Iccrea Banca Board approves results of the Iccrea Cooperative Banking Group for first half of the year

At June 30, 2020, consolidated net profit of €127 million

Rome, October 9, 2020

The Board of Directors of Iccrea Banca has approved the consolidated results of the Iccrea Cooperative Banking Group at June 30, 2020, which show:

- NET PROFIT FOR THE FIRST HALF OF €127 MILLION;
- COST/INCOME RATIO OF 71.7%, AN IMPROVEMENT ON THE 73.9% IN DECEMBER 2019;
- DIRECT FUNDING FROM CUSTOMERS OF €106.4 BILLION, UP BY ABOUT €1 BILLION ON DECEMBER 2019;
- NET LOANS TO CUSTOMERS OF ABOUT €85.8 BILLION, WITH A SHARP IMPROVEMENT IN CREDIT QUALITY REFLECTED IN GROSS NPL RATIO AT 11.5%, NET NPL RATIO AT 5.9% AND A NPL COVERAGE RATIO OF 52.7%;
- SOLID AND STABLE LIQUIDITY LEVELS EQUAL TO 287% IN TERMS OF LCR AND 130% IN TERMS OF NSFR;
- SHAREHOLDERS' EQUITY OF €10.3 BILLION AND OWN FUNDS OF €11.5 BILLION;
- A CET1 RATIO OF 16.1% AND A TCR OF 16.8%, INCREASES COMPARED WITH THE CET1 RATIO OF 15.5% AND TCR OF 16.3% AT DECEMBER 31, 2019.

The Iccrea Cooperative Banking Group is composed of 136 affiliated mutual banks located throughout Italy, as well as the banks, financial companies and ancillary businesses controlled by the Parent Company, Iccrea Banca, that provide support and services to the mutual banks in their markets, with more than 2,500 branches in more than 1,800 Italian municipalities. At June 2020, the number of customers receiving loans from the Iccrea Cooperative Banking Group came to about 1.2 million of which 88% are retail customers (households and SMEs), while depositors numbered 3.1 million of which 95% represented by households and SMEs.

The results at June 30, 2020 reflect the characteristics of the Group, which are inspired by the principles of cooperation and mutualism and which focus on the relationship formed with the members of the individual mutual banks belonging to the Group. In view of the special business model than distinguishes their operations, the profits achieved by the mutual banks are channeled into self-financing and the economic development of the areas in which they operate.

With regard to banking operations, as represented by net lending and direct funding from ordinary customers, the figures confirm the support given to households and SMEs in the areas in which the mutual banks belonging to the Group operate, strengthening the Group's position in these areas at the national level and for the Italian economy.

The improvement in profitability was sustained by the capacity to generate revenues and effective control over operating costs.

The substantial de-risking undertaken under the coordination of the Parent Company since 2018 has also reduced the Group's stock of NPLs by more than 40% compared with the end of 2017. An additional assignment of bad loans through a securitization that is now being structured, for which a State guarantee will be requested for the senior notes, should lower the Group's gross NPL ratio below 10% by the end of the year. Coverage ratios area also increasing, thanks in part to the high level of collateral backing loans (more than 70%).

Main balance sheet aggregates: assets

The total consolidated assets of the Iccrea Cooperative Banking Group at June 30, 2020 stood at €168.5 billion, an increase of €12.9 billion (+8.3%) compared with December 31, 2019. The increase is mainly due to the increase in the exposure in government securities classified in the HTC portfolio (+€11.8 billion), in line with the new financial strategy implemented by the Group in relation to the more expansionary monetary policy stance of the ECB (in particular through the expansion of access to TLTRO III) aimed at mitigating the adverse effects of the COVID-19 health emergency on the economy.

With regard to the business model adopted by the affiliated banks, which account for more than 80% of consolidated assets net of intercompany items, loans to customers represent the main asset item, with a balance at June 30, 2020 equal to €85.8 billion net of debt securities, of which €80.7 billion in performing loans and approximately €5 billion in impaired positions. Among performing loans, the medium to long-term component amounts to about €57 billion, while lease financing was equal to €4.2 billion.

