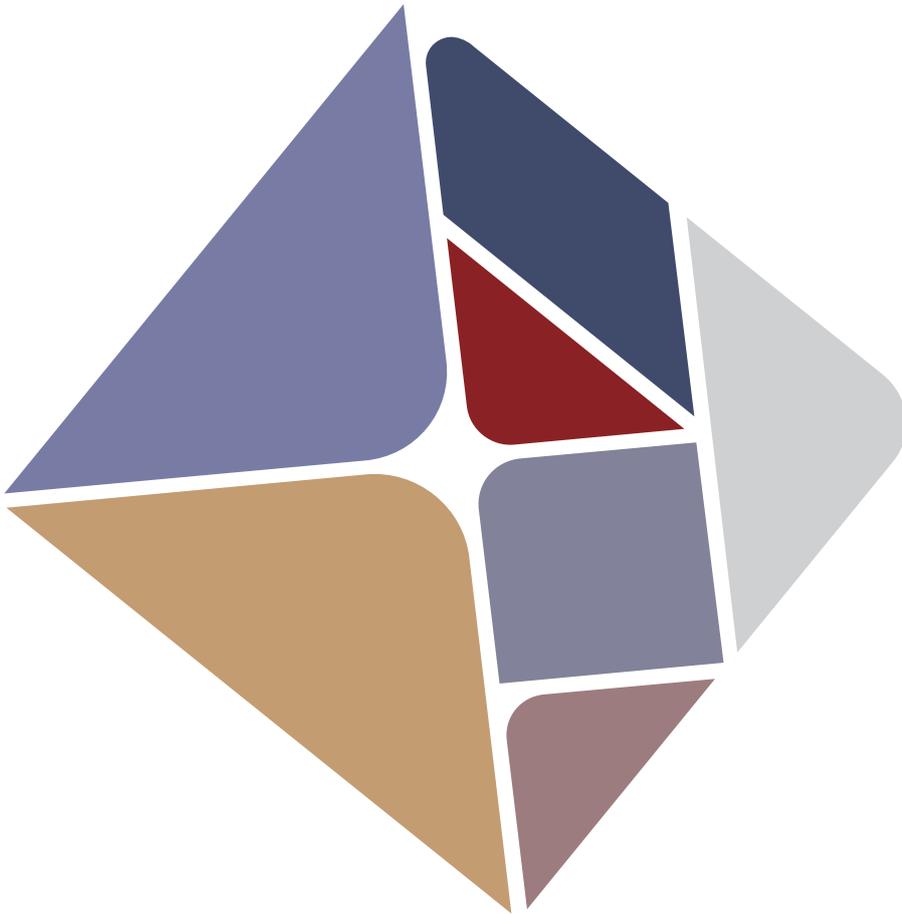


*Annual Report
and Consolidated
Financial
Statements*



2016

*2016 Annual Report and
Consolidated Financial Statements
Iccrea Banca S.p.A.*

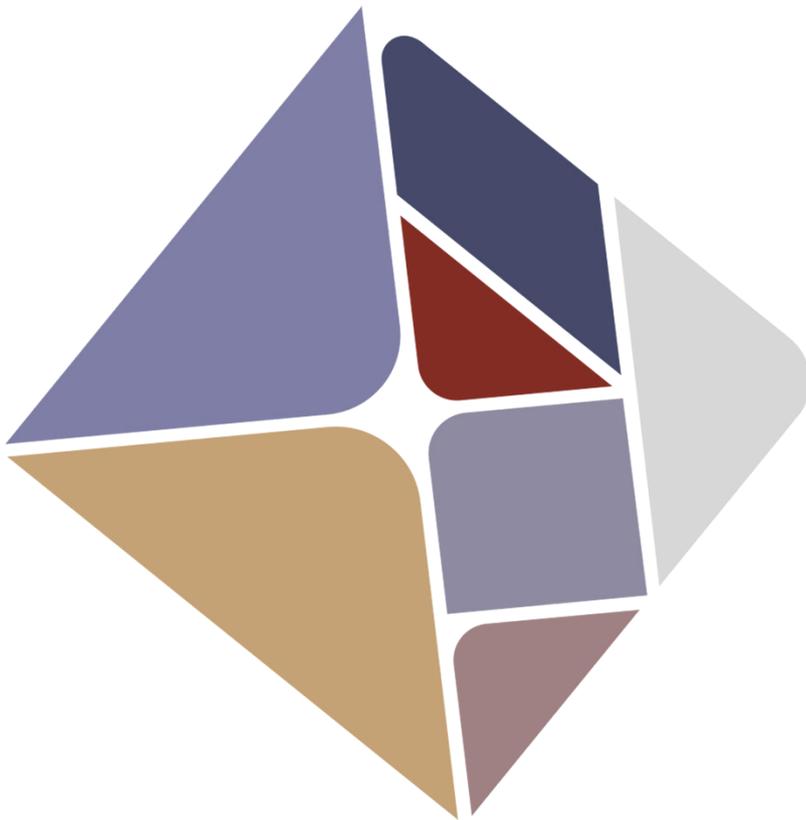
Iccrea Banca S.p.A.

Central Credit Institution of the Mutual Banking Industry
Parent Company of the Iccrea Banking Group
Registered office and Headquarters: Via Lucrezia Romana 41/47 - 00178 Rome
Share capital: €1,151,045,403.55 fully paid up
Company Register and Tax ID no. 04774801007 - R.E.A. of Rome no. 801787
Entered in the register of banking groups at no. 20016
Entered in the register of banks at no. 5251
ABI ID no. (8000)

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*Consolidated
Report on
operations
for the financial year
January 1 -
December 31, 2016*



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CONSOLIDATED REPORT ON OPERATIONS

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CORPORATE BOARDS

for 2016-2018

Elected by the Ordinary Shareholders' Meeting of July 12, 2016

Officers designated by the Board of Directors at the meetings of October 4, 2016 and October 27, 2016

BOARD OF DIRECTORS

| | |
|------------------------|----------------------|
| MAGAGNI Giulio | Chairman |
| MAINO Giuseppe | Senior Vice Chairman |
| LIBERATI Francesco | Vice Chairman |
| ALFIERI Lucio | |
| AZZI Alessandro | |
| CARRI Francesco | |
| COLOMBO Annibale | |
| FERRARINI Franco | |
| FERUGLIO Carlo Antonio | |
| MORETTI Mara | |
| PORRO Angelo | |
| RICCI Secondo | |
| STRA Pierpaolo | |
| TOSON Leonardo | |
| SAPORITO Salvatore | |

EXECUTIVE COMMITTEE

| | |
|------------------------|----------|
| CARRI Francesco | Chairman |
| COLOMBO Annibale | |
| FERUGLIO Carlo Antonio | |
| PORRO Angelo | |
| RICCI Secondo | |

BOARD OF AUDITORS

| | |
|---------------------|-------------------|
| GASPARI Luigi | Chairman |
| RONDINA Romualdo | Standing Auditor |
| SBARBATI Fernando | Standing Auditor |
| ANDRIOLO Riccardo | Alternate Auditor |
| FELLEGARA Annamaria | Alternate Auditor |

SENIOR MANAGEMENT

| | |
|-------------------|----------------------|
| RUBATTU Leonardo | General Manager |
| BOCCUZZI Giovanni | Vice General Manager |

INTRODUCTION

Dear Shareholders,

The year 2016 was one characterized by events that engendered even more uncertainty in the market.

The consolidation of a number of operations initiated in 2015 for the resolution and reorganization of significant parts of the Italian banking sector, the shock of Brexit, which undermined an already weak Europe, heightened tensions in the Middle East and additional uncertainties in an evolving geopolitical situation all had an impact on the strategies and the consequent volume of bank operations. For the European banking industry, this environment was associated with a reference market characterized by interest rates at zero, increasingly tight regulation and increasingly demanding customers.

The Italian mutual banking industry is in the midst of these changes and cannot stand still. It must continue to evolve to seize all value-creating opportunities and maintain its leading role in the European banking landscape.

With Law 49/2016 and the update of Bank of Italy Circular 285 of November 2, 2016, the creation of the Mutual Banking Group got under way. The new group is called upon to give an effective and concrete response to strengthening the role of the mutual banks in their territories. The main challenge is the need to build, using a sound and structured process, the new group organization that the reform set out, with a view to strengthening the foundations of the mutual banking system and giving the mutual banks increasingly evolved support. The mutual banking industry and the mutual banks themselves will continue to be an active part of the Italian economic system, and Iccrea fully understands the responsibility of being a Parent Company, as its vocation and intentions are to be a partner of the mutual banks.

As we have seen, the formation of the Banking Group is being undertaken in a competitive environment, one whose complexity is being increased as a result of the combined impact of a variety of factors:

- the continuous evolution of customer behavior, induced and supported by the development of digital technologies, which has made banks' traditional customer relationship model less comprehensive and increasingly less effective;
- regulatory developments increasingly directed at increasing competition in the sector, favoring the

entry of non-bank entities into areas of activity heretofore the exclusive preserve of banks;

- a macroeconomic and financial environment that is still characterized by a weak economic recovery, which hinders the provision of any strong support for the manufacturing and services sectors, and by very low, if not negative, interest rates that are squeezing margins in the lending market;
- supervisory action calling for banks, especially Italian banks, to improve the quality of their assets through effective measures to reduce the stock of bad loans and to revise the models and policies for managing those assets.

It is increasingly clear that the traditional business model of banks must be scrutinized and that, in order to continue to play the role of local banks supporting their communities, a structural revision of the approach to the supply of products and services, and the associated cost structure, is needed.

Discipline, efficiency and profitability are the key words that best summarize the substance of this break with the past. For the mutual banking industry, priority will be given to maintaining and strengthening a sound capital base and adopting a more risk-sensitive approach to enhance its ability to generate value for the benefit of the communities and territories in which the mutual banks operate.

The action of the ECB's supervision of our Group, consistent with the environment described above, is conducted along several lines:

- assessing the sustainability and robustness of the business model, both through the analysis of the final data and the content of the three-year strategic plan;
- examining strategies for managing non-performing positions and initiatives to reduce them;
- conducting ordinary inspections in various areas, such as governance, the lending process and IT security.

Following intense supervisory activity, the European Central Bank's assessment of the Banking Group, as expressed in the SREP decision at the end of 2016, confirms that the Group has effective and comprehensive strategies and processes to measure, maintain and allocate capital, and that the amount, type and allocation of capital are generally appropriate to cover the nature and level of risks to which the Group is or could be exposed.

In this scenario, last year the Iccrea Banking Group carried out the merger of Iccrea Banca and Iccrea

Holding, thereby installing an entity with a banking license at the head of the group and allowing the rapid start of the process of reforming the mutual banking industry. At the same time, beginning with an in-depth analysis conducted by the ECB in 2015, a thorough revision of the Group's governance arrangements was conducted in order to give the Group with an efficient, functional system aligned with the expectations of the market and the supervisory authorities.

In 2016, the Iccrea Banking Group forged ahead with the process of improving asset quality and strengthening capital, despite the high extraordinary costs recorded during the year, notably those related to the National Resolution Fund, and maintained its constant support for operations of the mutual banks and the local communities and businesses they serve.

The Group worked with the mutual banks, in all segments of operations, to sustain the development of the main economic sectors, supporting entrepreneurship and households and promoting financial inclusion.

The Group maintained and strengthened its range of solutions for the benefit of the mutual banks and their customers. At the end of 2016, the Group was operational in about 25 business segments, divided among the three divisions (Corporate, Retail and Institutional), thus ensuring full coverage of mutual bank needs and the considerable diversification of its business model.

During the year, the Group expanded the supply of credit and facilitated the access of mutual banks to the capital market, thus promoting stability and growth in a particularly challenging economic environment. The central finance role played by the Group enabled the mutual banks to access TLTRO funds for their corporate and retail customers. In addition, it worked intensively to offer customized advisory services, with the primary objective of assisting mutual bank customers in protecting their savings.

The commitment that the Group is devoting to running the project to establish the Mutual Banking Group has been intense. These complex activities - which involve governance, business and control system issues, as well as the mutual banks themselves, underscoring the need to meld the skills and experience of each entity – should enable the Group to define and implement its new organization by the deadline for starting operations scheduled for the second half of 2018.

The changes in progress have a common purpose: making the mutual banks ever more competitive.

We cannot afford to lower our guard. We have to work hard to be prepared for our appointment with the future.

Dear Shareholders, only together can we tackle face all the challenges that await us. That is why the contribution of commitment, skills and responsibility, together with the trust of our customers and shareholders, is and will be, now more than ever, a key resource for overcoming a turning point in the history of mutual banking.

1. THE ICCREA GROUP'S STRATEGIC LINES OF BUSINESS

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

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

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



Business areas

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

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

With regard to **Iccrea Banca's** role as the mutual banking system's finance hub and in managing liquidity, in 2016 the mutual banks continued to participate in collateralized funding activities through transactions with the ECB and with market counterparties. Total collateralized financing disbursed by Iccrea Banca to the mutual banks through the pool collateral mechanism at the end of 2016 amounted to €19.7 billion, in line with the stock at the end of 2015.

Following the initiative announced by the ECB in March 2016, Iccrea Banca took on the role of lead institution in the establishment of a TLTRO-II Group, which in addition to the other banks of the Iccrea Banking Group involved 158 banks, which became 143 following subsequent mergers and takeovers. With an upper participation limit of €14.4 billion, in 2016 €4.6 billion in funds raised with the first TLTRO program, as well as additional drawings of €0.9 billion, for a total of €5.5 billion, were replaced with funding under the new program. The remaining €8.9 billion were drawn in the last auction in March 2017.

As concerns the offering of investment instruments, Iccrea has maintained the range of products for both the shareholders of the banks and the bank's customers. In 2016, six bond issues totaling €577 million were carried out, with most being subscribed by mutual bank customers.

At the end of 2016, mutual bank deposits on the daily settlement account amounted to about €5 billion, while fixed-term deposits came to €1.85 billion.

The wholesale trading of Italian government securities saw volumes contract in 2016 to €108 billion, although Iccrea remained one of the leading operators in the sector.

As part of its market making activities, Iccrea Banca maintained quotes for 500 eurobonds and about 100 Italian government securities. Total volumes at December 31, 2016 amounted to about €21 billion.

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

Within its derivatives operations, Iccrea Banca provided the mutual banks with instruments to hedge their assets with a notional value of about €625 million.

In the order collection segment, 2016 saw a reduction of 22.1% in total volumes, from €50.6 billion to €39.4 billion, in line with the downturn in the associated markets. Iccrea Banca nevertheless strengthened its position, ranking first in volumes handled for third parties on the Domestic MOT market operated by Borsa Italiana, with a share of 17.1%, and third in the Euro-TLX and Hi-MTF bond markets of Borsa Italiana, with a share of 11.7%.

Activity on the primary market also contracted by about 17%, with volumes of €2.9 billion, compared with €3.5 billion in 2015. The decline was mainly associated with the reduction in volumes in government securities auctions.

The Bank also participated in the placement of the tenth issue of the BTP Italia, acting for the third time as co-dealer. Overall, Iccrea Banca participated in 141 auctions and placements, passing about €9 million in fees and commissions through to the mutual banks.

As part of the structuring of securitizations and assignments of non-performing assets to support the mutual banks and the companies of the Group, in 2016 three operations were carried out:

- the assignment without recourse of €366 million in non-performing loans originated by 33 assignors;
- the structuring of a securitization of performing lease receivables originated by Iccrea Bancalmpresa totaling €1.3 billion. The EIB participated with the facilitated subscription of the senior tranche of €480 million; KfW and CDP subscribed the mezzanine tranche of €65 million;
- the structuring of a self-securitization of performing home loans originated by 16 mutual banks in the amount of about €660 million.

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

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

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

This environment, together with the pressure from the main players in the field and the decline in revenue from cash and cashier's checks owing to low ECB rates, makes it essential to develop new value-added services for customers to preserve profitability and enhance the loyalty of mutual bank customers. Accordingly, Iccrea Banca is continuing development of products like MyBank and CBill for payments (completion of product range in 2017 on the invoicer/creditor side), electronic invoicing, digital document retention and services connected with the digitization of government and the STS.

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

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

- is participating on the top decision-making body (the Board) in February 2015 as part of the Italian representation coordinated by ABI with Unicredit, ISP, and ICBPI, thus giving it the opportunity to participate in strategic decisions at the time of their formation;
- is participating in the working group on the evolution of SEPA mechanisms;

- defined the instant-payment mechanisms as Italian representative;
- has taken advantage of the option granted by the EPC to configure our banks as a group, which has made it possible to achieve significant savings on fees for participation in SEPA.

With regard to the key figures for 2016, Iccrea Banca handles a total of 272,800,000 transactions in various products, an increase of 5.97% on 2015.

The natural decline in checks, under way for some years now, was more than offset by the increasing use of the pan-European SEPA products (Credit Transfer and Direct Debit).

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

The most important projects in 2016 concerned areas covered by the European Market Infrastructure Regulation (EMIR) governing derivatives and the completion of the new European securities settlement system, Target2 Securities.

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

- the financial instruments database service (A.T.C.I.) for the accurate recordation of new issues and continuous updating of variable data; the database includes about 80,000 instruments, around 14,500 of which have a balance;
- administrative support for activities connected with the management of the "pool collateral" mechanism facilitating access to collateralized financing operations, in particular with the European Central Bank through the treasury desk;
- the listing service for mutual bank issues in the "order driven" segment of the HI-MTF market aimed at giving them the liquidity conditions provided for under Consob regulations. As of December 2016, there were 60 mutual banks, with a total of 1,200 issues listed;
- the issuers service, which offers administrative support for the issuance activity of 145 mutual banks;
- the management of activities connected with the distribution of investment funds of BCC Risparmio & Previdenza. The results achieved in 2016 confirmed the positive trend seen in recent years, with an increase in participating companies to 21 and a significant increase in volumes in the retail

segment, while remaining stable in the institutional segment and achieving assets under administration of about €5 billion for retail customers;

- the services concerning compliance with transparency and the monitoring of possible market abuse for which, in 2016, 134 mutual banks had subscribed to the Transaction Reporting service and 125 mutual banks to the MAD service;
- support for mutual banks and their customers in complying with EMIR and FACTA obligations, providing ongoing, specialist support in meeting the obligations introduced during the year.

As of the end of December 2016, securities worth about €88 billion were held in custody and administration.

The full operational continuity of the **IT systems** of Iccrea Banca and **BCC Sistemi Informatici** was assured in 2016, with support provided for the implementation of the Banking Group's strategy.

More specifically, work on implementing the transition from a single-company focus to a Group ICT service model continued, with the aim of creating an integrated organization the operational models and performance meeting top industrial standards.

The major ICT restructuring initiatives included:

- the restructuring of service delivery processes based on the ITIL v3 framework, which is considered to be the most robust standard for IT infrastructures, with a specific focus on incident management and change management;
- the ongoing process of optimizing the business continuity and disaster recovery process to support the Banking Group and the mutual banks;
- consolidation of the supplier base.

In addition, the year saw the continuation of the development of the "Make IT" program, which was launched in July 2015, with the following objectives:

- completing the actions needed to obtain PCI-DSS certification (certification obtained in October 2016);
- secure the ICT architecture;
- complete the industrialization process, evolving the basic elements in accordance with the path initiated with the "TrasformAzione" program;
- incorporate the IT infrastructure upgrade recommendations issued by the European Central Bank.

Service levels delivered were in line with the previous year. ICT services were delivered consistently

and continuously, with average platform availability of 99.70%.

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

In 2016, ICT continued the expansion of the role of the Technology Office (TO) to cover all the companies served, thereby providing ongoing support for base services. An important step in the construction of an infrastructure hub serving the Mutual Banking Group was the decision of Raiffeisen to select the Iccrea Banca TO as the outsourcer for its infrastructure, including the business continuity solution.

As part of the institutional services provided to the mutual banks, total bad debts managed by **BCC Gestione Crediti** amounted to €3.2 billion.

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

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

In 2016, new medium/long-term lending to firms by **Iccrea Bancalmpresa** amounted to about €1.8 billion, with new credit in the leasing segment of about €850 million, ordinary lending of €549 million, structure finance transactions of €208 million, international lending of about €130 million and guarantees issued of €60 million.

Iccrea Bancalmpresa, as a bank authorized by the Ministry of Agricultural Policy (MAP) and a lending bank (in an agreement with Cassa Depositi e Prestiti) entered into no fewer than 7 industry contracts, in a pool arrangement with the mutual banks, with leading Italian agricultural and food product companies, with more than €200 million in investment. About 50% of the investment will be supported by specific funding provided by CDP under the Rotating Fund for Enterprises) at a fixed rate of 0.50% for a maximum term of 15 years. These contracts will enable many agricultural and food product firms to undertake

innovative projects and support exports in the produce, rice, poultry and other segments of the industry. Iccrea Bancalmpresa was the bank with the largest number of industry contracts in its portfolio (7 out of a total of 11) among the 5 banks authorized by the MAP.

Under the umbrella of services provided to the mutual banks, the service of obtaining and managing guarantees backed by the guarantee fund of Mediocredito Centrale involved Iccrea Bancalmpresa in transactions with 163 mutual banks, who submitted about 6,800 applications. Since the start of the service, it has enabled the mutual banks to provide financing to 9,550 firms totaling €1.4 billion of zero-weighted exposures.

These volumes are supplemented by €185 million in new small-ticket lease transactions (**Bcc Lease**) and turnover of €1.5 billion in the factoring segment (**Bcc Factoring**).

Total lending in the Corporate area reached €8.8 billion at December 31, 2016.

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

In the **electronic money** sector, in 2016 Iccrea Banca continued to register growth in the card segment (issuing), with 3.5 million operational cards and about €17.7 billion in transaction volume and in the POS and ATM segment (acquiring), with more than 170,000 POSs and 4,300 ATMs active and about €19.6 billion in transaction volume.

In the issuing segment, all three components (debit, prepaid and credit) posted gains, which as at the end of 2016 can be summarized as follows:

- operational debit cards with chip technology exceeded 2.2 million cards, compared with 2.1 million in 2015, an increase of 6.7%;
- the stock of operating credit cards expanded by 6.2%, rising from 780,000 cards at the end of 2015 to 828,000 at the end of 2016;
- operational prepaid cards rose from 406,000 cards at the end of 2015 to 453,000 at the end of 2016, an increase of 11.5%.

Analogously, the acquiring segment also posted an increase in volumes: total transaction volume in 2016 amounted to €19.6 billion (of which €13.1 billion through the PagoBANCOMAT/BANCOMAT circuits and

€6.5 billion through international circuits), compared with €18.5 billion in 2015.

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

- insourcing of back office/operations activities connected with the acquiring service on international circuits, with a substantial increase in the efficiency of the underlying cost base;
- development of the 'push acquiring' project aimed at supporting the mutual banks in placing the Acquiring product through a dedicated network of agents. At December 31, 2016 the new channel enable the participating mutual banks to increase their acquiring volume by more than €100 million. A total of 44 mutual banks are participating in the project, of which 26 are already placing the service and 7 are in the process of activation;
- improvement of the new trouble-ticketing channel devoted to providing assistance to the mutual banks;
- completion of the Direct Issuing product range on the MasterCard circuit, which enables the mutual banks to place the new cards (debit/credit/prepaid) managed entirely in-house;
- completion of certification with circuits and start of insourcing of POS acquiring processing;
- evolution of the Ventis.it marketplace, dedicated to supporting the digitization of the SME customers of the mutual banks. Iccrea Banca involved the mutual banks in the search for/selection of "local excellences": customer firms that stand out for the excellence of their products, to which the mutual banks offer free access to the new marketplace;
- repricing of issuing products for mutual banks following action by regulators to sharply reduce interbank commissions;

In the consumer credit sector, new lending in 2016 by **BCC CreditoConsumo** amounted to €424 million, generated with 306 participating mutual banks. The stock of loans at December 31, 2016 amounted to about €916 million.

