	**-**	**5,385**	**-**	**-**	**-**
2.1 structured	-	-	928	-	-	-
2.2 other	-	-	4,457	-	-	-
Total	**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 31/12/2019	Total 31/12/2018
1. Debt securities	**362,091**	**-**
a) Central banks	-	-
b) Government entities	311,492	-
c) Banks	44,644	-
d) Other financial companies	5,955	-
of which: insurance undertakings	-	-
e) Non-financial companies	-	-
2. Loans	**5,385**	**-**
a) Central banks	-	-
b) Government entities	-	-
c) Banks	-	-
d) Other financial companies	4	-
of which: insurance undertakings	-	-
e) Non-financial companies	1,755	-
f) Households	3,626	-
Total	367,476	-

2.5 OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE: COMPOSITION BY TYPE

	Total 31/12/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**13,087**	**79,287**	**3,141**	**23,712**	**34,575**	**3,105**
1.1 structured securities	796	23,392	-	-	18,531	-
1.2 other debt securities	12,291	55,896	3,141	23,712	16,044	3,105
2. Equity securities	**4,040**	**110**	**25,908**	**1,983**	**8,816**	**15,634**
3. Units in collective investment undertakings	**242,245**	**198,639**	**47,612**	**29,181**	**40,961**	**12,208**
4. Loans	**-**	**490,829**	**262,480**	**-**	**-**	**79,984**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	490,829	262,480	-	-	79,984
Total	259,373	768,865	339,141	54,876	84,351	110,931

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).

2.6 OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

	Total 31/12/2019	Total 31/12/2018
1.Equity securities	**30,058**	**26,432**
of which: banks	941	10,807
of which: other financial companies	20,540	13,559
of which: non-financial companies	8,577	2,065
2. Debt securities	**95,515**	**61,392**
a) Central banks	-	-
b) Government entities	3,134	1,383
c) Banks	58,981	32,015
d) Other financial companies	25,416	7,410
of which: insurance companies	8,240	-
e) Non-financial companies	7,984	20,584
3. Units in collective investment undertakings	**488,497**	**82,350**
4. Loans	**753,309**	**79,984**
a) Central banks	-	-
b) Government entities	20,427	-
c) Banks	2,630	-
d) Other financial companies	697,669	61,020
of which: insurance companies	494,964	60,583
e) Non-financial companies	22,088	18,964
f) Households	10,495	-
Total	1,367,379	250,158

The item “Units in collective investment undertakings” mainly includes bond funds in the amount of €152.9 million and real estate funds in the amount of €144.8 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 31/12/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**8,877,633**	**100,439**	**501**	**358,057**	**49,966**	**-**
1.1 structured securities	71,297	5,725	-	3,981	-	-
1.2 other debt securities	8,806,336	94,714	501	354,076	49,966	-
2. Equity securities	**7,722**	**35,482**	**87,949**	**6,065**	**10**	**40,715**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	8,885,355	135,921	88,450	364,122	49,977	40,715

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 €29.5 million. “Equity securities - Level 3” reports non-controlling interests.

3.2 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY DEBTOR/ISSUER

	Total 31/12/2019	Total 31/12/2018
1. Debt securities	**8,978,573**	**408,021**
a) Central banks	526	-
b) Government entities	8,384,109	304,211
c) Banks	431,150	44,667
d) Other financial companies	112,784	28,023
of which: insurance undertakings	3,173	-
e) Non-financial companies	50,004	31,122
2. Equity securities	**131,153**	**46,796**
a) Banks	36,842	24,935
b) Other issuers:	94,311	21,861
- other financial companies	66,834	16,819
of which: insurance undertakings	12,485	9,554
- non-financial companies	27,474	4,503
- other	3	539
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	**9,109,726**	**454,817**

3.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: GROSS VALUE AND TOTAL WRITEOFFS

	Gross amount				Total writeoffs			
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total partial writeoffs*
Debt securities	8,882,589	8,298,919	101,036	394	(2,849)	(2,435)	(162)	-
Loans	-	-	-	-	-	-	-	-
Total 31/12/2019	**8,882,589**	**8,298,919**	**101,036**	**394**	**(2,849)**	**(2,435)**	**(162)**	**X**
Total 31/12/2018	**369,684**	**-**	**39,207**	**305**	**(301)**	**(722)**	**(152)**	**X**
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

** Value to be reported for information purposes*

SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTIZED COST - ITEM 40

4.1 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN OF LOANS AND RECEIVABLES WITH BANKS

	Total 31/12/2019						Total 31/12/2018					
	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	**4,211,582**	**-**	**-**	**5**	**-**	**4,211,577**	**227,243**	**-**	**-**	**-**	**-**	**227,243**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	4,211,577	-	-	X	X	X	227,243	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	5	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**4,193,855**	**423**	**-**	**773,491**	**2,161,255**	**1,269,367**	**19,015,063**	**-**	**-**	**10,081**	**154,034**	**18,848,048**
1. Financing	3,172,240	423	-	2,397	2,017,065	1,195,353	18,724,052	-	-	-	3,298	18,724,034
1.1 Current accounts and demand deposits	592,548	-	-	X	X	X	706,962	-	-	X	X	X
1.2. Fixed-term deposits	79,619	-	-	X	X	X	164,645	-	-	X	X	X
1.3. Other financing:	2,500,073	423	-	X	X	X	17,852,445	-	-	X	X	X
- Repurchase agreements	24,721	-	-	X	X	X	5,062	-	-	X	X	X
- Finance leases	299	-	-	X	X	X	15,344	-	-	X	X	X
- Other	2,475,053	423	-	X	X	X	17,832,039	-	-	X	X	X
2. Debts securities	1,021,615	-	-	771,094	144,189	74,014	291,011	-	-	10,081	150,736	124,014
2.1 Structured securities	71,657	-	-	34,047	17,394	-	37,196	-	-	-	-	-
2.2 Other debt securities	949,958	-	-	737,047	126,795	74,014	253,815	-	-	10,081	150,736	124,014
Total	**8,405,437**	**423**	**-**	**773,496**	**2,161,255**	**5,480,944**	**19,242,306**	**-**	**-**	**10,081**	**154,034**	**19,075,291**

“Claims on central banks” total €4.2 billion and include:

- the balance of the Group banks’ reserve requirement in the amount of €1.2 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 managed by the Parent Company as a result of the monetary policy measures adopted by the European Central Bank (ECB) in the second half of the year, in the amount of €3 billion.

Amounts due from banks “Other financing – Other” mainly 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 €2 billion, of which €1.7 billion granted within the framework of Targeted Longer-Term Refinancing Operations (TLTRO). The significant reduction by comparison with the balance at December 31, 2018, which regarded the former Iccrea Banking Group, is explained by the elimination of intercompany operations between Iccrea Banca and the mutual banks belonging to the Group.

The sub-item “debt securities” comes to €1 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 31/12/2019						Total 31/12/2018					
	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	**80,032,422**	**5,208,436**	**45,839**	**-**	**3,285,723**	**89,478,991**	**11,514,065**	**1,131,225**	**54,543**	**-**	**83**	**13,625,683**
1.1. Current accounts	8,253,047	988,007	2,045	X	X	X	102,001	171,701	-	X	X	X
1.2. Repurchase agreements	2,935,176	-	-	X	X	X	1,199,151	-	-	X	X	X
1.3. Medium/long term loans	54,521,468	3,622,770	27,200	X	X	X	2,959,553	387,895	24,812	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from wage	2,148,153	38,177	3	X	X	X	895,018	10,045	21	X	X	X
1.5. Finance leases	4,292,086	412,496	9,223	X	X	X	4,457,021	507,698	14,334	X	X	X
1.6. Factoring	492,578	12,126	-	X	X	X	500,137	11,773	4,078	X	X	X
1.7. Other loans	7,389,914	134,860	7,368	X	X	X	1,401,184	42,114	11,298	X	X	X
2. Debt securities	**42,221,208**	**1,545**	**-**	**40,797,689**	**967,843**	**560,472**	**6,945,050**	**36**	**-**	**6,095,266**	**133,734**	**566,643**
2.1. Structured securities	131,271	135	-	55,619	69,347	1,405	-	-	-	-	-	-
2.2. Other debt securities	42,089,937	1,410	-	40,742,070	898,496	559,067	6,945,050	36	-	6,095,266	133,734	566,643
Total	**122,253,630**	**5,209,981**	**45,839**	**40,797,689**	**4,253,566**	**90,039,463**	**18,459,115**	**1,131,261**	**54,543**	**6,095,266**	**133,817**	**14,192,326**

The item “Repurchase agreements” came to €2.9 billion and reports amounts connected with transactions with the Clearing & Guarantee Fund.

Medium/long-term loans, amounting to €58.1 billion are mainly granted to households and non-financial companies.

The significant increase in loans to customers compared with December 31, 2018, which reports the figure for the former Iccrea Banking Group, is explained by the entry of the mutual banks in the Group, whose operations are dominated by lending to households and small enterprises and by investments of liquidity in government securities.

Loans to customers include approximately €210 million 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 €42.2 billion and include €40.7 billion of government securities, mainly Italian government securities.

The above items include senior notes issued in securitization transactions totaling about €1.3 billion, mostly attributable to own securitization transactions.

4.3 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN BY DEBTOR/ISSUER OF LOANS TO CUSTOMERS

	Total 31/12/2019			Total 31/12/2018		
	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	**42,221,208**	**1,545**	**-**	**6,945,051**	**36**	**-**
a) Government entities	40,656,166	16	-	6,773,375	-	-
b) Other financial companies	1,423,626	1,485	-	117,197	36	-
of which: insurance undertakings	637	-	-	-	-	-
c) Non-financial companies	141,416	44	-	54,479	-	-
2. Loans to:	**80,032,422**	**5,208,436**	**45,839**	**11,514,040**	**1,131,225**	**54,544**
a) Government entities	780,082	1,074	-	144,302	260	-
b) Other financial companies	4,893,920	25,141	34	2,240,339	4,963	-
of which: insurance undertakings	8,239	-	-	520	-	-
c) Non-financial companies	36,681,956	3,475,027	38,169	7,310,786	1,010,097	53,285
d) Households	37,676,464	1,707,194	7,636	1,817,348	115,905	1,259
Total	**122,253,630**	**5,209,981**	**45,839**	**18,459,115**	**1,131,261**	**54,544**

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	42,909,168	40,481,473	421,956	2,490	(13,826)	(74,475)	(945)	(2,054)
Loans	76,640,821	4,223,974	11,628,513	10,617,139	(341,478)	(511,612)	(5,408,280)	(409,911)
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)**
Total 31/12/2018	**36,089,104**	**1,505,339**	**1,703,876**	**2,151,864**	**(42,738)**	**(48,824)**	**(1,020,600)**	**(24,494)**
of which: financial assets purchased or originated credit-impaired	X	X	2,192	61,862	X	(114)	(18,102)	-

** Value to be reported for information purposes*

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

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

	Fair value 31/12/2019			NV	Fair value 31/12/2018			NV
	L1	L2	L3	31/12/2019	L1	L2	L3	31/12/2018
A. Financial derivatives								
1. Fair value	55	8,968	-	617,372	-	4,516	-	204,093
2. Cash flows	-	8,793	-	275,253	-	3,199	-	34,934
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**55**	**17,761**	**-**	**892,625**	**-**	**7,715**	**-**	**239,028**

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	-	X	X
2. Financial assets measured at amortized cost	196	X	56	-	X	X	X	8,591	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**196**	**-**	**56**	**-**	**-**	**-**	**-**	**8,591**	**-**	**-**
1. Financial liabilities	6,097	-	-	-	-	-	X	203	X	X
2. Portfolio	X	X	X	X	X	X	2,673	X	-	X
Total liabilities	**6,097**	**-**	**-**	**-**	**-**	**-**	**2,673**	**203**	**-**	**X**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

SECTION 6 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY – ITEM 60

6.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

		Total 31/12/2019	Total 31/12/2018
1. Positive adjustments		**154,318**	**763**
1.1 of specific portfolios:		154,318	-
a) financial assets measured at amortized cost		150,396	-
b) financial assets measured at fair value through comprehensive income		3,922	-
1.2 comprehensive		-	763
2. Negative adjustments		**(14,373)**	**(13)**
2.1 of specific portfolios:		(14,373)	-
a) financial assets measured at amortized cost		(14,373)	-
b) financial assets measured at fair value through comprehensive income		-	-
2.2 comprehensive		-	(13)
	Total	**139,945**	**750**

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	Type of relationship	Investment		% of votes
				Investor	% holding	
A. Joint ventures						
B. Companies subject to significant influence						
1. BCC Vita SpA	Milan	Milan	Significant influence	Iccrea Banca SpA	30%	30%
2. BCC Assicurazioni SpA	Milan	Milan	Significant influence	Iccrea Banca SpA	30%	30%
3. Satispay SpA	Milan	Milan	Significant influence	Iccrea Banca SpA	17%	17%
4. Hi-Mtf SpA	Milan	Milan	Significant influence	Iccrea Banca SpA	25%	25%
5. M-Facility S.r.l.	Rome	Rome	Significant influence	Iccrea Banca SpA	41%	41%
6. Polo Verde S.r.l.	Cremona	Cremona	Significant influence	Credito Padano Banca di Credito Cooperativo S.C.	25%	25%
7. Foro Annonario Gest S.r.l.	Cesena	Cesena	Significant influence	Credito Cooperativo Romagnolo BCC di Cesena e Gatteo S.C.	25%	25%
8. Solaria S.r.l.	Grosseto	Grosseto	Significant influence	Banca TEMA - Terre Etrusche e di Maremma S.C.	40%	40%

7.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

	Carrying amount	Fair value	Dividends received
A. Joint ventures			
B. Companies subject to significant influence			
1. BCC Vita SpA	63,552	63,552	-
2. BCC Assicurazioni SpA	3,679	3,679	-
3. Satispay SpA	3,834	3,834	-

7.3 SIGNIFICANT EQUITY INVESTMENTS: ACCOUNTING DATA

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Net adjustments of property, plant and equipment	Profit (loss) from continuing operations before tax	Profit (loss) from continuing operations after tax	Profit (loss) of disposal groups held for sale after tax	Profit (loss) for the period (1)	Other income after tax (2)	Comprehensive income (3) = (1) + (2)
A. Joint ventures														
B. Companies subject to significant influence														
1. BCC Vita SpA	X	3,483,171	196,357	2,312	3,465,375	554,292	X	X	24,576	16,882	-	16,882	-	16,882
2. BCC Assicurazioni SpA	X	35,360	60,248	559	82,787	22,785	X	X	757	495	-	495	-	495
3. Satispay SpA	X	10,285	4,951	-	5,688	23,025	X	X	(12,485)	(12,485)		(12,485)	-	(12,485)

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	2,117	20,275	12,927	5,558	190	190	-	190

7.5 EQUITY INVESTMENTS: CHANGE FOR THE PERIOD

	Total 31/12/2019	Total 31/12/2018
A. Opening balance	**120,962**	**111,676**
B. Increases	**24,611**	**12,066**
B.1 Purchases	592	4,685
B.2 Writebacks	-	-
B.3 Revaluations	9,420	7,381
B.4 Other increases	14,599	-
C. Decreases	**56,680**	**2,780**
C.1 Sales	55,288	-
C.2 Impairment losses	-	-
C.3 Writedowns	1,391	1,713
C.4 Other decreases		1,067
D. Closing balance	**88,893**	**120,962**
E. Total revaluations	**24,144**	**14,724**
F. Total impairment losses	**3,471**	**2,080**

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

The following table presents property, plant and equipment by macro-category.

		Total 31/12/2019	Total 31/12/2018
Operating property, plant and equipment		2,129,240	215,707
Investment property		705,089	489,004
Inventories of property, plant and equipment within the scope of IAS 2		8,212	5,219
	Total	**2,842,541**	**709,930**

9.1 OPERATING PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

		Total 31/12/2019	Total 31/12/2018
1. Owned assets		**1,818,663**	**210,621**
a) land		298,763	30,356
b) buildings		1,286,378	130,450
c) movables		62,485	2,941
d) electronic systems		86,207	23,990
e) other		84,830	22,884
2. Assets acquired under finance leases		**298,400**	**5,086**
a) land		5,126	-
b) buildings		276,731	-
c) movables		605	-
d) electronic systems		10,735	5,086
e) other		5,203	-
	Total	**2,117,063**	**215,707**
of which: obtained through enforcement of guarantees received		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.

As noted in Part A of the notes to the financial statements, the Group has elected the option to not restate comparative figures on the same basis upon first-time adoption of IFRS 16.

At December 31, 2019 the Group had granted operating leases to others for assets used in operations, mainly buildings, in the amount of more than €30 million. The leased properties are mainly for commercial and residential use.

9.2 INVESTMENT PROPERTY: COMPOSITION OF ASSETS CARRIED AT COST

	Total 31/12/2019				Total 31/12/2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level3		Level 1	Level 2	Level 3
1. Owned assets	**150,156**	**-**	**1,030**	**159,962**	**14,219**	**-**	**-**	**14,219**
a) land	30,353	-	309	28,745	-	-	-	-
b) buildings	119,803	-	721	131,217	14,219	-	-	14,219
2. Right-of-use assets acquired under leases	**7,540**	**-**	**-**	**7,540**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) buildings	7,540	-	-	7,540	-	-	-	-
Total	157,696	-	1,030	167,502	14,219	-	-	14,219
of which: obtained through enforcement of guarantees received	4,007	-	-	4,012	-	-	-	-

As at December 31, the Group had granted operating leases to others for investment property, mainly buildings, in the amount of about €37 million. The leased properties are mainly for commercial and residential use.

9.3 OPERATING PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF REVALUED ASSETS

	Total 31/12/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Owned assets	**12,177**	**-**	**-**	**-**	**-**	**-**
a) land	945	-	-	-	-	-
b) buildings	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	12,177	-	-	-	-	-
of which: obtained through enforcement of guarantees received	-	-	-	-	-	-

9.4 INVESTMENT PROPERTY: COMPOSITION OF ASSETS AT FAIR VALUE

	Total 31/12/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Owned assets	**-**	**529,201**	**18,192**	**12,592**	**458,666**	**3,527**
a) land	-	5,496	1,124	-	-	1,058
b) buildings	-	523,705	17,068	12,592	458,666	2,469
2. Right-of-use assets acquired under leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**529,201**	**18,192**	**12,592**	**458,666**	**3,527**
of which: obtained through enforcement of guarantees received	-	-	-	-	-	-

9.5 INVENTORIES OF PROPERTY, PLANT AND EQUIPMENT WITHIN THE SCOPE OF IAS 2: COMPOSITION

	Total 31/12/2019	Total 31/12/2018
1. Inventories of property, plant and equipment obtained through enforcement of guarantees received	**7,620**	**-**
a) land	333	-
b) buildings	2,483	-
c) movables	-	-
d) electronic systems	-	-
e) other	4,804	-
2. Other inventories of property, plant and equipment	**592**	**5,219**
Total	**8,212**	**5,219**
of which: measured at fair value net of selling costs	-	-

9.6 OPERATING PROPERTY, PLANT AND EQUIPMENT: CHANGE FOR THE PERIOD

	Land	Buildings	Movables	Electronic plant	Other	Total
A. Opening gross balance	**28,047**	**183,739**	**10,940**	**84,869**	**19,902**	**327,497**
A.1 Total net writedown	210	55,463	7,991	46,397	6,332	116,393
A.2 Opening net balance	**27,837**	**128,276**	**2,949**	**38,472**	**13,570**	**211,104**
B. Increases:	**280,508**	**1,620,421**	**78,688**	**98,529**	**131,514**	**2,209,660**
B.1 Purchases	1,203	51,225	11,889	40,832	36,617	141,766
B.2 Capitalized improvement costs	11	15,691	444	22	731	16,899
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	426	1,074	X	X	X	1,500
B.7 Other changes	278,868	1,552,431	66,355	57,675	94,166	2,049,495
C. Decreases:	**3,512**	**174,356**	**18,546**	**40,060**	**55,050**	**291,524**
C.1 Sales	3,119	19,346	446	720	1,160	24,791
C.2 Depreciation	-	101,205	12,721	29,583	30,527	174,036
C.3 Writedowns for impairment recognized in	70	971	1	49	14	1,105
a) equity	-	-	-	-	-	-
b) income statement	70	971	1	49	14	1,105
C.4 Fair value losses recognized in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to:	149	14,391	-	1	16	14,557
a) investment property	149	14,118	X	X	X	14,267
b) discontinuing operations	-	273	-	1	16	290
C.7 Other changes	174	38,443	5,378	9,706	23,333	77,034
D. Closing net balance	**304,833**	**1,574,341**	**63,091**	**96,941**	**90,034**	**2,129,240**
D.1 Total net writedowns	70	654,663	353,189	196,872	478,997	1,683,792
D.2 Closing gross balance	**304,903**	**2,229,004**	**416,280**	**293,814**	**569,031**	**3,813,032**
E. Measurement at cost	456	2,553	269	-	850	4,128

9.7 INVESTMENT PROPERTY: CHANGE FOR THE PERIOD

	Total	
	Land	Buildings
A. Opening balance	**3,577**	**490,121**
B. Increases:	**39,236**	**240,387**
B.1 Purchases	2,215	30,577
B.2 Capitalized improvement costs	5	1,517
B.3 Fair value gains	28	-
B.4 Writebacks	-	29
B.5 Positive exchange rate differences	-	-
B.6 Transfers from operating property	149	14,118
B.7 Other changes	36,839	194,146
C. Decreases	**5,839**	**62,393**
C.1 Sales	1,664	32,835
C.2 Depreciation	-	1,777
C.3 Fair value losses	155	22,731
C.4 Writedowns for impairment	335	854
C.5 Negative exchange rate differences	-	-
C.6 Transfers to:	3,122	2,865
a) operating property	427	1,075
b) discontinuing operations	2,695	1,790
C.7 Other changes	563	1,331
D. Closing balance	**36,974**	**668,115**
E. Measurement at fair value	29,054	139,478

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	**-**	**-**	**-**	**-**	**5,219**	**-**	**5,219**
B. Increases	**333**	**2,581**	**-**	**-**	**60**	**823**	**3,797**
B.1 Purchases	-	130	-	-	-	-	130
B.2 Writebacks	-	-	-	-	-	-	-
B.3 Positive exchange rate differences	-	-	-	-	-	-	-
B.4 Other increases	333	2,451	-	-	60	823	3,667
C. Decreases	**-**	**97**	**-**	**-**	**476**	**231**	**804**
C.1 Sales	-	94	-	-	190	231	515
C.2 Writedowns for impairment	-	-	-	-	286	-	286
C.3 Negative exchange rate differences	-	-	-	-	-	-	-
C.4 Other decreases	-	3	-	-	-	-	3
D. Closing balance	**333**	**2,484**	**-**	**-**	**4,803**	**592**	**8,212**

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 31/12/2019		Total 31/12/2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**25,868**	**X**	**16,721**
A.1.1 pertaining to the Group	X	25,868	X	16,721
A.1.2 pertaining to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**87,201**	**33,393**	**33,728**	**18,260**
A.2.1 Assets carried at cost	87,201	33,393	33,728	18,260
a) internally generated intangible assets	-	6,422	-	3,033
b) other assets	87,201	26,971	33,728	15,227
A.2.2 Assets designated at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	87,201	59,261	33,728	34,982

Item A.1.1 includes goodwill paid in the acquisition of bank branches by the Group banks (€10.3 million, net of writedowns for the period of €22.7 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	**21,686**	**-**	**3,033**	**35,997**	**15,227**	**75,944**
A.1 Total net writedown	4,965	-	-	2,269	-	7,234
A.2 Opening net balance	**16,721**	**-**	**3,033**	**33,728**	**15,227**	**68,709**
B. Increases	**36,382**	**-**	**4,597**	**71,419**	**15,674**	**128,072**
B.1 Purchases	-	-	4,179	36,024	13,680	53,883
B.2 Increases in internally generated intangible assets	X	-	-	156	-	156
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	36,382	-	418	35,239	1,994	74,033
C. Decreases	**27,235**	**-**	**1,208**	**17,946**	**3,930**	**50,319**
C.1 Sales	-	-	-	8	-	8
C.2 Writedowns	22,671	-	1,208	16,187	3,930	43,996
- Amortization	X	-	1,208	16,187	3,837	21,232
- Impairment	22,671	-	-	-	93	22,764
+ equity	X	-	-	-	-	-
+ income statement	22,671	-	-	-	93	22,764
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	4,564	-	-	1,751	-	6,315
D. Closing net balance	**25,868**	**-**	**6,422**	**87,201**	**26,971**	**146,462**
D.1 Total net writedown	11,449	-	-	5,356	-	16,805
E. Closing gross balance	**37,317**	**-**	**6,422**	**92,557**	**26,971**	**163,267**
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

As part of the activities undertaken to ensure the uniformity of application of the applicable international accounting standards by the affiliated banks, the Group has defined 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 defined 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 adopted. It estimates the value of a company (in this case, the affiliated mutual bank) on the basis of future dividends distributable to shareholders. This method is widely used in accepted valuation practice and supported by the best scholarly work on corporate valuation techniques, with particular regard to companies operating in the financial sector.

Under this method, the economic value of a company is estimated as the sum of:

- the present value of future dividend flows generated over a given valuation time horizon and distributable to shareholders while maintaining a minimum level of capital, consistent with the instructions of the competent authorities;
- the present value of a perpetual annuity defined on the basis of a sustainable dividend for the years following the specified valuation horizon, consistent with a payout ratio (i.e., the ratio between dividends and net profit) that reflects sustainable profitability.

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 capital ("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 5.20%, in line with commonly adopted valuation practice.

On the basis of these assumptions, the discount rate (Ke) used by the Bank was calculated at 7.82%.

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:

- 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;
- 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.

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 €22.7 million, at December 31, 2019 the recognized goodwill of the affiliated banks totaled €10.3 million, of which €3.9 million in respect of the "entire company CGU" and €6.4 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 SGR (€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 SGR, 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 2019	IRES	IRAP	TOTAL 2018
1) Recognized in income statement:	**1,492,969**	**178,233**	**1,671,202**	**267,541**	**24,941**	**292,482**
a) DTAs pursuant to Law 214/2011	**1,155,648**	**130,114**	**1,285,762**	**157,862**	**14,997**	**172,859**
Writedowns of loans to customers	1,154,768	129,992	1,284,760	157,637	14,960	172,597
Goodwill and other intangible assets at December 31, 2014	664	87	751	9	1	10
Tax losses/negative value of production pursuant to Law 214/2011	216	35	251	216	36	252
b) Other	**337,321**	**48,119**	**385,440**	**109,679**	**9,944**	**119,623**
Writedowns of amounts due from banks	4,718	3	4,721	547	-	547
Writedowns of loans to customers	70,870	20,679	91,549	567	108	675
Goodwill and other intangible assets	6,230	1,265	7,495	-	-	-
Tax losses	70,949	-	70,949	27,302	-	27,302
Writedowns of financial instruments	1,032	519	1,551	-	-	-
Writedowns from impairment of guarantees issued recognized under liabilities	33,252	291	33,543	604	-	604
Provisions for risks and charges	78,396	9,819	88,215	17,106	1,521	18,627
Costs of predominantly administrative nature	1,933	171	2,104	141	2	143
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	26,292	4,243	30,535	829	20	849
Other	43,649	11,129	54,778	62,584	8,293	70,877
2) Recognized in shareholders' equity:	**26,076**	**5,146**	**31,222**	**16,945**	**2,833**	**19,778**
a) Valuation reserves	**10,231**	**2,146**	**12,377**	**5,877**	**1,150**	**7,027**
Capital losses on financial assets measured through OCI	10,231	2,146	12,377	5,877	1,150	7,027
b) Other:	**15,845**	**3,000**	**18,845**	**11,068**	**1,683**	**12,751**
Actuarial gains/losses on provisions for employees	3,614	27	3,641	117	-	117
Other	12,231	2,973	15,204	10,951	1,683	12,634
A. Total deferred tax assets	**1,519,045**	**183,379**	**1,702,424**	**284,486**	**27,774**	**312,260**
B. Offsetting with deferred tax liabilities	**-**	**-**	**-**	**(60)**	**(2)**	**(62)**
C. Net deferred tax assets - Total item 110 b)	**1,519,045**	**183,379**	**1,702,424**	**284,408**	**27,772**	**312,198**

The DTAs referred to in Law 214/2011, equal to a total of €1.3 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. Under the provisions of the above law, the recovery of these DTAs is certain and independent of the profitability of the companies that have 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 to generate positive taxable income of the companies that recognized them (the affiliated banks) or, with the exercise of the option to participate in the consolidated taxation mechanism, the group of participating companies (company within the direct scope of consolidation).

With regard to the probability test performed by the affiliated banks, the income or tax loss (IRES/IRAP) was estimated over a 5-year forecast period, from 2020 to 2024. As a basis for the determination of future taxable income reference was made to the strategic plans approved by the banks, which estimate performance and financial position for 2020-2023. For 2024, which is not covered in the planning figures, the value used in the last planning year was replicated.

For the purposes of the test, the IRES and IRAP rates in force at the reporting date were considered (27.50% for IRES, including the surtax of 3.50%).

The sub-item "Writedowns of loans to customers" reported in the aggregate b) Other and equal to €91.5 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 sub-item "Provisions for risks and charges", which amounts to €88.2 million, represents the prepaid taxes recognized in respect of provisions for risks and charges that are expected to be deducted in future years.

The Group has not recognized deferred tax assets of approximately €132 million on prior-year tax losses that can be carried forward.

11.2 DEFERRED TAX LIABILITIES: COMPOSITION

	IRES	IRAP	TOTAL 2019	IRES	IRAP	TOTAL 2018
1) Deferred tax liabilities recognized in income statement	**29,035**	**4,489**	**33,524**	**2,280**	**370**	**2,650**
Writedowns of loans to customers deducted in tax return	-	-	-	-	-	-
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	18,182	3,491	21,673	1,477	240	1,717
Other	10,853	998	11,851	803	130	933
2) Deferred tax liabilities recognized in shareholders' equity	**44,695**	**8,613**	**53,308**	**579**	**79**	**658**
Valuation reserves						
Capital gains on financial assets measured through OCI	25,556	5,036	30,592	9	2	11
Revaluation of property	15,841	3,112	18,953	43	-	43
Other	3,298	465	3,763	527	77	604
A. Total deferred tax liabilities	**73,730**	**13,102**	**86,832**	**2,859**	**449**	**3,308**
B. Offsetting with deferred tax assets	**-**	**-**	**-**	**(60)**	**(2)**	**(62)**
C. Net deferred tax assets	**73,730**	**13,102**	**86,832**	**2,799**	**447**	**3,246**

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

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**292,474**	**213,048**
2. Increases	**1,519,171**	**86,541**
2.1 Deferred tax assets recognized during the period	128,804	19,954
a) in respect of previous period	215	213
b) due to change in accounting policies	-	-
c) writebacks	-	-
d) other	128,589	19,741
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	1,390,367	66,587
3. Decreases	**140,443**	**7,115**
3.1 Deferred tax assets derecognized during the period	129,972	4,324
a) reversals	119,318	3,262
b) writedowns for supervening non-recoverability	9,126	-
c) due to changes in accounting policies	-	-
d) other	1,528	1,062
3.2 Reduction in tax rates	13	-
3.3 Other decreases	10,458	2,791
a) transformation in tax credits pursuant to Law 214/2011	7,042	1,207
b) other	3,416	1,584
4. Closing balance	**1,671,202**	**292,474**

The sub-item 2.3 – Other increases reports the effect of the entry of the mutual banks in the banking group.

The main "Deferred tax assets recognized during the period" reported under line 2.1. letter d) include those in respect of taxed provisions for risks and charges. The amount reported in line 3.1 letter a) "Reversals" mainly includes uses of provisions for risks and charges taxed in previous years.

11.4 CHANGES IN DEFERRED TAX ASSETS PURSUANT TO LAW 214/2011

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**172,859**	**171,691**
2. Increases	**1,120,357**	**2,784**
3. Decreases	**7,454**	**1,616**
3.1 Reversals	55	965
3.2 Conversion into tax credits	7,037	651
a) arising from losses for the year	6,284	651
b) arising from tax losses	753	-
3.3 Other decreases	362	-
4. Closing balance	**1,285,762**	**172,859**

The sub-item "2. Increases" includes €1.1 billion from the entry of the mutual banks in the banking group.

11.5 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN INCOME STATEMENT)

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**2,648**	**2,365**
2. Increases	**33,827**	**1,741**
2.1 Deferred tax liabilities recognized during the period	2,309	1,741
a) in respect of previous period	82	-
b) due to change in accounting policies	-	-
c) other	2,227	1,741
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	31,518	-
3. Decreases	**2,951**	**1,458**
3.1 Deferred tax liabilities derecognized during the period	2,384	1,345
a) reversals	2,372	1,247
b) due to changes in accounting policies	-	-
c) other	12	98
3.2 Reduction in tax rates	-	-
3.3 Other decreases	567	113
4. Closing balance	**33,524**	**2,648**

The sub-item "2.3 – Other increases" is entirely accounted for by the effect of the entry of the mutual banks in the banking group.

11.6 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**19,786**	**2,212**
2. Increases	**156,229**	**22,667**
2.1 Deferred tax assets recognized during the period	4,448	18,152
a) in respect of previous periods	25	61
b) due to change in accounting policies	-	166
c) other	4,423	17,925
2.2 New taxes or increases in tax rates	39	1,273
2.3 Other increases	151,742	3,242
3. Decreases	**144,793**	**5,093**
3.1 Deferred tax assets derecognized during the period	135,301	4,997
a) reversals	30,104	2,825
b) writedowns for supervening non-recoverability	134	1,228
c) due to changes in accounting policies	-	944
d) other	105,063	1
3.2 Reduction in tax rates	-	-
3.3 Other decreases	9,492	95
4. Closing balance	**31,222**	**19,786**

The sub-item “2.3 Other increases” reflects the effect of the entry of the mutual banks in the banking group.

The decrease reported under sub-item “d) other” reflects the appreciation during the period of financial assets classified under financial assets measured at fair value through other comprehensive income (FVOCI).

11.7 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**660**	**4,781**
2. Increases	**57,691**	**1,410**
2.1 Deferred tax liabilities recognized during the period	20,819	527
a) in respect of previous periods	-	-
b) due to change in accounting policies	2	-
c) other	20,817	527
2.2 New taxes or increases in tax rates	94	-
2.3 Other increases	36,778	883
3. Decreases	**5,043**	**5,531**
3.1 Deferred tax liabilities derecognized during the period	4,323	5,134
a) reversals	670	523
b) due to change in accounting policies	-	4,611
c) other	3,653	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	720	397
4. Closing balance	**53,308**	**660**

The decrease 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).

The sub-item “2.3 Other increases” reflects the effect of the entry of the mutual banks in the banking group.

11.8 OTHER INFORMATION

	31/12/2019			
	IRES	IRAP	Other	Total
Current tax liabilities (-)	(32,438)	(33,925)	(1,400)	(67,763)
Payments on account (+)	90,469	37,259	4,985	132,713
Other tax receivables (+)	122,452	42,220	64,446	229,118
Tax credit pursuant to Law 214/2011 (+)	29,037	71	-	29,108
Withholding tax (+)	3,549	-	82	3,631
Debtor balance of item 60 a) of liabilities	**(9,932)**	**(9,081)**	**(100)**	**(19,113)**
Creditor balance	223,001	54,705	68,213	345,919
Balance of non-offsettable tax receivables	75,688	11,119	-	86,806
Creditor balance of item 110 a) of assets	**298,688**	**65,824**	**68,213**	**432,725**

SECTION 12 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES - ITEM 120 OF ASSETS AND ITEM 70 OF LIABILITIES

12.1 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY TYPE

	31/12/2019	31/12/2018
A. Assets held for sale		
A.1 Financial assets	769	36,129
A.2 Equity investments	-	-
A.3 Property, plant and equipment	33,087	2,895
of which obtained through enforcement of guarantees received	8,091	-
A.4 Intangible assets	-	2
A.5 Other non-current assets	-	-
Total A	**33,856**	**39,026**
of which carried at cost	26,234	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	104	2,896
of which measured at fair value level 3	7,518	36,140
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated 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	-	16,939
C.2 Securities	-	3,414
C.3 Other liabilities	-	16
Total C	**-**	**20,369**
of which carried at cost	-	20,273
of which measured at fair value level 1	-	96
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	**-**	**-**

The balance of sub-item "A.3 Property, plant and equipment" is mainly attributable to properties for which it is highly probable their sale will be completed within the year following the reporting date.

SECTION 13 - OTHER ASSETS – ITEM 130

13.1 OTHER ASSETS: COMPOSITION

		Total 31/12/2019	Total 31/12/2018
- Shortfalls, embezzlement and robberies		1,461	-
- Trade receivables		48,172	1,375
- Stamp duty and other valuables		1,606	2
- Gold, silver and other precious metals		2,731	-
- Receivables for future premiums on derivatives		11,678	14,711
- Fees and commissions and interest to be received		18,244	25,268
- Tax receivables due from central govt. tax authorities and other tax agencies		353,557	77,416
- Receivables from social security institutions		3,999	292
- Tax receivables		27,758	12,905
- Receivables from employees		6,951	3,509
- Non-recurring transactions (acquisitions)		17,518	20,132
- Items in transit between branches and items being processed		583,008	134,381
- Accrued income not attributable to separate line item		32,119	1,680
- Prepaid expenses not attributable to separate line item		29,129	5,173
- Leasehold improvements		52,028	530
- Other (security deposits, assets not attributable to other items)		490,047	108,941
- Consolidation adjustments		570,039	48,582
	Total	**2,250,045**	**454,897**

“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 31/12/2019				Total 31/12/2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to central banks	**17,411,817**	X	X	X	**13,880,690**	X	X	X
2. Due to banks	**1,461,929**	X	X	X	**5,356,134**	X	X	X
2.1 Current accounts and demand deposits	306,344	X	X	X	1,945,265	X	X	X
2.2 Fixed term deposits	105,736	X	X	X	2,918,433	X	X	X
2.3 Loans	939,674	X	X	X	364,572	X	X	X
2.3.1 Repurchase agreements	799,850	X	X	X	172,561	X	X	X
2.3.2 Other	139,824	X	X	X	192,011	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Other payables	2,136	X	X	X	-	X	X	X
2.6 Other payables	108,039	X	X	X	127,864	X	X	X
Total	**18,873,746**	**-**	**12,771,725**	**5,603,419**	**19,236,824**	**-**	**8,879**	**19,129,739**

"Due to central banks" mainly represents financing from the ECB (TLTROs), maturing in June 2020, March 2021 and December 2022.

1.2 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST – DUE TO CUSTOMERS: COMPOSITION BY TYPE

	Total 31/12/2019				Total 31/12/2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 1		Level 1	L2	L3
1. Current accounts and demand deposits	80,905,313	X	X	X	1,478,501	X	X	X
2. Fixed-term deposits	6,483,273	X	X	X	269,856	X	X	X
3. Loans	16,519,704	X	X	X	11,860,852	X	X	X
3.1 Repurchase agreements	13,966,184	X	X	X	11,791,402	X	X	X
3.2 Other	2,553,520	X	X	X	69,450	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	282,977	X	X	X	-	X	X	X
6. Other payables	1,389,846	X	X	X	1,172,078	X	X	X
Total	**105,581,113**	**3,676**	**8,536,288**	**96,608,613**	**14,781,287**	**-**	**157,928**	**14,595,315**

The significant increase in the item "Current accounts and demand deposits" compared with December 31, 2018, is explained by the entry of the mutual banks in the Group, whose operations are dominated by funding with households and small enterprises.

The sub-item "Repurchase agreements" is mainly composed of transactions with the Clearing and Guarantee Fund in the amount of €13.8 billion.

The sub-item "Loans-other" comprises €2 billion in loans obtained in OPTES auctions with the MEF.

The sub-item "Lease liabilities" reports the liability recognized in application of IFRS 16. As discussed in Part A of the notes to the financial statements, the Group has exercised the option to no restate comparative figures in the year of first-time application of that standard.

1.3 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST - SECURITIES ISSUED: COMPOSITION BY TYPE

	31/12/2019 Total				31/12/2018 Total			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	L2	Level 1		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	10,589,999	1,063,769	9,591,316	-	5,025,360	2,604,168	2,315,430	-
1.1 structured	6,462	-	6,469	-	38,282	-	4,905	-
1.2 other	10,583,537	1,063,769	9,584,847	-	4,987,078	2,604,168	2,310,524	-
2. Other securities	5,788,139	-	709,133	5,158,292	74,750	-	-	74,750
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	5,788,139	-	709,133	5,158,292	74,750	-	-	74,750
Total	**16,378,138**	**1,063,769**	**10,300,449**	**5,158,292**	**5,100,110**	**2,604,168**	**2,315,430**	**74,750**

"Other securities – other" include certificates of deposit issued by Group banks.

1.4 BREAKDOWN OF SUBORDINATED DEBT/SECURITIES

	31/12/2019	31/12/2018
A.1 Subordinated debt	**1,021**	**-**
- banks	1,021	-
- customers	-	-
B.1 Subordinated securities	**754,339**	**268,014**
- banks	696,589	268,014
- customers	57,750	-
Total	**755,360**	**268,014**

The sub-item B.1 "Subordinated securities – banks" includes €524 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	176,999	95,733
Movables	6,120	-
Electronic systems	5,942	246
Other	45	28

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 31/12/2019					Total 31/12/2018				
	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	290	312	-	-	312	511	540	-	-	540
2. Due to customers	332	313	-	-	313	1,398	1,407	-	-	1,407
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**622**	**625**	**-**	**-**	**625**	**1,909**	**1,947**	**-**	**-**	**1,947**
B. Derivatives										
1. Financial derivatives	X	5	162,211	887	X	X	1,569	241,940	-	X
1.1 Trading	X	5	162,211	-	X	X	1,569	241,881	-	X
1.2 Associated with fair value option	X	-	-	887	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	59	-	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**	**5**	**162,211**	**887**	**X**	**X**	**1,569**	**241,940**	**-**	**X**
Total (A+B)	**X**	**630**	**162,211**	**887**	**X**	**X**	**3,515**	**241,940**	**-**	**X**

Key:
NV=nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3
* Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

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 31/12/2019					Total 31/12/2018				
	NV	Fair value			Fair value *	NV	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	**11,006**	**7,933**	**3,528**	**-**	**11,055**	**446**	**469**	**-**	**-**	**442**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	11,006	7,933	3,528	-	X	446	469	-	-	X
Total	**11,006**	**7,933**	**3,528**	**-**	**11,055**	**446**	**469**	**-**	**-**	**442**

Key:
NV= Nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3
* Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

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.

3.2 BREAKDOWN OF “FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE”: SUBORDINATED LIABILITIES

	31/12/2019	31/12/2018
A. Financial liabilities designated as at fair value – Subordinated liabilities	**405**	**-**
A.1 Due to banks	-	-
A.2 Due to customers	-	-
A.3 Securities issued	405	-

SECTION 4 - HEDGING DERIVATIVES – ITEM 40

4.1 HEDGING DERIVATIVES: COMPOSITION BY TYPE OF HEDGE AND LEVEL OF INPUTS

	NV	Fair value 31/12/2019			NV	Fair value 31/12/2018		
	31/12/2019	L1	L2	L3	31/12/2018	L1	L2	L3
A) Financial derivatives	**7,617,757**	**22**	**321,409**	**-**	**3,331,186**	**-**	**69,033**	**-**
1) Fair value	7,586,602	22	321,075	-	3,287,518	-	67,749	-
2) Cash flows	31,155	-	334	-	43,668	-	1,284	-
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**7,617,757**	**22**	**321,409**	**-**	**3,331,186**	**-**	**69,033**	**-**

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

4.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	Fair value							Cash flows		Foreign investments
	Specific									
	Debt securities and interest rates	Equity securities and stock indices	Foreign currencies and gold	Credit	Commodities	Other	Generic	Specific	Generic	
1. Financial assets measured at fair value through other comprehensive income	384	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortized cost	172,051	X	33	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	147,757	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**172,435**	**-**	**33**	**-**	**-**	**-**	**147,757**	**-**	**-**	**-**
1. Financial liabilities	872	X	-	-	-	-	X	334	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**872**	**-**	**-**	**-**	**-**	**-**	**-**	**334**	**-**	**-**
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 31/12/2019	Total 31/12/2018
1. Positive adjustment of financial liabilities	-	-
2. Negative adjustment of financial liabilities	825	-
Total	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 31/12/2019	Total 31/12/2018
Amounts due to social security institutions and State	112,421	20,435
Trade payables	129,232	12,255
Securities to be settled	2,469	-
Amounts available to customers	529,795	24,493
Non-recurring transactions (acquisitions)	1,521	3,503
Liabilities for future premiums on derivatives	5,285	6,051
Tax payables due to tax authorities	407,801	30,087
Payables due to employees	153,095	17,308
Financial liabilities in respect of loans granted for a specific transaction	2,666	12,221
Guarantees issued and credit derivatives	42	-
Accrued expenses not attributable to separate line item	8,476	652
Deferred income not attributable to separate line item	19,544	8,227
Items in transit and items being processed	225,894	56,179
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)	441,995	365,905
Consolidation adjustments	2,290	1,332
Balance of illiquid portfolio items	1,068,460	57,222
Dividends to be paid	198	-
Total	3,111,184	615,869

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 31/12/2019	Total 31/12/2018
A. Opening balance	**24,696**	**25,880**
B. Increases	**311,547**	**4,030**
B.1 Provisions for the period	16,974	383
B.2 Other increases	294,573	3,649
C. Decreases	**29,989**	**5,214**
C.1 Benefit payments	21,637	1,998
C.2 Other decreases	8,352	3,216
D. Closing balance	**306,254**	**24,696**
Total	306,254	24,696

The table reports changes in the provision for termination benefits under the Italian severance pay mechanism (*trattamento di fine rapporto*, TFR). It does not report payments to external pension funds and the INPS treasury fund, which are presented in Section 8 "Other liabilities".

The sub-item B.1 "Increases – Provisions for the period" reports the positive balance between current service cost, net interest cost and actuarial gains and losses.

The sub-item B.2 "Increases – Other increases" mainly reflects the effect of the entry of the mutual banks in the Group.

The sub-item C.1 "Decreases – Benefit payments" reports uses of the provision for TFR benefits paid as advances granted in accordance with the provisions of law and applicable national collective bargaining agreements and at the end of the employment relationship.

The sub-item C.2 "Decreases – Other decreases" reports the negative balance between current service cost, net interest cost and actuarial gains and losses.

9.2 OTHER INFORMATION

With regard to the provision for TFR benefits, service cost totaled €2.7 million, while interest cost came to €3.7 million. Net actuarial losses amounted to €13.7 million and break down as follows:

- €18.5 million of losses from change in discount rate;
- €0.3 million of gains from changes in demographic assumptions;
- €4.5 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: 0.77%
- expected inflation rate: 1.20%
- expected rate of increase in remuneration: between 0.50% and 2.5%
- turn-over: 1.85% average
- mortality tables published by State Accountant General's Office and INPS disability tables.

The discount rate was determined using as a reference basket the Iboxx Obbligazioni Corporate AA 10+ index.

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 €300.6 million;
- in the case of a decrease of 0.25% the TFR provision would amount to €313 million.

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	Total 31/12/2019	Total 31/12/2018
1. Provisions for credit risk in respect of commitments and financial guarantees issued	201,431	21,401
2. Provisions for other commitments and guarantees issued	3,878	91
3. Company pension plans	-	-
4. Other provisions for risks and charges	240,391	67,479
4.1 legal disputes	96,101	37,128
4.2 personnel expense	53,748	4,252
4.3 other	90,543	26,099
Total	445,700	88,971

Item 1. “Provisions for credit risk in respect of commitments and financial guarantees issued” includes provisions for credit risk in respect of commitments to disburse funds and financial guarantees issued that are subject to the impairment rules of IFRS 9.

The sub-item 4.1 “legal disputes” mainly includes provisions for revocatory actions, in the amount of €14 million, disputes over interest, compound interest, contract terms and banking and investment services in the amount of about €34 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 €30 million.

The sub-item 4.3 “Other” reports provisions for charity and mutual aid funds in the amount of €17 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	**90**	**-**	**67,479**	**67,569**
B. Increases	**4,773**	**-**	**260,900**	**265,673**
B.1 Provisions for the year	969	-	62,927	63,896
B.2 Changes due to passage of time	-	-	283	283
B.3 Changes due to changes in the discount rate	-	-	61	61
B.4 Other increases	3,804	-	197,629	201,433
C. Decreases	**985**	**-**	**87,988**	**88,973**
C.1 Use during the period	218	-	63,616	63,834
C.2 Changes due changes in the discount rate	-	-	687	687
C.3 Other decreases	767	-	23,685	24,452
D. Closing balance	**3,878**	**-**	**240,391**	**244,269**

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	40,424	23,894	9,779	74,097
Financial guarantees issued	44,765	21,015	61,553	127,333
Total	85,189	44,909	71,332	201,430

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, an increase of €250 million over 2018 following the capital increase completed in early April.

As at the reporting date, share capital of the mutual banks belonging to the Iccrea Cooperative Banking Group amounted to €912,646,476. 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	22,285,487	-
- fully paid	22,285,487	-
- partially paid	-	-
A.1 Treasury shares (-)	(16,057,902)	-
A.2 Shares in circulation: opening balance	**6,227,585**	-
B. Increases	**4,840,272**	-
B.1 new issues	4,840,272	-
- for consideration:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	4,840,272	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sales of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**(6,984,998)**	-
C.1 Cancellation	-	-
C.2 Purchase of own shares	(6,984,998)	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**4,082,859**	-
D.1 Treasury shares (+)	23,042,900	-
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 €2,313,691,928 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 €8.4 billion and include, among the largest, the legal reserve in the amount of €9.8 billion as well as a negative IFRS 9 reserve of €1.6 billion.

13.5 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

The item is entirely represented by six Additional Tier 1 bonds issued by the mutual banks between 2016 and 2018. During the period, the mutual bank Mediocrati issued one AT1 instrument in the amount of €5 million, subscribed in its entirety by the Parent Company.

13.6 OTHER INFORMATION

The section was not completed as there were no such positions as of the reporting date.

SECTION 14 - NON-CONTROLLING INTERESTS – ITEM 190

14.1 BREAKDOWN OF ITEM 190 “NON-CONTROLLING INTERESTS”

	31/12/2019	31/12/2018
Equity investments in consolidated companies with significant non-controlling interests		
1. Banca Mediocredito del F.V.G. SpA	39,981	37,578
2. Banca Sviluppo SpA	4,360	38,745
3. BCC Risparmio&Previdenza SGrpA	9,556	8,552
4. Coopersystem Società Cooperativa	13,169	-
5. BCC CreditoConsumo SpA	3,182	2,908
Other equity investments	489	5,095
Total	**70,737**	**92,878**

NON-CONTROLLING INTERESTS: COMPOSITION

	31/12/2019	31/12/2018
1. Share capital	67,418	107,183
2. Share premium reserve	4,375	4,672
3. Reserves	(8,011)	(21,554)
4. Treasury shares	-	-
5. Valuation reserves	471	743
6. Equity instruments	-	-
7. Gain (loss) pertaining to non-controlling interests	6,485	1,835
Total	**70,737**	**92,878**

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 31/12/2019	Total 31/12/2018
	Stage 1	Stage 2	Stage 3		
1.Commitments to disburse funds	**17,865,426**	**1,812,664**	**270,968**	**19,949,058**	**6,820,722**
a) Central banks	-	-	-	-	-
b) Government entities	804,745	-	-	804,745	-
c) Banks	235,863	93,413	-	329,276	6,485,136
d) Other financial companies	487,671	110,276	21,461	619,408	254,643
e) Non-financial companies	13,723,145	1,292,014	223,720	15,238,879	80,943
f) Households	2,614,001	316,961	25,787	2,956,749	-
2.Financial guarantees issued	**2,812,221**	**339,331**	**184,157**	**3,335,709**	**86,161**
a) Central banks	-	-	-	-	-
b) Government entities	31,199	-	29	31,228	-
c) Banks	516,436	4,461	-	520,897	77,663
d) Other financial companies	20,538	32,661	446	53,645	6,228
e) Non-financial companies	1,782,254	246,243	172,136	2,200,634	2,270
f) Households	461,793	55,966	11,547	529,306	-

2. OTHER COMMITMENTS AND GUARANTEES ISSUED

	Nominal value Total 31/12/2019	Total 31/12/2018
1. Other guarantees issued		
of which: impaired credit exposures	39	200
a) Central banks	-	-
b) Government entities	-	-
c) Banks	5,025	-
d) Other financial companies	942	-
e) Non-financial companies	1,669	200
f) Households	-	14
2. Other commitments		
of which: impaired credit exposures	-	-
a) Central banks	-	-
b) Government entities	-	-
c) Banks	5,389	-
d) Other financial companies	1,642	-
e) Non-financial companies	15,923	-
f) Households	-	-

3. ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

	Amount 31/12/2019	Amount 31/12/2018
1. Financial assets measured at fair value through profit or loss	72,098	82,949
2. Financial assets measured at fair value through other comprehensive income	2,234,944	75,552
3. Financial assets measured at amortized cost	18,641,463	5,951,023
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, 2019.