€/thousands	Total 30/6/2020	Total 31/12/2019
Current accounts	7,934,581	9,241,053
Repurchase agreements	3,290,874	2,935,176
Medium/long-term loans	60,637,537	58,144,238
Credit cards, personal loans and salary-backed loans	2,080,339	2,186,330
Lease financing	4,552,081	4,704,582
Factoring	276,663	504,704
Other lending	6,994,536	7,524,774
Loans to customers	**85,766,612**	**85,240,858**

Among financial assets at amortized cost, amounts due from banks, net of debt securities, came to about €8 billion and include, in addition to exposures related to ordinary liquidity management operations, the reserve requirement with central banks in the amount of €5.5 billion.

Debt securities measured at amortized cost (HTC business model) amounted to €54.9 billion (+€11.8 billion compared with December 31, 2019), largely represented by Italian government securities.

Financial assets measured at fair value through profit or loss, in the amount of €2 billion, include financial assets held for trading in the amount of €0.3 billion (mainly in government securities held for trading), financial assets designated as at fair value in the amount of €0.4 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 €1.3 billion.

Main balance sheet aggregates: liabilities

Total consolidated liabilities at June 30, 2020 stood at €168.5 billion, an increase of €12.9 billion (+8.3%) compared with December 31, 2019. The increase is mainly attributable to liabilities measured at amortized cost (+€12 billion). In particular, among financial liabilities measured at amortized cost, direct funding from ordinary customers amounted to €106.4 billion (up about €1 billion compared with the end of 2019) and mainly consisted of current accounts and demand deposits (€83.9 billion or +3.7% on the end of the previous year).

€/thousands	30/6/2020	31/12/2019
Current accounts and demand deposits	83,932,378	80,905,313
Time deposits	6,253,034	6,483,273
Securities issued	14,595,336	16,378,138
Others	1,663,689	1,672,824
Direct funding from ordinary customers	**106,444,437**	**105,439,548**

The remainder of liabilities at amortized cost regard deposits from institutional customers (€46.4 billion) and mainly include amounts due to banks (€29.8 billion), of which €27.4 billion in loans obtained from the ECB (TLTRO - Targeted Longer-Term Refinancing Operations), an increase of €11 billion, above all in relation to the Group financial strategy adopted in response to the more expansionary monetary policy stance of the ECB referred to above.

€/thousands	30/6/2020	31/12/2019
Loans	16,612,885	16,519,704
Repos	14,550,328	13,966,184
Other	2,062,556	2,553,520
Due to banks	29,832,621	18,873,746
Due to central banks	27,389,051	17,411,817
Due to banks	2,443,570	1,461,929
Current accounts and demand deposits	284,050	306,344
Time deposits	174,334	105,736
Loans and repurchase agreements	1,852,506	939,674
Other	132,679	110,175
Funding from institutional customers	**46,445,506**	**35,393,450**

Consolidated shareholders' equity, which includes net profit for the period, amounts to €10.3 billion. In application of Article 1072 of Law 145/2018, which establishes that the Parent Company and the mutual banks together constitute a single consolidating entity, share capital at the consolidated level includes the Parent Company's share capital - equal to €1.4 billion, of which the part held by the affiliated banks (intercompany transactions) is represented in treasury shares in the total amount €1.2 billion - and the share capital of the mutual banks.

A breakdown of the Group's loan portfolio

As noted, loans to customers show a balance of €85.8 billion net of debt securities, €80.7 billion of which performing and about €5.2 billion related to impaired positions. The particular business model of the affiliated banks, which is especially connected with the local communities in which they operate, is reflected, above all, in the type of borrowers they have.

Total gross loans disbursed, in the amount of €92.1 billion at June 30, 2019, have mainly gone to households and small to medium-sized enterprises (SMEs), which accounted for 34.5% and 45.4% of total lending, respectively. As shown in the table below, these segments show a lower Gross NPL ratio than that of the corporate segment, underscoring the ability of the mutual banks not only to serve their customers effectively but also to assess the risk of the borrowers representing their typical customer base.