In the asset management sector, total assets under management/placement by **BCC Risparmio & Previdenza** amounted to €12.7 billion, with net funding in 2016 of about €1.8 billion. Assets under management include €1.6 billion in investment funds, €2.7 billion in fixed-income funds, €2.6 billion in retail and institutional portfolio management products, about €450 million in supplementary pension funds and €5.3 billion in third-party SICAVs.

Banca Sviluppo completes the Iccrea presence in the retail segment with loans of €1.1 billion, direct funding of €2.1 billion and indirect funding of €667 million.

2. CREATING VALUE FOR THE MUTUAL BANKS AND OVERVIEW OF OPERATIONS

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

At December 31, 2016, the total amount of fees and commissions passed through to the mutual banks amounted to about €350 million, to which the growth in electronic money accounted for the most significant portion.

| €/millions | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|--------------|--------------|--------------|--------------|--------------|
| Asset management | 23.9 | 29.1 | 40.6 | 61.0 | 74.5 |
| Insurance investment products | 17.3 | 13.5 | 16.6 | 28.8 | 26.3 |
| Corporate loans | 8 | 7.4 | 7.0 | 5.8 | 5.5 |
| Electronic money | 202.2 | 209 | 226.5 | 239.8 | 220.6 |
| Consumer loans | 18 | 18.8 | 18.6 | 20.2 | 22 |
| Total fees and commissions passed through | 269.4 | 277.7 | 309.3 | 355.6 | 348.9 |
| System contributions | 4.7 | 4.6 | 5.0 | 5.0 | 4.1 |
| Dividends of the Parent Company (*) | 7.6 | 10.4 | - | 13.9 | 14.2 |
| Total | 280.8 | 291.9 | 314.3 | 374.5 | 367.2 |

(*) Dividends by year of disbursement.

In addition, in 2016 financial intervention with the Deposit Guarantee Fund and the Institutional Mutual Bank Guarantee Fund amounted to €4.2 million.

All the Group companies are constantly focused on nurturing and expanding their relationship with the mutual banks, reinforcing the strategy of establishing partnerships and close ties. The various institutional relationship activities and engagement with the mutual banks help create opportunities at the international level and develop instruments to dialogue and address key business issues. Alongside its domestic activities, the Group has increasingly focused on the international market within the context of relationships developed with domestic, foreign and supranational institutions and/or entities, in order to expand the international activities of the Group and the mutual bank system (for example, in the area of funding), as well as supporting SME customers in the process of international expansion.

Support for system liquidity and profitability

As part of its institutional functions, the Iccrea Group also provided support to the mutual banks through:

- €21.5 billion in collateralized loans in the form of operating loans and facilities (average annual exposure);
- €247 million in bonds underwritten (average annual exposure);
- €9 billion average balance in active management of liquidity using short-term treasury instruments;
- €7.4 billion in initial value of securitizations, with a residual principal of €3.6 billion;
- €5.5 billion in financing through the T-LTRO Group, which in addition to the other banks of the Iccrea Banking Group saw the participation of 143 mutual banks.

Support for system operations

- €10 billion in average lending to the corporate and retail customers of the mutual banks;
- €13 billion in assets managed/placements with mutual bank customers;
- €42 billion in direct trading and order collection;
- 273 million items handled in the collections and payment segment;
- €37.3 billion in volumes handled in the electronic money segment.

Finally, as part of the support provided to the mutual bank system, the subsidiary Banca Sviluppo acquired the assets of Banca Brutia in compulsory liquidation and Crediveneto in compulsory liquidation. Both operations were carried out as part of the rescue interventions of the Institutional Mutual Bank Guarantee Fund.

3. DEVELOPMENTS IN GROUP OPERATIONS

The consolidated balance sheet and income statement report the Iccrea Group's results for the period ended December 31, 2016.

The following table shows the composition of consolidated assets:

| €/thousands | Dec. 31, 2016 | Dec. 31, 2015 | Change |
|-------------------------------|-------------------|-------------------|--------------------|
| Due from banks | 21,152,194 | 20,230,772 | 921,422 |
| Loans to customers | 13,674,256 | 13,286,555 | 387,701 |
| Financial assets: | | | |
| - held for trading | 391,281 | 377,223 | 14,058 |
| - at fair value | 14,559 | 15,121 | (562) |
| - available for sale | 5,247,279 | 6,810,530 | (1,563,251) |
| - held to maturity | 4,738,609 | 6,491,581 | (1,752,972) |
| - hedging derivatives | 17,773 | 14,807 | 2,966 |
| - value adj. of hedged assets | (348) | 932 | (1,280) |
| Equity investments | 102,285 | 89,068 | 13,217 |
| Property and equipment | 701,380 | 660,071 | 41,309 |
| Intangible assets | 38,870 | 44,278 | (5,408) |
| Tax assets | 343,170 | 283,928 | 59,242 |
| Other assets | 433,491 | 399,504 | 33,987 |
| Total assets | 46,854,799 | 48,704,370 | (1,849,571) |

Consolidated assets at December 31, 2016 totaled €46.8 billion, a decrease of €1.8 billion (-3.8%) from December 31, 2015. The change with respect to the previous year is mainly attributable to:

- an increase in amounts due from banks (+€921 million, +4.5%) associated with loans to mutual banks in pool collateral transactions the increase in the reserve requirement with the central bank;
- an increase in loans to customers (+€388 million, +3%), reflecting the acquisition of Crediveneto by Banca Sviluppo;
- a reduction in AFS financial assets (-€1.6 billion, -23%) due to the sale and measurement of government securities, with the realization of capital gains, and HTM financial assets, and the redemption of securities during the period (-€1.8 billion, -6%).

At December 31, 2016 financing granted to the mutual banks under the pool collateral mechanism, such as advances received from the ECB with refinancable securities as collateral, came to €19.7 billion (of which €4.8 billion in respect of financing provided through TLTRO-II) in exchange for collateral

securities with a total fair value, net of the haircut, of €22.6 billion.

As regards credit quality, net impaired assets with customers amounted to €1.42 billion (€1.3 billion at December 31, 2015) in line with the previous year), equal to 10.39% of total lending (10.47% at the end of December 2015). The ratio of net bad debts to loans was 3.67% (3.43% at December 31, 2015), while the ratio of net positions unlikely to be repaid to loans was 6.19% (6.52% at December 31, 2015).

Gross impaired assets amounted to €2.57 billion, an increase of €182 million on the previous year (€2.39 billion). The ratio of gross impaired assets to loans was 17.2% (16.71% at December 31, 2015).

The coverage ratio for impaired assets was 44.7%, an increase of 3 percentage points on the 41.7% registered at December 31, 2015. The coverage ratio for bad debts amounted to 59.9%, an increase of 3 points on the 56.9% posted at December 31, 2015, while that for positions unlikely to be repaid was 31.5%, an increase on the previous year (30.7%).

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

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

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

Equity investments not classified as AFS comprise interests in associated companies and amounted to €102.3 million (€89.1 million at December 31, 2015), with the increase mainly reflecting capital payments to BCC Vita (€15 million), dividends paid by the company (€3.8 million) as well as other changes in the equity of associated companies.

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

In implementation of a reorganization of the Group's investments, Iccrea Bancalmpresa transferred the units previously held in the closed-end funds Securis Real Estate, Securis Real Estate II and Securis Real Estate III (at book values equal to NAV) to Iccrea Banca.

Intangible assets include €22.6 million in goodwill paid for the purchase of a number of controlling interests (mainly BCC Risparmio & Previdenza, Banca Sviluppo and BCC Sistemi Informatici), a decrease of €1 million on December 31, 2015 (€23.6 million) due to the disposal of the Piacenza branch of Banca Sviluppo, which produced a gain of €750 thousand.

Tax assets include current and deferred tax assets and amounted to €344 million (of which €181 million under Law 214/2011), an increase of €60 million on December 31, 2015, the net effect of payment of the balance for 2015 and payments on account for 2016, the transformation of the deferred tax assets of Iccrea Bancalmpresa and Banca Sviluppo into tax credits and the estimated tax liability for the period.

Other assets amounted to €320 million, an increase of €24 million on December 31, 2015 (€295 million), mainly reflecting a number of temporary items settled in the first few days of the following month.

Like assets, **consolidated liabilities** also decreased compared with December 31, 2015, as shown in the following table:

| €/thousands | Dec. 31, 2016 | Dec. 31, 2015 | Change |
|---|-------------------|-------------------|--------------------|
| Due to banks | 12,722,739 | 13,381,487 | (658,748) |
| Due to customers | 26,829,330 | 27,629,647 | (800,317) |
| Financial liabilities: | | | 0 |
| - securities issued | 4,466,854 | 4,403,213 | 63,641 |
| - held for trading | 409,617 | 463,347 | (53,730) |
| - measured at fair value | 21,389 | 437,636 | (416,247) |
| - hedging derivatives | 63,318 | 101,363 | (38,045) |
| Tax liabilities | 3,946 | 28,049 | (24,103) |
| Provisions for risks and termination benefits | 106,288 | 84,244 | 22,044 |
| Other liabilities | 575,550 | 455,583 | 119,967 |
| Shareholders' equity | 1,655,769 | 1,719,801 | (64,032) |
| Total liabilities and equity | 46,854,799 | 48,704,370 | (1,849,571) |

Amounts due to banks (excluding bonds) amounted to €12.7 billion, down 4.9% on December 31, 2015 (€13.4 billion) as a result of repayments of the T-LTRO auctions of the ECB (€6.6 billion), an increase from T-LTRO II (€5.5 billion) and deposits and current accounts of the mutual banks.

Amounts due to customers amounted to €26.8 billion, down 2.9% on the previous year, the net effect of the acquisition of the funding of Crediveneto (about €320 million) and the reduction in repurchase transactions with the Clearing and Guarantee Fund, which are classified under this item.

Securities issued amounted to €4.5 billion, up €64 million on December 31, 2015 (€4.4 billion) due to the acquisition of securities from Crediveneto (€300 million) and other transactions in the period.

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

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

| €/thousands | Dec. 31, 2016 | Dec. 31, 2015 | Change |
|---|------------------|------------------|-----------------|
| Share capital | 1,151,045 | 1,151,045 | 0 |
| Share premium reserve | 4,747 | 4,747 | 0 |
| Valuation reserves | 73,848 | 108,125 | (34,277) |
| Reserves | 389,977 | 386,623 | 3,354 |
| Profit (loss) for the period (+/-) | (24,067) | 42,372 | (66,439) |
| Equity pertaining to shareholders of the Parent Company | 1,595,550 | 1,692,912 | (97,362) |
| Equity pertaining to non-controlling interests (+/-) | 60,220 | 26,889 | 33,331 |
| Total shareholders' equity | 1,655,770 | 1,719,801 | (64,031) |

Shareholders' equity pertaining to shareholders of the Parent Company came to €1.6 billion, a decrease of €97 million from December 31, 2015 (€1.69 billion), due mainly to: the distribution of dividends, the reduction in valuation reserves and the loss for 2016.

The following table reports the **income statement**:

| €/thousands | 2016 | 2015 | Change |
|--|------------------|------------------|-----------------|
| Net interest income | 344,639 | 388,087 | (43,448) |
| Net fees and commissions | 192,802 | 188,616 | 4,186 |
| Net gain (loss) on trading activities | 10,930 | 22,293 | (11,363) |
| Net gain (loss) on disposals | 71,742 | 116,411 | (44,669) |
| Result of FVO, dividends and hedging | 5,060 | 2,917 | 2,143 |
| Normalized gross income | 625,173 | 718,324 | (93,151) |
| Net impairment adjustments | (158,972) | (255,719) | 96,747 |
| Net income (loss) from financial operations | 466,201 | 462,605 | 3,596 |
| - personnel expenses | (215,845) | (191,838) | (24,007) |
| - other administrative expenses | (319,852) | (289,752) | (30,100) |
| Depreciation, amortization and provisions | (37,204) | (55,849) | (1,355) |
| Net other expenses/income | 95,711 | 86,944 | 8,767 |
| Total operating expenses (net of income) | (477,190) | (430,495) | (46,695) |
| Operating result | (10,989) | 32,110 | (43,099) |
| Fair value measurement of property and equipment | (34,803) | (12,590) | (22,213) |
| Profit (loss) from equity investments | 4,445 | 6,079 | (1,634) |
| Profit (loss) before tax on continuing operations | (41,347) | 25,599 | (66,946) |
| Income taxes | 19,654 | 19,878 | (224) |
| Net profit pertaining to non-controlling interests | 2,374 | 3,105 | (731) |
| Net profit pertaining to the Iccrea Group | (24,067) | 42,372 | (66,439) |

Developments in performance, as reflected in a comparison of the main profit and loss aggregates with the figures for the previous year, reflect the presence of a number of non-recurring events that adversely affected the results of the Group, which amounted to a loss of €24 million (a net profit of €42.4 million in 2015). These included:

- *contributions to the National Resolution Fund (BRRD)* totaling €69.4 million. The contribution includes €23 million in ordinary contributions for 2016 and €46 million in an additional extraordinary contributions called in by the Bank of Italy in its notice of December 29, 2016;
- *costs for the solidarity fund* totaling €26 million in respect of 93 employees who voluntarily opted to participate in the solidarity mechanism. Together with other measures impacting labor costs, this will permanently reduce the Group's administrative expenses;
- *impairment* of €9.7 million recognized on the units of the Fondo Atlante as a result of the decline of about 30% in the fair value of the shares of Popolare di Vicenza and Veneto Banca.

Gross income reflected the following developments:

- net interest income amounted to €344.6 million, down €43.4 million (-11%) on the previous year (€388 million), mainly reflecting the decrease in the volume of assets and developments in market interest rates, with a consequent impact on the margin on the securities portfolio;
- net fee and commission income amounted to €192.8 million, up €4 million (+2.2%) on the previous year (€188.6 million), mainly attributable to the acquisition of Crediveneto;
- the net gain on trading activities amounted to €10.9 million, a decline from the previous year (€22.3 million) that reflected the contraction in operations in securities and charges on derivatives used to hedge Brexit risk;
- gains from disposals amounted to €71.7 million, reflecting:
 - the sale of shares of Visa Europe, with a capital gain of €45.8 million (in 2015, a gain of €114 million was posted following the disposal of ICBPI);
 - gains on the disposal of AFS securities (€37.5 million);
 - losses on the repurchase of previously issued securities (€3.7 million);
 - losses on the disposal of loans (€7.9 million);
- the result of exercising the fair value option (FVO), a positive €2.1 million, mainly reflects the accounting effect on the structured liabilities of Iccrea Banca of developments in credit spreads.

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

- personnel expenses amounted to €216 million, an increase of about €24 million compared with the previous year, mainly due to provisions to the solidarity fund (€26 million) and the acquisition of Crediveneto employees (€5.5 million). Excluding these events, costs were reduced by about €7 million thanks to the rationalization measures approved by the Group (reduction in bonuses for executives and overtime hours);
- other administrative expenses amounted to €320 million, up €30 million on 2015, reflecting the acquisition of Crediveneto (€6 million) and various Group projects (the new information system of Credito Consumo, migration of BCC Factoring to new IT outsourcer, IT development and implementation at Iccrea Banca). BRRD costs rose by about €2 million on 2015.

The net loss on the impairment of loans and other assets amounted to €193.8 million, a decrease on the previous year (€268 million), when the measurement criteria for the lease portfolio were revised. In 2016, writedowns on the AFS portfolio amounted to €13.5 million (for the impairment of Cattolica and Fondo Atlante), while writedowns of units in real estate collective investment undertakings totaled €34.8 million (due to the impairment of the funds' assets).

The cost/income ratio at December 31, 2016, adjusted for the increased costs for BRRD compliance and early termination incentives, was 61.1% (60% at December 31, 2015).

With regard to capital, the following table reports the composition of **consolidated own funds** at December 31, 2016:

| Capital and capital ratios - €/thousands | Dec. 31, 2016 | Dec. 31, 2015 | Change |
|---|------------------|------------------|-----------------|
| - Share capital | 1,151,045 | 1,151,045 | - |
| - Share premium reserve | 4,747 | 4,747 | - |
| - Treasury shares | (30,590) | (8,004) | (22,586) |
| - Earnings reserves | 393,602 | 378,558 | 26,719 |
| - Net profit for the period | (12,786) | 28,450 | (41,236) |
| - Other comprehensive income | 74,027 | 106,700 | (32,673) |
| - Prudential filters on AFS assets/Deductions | 4,106 | (53,416) | 57,522 |
| - Goodwill | (17,346) | (18,331) | 985 |
| - Deductions (DTA for tax loss and ACE benefit) | (33,229) | - | (33,229) |
| - Intangible assets | (7,107) | (11,347) | 4,240 |
| - Own credit risk | (3,058) | (1,838) | (1,220) |
| - Non-controlling interests | 31,928 | 10,507 | 21,421 |
| Common Equity Tier 1 (CET1 ratio) | 1,555,339 | 1,587,071 | (20,057) |
| Additional Tier 1 (AT1) | 5,837 | - | 5,837 |
| Tier 1 (T1) | 1,561,176 | 1,587,071 | (14,220) |
| - Eligible subordinated loans and eligible AFS reserves | 141,599 | 124,620 | 16,979 |
| Tier 2 (T2) | 141,599 | 124,620 | 16,979 |
| Total own funds | 1,702,775 | 1,711,691 | 2,759 |

Common Equity Tier 1 ("CET1") at December 31, 2016 amounted to €1,555 million, down €31.7 million on December 2015 as a result of:

- the acquisition of own shares – following the withdrawal of shareholders following the merger– and the sale of part of the own shares held by Banca Sviluppo (–€22.5 million);
- the loss for the year, included in own funds for entities in the scope of consolidation (€12.8 million), compared with the net profit posted the previous year (€28.5 million);

- the deduction of €33 million from deferred tax assets recognized for the consolidated tax loss and for the ACE benefit;
- the inclusion in non-controlling interests of €30 million in respect of the eligibility for inclusion of 70% of the capital increase of Banca Sviluppo reserved for the mutual banks, in application of CRR rules.

Total own funds amounted to €1,703 million (€1,712 million at December 31, 2015), a decrease of €9 million reflecting the net effect of the reduction in CET1, the increase in Tier 1 (T1) and the increase in Tier 2 (T2) following the merger of Iccrea Holding and Iccrea Banca, owing to the subordinated instruments issued by Iccrea Banca and now fully eligible for inclusion.

Risk-weighted assets (RWA) at December 31, 2016 amounted to €12.9 billion, an increase of €85 million on December 31, 2015 (€12.8 billion), reflecting the net effect of a reduction in the exposure to credit risk, securitizations and the CVA (€15 million) and an increase in the exposure to market risks (€84 million) connected with interest rate derivatives and to operational risks (€15 million).

| RWA - €/thousands | Dec. 31, 2016 | Dec. 31, 2015 | Change |
|--------------------------------------|-------------------|-------------------|---------------|
| Credit risk, securitizations and CVA | 11,537,094 | 11,552,087 | (14,992) |
| Market risk | 254,550 | 169,911 | 84,639 |
| Operational risk | 1,131,550 | 1,116,250 | 15,300 |
| Total RWA | 12,923,194 | 12,838,248 | 84,947 |

As a result of these developments, at December 31, 2016 the **Common Equity Tier 1 ratio ("CET 1 ratio")** was **12.04%** (12.36% at December 31, 2015), greater than the 9.25% required under the SREP for 2016.

The **Total Capital Ratio (TCR ratio)** amounted to 13.18% (13.33% at December 31, 2015).

| Capital ratios | Dec. 31, 2016 | Dec. 31, 2015 | Change |
|---------------------|---------------|---------------|--------|
| CET 1 ratio | 12.04% | 12.36% | -0.32% |
| Total Capital ratio | 13.18% | 13.33% | -0.15% |

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

RISKS

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

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

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

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

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

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

Therefore, it is critically important that the Group work continuously to accurately identify the risks to be assessed. Once the significant risks are identified, the ICAAP involves assessing the risks to allocate internal capital and determine the total capital to cover them, currently and prospectively. This includes performing

stress tests to assess the Group's vulnerability to exceptional, but plausible, events.

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

- **Credit risk:** the risk of loss arising from the counterparty's failure to perform its contractual obligations due to inability to repay interest and/or principal (default risk). This category includes the risk arising from losses associated with the reduction in the market value of assets due to deterioration in the counterparty's credit rating (migration risk). One type of this risk is counterparty risk, i.e. the risk that the counterparty to a transaction could default before final settlement of the transaction;
- **Market risk:** risk of incurring losses arising from unexpected adverse movements in market prices of financial instruments, currencies and goods. The following sub-categories are the most significant:
 - (i) Risk on the trading book position, i.e. the risk arising from fluctuations in the price of securities;
 - (ii) Credit spread risk, namely the risk arising from changes in the market value of debt instruments due to fluctuations in the relative credit spread.
- **Operational risk:** the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational risk includes legal risk, IT risk, compliance risk and reputational risk, i.e. types of risk that cannot be measured/quantified for which the level of the suitability/compliance of the relative management processes has been assessed;
- **Interest rate risk on the banking book:** risk arising from changes in market interest rates that reduce the profitability and the economic value of non-trading book assets;
- **Concentration risk:** risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or engaged in the same activity or dealing in the same goods, as well as from the application of credit risk mitigation techniques, including in particular risks associated with indirect credit exposures such as a single issuer of guarantees;
- **Strategic risk:** the current or prospective risk of a decline in earnings or capital arising from changes in the operating environment, adverse business

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

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

UNCERTAINTIES

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

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

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

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

With specific regard to NPLs, in September 2016 the ECB issued "Guidance to banks on non-performing loans", the result of extensive work on NPLs conducted by supervisory experts. The guidance contains a

summary of the best practices found and represents supervisory expectations for the future.

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

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

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

The main regulatory changes that will impact the Group include:

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

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

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

5. INTERNAL CAPITAL AND LIQUIDITY ASSESSMENT PROCESS

In November 2016 the EBA published the final version of the report on the “Guidelines on ICAAP and ILAAP information collected for SREP purposes”, aiming to ensure the convergence of supervisory practices in the assessment of ICAAP and ILAAP. With the transmission of “Technical implementation of the EBA Guidelines on ICAAP and ILAAP information collected for SREP purposes”, the ECB also required Iccrea Banca to conduct ICAAP and ILAAP in accordance with the letter on the “Supervisory expectations on ICAAP and ILAAP and harmonized information collection on ICAAP and ILAAP” of January 2016.

ICAAP

The Iccrea Banking Group, in accordance with the methodological framework described, conducted an assessment of its current and prospective capital adequacy, taking into account both normal operations and the occurrence of plausible adverse situations.

These assessments were made over a time horizon consistent with the Group’s strategic plan (2017–2019) and the respective results led to the verification and control of the overall soundness and robustness of the assessments performed in the course of other strategic processes, such as the risk appetite framework and strategic-operational planning.

The assessments demonstrate, for the entire time horizon considered, a situation and a profile at the consolidated level of overall capital adequacy.

This conclusion of overall capital adequacy is supported by:

- qualitative and quantitative evidence demonstrating that for the entire period total capital exceeded total internal capital, derived from the exposure to individual risks determined under different scenarios (baseline and adverse);
- compliance with the minimum prudential requirements established by the supervisory authorities based on SREP for the entire time horizon and the internal requirements determined by management for ICAAP purposes by the Iccrea Banking Group.

The following table, drawing from the capital adequacy assessment analysis, summarizes the overall information on and position of the Group’s capital profile with respect to the set of limits/thresholds considered.