5. MANAGEMENT AND INTERMEDIATION SERVICES

	31/12/2019
1. Order execution on behalf of customers	**48,942,568**
a) Purchases	25,122,710
1. settled	25,097,179
2. not settled	25,532
b) Sales	23,819,857
1. settled	23,808,534
2. not settles	11,323
2. Asset management	**8,518,981**
a) Individual	4,305,663
b) Collective	4,213,319
3. Securities custody and administration	**340,569,663**
a) Third-party securities held as part of custodian bank services (excluding asset management)	82,369
1. Securities issued by consolidated companies	-
2. other securities	82,369
b) Other third-party securities on deposit (excluding asset management): other	104,330,194
1. Securities issued by consolidated companies	11,863,089
2. other securities	92,467,105
c) Third-party securities deposited with third parties	101,801,421
d) Securities owned by bank deposited with third parties	134,355,680
4. Other transactions	**22,273,598**

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)	Net amount
				Financial instruments (d)	Cash collateral received (e)	31/12/2019	31/12/2018
1. Derivatives	323,801	47,441	276,360	207,478	30,659	38,223	194,578
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2019	**323,801**	**47,441**	**276,360**	**207,478**	**30,659**	**38,223**	**X**
Total 31/12/2018	**513,800**	**13,591**	**500,209**	**257,406**	**48,225**	**X**	**194,578**

7. FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

	Gross amount of financial liabilities (a)	Financial assets offset (b)	Net amount of financial liabilities reported (c=a-b)	Related amounts not offset		Net amount (f=c-d-e)	Net amount
				Financial instruments (d)	Cash collateral received (e)	31/12/2019	31/12/2018
1. Derivatives	677,371	47,590	629,781	25,046	171,079	433,656	338,232
2. Repurchase agreements	611,460	-	611,460	575,305	420	35,735	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2019	**1,288,831**	**47,590**	**1,241,242**	**600,351**	**171,499**	**469,391**	**X**
Total 31/12/2018	**598,286**	**13,591**	**584,695**	**162,279**	**84,184**	**X**	**338,232**

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 31/12/2019	Total 31/12/2018
1. Financial assets measured at fair value through profit or loss	**8,832**	**4,743**	**199**	**13,774**	**2,217**
1.1 Financial assets held for trading	1,556	40	-	1,596	392
1.2 Financial assets designated at fair value	2,600	229	-	2,829	-
1.3 Other financial assets mandatorily at fair value	4,676	4,474	199	9,349	1,825
2. Financial assets measured at fair value through other comprehensive income	**66,018**	**-**	**X**	**66,018**	**7,834**
3. Financial assets measured at amortized cost	**352,051**	**2,406,051**	**X**	**2,758,102**	**440,645**
3.1 Due from banks	12,052	5,232	X	17,284	10,451
3.2 Loans to customers	339,999	2,400,819	X	2,740,818	430,194
4. Hedging derivatives	**X**	**X**	**(47,216)**	**(47,216)**	**-**
5. Other assets	**X**	**X**	**2,905**	**2,905**	**21**
6. Financial liabilities	**X**	**X**	**X**	**118,923**	**115,767**
Total	426,902	2,410,794	(44,113)	2,912,506	566,484
of which: interest income on impaired financial assets	1,213	236,664	-	237,877	39,072
of which: interest income on finance leases	-	138,206	-	138,206	-

Interest on loans to customers include interest income in respect of loans to customers of €2.4 billion, mainly on loans to households and non-financial companies.

“Hedging derivatives” include differences on hedging derivatives adjusting interest income on the hedged financial instruments.

Interest income on debt securities came to €426.9 million and mainly includes interest on securities issued by government entities.

The item “Financial liabilities” includes interest on funding operations at negative interest rates.

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 €9 million and mainly regards current accounts and deposits (€4.8 million) and other financing (€4 million).

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 31/12/2019	Total 31/12/2018
1. Financial liabilities measured at amortized cost	**(264,330)**	**(255,368)**	**X**	**(519,698)**	**(122,769)**
1.1 Due to central banks	(1,236)	X	X	(1,236)	-
1.2 Due to banks	(7,888)	X	X	(7,888)	(22,597)
1.3 Due to customers	(255,206)	X	X	(255,206)	(11,190)
1.4 Securities issued	X	(255,368)	X	(255,368)	(88,982)
2. Financial liabilities held for trading	**-**	**(251)**	**(142)**	**(393)**	**-**
3. Financial liabilities designated at fair value	**(400)**	**(798)**	**(215)**	**(1,414)**	**(29)**
4. Other liabilities and provisions	**X**	**X**	**(1,941)**	**(1,941)**	**(69)**
5. Hedging derivatives	**X**	**X**	**2,461**	**2,461**	**(30,180)**
6. Financial assets	**X**	**X**	**X**	**(41,677)**	**(77,558)**
Total	**(264,730)**	**(256,417)**	**164**	**(562,661)**	**(230,605)**
of which: interest expense on finance leases	(9,112)	-	(154)	(9,266)	-

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 €3.2 million and is essentially accounted for by current accounts and deposits.

1.5 DIFFERENCES ON HEDGING TRANSACTIONS

	Total 31/12/2019	Total 31/12/2018
A. Positive differences on hedging transactions:	12,219	17,074
B. Negative differences on hedging transactions:	(56,974)	(47,253)
C. Balance (A-B)	**(44,755)**	**(30,179)**

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	Total 31/12/2019	Total 31/12/2018
a) guarantees issued	26,354	2,070
b) credit derivatives	-	-
c) management, intermediation and advisory services:	329,766	167,256
1. Trading in financial instruments	1,880	4,184
2. foreign exchange	6,111	274
3. asset management	65,827	57,704
3.1 individual	10,352	1,308
3.2 collective	55,475	56,396
4. securities custody and administration	11,621	6,106
5. depository services	-	-
6. securities placement	25,155	2,301
7. order collection and transmission	21,968	1,264
8. advisory services	3,405	3,840
8.1 concerning investments	2,158	456
8.2 concerning financial structure	1,247	3,384
9. distribution of third-party services	193,799	91,582
9.1. asset management	8,552	-
9.1.1. individual	8,350	-
9.1.2. collective	202	-
9.2. insurance products	87,094	5,494
9.3. other	98,154	86,089
d) collection and payment services	225,025	42,567
e) servicing activities for securitizations	3,725	746
f) services for factoring operations	4,087	4,210
g) operation of tax collection offices	-	-
h) management of multilateral trading systems	-	-
i) holding and management of current accounts	522,107	5,911
j) other services	330,337	428,323
Total	**1,441,401**	**651,082**

The composition of fee and commission income reflects the operations of the Group’s mutual banks, which are typically composed of customer current accounts (€522.1 million), collection and payment services (€225.2 million), distribution of third-party products and services (€193.8 million, including insurance products for €87.1 million), securities placement (€25.2 million) and order collection and transmission (€22 million).

Fees and commissions concerning sub-item C.3 “asset management” regard asset management activities (€65.8 million), which are primarily performed by the Group asset management company.

“Other services” includes €265 million in fees related to the electronic money sector. 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	2,140	1,833	208	25,705	(3,532)	26,354
Management, intermediation and advisory services	8,969	30,097	64,220	275,781	(49,301)	329,766
Collection and payment services	40	38,731	4,013	377,665	(195,424)	225,025
Services for factoring operations	4,082	-	-	41	(36)	4,087
Holding and management of current accounts	85	175	4,981	517,002	(136)	522,107
Other services	7,810	298,192	512	63,768	(36,220)	334,062
Fee and commission income	**23,167**	**369,028**	**73,934**	**1,259,962**	**(284,649)**	**1,441,401**

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.

Finally, the assessment performed in 2018, the year of initial application of the standard, did not identify any substantive and significant impacts from the introduction of IFRS 15 in respect of the main products/services offered by Group entities.

2.2 FEE AND COMMISSION EXPENSE: COMPOSITION

		Total 31/12/2019	Total 31/12/2018
a) guarantees received		(2,473)	(859)
b) credit derivatives		-	-
c) management and intermediation services:		(17,462)	(41,624)
1. trading in financial instruments		(2,434)	(1,165)
2. foreign exchange		(339)	(61)
3. asset management:		(4,982)	(35,102)
3.1 own portfolio		(4,615)	(35,102)
3.2 third-party portfolio		(367)	-
4. securities custody and administration		(4,835)	(3,673)
5. placement of financial instruments		(4,872)	(1,623)
6. off-premises distribution of securities, products and services		-	-
d) collection and payment services		(24,132)	(2,356)
e) other services		(128,771)	(350,819)
	Total	**(172,838)**	**(395,658)**

"Other services" includes €109.1 million in fees and commissions from the electronic money segment.

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 31/12/2019		Total 31/12/2018	
	Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading	116	39	527	-
B. Other financial assets mandatorily measured at fair value	869	706	7,595	88
C. Financial assets measured at fair value through other comprehensive income	2,350	33	498	-
D. Equity investments	260	-	-	-
Total	**3,595**	**778**	**8,619**	**88**

The main components of this item include dividends received on the interest held in the Bank of Italy in the amount of €1.2 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	**948**	**29,354**	**(608)**	**(10,498)**	**19,196**
1.1 Debt securities	256	16,005	(362)	(4,290)	11,609
1.2 Equity securities (other equity investments)	134	2,216	(119)	(2,053)	178
1.3 Units in collective investment undertakings	558	2,116	(124)	(328)	2,222
1.4 Loans	-	-	(3)	-	(3)
1.5 Other	-	9,017	-	(3,827)	5,190
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**	**(278,907)**
4. Derivatives	**64,753**	**50,129**	**(54,299)**	**(65,835)**	**279,463**
4.1 Financial derivatives:	64,753	50,129	(54,299)	(65,835)	279,463
- on debt securities and interest rates	63,137	50,125	(54,110)	(64,173)	(5,021)
- on equity securities and equity indices	1,616	-	(187)	(1,662)	(233)
- on foreign currencies and gold	X	X	X	X	284,715
- other	1	4	(2)	-	2
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	65,701	79,483	(54,906)	(76,333)	19,752

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 31/12/2019	Total 31/12/2018
A. Gain on:		
A.1 Fair value hedges	40,127	11,839
A.2 Hedged financial assets (fair value)	220,242	28,908
A.3 Hedged financial liabilities (fair value)	2,198	477
A.4 Cash flow hedges	1,034	3,546
A.5 Assets and liabilities in foreign currencies	-	-
Total income on hedging activities (A)	**263,601**	**44,770**
B. Loss on:		
B.1 Fair value hedges	(223,378)	(29,830)
B.2 Hedged financial assets (fair value)	(41,662)	(13,044)
B.3 Hedged financial liabilities (fair value)	(921)	(2,995)
B.4 Cash flow hedges	-	-
B.5 Assets and liabilities in foreign currencies	(2,412)	(3,466)
Total expense on hedging activities (B)	**(268,373)**	**(49,335)**
C. Net gain (loss) on hedging activities (A - B)	**(4,772)**	**(4,564)**
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 31/12/2019			Total 31/12/2018		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortized cost	341,380	(189,714)	151,666	68,162	(40,395)	27,767
1.1 Due from banks	2,820	(57)	2,763	7	(1)	6
1.2 Loans to customers	338,560	(189,657)	148,903	68,156	(40,394)	27,762
2. Financial assets measured at fair value through other comprehensive income	171,341	(76,921)	94,420	14,547	(78,757)	(64,210)
2.1 Debt securities	171,341	(76,921)	94,420	14,547	(78,757)	(64,210)
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**512,720**	**(266,634)**	**246,086**	**82,710**	**(119,152)**	**(36,443)**
Financial liabilities measured at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	2,328	(1,945)	383	3,665	(2,740)	925
Total liabilities (B)	**2,328**	**(1,945)**	**383**	**3,665**	**(2,740)**	**925**

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 €246.5 million and is mainly attributable to the disposal of debt securities measured at amortized cost and assets measured at FV through other comprehensive income. The disposals were carried out in compliance with the provisions of paragraphs 4.4.1, B.4.4.1 and B.4.4.2 of IFRS 9 and the IFRS 9 accounting policy – Classification & Measurement of the Iccrea Cooperative Banking Group.

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	**3,538**	**1,281**	**(1,829)**	**(306)**	**2,684**
1.1 Debt securities	2,955	1,281	(898)	(306)	3,032
1.2 Loans	583	-	(931)	-	(348)
2. Financial liabilities	**284**	**200**	**-**	**-**	**484**
2.1 Securities issued	284	200	-	-	484
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**3,822**	**1,481**	**(1,829)**	**(306)**	**3,168**

The net gain for the item includes €3 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	**49,272**	**19,016**	**(29,116)**	**(1,618)**	**37,554**
1.1 Debt securities	2,296	2,758	(2,886)	(280)	1,888
1.2 Equity securities	14,792	8,039	(1,839)	(23)	20,969
1.3 Units in collective investment undertakings	14,859	8,203	(10,914)	(1,204)	10,944
1.4 Loans	17,325	16	(13,477)	(111)	3,753
2. Financial assets: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**49,272**	**19,016**	**(29,116)**	**(1,618)**	**37,554**

The net gain on equity securities includes profits on realization of €8 million (of which €7.5 million attributable to the disposal of ordinary shares of Nexi SpA) and capital gains of €14.8 million (including Visa and SIA ordinary shares in the amount of €5 million and €5.3 million, respectively).

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 31/12/2019	Total 31/12/2018
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3		
A. Due from banks	**(2,483)**	**-**	**(215)**	**15,391**	**72**	**12,765**	**709**
- loans	(1,117)	-	(215)	14,425	72	13,165	692
- debt securities	(1,366)	-	-	966	-	(400)	17
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-	-
B. Loans to customers	**(398,717)**	**(277,360)**	**(1,678,151)**	**524,432**	**1,149,573**	**(680,223)**	**(97,535)**
- loans	(379,473)	(277,360)	(1,677,758)	511,400	1,149,573	(673,617)	(91,677)
- debt securities	(19,244)	-	(393)	13,032	-	(6,605)	(5,858)
of which: receivables purchased or originated credit-impaired	-	-	(1,230)	-	3,157	1,927	(10,561)
Total	**(401,201)**	**(277,360)**	**(1,678,366)**	**539,823**	**1,149,645**	**(667,458)**	**(96,826)**

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.

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	31/12/2019	31/12/t2018
A. Debt securities	(3,269)	(64)	(6)	4,387	89	1,137	(830)
B. Loans	(23)	-	-	-	-	(23)	-
- to customers	(23)	-	-	-	-	(23)	-
- to banks	-	-	-	-	-	-	-
of which: loans purchased or originated credit-impaired	-	-	-	-	-	-	-
Total	**(3,292)**	**(64)**	**(6)**	**4,387**	**89**	**1,114**	**(830)**

SECTION 9 - GAINS (LOSSES) FROM CONTRACT MODIFICATIONS WITHOUT DERECOGNITION – ITEM 140

9.1 GAINS (LOSSES) FROM CONTRACT MODIFICATIONS: COMPOSITION

The item, a negative €14.3 million, 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 31/12/2019	Total 31/12/2018
1) Employees	(1,638,794)	(196,232)
a) wages and salaries	(1,121,820)	(136,613)
b) social security contributions	(280,189)	(35,454)
c) termination benefits	(46,772)	(1,530)
d) pension expenditure	-	-
e) allocation to employee termination benefit provision	(11,403)	(958)
f) allocation to provision for post-employment benefits and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	(72,855)	(10,806)
- defined contribution	(72,712)	(10,754)
- defined benefit	(143)	(52)
h) costs from share-based payment plans	-	-
i) other employee benefits	(105,755)	(10,871)
2) Other personnel	(13,231)	(2,584)
3) Board of Directors and members of Board of Auditors	(48,227)	(4,548)
4) Retired personnel	-	-
Total	**(1,700,252)**	**(204,066)**

12.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

	Total 31/12/2019	Total 31/12/2018
Employees:	**21,409**	**2,400**
a) senior management	402	75
b) middle management	5,900	1,009
c) other employees	15,107	1,316
Other personnel	**294**	**1**
Total	**21,703**	**2,401**

12.3 DEFINED-BENEFIT COMPANY PENSION PLANS: TOTAL COSTS AND REVENUES

At the reporting date, the company had no defined-benefit pension plans, with no associated costs or revenues.

12.4 OTHER EMPLOYEE BENEFITS

The item “Other employee benefits” totals €105.8 million and includes, among others, lunch vouchers in the amount of €30 million, charges for early termination incentives and the income support fund in the amount of €25 million, and insurance policies for employees in the amount of €12 million.

12.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Total 31/12/2019	Total 31/12/2018
Information technology	(188,956)	(112,458)
Property and movables	(90,393)	(54,708)
- rental and fees	(16,633)	(48,681)
- ordinary maintenance	(62,830)	(5,497)
- security	(10,930)	(530)
Goods and services	(181,687)	(26,628)
- telephone and data transmission	(63,045)	(15,177)
- postal	(26,756)	(1,882)
- asset transport and counting	(21,718)	(816)
- electricity, heating and water	(35,883)	(2,610)
- transportation and travel	(16,411)	(5,381)
- office supplies and printed materials	(13,574)	(622)
- subscriptions, magazines and newspapers	(4,300)	(140)
Professional services	(271,321)	(62,175)
- professional fees (other than audit fees)	(101,683)	(31,445)
- audit fees	(8,037)	(916)
- legal and notary costs	(86,496)	(15,112)
- court costs, information and title searches	(35,814)	(1,913)
- administrative services	(39,291)	(11,703)
Insurance	(21,146)	(1,086)
Promotional, advertising and entertainment expenses	(61,589)	(9,443)
Association dues	(83,980)	(5,437)
Donations	(6,066)	(9)
Other	(101,425)	(19,647)
Indirect taxes and duties	(312,057)	(57,820)
- stamp duty	(205,137)	(5,988)
- long-term loan tax - Pres. Decree 601/73	(28,396)	(223)
- municipal property tax	(14,628)	(1,889)
- financial transaction tax	(49)	-
- other indirect taxes and duties	(63,847)	(49,720)
Total	**(1,318,620)**	**(348,325)**

Other administrative expenses include the ordinary contribution to the National Resolution Fund (BRRD) totaling €42 million, the contribution to the National Resolution Fund for bank crises of €14 million and the contribution to the Deposit Guarantee Scheme for €58 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 2019 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 million;
- other audit-related services (translations, TLTRO 3 program, GACS III, EMTN Program, signing tax returns, National Guarantee Fund, Non-Financial Statement) for €0.3 million;
- other non-audit services for €4.1 million.

These amounts are shown net of VAT, Consob fees and expenses.

SECTION 13 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 200

13.1 NET PROVISIONS FOR CREDIT RISK IN RESPECT OF COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED: COMPOSITION

	31/12/2019		
	Provisions	Reallocations of excesses	Total
Commitments to disburse funds Stage 1	(21,505)	19,217	(2,288)
Commitments to disburse funds Stage 2	(10,464)	7,174	(3,290)
Commitments to disburse funds Stage 3	(11,793)	16,166	4,373
Financial guarantees issued Stage 1	(10,896)	7,019	(3,877)
Financial guarantees issued Stage 2	(9,719)	4,540	(5,179)
Financial guarantees issued Stage 3	(24,792)	24,824	32
Total	**(89,169)**	**78,940**	**(10,229)**

13.2 NET PROVISIONS IN RESPECT OF OTHER COMMITMENTS TO DISBURSE FUNDS AND GUARANTEES ISSUED: COMPOSITION

	31/12/2019		
	Provisions	Reallocations of excesses	Total
Net provisions in respect of other guarantees issued	(3,958)	618	(3,340)

13.3 NET PROVISIONS FOR OTHER RISKS AND CHARGES: COMPOSITION

	31/12/2019		
	Provisions	Reallocations of excesses	Total
Legal disputes	(21,693)	14,404	(7,289)
Other	(15,254)	5,545	(9,710)
Total	**(36,947)**	**19,949**	**(16,999)**

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	(173,991)	(1,105)	-	(175,096)
- Owned	(118,670)	(1,105)	-	(119,775)
- Right-of-use assets in respect of leases	(55,321)	-	-	(55,321)
A.2 Investment property	(1,781)	(1,190)	29	(2,943)
- Owned	(1,781)	(1,190)	29	(2,943)
- Right-of-use assets in respect of leases	-	-	-	-
A.3 Inventories	X	(286)	-	(286)
B. Assets held for sale				
Operating assets				
Investment property		(147)		(147)
Inventories				
Total	**(175,772)**	**(2,729)**	**29**	**(178,472)**

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	(21,233)	(92)	-	(21,325)
- generated internally by the Bank	(1,209)	-	-	(1,209)
- other	(20,024)	(92)	-	(20,116)
A.2 Acquired under finance leases	-	-	-	-
Total	**(21,233)**	**(92)**	**-**	**(21,325)**

SECTION 16 - OTHER OPERATING EXPENSES/INCOME - ITEM 230

16.1 OTHER OPERATING EXPENSES: COMPOSITION

		Total 31/12/2019	Total 31/12/2018
Charges connected with lease services (consultants, insurance, taxes and duties, capital losses)		(33,755)	(28,573)
Reductions in assets not attributable to separate line item		(2,936)	(20)
Prior-year expenses not attributable to separate line item		(9,777)	(1,368)
Costs of outsourced services		(43)	(11)
Sundry charges		(10,685)	(10,578)
Settlement of disputes and claims		(3,007)	-
Amortization of expenditure for leasehold improvements		(10,349)	(179)
Other charges – extraordinary transactions		(274)	-
Robbery and theft		(837)	-
Other expenses		(12,118)	(7,795)
Consolidation adjustments		-	(9,073)
	Total	**(83,781)**	**(57,597)**

16.2 OTHER OPERATING INCOME: COMPOSITION

		Total 31/12/2019	Total 31/12/2018
A) Cost recovery		**288,801**	**39,299**
Recovery of taxes		211,758	15,541
Recovery for services to Group companies		-	344
Recovery of sundry charges		27,743	23,403
Insurance premiums		3,094	-
Property rental income		42	-
Recovery of costs from customers		12,796	11
Recovery of costs on bad loans		33,368	-
B) Other income		**142,395**	**115,594**
Insourcing revenues		1,603	64,944
Property rental income		3,298	619
Reductions in liabilities not attributable to separate line item		1,207	608
Prior-year income not attributable to separate line item		25,373	1,949
Other income from finance leases		20,640	14,476
Other income - extraordinary transactions		248	-
Other income		61,292	32,999
Accelerated processing fees		28,168	-
Consolidation adjustments		566	-
	Total	**431,196**	**154,892**

The recovery of taxes and duties (stamp duty and tax in lieu), totaling €211.8 million, mainly regard current accounts, credit cards, savings passbooks and certificates of deposit.

The reduction of revenues from insourcing compared with the previous year reflects the entry of the mutual banks in the Group and the consequent elimination of intercompany revenues recognized by the Group's IT services company.

SECTION 17 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 250

17.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total 31/12/2019	Total 31/12/2018
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	14,163	10,117
1. Revaluations	5,265	10,117
2. Gains on disposals	8,897	-
3. Writebacks	-	-
4. Other income	-	-
B. Losses	(3,264)	(1,736)
1. Writedowns	(2,232)	(1,736)
2. Impairment	(200)	
3. Losses on disposal	(832)	-
4. Other expenses	-	-
Net profit (loss)	**10,899**	**8,381**
Total	**10,899**	**8,381**

The item reports the financial impact of the equity measurement of investments in associates.

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	**28**	**(22,886)**	**-**	**-**	**(22,858)**
A.1 Operating assets:	-	-	-	-	-
- Owned	-	-	-	-	-
- Acquired under finance leases	-	-	-	-	-
A.2 Investment property:	28	(22,886)	-	-	(22,858)
- Owned	28	(22,886)	-	-	(22,858)
- Acquired under finance leases	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
B.1.1 internally generated	-	-	-	-	-
B.1.2 other	-	-	-	-	-
B.2 Acquired under finance leases	-	-	-	-	-
Total	**28**	**(22,886)**	**-**	**-**	**(22,858)**

The item reports gains/losses on the measurement of the properties held by the consolidated real estate investment funds in the amount of €21.6 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 2019 impairment loss on goodwill came to €22.7 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 31/12/2019	Total 31/12/2018
A. Property	2,503	(130)
- Gains on disposal	4,352	1
- Losses on disposal	(1,849)	(131)
B. Other assets	(343)	7,118
- Gains on disposal	587	7,118
- Losses on disposal	(930)	-
Net result	**2,160**	**6,988**

SECTION 21 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS – ITEM 300

21.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 31/12/2019	Total 31/12/2018
1. Current taxes (-)	(78,931)	(15,956)
2. Change in current taxes from previous period (+/-)	8,380	(924)
3. Reduction of current taxes for the period (+)	6,431	10,399
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	7,041	-
4. Change in deferred tax assets (+/-)	(8,652)	41,737
5. Change in deferred tax liabilities (+/-)	682	1,368
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(65,049)**	**36,623**

21.2 RECONCILIATION OF THEORETICAL TAX LIABILITY AND ACTUAL TAX LIABILITY RECOGNIZED

	31/12/2019	
IRES	**Taxable income**	**Tax**
Profit (loss) before tax on continuing operations (item 290 IS)	309,996	
Current rate	-	24%
Theoretical tax liability (24%)	-	(74,399)
Greater tax liability due to increases	722,765	
Temporary		
- Changes during the year	221,328	
Definitive		
- Reversal of temporary differences of previous years	20,395	
- Changes during the year	481,041	
Lower tax liability due to decreases	958,256	
Temporary		
- Changes during the year	72,891	
Definitive		
- Reversal of temporary differences of previous years	551,451	
- Changes during the year	245,812	
- Deductions up to limit of taxable income	88,103	
Net increase in entities with tax losses	138,111	
Taxable income (loss)	212,616	
Current gross tax (effective tax charge)		(51,028)
IRES surtax (3.5%)		(5,647)
IRES income from consolidated taxation mechanism		14,301
Tax credits		413
Current net tax in income statement		(41,960)
Changes in current tax/deferred tax assets/deferred tax liabilities (+/-)		8,350
Tax liability for the year (a)		(33,610)
IRAP	**Taxable income**	**Tax**
Profit (loss) before tax on continuing operations (item 290 IS)	309,996	
Current rate		4.65%
Theoretical tax liability (ordinary rate 4.65%)		(14,499)
Items not included in determination of income	822,989	
- Revenue and income (-)	(1,237,897)	
- Costs and charges (+)	2,060,885	
Greater tax liabilities due to increases	878,800	
Temporary		
- Changes during the year	99,2471	
Definitive		
- Reversal of temporary differences of previous years	13,920	
- Changes during the year	765,409	
Lower tax liability due to decreases	1,491,727	
Temporary		
- Changes during the year	69,793	
Definitive		
- Reversal of temporary differences of previous years	429,994	
- Changes during the year	991,940	
Net decrease in entities with tax losses	(89,802)	
Value of production	661,468	
Current tax		(30,758)
Effect of regional surtaxes/tax relief (+/-)		(6,178)
Current tax in income statement		(36,937)
Changes in current tax/deferred tax assets/deferred tax liabilities (+/-)		5,536
Tax liability for the year (b)		(31,401)
Tax in lieu	**Taxable income**	**Tax**
Tax in lieu (c)		(38)
Total income tax expense (item 300 IS) (a+b+c)		(65,049)

SECTION 22 - PROFIT (LOSS) AFTER TAXES ON DISCONTINUED OPERATIONS - ITEM 320

22.1 PROFIT (LOSS) AFTER TAXES ON DISCONTINUED OPERATIONS: COMPOSITION

	Total 31/12/2019	Total 31/12/2018
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”

	31/12/2019	31/12/2018
Consolidated equity investments with significant non-controlling interests		
1. Banca Mediocredito del F.V.G. SpA	(2,609)	(2,652)
2. BCC Risparmio & Previdenza SGrpA	3,100	2,132
3. Coopersystem Società Cooperativa	5,288	-
Other equity investments	706	2,355
Total	**6,485**	**1,835**

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 CONSOLIDATED COMPREHENSIVE INCOME

		31/12/2019	31/12/2018
10.	**Net profit (loss) for the period**	**244,963**	**7,502**
	Other comprehensive income not recyclable to profit or loss	**2,356**	**(5,416)**
20.	Equity securities designated as at fair value through other comprehensive income:	21,906	(9,261)
	a) fair value changes	22,281	(9,261)
	b) transfers to other elements of shareholders' equity	(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	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(13,755)	389
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	(1,929)	3,456
	Other comprehensive income recyclable to profit or loss	**292,926**	**(10,304)**
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:	9,959	746
	a) fair value changes	6,286	4,286
	b) reversal to income statement	3,314	(3,540)
	c) other changes	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:	430,920	(13,054)
	a) fair value changes	191,220	(6,369)
	b) reversal to income statement	63,875	(7,283)
	- adjustments for credit risk	(69)	286
	- gain/loss on realization	63,944	(7,569)
	c) other changes	175,825	598
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:	(1,272)	(2,709)
	a) fair value changes	2,593	(2,709)
	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	(146,681)	4,713
190.	**Total other comprehensive income**	**295,282**	**(15,720)**
200.	**Comprehensive income (item 10+190)**	**540,245**	**(8,217)**
210.	Consolidated comprehensive income pertaining to non-controlling interests	8,364	2,627
220.	**Consolidated comprehensive income pertaining to shareholders of the Parent Company**	**531,881**	**(10,844)**

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, in addition to CRO staff and support units (e.g. Validation), 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 from a consolidated perspective 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 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;
  - 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 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 and implementing strategic policy and risk policy and the associated implementation of those policies;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The Group devotes special attention to managing, assessing and understanding risk. All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Parent Company. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies;
- the specification of risk limits;
- the periodic monitoring of exposures 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 the entire Group.

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	1,853,218	3,057,854	299,292	3,187,938	127,471,169	135,869,471
2. Financial assets measured at fair value through other comprehensive income	80	152	-	-	8,978,341	8,978,573
3. Financial assets designated as at fair value	361	23	-	-	367,093	367,477
4. Other financial assets mandatorily measured at fair value	19	3	-	16,023	832,778	848,823
5. Financial assets held for sale	769	-	-	-	-	769
Total 31/12/2019	**1,854,447**	**3,058,031**	**299,292**	**3,203,961**	**137,649,381**	**146,065,113**
Total 31/12/2018	**439,351**	**665,964**	**29,291**	**165,432**	**38,118,182**	**39,418,220**

A.1.2 DISTRIBUTION OF CREDIT EXPOSURES BY PORTFOLIO AND CREDIT QUALITY (GROSS AND NET VALUES)

	Impaired assets				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	10,619,590	5,409,226	5,210,364	411,401	131,600,492	941,385	130,659,107	135,869,471
2. Financial assets measured at fair value through other comprehensive income	394	162	232	-	8,983,626	5,285	8,978,341	8,978,573
3. Financial assets designated as at fair value	509	125	384	-	X	X	367,093	367,477
4. Other financial assets mandatorily measured at fair value	27	5	22	-	X	X	848,801	848,823
5. Financial assets held for sale	3,338	2,569	769	38	-	-	-	769
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**
Total 31/12/2018	**2,156,739**	**1,022,131**	**1,134,608**	**27,203**	**38,235,993**	**93,328**	**38,283,560**	**39,418,220**

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	1,161	3,043	183,057
2. Hedging derivatives	-	-	17,816
31/12/2019	**1,161**	**3,043**	**200,873**
31/12/2018	**1,221**	**309**	**332,316**

* 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	527,339	3,408

B.2 STRUCTURED ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES

B.2.1. STRUCTURED ENTITIES CONSOLIDATED FOR SUPERVISORY PURPOSES

The Group does not have exposures to structured entities that are unconsolidated for accounting purposes but consolidated for supervisory purposes.

B.2.2. OTHER STRUCTURED ENTITIES

QUALITATIVE DISCLOSURES

The Group has exposures to unconsolidated structured entities, mainly regarding units subscribed and loans granted to securities/real estate investment funds (collective investment undertakings - CIUs).

These entities are not consolidated since the Group only holds minority interests, is not the fund manager and is not able to influence its returns.

During the period under review, the Group did not provide and does not intend to provide financial or other support to unconsolidated structured entities and has not acted as a sponsor of these entities.

QUANTITATIVE DISCLOSURES

	Asset portfolios (*)	Total assets (A)	Liability portfolios	Total liabilities (B)	Net carrying amount (C=A-B)	Maximum exposure to loss risk (E)	Difference between exposure to loss risk and carrying amount (E=D-C)
1. Vehicles							
2. CIUs							
	HFT	3,403			3,403	3,403	
	MFV	488,496			488,496	493,654	2,658

(*)
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 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 so as to assess the overall profitability of the relationship using the associated valuation tools/models. The assessment of creditworthiness focuses, in turn, on an analysis of the borrower's ability to repay, without prejudice to the principle that credit can only be granted if it is clear how it will be repaid.

Without prejudice to the prudential limits set by applicable regulations, which are commensurate with own funds with regard to both the magnitude of the exposure to the individual counterparty and the total amount of larger exposures, the credit strategies provide for risk limitations on the basis of specific elements, such as, for example, the nature of the transaction (e.g. transactions intended to finance real estate whose repayment will be financed by sale or lease), the situation of the specific real estate market (type of asset, economic sector, geographical area, market demand, etc.), a current and forward-looking evaluation of the asset, the accurate quantification of timing and costs of carrying out the initiative.

In general, given the recent establishment of the Iccrea Cooperative Banking Group, the management, measurement and control systems at the individual affiliated mutual banks are being developed to adapt them to the new consolidated context and evolve them in accordance with industry best practice. In this direction, Group policies were issued for all phases of the lending process and, therefore, the granting and disbursement of credit, management of guarantees, loan monitoring, loan classification, assessment of impaired positions, management of substandard positions and NPLs.

As noted earlier, the central moment of the preliminary phase of the lending process is that linked to the assessment and measurement of the credit risk of the transaction in question. The assessment is based on qualitative/quantitative information and is typically supported by the use of automated rating/scoring models designed to measure the creditworthiness of the counterparty and/or the possibility of proceeding with the transaction.

Ratings plays a key role lending, as they represent an essential element of the assessments made during the loan approval, review and renewal processes. The rating assignment involves an analysis of all the quantitative and qualitative information available to support the application approval process in order to accurately assess the risk profile of the transaction and to monitor the creditworthiness of existing counterparties over time.

For the companies in the direct scope of consolidation, the rating and scoring systems are already fully integrated into credit processes. Lending policies already provide indications concerning the minimum level of the decision-approval bodies - based on the technical form of financing, the guarantees securing the loan and the counterparty rating - and the related mechanisms for exceptions, which are granted and monitored by the Parent Company. Affiliated mutual banks have rating systems to support the loan approval/management process. In view of the recent establishment of the Group and the different information systems used by the mutual banks, a number of activities are being completed to integrate ratings in all the processes of the Group companies.

The evaluation models in use take into consideration:

- the specific features of the different types of counterparties, with particular reference to the Corporate segment (companies/producer households), Retail (consumers) and Institutional (bank counterparties);
- the specific features of the product involved, distinguishing between short, medium and long-term types of credit, or specialized technical forms (leases, factoring, consumer credit).

In general, the evaluation models use all the available updated information on the counterparty/transaction, drawn both from external sources (e.g. the Bank of Italy Central Credit Register and similar association databases, credit bureaus, financial statements, registry events) and internal sources (internal performance information).

The Group adopts a counterparty approach in assigning ratings except in specific cases in which the counterparty assessment is supplemented by a product-perspective evaluation, in consideration of any special features of a business. Using rating/scoring models, the Group assigns the counterparty a representative credit rating, adopting an on-line processing procedure, which is typically accessed through the electronic application processing system but also in batch mode, with the latter being adopted for periodic updating of ratings for all Bank customers (the loan position performance rating).

In compliance with the supervisory provisions governing the correct identification of the risk assumed, or to be assumed, in respect of a "group of connected clients", any legal or economic connections between clients are detected and evaluated by those responsible for analyzing creditworthiness during the application assessment phase of the lending process.

These objectives are achieved through an analysis that involves the acquisition of all available information such as financial statements, where available at Group level, or aggregated financial statements of the main entities involved, for subsequent processing, ad hoc information on intercompany items of a financial and operating nature that may not be reported in the financial statements, or on operating flows between Group companies, on the presence of centralized treasury operations and, more generally, on the activities, the market and the competitors of the Group and all entities connected with it.

The monitoring process envisaged by the model is independent with respect to classification status (for example, a position on which payments are being made regularly but has been classified as unlikely to pay due to another non-performing exposure in the system). It is based on the following:

- the use of early warning indicators that permit timely detection of risk signals;
- the definition and attribution of responsibilities in the monitoring process;
- the definition and execution of risk mitigation actions;
- the generation of appropriate information flows between the bank and the Parent Company.

More specifically, within the process we distinguish:

- a phase in which early warning signals are identified, using risk indicators to detect exposures affected by an appreciable increase in credit risk in order to analyze their risk profile and take appropriate management actions;
- a management phase, aimed at examining the identified positions and taking, where necessary, specific management actions in order to promptly mitigate the risk of a deterioration in the position.

The identification of the positions under observation, using IT support procedures, can be carried out manually (i.e. based on the "manual" acquisition of information about, for example, significant changes in the corporate group to which the counterparty belongs, failure to comply with covenants, voluntary declarations of difficulties made by the counterparty, news reports, etc.), or using automated processes, i.e. procedures based on a set of indicators (from external or internal sources, regarding the relationship between the bank and the counterparty, or the capital structure and financial resources of the latter) that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship.

Automated identification must be based on a set of indicators that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship (directly related to the client's relationship with the Bank or the client's financial structure, based on data from external or internal sources). These indicators are differentiated on two levels (1 and 2) that indicate an increasing degree of risk, In the case of level 2 indicators, the position undergoes an analysis of counterparty creditworthiness, which may involve a re-examination of the borrower, in order to verify the capacity of the client to honor its commitments through to full repayment.

The process of managing "watchlist" exposures therefore enables the analysis of the risk profile of "watchlist" counterparties and the definition of appropriate management actions in the context of the monitoring processes with a view to returning the position to normal status or mitigating the risk connected with the exposure.

RISK MEASUREMENT AND ASSESSMENT

For the purpose of calculating prudential requirements for credit risk, the Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The adoption of the standardized approach to determine the capital requirement against credit risk involves the subdivision of exposures into portfolios and the application of differentiated prudential treatments to each, possibly using assessments of creditworthiness (external ratings) issued by external agencies (ECAI) or by export credit agencies (ECA) recognized for prudential purposes on the basis of the provisions of Regulation (EU) 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 2019. This analysis was carried out on a sub-portfolio of performing loans and securities representative of the Group, given the general similarity of the nature, characteristics and composition of the portfolio across the various entities of the Iccrea Cooperative Banking Group, increasing the probability of occurrence of the worst macroeconomic scenario used at the end of 2019 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.

2.3 METHODS FOR MEASURING EXPECTED 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 stages (or buckets):

- stage 1, which includes all newly issued exposures and all exposures in respect of counterparties classified as performing that, as at the 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; and (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 regardless of the presence of an origination rating, allocates exposures with a rating that is better or equal to investment grade at the reporting date (BBB-) to stage 1.

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.

In order to obtain measures of the risk parameters that reflects future macroeconomic conditions, we use internally estimated “satellite” models differentiated by counterparty type that “explain” the relationship linking the target variable (e.g. historically observed default rates) to a set of “explanatory” macroeconomic variables. The forecasts for the target variable for each of the scenarios adopted, which are obtained by extrapolation using the satellite model on the basis of the expected values of the macroeconomic variables, make it possible to obtain multipliers to be applied to the risk parameters to determine lifetime measures.

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;
  - 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: on- and off-balance sheet exposures other than those classified as defaulted or unlikely to pay exposures that as of the reference date of the report have been continuously past due or overlimit by more than 90 days and exceed the materiality threshold of 5%;
- 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 “watchlist 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 concessions as potentially identifiable as forbearance if:

- the measures entail a modification of the terms and conditions of a contract, whether as the result of the exercise of clauses envisaged in the contract itself or following negotiations with the Group company concerned (renegotiations);
- the measures entail the grant of new financing to a borrower in financial difficulty to enable discharge of the pre-existing obligation (refinancing): total or partial refinancing of an existing exposure occurs when a new credit line allows the borrower to discharge the obligations deriving from pre-existing loan agreements.

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.

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 PRUDENTIAL CONSOLIDATION - DISTRIBUTION OF FINANCIAL ASSETS BY TIME PAST DUE (CARRYING AMOUNT)

	Stage 1			Stage 2			Stage 3		
	Up to 30 days	From 30 to 90 days	More than 90 days	Up to 30 days	From 30 to 90 days	More than 90 days	Up to 30 days	From 30 to 90 days	More than 90 days
1. Financial assets measured at amortized cost	1,640,211	15,078	17,746	785,214	457,231	272,323	279,546	187,374	3,592,394
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	3	2
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
Total 31/12/2019	**1,640,211**	**15,078**	**17,746**	**785,214**	**457,231**	**272,323**	**279,546**	**187,377**	**3,592,396**
Total 31/12/2018	**1,327,180**	**9,940**	**15**	**48,547**	**39,479**	**18,095**	**46,654**	**31,128**	**887,446**

A.1.2 PRUDENTIAL CONSOLIDATION - FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND GUARANTEES ISSUED: DEVELOPMENTS IN TOTAL WRITEDOWNS AND TOTAL PROVISIONS

	Total writedowns									
	Stage 1					Stage 2				
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	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	**42,980**	**299**	**691**	**-**	**43,971**	**48,566**	**722**	**54**	**2**	**49,341**
Increases in financial assets purchased or originated	3,386	294	-	44	3,636	885	602	-	35	1,451
Derecognition other than write-offs	10,147	357	-	84	10,420	11,111	904	-	125	11,890
Net writedowns/writebacks for credit risk	16,220	(3,493)	(658)	(1,693)	13,763	(83,182)	(865)	(79)	(3,449)	(80,690)
Contractual modifications without derecognition	(415)	(1)	-	-	(415)	4,344	-	-	4	4,340
Change in estimation method	8	-	-	8	-	(2)	-	-	-	(2)
Writeoffs not recognized directly through profit or loss	45	-	-	-	45	340	-	-	-	340
Other changes	303,315	6,107	-	11,641	297,787	626,926	2,880	-	15,596	614,205
Closing balance	**355,303**	**2,849**	**33**	**9,915**	**348,277**	**586,087**	**2,435**	**(25)**	**12,063**	**576,415**
Recoveries from collection on written-off financial assets	-	-	-	-	-	1,761	-	-	-	1,760
Writeoffs recognized directly through profit or loss	47	-	-	35	12	326	-	-	176	149

	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	**1,020,188**	**152**	**681**	**968,657**	**52,365**	**10,561**	**6,903**	**13,390**	**2,595**	**1,137,223**
Increases in financial assets purchased or originated	38	-	-	38	-	38	-	-	-	**5,204**
Derecognition other than write-offs	374,908	-	-	366,225	8,683	27	1,176	21	4,203	**402,826**
Net writedowns/writebacks for credit risk	146,142	(1)	1,191	147,532	(200)	(1,779)	16,760	6,944	2,535	**101,514**
Contractual modifications without derecognition	(8,077)	-	-	(7,972)	(104)	-	2	(2)	4	**(4,144)**
Change in estimation method	-	-	-	1,174	(1,174)	-	-	-	-	**6**
Writeoffs not recognized directly through profit or loss	700,738	-	-	663,972	36,766	101	127	-	1,938	**703,188**
Other changes	5,326,578	10	-	5,279,149	47,440	9,524	62,935	24,513	72,339	**6,425,605**
Closing balance	**5,409,225**	**162**	**1,872**	**5,358,380**	**52,880**	**18,216**	**85,296**	**44,824**	**71,331**	**6,559,394**
Recoveries from collection on written-off financial assets	5,815	-	-	5,815	-	-	-	-	-	**7,576**
Writeoffs recognized directly through profit or loss	58,322	-	-	44,553	13,769	-	-	-	-	**58,695**

A.1.3 PRUDENTIAL CONSOLIDATION - FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED: TRANSFERS BETWEEN CREDIT RISK STAGES (GROSS AND NOMINAL VALUES)

	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortized cost	4,488,746	3,613,133	731,305	294,712	463,029	78,978
2. Financial assets measured at fair value through other comprehensive income	39,867	-	76	-	10,625	-
3. Financial assets held for sale	217	16	-	-	1	1
4. Commitments to disburse funds and financial guarantees issued	914,130	697,092	38,712	9,148	83,021	15,436
Total 31/12/2019	**5,442,960**	**4,310,243**	**770,093**	**303,860**	**556,676**	**94,415**
Total 31/12/2018	**509,085**	**504,794**	**115,081**	**20,562**	**91,235**	**1,893**

A.1.4 PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired assets	Performing assets			
A. On-balance-sheet exposures					
a) Bad loans	16	X	-	16	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to be repaid	639	X	215	423	-
- of which: forborne exposures	96	X	-	96	-
c) Impaired past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	209	4	205	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing assets	X	8,964,039	7,928	8,956,112	31
- of which: forborne exposures	X	-	-	-	-
Total A	**655**	**8,964,248**	**8,147**	**8,956,7561**	**31**
B. Off-balance-sheet exposures					
a) Impaired	-	X	-	-	-
b) Performing	X	970,021	40,659	929,362	-
Total B	**-**	**970,021**	**40,659**	**929,362**	**-**
Total A+B	**655**	**9,934,269**	**48,807**	**9,886,214**	**31**

* 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	Performing assets			
A. On-balance-sheet exposures					
a) Bad loans	5,330,274	X	3,475,842	1,854,432	396,150
- of which: forborne exposures	906,359	X	509,982	396,377	62,838
b) Unlikely to be repaid	4,937,609	X	1,880,002	3,057,608	15,281
- of which: forborne exposures	2,683,731	X	951,376	1,732,356	13,364
c) Impaired past due exposures	355,349	X	56,056	299,292	8
- of which: forborne exposures	73,177	X	10,829	62,349	-
d) Performing past due exposures	X	3,339,289	135,522	3,203,767	-
- of which: forborne exposures	X	283,091	25,801	257,290	-
e) Other performing assets	X	129,533,235	803,941	128,729,294	563
- of which: forborne exposures	X	1,460,259	95,571	1,364,688	-
Total A	**10,623,232**	**132,872,524**	**6,351,363**	**137,144,393**	**412,002**
B. Off-balance-sheet exposures					
a) Impaired	471,797	X	70,408	401,389	-
b) Performing	X	22,668,745	90,025	22,578,720	-
Total B	**471,797**	**22,668,745**	**160,432**	**22,980,110**	**-**
Total A+B	**11,095,028**	**155,541,269**	**6,511,795**	**160,124,502**	**412,002**

* Values to be reported for information purposes

A.1.6 PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS IMPAIRED POSITIONS

	Bad loans	Unlikely to pay	Impaired past-due
A. Opening gross exposure	**-**	**-**	**-**
- of which: exposures assigned but not derecognized	-	-	-
B. Increases	**16**	**639**	**214**
B.1 from performing exposures	16	40	-
B.2 from purchased or originated impaired financial assets	-	-	-
B.3 from other categories of impaired exposures	-	214	-
B.4 contractual modifications without derecognition	-	-	-
B.5 other increases	-	385	214
C. Decreases	**-**	**-**	**214**
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	-	-	214
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross exposure	**16**	**639**	**-**
- of which: exposures assigned but not derecognized	-	-	-

A.1.6 BIS PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS FORBORNE EXPOSURES BY CREDIT QUALITY

	Impaired forborne exposures	Performing forborne exposures
A. Opening gross exposure	**-**	**-**
- of which: exposures assigned but not derecognized	-	-
B. Increases	**96**	**-**
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	96	-
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	**96**	**-**
- 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	**1,099,517**	**1,019,301**	**37,918**
- of which: exposures assigned but not derecognized	11,543	19,151	781
B. Increases	**7,138,602**	**6,169,191**	**678,012**
B.1 from performing exposures	168,297	950,761	255,941
B.2 from purchased or originated impaired financial assets	134	-	-
B.3 from other categories of impaired exposures	1,060,371	147,810	3,381
B.4 contractual modifications without derecognition	-	185	-
B.5 other increases	5,909,800	5,070,436	418,690
C. Decreases	**2,907,845**	**2,250,883**	**360,581**
C.1 to performing exposures	1,419	328,777	80,428
C.2 writeoffs	772,117	98,584	3,490
C.3 collections	646,787	723,961	73,988
C.4 realized on disposals	410,931	24,403	3,751
C.5 losses on disposals	779,034	16,725	694
C.6 to other categories of impaired exposures	10,796	1,017,789	182,976
C.7 contractual modifications without derecognition	-	2,586	8,477
C.8 other decreases	286,761	38,058	6,777
D. Closing gross exposure	**5,330,274**	**4,937,609**	**355,349**
- of which: exposures assigned but not derecognized	12,827	28,803	825

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	**629,205**	**200,466**
- of which: exposures assigned but not derecognized	2,630	8,556
B. Increases	**4,246,254**	**2,678,231**
B.1 from performing exposures with no forbearance	175,565	547,193
B.2 from performing exposures with forbearance	219,283	X
B.3 from impaired exposures with forbearance	X	215,479
B.4 from impaired exposures with no forbearance	90,070	8,885
B.5 other increases	3,761,336	1,906,674
C. Decreases	**1,212,191**	**1,135,347**
C.1 to performing exposures with no forbearance	X	621,636
C.2 to performing exposures with forbearance	215,479	X
C.3 to impaired exposures with forbearance	X	219,283
C.4 writeoffs	138,772	9,049
C.5 collections	515,255	238,145
C.6 realization from disposal	73,904	2,424
C.7 losses on disposals	98,133	425
C.8 other decreases	170,648	44,385
D. Closing gross exposure	**3,663,268**	**1,743,350**
- of which: exposures assigned but not derecognized	116,080	74,180

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	**-**	**-**	**-**	**-**	**-**	**-**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-
B. Increases	**-**	**-**	**267**	**33**	**214**	**-**
B.1 writedowns of purchased or originated credit-impaired assets	-	X	-	X	-	X
B.2 other writedowns	-	-	-	-	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 from other categories of impaired positions	-	-	214	-	-	-
B.5 contractual modifications without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	53	33	214	-
C. Decreases	**-**	**-**	**52**	**33**	**214**	**-**
C.1 writebacks from valuations	-	-	52	33	-	-
C.2 writebacks from collections	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 writeoffs	-	-	-	-	-	-
C.5 to other categories of impaired positions	-	-	-	-	214	-
C.6 contractual modifications without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Total closing adjustments	-	-	**215**	-	-	-
- 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	**660,166**	**74,239**	**353,337**	**163,832**	**8,627**	**1,047**
- of which: exposures assigned but not derecognized	3,108	388	5,167	582	69	-
B. Increases	**5,180,902**	**795,879**	**2,591,378**	**1,270,190**	**104,839**	**24,578**
B.1 writedowns of purchased or originated credit-impaired assets	539	X	-	X	-	X
B.2 other writedowns	719,775	137,261	686,314	306,042	48,776	10,351
B.3 losses on disposal	179,269	27,801	10,818	5,037	1,674	184
B.4 from other categories of impaired positions	469,219	196,632	19,965	8,333	668	209
B.5 contractual modifications without derecognition	4,713	442	8,138	8,092	5	-
B.6 other increases	3,807,386	433,743	1,866,144	942,687	53,715	13,834
C. Decreases	**2,365,226**	**360,136**	**1,064,713**	**482,646**	**57,412**	**14,796**
C.1 writebacks from valuations	210,981	46,720	285,138	159,116	9,697	2,731
C.2 writebacks from collections	683,371	80,343	115,938	49,251	7,163	1,492
C.3 gains on disposal	188,880	19,329	5,496	4,754	-	-
C.4 writeoffs	772,117	118,758	98,584	19,976	3,490	38
C.5 to other categories of impaired positions	2,393	1,026	461,013	195,381	26,446	8,101
C.6 contractual modifications without derecognition	-	-	6,106	-	10	-
C.7 other decreases	507,484	93,959	92,438	54,169	10,604	2,434
D. Total closing 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

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	**258,931**	**98,540**	**40,932,386**	**857,558**	**542,055**	**3,696**	**99,618,444**	**142,311,611**
- Stage 1	169,855	60,697	40,639,516	773,021	536,604	1,295	77,515,783	119,696,770
- Stage 2	89,076	37,844	292,458	78,983	5,451	2,386	11,489,054	11,995,251
- Stage 3	-	-	412	5,554	-	15	10,613,607	10,619,589
B. Financial assets measured at fair value through other comprehensive income	**83,708**	**18,893**	**8,056,464**	**107,805**	**23,617**	**77,263**	**607,867**	**8,975,616**
- Stage 1	80,886	17,107	8,044,183	67,091	3,398	77,263	584,184	8,874,111
- Stage 2	2,822	1,786	12,281	40,715	20,219	-	23,289	101,112
- Stage 3	-	-	-	-	-	-	394	394
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**4,453**	**4,453**
- Stage 1	-	-	-	-	-	-	1,117	1,117
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	3,336	3,336
Total (A+B+C)	**342,639**	**117,433**	**48,988,850**	**965,363**	**565,671**	**80,959**	**100,230,764**	**151,291,680**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	19,940	19,940
D. Commitments to disburse funds and financial guarantees issued	**21,486**	**108,142**	**531,827**	**72,281**	**2,109**	**-**	**22,573,176**	**23,309,020**
- Stage 1	11,124	106,434	456,430	67,534	538	-	19,806,051	20,448,111
- Stage 2	10,362	1,707	75,396	73	1,570	-	2,061,560	2,150,669
- Stage 3	-	-	-	4,674	-	-	705,565	710,240
Total (D)	**21,486**	**108,142**	**531,827**	**72,281**	**2,109**	**-**	**22,573,176**	**23,309,020**
Total (A+B+C+D)	**364,125**	**225,575**	**49,520,677**	**1,037,645**	**567,780**	**80,959**	**122,803,940**	**174,600,700**