Type of counterparty	Gross value €/thousands	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 NPLs
Ordinary customers	**91,331,730**	**99.1%**	**88.4%**	**99.0%**	**11.6%**	**100.0%**
Households	31,827,400	34.5%	93.8%	36.6%	6.2%	18.8%
Small and medium-sized businesses	41,803,931	45.4%	88.7%	45.5%	11.3%	44.6%
- Family businesses	8,609,244	9.3%	87.3%	9.2%	12.7%	10.3%
- Micro-businesses, associations and other organizations	8,594,537	9.3%	84.6%	8.9%	15.4%	12.5%
- Other SMEs	24,600,151	26.7%	90.7%	27.3%	9.3%	21.7%
Other non-financial companies	11,983,115	13.0%	68.1%	10.0%	31.9%	36.1%
Other financial companies	5,717,284	6.2%	99.0%	6.9%	1.0%	0.5%
Government entities	**809,577**	**0.9%**	**99.6%**	**1.0%**	**0.4%**	**0.0%**
Total loans to customers	**92,141,307**	**100.0%**	**88.5%**	**100.0%**	**11.5%**	**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, retail and wholesale trade and services.

Economic segment of counterparty	Gross value €/thousands	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 NPLs
Consumer households	31,827,400	34.5%	93.8%	36.6%	6.2%	18.8%
Primary sector	5,100,014	5.5%	90.0%	5.6%	10.0%	4.8%
Manufacturing	12,250,392	13.3%	88.9%	13.4%	11.1%	12.8%
Commerce	9,492,232	10.3%	87.6%	10.2%	12.4%	11.1%
Real estate and construction	14,383,040	15.6%	71.3%	12.6%	28.7%	39.0%
Services and other	12,561,368	13.6%	89.2%	13.7%	10.8%	12.8%
Government entities	809,577	0.9%	99.6%	1.0%	0.4%	0.0%
Financial companies	5,717,284	6.2%	99.0%	6.9%	1.0%	0.5%
Total loans to customers	**92,141,307**	**100.0%**	**88.5%**	**100.0%**	**11.5%**	**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 and construction 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.

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, 70.3% 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 €/thousands	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 NPLs
Collateral	58,048,169	63.0%	87.2%	62.0%	12.8%	70.3%
Personal guarantees	15,508,240	16.8%	91.6%	17.4%	8.4%	12.3%
Unsecured	18,584,898	20.2%	90.1%	20.5%	9.9%	17.4%
Total loans to customers	**92,141,307**	**100.0%**	**88.5%**	**100.0%**	**11.5%**	**100.0%**

Gross impaired loans amounted to about €10.6 billion, equal to 11.3% of total gross lending (11.5% considering loans to customers only). Net impaired loans amounted to €5 billion, equal to 5.3% of total net lending (5.9% considering loans to customers only). The ratio of net bad loans and net unlikely-to-pay positions to total net lending is equal respectively to 2% (2.1% for ordinary customers) and 2.9% (3.3% for ordinary customers).

The coverage ratio for impaired customer loans stood at 52.7%, an increase on December 31, 2019 (50.9%). In particular, the coverage ratio was 66.6% for bad loans (65.2% at December 31, 2019) and 39.6% for unlikely-to-pay positions (38.1%

at December 31, 2019).

Type of exposure	Gross exposure - €/thousands	Writedowns - €/thousands	Net exposure - €/thousands	Coverage ratio 30/6/2020	Coverage ratio 31/12/2019
Bad loans	5,490,170	(3,654,021)	1,836,150	66.6%	65.2%
Unlikely-to-pay positions	4,578,839	(1,811,241)	2,767,598	39.6%	38.1%
Impaired past-due positions	541,320	(127,146)	414,174	23.5%	15.7%
Impaired exposures to customers	**10,610,330**	**(5,592,408)**	**5,017,922**	**52.7%**	**50.9%**

Capital adequacy

At June 30, 2020, the Group's own funds amounted to €11.5 billion, of which about €11 billion represented by Common Equity Tier 1 (CET 1) and the remainder by Tier 2. The latter have grown following the placement in the second part of 2019 of a subordinated loan for institutional investors in the total amount of €400 million.