Iccrea Banking Group – Capital adequacy at December 31, 2016

| | 31/12/2016 | Threshold | Threshold buffer |
|------------------------------|------------|-----------|------------------|
| <i>CET1 ratio ICAAP 2017</i> | 12.04% | 9.63% | 2.41% |
| <i>TC ratio ICAAP 2017</i> | 13.18% | 11.13% | 2.05% |

Iccrea Banking Group – Prospective capital adequacy (2017-2019) – baseline scenario

| | Profile | | | Limit | Threshold buffer (2019) |
|------------------------------|---------|--------|--------|---------|-------------------------|
| | 2017 | 2018 | 2019 | | |
| <i>CET1 Ratio ICAAP 2017</i> | 11.45% | 11.96% | 12.26% | ≈9.79% | 2.47% |
| <i>TCR ICAAP 2017</i> | 12.43% | 12.93% | 13.22% | ≈11.29% | 1.93% |

Iccrea Banking Group - Prospective capital adequacy (2017-2019) – adverse scenario

| | Profile | | | Limit | Threshold buffer (2019) |
|------------------------------|---------|--------|--------|--------|-------------------------|
| | 2017 | 2018 | 2019 | | |
| <i>CET1 Ratio ICAAP 2017</i> | 10.41% | 9.95% | 9.40% | ≈7.52% | 1.88% |
| <i>TCR ICAAP 2017</i> | 11.39% | 10.91% | 10.35% | ≈9.52% | 0.83% |

In addition, the assessment performed on the ICAAP governance system and on the individual management processes found no thematic and analysis areas that present problems or significant deficiencies. Therefore it is possible to conclude that the ICAAP governance system and the underlying processes at the consolidated level are adequate as a whole.

ILAAP

The Iccrea Group's governance and liquidity risk management model is a "centralized" model. The Parent Company is responsible for the overall governance and liquidity risk of the Group since:

- it is responsible for establishing the Group's liquidity risk management policies;
- it centrally monitors liquidity risk exposure (operational and structural);
- it manages liquidity risk at the consolidated level by defining the funding plan consistent with current and prospective operations;
- it establishes and governs the system of internal transfer prices.

The Liquidity Policy and the Intragroup Funding Agreement are therefore crucial. They were presented to the ECB, which responded with a letter dated February 17, 2017 granting a liquidity waiver (an exemption from compliance with the liquidity coverage and reporting requirements) on an individual basis to Iccrea Banca, Iccrea Bancalmpresa and Banca Sviluppo.

The ILAAP report provides a comprehensive analysis of the Group's liquidity position in terms of both short-term and structural liquidity risk under normal operating conditions and in adverse scenario conditions.

Specifically, the assessment regards the adequacy of the financial resources available to cover liquidity and funding risks, as well as the suitability of the processes, safeguards and controls for such risks.

The results of the ILAAP show an "adequate" liquidity and funding profile for the entire time horizon considered. This assessment is supported by qualitative and quantitative evidence that indicate over the short- and the medium/long-term a risk profile for the LCR and NSFR indicators that exceeds the internally defined minimum threshold. In the short and the medium term, the Group is in a good liquidity position, which can be summed up as follows:

- the liquidity coverage ratio of 107.21% is higher than the standard minimum regulatory threshold (100% starting in 2018);
- the Group's survival period at December 31, 2016 is greater than 3 months and therefore within the limits established by the Group at the reference date.

The intraday liquidity position is monitored daily using three additional metrics provided for in the Liquidity Policy in accordance with the instructions of the Basel Committee ("maximum intraday liquidity usage", "total payments" and "time-specific obligations").

From a long-term standpoint, the Group is in a good funding position that can be summed up as follows:

- the NSFR indicator in 2016 always exceeded the minimum threshold for 2016 (at December 31, 2016 the indicator equaled 95.10% compared with 80%);
- the Group's funding channels are diversified (mainly wholesale) and envisage methods of funding on collateralized markets through the Clearing and Guarantee Fund;
- the Group's funding is composed almost entirely of transactions in euros (99.51%).

The assessments of the entire ILAAP governance system and the management processes found no thematic and analysis areas that present problems or significant deficiencies. Therefore, the internal assessment summary indicates an overall result of "fully compliant".

RECOVERY PLAN

In the process of complying with Directive 2014/59/EU (BRRD), which establishes a common framework for the recovery and resolution of credit institutions and investment firms, the Iccrea Banking Group responded to the ECB's letter of June 23, 2016 concerning the "Assessment of the Recovery Plan of the Iccrea Banking Group" and containing its recommendations based on the assessment it performed of the Group's entire recovery framework.

The Recovery Plan is an internal document that details the measures that the Group plans to take to restore operations in the case of serious difficulty and outlines the strategies and actions to be taken in the event of crisis to ensure business continuity and to preserve critical business assets and the primary common services (within and without the Banking Group).

The Recovery Plan is strategically important at the consolidated level and therefore is based on Group data, processes and systems. The Recovery Plan, starting with an analysis of the Group's business and operational and organizational characteristics, addresses the following areas:

- Group structure, business model and risk strategy, significant legal entities, core business lines, critical functions and internal and external interconnections.
- recovery indicators and thresholds, recovery options and stress scenarios; i.e. the underlying qualitative/quantitative methodological factors:

- the definition and calibration of thresholds to activate recovery indicators (recovery triggers, early warnings and monitoring indicators);
 - the types of stress scenarios used (systemic, idiosyncratic and combined) to assess the Group's capital adequacy and liquidity profile;
 - the identification of the recovery options to be activated in the event of a crisis and the relative assessment of the impact in the various adverse scenarios assumed.
- Recovery Governance and Communication, i.e. regarding the phases, roles and responsibilities in the process of defining, implementing and managing the Recovery Plan, the escalation and consequence management mechanisms and the processes for disclosing information to internal and external stakeholders.

More specifically, in addition reorganizing the entire document, the primary changes made to strengthen the new version of the Recovery Plan in 2016 involved:

- more detailed description and disclosure of specific areas requested by the supervisory authority, such as: aspects of the Iccrea Banking Group's corporate structure, the supply model, the procedures for collateral pool operations, the operating procedures for involving the Recovery Committee in the event trigger, early warning and other levels are exceeded;
- alignment of the recovery governance with the new structure arising out of the recent reverse merger and the corporate governance plan;
- strengthening the mechanism for integrating the Recovery Plan and related processes such as the risk appetite framework, business continuity management, strategic planning, ICAAP and ILAAP, etc.;
- reinforcing the overall stress testing framework used by introducing specific assessments of the speed of propagation of shocks associated with the risk variables considered;
- strengthening the communications plan in terms of target audience, channels and communication tools to be used in the event of a full-blown crisis and operating processes for identifying and managing potential negative reactions by the market and stakeholders.

On December 8, 2016 the ECB notified Iccrea Banca, in the course of the annual SREP, of its decision to establish prudential requirements, taking into

account the results of the 2016 stress test and the information received in the course of ordinary supervisory activities.

The ECB required that it maintain a total SREP capital requirement (TSCR) of 9.50%.

In light of the foregoing, the overall capital requirement (OCR) that the Group must meet is calculated as the sum of the TSCR and the combined buffer requirement as defined in Article 128(6) of Directive 2013/36/EU. This buffer is equal to 1.25% for 2017. The Group's OCR for 2017 is therefore 10.75%.

In line with its previous communication, the ECB provides additional factors to be assessed that better qualify the results of its decisions:

- in general the Group has in place efficient, effective and comprehensive strategies and processes for measuring, maintaining and allocating internal capital;
- the amount, type and allocation of internal capital is generally adequate to cover the kind and level of risk to which the Group is or could be exposed.
- the Group implemented sound strategies, policies, processes and systems to identify, measure, manage and monitor short- and medium/long-term liquidity risk.

6. INTERNAL CONTROL SYSTEM

The Internal Control System (ICS) of Iccrea Banca and the Group has the following characteristics:

- proportionality, namely adopting 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 company and the Group;
- 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 an integrated assessment process enabling a unified vision for making information decisions;
- evolution, namely the on-going search for mechanisms to improve the structure, effectiveness and efficiency of the internal control system.

The following fall within the scope of the Parent Company's duty:

- to provide 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 make all Group members aware of the importance of the ICS, including the contribution that all structures can make to improve its efficiency and effectiveness;
- to implement systems for monitoring cash flows, lending and other interactions between Group members;
- to activate controls to meet IT security and business continuity targets for the entire Group and for each member;
- to continually monitor the different risk profiles contributed to the Group by each subsidiary and the Group's overall risks.

Group boards and committees operate within the internal control system and are primarily responsible, each according to its competencies, for ensuring that the internal control system is comprehensive, suitable, functional and reliable. Specifically:

- the board of directors of the Parent Company approves the risk management policies and structure of the corporate and Group ICS, which the boards of directors of the subsidiaries must in turn approve and apply within their companies;

- the Parent Company's Executive Committee – as well as the boards of directors of the subsidiaries – oversee the implementation of strategic policies, the RAF and the risk governance policies, and take all the necessary steps to ensure that the organization and the ICS comply with current standards and regulatory requirement;
- the Risk Committee assists, in its role as advisory body, the Parent Company's board of directors in performing its ICS duties and, in particular, in assessing the ICS's effectiveness and suitability;
- the boards of auditors of the Parent Company and of the subsidiaries monitor compliance with the laws, regulations and bylaws, sound management, the suitability of the organizational and accounting structures of the Company and the Group, in close collaboration with the Corporate Control Functions;
- the top management of the Group companies takes the steps needed to ensure that the internal control system remains efficient and effective commensurate with the risks associated with business operations, in line with the individual companies' internal regulations and procedures.

The Corporate Control Functions (CCFs) are autonomous and independent structures ensure the proper and efficient functioning of the ICS. The organizational structures that are CCFs are the following:

- the second-level risk management function, which is responsible for controls on risk management activities;
- the second-level compliance and anti-money laundering function, which is responsible for controls on compliance with applicable legislation and combatting money laundering and the financing of terrorism;
- the third-level internal audit function, which is responsible for controls that involve assessing the completeness, suitability, functionality and reliability of the organizational structure and the other components of the internal control system;
- all the operational and business structures of the Parent Company and the subsidiaries, through the controls conducted in the course of the corporate processes in which they are involved (e.g. hierarchical, systematic and sampling controls) or through units whose sole function is to perform controls and report to the heads of the operational areas, or that perform them in the context of back-office functions.

The Parent Company establishes, by issuing regulations, the standards, criteria and primary

responsibilities of the CCFs, defining the relationships between them and the corporate boards.

The subsidiaries, in accordance with the organizational and governance guidelines provided by the Parent Company, establish the CCFs and issue the relative internal regulations. Subsidiaries that are not banks or financial companies, while not subject to the supervisory regulations on internal controls, must still appoint a contact person with whom the heads of the Parent Company CCFs can coordinate in implementing the Group's integrated ICS.

The CCFs of the Group companies are autonomous and independent. With regard to second- and third-levels, the CCFs of the Parent Company and the subsidiaries report directly to the boards of directors.

To ensure smooth interaction among all the CCFs and between them and the corporate boards, a series of coordination and collaboration mechanisms (in addition to those called for under internal regulations) has been established to maximize synergies and avoid overlap, redundancies or shortcomings in the system. Coordination and interaction between the CCFs occurs in the following phases:

- Planning, carried out on the basis of a thorough analysis that takes into account changes in operations, the market and regulations, as well as related organizational, process and product changes, revolving around an assessment of the risks identified and the results of the audits carried out;
- Execution of controls at different levels (second and third);
- Reporting, a formal summary of activities conducted and their results based on the information needs of the various audiences, in particular the corporate boards, taking account of the complexity and depth of the activity conducted and finding a balance between the need for timely information and providing comprehensive information for the decision-making process that utilizes it;
- Follow-up (monitoring and/or support) of adjustments and or mitigating actions, meaning once the CCFs complete their work by making adjustments or undertaking mitigating actions, monitoring is done to check their actual and effective achievement or support is provided support, as far as it falls within the CCFs' duties, in implementing these measures.

The CCFs share among themselves, while respecting each's prerogatives, all information that can be used to improve the level of efficiency and effectiveness of the activities each undertakes, taking account of the strong

interconnections that exists between the different areas monitored.

7. OTHER SIGNIFICANT INFORMATION

Merger of Iccrea Holding into Iccrea Banca

In February 2016, the project for the reverse merger of the former Iccrea Holding into Iccrea Banca got under way. The project was drafted pursuant to and for the purposes of Article 2501 ter of the Italian Civil Code.

The decision to use a reverse merger structure for the transaction was prompted by the need to:

- maintain the stability and continuity of the relationships and of the image and reliability that Iccrea Banca (*Istituto di Credito delle Casse rurali e artigiane*, now *Banche di Credito Cooperativo*) has developed and consolidated over time;
- continue operating on domestic and international markets based on Iccrea Banca's existing banking license.

The merger of Iccrea Banca and Iccrea Holding led to the creation of a Parent Company authorized to engage in banking and subject to the supervisory regulations set out in Regulation (EU) 575/2013 (the CRR). The operation, however, took place in the broader context of the reorganization of the mutual banking system, in implementation of the provisions of Decree Law 18 of February 14, 2016, published in *Gazzetta Ufficiale – serie generale* no. 37 – of February 15, 2016) ratified with Law 49 of April 8, 2016. This approach enabled Iccrea to continue operating on domestic and international markets based on Iccrea Banca's existing banking license.

The reverse merger of the Parent Company Iccrea Holding into the subsidiary Iccrea Banca was carried out using the "simplified procedure" envisaged under Article 2505 of the Civil Code, as the operation involved a merger between companies in which one held the entire share capital of the other. The share capital of the new Parent Company, Iccrea Banca, is equal to the value of the share capital of the merged entity (Iccrea Holding), or €1,151,045,403.55.

In view of the fact that the share capital, par value and number of shares of the merged entity (Iccrea Holding) are equal to those of the new post-merger Parent Company (Iccrea Banca), 1 (one) ordinary share of the new Parent Company (Iccrea Banca) has been assigned for each share of Iccrea Holding held.

Having obtained the required authorizations from the European Central Bank, the Bank of Italy and IVASS, on July 12, 2016 the Extraordinary Shareholders' Meetings of the companies involved authorized the merger of Iccrea Holding into Iccrea Banca.

As the implementation of the merger involved changes to the articles of association, the shareholders of Iccrea Holding that did not approve the resolution

authorizing the merger are entitled to withdraw from the company of which they were shareholders pursuant to and for the purposes of Article 2437, paragraph 1, of the Civil Code. The resolution approving the merger established that the time limits and procedures for exercising the right of withdrawal, and the procedure for settling payment of the shares, would be governed by Articles 2437 bis, ter and quater of the Civil Code.

For the purposes of withdrawal, the Board of Directors determined the settlement value of the shares of the merged entity and filed that valuation at the registered office.

The right of withdrawal was exercised within the time limits by a number of shareholders of the merged entity holding a total of 818,553 ordinary shares with a par value of €42,278,262.45.

In December, payment was made for the 818,553 shares held by the withdrawing shareholders at the settlement price of €52.80 per share, for a total of €43,219,598.40 (based in part on the appraisal performed by an independent expert). As part of this operation, 249,089 shares (with a total value of €13,151,899.20) were assigned to shareholders who exercised the right of pre-emption at the settlement price.

On September 15, 2016 the instrument for the merger of Iccrea Holding Spa into Iccrea Banca Spa was notarized, taking effect as from the first day of the month following that of registration of the merger instrument in the Company Register pursuant to Article 2504-bis of the Civil Code. Following registration, the merger instrument took effect as from October 1, 2016.

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

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

The results of the on-site inspection were communicated on March 30, 2017, while those of the thematic review were released on April 10. In both

cases the Parent Company was asked to develop a specific action plan to remedy the issues identified.

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

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

ECB cyber risk inspection

From September 23 to December 2, 2015 the Iccrea Banking Group underwent an inspection by the ECB to assess its ability to identify and detect cyberattacks and to protect the Group from them.

On July 20, 2016 the ECB sent the Group the draft of the conclusions of the inspection conducted and the inspection report. In a letter dated October 10, 2016, the ECB notified the Iccrea Banking Group of its findings during the inspection and its recommendations.

Arising out of this inspection the Group developed and launched the consequent initiatives - some of which had been under way prior to delivery of the inspection results – that required activation of an intensive work program in order to pursue and complete them on schedule (see Make IT).

Some of the compliance measures identified were completed during 2016 and further implementing actions are being developed.

Specifically, in furtherance of the reorganization and rationalization of the Group's IT structure, as well as to simplify its organization and make its governance more effective, in 2016 the following actions were decided and taken:

- strengthening the integrated IT governance, by making the Parent Company's CIO (Chief Information Officer) the General Manager of BCC Sistemi Informatici;
- introducing functional reporting for all BCC Sistemi Informatici structures to the equivalent functions of the Parent Company's IT structure, with particular emphasis on the Information Service and Operation organization units;
- further strengthening of IT governance by reassigning the tasks and responsibilities of the IT organizational units and reinforcing the structure's operations.

Moreover, to enable the completion of the reverse merger between Iccrea Holding and Iccrea Banca, in 2016 the Parent Company temporarily suspended the planned formation of an IT services consortium and the transfer to it of the IT business units of Iccrea Banca and Iccrea Bancalmpresa.

Subscription of units in Fondo Atlante

In April 2016, the Board of Directors of Iccrea Holding, after having assessed the Fondo Atlante initiative, a restricted alternative closed-end investment fund managed by Quaestio Capital Management SGR SpA and created to support capital increases and the purchase of NPLs of a number of Italian banks, examined and approved Iccrea Banca formulating a binding commitment to acquire units of Fondo Atlante for a total of €40 million. At December 31, 2016 €32.2 million has been paid. In valuing the investment at the close of the financial year, a loss in value of around 30%, for a total of €9.7 million, emerged.

T-LTRO II

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

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

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

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

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

Plan to reduce personnel expenses

On July 26, 2016 the Parent Company and company trade union representatives signed a tentative trade union agreement to cut labor costs over the 2016–2018 period. The unions subsequently submitted it for ratification to their Assembly, which passed it with a large majority on July 29.

Following ratification the agreement was implemented immediately, with effect from August 1, 2016.

Under the agreement, up to 100 Group employees can draw on the Group's special solidarity fund for voluntary redundancy. The workers who participate can also receive up to 5 years' worth of pension contributions in advance without penalty, a package of health care provisions and insurance and regulatory protections.

The agreement does not affect employees' monthly compensation but rather temporarily recalculates severance benefits (without impacting the supplementary pension contributions) as well as introducing a series of measures concerning overtime, holiday pay, time bank usage and time off in lieu of abolished public holidays.

The variable portion of the compensation of executives and other key managers will be reduced by 50%. It was also proposed that the cut apply in 2016 on a voluntary basis and more than 70% of those eligible agreed to accept the cut.

Starting next year the agreement will reduce labor costs by 10% with limited impact on Group employees' monthly compensation.

Within the Group as a whole, for the 93 voluntary participants, the impact of the measure on profit or loss amounted to €26 million.

Extraordinary contributions to the National Resolution Fund (BRRD)

On December 29, 2016 the Bank of Italy with Measure no. 154733/16, on the basis of Law 208 of December 28, 2015, announced the need for two additional annual contributions for 2016 in connection with the resolution plans for Banca delle Marche SpA, Banca Popolare dell'Etruria e del Lazio Scpa, Cassa di Risparmio della Provincia di Chieti SpA and Cassa di Risparmio di Ferrara SpA.

At the Group level, the contribution to the National Resolution Fund (NRF) was about €70 million, of which €46 million for the extraordinary contributions called up in the December 29, 2016 measure.

With regard to NRF contributions under the BRRD, given that the Iccrea Banca is a second-level bank that provides access to the wholesale market and the ECB's monetary policy instruments, in December 2015 the former parent company, Iccrea Holding, submitted a request to the Bank of Italy asking it to reconsider the criteria used to calculate contributions. Specifically, it argued that the calculation was "unfair" since it did not take account of the fact that collateralized liabilities, by their nature, are secured by the underlying securities pledged as guarantees, nor does it consider that there is essentially duplication of the basis of calculation, which it expressly prohibited in the case of legally recognized groups and is not considered with respect to the mutual bank/Iccrea "system".

In its response, the Bank of Italy said it would consult with the Ministry for the Economy and Finance concerning Iccrea Banca's role with respect the mutual banks, in connection with the amendment of Regulation (EU) 2015/63, scheduled for review in June 2016.

Nevertheless, no change was made and the Bank of Italy announced additional contributions calculated using the same criteria. Iccrea decided to challenge the most recent request for payment of the extraordinary contributions for 2016 before the Regional Administrative Court. It asked that the court refer the matter to the European Court of Justice for a preliminary ruling, pursuant to Article 267 of the Treaty on the Functioning of the European Union, on the interpretation and validity of the applicable EU regulations.

On May 9, 2017 an appeal of the criteria used in calculating the 2015 and 2016 contributions was filed with the Regional Administrative Court.

Launch of the Mutual Banking Group

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

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

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

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

In these last few months, planning has continued, with theme-based projects supported by working groups in which all the mutual banks that will belong to the Group are represented.

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

Ratings

With regard to relations with rating agencies in 2016, the following changes occurred:

- on January 26, 2016 Fitch Ratings downgraded the long-term debt rating to "BBB-" and an "evolving" outlook;
 - on December 16, 2016 Standard & Poor's confirmed the medium/long-term debt rating of "BB", with a "stable" outlook;
- Finally, on January 19, 2017, Fitch Ratings confirmed the medium/long-term debt rating of "BBB-" with an "evolving" outlook.

Review of the governance system

The plan for the new Group Parent Company made provided an opportunity to reorganize and rationalize the organizational structure in order to more thoroughly integrate strategic levers and manage/implement them.

The actions taken regarded three areas. Governance, with the intention of:

- making Group governance, policy and coordinated action more efficient through greater vertical integration within the Parent Company of the strategic levers implicit in critical functions;
- streamlining the Group's company top management to shorten the chain of governance, management and control of activities conducted.

Risk management, in order to consolidate the Parent Company's role in determining the risk propensity of the Group companies.

The organizational structure, with the purpose of:

- rationalizing the organizational structure and further reinforcing the second-level corporate control functions;
- rationalizing and improving the efficiency of a significant portion of corporate processes and procedures.
Planning has involved making changes to internal regulations in a variety of areas, including the following in order of importance:
 - the Group's administrative and control model;
 - the hierarchy of internal sources of rules;
 - the Corporate Governance Rules;
 - the rules of the Parent Company's corporate boards;
 - the self-assessment process for corporate boards;
 - the policy for handling transactions with related parties and conflicts of interest;
 - the policy for managing relations between the Board of Directors and senior management;
 - the policy for assessing the organizational, administrative and accounting structure of the Group;
 - the organizational and functional charts;
 - the system of delegated powers;
 - general process policies and rules;
 - the mapping of corporate processes;
 - the governance of reporting flows.

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 Group's general control system for managing risks.

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

The control system is based upon two primary guidelines.

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

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

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

Transactions with related parties

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

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

Accordingly, in 2016, transactions with related parties were conducted in a manner and following standards in line with those applied in normal banking transactions with bank and corporate customers. Such transactions were undertaken on the basis of their specific financial benefit.

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

In the section "Transactions with related parties" of the explanatory notes, a summary table reports related party transactions. During the year the Group did not engage in or hold any atypical and/or unusual transactions or positions.

Part H – Transactions with related parties in the notes also reports the fees paid to directors, members of the Board of Auditors, the General Manager and key management personnel and any loans or guarantees granted to them, in accordance with Art. 136 of Legislative Decree 385 of September 1, 1993.

In addition, in 2016, the Bank engaged in intercompany transactions that were deemed mutually financially beneficial and arrived at the applicable terms and conditions in accordance with the principles of substantive fairness inherent in the common goal of creating value for the entire Group.

Information on human resource management and industrial relations

As already mentioned in the section on the "plan to reduce personnel expenses", which the reader is invited to consult for more detail, the proposed labor union agreement, which would reduce labor costs over the three years covered by the 2016-2018 business plan, was signed on July 26, 2016 and subsequently ratified by the majority of the workforce on July 29.

The document was signed by trade unions representing, collectively, 53% of Group employees who are union members, ensuring that it is fully representative and confirms its validity and applicability to all.

Upon ratification the agreement was implemented immediately, with effect from August 1, 2016.

In addition, under the People Care initiatives, there was a significant increase in employees taking advantage of employee welfare programs including flexible benefits, which increase the purchasing power of performance bonuses distributed, and work-life balance, the set of initiatives targeted at employees to improve organizational wellbeing and work-life balance.

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

In 2016 the Group introduced a comprehensive training program that, after receiving input from the professional families on their needs, provided all employees with a training plan covering all the relevant areas (conduct, technical and specialized skills, mandatory regulatory compliance, IT, foreign languages, etc.).