A.2.2 PRUDENTIAL CONSOLIDATION - DISTRIBUTION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BY INTERNAL RATING GRADES

	Internal rating grades							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8
A. Financial assets measured at amortized cost	**1,054,863**	**1,007,406**	**2,574,023**	**1,082,841**	**941,463**	**628,809**	**590,599**	**207,191**
- Stage 1	1,054,444	1,002,572	2,541,580	951,039	773,522	462,970	381,522	41,274
- Stage 2	419	4,834	32,443	131,801	167,941	165,839	194,089	165,917
- Stage 3	-	-	-	-	-	-	14,988	-
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**587,820**	**2,077**	**-**	**-**	**16,609**	**-**
- Stage 1	-	-	587,820	-	-	-	16,609	-
- Stage 2	-	-	-	2,077	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**564**
- Stage 1	-	-	-	-	-	-	-	564
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A+B+C)	**1,054,863**	**1,007,406**	**3,161,842**	**1,084,918**	**941,463**	**628,809**	**607,208**	**207,191**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
D. Commitments to disburse funds and financial guarantees issued	**131,664**	**114,517**	**134,395**	**83,301**	**102,798**	**54261**	**161,321**	**40,974**
- Stage 1	130,812	113,387	133,041	81,634	94,357	51,060	132,090	3,684
- Stage 2	852	1,130	1,354	1,667	8,440	3,201	28,458	37,291
- Stage 3	-	-	-	-	-	-	773	-
Total (D)	**131,664**	**114,517**	**134,395**	**83,301**	**102,798**	**54,261**	**161,321**	**40,974**
Total (A+B+C+D)	**1,186,527**	**1,121,923**	**3,296,237**	**1,168,219**	**1,044,261**	**683,070**	**768,529**	**248,165**

	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	**81,927**	**17,822**	**625**	**37**	-	-	**134,124,042**	**142,311,611**
- Stage 1	11,069	600	625	-	-	-	112,475,553	119,696,770
- Stage 2	70,655	12,004	-	37	-	-	11,049,309	11,995,251
- Stage 3	203	5,218	-	-	-	-	10,599,180	10,619,589
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**8,369,110**	**8,975,616**
- Stage 1	-	-	-	-	-	-	8,269,682	8,874,111
- Stage 2	-	-	-	-	-	-	99,035	101,112
- Stage 3	-	-	-	-	-	-	394	394
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**3,889**	**4,453**
- Stage 1	-	-	-	-	-	-	553	1,117
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	3,336	3,336
Total (A+B+C)	**81,927**	**17,822**	**625**	**37**	**-**	**-**	**142,497,606**	**151,291,680**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	19,940	19,940
D. Commitments to disburse funds and financial guarantees issued	**48,368**	**4,581**	**134**	**-**	**-**	**-**	**22,432,706**	**23,309,020**
- Stage 1	13,066	-	-	-	-	-	19,694,980	20,448,111
- Stage 2	35,303	4,581	134	-	-	-	2,028,258	2,150,669
- Stage 3	-	-	-	-	-	-	709,467	710,240
Total (D)	**48,368**	**4,581**	**134**	**-**	**-**	**-**	**22,432,706**	**23,309,020**
Total (A+B+C+D)	**130,295**	**22,402**	**759**	**37**	**-**	**-**	**164,930,313**	**174,600,700**

A.3 DISTRIBUTION OF SECURED CREDIT EXPOSURES BY TYPE OF GUARANTEE

A.3.1 PRUDENTIAL CONSOLIDATION – ON- AND OFF-BALANCE SHEET SECURED CREDIT EXPOSURES TO BANKS

			Collateral (1)				Unsecured guarantees (2)									Total (1) + (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	
1. Secured on-balance-sheet credit exposures:	**2,528,986**	**2,528,263**	**-**	**-**	**1,977,594**	**147,226**	**-**	**-**	**-**	**-**	**-**	**366,200**	**484**	**3,058**	**6,251**	**2,500,813**
1.1 fully secured	2,004,226	2,003,982	-	-	1,977,594	(0)	-	-	-	-	-	140	361	2,924	5,911	1,986,930
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	524,760	524,282	-	-	-	147,226	-	-	-	-	-	366,060	123	134	340	513,883
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance-sheet credit exposures:	**10,617**	**10,257**	**-**	**-**	**-**	**25**	**-**	**-**	**-**	**-**	**-**	**-**	**3,587**	**1,570**	**252**	**5,434**
2.1 fully secured	6,894	6,777	-	-	-	25	-	-	-	-	-	-	3,587	1,570	105	5,287
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	3,723	3,479	-	-	-	-	-	-	-	-	-	-	-	-	147	147
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 PRUDENTIAL CONSOLIDATION – ON- AND OFF-BALANCE SHEET SECURED CREDIT EXPOSURES TO CUSTOMERS

			Collateral (1)				Unsecured guarantees (2)									Total (1) + (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	
1. Secured on-balance-sheet credit exposures:	**77,513,740**	**72,049,618**	**46,896,889**	**2,969,674**	**3,158,205**	**2,558,257**	**-**	**-**	**-**	**225**	**14**	**3,545,486**	**269,107**	**624,107**	**10,856,831**	**70,878,795**
1.1 fully secured	73,251,193	68,404,077	46,166,431	2,927,335	3,103,337	2,316,104	-	-	-	-	14	2,375,939	191,229	519,459	10,547,599	68,147,447
- of which: impaired	8,528,770	4,535,676	3,557,984	367,194	4,395	63,980	-	-	-	-	-	140,426	6,276	30,906	357,938	4,529,098
1.2 partially secured	4,262,548	3,645,541	730,457	42,339	54,868	242,153	-	-	-	225	-	1,169,547	77,879	104,648	309,232	2,731,347
- of which: impaired	927,744	341,334	232,455	1,750	1,302	7,668	-	-	-	-	-	18,040	437	8,141	39,404	309,196
2. Secured off-balance-sheet credit exposures:	**8,277,331**	**8,220,833**	**43,431**	**-**	**92,929**	**368,577**	**-**	**-**	**-**	**-**	**1**	**73,146**	**23,623**	**88,650**	**7,115,964**	**7,806,321**
2.1 fully secured	7,329,387	7,286,896	33,898	-	84,410	320,784	-	-	-	-	1	54,633	11,503	71,920	6,709,078	7,286,227
- of which: impaired	198,367	169,501	2,076	-	565	15,312	-	-	-	-	-	4,064	3,102	3,673	140,350	169,142
2.2 partially secured	947,944	933,938	9,533	-	8,519	47,793	-	-	-	-	-	18,514	12,119	16,730	406,886	520,094
- of which: impaired	36,108	25,728	1,166	-	37	3,829	-	-	-	-	-	235	-	1,460	13,403	20,130

A.4 FINANCIAL AND NON-FINANCIAL ASSETS OBTAINED THROUGH ENFORCEMENT OF GUARANTEES RECEIVED

	Derecognized credit exposure	Gross value	Total writedowns	Carrying amount	
					of which obtained during the year
A. Property, plant and equipment	**8,962**	**13,832**	**2,108**	**11,724**	**97**
A.1. Used in operations	97	97	-	97	-
A.2. Investment property	2,190	4,199	192	4,007	-
A.3. Inventories	6,675	9,536	1,916	7,620	97
B. Equity and debt securities	**-**	**-**	**-**	**-**	**-**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets and disposal groups held for sale	**6,528**	**9,620**	**1,529**	**8,091**	**476**
D.1. Property, plant and equipment	6,528	9,620	1,529	8,091	476
D.2. Other assets	-	-	-	-	-
Total 31/12/2019	**15,490**	**23,452**	**3,637**	**19,815**	**573**
Total 31/12/2018	**5,370**	**6,837**	**1,618**	**5,219**	**-**

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY SECTOR

		Government entities		Financial companies		Financial companies (of which: insurance undertakings)	
		Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance sheet							
A.1 Bad loans		808	1,702	7,072	17,280	-	-
- of which: forborne exposures		-	-	1,638	2,585	-	-
A.2 Unlikely to be repaid		185	69	16,995	14,291	-	-
- of which: forborne exposures		173	59	6,283	6,230	-	-
A.3 Impaired past due exposures		98	15	2,567	395	-	-
- of which: forborne exposures		-	-	295	48	-	-
A.4 Performing exposures		50,160,470	14,199	7,177,519	81,705	122,744	-
- of which: forborne exposures		672		3,284	74	-	-
	Total (A)	**50,161,561**	**15,986**	**7,204,153**	**113,670**	**122,744**	**-**
B. Off-balance sheet							
B.1 Impaired exposures		5	-	21,013	217	-	-
B.2 Performing exposures		834,729	1,211	640,654	15,525	-	-
	Total (B)	**834,734**	**1,211**	**661,667**	**15,742**	**-**	**-**
Total (A+B)	**31/12/2019**	**50,996,295**	**17,197**	**7,865,820**	**129,412**	**122,744**	**-**
Total (A+B)	**31/12/2018**	**7,345,541**	**1,474**	**2,545,010**	**22,693**	**-**	**-**

		Non-financial companies		Households	
		Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance sheet					
A.1 Bad loans		1,263,621	2,582,212	582,931	874,648
- of which: forborne exposures		276,550	395,137	118,189	112,260
A.2 Unlikely to be repaid		2,096,207	1,437,076	944,222	428,566
- of which: forborne exposures		1,223,330	753,292	502,570	191,796
A.3 Impaired past due exposures		115,995	21,900	180,632	33,746
- of which: forborne exposures		22,712	3,717	39,341	7,064
A.4 Performing exposures		36,903,274	459,745	37,691,798	383,813
- of which: forborne exposures		878,705	76,401	739,316	44,879
	Total (A)	**40,379,096**	**4,500,933**	**39,399,583**	**1,720,773**
B. Off-balance sheet					
B.1 Impaired exposures		346,579	66,110	33,792	4,081
B.2 Performing exposures		17,018,100	60,267	3,481,440	13,022
	Total (B)	**17,364,679**	**126,377**	**3,515,232**	**17,103**
Total (A+B)	**31/12/2019**	**57,743,775**	**4,627,310**	**42,914,815**	**1,737,876**
Total (A+B)	**31/12/2018**	**9,535,212**	**940,638**	**2,010,904**	**168,106**

B.2 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY GEOGRAPHICAL AREA

	Italy		Other European countries		Americas	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet						
A.1 Bad loans	1,852,637	3,471,353	1,630	2,679	59	1,717
A.2 Unlikely to be repaid	3,038,458	1,873,595	15,331	5,593	1,454	245
A.3 Impaired past due exposures	298,627	55,971	636	82	25	2
A.4 Performing exposures	131,272,170	936,172	537,928	2,534	83,017	581
TOTAL A	**136,461,892**	**6,337,092**	**555,525**	**10,889**	**84,556**	**2,545**
B. Off-balance-sheet						
B.1 Impaired exposures	401,383	70,407	5	-	1	-
B.2 Performing exposures	21,896,538	88,897	69,003	1,010	2,956	7
TOTAL B	**22,297,921**	**159,304**	**69,008**	**1,011**	**2,957**	**7**
TOTAL (A+B) 31/12/2019	**158,759,813**	**6,496,396**	**624,533**	**11,900**	**87,514**	**2,552**
Total (A+B) 31/12/2018	**20,853,823**	**1,121,359**	**274,952**	**8,736**	**103,937**	**2,380**

	Asia		Rest of the world	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet				
A.1 Bad loans	-	-	106	93
A.2 Unlikely to be repaid	2,306	192	58	376
A.3 Impaired past due exposures	1	-	3	1
A.4 Performing exposures	19,517	83	20,430	92
TOTAL A	**21,823**	**275**	**20,596**	**562**
B. Off-balance-sheet				
B.1 Impaired exposures	-	-	-	-
B.2 Performing exposures	1,577	3	4,848	107
TOTAL B	**1,577**	**3**	**4,848**	**107**
TOTAL (A+B) 31/12/2019	**23,401**	**278**	**25,444**	**669**
Total (A+B) 31/12/2018	**78,276**	**376**	**5,811**	**60**

B.3 PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS BY GEOGRAPHICAL AREA

	Italy		Other European countries		Americas	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	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	8,485,368	7,335	401,796	323	27,016	261
Total A	**8,485,368**	**7,335**	**401,812**	**323**	**27,016**	**261**
B. Off-balance-sheet						
B.1 Impaired exposures	-	-	-	-	-	-
B.2 Performing exposures	906,917	38,613	8,094	5	2,687	1
Total (B)	**906,917**	**38,613**	**8,094**	**5**	**2,687**	**1**
Total (A+B) 31/12/2019	**9,392,285**	**45,947**	**409,906**	**329**	**29,703**	**263**
Total (A+B) 31/12/2018	**19,243,854**	**3,506**	**219,273**	**262**	**10,869**	**102**

	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	-	-	423	215
A.3 Impaired past due exposures	-	-	-	-
A.4 Performing exposures	658	1	41,478	12
Total A	**658**	**1**	**41,902**	**227**
B. Off-balance-sheet				
B.1 Impaired exposures	-	-	-	-
B.2 Performing exposures	1,433	2	676	7
Total (B)	**1,433**	**2**	**676**	**7**
Total (A+B) 31/12/2019	**2,091**	**3**	**42,577**	**234**
Total (A+B) 31/12/2018	**6,483**	**39**	**2,660**	**6**

B.4 LARGE EXPOSURES

The rules governing the concentration of exposures define a large exposure as one to a customer or group of connected customers that (regardless of the weighted position) is equal to or greater than 10% of 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, 2019:

- number of positions: 24
- value of exposure: 72,606 million
- weighted value: 1,730 million

The top 5 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 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 transferors and the Parent Company, Iccrea Banca, with the simultaneous payment of the purchase price.

The non-performing loans were derecognized by each of the assignors following the sale of the mezzanine and junior tranches to Bracebridge Capital LLC, which took place on December 19, 2019 for both tranches. More specifically, Bracebridge Capital LLC subscribed (i) 94.57% of the principal of the mezzanine notes, equal on the issue date to €50.1 million at a price equal to 51.26% of the principal amount and (ii) 94.57% of the principal of the junior notes, equal on the issue date to €12.5 million at a price equal to 0.008% of the principal amount.

The following table summarizes the amount and annual rates of the notes issued:

Tranche	Amount issued (€/millions)	Rate
Senior Notes	355.0	Euribor 6m + 0.30%
Mezzanine Notes	53.0	Euribor 6m + 6.50%
Junior Notes	13.2	Variable Return
Total	**421.2**	

In addition, as part of the transaction:

- the SPV has established a hedging strategy with Banco Santander S.A. with cap option on interest rates in an initial amount equal to the overall nominal value of the senior and mezzanine notes;
- the SPV entered into a servicing agreement with Italfondiario SpA on December 2, 2019, a company belonging to the doValue Group under the direction and coordination of doValue SpA, which acts as Master Servicer, with doValue SpA acting as Special Servicer. These companies are responsible, inter alia, for (i) the management, administration, recovery and collection of loans; (ii) certain reporting activities relating to the loans; and (iii) monitoring the compliance of the transaction pursuant to Article 2, paragraph 6-bis, of Law 130;
- a cash reserve was set up in an amount equal to 3% of the nominal value of the senior notes (€10.9 million) 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 granted by Iccrea Banca.

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).

The following table shows the positions in respect of the securitization held by the Group at December 31, 2019.

Class	Nominal amount (€/millions)	Fair value (€/millions)
Class A	355.0	355.0
Class B	2.9	1.5
Class C	0.7	-
Limited-recourse loan	10.9	10.9

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 €387.2 million at the consolidated level) and the consideration received (equal to about €382.2 million at the consolidated level);
- recognized the notes subscribed in its balance sheet, for a total consolidated value of €355 million in senior notes, €1.5 million in mezzanine notes and €57 of junior securities.

From the point of view of the prudential treatment of the securitization, the significant transfer of risk in compliance with Article 244(2)(a) of the CRR, without prejudice to compliance with the requirements governed by Article 244(4), had already occurred as at December 31, 2019 because, as attested by the derecognition model: (i) following placement of the mezzanine and junior notes issued in the securitization, the risk-weighted exposure amounts of the mezzanine securitization positions held by the assignor banks institution in the securitization where significantly less than 50% of the risk-weighted exposure amounts of all mezzanine securitization positions existing in this securitization; and (ii) the reasonable estimate of expected losses on the securitized portfolio is significantly lower than exposures deducted or which would be deducted from Common Equity Tier 1 capital or subject to a risk weight of 1250%.

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. However, at the reporting date the guarantee on the senior liabilities issued by the special purpose vehicle had not yet been issued and, for this reason, at December 31, 2019 the weighting of the Group's exposures represented by the senior notes in the portfolio did not benefit from the mitigation offered by that guarantee.

More generally, for the purpose of measuring the overall capital requirement for credit risk generated by the operation, in application of the provisions of Regulation (EU) No. 2017/2401, the Group has adopted the SEC-SA (Securitization Standardized Approach) method, based on a "supervisory formula" to calculate the capital requirement for each tranche. However, for exposures to the securitization with a rating (specifically, the senior and mezzanine tranches), since the application of this methodology would produce a risk weight of more than 25% and the application of the SEC- ERBA would produce a weight of more than 75%, the Group has adopted the latter methodology, quantifying the risk weight to be assigned to its exposures on the basis of the provisions of Article 263 of Regulation (EU) No. 575/2013.

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.

The effects of the securitization relevant for financial reporting purposes are therefore:

- a change in the temporal distribution of cash flows (the cash flows from the assigned loans are "replaced" by the cash flows connected with the notes subscribed);
- the costs incurred for the operation, which are essentially represented by the net value of the costs and income incurred/realized by the SPV in respect of third parties (e.g. holders of the senior notes, etc.).

The accounting representation of the transaction can therefore be summarized in the following steps:

- the assignor banks continue to present the assigned assets in their balance sheets;
- in respect of the consideration due from the SPV, the assignor banks recognize, at the time of the transfer, liabilities for the assets assigned transferred but not derecognized under other liabilities;
- the subscription by the assignor banks of the notes issued by the SPV, reducing the liability in respect of the assets sold but not derecognized;
- the cash flows between the SPV and the assignor banks (e.g. flows in respect of the assigned loans and other forms of guarantee provided as well as the notes subscribed by the originator) do not impact the income statement of the banks but reduce liabilities for assets sold but not derecognized;
- the assignor banks must recognize charges and income generated by the securitization (interest paid to the holders of Class A notes and other transaction costs).

For the purposes of the prudential treatment of the transaction, the securitization does not meet the requirements for recognition for prudential purposes and, therefore, the assignor banks weight the assets sold but still recognized in the assets of their financial statements as if they had never been securitized.

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.

OWN SECURITIZATIONS CARRIED OUT IN PREVIOUS YEARS

"GACS I"

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;
- €10.5 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.

As a result of the above transactions, at the effective date of the assignment (July 10, 2018), the assignor banks fully derecognized the assigned loans in the amount of €1.046 billion and recognized the senior notes in the amount of €282 million, mezzanine securities of €1.5 million and junior notes of €0.5 million.

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	282.0	255.5
Class B	1.6	0.6
Class C	1	-

As noted previously, the securitization was structured to possess the characteristics envisaged by the regulations mentioned earlier so that the senior notes would be eligible for the State guarantee, in view of the deconsolidation by the assignors of the transferred loan portfolio, in accordance with IAS/IFRS. The State guarantee was issued with a measure dated September 7, 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).

As a result of the above transactions, at the effective date of the assignment (July 10, 2018), the assignor banks fully derecognized the assigned loans in an amount of more than €2 billion and recognized senior notes in the amount of €478 million, mezzanine notes of €3.3 million and junior notes of €1 million.

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	478.0	482.6
Class B	3.3	0.5
Class C	1.0	-

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.

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	10.2
Junior	0.4	0.4

MARMAROLE SPV SECURITIZATIO

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	21.4
Class B	0.6	0.6

The assignor banks do not perform any servicer activities in the securitization and do not hold any interest in the special purpose vehicle.

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	10.7
Junior	3.1	2.5

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	Euribor3m+0.10%
Senior Notes – Class A2	480.0	Euribor3m+0.85%
Senior Notes – Class B	65.0	Euribor3m+1.15%
Senior Notes – Class C	9.4	Euribor3m+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.

Redemption of the Class A1 notes began in December 2018 at the end of the two-year revolving period and was completed in 2019. The Class C notes were redeemed in December 2018.

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 €160 million.

Financial instruments	Nominal value (€/millions)	Carrying amount (€/millions)
Senior notes	529.0	150.0
Mezzanine notes	15.0	10.0
Total	**544.0**	**160.0**

The Group does not perform any servicer activities for third-party securitizations and does not hold any interest in the related special purpose vehicles.

The main exposures to third-party securitizations include, with a carrying amount of €135.8 million, senior unrated notes issued by the vehicle company Lucrezia Securitization 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	1,154,605	(723)	2,540		3,266	(6)												
Loans	10,859	(41)																
B. Partially derecognized																		
C. Not derecognized																		
Performing receivables					865,275	(6,254)												

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 to the BCC NPLs 2019 vehicle for the limited-recourse loan described in the section on the GACS III securitization. Writedowns/writebacks refer to 2019 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	138,740	(54,187)	339	(8)														
Performing receivables	11,272	(292)	9,638	(39)														
Loans	27,939	(106)																

The table reports the exposures assumed by the Group in respect of third-party securitizations. Writedowns/writebacks refer to 2019 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	226,463	-	-	246,607	12,442	1,120
2. BCC NPLS 2018-2 S.r.l.	Conegliano, Via V. Alfieri.1	no	449,238	-	-	464,563	10,844	1,705
3. BCC NPLS 2019 S.r.l.	Conegliano, Via V. Alfieri.1	no	382,170	-	-	355,000	27,207	21
4. Credico Finance 18 S.r.l.	Rome, Via Barberini, 47	no	497,194	-	-	290,000	-	229,430
5. Iccrea Sme Cart 2016 s.r.l.	Rome, Via Barberini, 47	no	79,964	-	13	301,976	65,000	617,500
6. Marmarole SPV S.r.l.	Conegliano, Via V. Alfieri.1	no	137,359	-	-	93,691	-	48,850
7. SPV Project 1714 S.r.l.	Milan, Via Pestalozza 12/14	no	22,599	-	-	13,382	-	11,440
8. Leone SPV S.r.l.	Milan, Via San Prospero.4	no	16,835	-	-	10,222	-	7,760
9. Nepal S.r.l.	Milan, Via San Prospero.4	no	193,176	-	-	126,600	-	54,525

C.4 PRUDENTIAL CONSOLIDATION - UNCONSOLIDATED SPECIAL PURPOSE SECURITIZATION VEHICLES

	Accounting classification of assets (*)	Total assets (A)	Accounting classification of liabilities	Total liabilities (B)	Net carrying amount (C=A-B)	Maximum loss exposure (D)	Difference between loss exposure and carrying amount (E=D-C)
A. Own securitizations with full derecognition of assigned assets							
BCC NPLS 2018 S.r.l.	AC	255,536			255,536	255,536	
	MFV	655			655	655	
BCC NPLS 2018-2 S.r.l.	AC	482,656			482,656	482,656	
	MFV	525			525	525	
BCC NPLS 2019 S.r.l.	AC	376,785			376,785	376,785	
	MFV	1,440			1,440	1,440	
Marmarole SPV S.r.l.	AC	21,357			21,357	21,357	
	MFV	563			563	563	
SPV Project 1714 S.r.l.	AC	13,182			13,182	13,182	
Leone SPV S.r.l.	AC	10,083			10,083	10,083	
	MFV	386			386	386	
Nepal S.r.l.	AC	5,865			5,865	5,865	
	MFV	127			127	127	
B. Own securitizations with no derecognition of assigned assets							
Iccrea Sme Cart 2016 S.r.l.	AC	990,332	PFAC	366,087	624,245	624,245	
Credico Finance 18 S.r.l.	AC	470,460	PFAC	229,430	241,030	241,030	
C. Third-party securitizations					-	-	
Lucrezia Securitisation S.r.l. - Padovana Irpina	AC	40,539			40,539	40,539	
Lucrezia Securitisation S.r.l. - Crediveneto	AC	22,322			22,322	22,322	
Lucrezia Securitisation S.r.l. - Teramo	AC	4,854			4,854	4,854	
Lucrezia Securitisation S.r.l. – BCC Romagnolo	AC	68,050			68,050	68,050	
Astrea Due SPV S.r.l.	MFV	8,528			8,528	8,528	
Cheese Take S.r.l.	AC	298			298	298	
Eridano II SPV S.r.l.	AC	9,638			9,638	9,638	
Borghese Uno S.r.l.	AC	2,875			2,875	2,875	
Agresti 6 SPV S.r.l.	AC	1,448			1,448	1,448	
Multiseller NPL S.r.l.	MFV	441			441	441	
Tyndaris Prestacap SPV S.r.l.	MFV	6			6	6	
Viveracqua Hydrobond S.r.l.	AC	793			793	793	

(*) 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, 2019, the Group did not perform servicer activities for own securitizations in which the assigned assets had been derecognized pursuant to IFRS 9.

C.6 PRUDENTIAL CONSOLIDATION - CONSOLIDATED SPECIAL PURPOSE SECURITIZATION VEHICLES

There were no consolidated special purpose securitization vehicles at the reporting date.

D. DISPOSALS

A. FINANCIAL ASSETS ASSIGNED BUT NOT FULLY DERECOGNIZED

QUALITATIVE DISCLOSURES

The operations mainly regard the use of government securities holdings for short- and medium-term repurchase transactions and receivables from customers assigned in the Group's securitization of its own assets.

QUANTITATIVE DISCLOSURES

D.1 PRUDENTIAL CONSOLIDATION - FINANCIAL ASSETS ASSIGNED BUT FULLY RECOGNIZED AND ASSOCIATED FINANCIAL LIABILITIES: CARRYING AMOUNTS

	Financial assets assigned but fully recognized				Associated financial liabilities		
	Carrying amount	of which: securitized	of which: 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	**108,757**	**-**	**108,757**	**-**	**128,111**	**453**	**127,658**
1. Debt securities	108,757	-	108,757	-	127,658	-	127,658
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	453	453	-
E. Financial assets measured at amortized cost	**12,353,894**	**1,477,444**	**10,861,963**	**29,548**	**11,362,566**	**639,976**	**10,716,247**
1. Debt securities	10,861,963	-	10,861,963	-	10,716,247	-	10,716,247
2. Loans	1,491,931	1,477,444	-	29,548	646,319	639,976	-
Total 31/12/2019	**12,462,651**	**1,477,444**	**10,970,720**	**29,548**	**11,490,676**	**640,429**	**10,843,905**
Total 31/12/2018	**2,505,023**	**1,279,767**	**1,218,706**	**23,132**	**3,307,850**	**545,386**	**2,755,786**

D.2 PRUDENTIAL CONSOLIDATION - FINANCIAL ASSETS ASSIGNED AND PARTIALLY RECOGNIZED AND ASSOCIATED FINANCIAL LIABILITIES: CARRYING AMOUNTS

	Full value of original assets before assignment	Carrying amount of assets still partially recognized	of which impaired	Carrying amount of associated financial liabilities
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	**634**	**-**	**-**	**654**
1. Debt securities	634	-	-	654
2. Loans	-	-	-	-
Total 31/12/2019	**634**	**-**	**-**	**654**
Total 31/12/2018	**-**	**-**	**-**	**-**

D.3 PRUDENTIAL CONSOLIDATION - DISPOSALS INVOLVING LIABILITIES WITH RECOURSE ONLY ON ASSIGNED ASSETS NOT DERECOGNIZED: FAIR VALUE

	Fully recognized	Partially recognized	Total 31/12/2019	Total 31/12/2018
A. Financial assets held for trading	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets designated as at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**32,405**	**-**	**32,405**	**-**
1. Debt securities	65	-	65	-
2. Equity securities	-	-	-	-
3. Loans	32,340	-	32,340	-
E. Financial assets measured at amortized cost (fair value)	**272,617**	**-**	**272,617**	**5,530**
1. Debt securities	82,046	-	82,046	-
2. Loans	190,571	-	190,571	5,530
Total financial assets	**305,022**	**-**	**305,022**	**5,530**
Total associated financial liabilities	**36,433**	**-**	**X**	**3,335**
Net value 31/12/2019	**268,589**	**-**	**268,589**	**X**
Net value 31/12/2018	**2,195**	**-**	**X**	**2,195**

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, 2019, 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 2019 Banca CRAS 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 SATOR Immobiliare SGR SpA

At the assignment date, the net value of the loans amounted to over €1.5 million, with a total of €1.8 million in terms of gross carrying amount.

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. The fund may also increase the assets it manages through investment in impaired loans secured by real estate – with a view to acquiring property rights in the properties securing the positions - within specified quantitative and temporal limits. The value of units, determined every six months, is repaid at the end of the fund's term, without prejudice to the possibility of partial repayments in exceptional circumstances. Units are freely transferable.

The units are pari passu and there is no tranching of repayment of the units or payment of the distributable income generated in the management of the funds. The distribution of distributable income to those entitled is approved by the management company's board of directors when it approves the report of the fund.

In return for the disposal of the assets, Banca CRAS subscribed at total of €5 million in fund units, recognizing through profit or loss 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.

CLESSIDRA RESTRUCTURING FUND

At the end of September 2019, BCC Credito Padano completed the assignment of a portfolio of impaired loans secured by third mortgages and pledges on the debtor's shares to a restricted closed-end alternative real estate investment fund (AIF) denominated Clessidra Restructuring Fund managed by Clessidra SGR SpA

At the assignment date, the net value of the loans amounted to about €1.5 million, with total of €3.7 million in terms of gross carrying amount.

The purpose of the fund is to increase the value of its assets through investments and capital appreciation, mainly at medium and long term - without prejudice to the possibility for the Fund to divest assets even in the short term where such operations are carried out in the interest of the investors – primarily involving the purchase and/or subscription and/or the assignment and/or sale, directly or indirectly, of loans, disbursements, and if the conditions are met, of other instruments. As regards investments in loans, the fund rules establish that the fund may invest in impaired loans or portfolios of impaired loans with a maturity not exceeding the term of the fund, mainly originating from medium/long-term loans secured by mortgages, or receivables connected and/or ancillary to the those instruments, even if not listed.

Following the disposal of the assets, BCC Credito Padano subscribed a total of €2.2 million in fund units, posting a profit of €0.6 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.

Ares 1 Fund

In March 2019, BCC di Pisa e Fornacette signed a contract for the assignment of a portfolio of impaired loans secured by first mortgages and unsecured loans to a restricted closed-end alternative real estate investment fund (AIF) denominated Ares 1 managed by Namira SGR p.A.

At the assignment date, the net value of the loans amounted to €4.6 million, with total of about €23 million in terms of gross carrying amount.

The main purpose of the fund is the investment and management of loans acquired through contributions and other assets acquired following the collection of receivables or through purchases from subscribers or third parties, also on an ancillary and residual basis, in accordance with the provisions indicated below. On an ancillary and residual basis, up to a limit of one third of the total assets of the fund, in order to diversify assets and/or meet treasury and liquidity needs, the fund - in addition to loans - may invest the own resources in: (i) financial instruments traded on a regulated market; (ii) financial instruments not traded on a regulated market; (iii) shares or units of collective investment undertakings (UCITS or AIFs, including real estate funds), whether domestic or foreign, traded or not traded on a regulated market, including those promoted or managed by the asset management company or by other entities belonging to the group to which the asset manager belongs ("connected CIUs"). Following recovery activities involving the acquisition of real estate assets, the asset manager, in implementing the purpose of the fund, may invest up to one third of the total assets of the fund in (i) real estate of various categories and use; (ii) direct or indirect equity investments in real estate companies and holding companies investing in real estate companies, listed and unlisted; and (iii) property rights.

Following the disposal of the assets described above, BCC di Pisa e Fornacette subscribed about €7 million in fund units, posting a profit of about €2.2 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.

P&G Credit Management Uno

In November 2019, BCC di Pisa e Fornacette completed the assignment of a portfolio of impaired loans secured by first mortgages and unsecured loans to a restricted closed-end alternative real estate investment fund (AIF) denominated P&G Credit Management Uno managed by P&G SGR SpA.

At the assignment date, the net value of the loans amounted to €2.7 million, with total of about €13.3 million in terms of gross carrying amount.

The main purpose of the fund is the investment and management of loans acquired through contributions and other assets acquired following the collection of receivables or through purchases from subscribers or third parties, also on an ancillary and residual basis, in accordance with the provisions indicated below. On an ancillary and residual basis, up to a limit of one third of the total assets of the fund, in order to diversify assets and/or meet treasury and liquidity needs, the fund - in addition to loans - may invest the own resources in: (i) financial instruments traded on a regulated market; (ii) financial instruments not traded on a regulated market; (iii) shares or units of collective investment undertakings (UCITS or AIFs, including real estate funds), whether domestic or foreign, traded or not traded on a regulated market, including those promoted or managed by the asset management company or by other entities belonging to the group to which the asset manager belongs ("connected CIUs"). Following recovery activities involving the acquisition of real estate assets, the asset manager, in implementing the purpose of the fund, may invest up to one third of the total assets of the fund in (i) real estate of various categories and use; (ii) direct or indirect equity investments in real estate companies and holding companies investing in real estate companies, listed and unlisted; and (iii) property rights.

Following the disposal of the assets described above, BCC di Pisa e Fornacette subscribed about €3.1 million in fund units, posting a profit of about €0.4 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 fund presents a level of risk related to the intrinsic characteristics of the underlying real estate product. The risk profile of the fund 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 fund invests;
- 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.

QUANTITATIVE DISCLOSURES

	Performing exposures		Impaired exposures		Total	
	Carrying amount	Total value adjustments	Carrying amount	Total value adjustments	Carrying amount	Total value adjustments
A. Financial assets held for trading	**-**	X	X	X	**-**	X
1. Debt securities		X	X	X		X
2. Equity securities		X	X	X		X
3. Loans		X	X	X		X
4. Derivatives		X	X	X		X
B. Other financial assets mandatorily measured at fair value	**-**	X	**-**	**-**	**-**	**-**
1. Debt securities		X				
2. Equity securities		X				
3. Loans		X				
C. Financial assets designated as at fair value	**-**	X	**-**	**-**	**-**	**-**
1. Debt securities		X				
2. Loans		X				
D. Financial assets measured at fair value through other comprehensive income	**-**	-	**-**	**-**	**-**	**-**
1. Debt securities						
2. Equity securities						
3. Loans						
E. Financial assets measured at amortized cost	**-**	**-**	**39,697**	**31,568**	**39,697**	**31,568**
1. Debt securities						
2. Loans			39,697	31,568	39,697	**31,568**
Total financial assets	**-**	**-**	**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 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.

Market risks are managed using advanced measurement and monitoring methods. The Risk Management unit is responsible for the development, use and maintenance of these measurement procedures.

Risk measurement and assessment

Risk Management is the main actor in the processes for development and using measurement models and metrics for market risk.

Updates of the models and metrics are identified by Risk Management in the performance of its duties, including analysis of regulatory requirements, market best practices and input from the business units involved (Finance in particular).

Iccrea Banca uses the standardized approach for the purpose of calculating capital requirements for market risks, in accordance with the applicable supervisory regulations.

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 Iccrea Cooperative Banking Group 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.

QUANTITATIVE DISCLOSURES

1. SUPERVISORY TRADING BOOK: DISTRIBUTION BY RESIDUAL MATURITY (REPRICING DATE) OF ON-BALANCE-SHEET FINANCIAL ASSETS AND LIABILITIES AND FINANCIAL DERIVATIVES

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. SUPERVISORY TRADING BOOK: DISTRIBUTION OF EXPOSURES IN EQUITY SECURITIES AND EQUITY INDICES BY MAIN COUNTRIES OF LISTING

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

3. SUPERVISORY TRADING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

With regard to market risks on the trading book, which are managed at the Group level by Iccrea Banca, a risk tolerance of €2.5 million in 1-day VaR with a 99% confidence level has been established. From the start of the year, the risk profile of all trading operations never breached the RAS limit. The Market Risk Policy sets consistent VaR limits in terms of total operations and in terms of sub-limits for the various books, measured using the same VaR method.

In the last 250 trading days, the average VaR of the trading book was €0.5 million, with a minimum of €0.19 million and a maximum of €1.00 million (registered on July 1, 2019), which is below the overall risk limit for that specific category of operations, which was €2 million for the head of Finance.

At December 31, 2019 the VaR was €0.26 million.

Daily VaR on Trading Book	Notional (in €/millions)	VaR	
	31/12/2019	Limit	Risk Profile
Iccrea Banca	25,039	2.00	0.26

The following table reports sensitivities by risk factor at December 31, 2019, 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”).

Risk factor	Sensitivity value (in €)	Note
Interest rates	483,723	Sensitivity calculated in relation to 1 bp change
Inflation rates	(40,590)	
Credit spread	(18,038)	
Equity	152,268	Sensitivity calculated in relation to 1% change in share/equity 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

B. 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).

C. RISK MEASUREMENT

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- economic value approach: this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book (economic value of equity), construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis. Under this perspective, the analysis is conducted using a static "gone concern" approach, in which we assume the run-off of positions at maturity, without any replacement or renewal, or using a dynamic approach, developing projections for new operations that are consistent with the assumptions defined during strategic planning.
- 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:

- EVE sensitivity – regulatory approach (duration analysis – Bankit metric): the change in the expected value of the banking book due an interest rate shock is calculated by weighting the net exposure of each time bucket, determined by placing positions in the banking book in different time buckets on the basis of their repricing date, by the associated modified duration;
- EVE sensitivity – managerial approach: the change in the expected value of the banking book is calculated using a "full revaluation" approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time ("bucket sensitivity").

In 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:

- Repricing gap: this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The weighting of the exposure for each time bucket for the time between the repricing date and the selected time horizon and the subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income;
- NII sensitivity – managerial approach: 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.

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:
  - repricing risk: in order to monitor this risk category, parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged for regulatory purposes, in the standard outlier test, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
  - yield curve risk: in order to monitor this risk category, non-parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged by the reference guidelines, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
- basis risk: the analysis provides for the segmentation of the banking book based on the market parameters to which the items involved are indexed and the analysis of the time series of basis spreads with respect to the pivot rate (3-month Euribor) for the purpose of determining the size of the shocks to be applied to each;
- option risk: the analysis includes a preliminary identification of the automatic/behavioral option components in the assets and liabilities of the 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 analyzes 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.

D. 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.

E. 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.

F. STRESS TEST FRAMEWORK

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The scenarios used in measuring the exposure to the different sources of risk and in analyzing stress tests are based on both regulatory shocks and shocks defined internally.

In accordance with regulatory provisions, the Group develops scenarios characterized by larger movements in yield curves than the shocks applied for the continuous monitoring of the IRRBB in order to test the vulnerabilities of the banking book in the presence of stress conditions.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses:

- sensitivity analysis: analysis of the exposure to the IRRBB and the CSRBB with respect to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;

- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result;
- scenario analysis: analysis consisting in the assessment of the Group's ability to cope with a potential increase in its exposure to IRRBB and CSRBB based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

For each of the risk categories identified it is possible to define the associated risk factor(s), understood as an exogenous variable whose shock can have a negative impact on the economic value of the banking book and/or on the associated net interest income, in terms of smaller-than-expected loss or profit. In this perspective, the identification of risk factors is a preliminary phase in the definition of the shocks associated with stress scenarios.

All the stress scenarios adopted are generally calibrated using the historical simulation approach, based on prudential percentiles of the empirical distributions associated with the various risk parameters, using expert-based adjustments where appropriate in order to integrate forward-looking elements that are not present in the available historical data. To these scenarios, we add "purely" historical scenarios (i.e. without calculating a percentile of the historical empirical distribution), scenarios defined on a judgmental basis and scenarios provided by external sources (e.g. EBA Stress Test scenario).

QUANTITATIVE DISCLOSURES

1. BANKING BOOK: DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY (REPRICING DATE)

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. BANKING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

The interest rate risk on the banking book used for management purposes with regard to sensitivity indicators for economic value and net interest income at December 31, 2019 is reported below.

€/millions	Scenario	
	-100	+100
Impact on economic value	-544	+928
Impact on net interest income	-74	+406

1.2.3 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF EXCHANGE RATE RISK

The exchange rate risk management strategy (the FX risk factor) is based on the analysis of market developments and the different currencies in which operations are denominated. The strategy is differentiated in accordance with the type of operations:

- for major currencies (hard currencies), operators, based on the analysis of economic, macroeconomic and money management data, manage operations both to optimize existing positions and generate a profit;
- for minor currencies (local currencies), exchange rate risk is managed with a view to the total minimization of risks, except in unusual macroeconomic situations, by reducing exposures exceeding the thresholds defined with market operations of the opposite sign.

Trading is carried out on the foreign exchange and foreign exchange derivatives markets both through spot trading and through the management of short/medium-term forward positions (outright operations). The strategy of the desk is therefore aimed at intraday/multiday transactions in order to generate profit from movements in the spot foreign exchange market. Forex swaps are used to engage in forward operations, based on expectations for interest rates and exchange rates, so as to generate a profit from maintaining open short/medium-term positions in foreign currency. Based on its own analyzes, the desk also seeks to improve its profitability by taking positions in options on exchange rates.

All operations are based on techniques and methods defined and agreed at the desk level, based on operating limits assigned to the managers and operational staff that are consistent with the provisions of the risk policies.

B. HEDGING EXCHANGE RATE RISK

Operations are mainly concentrated in major currencies. The Bank adopts a system of daily operating limits on the overall foreign exchange exposure, as well as the net foreign exchange positions in respect of individual currencies. The overall limit is segmented into partial ceilings on the basis of the importance of the various currencies.

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QUANTITATIVE DISCLOSURES

1. DISTRIBUTION BY CURRENCY OF ASSETS, LIABILITIES AND DERIVATIVES

	Currency					
	USD	GBP	JPY	CAD	CHF	OTHER
A. Financial assets	**148,720**	**10,375**	**9,274**	**4,272**	**27,422**	**11,217**
A.1 Debt securities	29,809	-	-	-	-	2,872
A.2 Equity securities	20,331	3,974	110	-	23	-
A.3 Loans to banks	43,146	5,408	1,158	4,231	3,373	8,305
A.4 Loans to customers	55,434	992	8,006	41	24,026	40
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**12,394**	**6,640**	**767**	**1,379**	**5,962**	**2,244**
C. Financial liabilities	**219,770**	**15,660**	**9,354**	**4,538**	**30,678**	**9,671**
C.1 Due to banks	42,597	9,508	9,060	564	16,999	5,170
C.2 Due to customers	133,481	6,152	294	3,973	13,679	4,500
C.3 Debt securities	43,692	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**391**	**12**	**-**	**-**	**21**	**83**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ Long position	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ Long positions	3,681,099	271,595	514,402	136,903	1,306,251	175,753
+ Short positions	3,598,463	283,384	512,915	136,909	1,306,900	177,067
Total assets	**3,842,213**	**288,609**	**524,444**	**142,555**	**1,339,635**	**189,215**
Total liabilities	**3,818,624**	**299,056**	**522,269**	**141,447**	**1,337,599**	**186,821**
Difference (+/-)	**23,589**	**(10,447)**	**2,175**	**1,108**	**2,036**	**2,394**

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 31/12/2019				Total 31/12/2018			
	Over the counter			Organized markets	Over the counter			Organized markets
		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	
1. Debt securities and interest rates	-	3,394,053	1,200,836	-	-	10,730,382	1,303,242	-
a) Options	-	172,432	386,398	-	-	752,390	461,407	-
b) Swaps	-	3,221,621	807,628	-	-	9,977,992	694,458	-
c) Forwards	-	-	1,110	-	-	-	5,977	-
d) Futures	-	-	5,700	-	-	-	141,400	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	-	496	9,325	-	-	2,244	4,658	-
a) Options	-	496	-	-	-	2,244	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	8,332	-	-	-	3,866	-
d) Futures	-	-	993	-	-	-	792	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign currencies and gold	-	7,463,454	442,788	-	-	7,072,017	197,482	-
a) Options	-	-	-	-	-	9,800	6,072	-
b) Swaps	-	7,431	7,431	-	-	7,291	7,291	-
c) Forwards	-	7,456,023	435,357	-	-	7,054,926	184,120	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other underlyings	-	-	-	-	-	-	-	-
Total	**-**	**10,858,003**	**1,652,949**	**-**	**-**	**17,804,643**	**1,505,382**	**-**

A.2 FINANCIAL DERIVATIVES HELD FOR TRADING: GROSS POSITIVE AND NEGATIVE FAIR VALUE – BREAKDOWN BY PRODUCT

	31/12/2019				31/12/2018			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		Covered by netting arrangements	Not covered by netting arrangements			Covered by netting arrangements	Not covered by netting arrangements	
1. Positive fair value								
a) Options	-	1,016	72	-	-	3,496	(2,911)	-
b) Interest rate swaps	-	83,936	33,784	-	-	155,699	27,173	-
c) Cross currency swaps	-	714	-	-	-	464	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	47,684	45	-	-	66,146	4	-
f) Futures	-	-	36	-	-	-	2	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**133,349**	**33,937**	**-**	**-**	**225,805**	**24,268**	**-**
2. Negative fair value								
a) Options	-	739	994	-	-	924	6,343	-
b) Interest rate swaps	-	129,695	888	-	-	202,672	(8,098)	-
c) Cross currency swaps	-	-	711	-	-	-	458	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	41,899	5,409	-	-	48,083	1,738	-
f) Futures	-	-	4	-	-	-	1,566	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**172.333**	**8.006**	**-**	**-**	**251.679**	**2.007**	**-**

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	17,192	44,101	1,139,543
- positive fair value	X	1,227	488	32,175
- negative fair value	X	891	10	984
2) Equity securities and equity indices				
- notional value	X	993	8,332	-
- positive fair value	X	3	-	-
- negative fair value	X	-	-	-
3) Foreign currencies and gold				
- notional value	X	12,242	421,550	8,996
- positive fair value	X	-	29	15
- negative fair value	X	711	5,383	26
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	-	3,191,471	202,583	-
- positive fair value	-	82,315	2,629	-
- negative fair value	-	128,244	2,191	-
2) Equity securities and equity indices				
- notional value	-	-	-	496
- positive fair value	-	-	-	7
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	5,220,801	2,242,653	-
- positive fair value	-	33,948	14,450	-
- negative fair value	-	29,614	12,285	-
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	1,314,185	1,781,667	1,499,038	4,594,889
A.2 Financial derivatives on equity securities and equity indices	8,346	-	1,474	9,821
A.3 Financial derivatives on exchange rates and gold	7,898,456	7,785	-	7,906,242
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2019	**9,220,987**	**1,789,452**	**1,500,512**	**12,510,952**
Total 31/12/2018	**11,220,873**	**4,029,916**	**5,110,174**	**20,360,962**

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 portfolios of government securities.

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.

During the last quarter of 2019, forward sales of government securities falling under the accounting model in question were entered into, 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 2019, 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. 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

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 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. 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.

QUANTITATIVE DISCLOSURES

A. FINANCIAL HEDGING DERIVATIVES

A.1 FINANCIAL HEDGING DERIVATIVES: END-PERIOD NOTIONAL VALUES

	Total 31/12/2019				Total 31/12/2018			
	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	**-**	**8,424,463**	**31,352**	**-**	**-**	**3,449,612**	**42,000**	**-**
a) Options	-	752,498	6,159	-	-	-	-	-
b) Swaps	-	7,671,965	25,193	-	-	3,449,612	42,000	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign currencies and gold	**-**	**52,185**	**2,382**	**-**	**-**	**78,603**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	44,508	-	-	-	78,603	-	-
c) Forwards	-	7,677	2,382	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**8,476,648**	**33,734**	**-**	**-**	**3,528,215**	**42,000**	**-**

A.2 FINANCIAL HEDGING DERIVATIVES: GROSS POSITIVE AND NEGATIVE FAIR VALUE - BREAKDOWN BY PRODUCT

	Positive and negative fair value								Change in value used to calculate hedge effectiveness	
	Total 31/12/2019				Total 31/12/2018					
	Over the counter				Over the counter					
	Central counterparties	Without central counterparties		Organized markets	Central counterparties	Without central counterparties		Organized markets	Total 31/12/2019	Total 31/12/2018
		Covered by netting arrangements	Not covered by netting arrangements			Covered by netting arrangements	Not covered by netting arrangements			
Positive fair value										
a) Options	-	8,612	174	-	-	-	-	-	-	-
b) Interest rate swaps	-	38,991	-	-	-	11,074	-	-	-	-
c) Cross currency swaps	-	203	-	-	-	3,199	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	47	8	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	1	-	-	-	-	-	-	-	-
Total	**-**	**47,854**	**182**	**-**	**-**	**14,273**	**-**	**-**	**-**	**-**
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	348,996	2,288	-	-	65,988	22,846	-	-	-
c) Cross currency swaps	-	334	-	-	-	1,284	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	33	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**349,363**	**2,288**	**-**	**-**	**67,272**	**22,846**	**-**	**-**	**-**

A.3 OVER-THE-COUNTER FINANCIAL HEDGING DERIVATIVES: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY

	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	X	25,193	-	6,159
- positive fair value	X	-	-	174
- negative fair value	X	2,288	-	-
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	-	-	2,382
- positive fair value	X	-	-	8
- 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	-	7,749,951	674,512	-
- positive fair value	-	47,015	588	-
- negative fair value	-	310,468	38,528	-
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	44,535	-	7,650
- positive fair value	-	203	-	47
- negative fair value	-	337	-	30
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	3,022,874	1,520,271	3,912,670	8,455,815
A.2 Financial derivatives on equity securities and equity indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	23,062	31,505	-	54,567
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2019	**3,045,936**	**1,551,776**	**3,912,670**	**8,510,382**
Total 31/12/2018	**1,598,127**	**820,870**	**1,225,406**	**3,644,403**

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 – 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:	**1,416**	**1,416**	**(56)**	**-**	**-**	**48,444**
1.1 Debt securities and interest rates	1,416	1,416	(56)	-	-	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:	**4,168,646**	**3,956,641**	**129,924**	**-**	**186**	**2,149,479**
1.1 Debt securities and interest rates	4,182,656	3,954,321	129,431	-	186	X
1.2 Equity securities and equity indices	-	-	-	-	-	X
1.3 Foreign currencies and gold	-	-	-	-	-	X
1.4 Loans	2,320	2,320	493	-	-	X
1.5 Other assets	-	-	-	-	-	X
Total 31/12/2019	**4,170,062**	**3,958,058**	**129,867**	**-**	**186**	**2,197,923**
Total 31/12/2018	**3,131,341**	**3,131,341**	**(37,510)**	**-**	**-**	**195,700**
B. LIABILITIES						
1. Financial liabilities measured at amortized cost – hedges of:	**768,372**	**760,083**	**(4,352)**	**-**	**47**	**6,848**
1.1 Debt securities and interest rates	768,372	760,083	(4,352)	-	47	X
1.2 Foreign currencies and gold	-	-	-	-	-	X
1.3 Other assets	-	-	-	-	-	X
Total 31/12/2019	**768,372**	**760,083**	**(4,352)**	**-**	**47**	**6,848**
Total 31/12/2018	**697,200**	**697,200**	**2,760**	**-**	**-**	**-**

D.2 CASH FLOW HEDGES AND HEDGES OF INVESTMENTS IN FOREIGN OPERATIONS

	Change in value used to calculate hedge effectiveness	Hedge reserves	Discontinuance of hedge: cumulative value of hedge reserves
A. Cash flow hedges			
1. Assets	6,700	5,213	-
1.1 Debt securities and interest rates	6,700	5,213	-
1.2 Equity securities and equity indices	-	-	-
1.3 Foreign currencies and gold	-	-	-
1.4 Loans	-	-	-
1.5 Other	-	-	-
2. Liabilities	1,697	1,429	-
1.1 Debt securities and interest rates	1,697	1,429	-
1.2 Foreign currencies and gold	-	-	-
1.3 Other	-	-	-
Total A 31/12/2019	**8,397**	**6,641**	**-**
Total A 31/12/2018	**3,540**	**580**	**-**
B. Hedges of investments in foreign operations	**X**	**-**	**-**
Total A+B 31/12/2019	**8,397**	**6,641**	**-**
Total A+B 31/12/2018	**3,540**	**580**	**-**

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	-	5,647,234	-	-
- positive fair value	-	38	-	-
- negative fair value	-	156,372	-	-
2) Equity securities and equity indices				
- notional value	-	179,066	-	-
- positive fair value	-	672	-	-
- negative fair value	-	14,602	-	-
3) Foreign currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5)Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
B. Credit derivatives				
1) Purchases of protection				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Sales of protection				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

1.4 LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of liquidity risk management within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management. 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;
- 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.