The capital ratios at June 30, 2020 stood at 16.1% for the CET1 ratio and 16.8% for the TCR, representing an increase compared with the values registered in December 2019 (respectively equal to 15.5% and 16.3%) and above the average for the national banking system.

The capital adequacy indicators easily exceed the regulatory requirements (a minimum 2020 SREP requirement of 10.5% and a total capital requirement of 13.0%). The table below reports developments in risk-weighted assets (RWA) - which decreased in the first half of the year, also benefiting from the application of "quick fix" measures and the increase in coverage by State guarantees - and in capital ratios in the period December 2019-June 2020.

Capital adequacy	30/6/2020	31/12/2019
RWA (€/billions)	68.2	71.1
Capitale primario di Classe 1 (€/billions)	10.9	11.0
Totale Fondi Propri (€/billions)	11.5	11.6
CET1 ratio (%)	**16.1%**	**15.5%**
TCR (%)	**16.8%**	**16.3%**

Group liquidity position

Since the launch of the ICBG, the Group's liquidity position has remained within the risk limits defined by both internal rules and the applicable regulatory framework. The RAS indicators for LCR and NSFR were always within the target area, reaching values well above the risk appetite thresholds defined during the preparation of the financial plan, with average values of 251% and 130% respectively in the last year.

Liquidity reserves at June 30 amounted to about €33 billion, consisting of:

- 82% in securities, equal to €27 billion (market value – value net of the haircut equal to €25.0 billion), of which about 99% represented by Italian government securities;
- 16% in reserves held with central banks;
- 2% in banknotes in hand.

With regard to the structural liquidity position, the positioning of the NSFR regulatory indicator shows an adequate level of stable financing to cover the financial needs generated by the various forms of commercial and investment uses in the financial portfolio.

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

In 2020, 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 (SRB).

With reference to the MREL (Minimum Requirement of Eligible Liabilities), Iccrea Banca received from the Single Resolution Board the decision on the minimum requirement of own funds and eligible liabilities 2020 at Group level, including subordination requirement, intermediate requirements and target requirement that must be met by 30 June 2023.

In 2021, the Group will receive from the Single Resolution Board the new decision on the MREL requirement in the light of the new 2020 MREL SRB Policy (effective from January 1, 2021) which implements the Banking Package and the evolutions on the resolvability of the Group.

Update on the impact of the COVID-19 emergency

Due to the effects of the partial and temporary shutdown of economic activity connected to the pandemic, the 2020 outlook for Italy's economy is quite uncertain. The measures adopted by the authorities to support lending to businesses and households will mitigate the pandemic's negative impact on the profitability of Italian banks and, in particular, on risk indicators.

The Group pays constant attention to the evolution of tools for measuring the possible impacts of risks and uncertainties on its operations (in particular through sensitivity analysis and stress testing) to ensure the timely adaptation of strategies - in terms of distribution and organizational models and cost management/rationalization - with respect to changes in the operating environment. Risks and uncertainties are also subject to constant observation using the Group's risk policies, which are updated and adapted in relation to changes in strategy, the operating environment and market expectations. The monitoring and development of these policies is designed to assess their state of implementation and appropriateness. The risks and uncertainties illustrated above therefore underwent an assessment process intended to highlight the impacts of changes in market parameters and conditions on company performance.

In this context, the Group promptly provided tools to the mutual banks to enable them to adequately manage their lending operations, also in response to the measures adopted by the Government.

With regard to lending, the following table reports the volumes registered during the health emergency at June 30, 2020.

Cure Italy Decree moratoriums	**Number (in thousands)**	**Amount (in €/billions)**
Applications received	219	23.6
Applications approved	205	21.9
% applications approved	*94%*	*93%*
New loans under Art. 13 of Liquidity Decree	**Number (in thousands)**	**Amount (in €/billions)**
Applications received	95	3.2
Loans granted	74	1.8
% loans granted	*78%*	*56%*

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