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

In 2016 implementation of Job Map, the Group's professional development platform, was completed. It is used to map all the professional families and positions within the Iccrea Banking Group (except for the commercial area, which is currently being reorganized).

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

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

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

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

Financial indicators:

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

Management indicators:

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

Other indicators

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

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

8. SUBSEQUENT EVENTS AND OUTLOOK

The main events that occurred at the start of 2017 are as follows:

- on January 18, 2017, in response to the Bank of Italy's request of January 4, 2017, Iccrea Banca communicated information on the company that would act as parent of the Mutual Banking Group;
- during the first four months the Group made contributions for present or future share capital increases in investee companies Iccrea Banca Impresa, Ventis and Satispay;
- on March 24, 2017, in the final T-LTRO II tender, the entire allocation available to Iccrea Banca as lead institution of the Group's T-LTRO II, equal to €8.9 billion, was utilized.

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

A more efficient allocation and an improvement in return on equity. To that end the Group has determined the appropriate actions and expected results for each business unit. The actions have been grouped in categories based on scope:

- business development (growth);
- collaboration between business units (cross-selling);
- search for external partnerships in sectors in which it would like to achieve significant economies of scale;
- improve margins on new business in the lending sector;
- operational efficiency;
- normalization of the cost of risk;
- more efficient utilization of capital;
- contraction or abandonment of business (deleveraging) in operating areas no longer deemed essential following the formation of the Mutual Banking Group.

The development of digital strategies centered on the following pillars:

- the centrality of the customer by integrating and reinforcing the points of contact with the final customer;
- opening architectures to provide opportunities for integration and partnership;

- offering mutual banks a purely digital business solution;
- development of a single IBG/MB CRM system on which a multi-channel distribution model will be built.

Operations in the first quarter of 2017 confirm the plan targets and were positive with a net profit €2.3 million on a consolidated basis.

The performance at March 31, 2017 reflects a number of extraordinary events that negatively affected the determination of the Group's result. The primary ones are:

- the provisioning in the first quarter of the total contribution for 2017 to the National Resolution Fund (BRRD), totaling €23.1 million on a consolidated basis;
- the €3.8 million writedown of the units in the Fondo Atlante after a further reduction in the market value of the shares held by the Fund.

As to the Group's operating expenses in the first quarter of 2017, it should be noted that:

- personnel expenses amounted to around €47 million, with a savings in labor costs of about €2.6 million as a result of a smaller workforce following the agreement to introduce voluntary retirement for Group staff as from January 1, 2017 (65 fewer employees compared with December 31, 2016);
- other administrative expenses came to €82 million, which, net of the BRRD contributions totaling €23.1 million, are less than indicated in the quarterly budget.

The cost-income ratio at March 31, 2017, normalized to take account of BRRD costs for just one quarter, is equal to 65%, an increase over March 31, 2016 (60%) due mainly to the decline in gross income (correlated with net interest income due to the lower yield on government securities and on negative interest rates).

As to capital ratios at March 31, 2017, the consolidated CET 1 ratio was 12.18% and the total capital ratio was 13.32%, a slight increase over December 31, 2016.

Rome, May 19, 2017

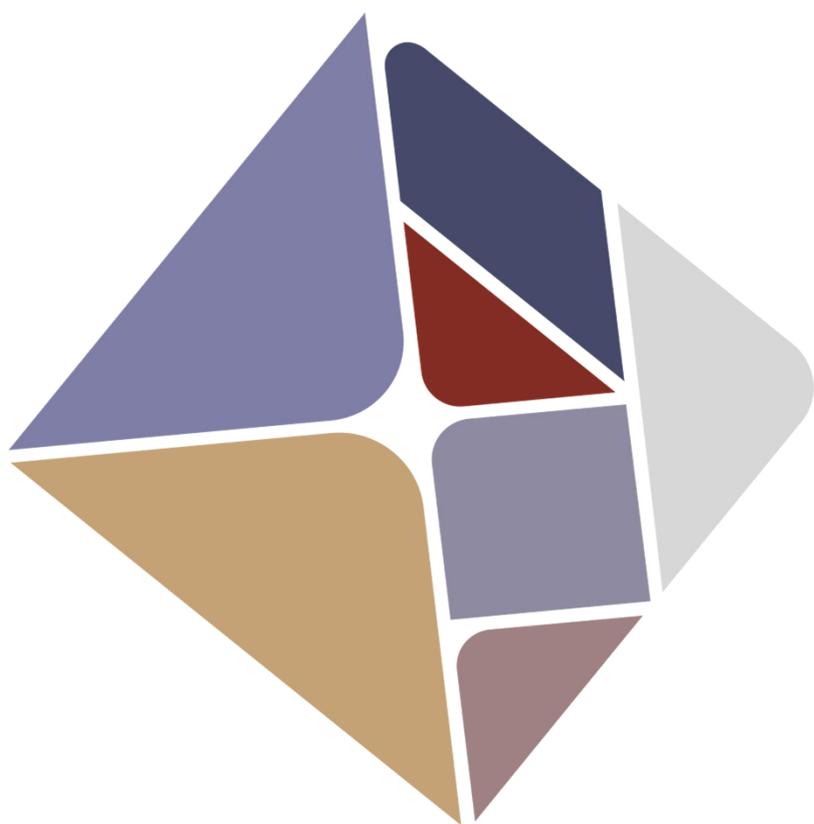
THE BOARD OF DIRECTORS

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

| | SHARE CAPITAL | RESERVES | VALUATION RESERVES | PROFIT FOR THE PERIOD | SHAREHOLDERS' EQUITY AT DEC. 31, 2016 |
|--|------------------|----------------|--------------------|-----------------------|---------------------------------------|
| Iccrea Banca S.p.A. financial statements | 1,151,045 | 366,464 | 67,249 | 21,084 | 1,605,843 |
| Results of consolidated companies | | (39,714) | (363) | (8,786) | (48,864) |
| Elimination of dividends received from Group companies | | 23,214 | | (23,214) | - |
| Results of companies accounted for with equity method | | (26,781) | 7,840 | 4,435 | (14,505) |
| Increase in property values | | 21,784 | | | 21,784 |
| Amortization of increase in property values | | (7,448) | | (651) | (8,099) |
| Goodwill | | 22,582 | | | 22,582 |
| Adjustment of intercompany writedowns/(writebacks) | | 16,455 | (869) | 5,874 | 21,460 |
| Reversal of internal hedges | | (4,861) | | (542) | (5,402) |
| Other consolidation adjustments | | 23,031 | (11) | (22,269) | 751 |
| Pertaining to non-controlling interests | 51,879 | 5,965 | 2 | 2,374 | 60,219 |
| Consolidated shareholders' equity | 1,202,924 | 400,691 | 73,847 | (21,693) | 1,655,769 |
| Non-controlling interests | 51,878 | 5,965 | 2 | 2,374 | 60,219 |
| Shareholders' equity of the Iccrea Group | 1,151,045 | 394,726 | 73,845 | (24,067) | 1,595,550 |

*Consolidated financial
statements*

2016



CONSOLIDATED BALANCE SHEET

| Assets | | 2016 | 2015* |
|---------------------|--|-------------------|-------------------|
| 10. | Cash and cash equivalents | 113,310 | 104,567 |
| 20. | Financial assets held for trading | 391,281 | 377,223 |
| 30. | Financial assets at fair value through profit or loss | 14,559 | 15,121 |
| 40. | Financial assets available for sale | 5,247,279 | 6,810,530 |
| 50. | Financial assets held to maturity | 4,738,609 | 6,491,581 |
| 60. | Due from banks | 21,152,194 | 20,230,772 |
| 70. | Loans to customers | 13,674,256 | 13,286,555 |
| 80. | Hedging derivatives | 17,773 | 14,807 |
| 90. | Value adjustments of financial assets hedged generically (+/-) | (348) | 932 |
| 100. | Equity investments | 102,285 | 89,068 |
| 120. | Property and equipment | 701,380 | 660,071 |
| 130. | Intangible assets | 38,870 | 44,278 |
| | of which: | | |
| | - goodwill | 22,593 | 23,593 |
| 140. | Tax assets | 343,170 | 283,928 |
| | a) current | 109,697 | 58,372 |
| | b) deferred | 233,473 | 225,556 |
| | of which pursuant to Law 214/2011 | 181,105 | 200,040 |
| 150. | Non-current assets and disposal groups held for sale | - | - |
| 160. | Other assets | 320,181 | 294,937 |
| Total assets | | 46,854,799 | 48,704,370 |

CONSOLIDATED BALANCE SHEET

| Liabilities and shareholders' equity | | 2016 | 2015* |
|---|--|-------------------|-------------------|
| 10. | Due to banks | 12,722,738 | 13,381,487 |
| 20. | Due to customers | 26,829,330 | 27,629,647 |
| 30. | Securities issued | 4,466,854 | 4,403,213 |
| 40. | Financial liabilities held for trading | 409,617 | 463,347 |
| 50. | Financial liabilities at fair value through profit or loss | 21,389 | 437,636 |
| 60. | Hedging derivatives | 63,318 | 101,363 |
| 80. | Tax liabilities | 3,946 | 28,049 |
| | a) current | 175 | 7,000 |
| | b) deferred | 3,771 | 21,049 |
| 90. | Liabilities associated with assets held for sale | - | - |
| 100. | Other liabilities | 575,550 | 455,583 |
| 110. | Employee termination benefits | 29,612 | 29,551 |
| 120. | Provisions for risks and charges | 76,676 | 54,693 |
| | a) post-employment benefits | 1,907 | 1,750 |
| | b) other provisions | 74,769 | 52,943 |
| 140. | Valuation reserves | 73,848 | 108,125 |
| 170. | Reserves | 420,566 | 394,627 |
| 180. | Share premium reserve | 4,747 | 4,747 |
| 190. | Share capital | 1,151,045 | 1,151,045 |
| 200. | Treasury shares (-) | (30,590) | (8,004) |
| 210. | Non-controlling interests (+/-) | 60,220 | 26,889 |
| 220. | Net profit (loss) for the period (+/-) | (24,067) | 42,372 |
| Total liabilities and shareholders' equity | | 46,854,799 | 48,704,370 |

* Financial statements of former Parent Company, Iccrea Holding, following reverse merger.

CONSOLIDATED INCOME STATEMENT

| | | 2016 | 2015* |
|------|--|------------------|------------------|
| 10. | Interest and similar income | 551,281 | 607,769 |
| 20. | Interest and similar expense | (206,642) | (219,682) |
| 30. | Net interest income | 344,639 | 388,087 |
| 40. | Fee and commission income | 510,993 | 515,429 |
| 50. | Fee and commission expense | (318,191) | (326,813) |
| 60. | Net fee and commission income (expense) | 192,802 | 188,616 |
| 70. | Dividends and similar income | 1,935 | 2,784 |
| 80. | Net gain (loss) on trading activities | 10,930 | 22,293 |
| 90. | Net gain (loss) on hedging activities | 992 | (170) |
| 100. | Net gain (loss) on the disposal or repurchase of: | 71,742 | 116,411 |
| | a) loans | (7,965) | (20,420) |
| | b) financial assets available for sale | 83,394 | 145,166 |
| | c) financial assets held to maturity | - | 46 |
| | d) financial liabilities | (3,686) | (8,381) |
| 110. | Net gain (loss) on financial assets and liabilities at fair value through profit and loss | 2,133 | 303 |
| 120. | Gross income | 625,173 | 718,324 |
| 130. | Net losses/recoveries on impairment: | (158,972) | (255,719) |
| | a) loans | (141,803) | (251,258) |
| | b) financial assets available for sale | (13,513) | (225) |
| | d) other financial transactions | (3,656) | (4,236) |
| 140. | Net income (loss) from financial operations | 466,201 | 462,605 |
| 180. | Administrative expenses: | (535,697) | (481,590) |
| | a) personnel expense | (215,845) | (191,838) |
| | b) other administrative expenses | (319,852) | (289,752) |
| 190. | Net provisions for risks and charges | (6,685) | (5,338) |
| 200. | Net adjustments of property and equipment | (17,202) | (15,057) |
| 210. | Net adjustments of intangible assets | (13,317) | (15,454) |
| 220. | Other operating expenses/income | 95,711 | 86,944 |
| 230. | Operating expenses | (477,190) | (430,495) |
| 240. | Profit (loss) from equity investments | 4,445 | 6,079 |
| 250. | Net gain (loss) from valuation at fair value of property and equipment and intangible assets | (34,784) | (12,590) |
| 270. | Gains (losses) from disposal of investments | (19) | - |
| 280. | Profit (loss) before tax on continuing operations | (41,347) | 25,599 |
| 290. | Income tax expense from continuing operations | 19,654 | 19,878 |
| 320. | Profit (loss) for the period | (21,693) | 45,477 |
| 330. | Profit (loss) pertaining to non-controlling interests | 2,374 | 3,105 |
| 340. | Profit (loss) pertaining to shareholders of the Parent Company | (24,067) | 42,372 |

* Financial statements of former Parent Company, Iccrea Holding, following reverse merger.

STATEMENT OF COMPREHENSIVE INCOME

| | | 2016 | 2015 |
|-------------|---|-----------------|---------------|
| 10. | Net profit (loss) for the period | (21,693) | 45,477 |
| | Other comprehensive income net of taxes not recyclable to profit or loss | | |
| 40. | Defined-benefit plans | (791) | 106 |
| | Other comprehensive income net of taxes recyclable to profit or loss | | |
| 90. | Cash flow hedges | (1,574) | (656) |
| 100. | Financial assets available for sale | (31,875) | 2,172 |
| 120. | Share of valuation reserves of equity investments accounted for with equity method | (746) | (4) |
| 130. | Total other comprehensive income net of taxes | (34,986) | 1,618 |
| 140. | Comprehensive income (item 10+130) | (56,679) | 47,095 |
| 150. | Consolidated comprehensive income pertaining to non-controlling interests | 2,305 | 3,098 |
| 160. | Consolidated comprehensive income pertaining to shareholders of the Parent Company | (58,984) | 43,997 |

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY 2016

| | As at 31/12/15 | Change in opening balance | As at 1/1/16 | Allocation of net profit of previous year | | Changes in the period | | | | | | | Shareholders' equity at 31/12/16 | Shareholders' equity pertaining to shareholders of the Parent Company | Non-controlling interests | | |
|--|------------------|---------------------------|------------------|---|-----------------|-----------------------|---------------------------------|--------------------|---------------------|-----------------------------|-------------------------|------------------------------|----------------------------------|---|---------------------------|-------------------------------|---------------------------|
| | | | | | | Reserves | Dividends and other allocations | Change in reserves | Equity transactions | | | | | | | Comprehensive income for 2016 | |
| | | | | | | | | | Issue of new shares | Purchase of treasury shares | Extraordinary dividends | Change in equity instruments | | | | | Derivatives on own shares |
| Share capital: | | | | | | | | | | | | | | | | | |
| a) ordinary shares | 1,167,170 | | 1,167,170 | | | | 34,770 | | | | | | | 1,201,940 | 1,151,045 | 50,895 | |
| b) other shares | 985 | | 985 | | | | | | | | | | | 985 | | 985 | |
| Share premium reserve | 5,159 | | 5,159 | | | | | | | | 93 | | 5,252 | 4,747 | | 505 | |
| Reserves: | | | | | | | | | | | | | | | | | |
| a) earnings | 397,611 | | 397,617 | 27,680 | | 2,654 | | | | | (1,679) | | 426,272 | 420,567 | | 5,704 | |
| b) other | 3,374 | | 3,374 | | | (3,374) | | | | | | | | | | | |
| Valuation reserves: | 108,112 | | 108,114 | | | 720 | | | | | | (34,985) | 73,850 | 73,848 | | 2 | |
| Equity instruments | | | | | | | | | | | | | | | | | |
| Treasury shares | (8,087) | | (8,087) | | | | | (22,748) | | | | | (30,835) | (30,590) | | (245) | |
| Net profit (loss) for the period | 45,477 | | 45,477 | (27,680) | (17,797) | | | | | | | (21,693) | (21,693) | (24,067) | | 2,374 | |
| Shareholders' equity | 1,719,801 | - | 1,719,809 | - | (17,797) | - | 34,770 | (22,748) | - | - | - | (1,586) | (56,678) | 1,655,771 | 1,595,550 | 60,220 | |
| Shareholders' equity pertaining to shareholders of Parent Company | 1,692,912 | - | 1,692,910 | - | (14,086) | - | - | (22,586) | - | - | - | (1,706) | (58,983) | 1,595,550 | | | |
| Non-controlling interests | 26,889 | - | 26,898 | - | (3,711) | - | 34,770 | (162) | - | - | - | 120 | 2,305 | 60,220 | | | |

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY 2015

| | As at 31/12/14 | Change in opening balance | As at 1/1/2015 | Changes in the period | | | | | | | | | Shareholders' equity at 31/12/15 | Shareholders' equity pertaining to shareholders of the Parent Company | Non-controlling interests | |
|--|------------------|---------------------------|------------------|---|---------------------------------|--------------------|---------------------|-----------------------------|-------------------------|------------------------------|---------------------------|-----------------|----------------------------------|---|---------------------------|-------------------------------|
| | | | | Allocation of net profit of previous year | | Change in reserves | Equity transactions | | | | | | | | | Comprehensive income for 2015 |
| | | | | Reserves | Dividends and other allocations | | Issue of new shares | Purchase of treasury shares | Extraordinary dividends | Change in equity instruments | Derivatives on own shares | Stock options | | | | |
| Share capital: | | | | | | | | | | | | | | | | |
| a) ordinary shares | 1,162,398 | | 1,162,398 | | | 17,075 | | | | | | (12,303) | 1,167,170 | 1,151,045 | 16,124 | |
| b) other shares | 985 | | 985 | | | | | | | | | | 985 | - | 985 | |
| Share premium reserve | 4,387 | | 4,387 | | | 777 | | | | | | (5) | 5,159 | 4,748 | 411 | |
| Reserves: | | | | | | | | | | | | | | | | |
| a) earnings | 371,087 | | 371,087 | 36,388 | 122 | | | | | | | (9,986) | 397,611 | 391,253 | 6,359 | |
| b) other | 3,374 | | 3,374 | | | | | | | | | | 3,374 | 3,374 | | |
| Valuation reserves: | 106,494 | | 106,494 | | | | | | | | | 1,618 | 108,112 | 108,125 | (13) | |
| Equity instruments | | | | | | | | | | | | | | - | - | |
| Treasury shares | (443) | | (443) | | | | (7,644) | | | | | | (8,087) | (8,004) | (83) | |
| Net profit (loss) for the period | 52,890 | | 52,890 | (36,388) | (16,502) | | | | | | | 45,477 | 45,477 | 42,372 | 3,105 | |
| Shareholders' equity | 1,701,173 | | 1,701,173 | - | (16,502) | 122 | 17,851 | (7,644) | - | - | - | (22,294) | 47,095 | 1,719,801 | 1,692,912 | 26,889 |
| Shareholders' equity pertaining to shareholders of Parent Company | 1,658,156 | | 1,658,156 | - | (13,943) | 122 | 17,851 | (7,561) | - | - | - | (5,710) | 43,997 | 1,692,912 | | |
| Non-controlling interests | 43,016 | | 43,016 | - | (2,559) | - | - | (83) | - | - | - | (16,584) | 3,098 | 26,889 | | |

STATEMENT OF CONSOLIDATED CASH FLOWS: INDIRECT METHOD

| A. OPERATING ACTIVITIES | Amount | |
|---|--------------------|------------------|
| | 2016 | 2015 |
| 1. Operation | 226,420 | 161,040 |
| - net profit (loss) for the period (+/-) | (21,693) | 45,477 |
| - gain (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+) | 11,433 | (30,467) |
| - gain (losses) on hedging activities (-/+) | (992) | 170 |
| - net losses/recoveries on impairment (+/-) | 180,012 | 260,335 |
| - net adjustments of property and equipment and intangible assets (+/-) | 30,520 | 30,512 |
| - net provisions for risks and charges and other costs/revenues (+/-) | 37,085 | 23,822 |
| - taxes and duties to be settled (+) | 4,140 | (31,809) |
| - net adjustments of disposal groups held for sale net of tax effects (+/-) | | |
| - other adjustments (+/-) | (14,084) | (136,999) |
| 2. Net cash flows from/used in financial assets | 2,106,926 | 848,519 |
| - financial assets held for trading | (10,268) | 82,848 |
| - financial assets at fair value through profit or loss | (1,006) | (15,130) |
| - financial assets available for sale | 1,586,066 | (2,483,683) |
| - due from banks: repayable on demand | (1,313) | (249,057) |
| - due from banks: other | (938,799) | 1,257,699 |
| - loans to customers | (385,872) | (2,282,021) |
| - other assets | 1,858,117 | 4,537,863 |
| 3. Net cash flows from/used in financial liabilities | (1,710,825) | (811,534) |
| - due to banks: repayable on demand | (209,163) | (645,666) |
| - due to banks: other | (431,990) | (14,996,914) |
| - due to customers | (789,353) | 15,049,178 |
| - securities issued | 59,959 | (177,940) |
| - financial liabilities held for trading | (54,064) | (8,995) |
| - financial liabilities at fair value through profit or loss | (410,638) | (24,280) |
| - other liabilities | 124,425 | (6,917) |
| Net cash flows from/used in operating activities | 622,521 | 198,025 |
| B. INVESTING ACTIVITIES | | |
| 1. Cash flows from | 34,625 | 10,800 |
| - sales of equity investments | | |
| - sales of property and equipment | 13,791 | 10,800 |
| - dividends received from equity investments | 20,843 | |
| 2. Cash flows used in | (660,876) | 228,657) |
| - purchases of equity investments | - | (19,210) |
| - purchases of property and equipment | (21,025) | (53,437) |
| - purchases of intangible assets | (7,783) | (12,914) |
| - purchases of financial assets held to maturity | (632,068) | (143,096) |
| Net cash flows from/used in investment activities | (626,251) | (217,857) |
| C. FINANCING ACTIVITIES | | |
| - issues/purchases of own shares | 30,270 | 9,430 |
| - dividend distribution and allocations | (17,797) | - |
| Net cash flows from/used in financing activities | 12,473 | 9,430 |
| NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS | 8,743 | (10,402) |

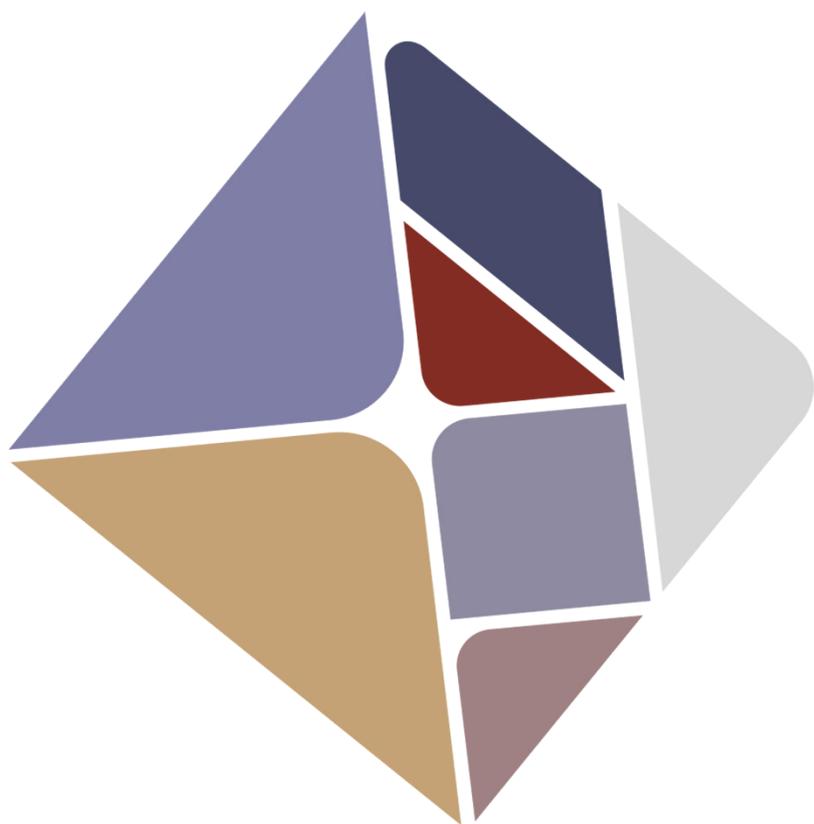
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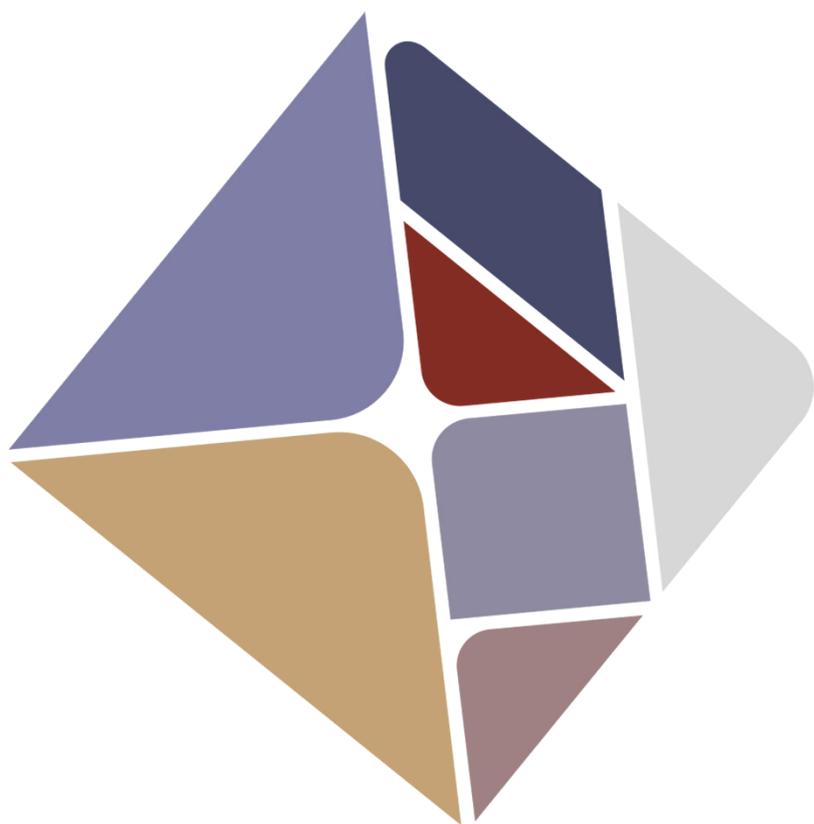
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RECONCILIATION

| | Amount | |
|--|---------|----------|
| | 2016 | 2015 |
| Cash and cash equivalents at beginning of period | 104,567 | 114,969 |
| Net increase/decrease in cash and cash equivalents | 8,743 | (10,402) |
| Cash and cash equivalents at end of period | 113,310 | 104,567 |

*Notes to the
consolidated financial
statements*





A.1 - GENERAL INFORMATION

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

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

These consolidated financial statements at December 31, 2016 have been prepared using the main tables set out in Circular no. 262 of December 22, 2005 on the format and rules for preparation of bank financial statements – 4th update of December 15, 2015 – issued by the Bank of Italy in the exercise of the powers established by Article 9 of Legislative Decree 38/2005.