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	**11,549,939**	**732,252**	**1,186,198**	**2,158,438**	**6,364,949**	**6,315,230**	**10,162,405**	**57,167,016**	**48,857,241**	**4,221,536**
A.1 Government securities	1,467	-	333,582	25,057	422,002	1,414,779	2,765,761	27,419,774	16,061,518	-
A.2 Other debt securities	10,977	89	5,381	227,004	185,876	63,129	254,308	1,142,834	1,735,113	1,511
A.3 Units in collective investment undertakings	893,115	-	-	-	-	-	-	-	-	-
A.4 Loans	10,644,380	732,163	847,234	1,906,377	5,757,072	4,837,322	7,142,337	28,604,409	31,060,610	4,220,025
- banks	1,097,546	64,228	15,118	75,565	124,473	652,813	313,604	826,314	-	4,217,953
- customers	9,546,834	667,934	832,116	1,830,813	5,632,598	4,184,509	6,828,733	27,778,095	31,060,610	2,072
On-balance-sheet liabilities	**82,551,916**	**7,630,217**	**871,515**	**1,993,213**	**6,665,575**	**9,138,976**	**6,546,228**	**24,228,573**	**1,358,470**	**1,393**
B.1 Deposits and current accounts	81,696,891	84,551	119,303	330,202	762,947	1,015,081	1,472,578	2,203,488	6,205	-
- banks	314,464	7,004	-	3,000	17,188	5,437	-	5,000	-	-
- customers	81,382,427	77,547	119,303	327,202	745,760	1,009,645	1,472,578	2,198,488	6,205	-
B.2 Debt securities	76,612	114,709	142,536	286,601	1,292,158	1,037,638	2,637,214	10,134,977	696,051	1,393
B.3 Other liabilities	778,413	7,430,958	609,676	1,376,411	4,610,470	7,086,256	2,436,436	11,890,109	656,215	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	3	695,782	349,041	1,246	1,233,607	6,540	6,300	5,305	3,565	-
- short positions	10,407	676,428	1,329	47,156	1,243,720	2,821	4,159	71,965	324,438	-
C.2 Financial derivatives without exchange of principal										
- long positions	186,712	-	101	-	10,224	9,255	9,720	39,785	8,178	-
- short positions	386,923	1,343	-	53	17,555	46,055	29,918	-	-	-
C.3 Deposits and loans to receive										
- long positions	-	8,869,214	-	81,946	1,646,718	3,302,949	2,377,537	1,906,811	-	-
- short positions	-	3,242,149	-	65,589	2,854,328	2,883,815	4,456,954	4,682,340	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	114,231	301,874	1,438	13,554	82,516	33,546	60,720	205,466	646,568	-
- short positions	1,202,786	299,385	-	301	-	190	142	57,466	290	-
C.5 Financial guarantees issued	15,465	-	-	730	716	1,477	778	7,078	21,774	-
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	**45,302**	**6,961**	**7,534**	**14,624**	**27,362**	**10,660**	**4,984**	**41,969**	**13,681**	**-**
A.1 Government securities	-	-	184	-	33	194	155	7,887	3,063	-
A.2 Other debt securities	-	-	229	3	472	1,538	1,080	16,642	822	-
A.3 Units in collective investment undertakings	5,752	-	-	-	-	-	-	-	-	-
A.4 Loans	39,551	6,961	7,121	14,622	26,857	8,928	3,748	17,441	9,797	-
- banks	28,311	4,577	3,136	4,943	458	1,208	1,225	9,263	727	-
- customers	11,240	2,383	3,985	9,678	26,399	7,720	2,524	8,178	9,070	-
On-balance-sheet liabilities	**174,052**	**21,315**	**35,438**	**6,523**	**17,037**	**1,689**	**1,196**	**30,659**	**77**	**-**
B.1 Deposits and current accounts	161,388	21,310	35,438	258	1,493	1,082	586	-	-	-
- banks	4,454	21,265	35,383	128	2	(1)	(2)	-	-	-
- customers	156,934	46	55	130	1,490	1,083	589	-	-	-
B.2 Debt securities	-	-	-	-	13,270	607	607	30,354	-	-
B.3 Other liabilities	12,663	5	-	6,265	2,273	-	2	304	77	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	3,753,205	822,052	189,131	1,284,118	3,051	4,731	35,610	527	-
- short positions	-	3,766,835	823,684	143,321	1,267,371	5,085	6,386	4,793	624	-
C.2 Financial derivatives without exchange of principal										
- long positions	1,603	-	-	-	-	-	-	-	-	-
- short positions	2,274	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to receive										
- long positions	-	477	-	-	-	-	-	-	-	-
- short positions	-	477	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

1.5 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.

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

In 2018, the Board of Directors of the Parent Company adopted a new organizational model for the Risk Management function, targeting the then imminent establishment of the Iccrea Cooperative Banking Group. In 2019, 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 those banks. With specific regard to the management of operational and IT risk, responsibilities are allocated to two levels:

- at the Parent Company, the Operational & IT Risk Management unit has been established and charged with:
  - centralized responsibility for policy-making and coordinating the operational risks for the Iccrea Cooperative Banking Group as a whole. This unit operates as a specialist hub for operational and IT risks;
  - 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 other companies directly controlled by the Parent Company, the Risk Management units report to their boards of directors and are responsible, among other duties, for monitoring and managing developments in the exposure to operational and IT risks.

With regard current overall 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),[22] 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 2019, activities leading up to the go-live of the application system to support operational and IT risk management activities were begun.

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. In the second half of 2019, the development of the related application system also began. 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, 2019 of Iccrea Banca, BCC Sistemi Informatici and Iccrea BancaImpresa.

In addition, 2019 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.

[22] One affiliated bank adopts the Traditional Standardised Approach (TSA).

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);

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 €599,572 thousand.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2019	T	4,027,636
- at December 31, 2018	T-1	4,118,360
- at December 31, 2017	T-2	3,845,438
Relevant indicator average		**3,997,145**
Regulatory coefficient		**15%**
Capital requirement		**599,572**

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.

As discussed in the report on operations, the supervisory authorities did not notify the Parent Company of the additional capital requirement for 2019 determined on the basis of the new configuration of the IBMG (the so-called SREP requirements). In this context, the applicable individual additional requirements - where present - at the date prior to the creation of the Group (i.e. P2R) for the individual members of the Group remain valid. To support the implementation of the Risk Governance processes defined on a consolidated basis, (ICBG RAS, ICBG

ICAAP, etc.), an additional internally estimated capital requirement of 1.40% was adopted, determined as the weighted average of the additional requirements with respect to RWA attributed to the individual companies of the ICBG.

On December 4, 2019 the supervisory authorities notified Iccrea Banca the results of the SREP decision establishing the prudential requirements in force at the consolidated level with effect from January 1, 2020. For further information on this decision, which represents the first assigned at the consolidated level for the Iccrea Cooperative Banking Group since its establishment, please refer to the section “Significant events during the year” in the consolidated report on operations.

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	2,381,110				2,381,110
2. Share premium reserve	151,077				151,077
3. Reserves	8,380,346			2,232	8,382,578
4. Equity instruments	30,139				30,139
5. (Treasury shares)	(1,212,256)				(1,212,256)
6. Valuation reserves:	254,982				254,982
- Equity securities designated as at fair value through other comprehensive income	(565)				(565)
- Hedges of equity securities designated as at fair value through other comprehensive income					
- Financial assets measured at fair value through other comprehensive income	40,892				40,892
- Property, plant and equipment	138				138
- Intangible assets					
- Hedging of investments in foreign operations					
- Cash flow hedges	6,642				6,642
- 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	(51,890)				(51,890)
- Share of valuation reserves of equity investments accounted for using equity method	3,089				3,089
- Special revaluation laws	256,677				256,677
7. Net profit (loss) for the period	247,195			(2,232)	244,963
Shareholders' equity	**10,232,594**				**10,232,594**

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	70,865	29,970	-	-	-	-	-	-	70,865	29,970
2. Equity securities	27,592	28,157	-	-	-	-	-	-	27,592	28,157
3. Loans	-	3	-	-	-	-	-	-	-	3
Total 31/12/2019	**98,457**	**58,130**	**-**	**-**	**-**	**-**	**-**	**-**	**98,457**	**58,130**
Total 31/12/2018	**590**	**10,260**	**-**	**-**	**-**	**-**	**-**	**-**	**590**	**10,260**

B.3 VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: CHANGE FOR THE PERIOD

	Debt securities	Equity securities	Loans
1. Opening balance	**(2,627)**	**(7,042)**	**-**
2. Increases	**328,913**	**21,721**	-
2.1 Fair value gains	137,694	18,858	-
2.2 Writedowns for credit risk	2,411	X	-
2.3 Reversal to income statement of negative reserves: from realization	56,796	X	-
2.4 Transfers to other components of shareholders' equity (equity securities)	1,730	2,745	-
2.5 Other changes	130,281	117	-
3. Decreases	**285,391**	**15,244**	**3**
3.1 Fair value losses	13,388	1,308	1
3.2 Writebacks for credit risk	2,533	-	-
3.3 Reversal to income statement of positive reserves: from realization	18,432	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	14	3,283	2
3.5 Other changes	251,024	10,653	-
4. Closing balance	**40,895**	**(565)**	**(3)**

The item "Increases – 2.5 Other changes" reports the transfer of the valuation reserves on debt securities reclassified from the HTCS business model to the HTC business model on January 1, 2019.

The item "Decreases – 3.5 "Other changes" reports the effect of the entry of the mutual banks in the Group, equal to €241.4 million for debt securities and €7.4 million for equity securities.

B.4 VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

Valuation reserves for defined-benefit plans were a negative €51.7 million at the end of 2019. The following table reports changes in the period as a result of changes in financial assumptions and the time value effect.

	31/12/2019	
	Positive reserve	Negative reserve
Gain (loss) from change in financial assumptions	2,708	(11,258)
Gain (loss) from time value effect	1,822	(694)
Total	**4,530**	**(11,952)**

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, in the early months of 2019 two 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 Serino into BCC di Capaccio Paestum, leading to the creation of BCC Capaccio Paestum e Serino;
- the merger of BCC di Gradara into RiminiBanca, leading to the creation of RivieraBanca – Credito Cooperativo di Rimini e Gradara.

SECTION 2 – TRANSACTIONS AFTER THE CLOSE OF THE PERIOD

In February and March 2020, four mergers of Group mutual banks were carried out for corporate reorganization purposes, with no impact on the consolidated financial statements. In accounting for the operations, the accounting values of the merged companies were preserved in the accounts of the surviving entities, in compliance with accounting practice for such transactions. The mergers involved:

- the merger of BCC di Formello into BCC di Riano, leading to the creation of Banca di Credito Cooperativo della Provincia Romana Soc. Cooperativa;
- 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;
- the merger of BCC di Monastier into BCC Pordenonese, leading to the creation of BCC Pordenonese e Monsile S.C.

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 2019 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 31/12/2019				
	Short term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
Key management personnel	12,251	345	4	-	-

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 2019 with the related parties of the Group other than fully consolidated intercompany transactions.

	Total 31/12/2019			
	Unconsolidated subsidiaries	Associated companies	Key management personnel	Other related parties
Financial assets	32,316	107,072	2,646	17,215
Total other assets	38	1,316	301	919
Financial liabilities	12,708	14,662	4,900	19,608
Total other liabilities	1,336	32	1,116	10,929
Commitments and financial guarantees issued	2,902	8,420	117	7,766
Commitments and financial guarantees received	5,940	-	19,865	248,708
Provisions for doubtful accounts	-	42	-	-

	Total 31/12/2019			
	Unconsolidated subsidiaries	Associated companies	Key management personnel	Other related parties
Interest income	1,010	270	52	3,971
Interest expense	(25)	(13)	(38)	(500)
Dividends	237	-	-	42
Fee and commission income	3,060	13,460	12	760
Fee and commission expense	(1,419)	(57)	(263)	(2,684)
Net gain (loss) on trading activities	-	-	-	(207)
Net gain (loss) on hedging activities	-	-	-	-
Other operating expenses/income	(1,378)	(65)	(147)	(44)
Writedowns/writebacks of impaired financial assets	-	-	-	(41)

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.

A.1 DISTRIBUTION BY BUSINESS SEGMENT: INCOME STATEMENT

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Net interest income	175,488	17,350	67,062	2,059,886	30,060	2,349,845
Net fee and commission income	17,333	174,424	55,261	1,075,343	(53,798)	1,268,563
Other financial expense and income	(7,838)	119,421	(803)	263,331	(67,567)	306,545
Gross income	**184,983**	**311,195**	**121,520**	**3,398,560**	**(91,304)**	**3,924,953**
Net value adjustments	(84,874)	(38,302)	(2,690)	(554,658)	(139)	(680,664)
Net gains (losses) on financial operations	**100,109**	**272,893**	**118,830**	**2,843,901**	**(91,443)**	**3,244,289**
Operating expenses	(97,897)	(315,946)	(73,089)	(2,426,452)	11,562	(2,901,823)
Other costs and revenues	1,025	(83,511)	280	(25,069)	74,820	(32,455)
Profit/(loss) from continuing operations before tax	**3,236**	**(126,565)**	**46,021**	**392,380**	**(5,061)**	**310,012**
Income tax for the period on continuing operations	(5,664)	3,858	(14,267)	(55,905)	6,929	(65,049)
Profit/(loss) for the period	**(2,428)**	**(122,707)**	**31,755**	**336,474**	**1,868**	**244,963**
Profit/(loss) for the period pertaining to non-controlling interests	**(2,605)**	**5,219**	**3,870**	**-**	**-**	**6,485**
Profit/(loss) for the period pertaining to shareholders of the Parent Company	**177**	**(127,926)**	**27,885**	**336,474**	**1,868**	**238,478**

A.2 DISTRIBUTION BY BUSINESS SEGMENT: BALANCE SHEET

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Financial assets	454,950	12,403,389	84,717	48,254,391	(6,885,458)	54,311,990
Due from banks	208,109	25,561,628	629,879	9,327,005	(28,342,375)	7,384,246
Loans to customers	8,636,403	5,844,189	1,400,123	71,492,772	(2,132,629)	85,240,858
Funding from banks	4,112,344	20,894,699	1,289,712	22,191,280	(29,614,288)	18,873,746
Funding from customers	1,057,054	17,141,526	701,479	86,999,896	(318,842)	105,581,113
Securities and other financial liabilities	3,544,016	5,946,411	76,704	12,914,010	(5,606,382)	16,874,759

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 held 3,189 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	31/12/2019
a) buildings	50,124
b) electronic systems	2,279
c) cars	2,890
d) other	28
Total	**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 90 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 assets acquired by the Bank 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 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 14, as regards the depreciation of assets leased under operating leases;
- 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 31/12/2019
	Payment to be received for leases
Up to 1 year	839,708
From more than 1 year up to 2 years	737,307
From more than 2 years up to 3 years	615,141
From more than 3 years up to 4 years	453,456
From more than 4 years up to 5 years	324,653
From more than 5 years	1,929,571
Total payments to be received for leases	**4,899,836**
Reconciliation with financing	**1,535,000**
Financial income not accrued (-)	812,466
Unguaranteed residual value (-)	722,534
Lease financing	**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.

The table does not report balances at December 31, 2018 as the Group has elected to exercise the option granted by IFRS 16 to not restate comparative information upon first-time adoption of the standard.

2.2 OTHER INFORMATION

No other information to report.

3. OPERATING LEASES

3.1 CLASSIFICATION BY MATURITY OF PAYMENTS TO BE RECEIVED

	Total 31/12/2019
	Lease payments to receive
Up to 1 year	3,531
From more than 1 year up to 2 years	3,538
From more than 2 years up to 3 years	3,325
From more than 3 years up to 4 years	3,176
From more than 4 years up to 5 years	2,781
From more than 5 years	5,158
Total	**21,509**

The table does not report balances at December 31, 2018 as the Group has elected to exercise the option granted by IFRS 16 to not restate comparative information upon first-timeadoption of the standard.

3.2 OTHER INFORMATION

No other information to report.

REPORT OF THE BOARD OF AUDITORS

Iccrea Banca SpA
Istituto Centrale del Credito Cooperativo
Parent Company of the Iccrea Mutual 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 Mutual 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, 2019, the first since the establishment of the Iccrea Mutual Banking Group ("IMBG"), the Board of Auditors of Iccrea Banca SpA 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 recommended by the National Council of the Italian accounting profession.

Appointment and activity of the Board of Auditors

The Board of Auditors was appointed by the Iccrea Banca SpA 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, in the persons of Fernando Sbarbati (Chairman), Barbara Zanardi (Standing Auditor) and Riccardo Andriolo (Standing Auditor). 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 and on the basis of the instructions contained in Bank of Italy Circular no. 285 of December 17, 2013.

Between the date of its appointment and December 31, 2019, the Board of Auditors (or at least one of its members) participated in 22 meetings of the Board of Directors, 11 meetings of the Executive Committee and 73 meetings of the Board Committees (for a total of 106 meetings). During that period, the Board of Auditors met independently 54 times to perform the additional oversight duties pertaining to it and 5 times in its capacity as the 231/01 Supervisory Body.

The activities of the Bank and the Iccrea Mutual Banking Group in 2019

The Report on Operations prepared by the directors provides extensive information on developments in the operations of the Parent Company and the IMBG, on key operational events during the year, on the structural and operational characteristics of the IMBG, on the internal control system, on the prudential regulatory framework and on the main processes performed in this area.

Within the context outlined in that report, Shareholders should note the factors - in the 2020-2023 Strategic Plan and in the vision of the supervisory authorities – have been identified as strategic and decisive for the growth of the IMBG and for its resilience in the challenging market environment we are currently experiencing. These factors are the focus of the main lines of intervention of the 2020-2023 Strategic Plan, whose preparation was essentially completed prior to the COVID 19 outbreak, with the consequent decision of the Board of Directors to suspend the system of performance and financial objectives set out in the Plan and instead execute the project to "transform" the Group, pending the updating of scenarios and models to conduct an appropriate assessment of risk. These factors include:

- the business model, which for various reasons in the current economic and financial environment indicates insufficient profitability at the Group level to enable, as in the past, the steady and consistent accumulation of equity capital of the mutual banks;
- the achievement of greater operational efficiency, boosting efficiency in the use and cost of the factors of production;
- the structure of ICT systems, which requires both the achievement of performance and quality standards that are closer to those of competitors and the standardization of the platforms used within the Group;
- the efficient management of NPEs, so as to enable the Group to continue the path taken in terms of performance, including through sales on the market;
- the completion and strengthening of the Group's overall governance.

Particular attention should be paid to the need for a rapid return to profitability for the Parent Company, Iccrea Banca, 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 IMBG.

Internal control and risk management system

A specific section of the Report on Operations describes the structure and main components of the IMBG 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 comprehensive description of the organizational arrangements adopted by the second- and third-level control functions, consistent with the specific characteristics of the IMBG 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 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 units during the period under review, 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.

With reference to the Parent Company Iccrea Banca, the results of the activity of the Control Functions found, in brief:

- for Compliance, an average "Medium-Low" exposure to compliance risk, as assessed on the basis of the existing control arrangements in relation to the individual regulations governing this area. The verification of compliance of the regulatory arrangements and processes nevertheless found a number of problem areas, for which the Board of Auditors urged remedial action;
- 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 response). The activities conducted by the Anti-Money Laundering function in the course of the year produced a final overall assessment of "partially satisfactory";
- 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, incentive system, 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 scope of the 2019 Audit Plan was very broad, including about 30 audits in 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 SpA (both in the Compliance and AML areas and Internal Audit) together with the control functions, which had produced "partially unsatisfactory" judgments concerning certain organizational aspects of control arrangements or compliance issues regarding procedural systems, such as regulatory compliance. In these cases, the Board asked to be kept informed about the implementation of the related intervention plans and urged the directors and management to perform the actions requested.

With regard to the larger population of the mutual banks, which during 2019 declined from 142 to 140 following mergers, the key fact to emphasize is the substantial and complete performance of the 2019 Audit Plan, which saw the performance of 1,796 audits (96% of the planned total), of which 1,335 focusing on "processes", 76 on the "ICT" area and 458 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 IMBG entities, both mutual banks and companies of the direct scope of consolidation) and mainly "risk based" audits.

The number of adverse audit findings was very small. At present, the unfavorable assessments of the internal control system of the affiliated banks account for less than 10% of the total.

With regard to the Report on Outsourced Operational Functions, prepared annually by Internal Audit in accordance with the Circular no. 285/2013, the postponement of the deadlines for a number of regulatory compliance activities also shifted the deadline of for the report to June 30, meaning that it was not available to the oversight body at the time of this Report was prepared. However, at the moment, no critical issues have emerged that would require mention here.

The Board of Auditors examined the information contained in the Report of the Iccrea Banca SpA Data Protection Officer (DPO) for 2019, noting that the IMBG's organizational model for the protection of personal data calls for centralization of the Data Protection Officer function at Iccrea Banca SpA. The function is part of the CCO Area, reporting to the 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 IMBG, with the associated responsibilities and obligations being specified in the service level agreements set out in those contracts.

Last year saw the completion of the “GDPR Program” begun in 2018 with the aim - through its 10 sub-projects - to develop suitable safeguards to ensure the compliance of the Banking Group’s operations with privacy legislation. The arrangements envisaged in the regulations were correctly implemented at the IMBG level.

Ensuring compliance over time requires careful monitoring of organizational and sizing issues, which are set out in the capacity plan prepared by the DPO for the correct and full implementation of the GDPR management model approved by the Board of Directors of Iccrea Banca SpA.

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 – was able to become familiar with 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 IMBG objective for 2019 to create a very significant portion of the Group’s rules, with particular regard to the identification, measurement, management and control of risks. Other sources included communications and circulars addressing more specialized issues, which are transmitted on an ongoing basis to the affiliated banks and the IMBG 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 - deemed it necessary carefully 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.

As things currently stand, the Board of Auditors informed the directors of the need, now that about a year has passed since the start of IMBG operations, for the control functions to begin, in collaboration with senior management (which controls human resources) an audit of organizational adequacy, beginning with an analysis of needs, with the updating of their number in relation to the continuous changes in the structure of the affiliated banks and the impact that the numerous ongoing/ planned mergers will have, and with the synergies that can be generated by the implementation of processes, tools and control systems.

The Board of Auditors examined the action plans for 2020 submitted by the control functions for both Iccrea Banca and for all IMBG companies.

These plans – implemented using criteria that consider external regulatory constraints, risk-based logic and the need to cover business processes - appear to be consistent with the human and financial resources indicated by the functions themselves, although further checks are in progress as part of the review of the long-term Strategic Plan.

In consideration of its central role in the process of identifying, measuring, managing and controlling risks, in the second half of 2019 the Risk Management function was involved in the following activities conducted by the supervisory authorities:

- October - December 2019: on-site inspection (OSI) concerning internal governance and the risk management framework;
- November 2019 - January 2020 : deep-dive analysis of a sample of 13 affiliated banks.

The OSI of the risk management framework produced a favorable assessment of the structure and effectiveness of the function, while highlighting areas for improvement/revision that have already or will shortly undergo remedial measures.

With regard to the overall assessment of AML arrangements, the Bank of Italy recently completed an inspection focusing on anti-money laundering issues for the entire IMBG. The inspection report has not yet been formalized. On the basis of discussions conducted by the Board of Auditors with the inspection team, no particularly critical issues appear to have emerged, without prejudice to the recommendation of the supervisory authorities to continue to devote close attention to monitoring anti-money laundering issues.

With regard to the adequacy of the organizational structure of the Parent Company, Iccrea Banca SpA, it should be emphasized that the launch of the IMBG involved a radical change in the Bank's mission and a major expansion of the scope of its activities. In relation to the change in the General Manager in mid-2019, a review is currently under way of the organizational structure designed at the time of the application for authorization to establish the new banking group. The review - within the context of the 2020-2023 Strategic Plan - also addresses a number of important issues involving the companies in the direct scope of consolidation. With the support of the Chief Operating Officer, in early 2020 the Board of Auditors initiated an analysis of reorganization processes with a view to conducting a general assessment of the adequacy of proposed or existing solutions, bearing in mind their connection with the management and coordination duties of the Parent Company.

Corporate governance

The period between the appointment of the Parent Company's corporate bodies and December 2019 represented a start-up and testing phase for the complex governance mechanisms of Iccrea Banca and the IMBG, as designed by the body of rules submitted for approval at the time the application was submitted to the supervisory authorities in 2018.

These complexities derive from the legal-formal structure of the IMBG, from the choices concerning the design of governance arrangements, from the special functions performed by the Parent Company in performance of its mission of providing management and coordination guidance for the affiliated banks. 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 prompted a revision of the Parent Company's internal governance rules. The Board of Auditors informed the Board of Directors of the need to address the actual operating procedures of the Board Committees in order to render the governance "machine" more efficient and improve the performance of the Board in responding to the growing complexity of the issues it is called upon to analyze and decide.

The Board of Auditors reported to the Board of Directors on the main activities carried out in the period between its appointment and the end of 2019 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 with targeted training in the institutional duties of the oversight body.

Relations with the supervisory authorities and prudential supervision

Supervisory review and evaluation process (SREP)

As discussed in the Report on Operations, 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 is the first assigned at a consolidated level for the Iccrea Mutual Banking Group. The own funds requirements for 2020 are:

- 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).

Consequently, the CET1 ratio and the TCR, including the P2G requirement, are equal to 10.75% and 14.25% respectively.

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 letter and the associated solutions. The state of progress of this process was assessed carefully in several stages in the early months of 2020, with no particular critical issues emerging from the investigation. 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 decision. At present, a minority of the interventions have been deferred or remain to be completed by the end of this year.

In addition to the activities associated with compliance with obligations under the Single Supervisory Mechanism, the Board of Auditors has consistently overseen the progressive implementation and compliance with the deadlines contained in the so-called waiver plan pursuant to Article 113.6 of the CRR, prepared by the senior management and approved by the Board of Directors with the aim of remedying the shortcomings found by the ECB's Joint Supervisory Team with regard to the process of identifying, measuring and managing risks. The plan sets out a major series of interventions impacting processes and systems over a period that runs through June 2020. The Board of Auditors is overseeing the implementation of the plan, both through the reporting periodically provided by management to the Board of Directors and in meetings with the Supervisory Authority Relations unit. During 2019, the progress reports submitted by the various "contributing" units showed a substantial compliance with the deadlines established in the plan.

ICAAP and ILAAP

As regards ICAAP and ILAAP, the Board of Auditors monitored 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, taking due account of the fact that the operational start-up of the IMBG and the centralization not only of units, but above all of the methodological tools of the second-level control functions will strengthen the uniformity of the approach to identifying and quantifying risk factors.

The analysis also addressed the self-assessment and the related action plan, for which the effective structuring of IT support systems – a recurring issue at this stage of the IMBG start-up – would be of fundamental importance.

The most recent exercise conducted on an exclusively consolidated basis took as its starting point the qualitative and quantitative composition of the IMBG balance sheet as at December 31, 2019 and the 2020-2023 Strategic Plan prepared in the pre-COVID-19 scenario. 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.

Inspections

As reported by the directors in the Report on Operations, the supervisory authorities conducted an inspection at Iccrea Banca SpA from October 7 to December 20, 2019 concerning the operation of Group governance at the consolidated level, with particular regard to the conflict of interest management system, as well as the adequacy and effective implementation of the risk management framework. With regard to the issues being examined, the assessment of the inspection team was generally favorable, although they noted the need for improvements in certain areas.

In other inspection-related developments, as mentioned earlier the anti-money laundering inspection for the entire IMBG was recently completed by the Bank of Italy. The related inspection report has not yet been formalized. On the basis of the discussions held by the Board of Auditors with the inspection team, no particularly critical issues appear to have emerged, without prejudice to the recommendation of the supervisory authorities to continue to devote close attention to monitoring anti-money laundering issues..

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 October 7, 2019 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. An additional meeting was held on June 3, 2020.

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 SpA at December 31, 2019 undergo statutory audit by the audit firm EY SpA 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 SpA.

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) active participation in the definition and approval by the Board of Directors of a comprehensive policy on the statutory audit engagement;
c) ongoing verification of the independence of the audit firm EY SpA in conjunction with the assessment of acceptability of proposals for non-audit engagements of EY SpA or entities belonging to its network.

As regards the activity referred to in point a), in the period between the appointment of the Board of Auditors and December 31, 2019 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, 2019 of both the Parent Company, Iccrea Banca, and the first-time consolidation of the IMBG 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 2019 financial statements of Iccrea Bank and the consolidated financial statements of the IMBG, 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), the Board of Auditors – beginning in the early months following its appointment - recommended the completion and definition of the internal policy governing the complex issue of engagements of the statutory audit firm and the members of the latter's network, in order to ensure that management procedures for this activity within the Bank and the Group are fully compliant with regulatory provisions and, in particular, with the provisions of Regulation (EU) 537/2014. The policy was examined and approved by the Board of Directors of Iccrea Banca in November 2019, with the consequent application of its main rules, limits and mechanisms as from January 2020.

With regard to the activities referred to in point c), during 2019 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, where permissible, 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 consolidated financial statements report the fees for 2019 paid to the entity engaged to perform the statutory audit of the accounts and to the entities belonging to its network, with regard to the IMBG scope of consolidation.

In order to complete the assessment of the independence of the audit firm, the Board of Auditors also examined the procedures and internal controls that the audit firm has implemented to safeguard its independence at the time of the assessment of acceptability and issue of pre-approvals for non-audit engagements, including those involving members of the EY network.

One important matter concerning statutory audit regards the resolution of issues concerning the structure of engagements in the IMBG in the light of the considerations raised in this regard by supervisory authorities (Consob) and the exemption issued in April 2019 by the latter to enable the search for appropriate regulatory solutions and/or engagements in the 2020-2021 period to determine the lapse of exceptions to the "cooling off" principle dictated by Regulation (EU) 537/2014.

The Board of Auditors has maintained a constant exchange of information with management on this issue, both in order to monitor - in its capacity as the Internal Control and Audit Committee - the identification of possible solutions to the problem and to stress the need to verify compliance by the entities belonging to the networks of the main audit firms with the "cooling in" principle set out by Regulation (EU) 537/2014 in order to make it possible for more entities to participate in any tenders to be held in the near future.

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, met on several occasions with the Parent Company's Administration unit in order to acquire information on the financial reporting process of the Parent Company, Iccrea Banca SpA, on its main constituent elements (processes, systems, resources) and on its functionality and effectiveness.

The assessments performed by the Board of Auditors concerned both the administrative processes supporting the annual financial statements and interim reporting, and reporting processes of various types, the results of which undergo periodic examination by the management body for subsequent submission to the supervisory authorities.

The Board of Auditors took note of and monitored the progressive implementation of the numerous projects in the administrative area aimed – for the affiliated banks and the other IMBG companies – at consolidating tools and processes for the management of regulatory obligations, characterized by the uniformity their treatment across the entire Group, the standardization of data, policies and processes, the optimization of the closing processes in compliance with all forms of reporting deadline. At those periodic meetings, no especially critical shortcomings with administrative and accounting procedures were reported that might jeopardize the true and fair representation of the performance and the financial position of the Company in accordance with international accounting standards. It was, however, emphasized to the directors and senior management that there was a need to reinforce the administrative and financial area in response to the expansion in the scope of operations.

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 Mutual 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 IMBG, in compliance with the related parties rules established under supervisory regulations, in 2019 Iccrea Banca defined its policy for such transactions, disseminating it with a specific directive to all Group companies, and is in the process of completing the rules, processes and IT system to manage such operations. Compliance and Internal Audit carry out periodic checks 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 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.

IMBG remuneration and incentive policies

The Board of Directors of Iccrea Banca SpA approved the "2020 IMBG 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".

These documents are the result of a comprehensive revision of the previous policies that addressed all fundamental aspects of the issue. It was implemented with the cooperation of the relevant units and the Compliance and Risk Management functions, each in its area of responsibility. The Board of Auditors monitored the review carried out by Iccrea Banca under the supervision of the Remuneration Committee, adapting the existing policies to regulatory developments, corporate needs and the new IMBG organization.

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 relation to the current governance structure and organization of the Company and the new offenses introduced in the catalog of Legislative Decree 231/01, the Supervisory Body, on the occasion of its annual report, alerted the directors of the need to update of the Compliance Model currently in force at Iccrea Banca SpA to take account of the new offenses and the recent change in the organizational structure of the Parent Company. The update of the Model has been planned as part of the Compliance function's action plan for 2020.

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.

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, primarily concerning the protection of the health and safety of workers and the operational continuity of the main processes, 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 IMBG and other key performance and financial parameters and indicators.

The Parent Company provided the IMBG companies and in particular the affiliated banks with operational guidelines concerning the various aspects of operations impacted by the emergency, among which the moratorium and support measures for firms adopted in several stages by the Government and their prudent interpretation were of primary importance.

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 checks performed and those still in progress have so far not found any problems.

Non-Financial Statement

The Consolidated Non-Financial Statement (NFS) reports information on the non-financial activities of the Iccrea Mutual 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 June 12, 2020, which reports that there is no evidence to suggest that the IMBG's Non-Financial Statement for the year ended December 31, 2019 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 SpA, 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 has 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 also engaged in activities to implement so-called "close liaison" with the boards of auditors of the affiliated banks, through the development of projects that are scheduled for implementation in the second half of this year. 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 and supervisory regulations. In particular, these included the opinion pursuant to Article 2389, third paragraph, of the Civil Code on the remuneration of directors vested with special duties and that concerning the appointment of heads of control functions.

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, 2019. 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 SpA:

- the audit reports (individual and consolidated) issued on June 12, 2020 in accordance with Article 14 of Legislative Decree 39/2010 and Article 10 of Regulation (EU) no. 537/2014;
- the additional report issued on June 12, 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 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 SpA and the IMBG at December 31, 2019, 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 IMBG at December 31, 2019 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, 2019 of Iccrea Banca SpA and the allocation of the result for the year proposed by the Board of Directors.

Rome, June 12, 2020

For the Board of Auditors

Chairman

Fernando Sbarbati

REPORT OF THE AUDIT FIRM

Iccrea Banca S.p.A.

Consolidated financial statements as at December 31, 2019

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Iccrea Banca S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Gruppo Bancario Cooperativo Iccrea (the "Group"), which comprise the consolidated balance sheet as at December 31, 2019, 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, 2019, 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.

Emphasis of matter

We draw attention to the matter described by the Directors in the explanatory notes "Part A – Accounting policies – Section 2: General preparation principles" in relation to the establishment of the Gruppo Bancario Cooperativo Iccrea, which took effect for accounting purposes on January 1, 2019. The comparative figures for the previous year indicated in the consolidated financial statements and in the tables included in the explanatory notes represent the balances of the pre-existing Iccrea Banking Group. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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We identified the following key audit matters:

Key Audit Matter	Audit Response
Preparation of the consolidated financial statements of Gruppo Bancario Cooperativo Iccrea	
The concept of Gruppo Bancario Cooperativo (mutual banking group) was introduced into Italian legal framework with Law Decree n.18 of February 14, 2016, ratified with amendments with Law n.49 of April 8, 2016. It is qualified on the basis of related applicable regulations as a Group of entities affiliated to a Central body. From the financial reporting regulations point of view, the Law n.145 of December 30, 2018 ("State budget for the 2019 fiscal year") establishes that: "*In the case of mutual banking groups pursuant to Article 37-bis of Legislative Decree n. 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 regulations referred to are relevant to the audit since they determine peculiar ways of preparing the consolidated financial statements of the mutual banking group and required Directors to carry out an in-depth analysis of legal-accounting aspects which have a high degree of complexity, including, in particular, the following: ▪ the accounts of the Company, as a Central body, and those of the affiliated BCCs are entered in continuity of values as per to those expressed in the individual financial statements; ▪ the requirements of IFRS 3 "Business combinations", apply only to any business combinations made between the single consolidating entity and third parties; ▪ the shares of the Parent Company held by the affiliated BCCs are fully eliminated and accounted for as treasury shares of the consolidating Entity. The methods for preparing the consolidated financial statements are also relevant for the	In relation to this matter, our audit procedures included, amongst others: ▪ analyzing the content of the regulations that introduced and disciplined the concept of Mutual Banking Group; ▪ discussing with the Company's management their understanding of such regulations and their effects on the methods for preparing the consolidated financial statements, also in the light of the opinion expressed by their legal consultant; ▪ analyzing the basis of preparation identified by the Directors in application of the previously mentioned regulations and financial reporting regulations, the methods used for the preparation of the consolidated financial statements, as well as of the accounting policies used and the assessment of their uniform application to the financial statements of the Group entities; ▪ analyzing and assessing, also through the support of our IT system specialists, the operational effectiveness of the controls in place in the IT applications and systems used by the various IT and administrative outsourcers of the Gruppo Bancario Cooperativo Iccrea, which are relevant for the purpose of the financial reporting process; ▪ analyzing the adequacy of the disclosures provided in the notes to the financial statements.

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	Audit Response
audit due to the presence of various IT and administrative systems in the Gruppo Bancario Cooperativo Iccrea, entailing a particular operational complexity of the consolidation process. Disclosures regarding how the consolidated financial statements of Gruppo Bancario Cooperativo Iccrea are prepared is provided in Part A - Accounting policies of the notes to the consolidated financial statements.	

Classification and valuation of loans to custormers

Loans to customers measured at amortized cost, which are reported in line item 40 b) of the consolidated balance sheet assets, represent 82% of total assets at December 31, 2019.
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.
Amongst these are particularly significant: the identification of indicators of impairment of the loans, the realizable value of the collateral acquired, the determination of the expected cash flows and their timing of collection, the probability of sale and the related cash flows for the exposures that form part of a disposal plan.
Further, with respect to the statistical based valuation, is also relevant: the definition of homogeneous credit-risk loan categories, the determination of Probability of Default ("PD") and the related estimated loss (Loss Given Default – "LGD"), based on historical data observations for each risk class along with forward looking information, including macroeconomic factors, and the determination of significant increase in risk parameters for classification amongst the various stages of reference.

Disclosures regarding the evolution of the quality of the 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

In relation to this matter, our audit procedures included, amongst others:

- understanding the policies, processes and controls implemented by the Group in relation to the classification and valuation of 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 debt securities and loans included in the line item loans to customers also considering, for certain non-performing loans portfolios for which there is a disposal plan, the related probability of disposal and the cash flows expected from the disposal;
- understanding, also with the support of our risk management specialists, the methodologies used in relation to statistical valuations and the reasonableness of the assumptions used together with testing procedures performed, which were aimed at verifying the appropriate determination of the PD and LGD 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;

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Key Audit Matter	Audit Response
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.	▪ analyzing the sales of credit exposures occurring during the year, also via securitisation transactions and the related assumptions for the derecognition; ▪ analyzing the sales of debt securities occurred during the year and assessing the respect of the limits set out in the Group policy in relation to the sales of financial assets within the business model "Hold to collect"; ▪ analyzing 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

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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 27 January 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, 2019, 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, 2019 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, 2019 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information are subject to a separate compliance report signed by us.

Rome, June 12, 2020

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 OF THE PARENT COMPANY

December 31, 2019

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 SpA), which was established on December 20, 2018—and in application of IFRS 5, on the financial statements of Iccrea Banca the items attributable to the aforementioned branch have been reclassified to the balance sheet and income statement items related to assets held for sale. Given the above, in order to allow for the comparability of the results of the Parent Company with the previous year, in the following reclassified statements the information relating to this business has been included in the relevant items of the separate financial statements.

BALANCE SHEET

Assets

€/thousands	31/12/2019	31/12/2018	Delta
Financial assets measured at amortized cost – *Due from banks – Loans and securities*	29,273,773	25,654,753	3,619,020
Financial assets measured at amortized cost – *Due from customers – Loans*	5,843,040	3,832,731	2,010,310
Financial assets measured at amortized cost – *Due from customers – Securities*	7,434,784	6,874,611	560,173
Financial assets measured at fair value through profit or loss	1,279,864	896,619	383,245
Financial assets measured at fair value through other comprehensive income	367,133	282,946	84,187
Equity investments	1,155,401	1,266,772	(111,371)
Other assets	315,037	244,301	70,736
Total interest-bearing assets	**45,669,032**	**39,052,732**	**6,616,300**
Other non-interest-bearing assets	407,527	256,778	150,749
Total assets	**46,076,559**	**39,309,510**	**6,767,049**

Total assets at December 31, 2019, amounted to €46.1 billion, up €39.3 billion compared with the end of the previous year, due mainly to the following factors:

- an increase in financial assets measured at fair value through profit or loss (FVTPL) as a result of investments by the Parent Company (exclusively in debt securities) as manager of the Guarantee Scheme (up €385 million) and an increase in derivatives trading (up €118 million due to similar factors), which was partially offset by a decrease in investments in government securities (down €71 million);
- a decrease in assets mandatorily measured at fair value due mainly to repayment of the Poste Vita insurance policy (-€60 million) that had reached its expiration;
- growth in financial assets measured at fair value through other comprehensive income (FVOCI), attributable to the purchase of government securities (€65 million), banking-industry securities (€10 million), and equity securities (€15 million);
- an increase in amounts due from banks as a result of the liability for reserve requirement funds of the mutual banks (up €3.6 billion) and lending (up €904 million), effects which were partially offset by a decrease in purchases of debt securities (down €886 million) that reached maturity and were largely attributable to Iccrea BancaImpresa;
- growth in amounts due from customers attributable to repo transactions with the Clearing & Guarantee Fund (€1,686 million) and the purchase of government securities (€605 million), effects which were partially offset by expensed writedowns on the Lucrezia 4 notes (-€38 million).

€/thousands	31/12/2019	31/12/2018	Delta
Mutual banks	17,955,094	18,104,299	(149,205)
Other credit institutions	11,318,679	7,550,454	3,768,225
Due from banks	**29,273,773**	**25,654,753**	**3,619,020**

Lending to mutual banks remained essentially stable at about €18 billion. These loans, disbursed with pool collateral, include approximately €9.5 billion in operations with the ECB (T-LTRO II), with the rest being other forms of collateralized financing. Amounts due from other credit institutions (which include debt securities) include €6.6 billion in intercompany receivables. Of this financing, €6.4 billion was granted to Iccrea BancaImpresa and €1.3 billion was refinanced by the Parent Company with the central bank by way of the "ABACO" procedure and using €2.5 billion in collateral.

€/thousands	31/12/2019	31/12/2018	Delta
Current accounts	309,093	319,673	(10,580)
Medium/long-term loans	69,886	82,856	(12,970)
Repurchase agreements	2,885,420	1,199,151	1,686,269
Other transactions	2,571,123	2,216,073	355,050
Impaired assets	7,519	14,978	(7,459)
Due from customers	**5,843,040**	**3,832,731**	**2,010,310**

Loans to ordinary customers include €2.2 billion in intercompany loans and €2.9 billion in repurchase agreements with the Clearing & Guarantee Fund, which were essentially responsible for the increase compared with the previous year (€1.7 billion). Non-performing exposures also decreased following de-risking operations (as described in greater detail in Part E of the notes to the separate financial statements) by the Parent Company during the year, which involved carrying out a multi-originator operation for a portfolio of NPLs and filing a request with the Ministry for the Economy and Finance for acceptance in the government guarantee scheme known as "GACS".

The investment portfolio referring to HTC securities is mainly made up of government securities and shows a balance at December 2019 of €7.4 billion.

The portfolio of financial assets measured at fair value through profit or loss (€1.3 billion) increased by €383 million from December 31, 2018 (€897 million) due, above all, to the new management of the Guarantee Scheme (+€385 million).

Financial assets measured at fair value through other comprehensive income, referring to the HCTS business model, are mainly made up of government securities and show a balance of €367 million at December 31, 2019.

Equity investments totaled €1.2 billion, a decrease (of €111 million) from December 31, 2018, due to (expensed) writedowns of the subsidiaries Iccrea BancaImpresa (€72.7 million), Banca Sviluppo (€1.6 million) and Securfondo (€2.5 million), the latter of which also undertook a partial redemption of units during the year (€8.5 million). The reduction also reflects the sale of a portion of the stakes held in BCC Vita and BCC Assicurazioni to Cattolica (€42.5 million) in response to a new shareholder agreement. Increases in response to executing an agreement with Cassa Centrale Banca included an increase in the equity interests held in Iccrea BancaImpresa (€2.3 million), Banca Sviluppo (€10.3 million), Sinergia (€1.2 million) and BIT (€1.7 million). The entirety of the stakes in Accademia BCC, which is in liquidation (€0.6 million), and the newly established Ventis SpA (€0.35 million) were also acquired.

Liabilities and equity

€/thousands	31/12/2019	31/12/2018	Delta
Financial liabilities measured at amortized cost – *Due to banks*	20,782,376	19,424,621	1,357,756
Financial liabilities measured at amortized cost – *Due to customers*	17,228,036	12,615,042	4,612,995
Financial liabilities measured at amortized cost – *Securities issued*	5,021,316	5,027,706	(6,390)
Financial liabilities held for trading	381,867	251,128	130,739
Financial liabilities designated as at fair value	424,058	-	424,058
Other liabilities	384,215	335,127	49,088
Total interest-bearing liabilities	**44,221,870**	**37,653,624**	**6,568,246**
Other non-interest-bearing liabilities	150,200	85,134	65,066
Shareholders' equity	1,831,906	1,606,384	225,522
Profit/(loss) for the period	(127,417)	(35,632)	(91,785)
Total liabilities and equity	**46,076,559**	**39,309,510**	**6,767,049**

Interest-bearing funding totaled €44.2 billion, an increase (of €6.6 billion) from the previous year due to the following factors:

- an increase in amounts due to banks as a result of the increase in term deposits and in the reserve requirement (€3,242 million), which was partially offset by a decrease in collateralized funding from the ECB with the T-LTRO II (€1,853 million);
- an increase in amounts due to customers due to an increase in repo transactions with the Clearing & Guarantee Fund (€1,999 million), operations on behalf of the Italian Treasury (OPTES) with the Ministry of the Economy and Finance (€2,000 million), and an increase in deposits and current accounts (€640 million);

- a decrease in securities issued as a result of securities reaching maturity (€763 million), which was partially offset by new issues (€739 million);
- an increase in liabilities held for trading, attributable mainly to trading derivatives (€132 million, related to the same phenomenon as described on the asset side);
- the establishment of financial liabilities designated as at fair value related to financing received from the affiliated banks (the *Ex Ante Quota*) in relation to the Guarantee Scheme (€424 million).

€/thousands	31/12/2019	31/12/2018	Delta
Mutual banks	8,177,376	4,371,951	3,805,425
Other credit institutions	12,605,000	15,052,669	(2,447,669)
Due to banks	**20,782,376**	**19,424,621**	**1,357,756**

Interbank deposits, which include €3,250 million in deposits for reserve obligations for the mutual banks, amounted to €20.8 billion. Amounts due to mutual banks refer to the liquidity held in the daily settlement account in the amount of about €1.6 billion, with the remainder in time deposits.

Amounts due to other credit institutions are largely attributable to loans obtained from the ECB under the T-LTRO II (€11.9 billion), while the remainder refers to intercompany transactions.

€/thousands	31/12/2019	31/12/2018	Delta
Current accounts and demand deposits	1,009,117	369,280	639,837
Financing	15,789,731	11,791,402	3,998,329
Other payables	429,188	454,359	(25,171)
Due to customers	**17,228,036**	**12,615,041**	**4,612,995**

Funding from customers came to €17.2 billion, an increase of €4.6 billion from 2018 due to the increase in repo operations (€1,999 million), in OPTES operations (€2,000 million), and in deposits and current-account funding (€640 million).

Securities issued totaled €5.0 billion at December 31, 2019, which is essentially in line with 2018.

Equity

At December 31, 2019, Iccrea Banca's share capital, made up of 27,125,759 ordinary shares with a nominal value of €51.65 each, totaled €1.4 billion, an increase of €250 million from 2018 following efforts to strengthen capital as approved by the shareholders on January 10, 2019, and completed in early April. Shareholders' equity, excluding earnings for the year, amounted to €1.8 billion, an increase of €226 million compared with December 31, 2018. The main changes may be attributed to the positive effects of the aforementioned increase in capital (up €250 million) and the increase in valuation reserves (up €11 million) as a result of the increase in value of the FVOCI portfolio, which was partially offset by the loss carried forward from 2018 (in the amount of €35.6 million).

Income statement

€/thousands	31/12/2019	31/12/2018	Delta
Net interest income	**47,239**	**79,104**	**(31,872)**
Other gains/losses on financial transactions	39,948	(38,883)	78,832
Dividends	51,361	48,963	2,398
Net fee and commission income	**162,497**	**184,265**	**(21,768)**
Other operating expenses/income	118,912	31,850	87,061
Gross income	**419,958**	**305,306**	**114,652**
Personnel expenses	(153,797)	(90,593)	(63,205)
Other administrative expenses	(272,989)	(243,203)	(29,786)
Net adjustments of property, plant and equipment and intangible assets	(12,083)	(9,626)	(2,457)
Total operating expenses	**(438,869)**	**(343,421)**	**(95,448)**
Gross operating profit	**(18,911)**	**(38,115)**	**19,203**
Net provisions for risks and charges	(1,289)	(96)	(1,193)
Net losses/recoveries on impairment of loans and other financial transactions	(38,325)	(4,682)	(33,636)
Total provisions and adjustments	**(39,614)**	**(4,778)**	**(34,829)**
Profit/(loss) from equity investments	(76,765)	(15,791)	(60,973)
Profit/(loss) before tax	**(135,290)**	**(58,691)**	**(76,599)**
Income tax expense	7,873	23,059	(15,186)
Profit/(loss) for the period	**(127,417)**	**(35,632)**	**(91,785)**

The structure of Iccrea Banca's income statement was significantly altered in 2019 in response to the need for reorganization brought about by the company's new role as the parent of the ICBG. In particular, it was necessary to alter the size of the operating and control units, to make the investments needed in order to pursue the many projects aimed at establishing the regulatory and operational framework, and to establish the application platforms of the new, more complex banking group, all of which took place within an environment characterized by numerous regulatory changes that called for an extraordinary commitment of financial resources and human capital.

Nonetheless, it is important to note that the loss for 2019 of €127.4 million (vs. a loss of €35.6 million in 2018) is also the result of a conscious policy to reduce the Group's risk profile in response to the writedown of a portfolio of non-performing loans (securitized with notes held by the Parent Company) acquired, prior to the creation of the Group, by mutual banks — now affiliated banks — that featured high levels of risk, which was done by applying a sale scenario in compliance with IFRS 9 (writedowns in the amount of €38 million). Also affecting performance was the need to recognize the impairment of certain controlling interests, particularly in Iccrea BancaImpresa, totaling €77 million. This was done due to misalignments arising in conjunction with first-time adoption of IFRS 9 and its impact on equity reserves.

Additional factors that had an impact on financial performance for the year include:

- the reduction in net interest income (€31.8 million) due, above all, to the decrease in interest rates and consequent generalized drop in yields on both securities and lending, accompanied by a shift in operations with mutual banks that favored forms of secured funding while maintaining high levels of liquidity deposited with the Parent Company;
- the decrease in net fee and commission income (€21.8 million) attributable to the electronic money business and the extraordinary (GACS) securitization operations;
- other gains and losses on financial transactions, totaling €40 million, related to the gain on the sale of Nexi shares (€7.4 million) as well as the gains accrued on Visa, Inc. (€3.6 million), SIA (€5.3 million) and the London Stock Exchange (€1.3 million), on unis of CIUs (€2.5 million), and on the sale of securities in the HTCS portfolio (€5.6 million), partially offset by losses on the Securis Real Estate funds (€13.3 million). A positive impact also came from gains on the sale of government securities in the HTC (€22 million) and FVOCI (€4.2 million) portfolios. The performance of financial transactions for the previous year was significantly influenced by losses recognized on the disposal of the HTCS investment portfolio in execution of the stop-loss strategy following the increase in spread in May 2018;
- the increase in dividends received from Group companies (€2.4 million);
- the increase in other operating income due to new Class 1 (€42.2 million) and Class 2 (€25.9 million) services billed to the affiliated banks and the recovery of project costs (€15.6 million).

In relation to these factors, gross income at December 31, 2019, including other operating income (€118.9 million) related to the reclassification of fees received from the mutual banks for management, coordination and other intercompany services within core operating revenues, came to €419.6 million, an increase of €114.7 million compared with the previous year.

Operating expenses (€438.9 million) increased by €95 million to exceed gross income as a result of increases in: i) personnel expenses (from €90.6 to €153.8 million) due to the expansion of the workforce (from 900 to an average of more than 1,500 FTE); and ii) other administrative expenses (up €30 million) mainly attributable to an increase in IT costs. These expense increases were only partially offset by a decrease in contributions to the Resolution Fund (€6 million) connected with a decrease in the liabilities on which calculation of the contribution is based.

ASSETS HELD FOR SALE – ELECTRONIC MONEY BUSINESS

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

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

Balance sheet

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

€/thousands	31/12/2019
Financial liabilities measured at amortized cost	99,170
b) Due to customers	99,170
Other liabilities	54,789
Post-employment benefits	463
Provisions for risks and charges	1,508
Profit/(loss) for the period (+/-)	15,770
Total liabilities and shareholders' equity	**171,700**

Equity investments include the (95%) interest in Ventis Srl in the amount of €4.9 million.

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

Income statement

€/thousands	31/12/2019
Fee and commission income	379,046
Fee and commission expense	(289,212)
Net fee and commission income	**89,834**
Gross income	**89,834**
Net income/(loss) from financial operations	**89,834**
Administrative expenses:	(82,677)
a) personnel expenses	(7,995)
b) other administrative expenses	(74,682)
Net provisions for risks and charges	(483)
b) other net provisions	(483)
Net losses/recoveries on impairment of loans and other transactions	(6)
Net writedowns/writebacks of property, plant and equipment	(2)
Net writedowns/writebacks of intangible assets	(587)
Other operating expenses/income	16,100
Operating expenses	**(67,655)**
Profit/(loss) before tax on continuing operations	**22,179**
Income tax expense	**(6,410)**
Net profit/(loss) for the period	**15,770**

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 Group'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		31/12/2019	31/12/2018
10.	Cash and cash equivalents	246,136,800	40,806,690
20.	Financial assets measured at fair value through profit or loss	1,279,863,832	896,619,018
	a) financial assets held for trading	393,324,630	341,018,250
	b) financial assets designated as at fair value	385,110,727	-
	c) other financial assets mandatorily measured at fair value	501,428,475	555,600,768
30.	Financial assets measured at fair value through other comprehensive income	367,132,806	282,945,680
40.	Financial assets measured at amortized cost	42,551,041,509	36,361,572,762
	a) due from banks	29,273,773,496	25,654,753,257
	b) loans to customers	13,277,268,013	10,706,819,505
50.	Hedging derivatives	4,786,773	7,715,045
60.	Value adjustments of financial assets hedged generically (+/-)	1,178,316	750,259
70.	Equity investments	1,150,480,717	1,261,745,242
80.	Property, plant and equipment	17,125,137	14,220,647
90.	Intangible assets	53,946,254	27,042,614
100.	Tax assets	80,177,993	86,433,307
	a) current	46,916,278	42,962,607
	b) deferred	33,261,715	43,470,700
110.	Non-current assets and disposal groups held for sale	171,699,899	146,793,101
120.	Other assets	152,988,494	182,865,583
	Total assets	**46,076,558,530**	**39,309,509,946**

	Liabilities and shareholders' equity	31/12/2019	31/12/2018
10.	Financial liabilities measured at amortized cost	42,932,558,486	36,969,235,491
	a) due to banks	20,782,376,367	19,424,620,547
	b) due to customers	17,128,865,970	12,516,909,028
	c) securities issued	5,021,316,149	5,027,705,916
20.	Financial liabilities held for trading	381,867,344	251,128,374
30.	Financial liabilities designated as at fair value	424,058,244	-
40.	Hedging derivatives	118,343,799	63,304,502
60.	Tax liabilities	1,406,576	-
	b) deferred	1,406,576	-
70.	Liabilities associated with assets held for sale	155,930,039	127,597,666
80.	Other liabilities	329,426,436	308,159,073
90.	Employee termination benefits	18,002,834	10,176,436
100.	Provisions for risks and charges:	10,475,985	9,156,377
	a) commitments and guarantees granted	40,987	107,696
	c) other provisions for risks and charges	10,434,998	9,048,681
110.	Valuation reserves	49,447,673	38,356,458
140.	Reserves	379,938,902	415,508,556
150.	Share premium reserve	6,081,405	6,081,405
160.	Share capital	1,401,045,452	1,151,045,404
170.	Treasury shares (-)	(4,607,698)	(4,607,698)
180.	Net profit (loss) for the period	(127,416,948)	(35,632,098)
	Total liabilities and shareholders' equity	**46,076,558,530**	**39,309,509,946**

INCOME STATEMENT

		31/12/2019	31/12/2018
10.	Interest and similar income	258,311,764	300,807,985
	of which: interest income calculated using effective interest rate method	168,266,103	147,048,788
20.	Interest and similar expense	(211,072,334)	(221,704,016)
30.	**Net interest income**	**47,239,430**	**79,103,969**
40.	Fee and commission income	91,553,095	100,988,103
50.	Fee and commission expense	(18,890,069)	(13,793,852)
60.	**Net fee and commission income (expense)**	**72,663,026**	**87,194,251**
70.	Dividends and similar income	51,360,994	48,962,654
80.	Net gain (loss) on trading activities	10,478,536	9,338,582
90.	Net gain (loss) on hedging activities	(4,606,712)	(4,883,829)
100.	Net gain (loss) on the disposal or repurchase of:	25,297,562	(28,510,759)
	a) financial assets measured at amortized cost	21,140,210	34,837,618
	b) financial assets measured at fair value through other comprehensive income	4,141,940	(64,208,504)
	c) financial liabilities	15,412	860,127
110.	Net gain (loss) on financial assets and liabilities measured at fair value through profit or loss	8,778,931	(14,827,445)
	a) financial assets and liabilities designated as at fair value	(1,476,313)	-
	b) other financial assets mandatorily measured at fair value	10,255,245	(14,827,445)
120.	**Gross income**	**211,211,768**	**176,377,424**
130.	Net losses/recoveries for credit risk in respect of:	(38,319,233)	(4,681,989)
	a) financial assets measured at amortized cost	(37,965,173)	(4,450,714)
	b) financial assets measured at fair value through other comprehensive income	(354,060)	(231,275)
150.	**Net income (loss) from financial operations**	**172,892,535**	**171,695,435**
160.	Administrative expenses:	(344,108,859)	(251,740,783)
	a) personnel expenses	(145,802,370)	(81,290,210)
	b) other administrative expenses	(198,306,489)	(170,450,573)
170.	Net provisions for risks and charges	(806,471)	259,599
	a) commitments and guarantees granted	66,709	17,081
	b) net provisions for other risk and charges	(873,180)	242,518
180.	Net adjustments of property plant and equipment	(5,564,097)	(4,226,883)
190.	Net adjustments of intangible assets	(5,930,010)	(4,862,018)
200.	Other operating expenses/income	102,811,871	18,945,616
210.	**Operating expenses**	**(253,597,566)**	**(241,624,469)**
220.	Profit (loss) from equity investments	(76,764,796)	(15,791,484)
260.	**Profit (loss) before tax on continuing operations**	**(157,469,827)**	**(85,720,518)**
270.	Income tax expense from continuing operations	14,283,020	30,892,985
280.	**Profit (loss) on continuing operations after tax**	**(143,186,807)**	**(54,827,533)**
290	Profit (loss) on discontinued operations after tax	15,769,860	19,195,435
300.	**Profit (loss) for the period**	**(127,416,948)**	**(35,632,098)**

STATEMENT OF COMPREHENSIVE INCOME

		31/12/2019	31/12/2018
10.	**Net profit (loss) for the period**	**(127,416,948)**	**(35,632,098)**
	Other comprehensive income net of taxes not recyclable to profit or loss	**5,832,773**	**(5,771,258)**
20.	Equity securities designated as at fair value through other comprehensive income	6,367,578	(5,780,710)
70.	Defined benefit plans	(534,805)	9,452
	Other comprehensive income net of taxes recyclable to profit or loss	**5,258,442**	**(9,162,239)**
120.	Cash flow hedges	891,069	499,186
140.	Financial assets available for sale	4,367,372	(9,661,425)
170.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	**11,091,215**	**(14,933,498)**
180.	**Total other comprehensive income net of taxes**	**(116,325,733)**	**(50,565,595)**

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	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	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	415,508,556	-	415,508,556	(35,632,098)	X	62,444	-	-	-	X	X	X	X	379,938,902
b) other	-	-	-	-	X	-	-	X	-	X	-	-	X	-
Valuation reserves	38,356,458	-	38,356,458	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	-
Treasury shares	(4,607,698)	X	(4,607,698)	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**	**(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 CHANGES IN SHAREHOLDERS' EQUITY 2018

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

STATEMENT OF CASH FLOWS: INDIRECT METHOD

	31/12/2019	31/12/2018
A. OPERATING ACTIVITIES		
1. Operations	**(50,964,901)**	**(152,268,908)**
- net profit (loss) for the period (+/-)	(127,416,947)	(35,632,099)
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	16,667,942	(13,202,508)
- gains (losses) on hedging activities (-/+)	4,606,712	4,883,829
- net losses/recoveries on impairment (+/-)	38,319,873	4,700,824
- net adjustments of property plant and equipment and intangible assets (+/-)	11,494,107	9,088,901
- net provisions for risks and charges and other costs/revenues (+/-)	78,376,683	(19,135,496)
- taxes, duties and tax credits to be settled (+/-)	(15,583,052)	(30,718,896)
- net adjustments of disposal groups held for sale net of tax effects (+/-)	-	-
- other adjustments (+/-)	(57,430,218)	(72,253,464)
2. Net cash flows from/used in financial assets	**(6,671,781,783)**	**(3,194,708,050)**
- financial assets held for trading	(66,089,279)	4,258,809
- financial assets designated as at fair value	(383,047,360)	(15,113,268)
- financial assets mandatorily measured at fair value	54,592,782	4,426,354
- financial assets measured at fair through other comprehensive income	(13,598,181)	2,520,455,312
- financial assets measured at amortized cost	(6,224,655,249)	(5,644,957,646)
- other assets	(38,984,496)	(63,777,610)
3. Net cash flows from/used in financial liabilities	**6,630,998,425**	**3,299,119,631**
- financial liabilities measured at amortized cost	5,960,942,641	3,444,519,694
- financial liabilities held for trading	130,765,308	(114,310,553)
- financial liabilities designated as at fair value	419,575,878	0
- other liabilities	119,714,598	(31,089,510)
Net cash flows from/used in operating activities (A)	**(91,748,259)**	**(47,857,327)**
B. INVESTING ACTIVITIES		
1. Cash flows from	**50,328,287**	**40,343,946**
- sale of equity investments	-	-
- dividends on equity investments	50,328,287	40,343,946
- sale of property plant and equipment	-	-
- sale of intangible assets	-	-
- sale of business units	-	-
2. Cash flows used in	**(3,312,411)**	**(77,202,139)**
- purchases of equity investments	34,499,730	(52,406,759)
- purchases of property plant and equipment	(4,978,491)	(4,017,150)
- purchases of intangible assets	(32,833,650)	(20,778,230)
- purchases of business units	-	-
Net cash flows from/used in investing activities (B)	**47,015,876**	**(36,858,193)**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	-	26,239,302.00
- issues/purchases of equity instruments	250,062,493	5,726,961
- dividend distribution and other	-	(4,751,176)
Net cash flows from/used in financing activities C(+/-)	**250,062,493**	**27,215,087**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C	205,330,110	(57,500,433)

Key
(+) generated
(-) used in

RECONCILIATION

	31/12/2019	31/12/2018
Cash and cash equivalents at beginning of period (E)	40,806,690	98,307,123
Net increase/decrease in cash and cash equivalents (D)	205,330,110	(57,500,433)
Cash and cash equivalents: effect of exchange rate changes (F)	-	-
Cash and cash equivalents at end of period (G)=E+/-D+/-F	246,136,800	40,806,690

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, 2019, 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, 2019.

Note that only the new standard IFRS 16 had an impact on these financial statements.

<table>
<tr><th>ENDORSEMENT REGULATION</th><th>IAS/IFRS AND SHORT DESCRIPTION</th><th>ENTRY INTO FORCE</th></tr>
<tr><td>1986/2017</td><td>IFRS 16 Leases
The new standard, which replaces IAS 17, modifies the definition of a lease and establishes that lessees shall recognize assets and liabilities for a lease. The objective of IFRS 16 is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents transactions. This information therefore gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.
The new standard provides a new definition of lease and introduces a criterion based on control (right of use) of an asset to distinguish leases from service contracts, specifying as discriminants the identification of the asset, the right to substitute it, the right to obtain substantially all the economic benefits deriving from the use of the asset and the right to direct the use of the identified asset.
Transactions excluded from the scope of application of the principle include, in particular:
• licenses of intellectual property granted by a lessor within the scope of IFRS 15 “Revenue from Contracts with Customers“;
• “rights held by a lessee under licensing agreements within the scope of IAS 38 “Intangible Assets“.
The standard also permits the application certain exceptions to the recognition requirement:
• short-term leases, with a contractual term of 12 months or less;
• leases in which the underlying asset is of low value.
More specifically, under the definition in IFRS 16, a lease is a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.
The two conditions necessary for the existence of a lease are:
• the existence of an identified and physically distinct asset;
• the right to control the use of the asset, which is the lessee’s right to obtain substantially all the economic benefits deriving from the use of the asset during the period of use and the right to direct the use of the asset, establishing how and for what purpose it is used, throughout the period of use. There lessor must therefore not have a substantive right to substitute the asset.
In addition to “leases” proper, lease contracts also include, for example, contracts for rent, hire, lease and free loans.
For a contract that contains a lease component and additional non-lease components (such as in the case of the lease of an asset and the provision of maintenance services), the standard establishes that each lease component shall be recognized separately from the non-lease components. The consideration shall therefore be allocated to the various components based on their relative stand-alone prices, adopting the rationale of IFRS 15 for service contracts. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for all lease components a as a single lease component.
The most significant changes introduced with the standard regard the lessee, who shall apply a single accounting model, eliminating the distinction between operating lease and finance lease, with an impact on both the income statement and the balance sheet.
For any lease, the lessee shall recognize, respectively, under liabilities and assets in the balance sheet:
• a lease liability, equal to the present value of future payments determined using the discount rate specified at the inception of the lease;
• a right-of-use asset, equal to the lease liability plus initial direct costs.</td><td>Annual reporting periods beginning on or after January 1, 2019</td></tr>
</table>

<table>
<tr><td></td><td>The lessee must measure the right-of-use asset by applying the cost model. The income statement will essentially reflect the depreciation charge for the right-of-use asset, recognized under operating expenses, and the interest accrued on the lease liability, recognized in net interest income.
The distinction between operating and finance leases remains for the lessor, for which the approach under IFRS 16 does not introduce substantial changes with respect to IAS 17.
The standard was endorsed by the European Commission on November 9, 2017 with Regulation no. 2017/1986 and takes affect starting from January 1, 2019.
For the initial application of the standard, full or modified retrospective application is permitted. The full retrospective option provides for the application of IFRS 16 for the year 2018, recognizing the impact in shareholders' equity at January 1, 2018 as if the IFRS 16 had always been applied, with the restatement of the comparative data. The modified retrospective option provides instead:
• for 2018 the application of IAS 17 without the need to restate the comparative data;
• for 2019 the application of IFRS 16 with the recognition in shareholders' equity at January 1, 2019 (under reserves) of the cumulative effect of the new standard as at the date of initial application only of existing contracts at that date and the disclosure of the impact of initial application of the standard in the notes to the financial statements.
The Group has elected to apply the modified retrospective option, which does not require the restatement of the comparative figures for 2018.</td><td></td></tr>
<tr><td>498/2018</td><td>Amendments to IFRS 9 Financial instruments - Prepayment Features with Negative Compensation
The amendments clarify the classification of certain financial assets with prepayment features when IFRS 9 is applied. More specifically:
• for financial assets, they also permit measurement at amortized cost or, depending on the business model, at fair value through other comprehensive income, for loans that, in the event of early repayment, require a lender to make a payment (negative compensation payment);
• for financial liabilities measured at amortized cost, they clarify the accounting for a modification that does not result in the derecognition of the financial liability. In these cases, at the date of the modification the adjustment of the amortized cost of the liability, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the effective interest rate, shall be recognized in profit or loss.</td><td>Annual reporting periods beginning on or after January 1, 2019</td></tr>
<tr><td>1595/2018</td><td>IFRIC 23 – Accounting for uncertainties in income taxes
The interpretation clarifies the application of the recognition and measurement requirements of IAS 12 in the case of uncertainties in income taxes.</td><td>Annual reporting periods beginning on or after January 1, 2019</td></tr>
<tr><td>237/2019</td><td>Amendments to IAS28
The amendments clarify that the provisions of IFRS 9 should be used to represent long-term interests in associates or joint ventures for which the equity method is not applied.</td><td>Annual reporting periods beginning on or after January 1, 2019</td></tr>
<tr><td>402/2019</td><td>Amendments to IAS 19
The amendments specify how entities should determine employee benefits following amendments, curtailments or settlements of defined benefit plans.</td><td>Annual reporting periods beginning on or after January 1, 2019</td></tr>
<tr><td>412/2019</td><td>Annual improvements to IFRS Standards 2015-2017 cycle
The improvements modify the IFRS in response to issues mainly concerning IFRS 3 – Business combinations, IFRS 11 – Joint arrangements, IAS 12 – Income taxes and IAS 23 – Borrowing costs.</td><td>Annual reporting periods beginning on or after January 1, 2019</td></tr>
</table>

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

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
To be determined	**IFRS 17 Insurance contracts** The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers.	Annual reporting periods beginning on or after January 1, 2022
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
551/2020	**Amendments to IFRS 3: Definition of a business** The main changes are intended to resolve the issues that arise when an entity determines whether it has acquired a business or a group of assets. More specifically, the changes: • clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; • remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; • add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; • narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.	Annual reporting periods beginning on or after January 1, 2020
2020/2104	**Amendments to IAS 1 and IAS 8: Definition of materiality** The amendments are intended to align the definition of "material" with that used in the Conceptual Framework and the standards themselves. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of financial statements make on the basis of those financial statements.	Annual reporting periods beginning on or after January 1, 2020
2020/34	**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 changes apply to all hedging relationships that are directly affected by the benchmark interest rate reform. The amendments 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.	Annual reporting periods beginning on or after January 1, 2020
To be determined	**Amendments to IAS 1 – Presentation of Financial Statements: classification of liabilities as current or non-current** The amendments seek to clarify one of the criteria of IAS 1 for the classification of a liability as non-current, i.e. the requirement that an entity must have the right to defer the settlement of the liability for at least 12 months after the end of the reporting period. The changes: • specify that the right to defer settlement must exist at the end of the reporting period; • clarify that the classification is unaffected by management's intentions or expectations regarding the possibility of exercising the right to defer settlement; • clarify how the terms of a liability impact its classification; and • clarify the requirements for the classification of liabilities that an entity intends to settle or could settle with the issue of equity instruments. •	Annual reporting periods beginning on or after January 1, 2022
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	**Amendment to IFRS 16 Leases – COVID-19-Related Rent Concessions**	Annual reporting periods beginning on or after June 1,

	The amendments seek to provide lessees relief from the application of IFRS 16 guidelines on accounting for lease modifications with regard to rent concessions granted as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a rent concession granted by a lessor in connection with COVID-19 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.	2020. Early application is permitted.

The following discusses the implementation of IFRS 16 – Leases.

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.

Compliance with IFRS 16

On January 13, 2016, the IASB published IFRS 16 – Leases, which is intended to replace IAS 17 - Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard establishes a new definition of lease and introduces a criterion based on the notion of control (right of use) of an identified asset for a specified period of time. This definition makes it possible to distinguish lease contracts from service supply contracts, identifying the discriminating features of leases as:

- the identification of the asset;
- the right to substitute the asset;
- the right to obtain substantially all the economic benefits from the use of the asset;
- the right to direct the use of the asset underlying the contract.

That said, it follows that also contracts for rent, hire and lease fall within the scope of application of the new rules.

Significant changes have been introduced in the accounting for lease transactions in the financial statements of the lessee.

The standard establishes a single accounting model for the recognition and measurement of leases for the lessee, providing for the recognition of the right of use in respect of the leased asset, including operating assets, with the concomitant recognition of a liability for lease payments still to be paid to the lessor. At the same time, the new standard provides for the recognition in profit or loss of the depreciation charges for the "right of use" asset and the interest expense accrued on the liability.

A number of changes have also been made to the requirements for disclosures in the notes to the financial statements, which among other things must at least contain:

- a breakdown of the different classes of leased assets;
- a maturity analysis of the lease liabilities;
- relevant information for the assessment of leases (for example the presence or absence of termination options, extension options, etc.).

With regard to the recognition of rights of use in respect of software, the Iccrea Cooperative Banking Group intends to exclude such rights from the scope of application of IFRS 16, as provided for in the Cloud Computing Arrangement issued by the IFRIC in September 2018.

The application of the new standard produces:

- an increase in assets due to the recognition of the right of use;
- an increase in liabilities due to the recognition of lease liabilities for future lease payments through to the expiry of the contract;
- a reduction in administrative expenses due to non-recognition of lease payments as previously required under IAS 17;
- an increase in financial expense for interest expense on the lease liabilities;

- an increase in depreciation charges for the rights of use, which are systematically depreciated on a straight-line basis over the useful life of the assets.

These effects do not change the overall cash flows and total final cost of the lease. With regard to the overall cost, the impact on profit or loss does not vary over the term of the lease contract compared with the treatment under previous accounting standards, but only distributes them differently over time.

During 2019 the Group began a specific project for the implementation of IFRS 16 at all Group companies which includes:

- organizational measures;
- application measures;
- staff training initiatives.
- Conversely, the standard does not introduce significant changes for lessors.

Leases within the scope of IFRS 16

In order to account properly for leases under the provisions of IFRS 16, both in the transition to the new standard and on an ongoing basis, it is necessary to:

- identify and manage the operating leases outstanding at January 1, 2019 that meet the definition of lease under IFRS 16 and the contracts to which the exceptions apply;
- calculate the value of the right of use acquired with the lease and the lease liability.

The analysis of the contracts falling within the scope of application of the standard regarded in particular:

- real estate;
- cars;
- hardware;
- other technologies (tablets, telephones, ATMs, etc.).

Real estate had the greatest impact in terms of an increase in property, plant and equipment as a result of the recognition of rights of use and the related lease liabilities. The buildings are mostly used for banking (branches) and headquarters operations.

Other leases regard assets such as cars and hardware. Auto leases regard refer cars assigned to employees or Group companies for business use. These contracts usually take the form of “long-term rentals”, and are therefore of multi-year duration and usually do not include a purchase option.

Transition rules

The Group has adopted the “cumulative catch-up approach” for first-time adoption of the new standard.

Under this approach, it is not necessary to restate amounts previously reported and to apply specific rules to measure the right of use over the asset acquired with a lease, the lease liability and impairment losses. In addition, it is possible to apply a number of specific transition rules and practical expedients to leases that had previously been classified as operating leases.

The expedients that the Group has elected to adopt at first-time application are as follows:

- the exclusion from the scope of application of leases with a residual term of less than 12 months from the date of initial application (short-term leases);
- the exclusion from the scope of application of leases for which the underlying asset has a market value when new equal to or less than €5 thousand (low-value leases);

The lease payments in respect of short-term and low-value leases are recognized in profit or loss as they were in the past.

Term of leases – determination of useful life

The term of a lease is determined on the basis of the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

The duration of the useful life of right-of-use assets was defined both at first-time application of the standard and at initial recognition of the leases, based on the facts and circumstances existing at that particular date. The reasons for any exercise of the options provided for in the contracts were therefore evaluated.

The following provides a number of rules established for the types of assets involved in the most common and significant leases held within the Mutual Banking Group.

Real estate

The identification of the lease term is a very important issue since the form, legislation and commercial practices surrounding real estate leases vary significantly. Based on historical experience, the Group has included, in addition to the non-cancellable period, the first contractual renewal period in the useful life in the event that renewal depends exclusively on the lessee.

Accordingly, both on the date of FTA and on initial recognition of a lease under IFRS 16, the first reasonably certain contract renewal was considered, unless there were actual and concrete facts and circumstances that would lead to a different conclusion. In the case of a rental contract for a building with a term of 6 years with a tacit renewal option at the end of the first six-year period, the term considered for the determination of the useful life of the right-of-use asset is 12 years, unless there are elements or specific situations within the contract that would lead to a different conclusion.

Automobiles

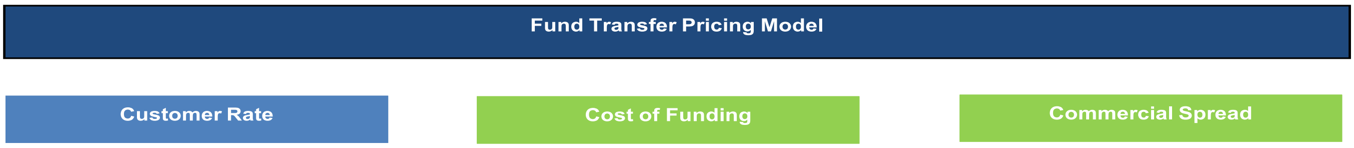
For this type of lease, the useful life considered at FTA and at initial recognition of leases within the scope of application is considered to be the effective term of the contract.

Discounting lease liabilities

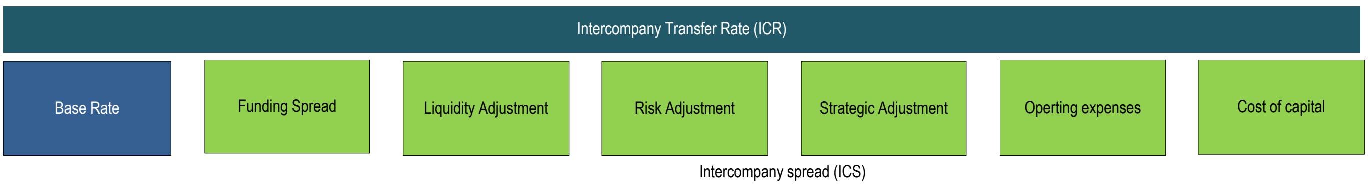
As required by IFRS 16, the discount rate is equal to the rate implicit in the lease, where this can be determined.

Alternatively, the rate used in determining intercompany fund transfer pricing (FTP) is adopted. The model adopted by the Group is based on a building block approach, the components of which reflect the type of operations and the management choices made for strategic purposes in the management of interest rate risk and liquidity risk. The framework is reviewed at least annually, discussed within the Finance Committee in line with the Strategic Plan and approved by the Board of Directors of the Parent Company. The customer rate is equal to the sum of the cost of funding and a commercial spread.

The pricing model used is summarized as follows:



With specific regard to the cost of funding, internally denominated the intercompany rate (ICR), the following chart shows the individual components used in the determination:



More specifically, the ICR is composed of a base rate, which reflects the risk linked to the change in interest rates, plus the intercompany spread (ICS). The main characteristics and metrics for the individual components included in determining the IR are listed below:

- base rate: expresses the risk associated with changes in interest rates, representing the cost of hedging the interest rate risk originated by the management of financial risks (e.g. maturity transformation) and is measured as the rate of the risk-free market curve value for the reference currency in the transaction. The base rate is a function of the following financial characteristics: type of rate (fixed or variable), maturity and method of repayment of the capital (in installments or at maturity);

- funding spread: expresses the increase in the cost of the bank's funding compared with the cost implicit in the base rate, reflecting the bank's specific creditworthiness. It is a function of the maturity and the repayment plan;
- liquidity adjustment: reflects the liquidity benefit associated with transactions eligible for central bank operations or secured by dedicated funding or the indirect cost associated with holding a buffer of liquid assets;
- risk adjustment: reflects the cost of hedging the risks deriving from the optional components to be hedged or transfer to the ALM center. The type of option currently available is connected to basis risk, i.e. the additional cost to hedge the basis risk implicit in certain variable rate transactions, reflecting the risk of different volatilities between the market rate to which the transaction is linked and the base rate used by ALM for hedging purposes;
- strategic adjustment: the component reflecting the risk-adjusted profitability objectives of the ALM center in respect of the capital allocated for the interest rate risk on the banking book and promoting certain commercial strategies defined by management.

In consideration of the nature of the components included in the determination of the ICR as well as the metrics described in the Liquidity Risk Policy of the ICBG, the economic and financial characteristics of the ICR are felt to be consistent with the requirements of IFRS 16.

Accordingly, the curve used by the ICBG as a discount rate to be applied to lease payments, in the absence of an implicit interest rate in the lease as defined in Appendix A of IFRS 16, has the following characteristics:

- credit standing of lessee: use of the ICS to quantify the risk components of the ICBG;
- length of the lease: use of the ICR curve aligned with the maturities of the individual leases approximated on a quarterly basis;
- nature and quality of collateral provided: use of the ICR that represents an overall cost of ICBG funding on the market. This rate includes cost components for both secured and unsecured funding;
- economic environment in which the transaction occurs: Italian market.

Lease components and non-lease components

Where possible, non-lease components are generally accounted for separately from the lease components. Where it is not possible to separate the two types of component or where the non-lease components are not material, they have been included in the determination of the lease liability and the associated right-of-use asset.

The impact of initial application of IFRS 16

The application of the cumulative catch-up transition method did not have any impact on shareholders' equity.

In addition, during the period interest expense and depreciation amounting to €64 thousand was recognized.

At December 31, 2019 right-of-use assets amounted to €2,492 thousand, while lease liabilities came to €2,512 thousand.

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.

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. The factors estimated for the main items include:

- 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 the determination of deferred tax items, the degree of reasonable certainty – if any – that sufficient future taxable income will be available when the items may be deducted (deductible temporary differences).

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.

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

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 on May 29, 2020, no events occurred that would entail a modification of the financial data approved at that meeting.

As regards the events related to the spread of the COVID-19 virus, which are extensively discussed in the report on operations, pursuant to IAS 10, these events are deemed non-adjusting for the purposes of the results presented in these financial statements.

At present, no reliable prospective estimates can be produced for their impact on the company business.

For more information and an initial assessment of the main areas of impact, please see the discussion in the report on operations.

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.

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 (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 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 (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 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. 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 Cooperative Banking Group has elected to exercise the option to continue to apply the rules provided for in IAS 39 governing hedge accounting (the "opt-out" option).

Classification

Risk hedging transactions are intended to neutralize the potential losses recognized on a given element or group of elements attributable to a given risk in the event that risk should actually be realized.

The types of hedges used are as follows:

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

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

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

Recognition

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

Measurement and recognition of income components

Hedging derivatives are measured at fair value.

More specifically:

- in the case of fair value hedges, the change in the fair value connected with the hedged risk on the hedged item is offset in profit or loss with the change in the fair value of the hedging instrument, which is also recognized through profit or loss. Any difference between the two changes, which represents the partial ineffectiveness of the hedge, represents the net impact in profit or loss;
- in the case of cash flow hedges, changes in the fair value of the derivative are recognized through equity in the amount of the effective portion of the hedge. They are recognized through profit or loss only when the change in cash flows in respect of the hedge item actually occurs or if the hedge is ineffective.

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

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

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

Effectiveness is measured at every reporting date through:

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

If the tests do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the above criteria, the hedging derivative is reclassified as a trading instrument and the hedged financial instrument is measured using the criteria normally adopted for instruments of its category. Subsequent changes in the fair value of the derivative are recognized through profit or loss. For cash flow hedges, if the hedged transaction is no longer expected to be carried out, the cumulative gain or loss recognized in the equity reserve is reversed through profit or loss.

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 are measured at cost, while investments in associates and joint ventures are accounted for using the equity method. 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.

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 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 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, with the exception of assets for which IFRS 5 requires the application of the measurement criteria established in the associated accounting standard for such assets (for example, financial assets within the scope of IFRS 9).

Measurement and recognition of income components

Following initial recognition in this category, the assets are measured at the lower of their carrying amount and their fair value less costs to sell, with the exception of assets that IFRS 5 requires be measured using the provisions of the relevant accounting standard (for example, financial assets within the scope of IFRS 9). If the assets held for sale can be depreciated, any such depreciation ceases upon classification to non-current assets held for sale. Non-current assets and disposal groups held for sale, as well as “discontinued operations”, and the associated liabilities are reported under specific items of assets (“Non-current assets and disposal groups held for sale”) and liabilities (“Liabilities associated with disposal groups held for sale”).

The results of the measurement, income, expenses and gains/losses upon disposal (net of any tax effect), of “discontinued operations” are reported in the income statement under “Profit (loss) after tax of disposal groups held for sale”.

Derecognition

Non-current assets and disposal groups held for sale are derecognized upon disposal.

9 – Current and deferred taxation

Classification

Income taxes, which are calculated on the basis of national tax law, are accounted for as a cost on an accruals basis, in line with the recognition of the costs and revenue that gave rise to the tax liability. They therefore represent the balance of current taxes and deferred taxes in respect of income for the year. Current tax assets and liabilities report the net tax positions of the companies of the Group in respect of Italian and foreign tax authorities. More specifically, they report the net balance between current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax liability for the period, as determined on the basis of applicable tax law, and current tax assets represented by payments on account and other tax receivables for withholding tax incurred or other tax credits for previous years which the Group companies opted to offset against taxes for subsequent years. Current tax assets also report tax receivables for which the Group companies have requested reimbursement from the competent tax authorities.

While taking account of the adoption of the national consolidated taxation mechanism by the companies forming part of the “direct scope” of the Group (the former Iccrea Banking Group), the tax positions of each Group company are managed separately for administrative purposes.

Deferred taxation is determined using the balance sheet liability method, taking account of the tax effect of temporary differences between the carrying amount of assets and liabilities and their value for tax purposes, which will give rise to taxable or deductible amounts in future periods. To that end, “taxable temporary differences” are those that in future periods will give rise to taxable amounts and “deductible temporary differences” are those that in future periods will give rise to deductible amounts. Deferred taxes are recognized on all taxable temporary differences, with the following exceptions: i) deferred tax liabilities arising from the initial recognition of goodwill or ii) an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect either the balance sheet or the tax situation.

Deferred tax assets are recognized against all deductible temporary differences, tax receivables and unused tax losses that can be carried forward, insofar as it is probable that sufficient future taxable income will be available to allow the use of the deductible temporary differences and the tax receivables and losses carried forward, except for cases in which the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect either the balance sheet or the tax situation.

Deferred tax is calculated by applying the tax rates established in applicable tax law, laws already issued or substantially in force at the reporting date that are expected to be applied during the year in which those assets are realized or those assets are extinguished to taxable temporary differences for which it is likely that a tax charge will be incurred and to deductible temporary differences for which it is reasonable certain there were be future taxable income at the time they become deductible (the probability test).

Current tax assets and liabilities and deferred tax assets and liabilities are offset in the financial statements if, and only if, they relate to income taxes applied by the same taxation authority and there is a legally enforceable right to set off current tax assets against current tax liabilities.

Recognition and measurement

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

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

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

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

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

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

Recognition of income components

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

10 – Provisions for risks and charges

Provisions for commitments and guarantees issued

This sub-item reports provisions estimated in respect of the credit risk on commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules for calculating expected losses in accordance with IFRS 9. In principle, these cases use the same methods for allocation to the three risk stages and the calculation of expected losses that are adopted for financial assets measured at amortized cost or at fair value through other comprehensive income.

This sub-item also includes are provisions for other types of commitments and guarantees issued that, on the basis of their characteristics, do not fall within the scope of application of impairment in accordance with IFRS 9.

Other provisions for risks and charges

The other provisions for risks and charges include provisions for legal obligations or related to employment relationships or disputes originating from a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The item also includes long-term employee benefits.

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.

Interest expense recognized on financial liabilities is reported under “Interest and similar expense” in the income statement.

In addition to cases of extinguishment and expiration, financial liabilities 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 amortized cost

Amortized cost is applied to financial assets and liabilities measured at amortized cost, while the income components of financial assets measured at fair value are determined using the effective interest rate method provided for in the amortized cost approach.

The amount at which the financial asset or financial liability 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 and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that discounts the contractual flow of future or received payments until the maturity date or the next repricing date to the present value of a financial asset or financial liability.

For instruments bearing a fixed rate or a fixed rate for periods of time, future cash flows are determined on the basis of the specified interest rate over the life of the instrument. For variable-rate financial assets or liabilities, future cash flows are determined on the basis of the last known rate. At each repricing date, the residual amortization and the effective yield over the residual useful life (i.e. until maturity) of the financial instrument are recalculated.

For purchased or originated credit-impaired financial assets (“POCI”), the effective interest rate corrected for credit risk is calculated, discounting estimated future cash flows over the expected life of the financial asset, taking of account all the contractual terms of the asset (e.g. prepayment options, call options, etc.) as well as expected credit losses.

Financial assets and liabilities transacted on market terms are initially recognized at their fair value, which normally corresponds to the amount paid or received including directly attributable transaction costs and fees: internal marginal costs and income not recoverable from customers are considered transaction costs attributable at the time of initial recognition of the instrument.

These ancillary components, which must be attributable to the individual asset or liability, affect the effective return and cause the effective interest rate to differ from the contractual interest rate: therefore, costs and income referable indiscriminately to multiple transactions and related components that they may be recognized during the life of the financial instrument are not included. Furthermore, costs that the Group incurs independently of the transaction, such as administrative, office supplies and communication costs, are not considered in the calculation of the amortized cost.

Determination of impairment

Financial assets

At each reporting date, the Bank determines whether there is objective evidence that a financial asset or group of financial assets has incurred a significant increase in the related credit risk since initial recognition and requires the definition of a methodology for calculating the expected loss (ECL) and the related risk parameters necessary to calculate it, namely: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The staging methodology provides for the allocation each exposure/tranche 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;[23]
  - 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;[24] In this case, the lifetime expected loss is measured;
- stage 3: this includes all instruments/tranches associated with loans/securities in default, for which the loss is calculated as the difference between the contractual cash flows and expected cash flows, discounted at the effective interest rate of the instrument (lifetime expected loss), which is essentially unchanged compared with the previous accounting standard.

With regard to Expected Credit Loss, the risk parameters necessary for calculating that value have been distinguished by differentiating between the securities portfolio and the loan portfolio.

With regard to the securities portfolio:

- Probability of Default (PD): the PD at 12 months and multi-period PDs 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.[25]

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.

[23] This condition holds for positions that at reporting date have a conditional PD at 12 months of more than 20%.
[24] 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).
[25] The multipliers are constructed as the ratio between the forecast default rate obtained by calendar year and the last observed value of the target variable, differentiated by scenario.

More specifically, three calendar years are considered subsequent to the estimation date of the satellite models (reference date), while for subsequent years, it is assumed that the economic cycle can be contained within a time horizon of three years, therefore the multiplier used is equal to the arithmetic mean of the multipliers of the three years.

In order to render the LGD forward looking, the Group estimates a regression model that explains the relationship that links a variable able to approximate losses in the event of system default (for example, gross non-performing loans for the entire system) with a set of explanatory macroeconomic variables, using the same approach adopted to condition the PD to estimate the multipliers.

With regard to exposures classified in stage 3 (credit-impaired assets), even if the definition of “impaired loans” in IAS 39 and IFRS 9 is substantially the same, the inclusion of forward-looking information, such as the consideration of alternative recovery scenarios, incorporated a number of methodological peculiarities. In particular, scenarios for the sale of credit exposures were considered in connection with possible sales of impaired positions connection with the company’s objectives for reducing non-performing assets, to which a probability of realization was attributed for consideration in the context of the overall assessments. It follows that, for transferrable non-performing loans, in order to determine the overall expected loss of exposures, the “ordinary” scenario assuming a recovery strategy based on the recovery of receivables through legal action, the enforcement of guarantees, etc., has been accompanied by scenarios that envisage the sale of the loan as a recovery strategy.

Debt securities

With regard to the debt securities, the methodology envisages using the low credit risk exemption, which, regardless of the presence or not of a rating at origination, allocates to stage 1 exposures that have a rating equal to or better than investment grade at the reporting date.

Equity securities

Equity securities do not undergo impairment testing as they are carried at fair value.

Other non-financial assets

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

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

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

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

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

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

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

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

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

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

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability between willing and knowledgeable market participants in an orderly transaction. In the definition of fair value, a key assumption is that an entity is fully operational (the assumption that an entity is a going concern) and does not have the intention or the need to liquidate, significantly reduce its operations or undertake transactions on unfavorable terms. In other words, fair value is not the amount an entity would receive or would pay in a forced transaction, an involuntary liquidation or a distress sale. Nevertheless, the fair value reflects the credit quality of the instrument as it incorporates counterparty risk.

Financial instruments

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.

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

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

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

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

A.4.2 VALUATION PROCESSES AND SENSITIVITY

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

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

A.4.3 FAIR VALUE HIERARCHY

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

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

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

As required under paragraph 97 of IFRS 13 and, previously, under IFRS 7, certain fair value disclosures are required for financial instruments measured at fair value for disclosure purposes only (instruments which are measured at amortized cost in the balance sheet).

The Group has specified the following approaches for measuring fair value in these cases:

- cash and cash equivalents: book value approximates fair value;
- loans with a contractually specified maturity (classified under L3): the discounted cash flow model with adjustments reflecting the cost of credit risk, the cost of funding, the cost of capital and any operating costs;
- bad loans and positions unlikely to pay measured on an individual basis: book value approximates fair value;
- securities issued:
  - classified L1: price in relevant market;

  - classified L2: mark-to-model valuation discounting cash flows using a set of yield curves distinguished by level of seniority, type of customer and currency of issue;
- financial liabilities: discounted cash flow model with adjustment based on the issuer risk of the Iccrea Group.

A.4.4 OTHER INFORMATION

The circumstances referred to in paragraphs 51, 93 letter (i) and 96 of IFRS 13 do not apply to the 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

	31/12/2019			31/12/2018		
	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	462,676	778,032	39,156	125,588	682,136	88,894
a) financial assets held for trading	11,972	381,302	51	76,964	263,665	390
b) financial assets designated as at fair value	362,091	23,019	-	-	-	-
c) other financial assets mandatorily measured at fair value	88,613	373,711	39,105	48,624	418,472	88,505
2. Financial assets measured at fair value through comprehensive income	279,445	72,842	14,846	197,680	48,595	36,670
3. Hedging derivatives	-	4,787	-	-	7,715	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**742,120**	**855,661**	**54,002**	**323,268**	**738,447**	**125,565**
1. Financial liabilities held for trading	630	381,237	-	3,515	247,614	-
2. Financial liabilities designated as at fair value	-	424,058	-	-	-	-
3. Hedging derivatives	-	118,344	-	-	63,305	-
Total	**630**	**923,640**	**-**	**3,515**	**310,918**	**-**

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 €11 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	**88,894**	**390**	**-**	**88,505**	**36,670**	**-**	**-**	**-**
2. Increases	**13,339**	**129**	**-**	**13,211**	**3,500**	**-**	**-**	**-**
2.1 Purchases	2,278	-	-	2,278	765	-	-	-
2.2 Profits recognized in:	10,788	129	-	10,659	2,628	-	-	-
2.2.1 Income statement	10,788	129	-	10,659	-	-	-	-
- of which: capital gains	10,442	-	-	10,442	-	-	-	-
2.2.2 Shareholders' equity	-	X	X	X	2,628	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	273	-	-	273	107	-	-	-
3. Decreases	**(63,078)**	**(467)**	**-**	**(62,611)**	**(25,324)**	**-**	**-**	**-**
3.1 Sales	(467)	(467)	-	-	(157)	-	-	-
3.2 Repayments	(61,096)	-	-	(61,096)	-	-	-	-
3.3 Losses recognized in:	(1,515)	(1)	-	(1,515)	(256)	-	-	-
3.3.1 Income statement	(1,515)	(1)	-	(1,515)	-	-	-	-
- of which: capital losses	(1,515)	-	-	(1,515)	-	-	-	-
3.3.2 Shareholders' equity	-	X	X	X	(256)	-	-	-
3.4 Transfers to other levels	-	-	-	-	(24,191)	-	-	-
3.5 Other decreases	-	-	-	-	(721)	-	-	-
4. Closing balance	**39,156**	**51**	**-**	**39,105**	**14,846**	**-**	**-**	**-**

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

	31/12/2019				31/12/2018			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortized cost	42,551,042	6,947,936	3,902,651	35,676,543	36,361,573	6,076,850	8,411,958	21,621,323
2. Investment property								
3. Non-current assets and disposal groups held for sale	171,700				146,793			5,027
Total	**42,722,742**	**6,947,936**	**3,902,651**	**35,676,543**	**36,508,366**	**6,076,850**	**8,411,958**	**21,626,350**
1. Financial liabilities measured at amortized cost	42,932,558	4,461,100	588,403	37,601,500	36,969,235	2,604,168	3,110,198	31,123,078
2. Liabilities associated with assets held for sale	155,930				127,598			
Total	**43,088,488**	**4,461,100**	**588,403**	**37,601,500**	**37,096,833**	**2,604,168**	**3,110,198**	**31,123,078**

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

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

During the period under review, differences emerged between the fair values posted at the time of initial recognition and the values recalculated at the same date using valuation techniques in accordance with IFRS 9 (paragraphs B.5.1.2 A letter b), with a net positive impact of about €357 thousand in respect of hedging derivatives.

PART B
Information on the balance sheet

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

	Total 31/12/2019	Total 31/12/2018
a) Cash	135,660	40,807
b) Demand deposits with central banks	110,477	-
Total	246,137	40,807

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.

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 31/12/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**8,381**	**6**	**-**	**76,496**	**507**	**170**
1.1 structured securities	510	-	-	273	153	151
1.2 other debt securities	7,872	6	-	76,222	354	19
2. Equity securities	**3,370**	**197**	**51**	**-**	**21**	**219**
3. Units in collective investment undertakings	**176**	**-**	**-**	**454**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	11,927	203	51	76,950	528	390
B. Derivatives						
1. Financial derivatives	**44**	**381,099**	**-**	**14**	**263,137**	**-**
1.1 trading	44	381,099	-	14	263,137	-
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)	44	381,099	-	14	263,137	-
Total (A+B)	11,972	381,302	51	76,964	263,665	390

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

	Total 31/12/2019	Total 31/12/2018
A. On-balance-sheet assets		
1. Debt securities	**8,388**	**77,173**
a) Central banks	-	-
b) Government entities	1,918	72,451
c) Banks	4,587	2,209
d) Other financial companies	1,368	1,995
of which: insurance undertakings	**417**	**636**
e) Non-financial companies	514	518
2. Equity securities	**3,618**	**241**
a) Banks	62	-
b) Other financial companies	322	72
of which: insurance undertakings	46	-
c) Non-financial companies	3,233	169
d) Other issuers	**-**	**-**
3. Units in collective investment undertakings	**176**	**454**
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)	**12,182**	**77,868**
B. Derivatives	**-**	**-**
a) Central counterparties	-	-
b) Other	381,143	263,151
Total (B)	**381,143**	**263,151**
Total (A+B)	**393,325**	**341,018**

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 31/12/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**362,091**	**23,019**	**-**	**-**	**-**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	362,091	23,019	-	-	-	-
2. Loans	**-**	**-**	**-**	**-**	**-**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other	-	-	-	-	-	-
Total	**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 31/12/2019	Total 31/12/2018
1. Debt securities	**385,111**	**-**
a) Central banks	-	-
b) Government entities	311,492	-
c) Banks	67,664	-
d) Other financial companies	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	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 31/12/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**6,951**	**20,555**	**-**	**23,712**	**34,492**	**-**
1.1 structured securities	-	5,031	-	-	18,531	-
1.2 other debt securities	6,951	15,524	-	23,712	15,961	-
2. Equity securities	**3,962**	**-**	**25,824**	**1,983**	**8,816**	**15,634**
3. Units in collective investment undertakings	**77,699**	**353,156**	**13,264**	**22,930**	**375,164**	**12,208**
4. Loans	**-**	**-**	**17**	**-**	**-**	**60,663**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	17	-	-	60,663
Total	88,613	373,711	39,105	48,624	418,472	88,505

“Units in collective investment undertakings” includes, among others, the units of the closed-end investment funds “Securis Real Estate” managed by Investire SGR SpA:

- Securis Real Estate III, in the amount of €70,419 thousand;
- Securis Real Estate II, in the amount of €129,443 thousand;
- Securis Real Estate I, in the amount of €153,295 thousand.

2.6 OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

	Total 31/12/2019	Total 31/12/2018
1.Equity securities	**29,786**	**26,432**
of which: banks	760	10,807
of which: other financial companies	20,454	13,559
of which: non-financial companies	8,573	2,065
2. Debt securities	**27,507**	**58,203**
a) Central banks	-	-
b) Government entities	-	1,383
c) Banks	15,512	32,015
d) Other financial companies	7,131	7,280
of which: insurance companies	-	-
e) Non-financial companies	4,863	17,525
3. Units in collective investment undertakings	**444,119**	**410,303**
4. Loans	**17**	**60,663**
a) Central banks	-	-
b) Government entities	-	-
c) Banks	-	-
d) Other financial companies	17	60,663
of which: insurance companies	-	60,583
e) Non-financial companies	-	-
f) Households	-	-
Total	501,428	555,601

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 31/12/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**273,088**	**36,751**	**-**	**191,615**	**48,595**	**-**
1.1 structured securities	3,159	-	-	3,981	-	-
1.2 other debt securities	269,929	36,751	-	187,634	48,595	-
2. Equity securities	**6,357**	**36,091**	**14,846**	**6,065**	**-**	**36,670**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	279,445	72,842	14,846	197,680	48,595	36,670

3.2 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY DEBTOR/ISSUER

		Total 31/12/2019	Total 31/12/2018
1. Debt securities		**309,839**	**240,211**
a) Central banks		-	-
b) Government entities		202,908	137,922
c) Banks		54,690	44,667
d) Other financial companies		33,047	26,652
of which: insurance companies		-	-
e) Non-financial companies		19,193	30,970
2. Equity securities		**57,294**	**42,735**
a) Banks		36,092	24,192
b) Other issuers:		21,202	18,543
- other financial companies		19,952	16,709
of which: insurance companies		12,283	9,553
- non-financial companies		1,250	1,834
- 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	**367,133**	**282,946**

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	298,197	121,663	12,170	-	(347)	(181)	-	-
Loans	-	-	-	-	-	-	-	-
Total 31/12/2019	**298,197**	**121,663**	**12,170**	**-**	**(347)**	**(181)**	**-**	**X**
Total 31/12/2018	**203,159**	**-**	**37,461**	**-**	**(62)**	**(347)**	**-**	**X**
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

** Value to be reported for information purposes*

SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTIZED COST - ITEM 40

4.1 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN OF LOANS AND RECEIVABLES WITH BANKS

	Total 31/12/2019						Total 31/12/2018					
	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	**3,827,730**	**-**	**-**	**-**	**-**	**3,827,730**	**227,243**	**-**	**-**	**-**	**-**	**227,243**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	3,827,730	-	-	X	X	X	227,243	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**25,446,043**	**-**	**-**	**-**	**3,658,717**	**25,611,576**	**25,427,510**	**-**	**-**	**-**	**6,547,049**	**18,718,685**
1. Financing	21,700,649	-	-	-	-	25,528,379	20,796,596	-	-	-	2,201,937	18,594,671
1.1. Current accounts and demand deposits	608,175	-	-	X	X	X	658,003	-	-	X	X	X
1.2. Fixed-term deposits	103,248	-	-	X	X	X	114,702	-	-	X	X	X
1.3. Other financing:	20,989,227	-	-	X	X	X	20,023,891	-	-	X	X	X
- Repurchase agreements	-	-	-	X	X	X	5,062	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	20,989,227	-	-	X	X	X	20,018,829	-	-	X	X	X
2. Debt securities	3,745,394	-	-	-	3,658,717	83,197	4,630,914	-	-	-	4,345,112	124,014
2.1 Structured securities	1,985	-	-	-	-	25	37,196	-	-	-	-	-
2.2 Other debt securities	3,743,409	-	-	-	3,658,717	83,172	4,593,718	-	-	-	4,345,112	124,014
Total	**29,273,773**	**-**	**-**	**-**	**3,658,717**	**29,439,306**	**25,654,753**	**-**	**-**	**-**	**6,547,049**	**18,945,928**

Loans connected with pool collateral operations amount to €18,602 million, of which €9,543 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 €19,870 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 €2,451 million, which net of the haircut decreased to about €1,324 million.