These instructions contain binding formats for the financial statements and the procedures for completing the schedules, as well as the content of the notes to the financial statements.

The IASs/IFRSs applied in preparing the consolidated financial statements were those in force at December 31, 2016 as endorsed by the European Commission (including the interpretations issued by the IFRIC).

The following table sets out the new international accounting standards and amendments to existing accounting standards, with the related endorsement regulations of the European Commission, that took effect that took effect, either on a mandatory basis or with the option of early adoption, as from January 1, 2016:

| ENDORSEMENT REGULATION | IAS/IFRS AND SHORT DESCRIPTION | ENTRY INTO FORCE |
|------------------------|---|--|
| 28/2015 | Annual improvements to IFRSs (2010-2012 cycle) The amendments of IFRS 8 and IAS 16, 24 and 38 are clarifications or corrections to those standards. The amendments of IFRS 2 and 3 involve changes in current provisions or provide additional guidance. | Annual reporting periods beginning on or after February 1, 2015. |
| 29/2015 | Amendments to IAS 19 – Defined benefit plans: employee contributions. The amendments seek to simplify and clarify the accounting treatment of contributions by employees or third parties connected with defined benefit plans. | Annual reporting periods beginning on or after February 1, 2015. |
| 2113/2015 | Amendments to IAS 16 Property, plant and equipment and to IAS 41. The IASB decided that plants that are used exclusively to bear produce over several periods should receive the same accounting treatment as property, plant and equipment under IAS 16. | Annual reporting periods beginning on or after January 1, 2016. |
| 2173/2015 | Amendments to IFRS 11 Accounting for acquisitions of interests in joint operations. The amendments provide guidance on accounting for acquisitions of interests in joint operations in which the activity constitutes a business. | Annual reporting periods beginning on or after January 1, 2016. |
| 2231/2015 | Amendments to IAS 16 Property, plant and equipment and to IAS 38 Intangible assets Clarification on acceptable methods of depreciation and amortization. | Annual reporting periods beginning on or after January 1, 2016. |
| 2343/2015 | Annual improvements to IFRSs 2012-2014 cycle Part of the ordinary process of rationalizing and clarifying the | Annual reporting periods beginning on or after |

| | | |
|-----------|--|--|
| | international financial reporting standards. | January 1, 2016. |
| 2406/2015 | Amendments to IAS 1 Presentation of financial statements: disclosure initiative The amendments seek to improve the effectiveness of disclosure and encourage entities to use professional judgement in deciding what disclosures they should make in their financial statements in application of IAS 1 | Annual reporting periods beginning on or after January 1, 2016. |
| 2441/2015 | Amendments to IAS 27 Separate financial statements: Equity method in separate financial statements. The amendments are intended to allow entities to use the equity method, described in IAS 28 <i>Investments in associates and joint ventures</i> , to account for their investments in subsidiaries, joint ventures and associates in their separate financial statements | Annual reporting periods beginning on or after January 1, 2016. |
| 1703/2016 | Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities – Applying the consolidation exemption The amendments seek to specify the requirements for accounting for investment entities, providing for exemptions in certain situations.. | Annual reporting periods beginning on or after January 1, 2016.. |
| 1905/2016 | IFRS 15 Revenue from contracts with customers. The standard replaces IAS 18, IAS 11 and the associated interpretations concerning revenue recognition IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. The new standard specifies two approaches to revenue recognition: the first provides for recognition "at a point in time", while the second provides for recognition "over time". The standard introduces a method for analyzing transactions and define both the timing of recognition and the amount to be recognized. IFRS 15 also includes requirements for accounting for certain costs directly connected with a contract. | Annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted. |
| 2067/2016 | IFRS 9 Financial instruments The standard establishes criteria for the presentation of financial assets and liabilities, replacing IAS 39, with a view to improving the materiality and utility of the disclosures. The new standard establishes, first and foremost, an approach for the classification and measurement of financial assets based on the characteristics of the cash flows and the business model under which the assets are held. It also introduces a single, forward-looking model of impairment that requires recognition of expected losses over the entire life of a financial instrument. Finally, hedge accounting was modified. | Annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted. |

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

| ENDORSEMENT REGULATI | IAS/IFRS AND SHORT DESCRIPTION | ENTRY INTO FORCE |
|----------------------|--|---|
| To be determined | IFRS 16 Leases The new standard, which will replace IAS 17, establishes that lessees shall recognize assets and liabilities for a lease. | Annual reporting periods beginning on or after January 1, 2019. |

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

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

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

- the business models for each Iccrea Group company have been defined;
- the functional requirements for SPPI testing have been developed and agreed within the Group, and an initial run of tests was conducted with a sample portfolio. More specifically, a qualitative analysis of the Group's debt securities was completed for the purposes of SPPI testing, while analysis of SPPI testing of certain types of financial instrument (e.g. Leverage, Prepayment Option, Term Extension, Additional Tier 1, Exchanged, etc.) and the

- treatment of caps/floors is being defined. The qualitative analysis of loans is being completed;
- the definition of operating scenarios has been completed for the purposes of identifying that main organizational, process and technology impacts for beginning implementation of the C&M project;
 - clustering of the main financial instruments is under way;
 - the definition of the policies for the criteria of the SPPI test has begun;
 - software selection of a solution for calculating the SPPI test and identification of IT solutions to adopt for benchmark testing is at an advanced stage.

With regard to Impairment:

- the impairment calculation solutions were defined on the basis of the specific features of each Group company, with specific reference to stage allocation and estimation of risk parameters (PD, LGD and EAD);
- the findings of the first impact simulation for the Group's loan and securities portfolio were assessed and shared;
- upgrading of documentation is current under way, following the identification of the documentation to prepare/update (stage allocation and policy expected credit loss);
- work was completed on software selection of a solution for calculating the IFRS 9 risk parameters, staging and impairment.

With regard to Hedge Accounting, an impact analysis was conducted of the IFRS 9 requirements with regard to both the Group's existing hedge relationships and to serve the effectiveness testing provided to participating mutual banks. An analysis was also conducted of the pros and cons of adopting the general IFRS 9 hedge accounting model. The definition of the year from which IFRS 9 rules for hedge accounting will be adopted is under way.

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 consolidated financial position.

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

The financial statements were prepared by applying the general principles set out in IAS 1 and the specific

accounting policies endorsed by the European Commission and described in Part A.2 of these explanatory notes, as well as the general Framework for the Preparation and Presentation of Financial Statements issued by the IASB.

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

The financial statements and the accompanying explanatory notes set out the figures for the present period as well as comparative figures at December 31, 2015.

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

RISKS AND UNCERTAINTIES ASSOCIATED WITH THE USE OF ESTIMATES

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

Estimation processes were used to support the value of some of the largest items recognized in the consolidated financial statements at December 31, 2016, as provided for by the accounting standards and applicable legislation referred to earlier.

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

The estimation process supported the carrying amounts recognized at December 31, 2016. The valuation exercise proved to be especially complex in view of the persistent adverse macroeconomic and market conditions, characterized by volatility in key financial parameters used in the valuation and by the deterioration of credit quality.

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

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

and future periods, any changes are recognized in the period in which the review was conducted and in the related future periods.

Content of the financial statements

BALANCE SHEET AND INCOME STATEMENT

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

STATEMENT OF COMPREHENSIVE INCOME

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

STATEMENT OF CHANGES IN EQUITY

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

STATEMENT OF CASH FLOWS

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

Contents of the notes to the financial statements

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

Section 3 – Scope and methods of consolidation

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

Subsidiaries

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

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

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

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

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

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

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

controlling interests", separately from the liabilities and shareholders' equity pertaining to the shareholders of the Parent Company. The portion pertaining to non-controlling interests is also presented separately in the income statement, under item 330 "Profit/(loss) pertaining to non-controlling interests".

For companies that are included in the scope of consolidation for the first time, the fair value of the costs incurred in order to obtain control of that equity interest, inclusive of ancillary costs, is measured as at the acquisition date.

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

Associated companies

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

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

Associates are accounted for using the equity method. Equity in the associated company includes goodwill (net of any impairment loss) paid for the acquisition. Shares of the profits and losses after acquisition of the associated company are recognized

in profit or loss under item 240 "Profit/(loss) from equity investments". Any distribution of dividends is indicated as a decrease in the carrying amount of the equity investment.

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

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

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

Joint arrangements

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

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Under IFRS 11 joint arrangements are classified as either joint operations or joint ventures based upon the contractual rights and obligations held by the Group. A joint operation is a joint arrangement whereby the parties have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. At December 31, 2016 the Group had no interest in joint arrangements.

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

1. EQUITY INVESTMENTS IN SUBSIDIARIES

| A. | Consolidated on a line-by-line basis | Registered office | Type of relationship (A) | Equity investment | | % share of votes (B) |
|-----|--------------------------------------|-------------------|--------------------------|--------------------------|-----------|----------------------|
| | | | | Investor | % holding | |
| 1. | Bcc Risparmio & Previdenza SGrpA | Milan | 1 | Iccrea Banca SpA | 75 | 75 |
| 2. | Iccrea Bancalmpresa SpA | Rome | 1 | Iccrea Banca SpA | 99.33 | 99.33 |
| 3. | Bcc Factoring SpA | Rome | 1 | Iccrea Bancalmpresa SpA | 100 | 100 |
| 4. | Bcc Gestione Crediti SpA | Rome | 1 | Iccrea Banca SpA | 55 | 55 |
| 5. | Bcc Solutions SpA | Rome | 1 | Iccrea Banca SpA | 100 | 100 |
| 6. | Bcc Beni Immobili Srl | Rome | 1 | Iccrea Banca SpA | 100 | 100 |
| 7. | Bcc Lease SpA | Rome | 1 | Iccrea Bancalmpresa SpA | 100 | 100 |
| 8. | Bcc Credito Consumo SpA | Rome | 1 | Iccrea Banca SpA | 96 | 96 |
| 9. | Banca Sviluppo SpA | Rome | 1 | Iccrea Banca SpA | 68.07 | 68.07 |
| 10. | Bcc Retail Scarl | Milan | 1 | Iccrea Banca SpA | 39.30 | 39.30 |
| | | | | Iccrea Bancalmpresa SpA | 5.21 | 5.21 |
| | | | | Bcc Risparmio&Previdenza | 12.81 | 12.81 |
| | | | | Bcc Credito Consumo SpA | 3 | 3 |
| | | | | Banca Sviluppo SpA | 3.13 | 3.13 |
| 11. | Bcc Sistemi Informativi SpA | Milan | 1 | Iccrea Banca SpA | 99.99 | 99.99 |
| | | | | Iccrea Bancalmpresa SpA | 0.003 | 0.003 |
| | | | | Banca Sviluppo SpA | 0.003 | 0.003 |
| 12. | Iccrea Sme Cart 2016 Srl | Treviso | 4 | Iccrea Bancalmpresa SpA | 0 | 0 |
| 13. | FDR Gestione Crediti SpA | Rome | 1 | Bcc Gestione Crediti SpA | 100 | 100 |
| 14. | Fondo Securis Real Estate | Rome | 4 | Iccrea Banca SpA | 72 | 72 |
| 15. | Fondo Securis Real Estate II | Rome | 4 | Iccrea Banca SpA | 84.78 | 84.78 |
| 16. | Fondo Securis Real Estate III | Rome | 4 | Iccrea Bancalmpresa SpA | 18.50 | 18.50 |
| | | | | Iccrea Banca SpA | 68.67 | 68.67 |
| 17. | Securifondo | Rome | 4 | Iccrea Banca SpA | 54.39 | 54.39 |
| | | Rome | 4 | Banca Sviluppo SpA | 0.14 | 0.14 |
| 18. | Ventis Srl | Rome | 1 | Iccrea Banca SpA | 95 | 95 |

Key:

A) Type of relationship: 1 = majority of voting rights in ordinary shareholders' meeting; 4 = other forms of control.

B) Votes available in ordinary shareholders' meeting. The SPV Iccrea Sme Cart 2016 S.r.l. is consolidated owing to the substantive control of the cash flows associated with securitization transactions carried out by Iccrea Bancalmpresa SpA.

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

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

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

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

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

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

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

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

Structured entities are treated as subsidiaries where:

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

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

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

Structured entities – Real estate investment funds

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

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

The consolidated real estate investment funds are:

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

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

Structure entities – special purpose securitization vehicles

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

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

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

3. INVESTMENTS IN SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

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

| Subsidiary | Non-controlling interest | Dividends distributed to non-controlling interests |
|----------------------------------|--------------------------|--|
| Bcc Gestione Crediti SpA | 45% | - |
| Bcc Risparmio & Previdenza SGrpA | 25% | 3,188 |
| Bcc Retail Scarl | 36.55% | - |

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

| | Total assets | Cash and cash equivalents | Financial assets | Property and equipment and intangible assets | Financial liabilities | Shareholders' equity | Net interest income | Gross income | Operating expenses | Profit (loss) before tax on continuing operations | Profit (loss) after tax on continuing operations | Profit (loss) after tax on disposal groups | Profit (loss) for the period (1) | Other comprehensive income after tax (2) | Comprehensive income (3) = (1)+(2) |
|-------------------------------------|--------------|---------------------------|------------------|--|-----------------------|----------------------|---------------------|--------------|--------------------|---|--|--|----------------------------------|--|------------------------------------|
| 1. Bcc Gestione Crediti SpA | 10,465 | 1 | 3,043 | 139 | 829 | 3,605 | (31) | 9,160 | (7,179) | 958 | 399 | 0 | 399 | 47 | 446 |
| 2. Bcc Risparmio & Previdenza SGrpA | 62,131 | 1 | 51,382 | 5,289 | 21,141 | 33,709 | 159 | 28,465 | (16,130) | 12,336 | 8,054 | 0 | 8,054 | 13 | 8,067 |
| 3. Bcc Retail Scarl | 4,493 | 1 | 3,053 | 249 | 582 | 237 | - | - | (941) | (940) | (1,012) | 0 | (1,012) | (35) | (1,047) |

4. SIGNIFICANT RESTRICTIONS

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

5. OTHER INFORMATION

Financial statements used for consolidation purposes

The financial statements used for line-by-line consolidation are those at December 31, 2016, as approved by the competent bodies of the consolidated companies, adjusted where necessary to adapt them to the uniform Group accounting policies.

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

Section 4: Events subsequent to the reporting date

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

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

Section 5: Other information

Consolidated tax mechanism option

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

Other issues

The consolidated financial statements have been audited by EY S.p.A.

On May 19, 2017, the Board of Directors approved the consolidated financial statements of the Iccrea Group at December 31, 2016.

A.2 – THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

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

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

1 – Financial assets held for trading

CLASSIFICATION

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

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

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

RECOGNITION

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

Financial assets held for trading are initially recognized at fair value, which is usually the amount paid or received. Where the price is different from the

fair value, the financial asset is recognized at its fair value and the difference between the two amounts is recognized through profit or loss.

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

MEASUREMENT

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

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

DERECOGNITION

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

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

Finally, financial assets sold are derecognized in the

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

RECOGNITION OF INCOME COMPONENTS

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

2 – Financial assets available for sale

CLASSIFICATION

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

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

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

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

RECOGNITION

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

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

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

MEASUREMENT

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

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

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

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

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

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

DERECOGNITION

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

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

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

3 – Financial assets held to maturity

CLASSIFICATION

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

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

- are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

RECOGNITION

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

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

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

MEASUREMENT

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

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

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

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

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

DERECOGNITION

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

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

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

4 – Loans and receivables

CLASSIFICATION

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

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

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

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

In accordance with the 7th update of Bank of Italy Circular 272/2008, the new definitions of impaired credit exposures have been incorporated in the accounting policies (three categories: bad debts,

positions unlikely to be repaid and past-due exposures), as well as exposures granted forbearance measures, which apply to all assets (impaired and performing).

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

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

RECOGNITION

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

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

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

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

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

MEASUREMENT

Following initial recognition, loans are measured at amortized cost.

The amortized cost equals the amount at which a

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

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

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

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

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

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

Loans for which no objective evidence of impairment has been found undergo collective impairment testing, with the creation of groups of positions with uniform credit risk profiles. The writedown is determined based on historic loss rates for each group. In determining the time series,

individually measured positions are removed from the group of loans being measured. Writedowns determined collectively are taken to the income statement.

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

Any writedowns are recognized through profit or loss.

DERECOGNITION

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

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

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

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

RECOGNITION OF INCOME COMPONENTS

Following initial recognition, loans are measured at amortized cost, which equals the amount at which the assets are measured at initial recognition decreased by principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount (usually attributable to costs and revenues directly attributable to the individual position) and plus or minus any writedowns/writebacks. The effective interest rate is the rate that exactly discounts the

estimated future cash flows generated by the loan in respect of principal and interest to the amount disbursed including costs and revenues attributable to the loan. This accounting treatment makes it possible to distribute the economic impact of costs and revenues over the expected remaining life of the loan.

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

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

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

5 – Financial assets at fair value through profit or loss

CLASSIFICATION

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

No reclassifications to other categories of financial assets are permitted.

RECOGNITION

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

MEASUREMENT

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

the financial instruments, they shall be measured at cost and adjusted for any impairment.

DERECOGNITION

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

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

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

RECOGNITION OF INCOME COMPONENTS

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

6 – Hedging

CLASSIFICATION

Risk hedging transactions are intended to neutralize the potential losses recognized on a given element or group of elements attributable to a given risk in the event that risk should actually be realized.

The types hedges used are as follows:

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

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

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

RECOGNITION

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

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

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Hedging derivatives are measured at fair value. More specifically:

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

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

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

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

changes in the hedged instrument for the risk factor being hedged.

Effectiveness is measured at every reporting date through:

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

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

DERECOGNITION

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

7 – Equity investments

CLASSIFICATION

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

Associated companies, i.e. entities under significant influence, comprise companies in which the Group holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Group exercises a significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control.

Equity interests in associated companies held for sale are reported separately in the financial statements as a disposal group and are measured at the lower of the carrying amount and the fair value excluding disposal costs.

RECOGNITION

Equity investments are initially recognized at cost at the settlement date including costs and revenues that are directly attributable to the transaction.

MEASUREMENT

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

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

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

Where there is evidence that the value of an equity investment may be impaired, its recoverable value is determined, taking account of both its market value and the present value of future cash flows. If this value is lower than the carrying amount, the difference is recognized in the income statement as an impairment loss.

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

DERECOGNITION

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

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

8 – Property and equipment

CLASSIFICATION

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

RECOGNITION

Property and equipment is recognized at cost, which 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 reliably calculated.

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

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

MEASUREMENT

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

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

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

DERECOGNITION

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

RECOGNITION OF INCOME COMPONENTS

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

9 – Intangible assets

CLASSIFICATION

Intangible assets are recognized as such if they are identifiable and are based on legal or contractual rights. They include application software.

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

RECOGNITION

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

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

MEASUREMENT

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

DERECOGNITION

Intangible assets are derecognized upon disposal or when no future economic benefits are expected to be generated by the use or disposal of the asset.

RECOGNITION OF INCOME COMPONENTS

Amortization is recognized through profit or loss. Where there is evidence of possible impairment of the asset and, for goodwill, at each reporting date, the asset is tested for impairment and any negative difference between its carrying amount and recoverable value is recognized in profit or loss. If the reasons for the impairment of intangible assets other than goodwill should cease to obtain, a writeback is recognized in the income statement. The value of the asset after the writeback shall not exceed the value that the asset would have had, net of amortization, in the absence of the prior writedowns for impairment.

10 – Non-current assets held for sale*CLASSIFICATION*

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

RECOGNITION

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

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Following initial recognition in this category, the assets are measured at the lower of their carrying amount and their fair value less costs to sell. If the assets held for sale can be depreciated, any such depreciation ceases upon classification to non-current assets held for sale. Non-current assets and disposal groups held for sale, as well as “discontinued operations”, and the associated liabilities are reported under specific items of assets (“Non-current assets and

disposal groups held for sale”) and liabilities (“Liabilities associated with disposal groups held for sale”).

The results of the measurement, income, expenses and gains/losses upon disposal (net of any tax effect), of “discontinued operations” are reported in the income statement under “Profit (loss) after tax of disposal groups held for sale”.

DERECOGNITION

Non-current assets and disposal groups held for sale are derecognized upon disposal.

11 – Current and deferred taxation*CLASSIFICATION*

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

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

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

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

Deferred tax is calculated by applying the tax rates established in applicable tax law to taxable temporary differences for which it is likely that a tax charge will be incurred and to deductible temporary differences for

which it is reasonable certain there were be future taxable income at the time they become deductible (the probability test). Deferred tax assets and liabilities in respect of the same tax and reversing in the same period are offset.

RECOGNITION AND MEASUREMENT

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

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

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

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

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

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

RECOGNITION OF INCOME COMPONENTS

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

the assets and liabilities in the financial statements and the corresponding values recognized for tax purposes.