4.2 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN BY PRODUCT OF LOANS AND RECEIVABLES WITH CUSTOMERS

	Total 31/12/2019						Total 31/12/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
1. Loans	**5,834,965**	**7,519**	**-**	**-**	**-**	**5,842,484**	**3,817,231**	**14,978**	**-**	**-**	**1,734,919**	**2,248,712**
1.1. Current accounts	309,093	28	-	X	X	X	318,630	196	-	X	X	X
1.2. Repurchase agreements	2,885,420	-	-	X	X	X	1,199,151	-	-	X	X	X
1.3. Medium/long term loans	69,886	7,377	-	X	X	X	82,856	14,648	-	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from pensions/wages	-	-	-	X	X	X	-	1	-	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	2,570,568	114	-	X	X	X	2,216,595	131	-	X	X	X
2. Debt securities	**7,366,734**	**68,050**	**-**	**6,947,936**	**243,934**	**394,752**	**6,760,638**	**113,972**	**-**	**6,076,850**	**129,990**	**426,684**
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	7,366,734	68,050	-	6,947,936	243,934	394,752	6,760,638	113,972	-	6,076,850	129,990	426,684
Total	**13,201,699**	**75,569**	**-**	**6,947,936**	**243,934**	**6,237,236**	**10,577,870**	**128,950**	**-**	**6,076,850**	**1,864,909**	**2,675,396**

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 31/12/2019			Total 31/12/2018		
	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	**7,366,734**	**68,050**	**-**	**6,760,638**	**113,972**	**-**
a) Government entities	7,360,140	-	-	6,755,327	-	-
b) Other financial companies	6,594	68,050	-	5,311	113,972	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Loans to:	**5,834,965**	**7,519**	**-**	**3,817,231**	**14,978**	**-**
a) Government entities	-	-	-	-	-	-
b) Other financial companies	5,487,014	-	-	3,691,858	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	61,485	743	-	64,868	2,248	-
d) Households	286,466	6,776	-	60,506	12,729	-
Total	**13,201,699**	**75,569**	**-**	**10,577,870**	**128,950**	**-**

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	11,106,695	7,364,298	10,315	106,089	(1,054)	(3,828)	(38,039)	-
Loans	31,006,309	122,197	360,341	36,512	(2,034)	(1,272)	(28,993)	(373)
Total 31/12/2019	**42,113,004**	**7,486,496**	**370,656**	**142,601**	**(3,088)**	**(5,099)**	**(67,032)**	**(373)**
Total 31/12/2018	**36,143,862**	**1,695,251**	**96,235**	**168,560**	**(2,945)**	**(4,529)**	**(39,610)**	**-**
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

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

	FV 31/12/2019			NV 31/12/2019	FV 31/12/2018			NV 31/12/2018
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives		**4,787**		**63,352**		**7,715**		**239,028**
1. Fair value	-	4,584	-	50,000	-	4,516	-	204,093
2. Cash flows	-	203	-	13,352	-	3,199	-	34,934
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**4,787**	**-**	**63,352**	**-**	**7,715**	**-**	**239,028**

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	-	X	X
2. Financial assets measured at amortized cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	4,584	-	-	-	-	-	X	203	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**4,584**	**-**	**-**	**-**	**-**	**-**	**-**	**203**	**-**	**X**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

SECTION 6 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY – ITEM 60

6.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	Total 31/12/2019	Total 31/12/2018
1. Positive adjustments	**1,178**	**764**
1.1 of specific portfolios:	1,178	-
a) financial assets measured at amortized cost	-	-
b) financial assets measured at fair value through comprehensive income	1,178	-
1.2 comprehensive	-	764
2. Negative adjustments	**-**	**(13)**
2.1 of specific portfolios:	-	-
a) financial assets measured at amortized cost	-	-
b) financial assets measured at fair value through comprehensive income	-	-
2.2 comprehensive	-	(13)
Total	1,178	750

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	% holding	% votes
A. Subsidiaries				
Iccrea BancaImpresa SpA	Rome	Rome	99.72	99.72
BCC Beni Immobili S.r.l.	Milan	Rome	100	100
BCC Retail S.c.a.r.l.	Milan	Milan	42.6	42.6
Ventis S.r.l.	Milan	Milan	95	95
Ventis SpA	Rome	Rome	100	100
BCC Sistemi Informatici SpA	Milan	Milan	98.53	98.53
BCC Risparmio e Previdenza SGRpA.	Milan	Milan	75	75
BCC Gestione Crediti SpA	Rome	Rome	100	100
BCC Solutions SpA	Rome	Rome	100	100
BCC CreditoConsumo SpA	Rome	Udine	96	96
Banca Sviluppo SpA	Rome	Rome	76.51	76.51
Banca MedioCredito FVG SpA	Udine	Udine	26.84	26.84
Securfondo	Rome	Milan	54.4	54.4
BCC Accademia S.c.p.A.	Rome	Rome	100	100
Sinergia	Milan	Treviglio	71.5	71.5
B. Joint ventures				
C. Companies subject to significant influence				
M-Facility S.r.l.	Rome	Rome	41.48	41.48
Hi-Mtf SpA	Milan	Milan	25	25
BCC Vita SpA	Milan	Milan	30	30
BCC Assicurazioni SpA	Milan	Milan	30	30
Satispay SpA	Milan	Milan	15.09	15.09
Bit - Servizi per l'Investimento sul Territorio	Parma	Parma	33.2	33.2

Equity investments are represented by unlisted securities with the exception of the unit in the "Securfondo" closed-end real-estate investment fund.

During the period, 100% of BCC Accademia was acquired. Following the exit of a plurality of shareholders, the bank was placed in liquidation by the Extraordinary Shareholders' Meeting of July 12, 2019.

Following the execution of the agreement with Cassa Centrale Banca, the interests increased in the following companies: Iccrea BancaImpresa (+€2.3 million), Banca Sviluppo (+€10.3 million), Sinergia (+€1.2 million) and BIT SpA (+€1.7 million).

7.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

	Carrying amount	Fair value	Dividends received
A. Subsidiaries			
Iccrea BancaImpresa SpA	730,020	-	28,547
BCC Beni Immobili S.r.l.	18,314	-	-
BCC Retail S.c.a.r.l.	425	-	-
Ventis S.r.l.	-	-	-
Ventis S.p.A	350	-	-
BCC Sistemi Informatici SpA	45,025	-	-
BCC Risparmio e Previdenza SGRpA	22,474	-	6,375
BCC Gestione Crediti SpA	4,021	-	3,973
BCC Solutions SpA	75,700	-	-
BCC CreditoConsumo SpA	55,041	-	11,328
Banca Sviluppo SpA	95,800	-	-
Banca Mediocredito FVG SpA	21,399	-	-
Securfondo	1,599	-	-
BCC Accademia S.c.p.A.	800	-	-
Sinergia	1,174		
B. Joint ventures			
C. Companies subject to significant influence			
M-Facility S.P.A.	234	-	-
Hi-Mtf SpA	1,250	-	-
BCC Vita SpA	62,100	-	-
BCC Assicurazioni	4,947	-	-
Satispay SpA	8,112	-	-
Bit - Servizi per L'Investimento sul Territorio	1,696		
Total	**1,150,481**	**-**	**50,223**

The investment held in Ventis was reclassified to "Non-current assets and disposal groups held for sale" in connection with the disposal of the electronic money business.

7.3 SIGNIFICANT EQUITY INVESTMENTS: ACCOUNTING DATA

See the corresponding section in the Notes to the Consolidated financial statements.

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 31/12/2019	Total 31/12/2018
A. Opening balance	**1,263,640**	**1,193,547**
B. Increases	**14,554**	**91,080**
B.1 Purchases	14,554	91,080
B.2 Writebacks	-	-
B.3 Revaluations	-	-
C. Decreases	**127,713**	**22,882**
C.1 Sales	42,463	2,170
C.2 Impairment losses	76,765	15,791
C.3 Writedowns	-	-
C.4 Other decreases	8,485	4,920
D. Closing balance	**1,150,481**	**1,261,745**
E. Total revaluations	**-**	**-**
F. Total impairment losses	**76,765**	**-**

The sub-item "B.1 Purchases" refers to the execution of the agreement with Cassa Centrale Banca and the associated acquisition of interests in Iccrea BancaImpresa (+€2.3 million), Banca Sviluppo (+€10.3 million), Sinergia (+€1.2 million) and (BIT SpA (+€1.7 million).

The sub-item "C.1 Sales" reports the sale to Cattolica of part of the interest held in Bcc Vita and Bcc Assicurazioni (-€42.5 million) in implementation of the new shareholders' agreement.

The sub-item "C.2 Impairment losses" mainly reflects the impairment recognized on the interest held in Banca Sviluppo in the amount of € 1.6 million and Iccrea BancaImpresa in the amount of €72.7 million.

The sub-item "C.4 Other decreases" reports the partial redemption of the units held in Securfondo.

Impairment testing of equity investments

As required by the IFRS, in the presence of triggers that could indicate possible impairment, equity investments undergo impairment testing to assess whether there is objective evidence indicating that the carrying amount of such assets is not fully recoverable and determine the amount of any writedown.

Impairment indicators can essentially be divided into two categories:

- qualitative indicators such as the posting of losses or significant divergences in performance from budget objectives or targets in long-term plans, the announcement/initiation of insolvency proceedings or restructuring plans or a downgrading by a specialized agency;
- quantitative indicators, represented by a reduction in fair value below the carrying amount of more than 30% or for more than 24 months, a carrying amount of an equity investment in the separate financial statements that exceeds the carrying amount in the consolidated financial statements of the net assets and goodwill of the investee or the distribution by the latter of a dividend in excess of its comprehensive income. If there is evidence of impairment, the amount of any impairment loss is determined on the basis of the difference between the carrying amount and the recoverable value, with the latter represented by the greater between the fair value less any costs to sell and the value in use.

As regards the investments held by Iccrea Banca where there is a difference between the carrying amount recognized in the separate financial statements and the fraction of equity recognized in the financial statements of the subsidiary, the impairment tests have been updated.

More specifically, the recoverability of the carrying amount was assessed with various methods, including shareholders' equity, market multiples, the dividend discount model, equity with inclusion of funding and appraisal value.

For more information on impairment testing, see Part A – Accounting Policies.

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 31/12/2019	Total 31/12/2018
1. Owned assets	**14,633**	**14,221**
a) land	-	-
b) building	-	-
c) movables	228	270
d) electrical plants	14,082	3,283
e) other	323	10,668
2. Right-of-use assets acquired under finance leases	**2,492**	**-**
a) land	-	-
b) building	1,288	-
c) movables	-	-
d) electrical plants	-	-
e) other	1,204	-
Total	17,125	14,221
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.

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	**-**	**-**	**278**	**12,678**	**1,264**	**14,221**
A.1 Total net writedown	-	-	-	-	-	-
A.2 Opening net balance	**-**	**-**	**278**	**12,678**	**1,264**	**14,221**
B. Increases:	**-**	**1,800**	**-**	**8,211**	**2,510**	**12,521**
B.1 Purchases	-	-	-	8,211	2,510	10,721
- of which business combinations	-	-	-	-	-	-
B.2 Capitalized improvement costs	-	-	-	-	-	-
B.3 Writebacks	-	-	-	-	-	-
B.4 Fair value gains recognized in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-		-	-	-	-
B.6 Transfers from investment property	-	-	X	X	X	-
B.7 Other changes	-	1,800	-	-	-	1,800
C. Decreases:	-	**512**	**50**	**6,807**	**2,247**	**9,617**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	512	31	4,272	749	5,564
C.2 Depreciation	-	-	-	-	-	-
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	-	-	X	X	X	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	19	2,535	1,499	4,053
b) discontinuing operations	**-**	**1,288**	**228**	**14,082**	**1,527**	**17,125**
C.7 Other changes	-	512	2,889	11,518	2,665	17,585
D. Closing net balance	**-**	**1,800**	**3,117**	**25,600**	**4,193**	**34,710**
D.1 Total net writedowns	-	-	-	-	-	-

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 31/12/2019		Total 31/12/2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**-**	**X**	**-**
A.2 Other intangible assets	**53,946**	**-**	**27,043**	**-**
A.2.1 Assets carried at cost	53,946	-	27,043	-
a) internally generated intangible assets	-	-	-	-
b) other assets	53,946	-	27,043	-
A.2.2 Assets designated at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	53,946	-	27,043	-

The increase in the item is mainly due to investment related to the project to establish the Iccrea Cooperative Banking Group.

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	**-**	**-**	**-**	**27,043**	**-**	**27,043**
A.1 Total net writedown	-	-	-	-	-	-
A.2 Opening net balance	**-**	**-**	**-**	**27,043**	**-**	**27,043**
B. Increases	**-**	**-**	**-**	**32,834**	**-**	**32,834**
B.1 Purchases	-	-	-	29,810	-	29,810
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	-	-	-	3,024	-	3,024
C. Decreases	**-**	**-**	**-**	**5,930**	**-**	**5,930**
C.1 Sales	-	-	-	-	-	-
C.2 Writedowns	-	-	-	5,930	-	5,930
- Amortization	X	-	-	5,930	-	5,930
- Impairment	-	-	-	-	-	-
+ equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Fair value losses recognized in	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Closing net balance	**-**	**-**	**-**	**53,946**	**-**	**53,946**
D.1 Total net writedown	-	-	-	-	-	-
E. Closing gross balance	**-**	**-**	**-**	**53,946**	**-**	**53,946**
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
	31/12/2019			31/12/0018		
1) Recognized in income statement	**31,296**	**32**	**31,328**	**37,189**	**271**	**37,461**
a) DTA pursuant to Law 214/2011	**2,627**	**32**	**2,658**	**2,686**	**32**	**2,719**
Total	2,627	32	2,658	2,686	32	2,719
b) Other	**28,669**	**-**	**28,669**	**34,503**	**239**	**34,742**
Writedowns of amounts due from banks	395	-	395	485	-	485
Writedowns of loans to customers	123	-	123	133	27	160
Tax losses	23,128	-	23,128	27,168	-	27,168
Provisions for risks and charges	2,693	-	2,693	3,254	-	3,254
Costs of predominantly administrative nature	21	-	21	76	-	76
Other	2,309	-	2,309	3,386	211	3,598
2) Recognized in shareholders' equity	**1,642**	**292**	**1,934**	**5,006**	**1,014**	**6,020**
a) Valuation reserves:	**1,440**	**292**	**1,731**	**4,768**	**966**	**5,734**
Capital losses on financial assets measured through OCI	1,440	292	1,731	4,768	966	5,734
b) Other:	**203**	**-**	**203**	**238**	**48**	**287**
Actuarial gains/losses on provisions for employees	203	-	203	-	-	-
Other	-	-	-	238	48	287
A. Total deferred tax assets	**32,938**	**323**	**33,262**	**42,196**	**1,285**	**43,481**
B. Offsetting with deferred tax liabilities	**-**	**-**	**-**	**(9)**	**(2)**	**(10)**
C. Net deferred tax assets	**32,938**	**323**	**33,262**	**42,187**	**1,283**	**43,471**

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 to generate positive taxable income.

The recognition of deferred tax assets for IRES purposes is based on the profits expected to be generated in the reference period (2020 – 2023) by the companies participating in the consolidated taxation mechanism.

10.2 DEFERRED TAX LIABILITIES: COMPOSITION

	IRES	IRAP	TOTAL	IRES	IRAP	TOTAL
	31/12/2019			31/12/2018		
1) Deferred tax liabilities recognized in income statement:	**-**	**-**	**-**	**-**	**-**	**-**
Writedowns of loans to customers deducted in separate section of tax return (not recognized in income statement)	-	-	-	-	-	-
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	-	-	-	-	-	-
Other	-	-	-	-	-	-
2) Deferred tax liabilities recognized in shareholders' equity:	**1,170**	**237**	**1,407**	**9**	**2**	**10**
Valuation reserves:	-	-	-	-	-	-
Capital gains on financial assets measured through OCI	1,170	237	1,407	9	2	10
Revaluation of property	-	-	-	-	-	-
Other	-	-	-	-	-	-
A. Total deferred tax liabilities	**1,170**	**237**	**1,407**	**9**	**2**	**10**
B. Offsetting with deferred tax assets	**-**	**-**	**-**	**(9)**	**(2)**	**(10)**
C. Net deferred tax assets	**1,170**	**237**	**1,407**	**-**	**-**	**-**

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

	Total	Total
	31/12/2019	31/12/2018
1. Opening balance	**37,461**	**25,767**
2. Increases	**599**	**(12,684)**
2.1 Deferred tax assets recognized during the period	599	12,651
a) in respect of previous period	14	213
b) due to change in accounting policies	-	-
c) writebacks	-	-
d) other	585	12,410
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	160
3. Decreases	**6,732**	**1,090**
3.1 Deferred tax assets derecognized during the period	6,220	1,090
a) reversals	309	684
b) writedowns for supervening non-recoverability	4,527	-
c) due to changes in accounting policies	-	-
d) other	1,384	406
3.2 Reduction in tax rates	-	-
3.3 Other decreases	512	-
a) transformation in tax credits pursuant to Law 214/2011	60	-
b) other	452	-
4. Closing balance	**31,328**	**37,461**

10.3 BIS CHANGES IN DEFERRED TAX ASSETS PURSUANT TO LAW 214/2011

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**2,719**	**2,719**
2. Increases	**-**	**-**
3. Decreases	**-**	**-**
3.1 Reversals	-	-
3.2 Conversion into tax credits	60	-
a) arising from losses for the year	60	-
b) arising from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**2,658**	**2,719**

10.4 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN INCOME STATEMENT)

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**-**	**1,144**
2. Increases	**-**	**-**
2.1 Deferred tax liabilities recognized during the period	-	-
a) in respect of previous period	-	-
b) due to change in accounting policies	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**(1,144)**
3.1 Deferred tax liabilities derecognized during the period	-	1,144
a) reversals	-	1,144
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases:	-	-
4. Closing balance	**-**	**-**

10.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**6,020**	**1,861**
2. Increases	**203**	**5,795**
2.1 Deferred tax assets recognized during the period	203	5,795
a) in respect of previous periods	-	61
b) due to change in accounting policies	-	-
c) other	203	5,734
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**4,289**	**1,636**
3.1 Deferred tax assets derecognized during the period	4,289	1,574
a) reversals	4,289	631
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	943
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	61
4. Closing balance	**1,934**	**6,020**

10.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	Total 31/12/2019	Total 31/12/2019
1. Opening balance	**10**	**4,634**
2. Increases	**1,396**	**10**
2.1 Deferred tax liabilities recognized during the period	1,396	10
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	-
c) other	1,396	10
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**4,634**
3.1 Deferred tax liabilities derecognized during the period	-	4,634
a) reversals	-	22
b) due to change in accounting policies	-	4,612
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,407**	**10**

10.7 OTHER INFORMATION

As regards the Bank's tax position:

- for the financial years 2014, 2015, 2016 and 2017 (for which the tax assessment time limit has not expired), no formal notice of assessment has yet been received;
- in November 2014, the Bank received a notice of liquidation from the Revenue Agency, Provincial Directorate of Brescia for the year 2013 concerning the registration fees of €104,770.00 for an order assigning amounts for seizure by third parties. Following adverse rulings in the first two levels of adjudication, the Bank has appealed to the Court of Cassation.

	IRES	IRAP	OTHER	TOTAL	IRES	IRAP	OTHER	TOTAL
	31/12/2019				31/12/2018			
Current tax liabilities (-)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Payments on account (+)	33,907	6,707	-	40,614	-	-	-	-
Other tax receivables (+)	2,592	3,650	-	6,242	-	-	-	-
Tax credit pursuant to Law 214/2011 (+)	60	-	-	60	-	-	-	-
Withholding tax (+)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Debtor balance of item 60 a) of liabilities	-	-	-	-	-	-	-	-
Creditor balance	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	**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

	31/12/2019	31/12/2018
A. Assets held for sale		
A.1 Financial assets	556	78,005
A.2 Equity investments	4,920	5,027
A.3 Property, plant and equipment	3	5
of which: obtained through enforcement of guarantees received	-	-
A.4 Intangible assets	4,172	2,321
A.5 Other non-current assets	162,049	61,436
Total A	**171,700**	**146,793**
of which carried at cost	171,700	141,766
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	5,027
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated 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	99,170	98,133
C.2 Securities	-	-
C.3 Other liabilities	56,760	29,465
Total C	**155,930**	**127,598**
of which carried at cost	155,930	127,598
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortized cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated 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

	Total 31/12/2019	Total 31/12/2018
- Shortfalls, embezzlement and robberies	-	-
- Trade receivables	-	-
- Stamp duty and other valuables	-	-
- Gold, silver and precious metals	-	-
- Receivables for future premiums on derivatives	25,896	15,142
- Fees and commissions and interest to be received	3,575	773
- Tax receivables due from central govt. tax authorities and other tax agencies (including VAT credits)	9,427	43,437
- Receivables from social security institutions	-	-
- Tax receivables	-	-
- Receivables from employees	-	-
- Non-recurring transactions (acquisition)	-	-
- Items in transit between branches and items being processed	3,442	20,983
- Financial assets in respect of loans granted for a specific transaction	85,864	-
- Accrued income not attributable to separate line item	-	-
- Prepaid expenses not attributable to separate line item	8,405	19,409
- Leasehold improvements	-	-
- Tax consolidation mechanism	13,463	11,629
- Other (security deposits, assets not attributable to other items)	2,917	71,492
Total	152,988	182,866

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 31/12/2019				Total 31/12/2018			
	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	**11,912,682**	X	X	X	**13,765,693**	X	X	X
2. Due to banks	**8,869,694**	X	X	X	**5,658,927**	X	X	X
2.1 Current accounts and demand deposits	1,989,866	X	X	X	2,033,675	X	X	X
2.2 Fixed term deposits	6,618,971	X	X	X	3,377,354	X	X	X
2.3 Loans	258,552	X	X	X	246,476	X	X	X
2.3.1 Repurchase agreements	19,778	X	X	X	172,561	X	X	X
2.3.2 Other	238,774	X	X	X	73,915	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	2,306	X	X	X	1,422	X	X	X
Total	**20,782,376**	**-**	**20,611,443**	**265,186**	**19,424,621**	**-**	**610,024**	**18,814,597**

The item “Due to central banks” mainly represents financing from the ECB (TLTRO-II).

1.2 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST- DUE TO CUSTOMERS: COMPOSITION BY TYPE

	Total 31/12/2019				Total 31/12/2018			
	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	959,107	X	X	X	369,280	X	X	X
2. Fixed-term deposits	50,011	X	X	X	-	X	X	X
3. Loans	15,789,731	X	X	X	11,791,402	X	X	X
3.1 Repurchase agreements	13,789,953	X	X	X	11,791,402	X	X	X
3.2 Other	1,999,778	X	X	X	-	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	2,512	X	X	X	-	X	X	X
6. Other liabilities	327,506	X	X	X	356,227	X	X	X
Total	**17,128,866**	**-**	**8,740,853**	**8,080,248**	**12,516,909**	**-**	**183,338**	**12,308,481**

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

	31/12/2019 Total				31/12/2018 Total			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	5,021,316	4,461,100	588,403	-	5,027,706	2,604,168	2,316,836	-
1.1 structured	1,607	-	1,613	-	33,377	31,660	1,609	-
1.2 other	5,019,710	4,461,100	586,790	-	4,994,329	2,572,508	2,315,227	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	**5,021,316**	**4,461,100**	**588,403**	**-**	**5,027,706**	**2,604,168**	**2,316,836**	**-**

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 €602 million.

1.4 BREAKDOWN OF SUBORDINATED DEBT/SECURITIES

	31/12/2019	31/12/2018
A.1 Subordinated debt	**-**	**-**
- banks	-	-
- customers	-	-
B.1 Subordinated securities	**602,376**	**241,171**
- banks	602,376	241,171
- customers	-	-
Total	**602,376**	**241,171**

At December 31, 2019 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, 2019: €69.563 million; annual interest rate 4.75% fixed gross, interest paid annually in arrears, repayment through periodic amortization as from the third year in 5 equal annual instalments.
- issue date June 18, 2015, Maturity date June 18, 2025, residual nominal value at December 31, 2019: €106.250 million, interest rate 6-month Euribor + 3.50% gross, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.
- issue date June 29, 2015, Maturity date June 29, 2025, residual nominal value at December 31, 2019: €11.956 million, interest rate 3.50% fixed gross, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.
- issue date July 30, 2015, Maturity date July 30, 2025, residual nominal value at December 31, 2019: €16 million, interest rate 6-month Euribor + 350 basis points, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.
- issue date November 28, 2019, Maturity date November 28, 2029, residual nominal value at December 31, 2019: €397.65 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	1,301	-
Movables	-	-
Electrical plant	-	-
Other	1,211	-

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 31/12/2019					Total 31/12/2018				
	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	290	312	-	-	312	511	540	-	-	540
2. Due to customers	332	313	-	-	313	1,398	1,407	-	-	1,407
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	**622**	**625**	**-**	**-**	**625**	**1,909**	**1,947**	**-**	**-**	**1,947**
B. Derivatives										
1. Financial derivatives		5	381,237	-		X	1,568	247,614	-	X
1.1 Trading	X	5	381,237	-	X	X	1,568	247,554	-	X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	59	-	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**	**5**	**381,237**	**-**	**X**	**X**	**1,568**	**247,614**	**-**	**X**
Total (A+B)	**X**	**630**	**381,237**	**-**	**X**	**X**	**3,515**	**247,614**	**-**	**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 31/12/2019					Total 31/12/2018				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**419,576**	**-**	**424,058**	**-**	**424,058**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	419,576	-	424,058	-	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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
Total	**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 31/12/2019			NV 31/12/2019	Fair value 31/12/2018			NV 31/12/2018
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**118,344**	**-**	**4,216,965**	**-**	**63,305**	**-**	**3,305,268**
1) Fair value	-	118,009	-	4,185,810	-	62,021	-	3,261,599
2) Cash flows	-	334	-	31,155	-	1,284	-	43,668
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**118,344**	**-**	**4,216,965**	**-**	**63,305**	**-**	**3,305,268**

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	115,939	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	1,198	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**115,939**	**-**	**-**	**-**	**-**	**-**	**1,198**	**-**	**-**	**-**
1. Financial liabilities	872	X	-	-	-	-	X	334	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**872**	**-**	**-**	**-**	**-**	**-**	**-**	**334**	**-**	**-**
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 31/12/2019	Total 31/12/2018
Amounts due to social security institutions and State	15,058	12,751
Trade payables	-	-
Securities to be settled	-	-
Amounts available to customers	7,724	6,273
Non-recurring transactions (acquisitions)	-	-
Liabilities for future premiums on derivatives	4,698	6,051
Tax payables due to tax authorities	48,178	18,155
Payables due to employees	12,728	5,316
Financial liabilities in respect of loans granted for a specific transaction	85,864	-
Guarantees issued and credit derivatives	-	-
Accrued expenses not attributable to separate line item	113	-
Deferred income not attributable to separate line item	5,574	5,365
Items in transit and items being processed	37,554	40,187
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)	81,529	179,833
Subsidiaries – Group VAT	8,217	7,218
Balance of illiquid portfolio items	-	-
Dividends to be paid	-	-
Consolidated taxation mechanism	22,190	27,010
Total	329,426	308,159

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 31/12/2019	Total 31/12/2018
A. Opening balance	**10,176**	**11,312**
B. Increases	**8,615**	**1,352**
B.1 Provisions for the period	963	69
B.2 Other increases	7,651	1,283
C. Decreases	**788**	**2,488**
C.1 Benefit payments	788	1,003
C.2 Other decreases	-	1,485
D. Closing balance	**18,003**	**10,176**
Total	18,003	10,176

The increase registered under sub-item “Increases – Other increases” mainly reflects the increase in personnel due to the transfer of contracts following the establishment and reorganization of the ICBG.

9.2 OTHER INFORMATION

	Total 31/12/2019	Total 31/12/2018
Opening amount (civil code rules)	9,630	10,571
Increases	7,888	1,521
Decreases	(814)	(2,657)
Closing amount (civil code rules)	**16,705**	**9,435**
Surplus / (Deficit)	1,298	741
Employee termination benefits provision IAS 19	**18,003**	**10,176**

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 €16,705 thousand, excluding €463 thousand in respect of groups of assets held for sale in the e-money segment.

The actuarial assumptions used by an independent actuary to calculate the liability as at the reporting date are as follows:

- demographic parameters: drawn from ISTAT's 2004 mortality tables and the INPS disability tables. As regards the probability of leaving work for reasons other than death, the calculation used turnover rates consistent with past experience, with the annual rate of exit from work set at 2.75%;
- financial parameters: the calculations assumed an interest rate of 0.77%;
- economic parameters: the rate of inflation was assumed to be 1.20% while the rate of increase in salaries was 2.38% for all categories of employee and used only for seniority purposes.

The independent actuary determined the discount rate using as a reference basket the Iboxx Obbligazioni Corporate AA index, with an average duration comparable to the group being assessed.

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

		Total 31/12/2019	Total 31/12/2018
1. Provisions for credit risk in respect of commitments and financial guarantees issued		41	108
2. Provisions for other commitments and guarantees issued		-	-
3. Company pension plans		-	-
4. Other provisions for risks and charges		10,435	9,049
4.1 legal disputes		5,254	5,254
4.2 personnel expense		1,692	1,047
4.3 other		3,489	2,747
	Total	**10,476**	**9,156**

The sub-item “legal disputes” includes €1,844 thousands for revocatory actions and €3,410 thousand for litigation and disputes. The sub-item “personnel expenses” includes seniority bonuses for employees.

10.2 PROVISIONS FOR RISKS AND CHARGES: CHANGE FOR THE PERIOD

	Provisions in respect of commitments and other guarantees issued	Retirement provisions	Other provisions	Total
A. Opening balance	**-**	**-**	**9,049**	**9,049**
B. Increases	**-**	**-**	**1,867**	**1,867**
B.1 Provisions for the year	-	-	1,649	1,649
B.2 Changes due to passage of time	-	-	218	218
B.3 Changes due to changes in the discount rate	-	-	-	-
B.4 Other increases	-	-	-	-
C. Decreases	**-**	**-**	**481**	**481**
C.1 Use during the period	-	-	481	481
C.2 Changes due changes in the discount rate	-	-	-	-
C.3 Other decreases	-	-	-	-
D. Closing balance	**-**	**-**	**10,435**	**10,435**

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	-	-	-	-	9	11	-	20
2. Financial guarantees issued	35	6	-	41	28	60	-	88
Total	**35**	**6**	**-**	**41**	**36**	**72**	**-**	**108**

10.4 PROVISIONS IN RESPECT OF OTHER COMMITMENTS AND GUARANTEES ISSUED

The table has not been completed because there were no such positions as of the 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

See the comments to table 10.1 “Provisions for risks and charges: composition.

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 31/12/2019	Total 31/12/2018
A. Share capital		
A.1 Ordinary shares	1,401,045	1,151,045
A.2 Savings shares	-	-
A.3 Preference shares	-	-
A.4 Other shares	-	-
B. Treasury shares		
B.1 Ordinary shares	4,608	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	**22,285,487**	**-**
- fully paid	22,285,487	-
- partially paid	-	-
A.1 Treasury shares (-)	(87,267)	-
A.2 Shares in circulation: opening balance	**22,198,220**	**-**
B. Increases	**4,840,272**	**-**
B.1 new issues	4,840,272	-
- for consideration:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	4,840,272	-
- to employees	-	-
- to directors	-	-
- other	4,840,272	-
B.2 Sales of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**27,038,492**	**-**
D.1 Treasury shares (+)	87,267	-
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 €379,939 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 (€82 thousand). Reserves also include the loss carryforward from 2018 in the amount of €35.6 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	(4,608)				
Reserves:					
a) legal reserve	50,785	B	50,785		
b) reserve in articles of association	205	A – B – C	205		
c) extraordinary reserve	337,299	A – B – C	332,691		
d) other reserves	1,983	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)	(817)		–		
b) Cash flow hedges	689		–		
c) Actuarial gains (losses) on defined-benefit plans	(2,485)				
Valuation reserves (Law 342 of 22/11/2000)	52,062	A – B – C (**)	52,062		
Retained earnings (loss carryforward)	(35,632)				
Net profit (loss) for the period	(127,417)				
Total	**1,704,489**				

(*) 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	31/12/2019	31/12/2018
Commitments to disburse funds	**5,089,019**	**82,643**	**-**	**5,171,661**	**6,820,722**
a) Central banks	-	-	-	-	-
b) Government entities	-	-	-	-	-
c) Banks	4,208,184	70,426	-	4,278,611	6,485,136
d) Other financial companies	783,254	12,216	-	795,470	254,643
e) Non-financial companies	97,581	-	-	97,581	80,943
f) Households	-	-	-	-	-
Financial guarantees issued	**76,862**	**1,435**	**-**	**78,297**	**86,161**
a) Central banks	-	-	-	-	-
b) Government entities	-	-	-	-	-
c) Banks	68,592	1,327	-	69,919	77,663
d) Other financial companies	5,238	108	-	5,346	6,228
e) Non-financial companies	3,032	-	-	3,032	2,270
f) Households	-	-	-	-	-

The nominal value of “commitments to disburse funds” represents the amount that the Bank could be called upon to disburse at the request of the counterparty net of amounts already disbursed and gross of total provisions.

The nominal value of “financial guarantees issued” represents the maximum about the Bank could be called upon to pay in event the guarantees are enforced. It reports the nominal value net of enforcements of unsecured financial guarantees issued by the Bank and repayments by the secured debtor and gross of total provisions.

2. OTHER COMMITMENTS AND GUARANTEES ISSUED

There were no such positions as of the reporting date.

3. ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

	Amount 31/12/2019	Amount 31/12/2018
1. Financial assets measured at fair value through profit or loss	375,871	82,949
2. Financial assets measured at fair value through other comprehensive income	192,953	75,552
3. Financial assets measured at amortized cost	3,562,847	5,951,023
4. Property, plant and equipment	-	-
of which: property, plant and equipment classified as inventories	-	-

4. MANAGEMENT AND INTERMEDIATION SERVICES

	Amount 31/12/2019
1. Order execution on behalf of customers	**48,671,753**
a) Purchases	24,906,581
1. settled	24,881,049
2. not settled	25,532
b) Sales	23,765,172
1. settled	23,753,849
2. not settles	11,323
2. Asset management (individual)	**-**
3. Securities custody and administration	**160,854,137**
a) Third-party securities held as part of custodian bank services (excluding asset management)	80,001
1. Securities issued by consolidated companies	-
2. other securities	80,001
b) Other third-party securities on deposit (excluding asset management): other	78,668,324
1. Securities issued by consolidated companies	4,389,822
2. other securities	74,278,502
c) Third-party securities deposited with third parties	78,665,904
d) Securities owned by bank deposited with third parties	82,105,811
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)	31/12/2019	31/12/2018
1. Derivatives	593,737	47,441	546,296	207,882	82,259	256,156	194,578
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2019	**593,737**	**47,441**	**546,296**	**207,882**	**82,259**	**256,156**	**X**
Total 31/12/2018	**513,800**	**13,591**	**500,209**	**257,406**	**48,225**	**X**	**194,578**

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)	31/12/2019	31/12/2018
1. Derivatives	756,470	47,441	709,029	102,728	146,723	459,578	338,232
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2019	**756,470**	**47,441**	**709,029**	**102,728**	**146,723**	**459,578**	**X**
Total 31/12/2018	**598,286**	**13,591**	**584,695**	**162,279**	**84,184**	**X**	**338,232**

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 31/12/2019	Total 31/12/2018
1. Financial assets measured at fair value through profit or loss	**3,992**	**-**	**-**	**3,992**	**2,182**
1.1 Financial assets held for trading	732	-	-	732	392
1.2 Financial assets designated at fair value	2,494	-	-	2,494	-
1.3 Other financial assets mandatorily at fair value	765	-	-	765	1,791
2. Financial assets measured at fair value through other comprehensive income	**3,101**	**-**	**X**	**3,101**	**7,342**
3. Financial assets measured at amortized cost	**137,854**	**27,311**	**X**	**165,165**	**175,369**
3.1 Due from banks	62,502	4,131	X	66,633	69,066
3.2 Loans to customers	75,351	23,180	X	98,532	106,303
4. Hedging derivatives	**X**	**X**	**(19,099)**	**(19,099)**	**-**
5. Other assets	**X**	**X**	**1,771**	**1,771**	**-**
6. Financial liabilities	**X**	**X**	**X**	**103,382**	**115,915**
Total	144,947	27,311	(17,328)	258,312	300,808
of which: interest income on impaired financial assets	1,086	44	-	1,131	486
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

	31/12/2019	31/12/2018
1. Mortgage loans	-	-
2. Current accounts and deposits	988	1,838
3. Other loans	704	310
4. Debt securities	-	-
5. Other	-	-
Total	1,692	2,148

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 31/12/2019	Total 31/12/2018
1. Financial liabilities measured at amortized cost	**(41,486)**	**(86,767)**	**X**	**(128,253)**	**(111,485)**
1.1 Due to central banks	(285)	X	X	(285)	-
1.2 Due to banks	(36,828)	X	X	(36,828)	(24,126)
1.3 Due to customers	(4,373)	X	X	(4,373)	(128)
1.4 Securities issued	X	(86,767)	X	(86,767)	(87,230)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	**X**	**X**	**(1,987)**	**(1,987)**	**-**
5. Hedging derivatives	**X**	**X**	**2,029**	**2,029**	**(27,730)**
6. Financial assets	**X**	**X**	**X**	**(82,861)**	**(82,490)**
Total	(41,486)	(86,767)	42	(211,072)	(221,704)
of which: interest expense on lease liabilities	(64)	-	-	(64)	-

1.4 INTEREST AND SIMILAR EXPENSE: OTHER INFORMATION

1.4.1 INTEREST EXPENSE ON FOREIGN-CURRENCY LIABILITIES

	31/12/2019	31/12/2018
1. Current accounts and deposits	(3,023)	(5,293)
2. Loans	-	-
3. Other	(126)	-
Total	**(3,149)**	**(5,293)**

1.5 DIFFERENCES ON HEDGING TRANSACTIONS

	31/12/2019	31/12/2018
A. Positive differences on hedging transactions:	2,029	17,068
B. Negative differences on hedging transactions:	(19,099)	(44,797)
C. Balance (A-B)	**(17,071)**	**(27,730)**

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	31/12/2019	31/12/2018
a) guarantees issued	1,845	82
b) credit derivatives	-	-
c) management, intermediation and advisory services:	30,110	16,361
1. Trading in financial instruments	3,981	4,111
2. foreign exchange	157	237
3. asset management (individual)	-	-
4. securities custody and administration	6,082	6,157
5. depository services	-	-
6. securities placement	17,165	2,091
7. order collection and transmission	2,018	866
8. advisory services	707	2,897
8.1 concerning investments	-	-
8.2 concerning financial structure	707	2,897
9. distribution of third-party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other	-	-
d) collection and payment services	38,902	38,642
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	218	221
j) other services	20,479	45,682
Total	**91,553**	**100,988**

The increase in “a) guarantees issued” reflects clearing system fees in respect of the Ex Post Quota of the Guarantee Scheme contribution.

2.2 FEE AND COMMISSION INCOME: DISTRIBUTION CHANNELS FOR PRODUCTS AND SERVICES

	Total 31/12/2019	Total 31/12/2018
a) own branches:	**17,165**	**2,091**
1. asset management	-	-
2. securities placement	17,165	2,091
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 31/12/2019	Total 31/12/2018
a) guarantees received	(2,635)	(1)
b) credit derivatives	-	-
c) management and intermediation services:	(9,946)	(6,492)
1. trading in financial instruments	(1,334)	(1,165)
2. foreign exchange	(35)	(40)
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. securities custody and administration	(3,995)	(3,669)
5. placement of financial instruments	(4,581)	(1,618)
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	(3,000)	(3,804)
e) other services	(3,309)	(3,498)
Total	**(18,890)**	**(13,794)**

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.

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 31/12/2019		Total 31/12/2018	
	Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading	20	-	527	-
B. Other financial assets mandatorily measured at fair value	433	-	7,595	-
C. Financial assets measured at fair value through other comprehensive income	685	-	498	-
D. Equity investments	50,223	-	40,344	-
Total	51,361	-	48,963	-

Dividends received mainly regard:

- BCC CreditoConsumo €11.3 million;
- BCC Risparmio&Previdenza €6.3 million;
- Iccrea BancaImpresa per €28.5 million;
- BCC Gestione Crediti per €3.9 million.

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses	Net gain (loss) (A+B) – (C+D)
1. Financial assets held for trading	**74**	**9,508**	**(150)**	**(1,670)**	**7,761**
1.1 Debt securities	37	9,065	(61)	(1,531)	7,509
1.2 Equity securities	35	329	(66)	(138)	160
1.3 Units in collective investment undertakings	1	111	(22)	(1)	89
1.4 Loans	-	-	-	-	-
1.5 Other	-	3	-	-	3
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**	**(280,755)**
4. Derivatives	**230,575**	**88,811**	**(228,141)**	**(93,429)**	**283,472**
4.1 Financial derivatives:	230,575	88,811	(228,141)	(93,429)	283,472
- on debt securities and interest rates	228,960	88,811	(227,955)	(91,768)	(1,952)
- on equity securities and equity indices	1,615	-	(187)	(1,662)	(233)
- on foreign currencies and gold	X	X	X	X	285,657
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	230,648	98,318	(228,291)	(95,099)	10,479

SECTION 5 - NET GAIN (LOSS) ON HEDGING ACTIVITIES – ITEM 90

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	Total 31/12/2019	Total 31/12/2018
A. Gain on:		
A.1 Fair value hedges	20,193	9,798
A.2 Hedged financial assets (fair value)	78,764	28,908
A.3 Hedged financial liabilities (fair value)	260	477
A.4 Cash flow hedges	1,034	3,540
A.5 Assets and liabilities in foreign currencies	-	-
Total income on hedging activities (A)	**100,251**	**42,725**
B. Loss on:		
B.1 Fair value hedges	(81,628)	(29,830)
B.2 Hedged financial assets (fair value)	(20,249)	(11,318)
B.3 Hedged financial liabilities (fair value)	(570)	(2,994)
B.4 Cash flow hedges	-	-
B.5 Assets and liabilities in foreign currencies	(2,411)	(3,466)
Total expense on hedging activities (B)	**(104,858)**	**(47,608)**
C. Net gain (loss) on hedging activities (A - B)	**(4,607)**	**(4,884)**
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 31/12/2019			Total 31/12/2018		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortized cost	23,014	(1,874)	21,140	35,157	(319)	34,838
1.1 Due from banks	3	(1)	3	30	(1)	28
1.2 Loans to customers	23,011	(1,873)	21,138	35,127	(318)	34,809
2. Financial assets measured at fair value through other comprehensive income	9,626	(5,484)	4,142	14,549	(78,757)	(64,209)
2.1 Debt securities	9,626	(5,484)	4,142	14,549	(78,757)	(64,209)
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**32,640**	**(7,358)**	**25,282**	**49,706**	**(79,077)**	**(29,371)**
Financial liabilities measured at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	711	(696)	15	3,551	(2,691)	860
Total liabilities (B)	**711**	**(696)**	**15**	**3,551**	**(2,691)**	**860**

SECTION 7 - NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 110

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	**2,925**	**1,249**	**(861)**	**(306)**	**3,006**
1.1 Debt securities	2,925	1,249	(861)	(306)	3,006
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**-**	**-**	**(4,482)**	**-**	**(4,482)**
2.1 Securities issued	-	-	-	-	-
2.2 Due to banks	-	-	(4,482)	-	(4,482)
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**2,925**	**1,249**	**(5,344)**	**(306)**	**(1,476)**

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	**14,523**	**10,752**	**(14,975)**	**(45)**	**10,255**
1.1 Debt securities	991	1,679	-	-	2,670
1.2 Equity securities	11,930	7,447	(1,506)	-	17,872
1.3 Units in collective investment undertakings	1,602	1,626	(13,463)	(45)	(10,280)
1.4 Loans	-	-	(7)	-	(7)
2. Financial assets: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**14,523**	**10,752**	**(14,975)**	**(45)**	**10,255**

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)			
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3	Total 31/12/2019	Total 31/12/2018
A. Due from banks	**-**	**-**	**-**	**864**	**-**	**864**	**589**
- loans	-	-	-	864	-	864	553
- debt securities	-	-	-	-	-	-	36
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-	-
B. Loans to customers	**(1,747)**	**-**	**(38,303)**	**4**	**1,217**	**(38,829)**	**(5,040)**
- loans	(690)	-	(264)	-	1,217	263	(1,494)
- debt securities	(1,056)	-	(38,039)	4	-	(39,092)	(3,546)
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-	-
Total	**(1,747)**	**-**	**(38,303)**	**867**	**1,217**	**(37,965)**	**(4,451)**

8.2 NET LOSSES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Losses (1)			Recoveries (2)			
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3	Total 31/12/2019	Total 31/12/2018
A. Debt securities	(379)	-	-	25	-	(354)	(231)
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: loans purchased or originated credit-impaired	-	-	-	-	-	-	-
Total	**(379)**	**-**	**-**	**25**	**-**	**(354)**	**(231)**

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 31/12/2019	Total 31/12/2018
1) Employees		(147,522)	(83,538)
a) wages and salaries		(99,150)	(55,219)
b) social security contributions		(26,669)	(16,820)
c) termination benefits		(1,576)	(943)
e) allocation to employee termination benefit provision		(226)	(69)
g) payments to external pension funds:		(9,253)	(4,683)
- defined contribution		(9,253)	(4,683)
- defined benefit		-	-
h) costs in respect of agreements to make payments in own equity instruments		-	-
i) other employee benefits		(10,648)	(5,803)
2) Other personnel		(140)	(284)
3) Board of Directors and members of Board of Auditors		(2,798)	(1,915)
5) Recovery of expenses for employees seconded to other companies		7,198	6,940
6) Reimbursement of expenses for third-party employees seconded to the Company		(2,540)	(2,494)
	Total	**(145,802)**	**(81,290)**

Personnel expenses increased (from €81.2 to €145.8 million) due to the expansion of the Group's workforce (from 1,200 to over 1500 average FTE) following the reorganization involved with the formation of the ICBG.

10.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

	Total 31/12/2019	Total 31/12/2018
Employees:	**1,512**	**1,216**
a) senior management	86	56
b) middle management	826	596
c) other employees	600	564
Other personnel	**-**	-
Total	**1,512**	**1,216**

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

	31/12/2019	31/12/2018
early termination incentives and the income support fund	(2,846)	(801)
meal vouchers	(2,217)	(913)
insurance policies for the employees	(1,005)	(539)
healthcare	-	-
training	(1,332)	(1,541)
training Leg. Decree 81/08	-	-
other benefits	(3,248)	(2,010)
Total	**(10,648)**	**(5,803)**

10.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Total 31/12/2019	Total 31/12/2018
Information technology	(81,889)	(57,667)
Property and movables	(28,855)	(23,831)
- rental and fees	(28,855)	(23,831)
- ordinary maintenance	-	-
- security	-	-
Goods and services	(3,839)	(2,802)
- telephone and data transmission	(1,277)	(1,415)
- postal	-	(1)
- asset transport and counting	(45)	(55)
- electricity, heating and water	(398)	(403)
- transportation and travel	(1,929)	(811)
- office supplies and printed materials	(191)	(117)
- subscriptions, magazines and newspapers	-	-
Professional services	(45,212)	(40,210)
- professional fees (other than audit fees)	(32,674)	(26,775)
- audit fees	(589)	(247)
- legal and notary costs	(6,732)	(8,926)
- court costs, information and title searches	(4)	(5)
- administrative services	(5,213)	(3,870)
Insurance	(687)	(387)
Promotional, advertising and entertainment expenses	(5,734)	(6,838)
Association dues	(2,274)	(4,116)
Donations	-	-
Other	(4,323)	(3,681)
Indirect taxes and duties	(25,493)	(31,306)
- stamp duty	(3,442)	(2,364)
- long-term loan tax - Pres. Decree 601/73	-	-
- municipal property tax	-	-
- financial transaction tax	-	-
- other indirect taxes and duties	(22,051)	(28,942)
Total	**(198,306)**	**(170,451)**

The change in Other administrative expenses is mainly attributable to an increase in IT costs (+€30 million) associated with the establishment of the ICBG and the installation of new workstations (+€5.8 million), offset by a decrease in the contribution to the National Resolution Fund (BRRD) (-€6.0 million) as a result of the decrease in the liabilities considered in calculating the contribution.

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

	31/12/2019		
	Provisions	Reallocation of excesses	Total
Commitments to disburse funds Stage 1	-	16	16
Commitments to disburse funds Stage 2	-	11	11
Commitments to disburse funds Stage 3	-	-	-
Financial guarantees issued Stage 1	(15)	-	(15)
Financial guarantees issued Stage 2	-	54	54
Financial guarantees issued Stage 3	-	-	-
Total	**(15)**	**82**	**67**

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

	31/12/2019		
	Provisions	Reallocation of excesses	Total
Legal disputes	(218)	218	-
Other	(873)	-	(873)
Total	**(1,091)**	**218**	**(873)**

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	(5,564)	-	-	(5,564)
- owned	(4,566)	-	-	(4,566)
- right-of-use assets acquired under leases	(998)	-	-	(998)
A.2 Investment property	-	-	-	-
- owned	-	-	-	-
- right-of-use assets acquired under leases	-	-	-	-
A.3 Inventories	X	-	-	-
Total	**(5,564)**	**-**	**-**	**(5,564)**

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	(5,930)	-	-	(5,930)
- generated internally by the Bank	-	-	-	-
- other	(5,930)	-	-	(5,930)
A.2 Right-of-use assets acquired under leases	-	-	-	-
Total	**(5,930)**	**-**	**-**	**(5,930)**

SECTION 14 - OTHER OPERATING EXPENSES - ITEM 200

14.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 31/12/2019	Total 31/12/2018
Charges connected with lease services (consultants, insurance, taxes and duties, capital losses)	-	-
Reductions in assets not attributable to separate line item	-	-
Prior-year expenses not attributable to separate line item	-	-
Costs of outsourced services	-	-
Sundry expenses	(1,995)	(1,449)
Settlement of disputes and claims	-	-
Amortization of expenditure for leasehold improvements	-	-
Other charges – extraordinary transactions	-	-
Robbery and theft	-	-
Other charges	-	-
Total	**(1,995)**	**(1,449)**

14.2 OTHER OPERATING INCOME: COMPOSITION

	Total 31/12/2019	Total 31/12/2018
A) Recoveries	**1,019**	**11,047**
Recovery of taxes	320	87
Recovery for services to Group companies	-	10,960
Recovery of sundry charges	700	-
Insurance premiums	-	-
Property rental income	-	-
Recovery of costs from customers	-	-
Recovery of costs on bad debts	-	-
B) Other income	**103,787**	**9,347**
Insourcing revenues	901	-
Property rental income	-	-
Reductions in liabilities not attributable to separate line item	-	-
Prior-year income not attributable to separate line item	494	-
Other income from finance leases	-	-
Other income - extraordinary transactions	-	-
Other income	102,392	9,347
Fees and commissions on accelerated application processing	-	-
Total	**104,807**	**20,394**

The increase in other operating income is mainly attributable to the new Class 1 (€42 million) and Class 2 (€26 million) services billed to the affiliated banks.

SECTION 15 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 220

15.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total 31/12/2019	Total 31/12/2018
A. Income	**-**	**-**
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Expenses	**(76,765)**	**(15,791)**
1. Writedowns	-	-
2. Impairment losses	(76,765)	(15,791)
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	**(76,765)**	**(15,791)**

The amount regards the impairment recognized on the investments in Iccrea BancaImpresa (€72 million), Banca Sviluppo (€1.6 million) and Securfondo (€2.5 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 31/12/2019	Total 31/12/2018
1. Current taxes (-)	12,908	10,003
2. Change in current taxes from previous period (+/-)	1,038	(174)
3. Reduction of current taxes for the period (+)	6,410	7,834
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	60	-
4. Change in deferred tax assets (+/-)	(6,133)	12,086
5. Change in deferred tax liabilities (+/-)	-	1,144
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**14,283**	**30,893**

19.2 RECONCILIATION OF THEORETICAL TAX LIABILITY AND ACTUAL TAX LIABILITY RECOGNIZED

	31/12/2019	
IRES	**Taxable income**	**Tax**
Profit (loss) before tax on continuing operations (item 260 IS)	(157,470)	
Profit before tax on continuing operations (item 260 IS)	-	
Loss before tax on continuing operations (item 260 IS)	(157,470)	
Current rate		-
Theoretical tax liability (24%)		37,793
Greater tax liability due to increases (taxable income)/Greater tax liability due to increases (tax)	177,291	-
Temporary		
- Changes during the year	6,674	
Definitive		
- Reversal of temporary differences of previous years	-	
- Changes during the year	170,617	
Lower tax liability due to decreases	69,997	-
Temporary		
- Changes during the year	1,289	
Definitive		
- Reversal of temporary differences of previous years	-	
- Changes during the year	68,708	
- Deductions up to limit of taxable income	-	
Taxable income (loss)	-	
Current gross tax		-
IRES surtax		-
Tax credits		12,908
Current net tax in income statement		12,908
Changes in current tax/deferred tax assets/deferred tax liabilities (+/-)		1,614
Tax liability for the year		14,522
IRAP	**Taxable income**	**Tax**
Profit (loss) before tax for IRAP purposes (item 260 IS)	(157,470)	
Profit before tax for IRAP purposes (item 260 IS)	-	
Loss before tax for IRAP purposes (item 260 IS)		
Current rate		-
Theoretical tax liability (ordinary rate 4.65%)		-
Items not included in determination of income	368,682	-
- Revenue and income (-)	(103,030)	
- Costs and charges (+)	471,712	
Greater tax liabilities due to increases (taxable income)/ Greater tax liabilities due to increases (tax)	103,337	-
Temporary	-	
- Changes during the year	-	
Definitive		
- Reversal of temporary differences of previous years	-	-
- Changes during the year	103,337	
Lower tax liability due to decreases		-
Temporary	-	
- Changes during the year	-	
Definitive		
- Reversal of temporary differences of previous years	-	
- Changes during the year	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 (+/-)		(239)
Tax liability for the year		(239)
TAX IN LIEU	**Taxable income**	**Tax**
Tax in lieu (c)		-
Total income tax expense (item 270 IS)		14,283

SECTION 20 - PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX - ITEM 290

20.1 PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX: COMPOSITION

	Total 31/12/2019	Total 31/12/2018
1. Revenue	395,146	384,314
2. Expense	(372,966)	(357,285)
3. Result of measurement of groups of assets and associated liabilities	-	-
4. Gain (loss) on realization	-	-
5. Taxes and duties	(6,410)	(7,834)
Profit (loss)	**15,770**	**19,195**

20.2 BREAKDOWN OF INCOME TAXES ON DISCONTINUED OPERATIONS

	31/12/2019	31/12/2018
1. Current taxes (-)	(6,410)	(7,834)
2. Change in deferred tax assets (+/-)	-	-
3. Change in deferred tax liabilities (-/+)	-	-
4. Income taxes for the period (-1+/-2+/-3)	**(6,410)**	**(7,834)**

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.

22.2 OTHER INFORMATION

The section is not completed in these notes to the financial statements.