12 – Provisions for risks and charges

RECOGNITION AND CLASSIFICATION

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

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

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

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

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

DERECOGNITION

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

13 – Debt and securities issued

CLASSIFICATION

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

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

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

RECOGNITION

The liabilities are initially recognized at fair value, which is normally equal to the amounts received or the

issue price, plus or minus any additional costs or revenues directly attributable to the transaction that are not reimbursed by the creditor. Internal administrative costs are excluded. Financial liabilities issued on non-market terms are recognized at estimated fair value and the difference with respect to the amount paid or the issue price is taken to the income statement.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Following initial recognition, these liabilities are measured at amortized cost using the effective interest rate method, excluding short-term liabilities, which are recognized in the amount received in keeping with the general principles of materiality and significance. Refer to the section on loans and receivables for information on the criteria for determining amortized cost.

DERECOGNITION

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

14 – Financial liabilities held for trading

CLASSIFICATION

The item reports the negative value of trading derivatives that are not part of hedging relationships as well as the negative value of derivatives embedded in compound contracts. Liabilities deriving from short positions in by securities trading activities are recognized under “Financial liabilities held for trading”.

RECOGNITION

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

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

Derivative contracts embedded in other financial instruments or contracts and which have financial and risk characteristics that are not correlated with the host instrument or which meet the requirements to be classified themselves as derivative contracts, are

recognized separately among financial liabilities held for trading if their value is negative. This is not done in cases in which the compound instrument containing the derivative is measured at fair value through profit or loss.

MEASUREMENT

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

DERECOGNITION

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

RECOGNITION OF INCOME COMPONENTS

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

15 – Financial liabilities designated as at fair value

CLASSIFICATION

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

RECOGNITION

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

MEASUREMENT

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

DERECOGNITION

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

RECOGNITION OF INCOME COMPONENTS

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

16 – Foreign currency transactions*RECOGNITION*

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

RECOGNITION OF INCOME COMPONENTS

At the reporting date, foreign currency items are measured as follows:

- monetary items are translated at the exchange rate prevailing at the reporting date;
- non-monetary items measured at historic cost are translated at the exchange rate prevailing at the transaction date;
- non-monetary items measured at fair value are translated using the exchange rate prevailing at the reporting date.

Exchange rate differences resulting from the settlement of monetary items or from the translation of monetary items at exchange rates other than the initial translation rate, or the translation of previous financial statements, are recognized in the income statement in the period in which they emerge.

When gains or losses relating to a non-monetary item are recognized in equity, the exchange rate difference for the item is also recognized in equity. Likewise, when a gain or loss is recognized in the income statement, the corresponding exchange rate difference is also recognized in the income statement.

17 – Other information*BUSINESS COMBINATIONS*

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

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

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

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

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

The acquisition date is the date in which control over the acquiree is effectively obtained. When the acquisition takes place in a single transaction, the date of the transaction generally coincides with the acquisition date.

When the business combination occurs through more than one transaction:

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

The cost of a business combination is allocated by recognizing the identifiable assets, liabilities and contingent liabilities at fair value at the acquisition date.

The identifiable assets, liabilities and contingent liabilities are recognized separately as at the acquisition date only if, at that date, they satisfy the following criteria:

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

Any positive difference between the cost of the business combination and the acquirer's equity interest

at the net fair value of the identifiable assets, liabilities and contingent liabilities shall be recognized as goodwill.

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

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

TREASURY SHARES

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

ACCRUALS AND DEFERRALS

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

EXPENDITURE FOR LEASEHOLD IMPROVEMENTS

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

EMPLOYEE TERMINATION BENEFITS

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

The portion of termination benefits accrued from January 1, 2007 allocated to a supplementary pension

scheme or to the treasury fund managed by INPS (Italy's National Social Security Institute) are treated as a defined-contribution plan since the company's obligation towards the employee ceases upon transfer of the portions accrued to the fund.

Therefore, starting January 1, 2007, the Bank:

- continues to recognize the obligation accrued at December 31, 2006 in accordance with the rules for defined-benefit plans. It shall measure the obligation for benefits accrued by employees using actuarial techniques and shall calculate the total amount of actuarial gains and losses and the portion of these to be recognized in accordance with IAS 19 Revised.
- recognizes the obligation for portions accrued starting January 1, 2007, payable to a supplementary pension scheme or to the treasury fund managed by INPS, on the basis of the contributions owed in each period, as a defined contribution plan. More specifically, in the case of termination benefits payable to a supplementary pension scheme that treatment begins at the time of the choice or, if the employee does not exercise any option, as from July 1, 2007.

FINANCE LEASES

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

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

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

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

FACTORING

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

REPURCHASE AGREEMENTS

Securities received as part of a transaction which

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

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

GUARANTEES ISSUED AND SIMILAR CREDIT DERIVATIVES

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

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

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

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

Income statement

Recognition of revenues

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

Specifically:

- interest is recognized on an accruals basis using the contractual interest rate or the effective interest rate where the amortized cost method is applied;

- default interest, if any, is recognized in the income statement only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;
- commissions for revenues from services are recognized in the period in which the service is rendered;
- revenues from the placement of funding instruments, calculated on the basis of the difference between transaction price and the fair value of the financial instrument, are recognized in the income statement when the transaction is recognized if the fair value can be determined with reference to parameters or transactions recently observed in the same market in which the instrument is traded. If these amounts cannot be easily determined or the instrument is not highly liquid, the financial instrument is recognized in an amount equal to the transaction price, excluding the commercial margin. The difference between this amount and the fair value is taken to profit or loss over the duration of the transaction through the gradual reduction in the valuation model of the corrective factor reflecting the reduced liquidity of the instrument;
- revenues from the sale of non-financial assets are recognized upon completion of the sale, unless the Bank has retained most of the risks and rewards connected with the asset.

Contributions to the National Resolution Fund

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

In 2015, the banks of the Iccrea Banking Group were required to pay ordinary and extraordinary contributions to the National Resolution Fund as part of their participation in the system.

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

Determination of fair value

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

In the definition of fair value, a key assumption is that an entity is fully operational (the assumption that

an entity is a going concern) and does not have the intention or the need to liquidate, significantly reduce its operations or undertake transactions on unfavorable terms. In other words, fair value is not the amount an entity would receive or would pay in a forced transaction, an involuntary liquidation or a distress sale. Nevertheless, the fair value reflects the credit quality of the instrument as it incorporates counterparty risk.

Financial instruments

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

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

Valuation techniques consider:

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

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

- Level 1: unadjusted prices on an active market for the assets and liabilities involved. In this case the fair value of the financial instruments is exactly equal to the quoted price;
- Level 2: inputs other than the above quoted prices that are observable directly (prices) or indirectly (derived from prices) on the market. Fair value is determined using valuation techniques that provide for: a) the use of market values indirectly linked to the instrument being valued, drawn from instruments with similar risk characteristics (comparable approach); and b) valuation models that use observable inputs;
- Level 3: inputs that are not based on observable data. Fair value is determined on the basis of valuation models that use significant unobservable inputs in the calculation.

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

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

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

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

The price used for financial instruments quoted on active markets is the current price offered for financial assets (bid) and the current price requested (ask) for financial liabilities, on the main trading market, at the close of the reporting period. Nevertheless, in certain special cases, such as the case of financial instruments for which the bid-ask spread is not significant or for

financial assets and liabilities whose characteristics give rise to offsetting positions in market risk, a mid-market price is used (once again as at the last day of the reporting period) rather than the bid or ask price.

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

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

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

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

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

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

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

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

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

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

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

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

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

NON-FINANCIAL ASSETS

Investment property is primarily valued using external appraisals, considering transactions at current prices in an active market for similar properties, in the same location and condition and subject to similar conditions for rentals and other contracts.

DETERMINATION OF AMORTIZED COST

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

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

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

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

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

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

Transaction costs include internal or external marginal costs and revenues attributable to the issue, the acquisition or the disposal of a financial instrument which are not debited to the customer. Such commissions, which must be directly attributable to the individual financial asset or liability, modify the original effective yield. Accordingly, the effective interest rate associated with the transaction differs from the contractual interest rate. Transaction costs do not include costs/revenues regarding more than one transaction and components related to events which

may occur during the life of the financial instrument but which are not certain at the time of the initial agreement, such as, for example: commissions for retrocession, for non-use or for early repayment. Furthermore, the calculation of amortized cost does not include costs that would be incurred independently of the transaction (e.g. administrative costs, office supplies or communication expenses), costs that, while directly attributable to the transaction, are part of standard practice for the management of the financing (e.g. activities related to the loan granting process), as well as fees and commissions for services collected in respect of structured finance activities which would in any case have been received independently of the subsequent financing of the transaction (e.g. facility and arrangement fees) and, finally, intercompany costs and revenues.

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

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

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

Amortized cost is also applied in measuring impairment losses on the financial instruments listed above as well as for the recognition of instruments issued or purchased at an amount other than fair value. Instead of using the amount received or paid, the latter are measured at fair value by discounting expected future cash flows at a rate equal to the effective interest rate of similar instruments (in terms of credit rating, contractual expiry, currency, etc.), with the simultaneous registration in profit or loss of financial expense or income; subsequent to initial recognition, these are measured at amortized cost with

the registration of higher or lower effective interest with respect to nominal interest. Lastly, structured assets and liabilities which are not recognized at fair value through profit or loss for which the embedded derivative has been separated from the financial instrument are measured at amortized cost.

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

Determination of impairment

FINANCIAL ASSETS

At each reporting date, the Bank determines whether there is objective evidence that a financial asset or group of financial assets has incurred a "prolonged" reduction in value.

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

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties;

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

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

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

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

Any writebacks are recognized as follows:

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

The price of impaired financial instruments is determined as follows:

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

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

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

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

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

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

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

DEBT SECURITIES

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

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

In order to identify objective evidence of impairment giving rise to an impairment loss on the

financial instrument, it is necessary to monitor developments. Indicators of possible impairment include, for example:

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

EQUITY SECURITIES

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

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

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

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

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

EQUITY INVESTMENTS

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

The identification of any impairment involves the verification of the presence of evidence of possible impairment and the determination of any writedown. Impairment indicators are essentially divided into two categories: qualitative indicators, such as the posting of losses or in any case a significant divergence with respect to budget targets or the objectives set out in the long-term plans announced to investors, the announcement/start of composition with creditors or restructuring plans, and the downgrading by more than two grades of the rating issued by a specialist agency; and quantitative indicators consisting of a reduction in fair value below the carrying amount of over 30%, or a market capitalization lower than the company’s book equity for more than 24 months, for securities listed quoted on active markets, or a carrying amount for the

equity investment in the separate financial statements greater than the carrying amount in the consolidated financial statements of the company's net assets and goodwill, or the distribution by the latter of a dividend greater than its comprehensive income.

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

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

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

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

Value in use is determined by discounting future cash flows.

OTHER NON-FINANCIAL ASSETS

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

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

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

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

If there is evidence of impairment, intangible assets with a finite life undergo a new valuation to determine the recoverability of the carrying amount. Recoverable value is determined on the basis of value in use, i.e. present value, as estimated using a rate representing

the time value of money, the specific risks of the asset and the margin generated by relationships in place at the valuation date over a time horizon equal to the residual term of those relationships.

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

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

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

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

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

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

Business combinations

The subject of business combinations is addressed in IFRS 3.

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

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

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

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

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

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

by the acquirer in the change of control.

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

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

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

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

Business combinations are recognized in accordance with the “acquisition method” on the basis of which the identifiable assets acquired (including any intangible assets previously not recognized by the acquired business) and liabilities assumed (including contingent liabilities) are recognized at their respective fair values on the acquisition date. Furthermore, for each business combination, any non-controlling interests in the acquiree may be recognized at fair value (with consequent increase of the price paid) or proportionally to the non-controlling share of the identifiable net assets of the acquiree. The amount by

which the price paid, thus determined, exceeds the fair value of the identifiable assets and liabilities is recognized as goodwill and allocated to the Cash Generating Units identified within the Group. If the price paid is lower than the fair value, the difference is recognized in profit or loss.

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

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

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

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

Mergers fall under the scope of business

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

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

- if the transaction involves the transfer of control over a company, it is treated as a business combination in accordance with IFRS 3;
- if the transaction does not entail the transfer of control, it is recognized in continuity with the values recognized by the acquiree.

Criteria for preparing segment reporting

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

The Group's operating segments are as follows:

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

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

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

Specific contractual agreements between Group entities regulate the application of transfer prices for other income components relating to transactions that

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

Operating segments are presented gross of transactions between different segments.

Financial guarantees

As part of its ordinary banking operations, the Bank grants financial guarantees in the form of letters of credit, acceptances and other guarantees. The value of guarantees at the time of initial recognition is equal to the commission received. Commission income earned on guarantees, net of the portion representing the recovery of costs incurred in issuing the guarantee, are recognized on an accruals basis under "Fee and commission income", taking account of the term and residual value of the guarantees.

Following initial recognition, the liability in respect of each guarantee is measured as the greater of the initial recognition amount less cumulative amortization recognized in profit or loss and the best estimate of the expense required to settle the financial obligation that arose following the granting of the guarantee.

Any losses and value adjustments on such guarantees are reported under "value adjustments". Writedowns for impairment of guarantees are reported under "Other liabilities".

Guarantees are off-balance-sheet transactions and are reported under "Other information" in Part B of the notes to the financial statements.

A.3 – DISCLOSURES ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

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

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

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

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

A.3.3 Transfers of financial assets held for trading

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

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

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

A.4 – FAIR VALUE DISCLOSURE

Qualitative disclosures

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

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

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

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

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

significant unobservable input) in the fair value hierarchy.

Mark to Market approach

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

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

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

Comparable approach

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

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

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

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

Mark to Model approach

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

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

The Group uses mark-to-model approaches in line with methods that are generally accepted and used in the industry. The valuation models comprise techniques based on the discounting of future cash flows and the estimation of volatility. They are reviewed both during their development and periodically thereafter in order to ensure their full consistency with the valuation objectives.

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

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

The reason for this new approach to valuing derivatives lies in the financial crisis that began in the second half of 2007, which led – among various consequences – to a review of the methodologies for pricing derivatives. Indeed, the classic approach – which assumes no arbitrage (which developed in the 1970s) and therefore the existence of a single, risk-free

yield curve for lending and/or funding – has become inadequate as a result of the emergence of significant counterparty risk, necessitating the employment of mitigation techniques. More specifically, the use of collateral-backed derivatives – to mitigate that risk exposure – has become best practice in the market and this technique means that the valuation of derivatives much take account of the remuneration procedures for the collateral itself.

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

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

- bonds are valued using a discounted cash flow model adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer;
- structured bonds are valued using a discounted cash flow model that incorporates valuations from option pricing models, adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer, and volatility and correlation surfaces for the underlying;
- plain vanilla interest-rate derivatives are mainly valued using a discounted cash flow model. Interest-rate options and financial instruments with convexity adjustments are valued using a Log-normal Forward Model, while exotic options are valued using the One Factor Trinomial Hull-White approach. The inputs used are yield curves and credit spreads, and volatility and correlation surfaces;
- plain vanilla inflation derivatives are valued using the CPI Swap valuation model, while structured options use the Inflation Market Model. The inputs used are inflation swap curves and premiums on plain-vanilla options;
- equity and CIU derivatives are valued using the Black&Scholes models (or models based on it, such as the Rubinstein model for forward starts and the Nengju Ju model for Asian options), which includes an estimate of volatility through interpolation by maturity and strike prices on a volatility matrix, as well as the inclusion of discrete dividends through the escrowed dividend model. The inputs used are the price of the underlying equity, the volatility surface and the dividend curve;
- derivatives on exchange rates are valued using a discounted cash flow approach for plain-vanilla contracts or a Garman and Kohlhagen model for European options on exchange rates. The inputs are spot exchange rates and the forward points curve and volatility surfaces for plain-vanilla options;

- equity securities are valued on the basis of direct transactions in the same security or similar securities observed over an appropriate span of time with respect to the valuation date, the market multiples approach for comparable companies and, subordinately, financial and income valuation techniques;
- investments in CIUs other than open-end harmonized funds are generally valued on the basis of the NAVs (adjusted if not fully representative of the fair value) made available by the asset management companies. These investments include private equity funds, real estate investment funds and hedge funds.

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

Valuation adjustments are intended to:

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

The factors impacting the need for an adjustment are:

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

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

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

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

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

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

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

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

A.4.2 Valuation processes and sensitivity

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

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

A.4.3 Fair value hierarchy

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

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

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

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

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

A.4.4 Other information

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

Quantitative disclosures

A.4.5 Fair value hierarchy

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

| | Total 2016 | | | Total 2015 | | |
|--|------------------|------------------|---------------|------------------|----------------|---------------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| 1. Financial assets held for trading | 86,943 | 302,127 | 2,211 | 60,305 | 314,980 | 1,939 |
| 2. Financial assets designated as at fair value | - | 14,559 | - | - | 15,121 | - |
| 3. Financial assets available for sale | 4,880,515 | 299,104 | 43,823 | 6,653,418 | 119,009 | 16,328 |
| 4. Hedging derivatives | - | 17,773 | - | - | 14,807 | - |
| 5. Property and equipment | 39,770 | 441,572 | - | - | - | - |
| 6. Intangible assets | - | - | - | - | - | - |
| Total | 5,007,228 | 1,075,135 | 46,034 | 6,713,723 | 463,917 | 18,267 |
| 1. Financial liabilities held for trading | 98,454 | 311,162 | - | 137,878 | 325,469 | - |
| 2. Financial liabilities designated as at fair value | 19,469 | 1,920 | - | 437,636 | - | - |
| 3. Hedging derivatives | - | 63,318 | - | - | 101,363 | - |
| Total | 117,923 | 376,401 | - | 575,514 | 426,832 | - |

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

A.4.5.2 Change for the period in financial assets designated as at fair value on a recurring basis (Level 3)

| | Financial assets held for trading | Financial assets at fair value | Financial assets available for sale | Hedging derivatives | Property and equipment | Intangible assets |
|---------------------------------|-----------------------------------|--------------------------------|-------------------------------------|---------------------|------------------------|-------------------|
| 1. Opening balance | 1,939 | - | 16,328 | - | - | - |
| 2. Increases | 117 | - | 407,940 | - | - | - |
| 2.1 Purchases | 106 | - | 29,991 | - | - | - |
| 2.2 Profits recognized in: | | | | | | |
| 2.2.1 Income statement | 8 | - | 432 | - | - | - |
| - of which: capital gains | 6 | - | - | - | - | - |
| 2.2.2 Shareholders' equity | - | - | 988 | - | - | - |
| 2.3 Transfers from other levels | - | - | - | - | - | - |
| 2.4 Other increases | 3 | - | 376,529 | - | - | - |
| 3. Decreases | 297 | - | 379,095 | - | - | - |
| 3.1 Sales | 243 | - | 376,450 | - | - | - |
| 3.2 Redemptions | 0 | - | - | - | - | - |
| 3.3 Losses recognized in: | | | | | | |
| 3.3.1 Income statement | 54 | - | - | - | - | - |
| - of which capital losses | - | - | - | - | - | - |
| 3.3.2 Shareholders' equity | - | - | 503 | - | - | - |
| 3.4 Transfers to other levels | - | - | - | - | - | - |
| 3.5 Other decreases | - | - | 2,142 | - | - | - |
| 4. Closing balance | 1,760 | - | 43,823 | - | - | - |

Financial assets available for sale classified under Level 3 at December 31, 2016 do not include €23.1 million in equity securities carried at cost (€21.7 million at December 31, 2015). The comparative figure is reported on a consistent basis.

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

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

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

| | Total 2016 | | | | Total 2015 | | | |
|---|-------------------|------------------|------------------|-------------------|-------------------|------------------|----------------|-------------------|
| | CA | L1 | L2 | L3 | CA | L1 | L2 | L3 |
| 1. Financial assets held to maturity | 4,738,609 | 4,750,827 | - | - | 6,491,581 | 6,518,870 | - | - |
| 2. Due from banks | 21,175,516 | - | 10,230 | 21,119,774 | 20,230,772 | - | 296,768 | 19,920,568 |
| 3. Loans to customers | 13,674,256 | - | 35,894 | 14,806,450 | 13,286,555 | - | 26,959 | 14,230,203 |
| 4. Investment property | 12,158 | - | - | 12,158 | 2,732 | - | - | 1,402 |
| 5. Non-current assets and disposal groups held for sale | - | - | - | - | - | - | - | - |
| Total | 39,600,540 | 4,750,827 | 46,124 | 35,938,382 | 40,011,640 | 6,518,870 | 323,727 | 34,152,174 |
| 1. Due to banks | 12,722,738 | 1,503,133 | 3,725,410 | 12,632,813 | 13,381,987 | - | 1,351 | 13,405,876 |
| 2. Due to customers | 26,852,653 | - | 3,138 | 26,834,711 | 27,629,647 | - | - | 27,643,830 |
| 3. Securities issued | 4,466,854 | 3,595,608 | 521,339 | 382,300 | 4,403,213 | 3,389,347 | 785,977 | 305,819 |
| 4. Liabilities associated with assets held for sale | - | - | - | - | - | - | - | - |
| Total | 44,042,244 | 5,098,740 | 4,249,887 | 39,849,824 | 45,414,346 | 3,389,347 | 787,328 | 41,355,525 |

Key:

CA= Carrying amount

L1= Level 1

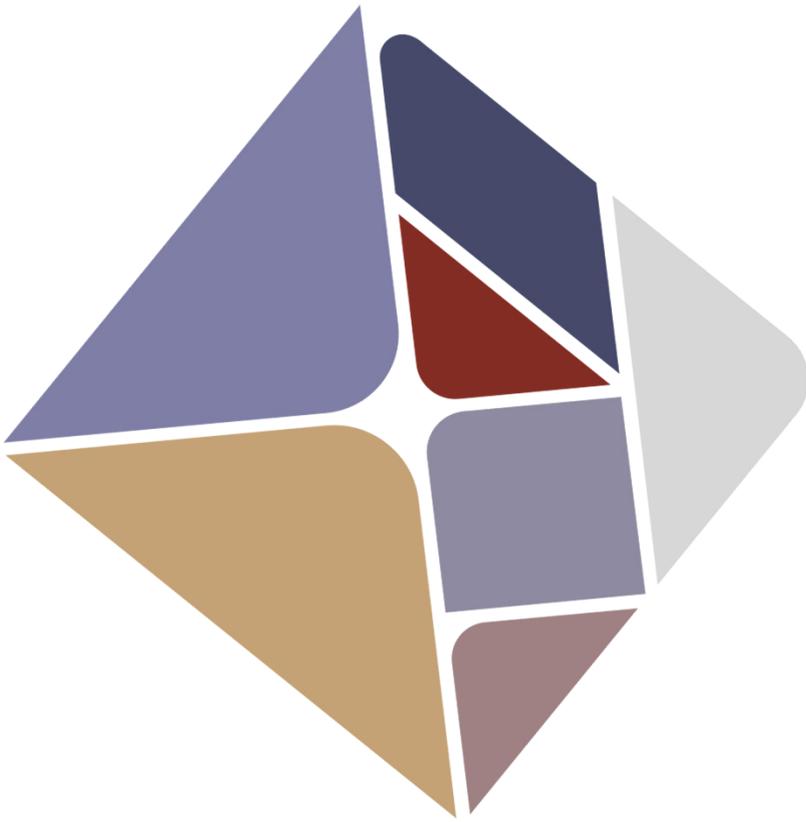
L2= Level 2

L3= Level 3

A.5 – DISCLOSURE ON “DAY ONE PROFIT/LOSS”

During the period under review, differences emerged between the fair values posted at the time of initial recognition and the values recalculated at the same date using valuation techniques in accordance with IAS 39, paragraphs AG 74 - AG 79 and IFRS 7, paragraph 28. More specifically, the net negative effect of about €92 thousand, recognized in full through profit or loss, was associated with the hedge of a dollar-denominated bond. Paragraph AG 76, point a) of IAS 39 establishes that an entity shall recognize through profit or loss the difference between the fair value at the date of initial recognition (whether a quoted price in an active market - Level 1 or based on a valuation technique that uses observable data – Level 2) and the transaction price.

*Information on
the consolidated
balance sheet*



ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - ITEM 10

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

| | 2016 | 2015 |
|---------------------------------------|----------------|----------------|
| a) Cash | 113,308 | 104,564 |
| b) Demand deposits with central banks | 2 | 3 |
| Total | 113,310 | 104,567 |

The sub-item "Cash" includes foreign currency in the amount of €17.277 million.

SECTION 2 - FINANCIAL ASSETS HELD FOR TRADING - ITEM 20

2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

| | 2016 | | | 2015 | | |
|--|---------------|----------------|--------------|---------------|----------------|--------------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| A. On-balance-sheet assets | | | | | | |
| 1. Debt securities | 86,529 | 4 | 79 | 58,307 | 2,363 | 213 |
| 1.1 structured securities | 2,284 | - | 79 | 2,373 | 704 | 213 |
| 1.2 other debt securities | 84,244 | 4 | - | 55,934 | 1,659 | - |
| 2. Equity securities | 170 | 78 | 159 | 911 | 63 | 204 |
| 3. Units in collective investment undertakings | 100 | - | - | 976 | - | - |
| 4. Loans | - | - | - | - | - | - |
| 4.1 repurchase agreements | - | - | - | - | - | - |
| 4.2 other | - | - | - | - | - | - |
| Total A | 86,798 | 82 | 238 | 60,194 | 2,426 | 417 |
| B. Derivatives | | | | | | |
| 1. Financial derivatives | 145 | 302,045 | 1,974 | 111 | 312,553 | 1,522 |
| 1.1 trading | 145 | 299,893 | 1,974 | 111 | 304,404 | 1,522 |
| 1.2 associated with fair value option | - | - | - | - | 4,736 | - |
| 1.3 other | - | 2,152 | - | - | 3,413 | - |
| 2. Credit derivatives | - | - | - | - | - | - |
| 2.1 trading | - | - | - | - | - | - |
| 2.2 associated with fair value option | - | - | - | - | - | - |
| 2.3 other | - | - | - | - | - | - |
| Total B | 145 | 302,045 | 1,974 | 111 | 312,553 | 1,522 |
| Total (A+B) | 86,943 | 302,127 | 2,212 | 60,305 | 314,979 | 1,939 |

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

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

| | 2016 | 2015 |
|---|----------------|----------------|
| A. On-balance sheet assets | | |
| 1. Debt securities | 86,611 | 60,883 |
| a) Governments and central banks | 83,967 | 54,696 |
| b) Other government agencies | - | 22 |
| c) Banks | 1,669 | 4,219 |
| d) Other issuers | 975 | 1,946 |
| 2. Equity securities | 407 | 1,178 |
| a) Banks | - | 62 |
| b) Other issuers: | 407 | 1,116 |
| - insurance undertakings | - | 68 |
| - financial companies | 71 | 187 |
| - non-financial companies | 336 | 861 |
| - other | - | - |
| 3. Units in collective investment undertakings | 100 | 976 |
| 4. Loans | - | - |
| a) Governments and central banks | - | - |
| b) Other government agencies | - | - |
| c) Banks | - | - |
| d) Other issuers | - | - |
| Total A | 87,118 | 63,037 |
| B. Derivatives | | |
| a) Banks | | - |
| - fair value | 236,963 | 247,600 |
| b) Customers | | - |
| - fair value | 67,200 | 66,587 |
| Total B | 304,163 | 314,187 |
| Total (A+B) | 391,281 | 377,224 |

Debt securities consist mainly of listed government securities. "Units in collective investment undertakings" at the reporting date consisted of open-end equity funds.

SECTION 3 - FINANCIAL ASSETS AT FAIR VALUE - ITEM 30

3.1 FINANCIAL ASSETS AT FAIR VALUE: COMPOSITION BY TYPE

| | 2016 | | | 2015 | | |
|--|---------|---------------|---------|---------|---------------|---------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| 1. Debt securities | - | 14,559 | - | - | 15,121 | - |
| 1.1 structured securities | | 14,559 | | | 15,121 | |
| 1.2 other debt securities | | | | | | |
| 2. Equity securities | - | | - | - | | - |
| 3. Units in collective investment undertakings | - | | - | - | | - |
| 4. Loans | - | | - | - | | - |
| 4.1 structured | | | | | | |
| 4.2 other | | | | | | |
| Total | - | 14,559 | - | - | 15,121 | - |
| Cost | - | 14,978 | - | - | 15,000 | - |

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

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

| | Total 2016 | Total 2015 |
|---|---------------|---------------|
| 1. Debt securities | 14,559 | 15,121 |
| a) Governments and central banks | - | - |
| b) Other government agencies | - | - |
| c) Banks | 14,559 | 15,121 |
| d) Other issuers | - | - |
| 2. Equity securities | - | - |
| a) Banks | - | - |
| b) Other issuers: | - | - |
| - insurance undertakings | - | - |
| - financial companies | - | - |
| - non-financial companies | - | - |
| - other | - | - |
| 3. Units in collective investment undertakings | - | - |
| 4. Loans | - | - |
| a) Governments and central banks | - | - |
| b) Other government agencies | - | - |
| c) Banks | - | - |
| d) Other issuers | - | - |
| Total | 14,559 | 15,121 |

SECTION 4 - FINANCIAL ASSETS AVAILABLE FOR SALE - ITEM 40

4.1 FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION BY TYPE

| | Total 2016 | | | Total 2015 | | |
|---|------------------|----------------|---------------|------------------|----------------|---------------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| 1. Debt securities | 4,855,871 | 295,643 | - | 6,626,063 | 118,811 | - |
| 1.1 structured securities | 15,839 | 72 | - | 51,089 | 103,272 | - |
| 1.2 other debt securities | 4,840,032 | 295,571 | - | 6,574,974 | 15,539 | - |
| 2. Equity securities | 17,437 | 10 | 41,265 | 20,905 | 10 | 32,583 |
| 2.1 at fair value | 17,437 | - | 18,140 | 20,905 | - | 10,807 |
| 2.2 carried at cost | - | 10 | 23,125 | - | 10 | 21,776 |
| 3. Units in collective investment undertakings | 7,207 | 2,560 | 27,286 | 6,450 | 188 | 5,520 |
| 4. Loans | - | - | - | - | - | - |
| Total | 4,880,515 | 298,213 | 68,551 | 6,653,418 | 119,009 | 38,103 |

The portfolio of financial assets available for sale is composed primarily of government securities and non-controlling shareholdings.

The item Debt securities – Structure securities mainly regards the Italia security – with a CMS structure (10Y cap&floor (XS0222189564).

The increase in “Equity securities – at fair value” primarily reflects the value of the Visa Inc. shares (US92826C8394) received by Iccrea Banca S.p.A. as part of the acquisition by that US company of Visa Europe shares.

The item “Units in collective investment undertakings” includes the units of the closed-end securities investment fund Atlante in the amount of €23 million (classified as Level 3) and the closed-end real estate investment fund Athens in the amount of €2.038 million (classified as Level 2).

Impairment testing of financial assets available for sale

As required under the IFRSs, financial assets available for sale undergo impairment testing to assess whether there is objective evidence that the carrying value of such assets is not fully recoverable. The detection of any impairment involves the verification of the presence of impairment indicators and the determination of any writedown.

Impairment indicators are essentially divided into two categories: those deriving from internal factors relating to the company being valued, and therefore qualitative, and - for equity instruments - external quantitative indicators deriving from the market values of the company.

In the first category, the following indicators are considered significant: the generation of losses or, in any case, a significant gap with respect to the targets budgeted for or set forth in the multi-annual plans announced to the market, the announcement/start of insolvency proceedings or restructuring plans, and the downgrading by more than two classes of the rating issued by a specialist agency. As regards the second category, a substantial or prolonged reduction in fair value below the initial recognition value is considered significant; more specifically, a reduction in fair value of more than 30% is considered substantial, and a continuous reduction for a period of more than 18 months is considered prolonged. If one of these thresholds is exceeded, impairment of the security is recognized. If these thresholds are not exceeded but other impairment indicators are present, recognition of the impairment must also be corroborated by the result of specific analyses of the security and the investment.

4.2 FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION BY DEBTOR/ISSUER

| | Total 2016 | Total 2015 |
|---|------------------|------------------|
| 1. Debt securities | 5,151,513 | 6,744,872 |
| a) Governments and central banks | 5,134,962 | 6,719,465 |
| b) Other government agencies | - | - |
| c) Banks | 8,405 | 14,510 |
| d) Other issuers | 8,146 | 10,897 |
| 2. Equity securities | 58,713 | 53,499 |
| a) Banks | 10,920 | 3,276 |
| b) Other issuers: | 47,793 | 50,223 |
| - insurance undertakings | 14,189 | 17,796 |
| - financial companies | 23,508 | 23,780 |
| - non-financial companies | 10,096 | 8,647 |
| - other | - | - |
| 3. Units in collective investment undertakings | 37,053 | 12,159 |
| 4. Loans | - | - |
| a) Governments and central banks | - | - |
| b) Other government agencies | - | - |
| c) Banks | - | - |
| d) Other issuers | - | - |
| Total | 5,247,279 | 6,810,530 |

4.3 FINANCIAL ASSETS AVAILABLE FOR SALE: ASSETS HEDGED SPECIFICALLY

| | Total 2016 | Total 2015 |
|--|----------------|------------------|
| Financial assets with specific fair value hedges: | 944,099 | 1,645,853 |
| 1. interest rate risk | 944,099 | 1,645,853 |
| 2. price risk | - | - |
| 3. exchange rate risk | - | - |
| 4. credit risk | - | - |
| 5. multiple risks | - | - |
| Financial assets with specific cash flow hedges: | 33,646 | 34,091 |
| 1. interest rate risk | 33,646 | 34,091 |
| 2. exchange rate risk | - | - |
| 3. other | - | - |
| Total | 977,745 | 1,679,944 |

The amounts regard government securities: BTPs indexed to Italian inflation (BTP Italia) and euro-area inflation (BTP€i) and CTZs, hedged with asset swaps against interest rate risk (fair value hedging) or to stabilize cash flows (cash flow hedging).

SECTION 5 - FINANCIAL ASSETS HELD TO MATURITY - ITEM 50

5.1 FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION BY TYPE

| | Total 2016 | | | | Total 2015 | | | |
|--------------------|------------|-----------|---------|---------|------------|-----------|---------|---------|
| | CA | FV | | | CA | FV | | |
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| 1. Debt securities | 4,738,609 | 4,750,951 | - | - | 6,491,581 | 6,518,869 | - | - |
| 1.1 structured | - | - | - | - | - | - | - | - |
| 1.2 other | 4,738,609 | 4,750,951 | - | - | 6,491,581 | 6,518,869 | - | - |
| 2. Loans | - | - | - | - | - | - | - | - |

Key

FV = Fair value

CA = Carrying amount

The portfolio is composed entirely of Italian government securities with a short/medium-term maturity acquired to sustain net interest income.

More specifically, the amount is composed of BTPs worth €4.396 million, three CCTeu worth €237 million and one CTZ worth €105 million.

5.2 FINANCIAL ASSETS HELD TO MATURITY: DEBTOR/ISSUER

| | Total 2016 | Total 2015 |
|----------------------------------|------------------|------------------|
| 1. Debt securities | 4,738,609 | 6,491,581 |
| a) Governments and central banks | 4,738,609 | 6,491,581 |
| b) Other government agencies | - | - |
| c) Banks | - | - |
| d) Other issuers | - | - |
| 2. Loans | - | - |
| a) Governments and central banks | - | - |
| b) Other government agencies | - | - |
| c) Banks | - | - |
| d) Other issuers | - | - |
| Total | 4,738,609 | 6,491,581 |
| Total Fair Value | 4,750,827 | 6,518,869 |

5.3 FINANCIAL ASSETS HELD TO MATURITY: ASSETS HEDGED SPECIFICALLY

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

SECTION 6 - DUE FROM BANKS - ITEM 60

6.1 DUE FROM BANKS: COMPOSITION BY TYPE

| | CA 2016 | Total 2016 FV | | | CA 2015 | Total 2015 FV | | |
|--|-------------------|------------------|---------------|-------------------|-------------------|------------------|----------------|-------------------|
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| A. Claims on central banks | 152,719 | - | - | 152,700 | 149,670 | - | - | 149,669 |
| 1. Fixed-term deposits | - | X | X | X | - | X | X | X |
| 2. Reserve requirement | 152,719 | X | X | X | 149,670 | X | X | X |
| 3. Repurchase agreements | - | X | X | X | - | X | X | X |
| 4. Other | - | X | X | X | - | X | X | X |
| B. Due from banks | 20,999,475 | - | 10,230 | 20,944,727 | 20,081,102 | - | 296,768 | 19,770,898 |
| 1. Financing | 20,702,892 | - | 10,230 | 20,642,142 | 19,797,752 | - | 7,645 | - |
| 1.1 Current accounts and demand deposits | 591,011 | X | X | X | 589,698 | X | X | X |
| 1.2 Fixed-term deposits | 103,243 | X | X | X | 147,615 | X | X | X |
| 1.3. Other financing: | 20,008,638 | X | X | X | 19,060,439 | X | X | X |
| - Repurchase agreements | - | X | X | X | - | X | X | X |
| - Finance leases | 17,268 | X | X | X | 17,552 | X | X | X |
| - Other | 19,991,370 | X | X | X | 19,042,887 | X | X | X |
| 2. Debt securities | 296,583 | - | - | 302,585 | 283,350 | - | 289,124 | - |
| 2.1 Structured securities | 35,090 | X | X | X | 57,055 | X | X | X |
| 2.2 Other debt securities | 261,493 | X | X | X | 226,295 | X | X | X |
| Total | 21,152,194 | - | 10,230 | 21,097,427 | 20,230,772 | - | 296,768 | 19,920,568 |

Key:

FV = fair value

CA = carrying amount

The fair value is obtained using discounted cash flow techniques.

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

The sub-item "fixed-term deposits" includes deposits in foreign currency with a value of €85 million.

Amounts due from banks include "other financing - other" comprising:

- loans to the mutual banks connected with pool collateral operations, such as advances from the ECB secured with refinanceable securities, with a total value of €19.6 billion, of which €4.7 billion granted within the framework of the TLTRO against securities pledged as collateral by the mutual banks with a total fair value, net of the haircut, of €22.6 billion;
- cash collateral paid to bank counterparties to secure derivatives exposures supported by Credit Support Annexes (CSA) in the amount of €258 million;
- assignments of receivables by the mutual banks, counter-guaranteed by them, in the amount of €22 million.

The sub-item "Debt securities" includes:

- ordinary bonds issued by the mutual banks in the amount of €259 million;
- subordinated bonds issued by the mutual banks eligible for inclusion in own funds in the amount of €37 million (Lower Tier II).

6.2 DUE FROM BANKS: ASSETS HEDGED SPECIFICALLY

| | Total 2016 | Total 2015 |
|--|----------------|---------------|
| 1. Loans with specific fair value hedges: | 894,345 | 80,653 |
| a) interest rate risk | 894,345 | 80,653 |
| b) exchange rate risk | - | - |
| c) credit risk | - | - |
| d) multiple risks | - | - |
| 2. Loans with specific cash flow hedges: | - | - |
| a) interest rate risk | - | - |
| b) exchange rate risk | - | - |
| c) other | - | - |
| Total | 894,345 | 80,653 |

The item consists of:

- fixed-rate treasury deposits with mutual banks hedged with overnight indexed swaps in the amount of €823 million;
- a step-up bond issued by Banca IMI S.p.A. (XS1520729614) hedged with a step-up swap in the amount of €71 million.

6.3 FINANCE LEASES

| | Total 2016 | | | | | |
|-------------------------|-----------------|------------------|------------------------------------|--------------|------------------|--------------------------------------|
| | Explicit credit | Minimum payments | | | Gross investment | |
| | | Principal | of which guaranteed residual value | Interest | | of which unguaranteed residual value |
| Demand | - | 109 | 109 | 62 | 170 | - |
| Up to 3 months | - | 369 | 218 | 143 | 513 | - |
| From 3 months to 1 year | - | 1,541 | 974 | 589 | 2,130 | 145 |
| From 1 to 5 years | - | 6,748 | 5,337 | 2,539 | 9,287 | 51 |
| More than 5 years | - | 8,432 | 3,212 | 2,494 | 19,130 | 5,220 |
| Unspecified maturity | 56 | 62 | - | - | - | - |
| Gross total | 56 | 17,261 | 9,850 | 5,827 | 31,230 | 5,416 |
| Writedowns | 39 | - | - | - | - | - |
| Net total | 17 | 17,261 | 9,850 | 5,827 | 31,230 | 5,416 |

SECTION 7 - LOANS TO CUSTOMERS - ITEM 70

7.1 LOANS TO CUSTOMERS: COMPOSITION BY TYPE

| | Total 2016 | | | | | | Total 2015 | | | | | |
|---|-------------------|---------------|------------------|------------|---------------|-------------------|-------------------|----------------|------------------|------------|---------------|-------------------|
| | Carrying amount | | | Fair value | | | Carrying amount | | | Fair value | | |
| | Unimpaired | Impaired | | L1 | L2 | L3 | Unimpaired | Impaired | | L1 | L2 | L3 |
| | | Purchased | Other | | | | | Purchased | Other | | | |
| Loans | 12,213,831 | 66,129 | 1,352,437 | | 505 | 14,798,450 | 11,870,051 | 116,481 | 1,274,651 | | | |
| 1. Current accounts | 220,304 | 22,112 | 208,904 | X | X | X | 282,306 | 35,542 | 170,525 | X | X | X |
| 2. Repurchase agreements | 921,560 | - | - | X | X | X | 1,409,005 | - | - | X | X | X |
| 3. Medium/long-term loans | 3,149,479 | 38,170 | 388,130 | X | X | X | 2,698,523 | 75,805 | 321,669 | X | X | X |
| 4. Credit cards, personal loans and loans repaid by automatic deductions from wages | 907,983 | 44 | 12,945 | X | X | X | 836,598 | 14 | 11,803 | X | X | X |
| 5. Finance leases | 4,440,468 | - | 659,653 | X | X | X | 4,549,847 | - | 677,063 | X | X | X |
| 6. Factoring | 474,061 | - | 32,053 | X | X | X | 396,061 | - | 26,401 | X | X | X |
| 7. Other | 2,099,976 | 5,803 | 50,752 | X | X | X | 1,697,711 | 5,120 | 67,190 | X | X | X |
| Debt securities | 40,931 | - | 928 | X | 35,389 | 8,688 | 25,372 | - | - | | | |
| 8. Structured securities | - | - | - | X | X | X | - | - | - | X | X | X |
| 9. Other debt securities | 40,931 | - | 928 | X | X | X | 25,372 | - | - | X | X | X |
| Total | 12,254,762 | 66,129 | 1,353,365 | X | 35,894 | 14,807,138 | 11,895,423 | 116,481 | 1,274,651 | X | 26,959 | 14,230,203 |

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

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

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

The item "finance leases" reports the change in fair value of €14.7 million (€17.6 million in 2015) of fixed-rate credit hedged against interest rate risk.

"Other" includes:

- €1,443 million of cash collateral for Default Funds and margins paid to the Clearing & Guarantee Fund for transactions in secured funding;
- €246 million for orders in respect of property and equipment leases for which principal repayment is subordinate to the start of the leases;
- €230 million in other lending (of which €118 million to the Mutual Bank Deposit Guarantee Fund);
- €60 million in a Poste Vita S.p.A. insurance policy.

Debt securities classified here include:

- minibonds (as regulated by Decree Law 83/2012 ratified with Law 134/2012) subscribed by the subsidiary Iccrea Bancalmpresa with a total value of €33.1 million;
- senior notes (IT0005216392) connected with the Lucrezia Securitisation Srl 10-2016/10-2026 operation with a value of €8.7 million.

7.2 LOANS TO CUSTOMERS: COMPOSITION BY DEBTOR/ISSUER

| | Total 2016 | | | Total 2015 | | |
|------------------------------|-------------------|---------------|------------------|-------------------|--------------|------------------|
| | Performing | Impaired | | Performing | Impaired | |
| | | Purchased | Other | | Purchased | Other |
| 1. Debt securities: | 40,931 | - | 928 | 25,372 | - | - |
| a) Governments | - | - | - | - | - | - |
| b) Other government agencies | - | - | - | - | - | - |
| c) Other issuers | 40,931 | - | 928 | 25,372 | - | - |
| - non-financial companies | 23,600 | - | 928 | 16,731 | - | - |
| - financial companies | 17,331 | - | - | 8,641 | - | - |
| - insurance undertakings | - | - | - | - | - | - |
| - other | - | - | - | - | - | - |
| 2. Loans to: | 12,213,831 | 66,129 | 1,352,437 | 11,870,051 | 4,250 | 1,386,882 |
| a) Governments | 53 | - | 3 | 1,877 | - | - |
| b) Other government agencies | 149,442 | - | 1,414 | 112,069 | - | 96 |
| c) Other issuers | 12,064,336 | 66,129 | 1,351,020 | 11,756,105 | 4,250 | 1,386,786 |
| - non-financial companies | 7,516,752 | 49,802 | 1,260,555 | 7,412,147 | 3,120 | 1,294,058 |
| - financial companies | 2,745,337 | 184 | 7,416 | 2,776,161 | - | 9,150 |
| - insurance undertakings | 61,865 | - | 3 | 62,388 | - | 8 |
| - other | 1,740,382 | 16,143 | 83,046 | 1,505,409 | 1,130 | 83,570 |
| Total | 12,254,762 | 66,129 | 1,353,365 | 11,895,423 | 4,250 | 1,386,882 |

As part of the issue of financial instruments and, more specifically, savings securities for the southern economy (TREM) pursuant to Article 8, paragraph 4, of Decree Law 70/2011, please note that – partly for the purpose of monitoring by the Ministry for the Economy and Finance of the condition that increases in medium/long-term lending to the SMEs of southern Italy shall at least equal the funding raised through the issue of TREM – the total amount of loans with a term of more than 18 months disbursed by the Iccrea Banking Group from July 1, 2011 to December 31, 2016 to the small and medium enterprises based in the regions of southern Italy (Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sardinia and Sicily) amounted to €577.66 million. A breakdown shows that these loans were disbursed in the amount of €555.88 million by Iccrea Bancalmpresa and €21.78 million by Banca Sviluppo.

7.3 LOANS TO CUSTOMERS: ASSETS HEDGED SPECIFICALLY

| | Total 2016 | Total 2015 |
|--|---------------|----------------|
| 1. Loans with specific fair value hedges: | 86,351 | 289,889 |
| a) interest rate risk | 86,351 | 289,889 |
| b) exchange rate risk | - | - |
| c) credit risk | - | - |
| d) multiple risks | - | - |
| 2. Loans with specific cash flow hedges: | - | - |
| a) interest rate risk | - | - |
| b) exchange rate risk | - | - |
| c) other | - | - |
| Total | 86,351 | 289,889 |

The table reports the nominal value of fixed-rate loans for which the interest rate risk has been hedged.

7.4 FINANCE LEASES

| | Total 2016 | | | | | |
|-------------------------|-----------------|------------------|--------------------------------------|----------------|------------------|--------------------------------------|
| | Explicit credit | Principal | | Interest | Gross investment | |
| | | | of which unguaranteed residual value | | | of which unguaranteed residual value |
| Demand | | 55,164 | 53,083 | 16,028 | 71,192 | 2,081 |
| Up to 3 months | 870 | 30,494 | 216 | 5,942 | 36,436 | 10 |
| From 3 months to 1 year | 2,114 | 492,590 | 392,864 | 123,095 | 615,685 | 19,472 |
| From 1 to 5 years | 3,406 | 2,104,199 | 1,782,083 | 508,006 | 2,612,205 | 135,448 |
| More than 5 years | - | 2,114,640 | 1,498,357 | 346,314 | 2,460,953 | 616,018 |
| Unspecified maturity | 722,767 | 464,090 | 462,809 | - | 462,809 | - |
| Gross total | 729,157 | 5,261,177 | 4,189,412 | 999,385 | 6,259,280 | 773,029 |
| Writedowns | 288,606 | 297,147 | - | - | 2,584 | - |
| Net total | 440,511 | 4,964,030 | 4,189,412 | 999,385 | 6,256,696 | 773,029 |

The figures in the table include the value of assets awaiting the start of finance leases, which are not reported in the table of the breakdown by type (Table 7.1).