PART D
Comprehensive income

DETAILED BREAKDOWN OF COMPREHENSIVE INCOME

		31/12/2019	31/12/2018
10.	**Net profit (loss) for the period**	**(127,417)**	**(35,632)**
	Other comprehensive income not recyclable to profit or loss	**5,833**	**(5,771)**
20.	Equity securities designated as at fair value through other comprehensive income:	9,514	(9,248)
	a) fair value changes	9,514	(9,248)
	b) transfers to other elements of shareholders' equity	-	-
30.	Financial liabilities measured at fair value through profit or loss (change in credit risk):	0	0
	a) fair value changes	-	-
	b) transfers to other elements of shareholders' equity	-	-
40.	Hedges of equity securities designated as at fair value through other comprehensive income:	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	0	0
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(738)	13
80.	Non-current assets held for sale	-	-
90.	Valuation reserves of equity investments accounted for with equity method	-	-
100.	Income taxes on other comprehensive income not recyclable to profit or loss	(2,943)	3,464
	Other comprehensive income recyclable to profit or loss	**5,258**	**(9,162)**
110.	Hedging of investments in foreign operations:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
120.	Foreign exchange differences:	-	-
	a) value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
130.	Cash flow hedges:	1,331	746
	a) fair value changes	(1,948)	4,286
	b) reversal to income statement	3,280	(3,540)
	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:	6,467	(14,346)
	a) fair value changes	2,545	(6,380)
	b) reversal to income statement	3,922	(7,966)
	- adjustments for credit risk	119	(405)
	- gain/loss on realization	3,802	(7,560)
	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	(2,539)	4,437
190.	**Total other comprehensive income**	**11,091**	**(14,933)**
200.	**Comprehensive income (item 10+190)**	**(116,326)**	**(50,566)**

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 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 Cooperative 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 Cooperative 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 Cooperative 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 Cooperative Banking Group as a group whose participatory mechanisms are based on a Cohesion Contract, signed by the banks, that provides for internal stability mechanisms characterized by intercompany mutual support agreements regulated specifically by applicable external legislation.

Accordingly, the complex reference framework that characterizes typical risk governance models and processes reflects and incorporates these specific features by way of the close integration of those models and processes, using shared metrics and efficient and effective operational mechanisms to support the implementation of roles and functions for policy-setting, coordination and control by the Parent Company for all of the participating banks/companies.

The Risk Appetite Framework (RAF) defined and adopted by the Iccrea Cooperative Banking Group is an integral and key part of the overall risk governance arrangements of the Group, as it is closely correlated with the strategic governance and control processes of the ICBG and with the internal stability mechanisms specific to the Group itself. The overall structure of the RAF is articulated at the Group level and is organized at the operational level by company/business unit and operating areas. Its dimensions can be expressed both in terms of metrics and limits and in terms of guidelines/qualitative indicators. In defining the key elements of the Group RAF, and in the definition of the related operating model, consideration had been given not only to applicable regulations but also to the specific aspects that characterize the ICBG as a group whose members are affiliated by contract, with a view to encapsulating those elements within an organic and integrated framework. In this context, therefore, the RAF makes it possible:

- to reinforce knowledge and awareness in the assumption, management and, more generally, governance of corporate risks;
- to rapidly and effectively direct the system for monitoring and communicating the risk profile;

- to guide risk management and mitigation decisions in a manner consistent with developments in the actual levels of risk assumed and managed.

In line with the principles underlying the ICBG Risk Governance model and with the aim of implementing an integrated system for governing, managing and controlling the Group's risks, the Group Risk Appetite Framework takes account of the risk governance mechanisms and processes established by applicable legislation and underlying the establishment of the Iccrea Cooperative Banking Group.

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

1. GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Cooperative Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca coordinates and directs the credit risk assumption policies of the individual companies and affiliated banks. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the individual entities, in agreement with the Parent Company;
- the Risk Management function supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the credit risk exposure of the Parent Company and all the Group companies.

This model also relies on the current governance structure, which provides for organizational separation between the units responsible for the operational management of lending (the Chief Lending Officer area, hereinafter also the CLO area) and control units (under the Risk Management function).

With regard to management of lending, the mechanisms for interaction between the Parent Company and the Group companies - defined on the basis of the Cohesion Contract – comprise specific credit governance rules, which on the one hand govern the related responsibilities and on the other ensure the compliance of the credit risk framework with the applicable regulatory framework to which the Parent Company is subject.

With regard to the management and coordination role, which is also being implemented in accordance with the principles envisaged in the Cohesion Contract, the Parent Company assumes responsibility for the following areas: lending rules (principles, policies and processes), credit strategies and credit risk limits, management of large exposures, guidelines for the main credit product categories by customer segment, the monitoring and reporting of portfolio credit risk.

In line with these credit governance rules, the Group companies must request the opinion of the CLO area (“credit opinion”) before approving new credit lines or significant modifications to existing positions with individual counterparties/groups of connected clients if those facilities exceed predetermined amount thresholds both in absolute value considering the overall risk exposure of the Group and with regard to compliance with credit risk concentration limits relation to the own funds of the individual Group bank.

The mapping of groups of connected clients, which seeks to identify and assess legal and financial connections between clients is conducted in accordance with principles and rules valid for the entire Banking Group and with the most recent regulatory guidelines in this field (EBA guidelines on connected clients, EBA/GL/2017/15).

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

Credit risk represents the preponderant component of the overall risks to which the Group is exposed, considering that credit exposures account for a dominant share of assets.

In light of this circumstance and in compliance with the applicable provisions concerning the internal control system (see Circular No. 285/2013, Part One, Title IV, Chapter 3), Iccrea Banca has adopted a governance structure and operational arrangements to ensure the adequate monitoring of credit risk at the Group level in the various phases of the process.

Moreover, in relation to the application of the provisions of IFRS 9 and the related initiatives to ensure their implementation, especially as regards the classification and measurement of credit exposures, the Group further strengthened its risk management arrangements, with particular regard to the definition of credit classification and measurement policies, as well as the development of a structured framework of second-level controls of credit exposures, with particular regard to impaired positions.

The entire credit management and control process is governed by internal rules that also define risk control, management and mitigation activities, developing a structured system involving the various organizational units.

The Parent Company, in exercising the powers of strategic management and coordination granted to it under provisions of the Cohesion Contract, defines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level. With particular regard to the lending process, the Parent Company defines guidelines for the credit approval process and the management of the associated risk (management of guarantees, including real estate, monitoring of exposures, classification of risk positions, management and measurement of impaired exposures).

From an organizational point of view, the CLO area assumes responsibility on behalf of the Parent Company and the companies in the direct scope of consolidation (directly owned by the Parent Company) for the supervision of all phases of the lending process - from loan approval to the management of non-performing positions – and for the performance of management and coordination activities with respect to the affiliated banks. It is also responsible for overseeing credit quality, defining lending policies and verifying their application.

The main activities of the lending process performed by the CLO area are:

- issuing guidelines for the definition of the loan management model, issuing guidelines for the loan approval and disbursement process, and finalizing and defining/developing the lending authority model for the decision-making bodies;
- approving the general and specific exceptions for Group companies with respect to Group guidelines on customer segments/credit products;
- monitoring the Group's performing portfolio by analyzing and monitoring existing exposures and by issuing opinions (credit opinions) on credit exposures that exceed specified limits;
- defining the framework for assessing the creditworthiness of corporate, retail and banking counterparties;
- assessing the creditworthiness of banks and financial institutions to which the Parent Company and the companies in the direct scope of consolidation have granted credit;
- performing activities connected with the operational management of the rating models, carrying out rating overrides and providing assistance to Group companies in relation to the general principles and the reasons for the ratings assigned to individual counterparties.

With regard to credit monitoring, in addition to the definition of guidelines at Group level and the minimal set of early warning indicators for the interception and management of positions to be "monitored", the CLO area monitors the positions of the Parent Company and the companies within the direct scope of consolidation that present an increase in credit risk, as well as examining the correct execution of the process implemented by the affiliated banks. Furthermore, the CLO area monitors the "most relevant" positions.

As part of the second-level controls, the Risk Management function has defined the overall methodological and operational framework in this area. It is applicable to the entire Group. The framework, which is governed with a specific body of regulatory and process documentation, covers all the activities and controls aimed at verifying, on a periodic basis, the appropriateness of the classifications of exposures, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

More generally, the Risk Management function oversees the risk management of the individual entities from a consolidated and individual perspective:

- overseeing the measurement of credit risk from a current and forward-looking perspective, considering both conditions of normal operations and stress scenarios;
- monitoring the capacity of the risk limits, including those defined within the RAF/RAS with regard to the associated credit risk metrics;
- defining and updating the methods and measurement models for credit risk, including those used in the performance of credit stress tests, ensuring their ongoing compliance with regulatory developments and market best practice.

2.2 MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

IDENTIFICATION OF RISKS

As noted in the previous section, in compliance with the provisions of Circular no. 285/2013 of the Bank of Italy as updated, the Parent Company determines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level, thus exercising the powers of strategic management and coordination aimed at ensuring the unity of the Group's strategic management and control system, as governed by the Cohesion Contract.

With particular regard to the lending process, the Parent Company governs lending and the management of the related risk. This also comprises the management of guarantees, including real estate, exposure monitoring, the classification of risk positions, and the management and valuation of impaired exposures.

In all of these phases, the Group uses qualitative and quantitative methods for assessing counterparty creditworthiness, supported by IT procedures that undergo periodic verification and maintenance.

With specific reference to the loan approval phase, the Group rules establish the key principles underpinning all phases of the process of approving/renewing loans, together with the roles and associated responsibilities of the various actors involved, specifying the procedures through which the Group intends to assume credit risk in respect of its customers, i.e. by identifying eligible counterparties and the admissible technical forms of credit for each customer segment.

In this specific context, a direct assessment is carried out to ascertain the needs and requirements of the applicant and therefore the purposes of the credit line and to accurately assess the credit risk profile: granting a loan requires an in-depth analysis of the risk associated:

- with the counterparty as well as the economic context in which it operates;
- with the purpose and characteristics of the transaction to be financed;
- with the guarantees available;
- with other forms of credit risk mitigation.

The analysis of the counterparty is conducted by each bank so as to assess the overall profitability of the relationship using the associated valuation tools/models. The assessment of creditworthiness focuses, in turn, on an analysis of the borrower's ability to repay, without prejudice to the principle that credit can only be granted if it is clear how it will be repaid.

Without prejudice to the prudential limits set by applicable regulations, which are commensurate with own funds with regard to both the magnitude of the exposure to the individual counterparty and the total amount of larger exposures, the credit strategies provide for risk limitations on the basis of specific elements, such as, for example, the nature of the transaction (e.g. transactions intended to finance real estate whose repayment will be financed by sale or lease), the situation of the specific real estate market (type of asset, economic sector, geographical area, market demand, etc.), a current and forward-looking evaluation of the asset, the accurate quantification of timing and costs of carrying out the initiative.

In general, given the recent establishment of the Iccrea Cooperative Banking Group, the management, measurement and control systems at the individual affiliated mutual banks are being developed to adapt them to the new consolidated context and evolve them in accordance with industry best practice. In this direction, Group policies were issued for all phases of the lending process and, therefore, the granting and disbursement of credit, management of guarantees, loan monitoring, loan classification, assessment of impaired positions, management of substandard positions and NPLs.

As noted earlier, the central moment of the preliminary phase of the lending process is that linked to the assessment and measurement of the credit risk of the transaction in question. The assessment is based on qualitative/quantitative information and is typically supported by the use of automated rating/scoring models designed to measure the creditworthiness of the counterparty and/or the possibility of proceeding with the transaction.

Ratings plays a key role lending, as they represent an essential element of the assessments made during the loan approval, review and renewal processes. The rating assignment involves an analysis of all the quantitative and qualitative information available to support the application approval process in order to accurately assess the risk profile of the transaction and to monitor the creditworthiness of existing counterparties over time.

For the companies in the direct scope of consolidation, the rating and scoring systems are already fully integrated into credit processes. Lending policies already provide indications concerning the minimum level of the decision-approval bodies - based on the technical form of financing, the guarantees securing the loan and the counterparty rating - and the related mechanisms for exceptions, which are granted and monitored by the Parent Company. Affiliated mutual banks have rating systems to support the loan approval/management process. In view of the recent establishment of the Group and the different information systems used by the mutual banks, a number of activities are being completed to integrate ratings in all the processes of the Group companies.

The evaluation models in use take into consideration:

- the specific features of the different types of counterparties, with particular reference to the Corporate segment (companies/producer households), Retail (consumers) and Institutional (bank counterparties);
- the specific features of the product involved, distinguishing between short, medium and long-term types of credit, or specialized technical forms (leases, factoring, consumer credit).

In general, the evaluation models use all the available updated information on the counterparty/transaction, drawn both from external sources (e.g. the Bank of Italy Central Credit Register and similar association databases, credit bureaus, financial statements, registry events) and internal sources (internal performance information).

The Group adopts a counterparty approach in assigning ratings except in specific cases in which the counterparty assessment is supplemented by a product-perspective evaluation, in consideration of any special features of a business. Using rating/scoring models, the Group assigns the counterparty a representative credit rating, adopting an on-line processing procedure, which is typically accessed through the electronic application processing system but also in batch mode, with the latter being adopted for periodic updating of ratings for all Bank customers (the loan position performance rating).

In compliance with the supervisory provisions governing the correct identification of the risk assumed, or to be assumed, in respect of a “group of connected clients”, any legal or economic connections between clients are detected and evaluated by those responsible for analyzing creditworthiness during the application assessment phase of the lending process.

These objectives are achieved through an analysis that involves the acquisition of all available information such as financial statements, where available at Group level, or aggregated financial statements of the main entities involved, for subsequent processing, ad hoc information on intercompany items of a financial and operating nature that may not be reported in the financial statements, or on operating flows between Group companies, on the presence of centralized treasury operations and, more generally, on the activities, the market and the competitors of the Group and all entities connected with it.

The monitoring process envisaged by the model is independent with respect to classification status (for example, a position on which payments are being made regularly but has been classified as unlikely to pay due to another non-performing exposure in the system). It is based on the following:

- the use of early warning indicators that permit timely detection of risk signals;
- the definition and attribution of responsibilities in the monitoring process;
- the definition and execution of risk mitigation actions;
- the generation of appropriate information flows between the bank and the Parent Company.

More specifically, within the process we distinguish:

- a phase in which early warning signals are identified, using risk indicators to detect exposures affected by an appreciable increase in credit risk in order to analyze their risk profile and take appropriate management actions;
- a management phase, aimed at examining the identified positions and taking, where necessary, specific management actions in order to promptly mitigate the risk of a deterioration in the position.

The identification of the positions under observation, using IT support procedures, can be carried out manually (i.e. based on the “manual” acquisition of information about, for example, significant changes in the corporate group to which the counterparty belongs, failure to comply with covenants, voluntary declarations of difficulties made by the counterparty, news reports, etc.), or using automated processes, i.e. procedures based on a set of indicators (from external or internal sources, regarding the relationship between the bank and the counterparty, or the capital structure and financial resources of the latter) that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship.

Automated identification must be based on a set of indicators that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship (directly related to the client’s relationship with the Bank or the client’s financial structure, based on data from external or internal sources). These indicators are differentiated on two levels (1 and 2) that indicate an increasing degree of risk, In the case of level 2 indicators, the position undergoes an analysis of counterparty creditworthiness, which may involve a re-examination of the borrower, in order to verify the capacity of the client to honor its commitments through to full repayment.

The process of managing “watchlist” exposures therefore enables the analysis of the risk profile of “watchlist” counterparties and the definition of appropriate management actions in the context of the monitoring processes with a view to returning the position to normal status or mitigating the risk connected with the exposure.

RISK MEASUREMENT AND ASSESSMENT

For the purpose of calculating prudential requirements for credit risk, the Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The adoption of the standardized approach to determine the capital requirement against credit risk involves the subdivision of exposures into portfolios and the application of differentiated prudential treatments to each, possibly using assessments of creditworthiness (external ratings) issued by external agencies (ECAI) or by export credit agencies (ECA) recognized for prudential purposes on the basis of the provisions of Regulation (EU) 575/2013.

Depending on the type of counterparty and the sector in which it operates, the Group's operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral).

For the purposes of determining internal capital for concentration risk for individual counterparties or groups of connected clients, the Group uses the regulatory granularity adjustment (GA) algorithm, based on the Herfindahl index. In accordance with regulatory provisions, the reference portfolio consists of on-balance-sheet and off-balance sheet exposures (the latter considered at their credit equivalent amount) falling within the regulatory portfolios "corporates and other borrowers", "short-term exposures to corporates" and exposures to corporates included in the asset classes "in default", "secured by real estate", "equity exposures" and "other exposures".

Furthermore, for the purpose of quantifying geo-sectorial concentration risk, the Group adopts the methodology developed by the "Geo-Sectoral Concentration Risk Laboratory" of the Italian Banking Association (ABI), which sets geographical and product categories against a national asset allocation benchmark.

The Group periodically performs stress tests for credit and concentration risks in order to assess - in terms of potential losses - the impact of expected risk developments on the financial profile of the Group and the individual entities under both normal and adverse operating conditions.

The stress test methods are based on regulatory practices and are applied in various management and risk governance processes, starting with the capital adequacy assessment process (ICAAP), as well as in the performance of supervisory exercises.

The methodological and calculation structure of credit stress tests is based on the use of internal risk models and parameters and incorporates a credit risk projection approach (transitions between stages/risk states) and determination of related losses over the scenario years (12-month or lifetime expected credit loss) based on the measurement of IFRS 9 impairment.

The projections of the estimates for the scenario years are performed considering the macroeconomic scenario assumptions in the adopted scenarios (in baseline or adverse conditions), using internally developed models ("satellite" models), which estimate the relationship between risk factors and developments in macroeconomic variables.

The sensitivity analysis of the expected credit loss (ECL) metrics was performed by the Parent Company at the consolidated level pursuant to IFRS 9 for 2019. This analysis was carried out on a sub-portfolio of performing loans and securities representative of the Group, given the general similarity of the nature, characteristics and composition of the portfolio across the various entities of the Iccrea Cooperative Banking Group, increasing the probability of occurrence of the worst macroeconomic scenario used at the end of 2019 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.

2.3 METHODS FOR MEASURING EXPECTED 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 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:
  - they have a PD greater than the threshold for the low credit risk exemption;
  - 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 regardless of the presence of an origination rating, allocates exposures with a rating that is better or equal to investment grade at the reporting date (BBB-) to stage 1.

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.

In order to obtain measures of the risk parameters that reflects future macroeconomic conditions, we use internally estimated “satellite” models differentiated by counterparty type that “explain” the relationship linking the target variable (e.g. historically observed default rates) to a set of “explanatory” macroeconomic variables. The forecasts for the target variable for each of the scenarios adopted, which are obtained by extrapolation using the satellite model on the basis of the expected values of the macroeconomic variables, make it possible to obtain multipliers to be applied to the risk parameters to determine lifetime measures.

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;
  - 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

The Iccrea Group's strategies for managing impaired credit exposures are an integral part of the Group's overall long-term Strategic Plan. The objectives for managing NPLs are incorporated in an Operational Plan, consisting of all the activities that the Group undertakes to effectively implement the Strategic Plan in a manner consistent with applicable regulations and regulatory policy.

The Parent Company, in exercising its management and control function envisaged in the Cohesion Contract, defines the operational planning of the objectives to be achieved for the NPE portfolio at the Group level, which makes it possible to monitor the ongoing effectiveness of its strategies and to identify appropriate corrective measures in the event of deviations from targets.

The Iccrea Banca has implemented appropriate governance and operational structures to enable the performance of its management and control activities and the efficient and sustainable management of impaired loans at the Group level.

More specifically:

- the analysis, recovery and restructuring of non-performing exposures is structured around units that are separate from the units responsible for origination and those that monitor performing positions. In cases where the establishment of an organizational unit is not possible, internal controls have been established to ensure adequate mitigation of potential conflicts of interest. As a corollary to the foregoing, the decision-making bodies of the units involved in managing non-performing exposures do not have decision-making authority for performing positions, while those of the units responsible for managing performing positions do not have authority to make decisions concerning non-performing positions;
- criteria for allocating exposures have been specified. They are used to trigger a change in responsibility for/ownership of exposures at the level of the units specialized in managing impaired exposures, in compliance with the principle of assigning a position to a single manager;
- the system also provides for activities, including self-assessment, to assess the suitability, in both quantitative and qualitative terms, of the structures and resources deployed to manage impaired financial assets.

The reduction in the impaired exposures at the Group level envisaged in the long-term plan will be accomplished with the implementation of a series of strategies, namely:

- maintaining positions on the balance sheet in the short term, to be applied to positions in reversible financial difficulty that are expected to return to performing status with short-term measures;
- maintaining positions on the balance sheet in the long term, to be applied to positions in a more advanced, albeit reversible, state of financial difficulty that are expected to return to performing status with long-term measures, including the debt restructuring measures provided for by law;
- legal action, to be applied to severely impaired positions for which legal action is taken to recover the claim, as the state of crisis appears deeply rooted and irreversible;
- active portfolio reduction, to be applied to impaired positions that are not considered recoverable. They are slated for disposal as the state of crisis appears to be deeply rooted and irreversible and the sale of the positions can also contribute to reducing the operating costs of managing NPLs.

In summary, the main actions undertaken by Iccrea Banca at the Group level are as follows:

- attempts at amicable recovery of loans and assets in the case of lease transactions;
- restructuring of exposures, using the options available under bankruptcy law where appropriate. This activity is based on an analysis of the credibility and repayment capacity of the counterparty, as well as the overall sustainability of the plans. The Group's policies are aimed at taking early action to restructure loans as the positive effects of curing on exposures are all the more effective the earlier they are implemented. In this regard, the instruments for monitoring counterparties have been strengthened in order to detect the initial signs of deterioration and promptly guide subsequent action;
- settlements, predominantly on an out-of-court basis;
- legal and out-of-court recovery of loans and assets, with a focus on remarketing leased assets;
- disposal of non-strategic NPE portfolios, making significant use of GACS state Guarantee Scheme. In addition to the sale of portfolios, the strategies also provide for one-to-one transfers where the terms offered are attractive, taking account of prices prevailing in market transactions.

The actions to be pursued are selected following an assessment of the cost-effectiveness of the measures and is reflected in a clustering of customers/transactions structured so as to guide operations effectively and facilitate the monitoring of the activities performed.

3.2 WRITEOFFS

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.

In particular, the expected credit losses recorded at initial recognition in the carrying amount of the instrument are reviewed periodically based on the processes described in the preceding sections.

The expected loss for these exposures is always calculated over their lifetime and the exposures are conventionally reported under stage 3, or stage 2 if, following an improvement in the credit quality of the counterparty since initial recognition, the assets are performing.

Such assets are never classified under stage 1 since the expected credit loss must be calculated on a lifetime basis.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONS AND EXPOSURES GRANTED FORBEARANCE MEASURES

The definition regards exposures subject to renegotiation and/or refinancing - forbearance measures – in respect of performing borrowers or classified as non-performing loans. In a broad sense, the category includes all new forbearance measures and modifications of the original contractual terms aimed at avoiding default by a customer in financial distress. It therefore includes both credit exposures subject to management restructuring (not only statutory restructuring measures) and normal renegotiation of counterparty payments.

A customer is in "objective" financial distress when one or more of the following states exists:

- the customer is classified as "non-performing";

- a payment instalment on at least one of any exposures to the customer is past due by more than 30 days in the three months prior to the opening of the forbearance procedure;
- notification by the customer of its financial distress.

Other circumstances that would represent a state of financial distress that the position manager must assess in order to classify any action as "forbearance" can include:

- an increase in the probability of default (PD) of the rating class over a time horizon defined by the opening of the forbearance procedure;
- the assignment of the counterparty to one of the worst rating classes;
- the assignment of the exposure to the watchlist category during the three months prior to the opening of the forbearance procedure.

In the absence of the above requirements, the position manager or the decision-making body may still classify the action as forbearance they find evidence that the borrower is in situation of financial distress.

As indicated in the ECB publication "Guidance to banks on non-performing loans", the following list outlines general supervisory guidance for the categorization of viable forbearance:

- a solution comprising short-term forbearance measures. it should be considered economically sustainable where:
  - the bank can demonstrate (based on reasonable documented financial information) that the borrower can afford the forbearance solution;
  - short-term measures are truly applied temporarily and the bank has satisfied itself and is able to attest, based on reasonable financial information, that the borrower demonstrates the ability to repay the original or agreed modified amount on a full principal and interest basis commencing from the end of the short-term temporary arrangement expiry date;
  - the solution does not result in multiple consecutive forbearance measures having been granted to the same exposure (even if these regard separate contracts if the loan was refinanced in a previous forbearance solution).
- a forbearance solution including long-term forbearance measures should only be considered viable where:
  - the bank can demonstrate (based on reasonable documented financial information) that the borrower can realistically afford the forbearance solution;
  - the resolution of outstanding arrears is fully addressed and a significant reduction in the borrower's balance in the medium to long term is expected;
  - in cases where there have been previous forbearance solutions granted in respect of an exposure, including any previous long-term forbearance measures, the bank should ensure that additional internal controls are implemented to ensure this subsequent forbearance treatment meets the viability criteria. These controls should include, at a minimum, that such cases should receive explicit approval of the relevant senior decision-making body.

Any assessment of viability should be based on the financial characteristics of the debtor and the forbearance measure to be granted at that time.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 IMPAIRED AND PERFORMING CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR

A.1.1 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (CARRYING AMOUNT)

	Bad loans	Unlikely to be repaid	Impaired past due exposures	Performing past due positions	Other performing positions	Total
1. Financial assets measured at amortized cost	74,343	1,226	-	453	42,475,020	42,551,042
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	309,839	309,839
3. Financial assets designated as at fair value	-	-	-	-	385,111	385,111
4. Other financial assets mandatorily measured at fair value	-	-	-	-	27,523	27,523
5. Financial assets held for sale	-	-	-	-	556	556
Total 31/12/2019	**74,343**	**1,226**	**-**	**453**	**43,198,048**	**43,274,070**
Total 31/12/2018	**127,512**	**1,415**	**22**	**218**	**36,592,003**	**36,721,171**

A.1.2 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (GROSS AND NET VALUES)

	Impaired				Unimpaired			
	Gross exposure	Total writedowns	Net exposure	Total partial writeoffs *	Gross exposure	Total writedowns	Net exposure	Total (net exposure)
1. Financial assets measured at amortized cost	142,601	67,032	75,569	373	42,483,660	8,187	42,475,473	42,551,042
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	310,367	528	309,839	309,839
3. Financial assets designated as at fair value	-	-	-	-	X	X	385,111	385,111
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	27,523	27,523
5. Financial assets held for sale	-	-	-	-	564	8	556	556
Total 31/12/2019	**142,601**	**67,032**	**75,569**	**373**	**42,794,591**	**8,724**	**43,198,501**	**43,274,070**
Total 31/12/2018	**168,560**	**39,610**	**128,950**	**-**	**36,481,241**	**7,886**	**36,592,221**	**36,721,171**

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	389,531
2. Hedging derivatives	-	-	4,787
Total 31/12/2019	**-**	**-**	**394,318**
Total 31/12/2018	**-**	**-**	**348,039**

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	241	39	-	-	-	173	-	38	75,003
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
Total 31/12/2019	**241**	**39**	**-**	**-**	**-**	**173**	**-**	**38**	**75,003**
Total 31/12/2018	**130**	**68**	**-**	**-**	**20**	**-**	**-**	**31**	**128,323**

A.1.4 FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND GUARANTEES ISSUED: DEVELOPMENTS IN TOTAL WRITEDOWNS AND TOTAL PROVISIONS

	Total writedowns									
	Stage 1					Stage 2				
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	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	**2,945**	**62**	**3**	**-**	**3,010**	**4,529**	**347**	**-**	**-**	**4,876**
Increases in financial assets purchased or originated	-	-	-	-	-	-	-	-	-	-
Derecognition other than write-offs	8	-	-	-	8	-	-	-	-	-
Net writedowns/writebacks for credit risk	151	285	6	-	442	571	(166)	-	-	405
Contractual modifications without derecognition	-	-	-	-	-	-	-	-	-	-
Change in estimation method	-	-	-	-	-	-	-	-	-	-
Writeoffs not recognized directly through profit or loss	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-
Closing balance	**3,088**	**347**	**8**	**-**	**3,443**	**5,099**	**181**	**-**	**-**	**5,281**
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									
	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	**39,610**	**-**	**-**	**39,610**	**-**	**-**	**36**	**72**	**-**	**108**
Increases in financial assets purchased or originated	-	-	-	-	-	-	-	-	-	**-**
Derecognition other than write-offs	(1,584)	-	-	(1,584)	-	-	-	-	-	**-**
Net writedowns/writebacks for credit risk	28,979	-	-	28,979	-	-	(1)	(66)	-	**(67)**
Contractual modifications without derecognition	-	-	-	-	-	-	-	-	-	**-**
Change in estimation method	-	-	-	-	-	-	-	-	-	**-**
Writeoffs not recognized directly through profit or loss	(786)	-	-	(786)	-	-	-	-	-	**-**
Other changes	812	-	-	812	-	-	-	-	-	**-**
Closing balance	**67,032**	**-**	**-**	**67,032**	**-**	**-**	**35**	**6**	**-**	**41**
Recoveries from collection on written-off financial assets	-	-	-	-	-	-	-	-	-	**-**
Writeoffs recognized directly through profit or loss	-	-	-	-	-	-	-	-	-	**-**

A.1.5 FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED: TRANSFERS BETWEEN CREDIT RISK STAGES (GROSS AND NOMINAL VALUES)

	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortized cost	409,429	2,507	-	-	-	49
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	12,216	-	-	-	-	-
Total 31/12/2019	**421,645**	**2,507**	**-**	**-**	**-**	**49**
Total 31/12/2018	**-**	**73,784**	**265**	**-**	**341**	**-**

A.1.6 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired assets	Unimpaired assets			
A. On-balance-sheet exposures					
a) Bad 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	29,418,113	1,887	29,416,226	-
- of which: forborne exposures	X	-	-	-	-
Total A	**-**	**29,418,113**	**1,887**	**29,416,226**	**-**
B. Off-balance-sheet exposures					
a) Impaired	-	X	-	-	-
b) Unimpaired	X		31	4,624,484	-
Total B	**-**	**4,624,515**	**31**	**4,624,484**	**-**
Total A+B	**-**	**34,042,628**	**1,917**	**34,040,710**	**-**

** 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	Unimpaired assets			
A. On-balance-sheet exposures					
a) Bad loans	141,203		66,860	74,343	373
- of which: forborne exposures	-		-	-	-
b) Unlikely to be repaid	1,398		172	1,226	-
- of which: forborne exposures	869		128	740	-
c) Impaired past due exposures	-		-	-	-
- of which: forborne exposures	-		-	-	-
d) Unimpaired past due exposures		476	23	453	-
- of which: forborne exposures		-	-	-	-
e) Other unimpaired assets		13,797,024	6,814	13,790,210	-
- of which: forborne exposures		-	-	-	-
Total A	**142,601**	**13,797,500**	**73,869**	**13,866,231**	**373**
B. Off-balance-sheet exposures					
a) Impaired	-		-	-	-
b) Unimpaired			10	1,521,188	-
Total B	**-**	**1,521,198**	**10**	**1,521,188**	**-**
Total A+B	**142,601**	**15,318,698**	**73,880**	**15,387,419**	**373**

** Values to be reported for information purposes*

A.1.8 ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS IMPAIRED POSITIONS

The table has not been completed because there were no such positions 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	**166,935**	**1,601**	**24**
- of which: exposures assigned but not derecognized	-	-	-
B. Increases	**122**	**-**	**-**
B.1 from performing exposures	47	-	-
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	75	-	-
C. Decreases	**25,854**	**203**	**24**
C.1 to performing exposures	-	44	21
C.2 writeoffs	786	-	-
C.3 collections	15,626	159	3
C.4 realized on disposals	1,356	-	-
C.5 losses on disposals	8,087	-	-
C.6 to other categories of impaired exposures	-	-	-
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross exposure	**141,203**	**1,398**	**-**
- of which: exposures assigned but not derecognized	-	-	-

A.1.9 BIS ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS FORBORNE EXPOSURES BY CREDIT QUALITY

	Impaired forborne exposures	Unimpaired forborne exposures
A. Opening gross exposure	**909**	**452**
- of which: exposures assigned but not derecognized	-	-
B. Increases	**-**	**-**
B.1 from performing exposures	-	-
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	-	-
C. Decreases	**40**	**452**
C.1 to performing exposures	-	452
C.2 writeoffs	X	-
C.3 collections	-	X
C.4 realized on disposals	X	-
C.5 losses on disposals	40	-
C.6 to other categories of impaired exposures	-	-
C.7 contractual modifications without derecognition	-	-
C.8 other decreases	-	-
D. Closing gross exposure	**869**	**-**
- of which: exposures assigned but not derecognized	-	-

A.1.10 ON-BALANCE-SHEET IMPAIRED CREDIT EXPOSURES TO BANKS: CHANGE IN TOTAL ADJUSTMENTS

The table has not been completed because there were no such positions at the reporting date.

A.1.11 ON-BALANCE-SHEET IMPAIRED CREDIT EXPOSURES TO CUSTOMERS: CHANGE IN TOTAL ADJUSTMENTS

	Bad loans		Unlikely to be repaid		Impaired past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**39,423**	**-**	**186**	**125**	**1**	**-**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-
B. Increases	**38,903**	**-**	**4**	**3**	**-**	**-**
B.1 writedowns of purchased or originated credit-impaired assets	-	X	-	X	-	X
B.2 other writedowns	38,087	-	4	3	-	-
B.3 losses on disposal	813	-	-	-	-	-
B.4 from other categories of impaired positions	-	-	-	-	-	-
B.5 contractual modifications without derecognition	-	-	-	-	-	-
B.6 other increases	3	-	-	-	-	-
C. Decreases	**11,466**	**-**	**18**	**-**	**1**	**-**
C.1 writebacks from valuations	663	-	3	-	-	-
C.2 writebacks from collections	8,433	-	12	-	-	-
C.3 gains on disposal	1,584	-	-	-	-	-
C.4 writeoffs	786	-	-	-	-	-
C.5 to other categories of impaired positions	-	-	-	-	-	-
C.6 contractual modifications without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	2	-	1	-
D. Total closing adjustments	**66,860**	**-**	**172**	**128**	**-**	**-**
- 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
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	LOWER THAN B-		
A. Financial assets measured at amortized cost	**111,609**	**37,716**	**20,241,042**	**-**	**2,032**	**-**	**22,233,863**	**42,626,261**
- Stage 1	27,134	6	20,237,153	-	-	-	21,848,712	42,113,004
- Stage 2	84,475	37,710	3,889	-	2,032	-	242,550	370,656
- Stage 3	-	-	-	-	-	-	142,601	142,601
B. Financial assets measured at fair value through other comprehensive income	**62,914**	**3,327**	**235,401**	**-**	**-**	**-**	**8,724**	**310,367**
- Stage 1	60,092	1,541	227,839	-	-	-	8,724	298,197
- Stage 2	2,822	1,786	7,562	-	-	-	-	12,170
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**564**	**564**
- Stage 1	-	-	-	-	-	-	564	564
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A+B+C)	174,523	41,044	20,476,442	-	2,032	-	22,243,151	42,937,192
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
D. Commitments to disburse funds and financial guarantees issued	**(1,024)**	**(15,785)**	**(922,792)**	**(253)**	**(2,109)**	**-**	**(4,307,996)**	**(5,249,959)**
- Stage 1	1,019	15,785	911,683	253	538	-	4,236,602	5,165,881
- Stage 2	5	-	11,109	-	1,570	-	71,394	84,078
- Stage 3	-	-	-	-	-	-	-	-
Total (D)	1,024	15,785	922,792	253	2,109	-	4,307,996	5,249,959
Total (A+B+C+D)	(175,547)	(56,829)	(21,399,235)	(253)	(4,140)	-	(26,551,147)	(48,187,151)

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:	**18,753,847**	**18,753,539**	**1,092**	**-**	**17,466,046**	**1,284,453**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,947**	**-**	**18,753,539**
1.1 fully secured	18,606,395	18,606,312	1,092	-	17,466,046	1,137,227	-	-	-	-	-	-	-	1,947	-	18,606,312
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	147,452	147,226	-	-	-	147,226	-	-	-	-	-	-	-	-	-	147,226
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance-sheet credit exposures:	**5,172**	**5,158**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,587**	**1,570**	**-**	**5,158**
2.1 fully secured	5,172	5,158	-	-	-	-	-	-	-	-	-	-	3,587	1,570	-	5,158
- 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:	**3,333,329**	**3,313,793**	**57,520**	**-**	**3,206,534**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**169**	**3,264,224**
1.1 fully secured	3,331,538	3,312,044	56,824	-	3,206,478	-	-	-	-	-	-	-	-	-	169	3,263,471
- of which: impaired	25,573	6,883	6,738	-	-	-	-	-	-	-	-	-	-	-	146	6,883
1.2 partially secured	1,790	1,748	697	-	56	-	-	-	-	-	-	-	-	-	-	752
- of which: impaired	131	123	13	-	-	-	-	-	-	-	-	-	-	-	-	13
2. Secured off-balance-sheet credit exposures:	**57,401**	**57,401**	**-**	**-**	**57,401**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**57,401**
2.1 fully secured	57,401	57,401	-	-	57,401	-	-	-	-	-	-	-	-	-	-	57,401
- 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		-	-	68,050	39,684	-	-
- 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		7,876,460	1,085	5,541,125	4,697	-	-
- of which: forborne exposures		-	-	-	-	-	-
Total (A)		**7,876,460**	**1,085**	**5,609,175**	**44,381**	**-**	**-**
B. Off-balance sheet							
B.1 Impaired exposures		-	-	-	-	-	-
B.2 Unimpaired exposures		-	-	808,241	-	-	-
Total (B)		**-**	**-**	**808,241**	**-**	**-**	**-**
Total (A+B)	**31/12/2019**	**7,876,460**	**1,085**	**6,417,416**	**44,382**	**-**	**-**
Total (A+B)	**31/12/2018**	**6,697,083**	**1,019**	**4,165,191**	**5,367**	**-**	**-**

		Non-financial companies		Households	
		Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance sheet					
A.1 Bad loans		368	10,298	5,925	16,879
- of which: forborne exposures		-	-	-	-
A.2 Unlikely to be repaid		376	107	850	65
- of which: forborne exposures		376	107	365	21
A.3 Impaired past due exposures		-	-	-	-
- of which: forborne exposures		-	-	-	-
A.4 Unimpaired exposures		86,056	232	287,022	823
- of which: forborne exposures		-	-	-	-
Total (A)		**86,799**	**10,637**	**293,798**	**17,766**
B. Off-balance sheet					
B.1 Impaired exposures		-	-	-	-
B.2 Unimpaired exposures		100,603	10	9,562	-
Total (B)		**100,603**	**10**	**9,562**	**-**
Total (A+B)	**31/12/2019**	**187,402**	**10,646**	**303,360**	**17,766**
Total (A+B)	**31/12/2018**	**199,342**	**14,680**	**83,319**	**23,622**

B.2 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY GEOGRAPHICAL AREA

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet						
A.1 Bad loans	74,343	65,215	-	-	-	1,645
A.2 Unlikely to be repaid	1,226	172	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-
A.4 Unimpaired exposures	13,478,567	6,600	269,527	223	26,729	9
TOTAL A	**13,554,136**	**71,987**	**269,527**	**223**	**26,729**	**1,654**
B. Off-balance-sheet						
B.1 Impaired exposures	-	-	-	-	-	-
B.2 Unimpaired exposures	908,075	10	10,331	-	-	-
TOTAL B	**908,075**	**10**	**10,331**	**-**	**-**	**-**
TOTAL (A+B) 31/12/2019	**14,462,211**	**71,997**	**279,858**	**223**	**26,729**	**1,654**
TOTAL (A+B) 31/12/2018	**10,920,619**	**42,787**	**55,366**	**79**	**51,266**	**1,792**

	ASIA		REST OF THE WORLD	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet				
A.1 Bad loans	-	-	-	-
A.2 Unlikely to be repaid	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-
A.4 Unimpaired exposures	5,976	3	9,864	2
TOTAL A	**5,976**	**3**	**9,864**	**2**
B. Off-balance-sheet				
B.1 Impaired exposures	-	-	-	-
B.2 Unimpaired exposures	-	-	-	-
TOTAL B	**-**	**-**	**-**	**-**
TOTAL (A+B) 31/12/2019	**5,976**	**3**	**9,864**	**2**
TOTAL (A+B) 31/12/2018	**52,840**	**23**	**2,669**	**7**

B.3 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS BY GEOGRAPHICAL AREA

	Italy		Other European countries		Americas	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet						
A.1 Bad loans	-	-	-	-	-	-
A.2 Unlikely to be repaid	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-
A.4 Unimpaired exposures	29,117,665	1,530	263,244	266	13,992	89
Total A	**29,117,665**	**1,530**	**263,244**	**266**	**13,992**	**89**
B. Off-balance-sheet						
B.1 Impaired exposures	-	-	-	-	-	-
B.2 Unimpaired exposures	4,601,739	16	8,094	5	1,769	-
Total (B)	**4,601,739**	**16**	**8,094**	**5**	**1,769**	**-**
Total (A+B) 31/12/2019	**33,719,404**	**1,546**	**271,338**	**272**	**15,761**	**90**
Total (A+B) 31/12/2018	**25,661,358**	**2,514**	**209,731**	**256**	**10,856**	**101**

	Asia		Rest of the world	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet				
A.1 Bad loans	-	-	-	-
A.2 Unlikely to be repaid	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-
A.4 Unimpaired exposures	647	1	20,680	1
Total A	**647**	**1**	**20,680**	**1**
B. Off-balance-sheet				
B.1 Impaired exposures	-	-	-	-
B.2 Unimpaired exposures	1,433	2	676	7
Total (B)	**1,433**	**2**	**676**	**7**
Total (A+B) 31/12/2019	**2,079**	**3**	**21,356**	**7**
Total (A+B) 31/12/2018	**6,483**	**39**	**2,656**	**6**

B.4 LARGE EXPOSURES

a) Amount (carrying amount)	62,530,374
b) Amount (weighted value)	439,240
c) Number	6

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 Cooperative Banking Group", approved the implementation of a multioriginator securitization of a portfolio of non-performing loans, submitting to the Ministry for the Economy and Finance (MEF) an application for admission to the State Guarantee Scheme on the liabilities issued (so-called "GACS") pursuant to Decree Law 18 of February 14, 2016, ratified with Law 49 of April 8, 2016, implemented with the MEF Decree of August 3, 2016, the MEF Decree of November 21, 2017 and the MEF Decree of October 10, 2018.and subsequently amended by Law 41 of May 20, 2019 ratifying with amendment Decree Law 22 of March 25, 2019 (hereinafter the "Transaction"), in which Iccrea Banca acts as both the assignor and the promoter and joint arranger (together with JP Morgan Securities Limited) of the securitization.

The Transaction provided for Iccrea Banca, Banca Sviluppo and Iccrea BancaImpresa, as well as 65 mutual banks belonging to the Iccrea Cooperative Banking Group, to sell pursuant to Law 130 of April 30, 1999 the same number of portfolios of unsecured or mortgage loans, mainly secured by first mortgages, deriving from loans classified as defaulted at the assignment for a total credit claim of about €1.3 billion, to a special purpose securitization vehicle specifically formed for the Transaction denominated "BCC NPLs 2019 Srl" (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 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;
- €13.2,000,000.00 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	0	IT0005394363
Limited-recourse loan	10,900,000	10,859,259	

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	3,099	(50)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans	impaired exposures	10,859	(41)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 20 19/44 TV CL J	impaired exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BCC NPLS 20 19/31.01.44 TV	impaired exposures	-	-	12	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Partially derecognized	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognized	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The exposures reported in the table regard to the securitization transaction referred to below, carried out pursuant to Law 130/91, different from the self-securitization transactions in which at the time of issue the Bank repurchased the full amount of the notes issued by the special purpose vehicle.

More specifically, at the reporting date, the Bank's overall exposure to "own" securitizations - which led to the full derecognition the securitized exposures - comprises:

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 €3,099 thousand, with total writedowns of €50 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 of €12 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 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 €10,859 thousand, with total writedowns of €41 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 - CREDIVENETO	impaired exposures	1,234	(578)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LUCREZIA SECURISATION SRL - TERAMO	impaired exposures	75	(1,054)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LUCREZIA SECURISATION SRL - PADOVANA IRPINIA	impaired exposures	2,186	(2,184)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans	impaired exposures	13,644	(52)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans	impaired exposures	14,294	(54)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LUCREZIA SECURISATION SRL - BCC ROMAGNOLO	impaired exposures	68,050	(38,039)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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 €99,483 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 €2,463 thousand in portfolio, writedowns of €578 thousand);
  - BCC Teramo (nominal value €1,385 thousand in portfolio, writedowns of €1,054 thousand);
  - BCC Romagnolo, BCC Annia, BCC Patavina, BCC Agrobresciano in the "Lucrezia4" securitization (nominal value in portfolio €113,500 thousand, writedowns of €38,039 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 €52 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 €54 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) Italy	no	226,463	-	-	246,607	31,400	10,460
3. BCC NPLS 2019	Via V. Alfieri n. 1 31015 CONEGLIANO (TV) Italy	no	382,170	-	-	355,000	53,000	13,200
2. BCC NPL 2018-2	Via V. Alfieri n. 1 31015 CONEGLIANO (TV) Italy	no	449,238	-	-	464,563	60,129	20,043

C.4 UNCONSOLIDATED SPECIAL PURPOSE SECURITIZATION VEHICLES

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

C.5 SERVICER ACTIVITIES – OWN SECURITIZATIONS: COLLECTIONS ON SECURITIZED ASSETS AND REDEMPTION OF SECURITIES ISSUED BY SECURITIZATION VEHICLE

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

D. DISCLOSURES ON UNCONSOLIDATED STRUCTURED ENTITIES (OTHER THAN SECURITIZATION VEHICLES)

	Classification under assets (*)	Total assets (A)	Classification under liabilities	Total liabilities (B)	Net carrying amount (C=A-B)	Maximum loss exposure (D)	Difference between loss exposure and carrying amount (E=D-C)
1. Vehicle company	-	-	-	-	-	-	-
2. CIUs							
	Other financial assets mandatorily measured at fair value	444,119	-	-	444,119	444,119	-
	Financial assets held for trading	176	-	-	176	176	-

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	**1,020,328**	**-**	**1,020,328**	**-**	**1,048,901**	**-**	**1,048,901**
1. Debt securities	1,020,328	-	1,020,328	-	1,048,901	-	1,048,901
2. Loans	-	-	-	-	-	-	-
Total 31/12/2019	**1,020,328**	**-**	**1,020,328**	**-**	**1,048,901**	**-**	**1,048,901**
Total 31/12/2018	**1,218,706**	**-**	**1,218,706**	**-**	**2,755,786**	**-**	**2,755,786**

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 section has not been completed because there were no such positions at 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 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).

Iccrea Banca uses the standardized approach for the purpose of calculating capital requirements for market risks, in accordance with the applicable supervisory regulations.

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)

n 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.

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 of the Parent Company, Iccrea Banca, at December 31, 2019 the VaR was equal to €0.26 million, below the overall risk limit for that specific category of operations, which was €2 million for the head of Finance.

The following table reports sensitivities by risk factor to which the trading book is exposed:

Risk factor	Sensitivity value (in €)	Note
Interest rates	23,580	Sensitivity calculated in relation to 1 bp change
Inflation rates	7.9	
Credit spread	6,578	
Equity	39,703.2	Sensitivity calculated in relation to 1% change in share/equity index

2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of interest rate risk management for the banking book within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

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 used in the current earnings approach are:

- Repricing gap: this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The weighting of the exposure for each time bucket for the time between the repricing date and the selected time horizon and the subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income;
- NII sensitivity: the potential impact on net interest margin of hypothetical changes in risk-free rates is calculated using a "full revaluation" method that compares, over a selected time horizon, expected prospective net interest income In the event of changes in interest rates with expected net interest income in a "base" scenario of no variations. This approach is also used to quantify the impact on net interest income of possible variations in credit spreads (CSRBBs).

The metrics adopted in the economic value approach are:

- Duration gap: the change in the expected value of the banking book due an interest rates shock. It is calculated by weighting the net exposure of each time bucket, determined by placing positions in the banking book in different time buckets on the basis of their repricing date, by the associated modified duration;
- EVE sensitivity: the change in the expected value of the banking book is calculated using a "full revaluation" approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time ("bucket sensitivity").

The measurement scenarios applied to interest rates are intended to monitor the risk categories to which the Group may be exposed. Each can be associated with internally developed or regulatory scenarios.

- repricing risk: in order to monitor this risk category, parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged for regulatory purposes, in the standard outlier test, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
- yield curve risk: in order to monitor this risk category, non-parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged by the reference guidelines, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
- basis risk: the analysis provides for the segmentation of the banking book based on the market parameters to which the items involved are indexed and the analysis of the time series of basis spreads with respect to the pivot rate (3-month Euribor) for the purpose of determining the size of the shocks to be applied to each;
- option risk: the analysis includes a preliminary identification of the automatic/behavioral option components in the assets and liabilities of the 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.

Risk prevention and attenuation

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework, taking account of the nature, objectives and complexity of Group operations.

The system provides for setting risk limits for exposures in terms of the sensitivity of economic value and net interest income at both the consolidated and individual levels, as well as at the level of the individual business lines responsible for managing interest rate risk on the banking book.

In addition to the above system of limits, a comprehensive system of arrangements and controls contributes to defining the overall control model set out and formalized in the associated policy.

The controls established to manage interest rate risk on the banking book break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the interest rate risk profile and activate escalation mechanisms;

- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to interest rate risk in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the operating units involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators provided for by the risk governance framework. The effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk limits established;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The interest rate risk control and monitoring activities are performed within the framework of a set of internal regulations. At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

More specifically, the Risk Management function performs monitoring and reporting activities that are codified and formalized within the Risk Appetite Framework and the risk policies, preparing periodic reports and providing appropriate disclosure to the operating units, top management and the Board of Directors.

Stress test framework

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The scenarios used in measuring the exposure to the different sources of risk and in analyzing stress tests are based on both regulatory shocks and 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).

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, 2019 is reported below.

€/millions	Scenario	
	-100 bp	+100 bp
Impact on economic value	+12	-39
Impact on net interest income	+117	+6

2.3 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF EXCHANGE RATE RISK

The exchange rate risk management strategy (the FX risk factor) is based on the analysis of market developments and the different currencies in which operations are denominated. The strategy is differentiated in accordance with the type of operations:

- for major currencies (hard currencies), operators, based on the analysis of economic, macroeconomic and money management data, manage operations both to optimize existing positions and generate a profit;
- for minor currencies (local currencies), exchange rate risk is managed with a view to the total minimization of risks, except in unusual macroeconomic situations, by reducing exposures exceeding the thresholds defined with market operations of the opposite sign.

Trading is carried out on the foreign exchange and foreign exchange derivatives markets both through spot trading and through the management of short/medium-term forward positions (outright operations). The strategy of the desk is therefore aimed at intraday/multiday transactions in order to generate profit from movements in the spot foreign exchange market. Forex swaps are used to engage in forward operations, based on expectations for interest rates and exchange rates, so as to generate a profit from maintaining open short/medium-term positions in foreign currency. Based on its own analyzes, the desk also seeks to improve its profitability by taking positions in options on exchange rates.

All operations are based on techniques and methods defined and agreed at the desk level, based on operating limits assigned to the managers and operational staff that are consistent with the provisions of the risk policies.

B. HEDGING EXCHANGE RATE RISK

Operations are mainly concentrated in major currencies. The Bank adopts a system of daily operating limits on the overall foreign exchange exposure, as well as the net foreign exchange positions in respect of individual currencies. The overall limit is segmented into partial ceilings on the basis of the importance of the various currencies.

QUANTITATIVE DISCLOSURES

1. DISTRIBUTION BY CURRENCY OF ASSETS, LIABILITIES AND DERIVATIVES

	Currency					
	USD	GBP	JPY	CAD	CHF	OTHER
A. Financial assets	**97,982**	**9,413**	**9,216**	**3,818**	**26,139**	**9,848**
A.1 Debt securities	25,505					2,396
A.2 Equity securities	19,819	3,962			-	
A.3 Loans to banks	43,455	5,451	9,216	3,818	26,139	7,453
A.4 Loans to customers	9,204	-				
A.5 Other financial assets						
B. Other assets	**8,620**	**4,573**	**566**	**1,040**	**4,191**	**1,529**
C. Financial liabilities	**181,271**	**13,769**	**7,930**	**4,882**	**29,992**	**9,670**
C.1 Due to banks	135,007	13,769	7,930	4,882	29,992	9,611
C.2 Due to customers	2,572	-				59
C.3 Debt securities	43,692					
C.4 Other financial liabilities						
D. Other liabilities	**205**					
E. Financial derivatives						
- Options						
+ Long position						
+ Short positions						
- Other derivatives						
+ Long positions	3,685,131	271,813	515,507	136,913	1,306,676	175,907
+ Short positions	3,603,635	283,536	514,054	136,903	1,307,013	177,036
Total assets	**3,791,733**	**285,799**	**525,289**	**141,771**	**1,337,007**	**187,284**
Total liabilities	**3,785,111**	**297,305**	**521,984**	**141,786**	**1,337,005**	**186,706**
Difference (+/-)	**6,622**	**(11,506)**	**3,305**	**(14)**	**2**	**579**

2. INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODS

There is no information to report.

SECTION 3 DERIVATIVES AND HEDGING POLICIES

3.1 FINANCIAL DERIVATIVES HELD FOR TRADING

A. FINANCIAL DERIVATIVES

A.1 FINANCIAL DERIVATIVES HELD FOR TRADING: END-PERIOD NOTIONAL VALUES

	Total 31/12/2019				Total 31/12/2018			
	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	-	11,148,908	1,261,997	-	-	10,714,301	1,416,928	-
a) Options	-	1,260,158	383,621	-	-	752,390	461,407	-
b) Swaps	-	9,888,750	870,505	-	-	9,961,911	808,144	-
c) Forwards	-	-	2,171	-	-	-	5,977	-
d) Futures	-	-	5,700	-	-	-	141,400	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	-	496	9,325	-	-	2,244	4,659	-
a) Options	-	496	-	-	-	2,244	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	8,332	-	-	-	3,866	-
d) Futures	-	-	993	-	-	-	792	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign currencies and gold	-	7,494,404	429,630	-	-	7,072,017	191,410	-
a) Options	-	-	-	-	-	9,800	-	-
b) Swaps	-	7,431	7,431	-	-	7,291	7,291	-
c) Forwards	-	7,486,973	422,199	-	-	7,054,926	184,120	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other underlyings	-	-	-	-	-	-	-	-
Total	**-**	**18,643,808**	**1,700,953**	**-**	**-**	**17,788,561**	**1,612,997**	**-**

A.2 FINANCIAL DERIVATIVES HELD FOR TRADING: GROSS POSITIVE AND NEGATIVE FAIR VALUE – BREAKDOWN BY PRODUCT

	31/12/2019				31/12/2018			
	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	-	9,877	71	-	-	3,496	80	-
b) Interest rate swaps	-	295,339	47,586	-	-	155,699	44,293	-
c) Cross currency swaps	-	714	-	-	-	464	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	47,826	33	-	-	66,146	3	-
f) Futures	-	-	36	-	-	-	2	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**353,756**	**47,726**	**-**	**-**	**225,805**	**44,379**	**-**
2. Negative fair value								
a) Options	-	9,381	1,000	-	-	924	3,144	-
b) Interest rate swaps	-	342,856	74	-	-	200,082	220	-
c) Cross currency swaps	-	-	711	-	-	-	458	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	42,173	5,384	-	-	48,083	1,738	-
f) Futures	-	-	4	-	-	-	1,566	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**394,410**	**7,172**	**-**	**-**	**249,089**	**7,126**	**-**

A.3 OVER-THE-COUNTER FINANCIAL DERIVATIVES HELD FOR TRADING: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY

	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	X	1,177,759	11,078	73,161
- positive fair value	X	47,691	-	-
- negative fair value	X	1,046	10	22
2) Equity securities and equity indices				
- notional value	X	993	8,332	-
- positive fair value	X	3	-	-
- negative fair value	X	-	-	-
3) Foreign currencies and gold				
- notional value	X	8,081	421,550	-
- positive fair value	X	3	29	-
- negative fair value	X	711	5,383	-
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	-	10,684,474	464,434	-
- positive fair value	-	301,991	3,218	-
- negative fair value	-	330,464	21,773	-
2) Equity securities and equity indices				
- notional value	-	-	-	496
- positive fair value	-	-	-	7
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	5,251,751	2,242,653	-
- positive fair value	-	34,090	14,450	-
- negative fair value	-	29,888	12,285	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other assets				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 RESIDUAL LIFE OF OVER-THE-COUNTER FINANCIAL DERIVATIVES: NOTIONAL VALUES

	Up to 1 year	More than 1 year and up to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	3,355,060	3,475,150	5,580,695	12,410,905
A.2 Financial derivatives on equity securities and equity indices	8,346	-	1,474	9,821
A.3 Financial derivatives on exchange rates and gold	7,915,893	8,141	-	7,924,035
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2019	**11,279,300**	**3,483,291**	**5,582,170**	**20,344,760**
Total 31/12/2018	**11,117,847**	**3,578,442**	**4,705,270**	**19,401,558**

B. CREDIT DERIVATIVES

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

The derivatives used are interest rate swaps (IRS) not listed on regulated markets, transacted with third party counterparties on OTC markets.

C. HEDGING OF INVESTMENTS IN FOREIGN OPERATIONS

In 2019, 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.

QUANTITATIVE DISCLOSURES

A. FINANCIAL HEDGING DERIVATIVES

A.1 FINANCIAL HEDGING DERIVATIVES: END-PERIOD NOTIONAL VALUES

	Total 31/12/2019				Total 31/12/2018			
	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	**-**	**4,235,810**	**-**	**-**	**-**	**3,465,693**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	4,235,810	-	-	-	3,465,693	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign currencies and gold	**-**	**44,508**	**-**	**-**	**-**	**78,603**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	44,508	-	-	-	78,603	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	-	4,280,318	-	-	-	3,544,295	-	-

A.2 FINANCIAL HEDGING DERIVATIVES: GROSS POSITIVE AND NEGATIVE FAIR VALUE - BREAKDOWN BY PRODUCT

	Positive and negative fair value								Change in value used to calculate hedge effectiveness	
	Total 31/12/2019				Total 31/12/2018					
	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	Total 31/12/2019	Total 31/12/2018
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	31,685	-	-	-	11,074	-	-	-	-
c) Cross currency swaps	-	203	-	-	-	3,199	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**31,888**	**-**	**-**	**-**	**14,273**	**-**	**-**	**-**	**-**
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	145,111	-	-	-	68,578	-	-	-	-
c) Cross currency swaps	-	334	-	-	-	1,284	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**145,445**	**-**	**-**	**-**	**69,862**	**-**	**-**	**-**	**-**

A.3 OVER-THE-COUNTER FINANCIAL HEDGING DERIVATIVES: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY

	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity securities and equity indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Foreign currencies and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Other assets				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by netting arrangements				
1) Debt securities and interest rates				
- notional value	-	3,823,150	412,660	-
- positive fair value	-	31,685	-	-
- negative fair value	-	126,165	18,946	-
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign currencies and gold				
- notional value	-	44,508	-	-
- positive fair value	-	203	-	-
- negative fair value	-	334	-	-
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	2,004,248	610,769	1,620,794	4,235,810
A.2 Financial derivatives on equity securities and equity indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	13,352	31,155	-	44,508
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2019	**2,017,600**	**641,924**	**1,620,794**	**4,280,318**
Total 31/12/2018	**1,594,643**	**779,655**	**1,169,997**	**3,544,295**

B. HEDGING CREDIT 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 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:	**1,416**	**1,416**	**(56)**	**-**	**-**	**45,700**
1.1 Debt securities and interest rates	1,416	1,416	(56)	-	-	x
1.2 Equity securities and equity indices	-	-	-	-	-	x
1.3 Foreign currencies and gold	-	-	-	-	-	x
1.4 Loans	-	-	-	-	-	x
1.5 Other assets	-	-	-	-	-	x
2. Financial assets measured at amortized cost – hedges of:	**3,209,772**	**3,209,772**	**77,005**	**-**	**-**	**-**
1.1 Debt securities and interest rates	3,209,772	3,209,772	77,005	-	-	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 31/12/2019	**-**	**-**	**-**	**-**	**-**	**45,700**
Total 31/12/2018	**-**	**-**	**-**	**-**	**-**	**195,700**
B. LIABILITIES						
1. Financial liabilities measured at amortized cost – hedges of:	**696,078**	**696,078**	**(3,112)**	**-**	**-**	**-**
1.1 Debt securities and interest rates	696,078	696,078	(3,112)	-	-	x
1.2 Foreign currencies and gold	-	-	-	-	-	x
1.3 Other assets	-	-	-	-	-	x
Total 31/12/2019	**696,078**	**696,078**	**(3,112)**	**-**	**-**	**-**
Total 31/12/2018	**695,975**	**695,975**	**2,802**	**-**	**-**	**-**

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	1,034	311	-
1.1 Debt securities and interest rates	1,034	311	-
1.2 Foreign currencies and gold	-	-	-
1.3 Other	-	-	-
Total A 31/12/2019	**1,034**	**311**	**-**
Total A 31/12/2018	**3,540**	**580**	**-**
B. HEDGES OF INVESTMENTS IN FOREIGN OPERATIONS	**X**	**-**	**-**
Total A+B 31/12/2019	**1,034**	**311**	**-**
Total A+B 31/12/2018	**3,540**	**580**	**-**

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	**(580)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0**	**-**
Fair value changes (effective portion)	(1,304)	-	-	-	-	-	-	-	0	-
Reversal to profit or loss	2,195	-	-	-	-	-	-	-	0	-
of which: forecast transactions no longer expected	-	-	-	-	-	X	X	X	X	X
Other changes	-	-	-	-	-	-	-	-	0	-
of which: transfers to initial carrying amount of hedged instruments	-	-	-	-	-	X	X	X	X	X
Closing balance	**311**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0**	**-**

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	-	5,620,579	-	-
- positive fair value	-	38	-	-
- negative fair value	-	153,684	-	-
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 Cooperative 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.

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. 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

Monitoring liquidity risk involves constant communication between the Risk Management function and the operating units. The Risk Management function is responsible for measuring and monitoring the current and prospective exposure to liquidity risk (profile). It verifies the position of indicators with respect to the specified limits (RAS and risk limits), and measures contingency indicators and additional metrics, i.e. measurement tools and techniques supplementing the liquidity risk monitoring tools for which no risk limits have been established, but rather alert thresholds and evaluation activities performed by the competent units.

Second-level controls 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.

Within this area, a reporting process has been defined for reporting to corporate boards, top management and operational units, in accordance with the rules on corporate control reporting. The data and information used in the reporting support the effectiveness and efficiency of communication, using terminology and references that are understandable to the recipients to whom it is addressed.

Stress test framework

The liquidity position is monitored in the normal course of business and under stress conditions. For the latter, a stress test framework has been defined on the basis of the indicators that characterize the Liquidity Risk Framework.

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.

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	**2,474,107**	**2,160,932**	**1,183,829**	**1,372,298**	**3,425,293**	**6,286,350**	**3,750,090**	**14,435,303**	**4,507,792**	**3,828,130**
A.1 Government securities	-	-	890	17	20,470	251,371	485,572	3,543,129	3,253,597	-
A.2 Other debt securities	53,607	204,534	7	95	2,107	193,370	501,574	2,018,673	1,115,147	400
A.3 Units in collective investment undertakings	441,952	-	-	-	-	-	-	-	-	-
A.4 Loans	1,978,548	1,956,398	1,182,932	1,372,186	3,402,717	5,841,609	2,762,943	8,873,501	139,048	3,827,730
- banks	1,074,915	1,546,628	823,290	1,040,710	1,841,381	5,390,182	2,266,850	7,660,140	9,047	3,827,730
- customers	903,633	409,770	359,642	331,476	1,561,336	451,427	496,093	1,213,361	130,001	-
On-balance-sheet liabilities	**7,372,219**	**7,312,649**	**262,685**	**1,371,090**	**5,382,509**	**5,161,296**	**1,772,618**	**13,730,720**	**1,060,167**	**-**
B.1 Deposits and current accounts	6,940,717	21,013	14,121	75,139	310,561	332,591	309,846	1,364,200	30,000	-
- banks	5,984,032	21,013	14,121	25,127	310,563	332,591	309,846	1,364,200	30,000	-
- customers	956,685	-	-	50,012	(2)	-	-	-	-	-
B.2 Debt securities	2,690	-	88	4,890	628,342	28,627	598,178	3,217,896	566,856	-
B.3 Other liabilities	428,813	7,291,636	248,476	1,291,061	4,443,606	4,800,079	864,593	9,148,625	463,311	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	699,577	304,357	1,093	1,234,113	8,985	7,751	39,469	277,068	-
- short positions	-	684,613	302,959	46,485	1,243,993	6,313	5,490	71,762	281,014	-
C.2 Financial derivatives without exchange of principal										
- long positions	467,568	-	-	-	7,884	4,595	3,629	-	-	-
- short positions	467,402	55	-	16	5,249	8,918	17,984	-	-	-
C.3 Deposits and loans to receive										
- long positions	-	8,869,214	-	81,946	1,646,718	3,302,949	2,377,537	1,906,811	-	-
- short positions	-	3,242,149	-	65,589	2,854,328	2,883,815	4,456,954	4,682,340	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	-	378,161	-	-	57,401	-	-	-	-	-
- short positions	-	378,161	-	-	-	-	-	57,401	-	-
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	**27,942**	**12,987**	**10,529**	**20,325**	**15,694**	**18,613**	**1,493**	**25,839**	**2,034**	**-**
A.1 Government securities	-	-	184	-	18	85	104	6,245	1,649	-
A.2 Other debt securities	-	-	229	3	434	1,322	999	16,407	385	-
A.3 Units in collective investment undertakings	2,343	-	-	-	-	-	-	-	-	-
A.4 Loans	25,599	12,987	10,117	20,323	15,241	17,206	391	3,187	-	-
- banks	25,599	12,987	10,099	20,323	11,237	11,967	391	3,187	-	-
- customers	-	-	18	-	4,003	5,239	-	-	-	-
On-balance-sheet liabilities	**75,988**	**41,788**	**48,505**	**23,054**	**19,507**	**4,099**	**5,146**	**30,659**	**77**	**-**
B.1 Deposits and current accounts	75,771	41,788	48,505	16,797	4,602	3,492	4,536	-	-	-
- banks	73,347	41,788	48,505	16,797	4,602	3,492	4,536	-	-	-
- customers	2,424	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	13,270	607	607	30,354	-	-
B.3 Other liabilities	217	-	-	6,257	1,634	-	2	304	77	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	3,756,428	820,956	188,560	1,284,415	5,806	6,062	35,610	587	-
- short positions	-	3,769,997	822,304	143,302	1,267,924	8,124	7,850	4,799	624	-
C.2 Financial derivatives without exchange of principal										
- long positions	1,603	-	-	-	-	-	-	-	-	-
- short positions	2,274	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to receive										
- long positions	-	8,154	-	-	-	-	-	-	-	-
- short positions	-	8,154	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	-	251	-	-	-	-	-	-	-	-
- short positions	-	251	-	-	-	-	-	-	-	-
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 Cooperative Banking Group concerning operational and IT risks. This unit operates as a specialist hub for this area;
  - responsibility for supporting the Risk Management functions of the direct scope subsidiaries and, through the Mutual Bank Risk Management Coordination unit, the risk management functions of the affiliated banks;
- at the affiliated banks and direct scope subsidiaries, the Risk Management units report to their boards of directors and are responsible, among other duties, for monitoring and managing developments in the exposure to operational and IT risks.

The methodological aspects underlying the management framework and the related methods of application to the Group companies were formalized and approved at the end of 2019 as part of specific Group policies (Operational Risk Management Framework, IT Risk Management Framework, Loss Data Collection, Operational Risk Self Assessment and IT Risk Self Assessment).

This framework has been developed in accordance with the typical phases of the operational risk management process, namely:

- identification of risks (knowledge): a set of activities directed at identifying operational and IT risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (i.e. operational loss data) and potential risk (assessed through the collection of business expert opinion).
- evaluation/measurement of identified risks (awareness): a set of activities for assessing/measuring Group operational and IT risks.
- risk prevention and attenuation (strategy): a set of activities for the ex-ante identification of the possible ways of preventing and mitigating unfavorable developments in the dynamics of operational and IT risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational and IT risks, and the implementation of measures to ensure that possible risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.
- monitoring and reporting (tracking and control): a set of activities to monitor the Group's risk profile and deliver comprehensive reporting to provide timely, accurate and appropriate support to the decision-making process underlying "Risk Prevention and Mitigation" and "Risk Management and Mitigation".
- risk management and mitigation (reaction and proactivity): a set of activities and actions to support the management of operational and IT risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to operational risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments (operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

In 2019, the progressive implementation of the application system to support operational and IT risk management activities was begun

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. In the second half of 2019, the development of the related application system also began.

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, 2019 of Iccrea Banca.

In addition, 2019 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, 2019), amounted to €47,818 thousand.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2019	T	382,036
- at December 31, 2018	T-1	338,964
- at December 31, 2017	T-2	235,360
Relevant indicator average		**318,787**
Regulatory coefficient		**15%**
Capital requirement		**47,818**

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

	31/12/2019	31/12/2018
1. Share capital	1,401,045	1,151,045
2. Share premium reserve	6,081	6,081
3. Reserves	379,939	415,509
- earnings	379,939	415,509
a) legal	50,785	50,785
b) established in bylaws	205	205
c) treasury shares	4,608	4,608
d) other	324,341	359,911
- other	-	-
4. Equity instruments	-	-
5. (Treasury shares)	(4,608)	(4,608)
6. Valuation reserves:	49,448	38,356
- Equity securities designated as at fair value through other comprehensive income	(651)	(7,018)
- Hedges of equity securities designated as at fair value through other comprehensive income	-	-
- Financial assets measured at fair value through other comprehensive income	211	(4,157)
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedging of investments in foreign operations	-	-
- Cash flow hedges	311	(580)
- Hedging instruments [undesignated elements]	-	-
- Foreign exchange differences	-	-
- Non-current assets held for sale	-	-
- Financial liabilities designated as at fair value through profit or loss (change in own credit rating)	-	-
- Actuarial gains (losses) on defined benefit plans	(2,485)	(1,951)
- 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	(127,417)	(35,632)
Total	**1,704,489**	**1,570,752**

B.2 VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Total 31/12/2019		Total 31/12/2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	799	(588)	-	(4,157)
2. Equity securities	2,001	(2,652)	-	(7,018)
3. Loans	-	-	-	-
Total	**2,800**	**(3,240)**	**-**	**(11,175)**

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	**(4,157)**	**(7,018)**	**-**
2. Increases	**4,786**	**6,539**	**-**
2.1 Fair value gains	2,122	6,539	-
2.2 Writedowns for credit risk	119	X	-
2.3 Reversal to income statement of negative reserves: from realization	2,545	X	-
2.4 Transfers to other components of shareholders' equity (equity securities)	-	-	-
2.5 Other changes	-	-	-
3. Decreases	**(419)**	**(171)**	**-**
3.1 Fair value losses	(419)	(171)	-
3.2 Writebacks for credit risk	-	-	-
3.3 Reversal to income statement of positive reserves: from realization	-	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	-	-	-
3.5 Other changes	-	-	-
4. Closing balance	**211**	**(651)**	**-**

B.4 - VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

	31/12/2019		31/12/2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
Gain (loss) from change in financial assumptions	-	-	-	-
Gain (loss) from time value effect	535	-	-	(9)
Total	**535**	**-**	**-**	**(9)**

SECTION 2 - OWN FUNDS AND CAPITAL RATIOS

2.1 OWN FUNDS

QUALITATIVE DISCLOSURES

Own funds, risk-weighted assets and solvency ratios have been calculated on the basis of the harmonized rules for banks and investment firms set out in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of June 26, 2013, transposing the standards established by the Basel Committee on Banking Supervision ("Basel 3") within the European Union, and on the basis of Bank of Italy Circulars nos. 285 and 286 (issued in 2013) and the update to Circular no. 154.

IFRS 9 has been in force as from January 1, 2018. It provides for calculating the provisions based on expected loss rather than on incurred loss. The Bank has elected to the option of applying the transitional adjustment for IFRS 9 referred to in Article 473a of the CRR. Accordingly, the calculation of own funds, capital requirements and ratios partially reflect (15% as provided for in the transitional provisions for the period from January 1, 2019 to December 31, 2019) the impact of the application of the new standard.

At December 31, 2019, own funds amounted to €2,079 million, as against a total capital requirement of €375,669 thousand, mainly attributable to credit and counterparty risks, and to a lesser extent to operational and market risks.

COMMON EQUITY TIER 1 - CET1

Common Equity Tier 1 (CET1) capital is composed of positive elements (which increase its amount) and negative elements (which reduce it). Overall CET1, before the application of the prudential filters, amounts to €1,709,096 thousand. Applying prudential filters, represented by the positive change in the cash flow hedge reserve for financial instruments and the filter for supplementary adjustments to regulatory capital in the amount of €2,765 thousand, CET1 gross of elements to be deducted and the effects of the transitional system comes to €1,706,331 thousand. The elements to be deducted consist of intangible assets and deferred tax assets based on future profitability, net of deferred tax liabilities, and amount to 86,990 thousand, while the positive impact of the transitional system on CET 1 comes to €5,559 thousand and is represented by the negative actuarial reserves (IAS 19) and the transitional adjustment for first time application of IFRS 9. Therefore, CET1 amounts to €1,625 million.

ADDITIONAL TIER 1 - AT1

There are no instruments that are included under Additional Tier 1 (AT1) capital in these financial statements.

TIER 2 – T2

Tier2 – T2 amounts to €454,050 thousand and is composed of four subordinated bonds issued by the Bank, net of the redeemable portion.

The following are the characteristics of the subordinated lower Tier II bonds:

- issue date June 18, 2015, maturity date June 18, 2025, nominal value €105.39 million, annual interest rate 6M Euribor + 3.50% gross, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.
- issue date June 29, 2015, maturity date June 29, 2025, nominal value €11.65 million, annual interest rate 3.50% fixed gross, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.
- issue date July 30, 2015, maturity date July 30, 2025, nominal value €15.6 million, interest rate 6M Euribor +350BP, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption;
- issue date November 28, 2019, maturity date November 28, 2029, residual nominal value €396 million at December 31, 2019, interest rate 4.125%, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.

QUANTITATIVE DISCLOSURES

	Total 31/12/2019	Total 31/12/2018
A. Common Equity Tier1 (CET1) capital before the application of prudential filters	**1,709,096**	**1,610,992**
of which CET1 instruments subject to the transitional provisions	-	-
B. CET1 prudential filters (+/-)	**(2,765)**	**(835)**
C. CET1 gross of elements to be deducted and the effects of the transitional system (A +/- B)	**1,706,331**	**1,610,157**
D. Elements to be deducted from CET1	**(86,990)**	**(100,318)**
E. Transitional system - Impact on CET1 (+/-)	**5,559**	**6,474**
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	**1,624,900**	**1,516,313**
G. Additional Tier 1 (AT1) capital gross of elements to be deducted and the effects of the transitional system	-	-
of which AT1 instruments subject to the transitional provisions	-	-
H. Elements to be deducted from AT1	-	-
I. Transitional system - Impact on AT1 (+/-)	-	-
L. Total Additional Tier 1 (AT1) capital (G - H +/- I)	-	-
M. Tier 2 (T2) capital gross of elements to be deducted and the effects of the transitional system	**534,600**	**134,600**
of which Tier 2 instruments subject to the transitional provisions	-	-
N. Elements to be deducted from T2	**(80,550)**	**(4,038)**
O. Transitional system - Impact on T2 (+/-)	**-**	**-**
P. Total Tier 2 (T2) capital (M - N +/- O)	**454,050**	**130,562**
Q. Total own funds (F + L + P)	**2,078,950**	**1,646,875**

2.2 CAPITAL ADEQUACY

QUALITATIVE DISCLOSURES

The capital ratios at December 31, 2019, were determined in accordance with the provisions of the Basel 3 Capital Accord, adopting the Standardized Approach for the calculation of capital requirements for credit and counterparty risk and the Basic Indicator Approach for operational risk. With regard to the reporting at December 31, 2014, the capital requirement for operational risk, for banks that apply the Basic Indicator Approach (BIA), is equal to 15% of the average of the last three observations of the relevant indicator defined in Article 316 of EU Regulation no. 575/2013.

QUANTITATIVE DISCLOSURES

	Unweighted amounts Total 31/12/2019	Weighted amounts/requirements Total 31/12/2019	Unweighted amounts Total 31/12/2018	Weighted amounts/requirements Total 31/12/2018
A. Exposures				
A.1 Credit and counterparty risk	65,205,272	3,584,882	58,143,876	3,567,988
1. Standardized approach	65,158,983	3,538,593	58,138,162	3,562,274
2. IRB approach				
2.1 foundation				
2.2 advanced				
3. Securitizations	45,736	46,289	5,714	5,714
B. Capital requirements				
B.1 Credit and counterparty risk		286,791		285,439
B.2 Risk of adjustment of credit rating		18,885		14,558
B.3 Settlement risk				
B.4 Market risks		22,175		18,506
1. Standardized method		22,175		18,506
2. Internal models				
3. Concentration risk				
B.5 Operational risk		47,818		40,643
1. Basic indicator approach		47,818		40,643
2. Standardized approach				
3. Advanced measurement approach				
B.6 Other components				
B.7 Total prudential requirements		375,669		359,146
C. Exposures and capital adequacy ratios				
C.1 Risk-weighted assets		4,695,857		4,489,326
C.2 CET1 capital ratio		34.60%		33.78%
C.3 Tier1 capital ratio		34.60%		33.78%
C.4 Total capital ratio		44.27%		36.68%

For more information, please see the disclosures on own funds and capital adequacy contained in the Third Pillar disclosures document.

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 2019 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 31/12/2019				
	Short term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
Key management personnel	10,722	221	-	-	-

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 31/12/2019				
	Group companies	Subsidiaries	Associated companies	Key management personnel	Other related parties
Financial assets	26,273,155	7,141	78,421	-	202
Total other assets	**69,565**	**4,920**	**-**	**-**	**-**
Financial liabilities	10,428,874	785	13,312	-	-
Total other liabilities	**60,216**	**488**	**-**	**5**	**6**
Commitments and financial guarantees issued	4,495,348	-	-	-	-
Commitments and financial guarantees received	-	-	-	-	-
Provisions for doubtful accounts	-	-	-	-	-

	At 31/12/2019				
	Group companies	Subsidiaries	Associated companies	Key management personnel	Other related parties
Interest income	92,959	57	11	-	-
Interest expense	(111,645)	-	-	-	-
Dividends	50,223	-	-	-	-
Fee and commission income	64,874	820	268	-	-
Fee and commission expense	(4,354)	-	-	-	-
Other operating expenses/income	(18,664)	(484)	-	-	-
Net gain (loss) on trading activities	149,898	-	-	-	-
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

PRIMARY REPORTING BASIS

In line with the provisions of IFRS 8, operating segment disclosures have been based on elements that management uses in taking its own operational and strategic decisions.

Iccrea Banca systematically prepares management reports on the results achieved by the individual business segments into which its operations and organization are structured.

These segments are finance and lending, payment systems, in addition to central governance and support functions, as well as the institutional services and ICT functions grouped under the "Corporate Center".

The business segments are formed from the aggregation of similar business units and lines in terms of the types of products and service they provide. This representation reflects the operational responsibilities set out in the Bank's organizational arrangements, with periodic reporting to top management.

More specifically, the finance and lending business segment includes the units Capital Market, Treasury, Structured Finance and Institutional Lending, while the payment system segment comprises Collections and Payments.

INCOME STATEMENT

The following reports the main aggregates of the income statement by business segment.

	Finance and lending		Payment services		Corporate center		Total	
(thousands of euros)	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18
Net interest income	57,034	85,442	(402)	(1,076)	(9,392)	(5,262)	47,239	79,104
Net service income	46,731	1,048	36,706	35,689	80,535	60,537	163,972	97,273
Total revenues	**103,765**	**86,490**	**36,303**	**34,613**	**71,143**	**55,274**	**211,212**	**176,377**
Administrative expenses	70,879	77,264	25,258	25,051	247,972	149,426	344,109	251,741
Net adjustments of property, plant and equipment and intangible assets	1,195	1,327	952	1,066	9,347	6,696	11,494	9,089
Other operating expenses/income	2,115	903	-	-	100,697	18,042	102,812	18,946
Total operating expenses	**69,960**	**77,687**	**26,210**	**26,117**	**156,622**	**138,080**	**252,791**	**241,884**
Gross operating income	**33,805**	**8,803**	**10,094**	**8,496**	**(85,478)**	**(82,806)**	**(41,579)**	**(65,507)**

The figures for e-banking operations are not included following the disposal of the business line.

As regards the procedures for the determination of performance:

- net interest income is calculated by segment as the difference between actual interest and imputed interest on the treasury pool;
- net service income is calculated by way of direct allocation of income and expense components;
- operating expenses are allocated using a "full costing" approach that allocates all operating costs.

Net interest income at December 31, 2019 was €47.2 million, down 40.3% from December 31, 2018 (€79.1 million).

Net service income, totaling 164 million at December 31, 2019, includes €72.7 million in net fees and commissions and €91 million in net income from trading activities and dividends.

The reduction in net fee and commission from €87.3 million in December 2018 to €72.7 million in December 2019 is mainly attributable to the Finance area, due to the increase in commissions received for GACS operations in 2018.

Conversely, there was an increase of about €1 million in the collections sector, despite the transfer to another service center of the mutual that joined Cassa Centrale Banca (CCB). Fees and commissions from mutual that joined the ICBG rose by €2.5 million to €31.1 million, thanks to the improvement in performance on SEPA SCT/SDD products and the new CIT check processing operations (the latter's effects were mainly felt in the early months of the year)

Administrative expenses, totaling €344.1 million at December 31, 2019, are composed of personnel expenses of €145.8 million, compared with €81.3 million in December 2018, and €198.3 million in other administrative expenses, compared with €170.5 million in December 2018 .

Value adjustments amounted to about €11.5 million at December 31, 2019, an increase of €2.4 million compared with the December 2018 figure (€9.1 million).

Other operating income, included in operating expenses, amounted to €102.8 million at December 31, 2019 compared with €18.9 million in December 2018.

Operating costs, administrative expenses and other operating income, both up sharply compared with 2018, include the costs and revenues for services rendered to the mutual banks after the establishment of the ICBG (Class 1 and Class 2 services), as well as the costs and recoveries for the planning activities for the establishment of the Group.

As a result of these developments, the gross operating result at December 31, 2019 showed a loss of €41.6 million, an improvement compared with December 2018 of around €23.9 million.

BALANCE SHEET

The following table reports the main balance sheet aggregates for lending to and funding from customers and banks. Liabilities include share capital, reserves and net profit for the period.

The main balance sheet aggregates for lending to and funding from customers and banks are primarily attributable to the finance and lending segment (94%), as the payment system segment is mainly involved in providing fee-based services.

	Finance and lending		Payment services		Corporate center		Total	
(thousands of euros)	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18
Cash and loans to customers	13,277	10,706	-	-	246	41	13,523	10,747
Due from banks	29,275	25,656	-	-	-	-	29,275	25,656
Other assets	1,620	1,160	4	-	1,483	1,600	3,107	2,760
TOTAL LENDING	**44,172**	**37,522**	**4**	**-**	**1,729**	**1,641**	**45,905**	**39,163**
Due to customers	16,792	12,153	327	356	10	8	17,129	12,517
Due to banks	20,782	19,425	-	-	-	-	20,782	19,425
Other liabilities	6,032	5,541	-	-	1,978	1,700	8,010	7,241
TOTAL FUNDING	**43,606**	**37,119**	**327**	**356**	**1,988**	**1,708**	**45,921**	**39,183**

The mismatch in the totals for lending and funding is attributable to the e-banking sector, which is involved in the disposal of the electronic money business line.

SECONDARY REPORTING BASIS

As regards the secondary reporting basis, please note that the Bank operates almost exclusively in Italy.

PART M
Lease disclosures

SECTION 1 – LESSEE

QUALITATIVE DISCLOSURES

Iccrea Banca's leases essentially regard property and car leases.

At December 31, 2019, the Bank held 140 leases, of which 26 relating to property leases, and 114 relating to cars for total right-of-use assets of €2,492 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.

In 2019 no sale and lease back transactions were carried out.

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 €2,492 thousand (Table 8.1 – Operating property, plant and equipment: composition of assets carried at cost), with leases liabilities of €2,512 thousand reported in Table 1.2 - Financial liabilities measured at amortized cost: composition of amounts due to customers).

In Part C Income statement reports interest in respect of lease liabilities of about €64 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
a) Initial value	1,800	1,690	3,490
b) Depreciation	(512)	(486)	(998)
c) Assets acquired under finance leases	1,288	1,204	2,492

SECTION 2 – LESSOR

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

ATTACHMENTS

Accounts of the Guarantee Scheme

DOCUMENT OBJECTIVE

Under the provisions of the Guarantee Scheme, which is governed by legislation and the Cohesion Contract, each bank participating in the Iccrea Cooperative Banking Group (ICBG) 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 2019, consistent with the provisions of Article 6.3[26] of the Cohesion Contract and Article 4.3[27] of the Loan Agreement.[28]

The Loan Agreement was signed by the Parent Company and 142 mutual banks on March 29, 2019 and subsequently registered with the Rome Company Register.

The loan, pursuant to Article 3 of the Loan Agreement ("Purpose of the loan"), is intended exclusively for the realization of the transaction,[29] 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 quantify the overall amount of readily available resources, 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. Accordingly, the Parent Company performed the stress tests with a reference date of December 31, 2017 in accordance with IFRS 9 (pro forma January 1, 2018) and distribution of the RAFs (Ex Ante and Ex Post Quotas), with the consequent specification of the associated guarantee obligations for each participating bank, in application of the provisions of Annex 3 of the Cohesion Contract.

The calculations[30] for 2019 indicated the following breakdown of the RAFs at the Group level:

- an Ex Ante Quota of €505 million;
- an Ex Post Quota of €835 million.

Establishment of the Ex Ante Quota

The Ex Ante Quota of the RAFs was established on April 15, 2019 with the disbursement of loans by the mutual banks to the Parent Company in the total amount of €419,575,878, and the transfer of the quota pertaining to the Parent Company in the amount at €84,956,283. The Ex Ante Quota of the RAFs was established with the grant of loans for a specific transaction (pursuant to Article 2447-bis, letter b) and Article 2447-decies of the Civil Code) under the provisions of a Loan Agreement.

Accordingly, the Ex Ante Quota was debited on the settlement account of each affiliated bank and for the Parent Company. At the same time, the resources were transferred to the current accounts of the Guarantee Scheme (also "GS") held at the Bank of Italy and at Euroclear Bank SA.

Establishment of the Ex Post Quota

The Ex Post Quota of the RAFs was established in April with the signing of an irrevocable commitment by the mutual banks in favor of the

[26] "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"

[27] "…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 Cohension Contract".

[28] 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.

[29] See Article 4.1 of the Loan Agreement ("Description of the transaction").

[30] See Notice 01.2019.SDOUT of January 14, 2019 "Operational start of the Cross-Guarantee Scheme ("GS")".

Parent Company, realized with the opening of a specific credit line.

At the same time, in order to ensure the maintenance of an amount of readily liquidated assets corresponding to the credit line, the Parent Company granted the mutual banks a liquidity line (the "GS Guaranteed Line") which they secured with high quality securities in accordance with the operating scheme envisaged by the Commission Delegated Regulation (EU) 2015/61 of October 10, 2014.

The Parent Company has implemented the daily monitoring of the security value of the securities[31] conferred by the Participating Banks in order to guarantee the immediate availability of Ex Post funds.

Interventions carried out in 2019

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 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".[32] 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.

Capital support intervention for Banca Centropadana Credito Cooperativo

In order to give Banca Centropadana, the capital necessary to support the costs of restructuring actions, Iccrea Banca undertook a support intervention 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 capital support intervention was notified to the mutual banks on December 17, 2019 with Management and Control Notice Prot. ICR-OUT-001061-2019-DG concerning the "Activation of the Cross-Guarantee Scheme – notification of pertinent share for contribution to the intercompany capital support intervention in favor of Banca Centropadana Credito Cooperativo ".

The main characteristics of the Tier 2 subordinated bond issues are shown below:

- subordinated bond "Credito Cooperativo subordinato di tipo Tier 2" - ISIN IT0005395626:
    - nominal amount of €10 million;
    - issue date 16/12/2019;
    - term 10 years, maturing 16/12/2029;
    - gross annual fixed rate of 3.00%;
    - interest paid in arrears in six-monthly instalments on 16/06 and 16/12 each year;
    - redemption at par in single instalment at maturity.
- subordinated bond "Credito Cooperativo subordinato di tipo Tier 2" - ISIN IT0005395634:
    - nominal amount of €5 million;

[31] Determined on the basis of the market value of the securities (flat price plus any accrued interest) reduced by the haircuts established by the ECB.

[32] See Guidance and Coordination Directive ICR-OUT-0291-2019-DIR of 9/4/2019 ("Documentation governing the operation of the Cross-Guarantee Scheme".

- issue date 16/12/2019;
- term 7 years, maturing 16/12/2026;
- gross annual fixed rate of 3.00%;
- interest paid in arrears in six-monthly instalments on 16/06 and 16/12 each year;
- redemption at par in single instalment at maturity.

Both issues permit early redemption after 5 years from the issue date. The repayment of the loan before the contractual expiry – including through repurchase by Banca Centropadana and at the early redemption price of 100% of the nominal value - may take place, pursuant to Article 63, letter j) of the CRR, only in the presence of one of the conditions referred to in Article 78, paragraph 1, of the CRR. Redemption may only take place following prior authorization from the supervisory authorities, pursuant to Article 77, letter c), of the CRR.

Intervention for VivalBanca Credito Cooperativo

In order to rebalance the financial position of Vival Banca – Banca di Credito Cooperativo di Montecatini Terme, Bientina e S. Pietro in Vincio s.c. (hereinafter Vival Banca), Iccrea Banca undertook a capital support intervention through the Guarantee Scheme to strengthen the affiliate's capital through the issue of a subordinated Tier 2 bond in the nominal amount of €8 million.

The intervention was notified to the mutual banks on December 30, 2019 with Management and Control Notice ICR-OUT-001073-2019-DG concerning the "Activation of the Cross-Guarantee Scheme - notification of pertinent share for contribution to the intercompany capital support intervention in favor of Vival Banca ".

Vival Banca subsequently issued a subordinated bond "VIVAL Banca - Banca di Credito Cooperativo di Montecatini Terme Bientina e S. Pietro in Vincio Subordinato di Tipo TIER 2" - ISIN IT0005397010:

- nominal amount of €8 million;
- issue date 30/12/2019;
- term 10 years, maturing 30/12/2029;
- gross annual fixed rate of 4.25%;
- interest paid in arrears in six-monthly instalments on 30/06 and 30/12 each year;
- redemption at par in single instalment at maturity.

The issue permits early redemption after 5 years from the issue date. The repayment of the loan before the contractual expiry – including through repurchase by Vival Banca and at the early redemption price of 100% of the nominal value - may take place, pursuant to Article 63, letter j) of the CRR, only in the presence of one of the conditions referred to in Article 78, paragraph 1, of the CRR. Redemption may only take place following prior authorization from the supervisory authorities, pursuant to Article 77, letter c), of the CRR.

Investment of the Ex Ante Quota of the RAFs

Pursuant to Article 5 of the Loan Agreement, the Parent Company invested 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.[33]

The investments undertaken on the basis of the specified asset allocation took account of the conditions prevailing in the euro-area bond market, which is affected by the accommodative monetary policy implemented by the ECB. In particular, issues by highly rated countries show negative returns, even at medium/long-term maturities, and make the diversification of the asset quality of government securities particularly onerous. The allocation strategy, which is designed to optimize the risk/return profile, displays a yield to maturity to which the issues of Italian government bonds contribute positively, while the issues of the core countries contribute negatively.

The search for securities with yields above the minimum set by the Investment Policy (the ECB deposit facility rate, equal to -0.40% at the first investment date) resulted in the inclusion of core government securities with a specific residual life equal to or greater than 6 years.

The following table shows the details of the performance of the investments in 2019:

Countries (euros)	15/4/2019	30/06/2019	31/12/2019
Austria	1,509,000	1,535,434	1,143,411
Belgium	13,276,004	14,446,762	10,938,206
Finland	1,810,001	1,843,288	1,377,314
France	55,372,018	58,321,561	45,560,955
Germany	55,368,018	56,480,386	36,214,142
Ireland	10,567,003	10,589,771	8,014,450
Italy	151,197,048	151,926,903	109,578,169
Netherlands	3,018,001	3,070,256	2,304,298
Supranational	50,377,016	50,613,232	35,548,138
Spain	100,897,032	101,443,384	79,824,417
Covered bonds	45,387,014	42,088,286	31,587,856
Subordinated bonds subscribed as part of interventions:	-	-	23,019,372
- Centropadana	-	-	*15,018,443*
- VivalBanca	-	-	*8,000,929*
Liquidity	15,754,005	16,954,626	124,811,447
Total	**504,532,161**	**509,313,889**	**509,922,174**

The increase in funds held as liquidity (€124.8 million) by the Parent Company at the end of the year is due to the need to return to the participating banks funds in excess (about €105 million) of the quantification of the RAFs for 2020 on the basis of the annual RAF adjustment model approved by the Parent Company's Board of Directors on December 20, 2019 and summarized in section 8 of this document.

[33] 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 Directoive (prot. ICR-OUT-0291-2019-DIR). The Investment Policy was subsequently amended by the Board of Directors on Decmeber 20, 2019.

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.

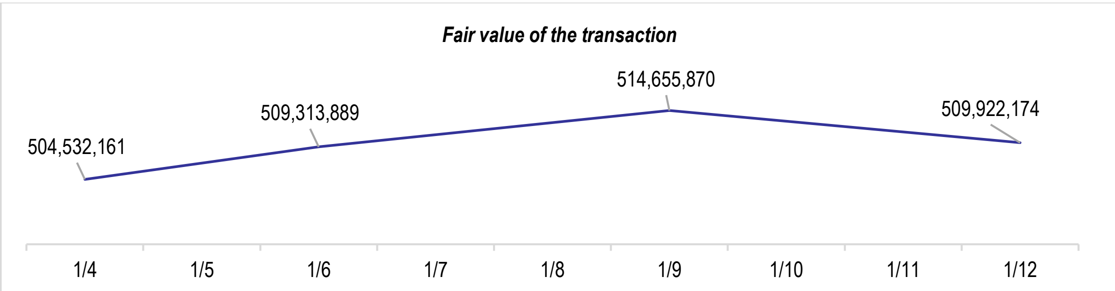
Pursuant to Article 4.1 of the Loan Agreement, the revenues of the transaction consist of the investment yields[34] and the returns deriving from the implementation of the interventions. Costs are made up of management costs and possible losses deriving from the transaction and investments.

Pursuant to Article 12 of the Loan Agreement, the Parent Company pays the affiliated banks remuneration related to developments in the transaction and investment activities on the basis of the adjustments to the fair value of the loan and the accounting effects of the interventions undertaken by the Parent Company.

The following table provides a breakdown of the fair value notified periodically in 2019 and the associated changes with respect to the fair value of the transaction on the date of establishment:

Reference date (euros)	Fair value	Change in fair value since establishment[35]
15/04/2019 (Establishment)	504,532,161	
30/06/2019	509,313,889	4,781,728
30/09/2019	514,655,870	10,123,709
31/12/2019	509,922,174[36]	5,389,961

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.

The following table shows all the components that determined the change in the overall fair value of the investments at December 31, 2019 compared with the amount paid by the affiliated mutual banks and the Parent Company at the time of the establishment of the RAFs:

(euros)	31/12/2019
Interest income on securities	2,494,387
Interest expense	(80,122)
Fee and commission expense	(30,356)
Gain/loss on securities at fair value[37]	942,685
Plus/minus on securities at fair value [38]	2,063,367
Overall performance of GS	**5,389,961**

See the following section for a breakdown of the individual items.

[34] See Article 5 of the Loan Agreement.

[35] With a reference date of 30/06/2019 the notice was transmitted to the affiliated banks on July 12, 2019 with Guidance and Coordination Notice Prot. ICR-OUT- 0672-2019-DIR "Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 30/06/2019".

With a reference date of 30/09/2019 the notice was transmitted to the affiliated banks on October 14, 2019 with Guidance and Coordination Notice Prot. ICR-OUT- 0805-2019-SD "Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 30/09/2019".

With a reference date of 31/12/2019 the notice was transmitted to the affiliated banks on January 14, 2020 with Guidance and Coordination Notice Prot. ICR-OUT- 000009-2020-DG "Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 31/12/2019".

[36] The accounting difference of -€53 compared with the fair value notified to the mutual banks in the fourth quarter is attributable to amounts not yet reclassified at the time of recognition.

[37] The item reports gains actually realized on securities.

[38] The item repors 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 (euros)	31/12/2019
Cash and cash equivalents	110,477,252
Financial assets measured at fair value through profit or loss	385,110,727
b) financial assets designated as at fair value	385,110,727
Financial assets measured at amortized cost	14,334,195
a) due from banks	14,334,195
Total assets	**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 Share of the readily available funds. The following table provides a breakdown of the financial instruments subscribed:

Country (euros)	31/12/2019
Austria	1,143,411
Belgium	10,938,206
Finland	1,377,314
France	45,560,955
Germany	36,214,142
Ireland	8,014,450
Italy	109,578,169
Netherlands	2,304,298
Supranational	35,548,138
Spain	79,824,417
Covered bonds	31,587,856
Subordinated bonds subscribed as part of interventions:	23,019,372
- Centropadana	15,018,443
- VivalBanca	8,000,929
Total	**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.

Balance sheet – liabilities

The following tables are stated in euros.

Liabilities (euros)	31/12/2019
Financial liabilities designated as at fair value	424,058,244
Other liabilities	85,863,930
Total liabilities	**509,922,174**

Financial liabilities designated as at fair value

The item includes the Ex Ante Quota of the affiliated banks (€419.57 million), adjusted to account for the performance of the dedicated loan at December 31, 2019.

Other liabilities

Other liabilities mainly regard the Ex Ante Quota pertaining to the Parent Company (€84.96 million), adjusted to account for the performance of the dedicated loan at December 31, 2019.

Income statement

(euros)	31/12/2019
10. Interest and similar income	2,494,387
20. Interest and similar expense	(80,122)
30. Net interest income	**2,414,265**
50. Fee and commission expense	(30,356)
60. Net fee and commission income (expense)	**(30,356)**
110.a Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss	3,006,052
of which gain/loss on debt securities	*942,685*
of which minus/plus on debt securities	*2,063,367*
Performance of GS	**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[39]	(4,482,365)
210. Other operating expenses/income – of which Ex Ante Quota pertaining to Parent Company[40]	(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.

Interest and similar income

Interest income includes interest accrued on financial instruments held.

[39] 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 affilicated banks (equal to -€4.482.365). The item beaks down as follows:

110.a	Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss	(1,476,313)
	– of which assets and liabilities designated as at fair value	3,006,052
	▪ *of which gain/loss on debt securities*	942,685
	▪ *of which minus/plus on debt securities*	2,063,367
	– of which: change in value of financial liabilities designated as at fair value *(share attributed to mutual banks)*	(4,482,365)

[40] In the income statment, the change in the Ex Ante Quota pertaining to the Parent Company is reported under item 210. Other operating expenses/income.

Interest and similar expense

Interest expense includes interest paid on the Euroclear account (amounting to €34,406) and the PM account held at the Bank of Italy (€45,716).

Fee and commission expense

The item includes custody fees and expenses paid to Euroclear Bank SA (€21,163) and account fees paid to the Bank of Italy (€9,193).

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.

Application of the compensation mechanism for 2019

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 2019, 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 10-year Italian government bond, Bloomberg ticker GBTPGR10 (for 2018 equal to 2.608%);
- Ex Post Quota equal to a rate of 0.50%.

The aggregate results are shown below:

With regard to the Ex Ante Quota:

- 114 Banks received a premium for the contributions paid to the Guarantee Scheme. This premium, totaling about €1.77 million, 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 27 banks that generated a guarantee requirement greater than the contribution paid to the system.

With regard to the Ex Post Quota:

- 99 Banks received a premium for the credit line granted to the Parent Company. This premium, totaling about €2.46 million, was commensurate with the difference between the Ex Post Quota assigned and the Ex Post requirement generated;
- this financial expense was charged to the 42 banks that generated a guarantee requirement greater than the contribution paid to the system.

The period of initial application of the compensation mechanism rand from the date of establishment of the RAFs (15/04/2019) until 31/12/2019.[41]

41 With regard to the compensation mechanism for 2020, on December 20, 2019, the Board of Directors of the Parent Company approved the following rates: the remuneration rate for the compensated funds of the Ex Ante Quota is equal to the daily average yields on the 5-year Italian government bond in the period from October 1, 2018 to September 30, 2019 (1.566%, Bloomberg ticker GBTPGR05); the remuneration rate for the compensated funds of the Ex Post Quota is equal to average 3-month Euribor in the period from October 1, 2018 to September 30, 2019 (-0.335%) plus a spread of 0.50%, the equivalent of a rate of 0.165% taking account of 1-year money market rates (in consideratio of the annual update of the underlying balues). See Prot. ICR-OUT-000028-2020-DIR-I&C of January 24, 2020.

Annual adjustment of the RAFs (2020)

The calculations associated with the stress test exercise, conducted for a 2019-2021 time horizon, quantified the RAFs at the Group level for 2020 as follows:

- aggregate Ex Ante Quota: €385 million (compared with the €505 million estimated for 2019);
- aggregate Ex Post Quota: €797 million (compared with the €835 million estimated for 2019).

The resulting guarantee obligations established for each participating bank were transmitted to the banks with the Guidance and Coordination Directive "Final results of the GS Stress Test, updating of the EWS regulations and determination of thresholds for 2020".[42]

On the basis of the quantification of the guarantee obligations, each Bank will have to increase or decrease its Ex Ante and Ex Post Quota for 2020 in accordance with the following model, which considers the effective availability of the RAFs at the adjustment date:

The following variables were considered for the Ex Ante Quota:

a) fair value at December 31, 2019 of the share of the loan granted by the bank;

b) estimate of the Ex Ante Quota assigned to the bank for 2020;

c) fair value of the amounts connected with any shares assigned to the bank for support interventions carried out in the period ending December 31, 2019.

The upward or downward adjustment is calculated for each participating bank by subtracting from the fair value of the loan at the end of the previous year (A) the fair value of the loan for a specific transaction at January 1, 2020, equal to the sum of the amount of the assigned Ex Ante Quota (B) and any intervention amount attributable to the same bank (C).

The Ex Ante Quotas were settled by the Parent Company on January 24, 2020 by debiting/crediting the settlement accounts of each affiliate.[43]

With regard to the Ex Post Quota:

The adjustment is calculated for each affiliated bank by subtracting the value of the Ex Post Quota at the end of the current year from the amount of the Ex Post Quota estimated for 2020.

[42] See from Prot. ICR-OUT-000892-2019-DIR-I&C to ICR-OUT-001028-2019-DIR-I&C of November 22, 2019. and Prot. ICR-OUT-001070-2019-DIR-I&C of December 23, 2019.

[43] Settlement occurred with a value date of January 1, 2020.

REPORT OF THE AUDIT FIRM

Building a better working world

Iccrea Banca S.p.A.

Financial statements as at December 31, 2019

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Iccrea Banca S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Iccrea Banca S.p.A. (the "Company"), which comprise the balance sheet as at December 31, 2019, 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, 2019, 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.

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We identified the following key audit matters:

Key Audit Matter	Audit Response
Classification and valuation of 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 5,842 million, representing 13% 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, with particular significance: the identification of indicators of impairment of the loans, the realizable value of the collateral acquired, the determination of the expected cash flows and their timing of collection. Further, with respect to the statistical based valuation, also relevant is the definition of homogeneous credit-risk loan categories, the determination of Probability of Default ("PD") and the related estimated loss (Loss Given Default – "LGD"), based on historical data observations for each risk class along with forward looking information, including macroeconomic factors, and the determination of significant increase in risk parameters for classification amongst the various stages of reference. Disclosures regarding the evolution of the quality of the 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.	In relation to this matter, our audit procedures included, amongst others: ▪ understanding the policies, processes and controls implemented by the Company in relation to the classification and valuation of 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; ▪ understanding, also with the support of our risk management specialists, the methodologies used in relation to statistical valuations and the reasonableness of the assumptions used together with testing procedures performed, which were aimed at verifying the appropriate determination of the PD and LGD parameters for the purpose of determining the impairment provisions similarly, through the support of IT systems specialists; ▪ 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; ▪ analyzing the adequacy of the disclosures provided in the notes to the financial statements.

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Measurement of equity investments	
Equity investments, which are reported in line item 70 of the balance sheet, amounted to Euro 1,150 million at December 31, 2019. 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 76,765 thousand were recognized, mainly in respect of the subsidiaries Banca Impresa S.p.A. and Banca per lo Sviluppo della Cooperazione di Credito S.p.A.. 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. Due to the judgment required of management and the complexity of the assumptions used in estimating the recoverable amount of the equity investments, 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.	In relation to this key matter, our audit procedures included, also with the support of our specialists in business valuations, amongst others: ▪ analyzing the procedure and key controls established by the Company concerning the identification of any impairment of equity investments; ▪ analyzing the impairment test procedure approved by the Board of Directors on May 29, 2020; ▪ analyzing 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 2019 of the main subsidiaries and their future prospects; ▪ verifying the assumptions underlying long- term growth rates; ▪ verifying the mathematical accuracy of the calculations in the impairment testing; performed by the Company; ▪ analyzing the adequacy of the disclosures provided in the notes to the financial statements.

Building a better working world

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 27 January 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, 2019, 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, 2019 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, 2019 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Rome, June 12, 2020

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.

Iccrea Banca