SECTION 8 - HEDGING DERIVATIVES - ITEM 80

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

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

| | FV(2016) | | | NV (2016) | FV (2015) | | | NV (2015) |
|--------------------------------------|----------|---------------|----|------------------|-----------|---------------|----|----------------|
| | L1 | L2 | L3 | | L1 | L2 | L3 | |
| A) Financial derivatives | - | 17,773 | - | 3,237,153 | - | 14,807 | - | 593,335 |
| 1) Fair value | - | 10,344 | - | 3,147,029 | - | 9,501 | - | 492,700 |
| 2) Cash flows | - | 7,429 | - | 90,124 | - | 5,306 | - | 100,635 |
| 3) Investments in foreign operations | - | - | - | - | - | - | - | - |
| B. Credit derivatives | - | - | - | - | - | - | - | - |
| 1) Fair value | - | - | - | - | - | - | - | - |
| 2) Cash flows | - | - | - | - | - | - | - | - |
| Total | - | 17,773 | - | 3,237,153 | - | 14,807 | - | 593,335 |

Key

FV = Fair value

NV = Notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

The table reports financial derivatives (interest rate swaps and overnight indexed swaps) used to hedge the risk of changes in the fair value – caused by the volatility of interest rates – of financial instruments in “financial assets” and “financial liabilities”, as detailed in the following table.

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

| | Fair Value | | | | | | Cash flows | | Investments in foreign operations |
|--|-----------------------|-----------------------|-------------|------------|-------------------|--------------|--------------|---------|---|
| | Specific | | | | | Generic | Specific | Generic | |
| | Interest rate risk | Exchange rate risk | Credit risk | Price risk | Multiple risks | | | | |
| 1. Financial assets available for sale | 235 | - | - | - | - | X | - | X | X |
| 2. Loans | 662 | - | - | X | - | X | - | X | X |
| 3. Financial assets held to maturity | X | - | - | X | - | X | - | X | X |
| 4. Portfolio | X | X | X | X | X | 1,137 | X | - | X |
| 5. Other transactions | - | - | - | - | - | X | - | X | - |
| Total assets | 898 | - | - | - | - | 1,137 | - | - | - |
| 1. Financial liabilities | 8,308 | - | - | X | - | X | 7,429 | X | X |
| 2. Portfolio | X | X | X | X | X | - | X | - | X |
| Total liabilities | 8,308 | - | - | - | - | - | 7,429 | - | - |
| 1. Forecast transactions | X | X | X | X | X | X | - | X | X |
| 2. Portfolio of financial assets and liabilities | X | X | X | X | X | - | X | - | - |

The amounts reported under point 1 "Financial assets available for sale" regard asset swaps hedging the Republic of Italy security.

The item "Loans" regards hedges of Treasury deposits.

"Portfolio" regards the macro-hedging of a portfolio of collateralized loans.

The item "Financial liabilities" (specific fair value hedging of interest rate risk) includes the positive values of interest rate swaps (IRS) hedging 3 fixed-rate bonds issued by the Group.

The item "Financial liabilities" (specific cash flow hedging) includes cross currency interest rate swaps (CCIRS) hedging dollar-denominated bonds issued by the Group.

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

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

9.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

| | Total 2016 | Total 2015 |
|--|------------|------------|
| 1. Positive adjustments | - | 932 |
| 1.1 of specific portfolios: | - | 932 |
| a) loans | - | 932 |
| b) financial assets available for sale | - | - |
| 1.2 comprehensive | - | - |
| 2. Negative adjustments | 348 | - |
| 2.1 of specific portfolios: | 348 | - |
| a) loans | 348 | - |
| b) financial assets available for sale | - | - |
| 2.2 comprehensive | - | - |
| Total | 348 | 932 |

9.2 ASSETS MACRO-HEDGED AGAINST INTEREST RATE RISK

| | Total 2016 | Total 2015 |
|------------------------------|------------------|------------------|
| 1. Loans | 3,028,456 | 1,677,966 |
| 2. Assets available for sale | - | - |
| 3. Portfolio | - | - |
| | 3,028,456 | 1,677,966 |

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

SECTION 10 - EQUITY INVESTMENTS - ITEM 100

10.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

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

10.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

| | Carrying amount | Fair value | Dividends received |
|--|-----------------|----------------|--------------------|
| A. Joint ventures | - | - | - |
| B. Companies subject to significant influence | | | |
| 1. BCC Vita S.p.A. | 81,225 | 96,800 | 3,889 |
| 2. BCC Assicurazioni S.p.A. | 6,617 | 6,617 | - |
| 3. BCC Accademia S.p.A. | 112 | 112 | - |
| 4. Hi-Mtf S.p.A. | 1,542 | 1,542 | - |
| 5. M-Facility S.r.l. | 373 | 373 | - |
| 6. Car Server S.p.A. | 12,415 | 12,415 | 1,256 |
| Total | 102,285 | 117,859 | 5,145 |

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

10.3 SIGNIFICANT EQUITY INVESTMENTS: ACCOUNTING DATA

| | Cash and cash equivalents | Financial assets | Non-financial assets | Financial liabilities | Non-financial liabilities | Total revenues | Net interest income | Net adjustments of property and equipment and intangible assets | Profit (loss) before tax on continuing operations | Profit (loss) after tax on continuing operations | Profit (loss) after tax of disposal groups held for sale | Net profit (loss) for the period (1) | Other comprehensive income net of taxes (2) | Comprehensive income (3)=(1) + (2) |
|---|---------------------------|------------------|----------------------|-----------------------|---------------------------|----------------|---------------------|---|---|--|--|--------------------------------------|---|------------------------------------|
| A. Joint ventures | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B. Companies subject to significant influence e | | | | | | | | | | | | | | |
| 1. BCC Vita S.p.A. | X | 2,751,283 | 115,482 | 9,188 | 2,698,554 | 398,474 | X | X | 14,638 | 9,366 | - | 9,366 | (908) | 8,458 |
| 2. BCC Assicurazioni S.p.A. | X | 35,233 | 43,198 | 10,070 | 55,897 | 16,472 | X | X | 3,127 | (2,299) | - | (2,299) | (617) | (2,916) |
| 3. BCC Accademia S.p.A. | X | - | 1,572 | - | 1,663 | 2,408 | X | X | 32 | 9 | - | 9 | - | 9 |
| 4. Hi-Mtf S.p.A. | X | - | 6,753 | - | 586 | 2,676 | X | (59) | 111 | 71 | - | 71 | 4 | 75 |
| 5. M-Facility S.r.l. | X | - | 1,738 | - | 95 | - | X | X | (237) | (237) | - | (237) | - | (237) |
| 6. Car Server S.p.A. | X | X | 424,458 | 395,295 | - | 202,359 | X | X | 25,158 | 7,587 | - | 7,587 | - | 7,587 |

IMPAIRMENT TESTS OF EQUITY INVESTMENTS

As required by the IFRS, in the presence of triggers that could indicate possible impairment, equity investments undergo impairment testing to assess whether there is objective evidence indicating that the carrying amount of such assets is not fully recoverable and determine the amount of any writedown.

Impairment indicators can essentially be divided into two categories:

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

In the presence of evidence of an impairment, the amount of any writedown is determined on the basis of the difference between the carrying amount and the recoverable value. The latter is represented by the greater of fair value, net of any costs to sell, and value in use.

No impairment losses were recognized during the year.

As regards the investment held by Iccrea Banca in BCC Vita, there was a difference between the carrying amount recognized in the financial statements of the Bank (€96.5 million) and the fraction of equity recognized in the consolidated financial statements (€81.2 million), which prompted an impairment test.

More specifically, the recoverability of the carrying amount of BCC Vita was assessed using the appraisal value approach, in which the value of the company was defined as the sum of adjusted equity, the value of in force business and the value of new business (goodwill). The new business value by single generation was discounted using a discount rate of 8.4%, estimated as equal to the yield on risk-free assets plus a premium for the specific risk of the sector and the company involved in the valuation.

The test confirmed the values recognized in the separate and consolidated financial statements of Iccrea Banca.

As regards the investment held in BCC Assicurazioni, there is a difference between the carrying amount recognized in the financial statements of Iccrea Banca S.p.A. for 2016 (€8.1 million) and the fraction of equity recognized in the consolidated financial statements (€6.6 million) owing to the loss for 2016.

For the purposes of impairment testing of the company, the economic value of capital was estimated using a market multiples approach using data on the stock prices of comparable companies, calculating and applying market multiples to the indicators of the company being assessed.

Following the impairment test, the pro-rated value of the company (€10.9 million) was greater than the value of the equity investment recognized in the separate financial statements of Iccrea Banca S.p.A. and so no impairment loss was recognized.

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

10.4 MINOR EQUITY INVESTMENTS: ACCOUNTING INFORMATION

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

10.5 EQUITY INVESTMENTS: CHANGE FOR THE PERIOD

| | Total 2016 | Total 2015 |
|------------------------------|----------------|---------------|
| A. Opening balance | 89,068 | 63,154 |
| B. Increases | 19,981 | 25,997 |
| B.1 Purchases | - | 19,210 |
| B.2 Writebacks | - | - |
| B.3 Revaluations | 5,216 | 6,787 |
| B.4 Other changes | 14,765 | - |
| C. Decreases | (6,764) | (83) |
| C.1 Sales | - | - |
| C.2 Writedowns | (1,619) | (83) |
| C.3 Other changes | (5,144) | - |
| D. Closing balance | 102,285 | 89,068 |
| E. Total revaluations | 17,196 | 18,078 |
| F. Total writedowns | 2,707 | 17,989 |

“Writebacks/writedowns” mainly report increases/decreases in equity investments accounted for using the equity method.

“Other changes” comprise capitalization transactions carried out during the year and the consolidation adjustments connected with the elimination of dividends.

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

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

10.7 COMMITMENTS IN RESPECT OF JOINT VENTURES

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

10.8 COMMITMENTS IN RESPECT OF COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE

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

10.9 SIGNIFICANT RESTRICTIONS

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

10.10 OTHER INFORMATION

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

SECTION 11 - TECHNICAL RESERVES ATTRIBUTABLE TO REINSURERS - ITEM 110

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

SECTION 12 - PROPERTY AND EQUIPMENT - ITEM 120

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

| | Total 2016 | Total 2015 |
|--|----------------|----------------|
| 1. Owned assets | 201,143 | 163,565 |
| a) land | 28,371 | 23,111 |
| b) buildings | 125,663 | 103,446 |
| c) movables | 5,507 | 2,394 |
| d) electrical plants | 19,152 | 19,375 |
| e) other | 22,450 | 15,239 |
| 2. Assets acquired under finance leases | 6,748 | 16,008 |
| a) land | - | - |
| b) buildings | - | 8,940 |
| c) movables | - | - |
| d) electrical plants | 6,748 | 7,068 |
| e) other | - | - |
| Total | 207,891 | 179,573 |

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

12.2 INVESTMENT PROPERTY: COMPOSITION OF ASSETS CARRIED AT COST

| | Total 2016 | | | | Total 2015 | | | |
|--|-----------------|------------|----|---------------|-----------------|------------|----|--------------|
| | Carrying amount | Fair value | | | Carrying amount | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| 1. Owned assets | 12,158 | - | - | 12,508 | 1,407 | - | - | 1,407 |
| a) land | 4 | - | - | 4 | 4 | - | - | 4 |
| b) buildings | 12,154 | - | - | 12,504 | 1,403 | - | - | 1,403 |
| 2. Assets acquired under finance leases | - | - | - | - | 1,326 | - | - | 1,326 |
| a) land | - | - | - | - | - | - | - | - |
| b) buildings | - | - | - | - | 1,326 | - | - | 1,326 |
| Total | 12,158 | - | - | 12,158 | 2,733 | - | - | 2,733 |

12.3 OPERATING PROPERTY AND EQUIPMENT: COMPOSITION OF REVALUED ASSETS

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

12.4 INVESTMENT PROPERTY: COMPOSITION OF ASSETS MEASURED AT FAIR VALUE

| | Total 2016 | | | Total 2015 | | |
|--|---------------|----------------|----|---------------|----------------|----|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Owned assets | 39,770 | 441,561 | - | 60,986 | 416,779 | - |
| a) land | - | - | - | - | - | - |
| b) buildings | 39,770 | 441,561 | - | 60,986 | 416,779 | - |
| 2. Assets acquired under finance leases | - | - | - | - | - | - |
| a) land | - | - | - | - | - | - |
| b) buildings | - | - | - | - | - | - |
| Total | 39,770 | 441,561 | - | 60,986 | 416,779 | - |

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

12.5 OPERATING PROPERTY AND EQUIPMENT: CHANGE FOR THE PERIOD

| | Land | Buildings | Movables | Electrical plant | Other | Total |
|--|---------------|----------------|---------------|------------------|---------------|----------------|
| A. Gross opening balance | 23,321 | 128,710 | 4,958 | 36,495 | 20,697 | 214,182 |
| A.1 Total net value adjustments | 210 | 16,324 | 2,564 | 10,052 | 5,458 | 34,609 |
| A.2 Net opening balance | 23,111 | 112,386 | 2,394 | 26,443 | 15,239 | 179,573 |
| B. Increases | 5,388 | 27,582 | 5,021 | 9,819 | 21,025 | 68,835 |
| B.1 Purchases | 5,388 | 27,582 | 3,814 | 9,268 | 1,614 | 47,666 |
| 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 | - | - | - | - | - | - |
| B.7 Other changes | - | - | 1,207 | 551 | 19,411 | 21,169 |
| C. Decreases | 128 | 14,306 | 1,908 | 10,362 | 13,814 | 40,517 |
| C.1 Sales | 75 | - | 19 | 1 | 32 | 127 |
| C.2 Depreciation | - | 4,772 | 710 | 10,211 | 1,382 | 17,075 |
| C.3 Writedowns for impairment recognized in: | - | - | - | - | 127 | 127 |
| a) equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | 127 | 127 |
| C.4 Fair value losses recognized in: | - | - | - | - | - | - |
| a) equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| C.5 Negative exchange rate differences | - | - | - | - | - | - |
| C.6 Transfers to | - | 9,533 | - | - | - | 9,533 |
| a) investment property | - | - | - | - | - | - |
| b) discontinuing operations | - | - | - | - | - | - |
| C.7 Other changes | 53 | - | 1,179 | 150 | 12,272 | 13,654 |
| D. Closing net balance | 28,371 | 125,662 | 5,507 | 25,901 | 22,450 | 207,891 |
| D.1 Total net writedowns | - | 41,138 | 6,297 | 25,532 | 5,311 | 78,278 |
| D.2 Closing gross balance | 28,371 | 166,800 | 11,804 | 51,433 | 27,761 | 286,169 |
| E. Measurement at cost | - | - | - | - | - | - |

Increases in property and equipment mainly regard:

- the acquisition of CrediVeneto by the subsidiary Banca Sviluppo S.p.A, with total property and equipment of €32 million (land, buildings and furnishings), part of which was reclassified as investment property €9.5 million;

- the completion of the underground parking facility at the headquarters in via Lucrezia Romana – Rome, in the amount of €2.8 million, and the capitalization of costs incurred for the renovation of the building in via C. Esterle – Milan in the amount of €1.7 million;
- the recognition of assets under construction (“Other”) in respect of the extension and upgrading of the via Lucrezia Romana building in the amount of €9.3 million, reported in other increases.

Note that other increases/decreases reflect the disposal of fully-depreciated obsolete property and equipment (“furnishings” and “other”) begun during the year by the subsidiary Iccrea Bancalmpresa, with a cost/accumulated depreciation value of €10.2 million.

12.6 INVESTMENT PROPERTY: CHANGE FOR THE PERIOD

| | Total 2016 | |
|---|------------|----------------|
| | Land | Buildings |
| A. Opening balance | 4 | 480,494 |
| B. Increases | - | 60,443 |
| B.1 Purchases | - | 50,910 |
| B.2 Capitalized improvement costs | - | - |
| B.3 Fair value gains | - | - |
| B.4 Writebacks | - | - |
| B.5 Positive exchange rate differences | - | - |
| B.6 Transfers from operating property and equipment | - | 9,533 |
| B.7 Other changes | - | - |
| C. Decreases | - | 47,452 |
| C.1 Sales | - | 10,301 |
| C.2 Depreciation | - | - |
| C.3 Fair value losses | - | 34,784 |
| C.4 Impairment writedowns | - | - |
| C.5 Negative exchange rate differences | - | - |
| C.6 Transfers to other portfolios | - | - |
| a) operating property and equipment | - | - |
| b) non-current assets held for sale | - | - |
| C.7 Other changes | - | 2,367 |
| D. Closing balance | 4 | 493,485 |
| E. Measurement at fair value | - | - |

12.7 COMMITMENTS TO ACQUIRE PROPERTY AND EQUIPMENT

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

SECTION 13 - INTANGIBLE ASSETS - ITEM 130

13.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

| | Total 2016 | | Total 2015 | |
|---|---------------|-----------------|---------------|-----------------|
| | Finite life | Indefinite life | Finite life | Indefinite life |
| A.1 Goodwill | X | 22,593 | X | 23,593 |
| A.1.1 pertaining to the Group | X | 22,593 | X | 23,593 |
| A.1.2 pertaining to non-controlling interests | X | - | X | - |
| A.2 Other intangible assets | 15,651 | 625 | 20,685 | - |
| A.2.1 Assets carried at cost: | | | | |
| a) internally generated intangible assets | 2,960 | - | 2,674 | - |
| b) other assets | 12,691 | 625 | 18,011 | - |
| A.2.2 Assets designated at fair value: | | | | |
| a) internally generated intangible assets | - | - | - | - |
| b) other assets | - | - | - | - |
| Total | 15,651 | 23,218 | 20,685 | 23,593 |

The reduction of €1 million in goodwill is due to the sale by Banca Sviluppo of the Piacenza and Fiorenzuola branches.

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

13.2 INTANGIBLE ASSETS: CHANGE FOR THE PERIOD

| | Goodwill | Other intangible assets: generated internally | | Other intangible assets: other | | Total |
|---|---------------|---|------------|--------------------------------|------------|---------------|
| | | Finite | Indefinite | Finite | Indefinite | |
| A. Opening balance | 23,594 | 4,212 | - | 26,038 | - | 53,843 |
| A.1 Total net writedowns | - | 1,538 | - | 8,027 | - | 9,565 |
| A.2 Opening net balance | 23,594 | 2,674 | - | 18,011 | - | 44,278 |
| B. Increases | - | 1,947 | - | 6,255 | 706 | 8,909 |
| B.1 Purchases | - | 1,947 | - | 5,835 | - | 7,783 |
| 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 | - | - | - | 420 | 706 | 1,126 |
| C. Decreases | 1,000 | 1,661 | - | 11,575 | 81 | 14,317 |
| C.1 Sales | 1,000 | - | - | - | - | 1,000 |
| C.2 Writedowns | - | 1,661 | - | 11,575 | 81 | 13,317 |
| - Amortization | X | 1,661 | - | 11,575 | 81 | 13,317 |
| - Impairment: | - | - | - | - | - | - |
| + equity | X | - | - | - | - | - |
| + income statement | - | - | - | - | - | - |
| C.3 Fair value losses recognized in: | - | - | - | - | - | - |
| - equity | X | - | - | - | - | - |
| - income statement | X | - | - | - | - | - |
| Transfers to non-current assets held for sale | - | - | - | - | - | - |
| C.5 Negative exchange rate differences | - | - | - | - | - | - |
| C.6 Other changes | - | - | - | - | - | - |
| D. Closing net balance | 22,594 | 2,960 | - | 12,691 | 625 | 38,870 |
| D.1 Total net writedowns | - | 1,661 | - | 5,177 | 625 | 6,213 |
| E. Closing gross balance | 22,594 | 4,621 | - | 17,868 | - | 45,083 |
| F. Measurement at cost | | | | 14,647 | | 14,647 |

13.3 OTHER INFORMATION

With regard to the recognition methods for goodwill and other intangible assets, please see Part A – Accounting policies.

The table below shows the allocation of goodwill among the various cash generating units.

| | Total 2016 | Total 2015 |
|---------------|---------------|---------------|
| Retail | 17,578 | 18,578 |
| Corporate | 138 | 138 |
| Institutional | 4,877 | 4,877 |
| Total | 22,593 | 23,593 |

For the intangible assets with a finite useful life, amortization for the year was recognized in profit or loss (under item "210 Net adjustments of intangible assets").

In accordance with IAS 36, both intangible assets with an indefinite useful life and goodwill undergo impairment testing on an annual basis to verify the recoverability of their value. In particular, for intangible assets with a finite useful life, impairment testing is carried out any time the appropriate indicators show evidence of impairment. The recoverable amount is the higher of the value in use and the fair value less costs to sell.

Definition of cash generating units (CGUs)

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

IAS 36 calls for the correlation of the level at which impairment is tested with the level of internal reporting at which management controls increases and decreases in this value. In this regard, the definition of this level closely depends on organizational models and the assignment of management responsibilities for the purposes of defining policies for operations and the consequent monitoring. These models may diverge from the organizational structures of the legal entities through which operations are carried out, and are very often closely linked to the definition of operating segments at the basis of the segment reporting envisaged by IFRS 8.

These CGUs correspond to the Group's business units and, at the same time, are the core business areas considered in segment reporting. The carrying amount of the CGUs is determined in a manner consistent with the criterion for estimating their recoverable amount. For a bank, the cash flows generated by a CGU cannot be identified without considering the cash flows from financial assets/liabilities, as these form part of the core business. In other words, the recoverable amount of the CGUs is impacted by the aforementioned cash flows and, therefore, their carrying amount must be determined in accordance with the scope of the estimation used in determining recoverable amount; thus, they also include financial assets/liabilities. Consequently, these assets and liabilities must be properly allocated to the associated CGUs.

Under this approach (so-called "equity side"), the carrying amount of Iccrea Group CGUs can be determined in terms of their contribution to consolidated shareholders' equity including any non-controlling interests.

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

| CGU | Carrying amount | Of which goodwill |
|---------------|-----------------|-------------------|
| Retail | 970,514 | 17,578 |
| Corporate | 11,348,828 | 138 |
| Institutional | 43,741,579 | 4,877 |

Summary of growth rates and discount rates used

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

| CGU | "g" rate | Nominal rates |
|--------|----------|---------------|
| Retail | 2.00% | 9.4% |

Impairment testing results

The testing of the goodwill recognized in the consolidated financial statements from the acquisition of control of BCC Risparmio e Previdenza SGR (€10.5 million) used the discounted cash flow method, which determines the economic value of a company as the sum of the present value of future potentially distributable dividends consistent with maintaining an adequate level of capital and the present value of the terminal value.

The expected cash flows used in the model were drawn from the 2017-2019 plan approved by the company's board of directors.

The discount rate used for the flow of dividends is equal to the rate of return on own funds requested by investors/shareholders for investments with similar risk characteristics. On the basis of the Capital Asset Pricing Model it was calculated to be 9.4%.

More specifically, the discount rate is determined on the basis of the risk-free rate increased by a premium for the specific risk of the sector and the company involved in the valuation. That premium is calculated by using a coefficient (β) that measures the specific risk of the company on the basis of the variability of its performance compared with the market.

The impairment test supported the carrying amounts recognized at the reporting date.

As regards the goodwill of BCC Sistemi Informatici (€4.8 million), the impairment testing involved the estimation of the economic value of the company's capital using a market multiples approach.

The market multiples approach values a company by using data on the stock prices of comparable companies, calculating and applying market multiples to the indicators of the company being assessed. In this case, an international panel of companies operating in the IT sector and software development industry, which represent the main activities of BCC Sistemi Informatici, was considered. For measurement purposes, the market multiples used were P/BV (Price/Book Value) and P/E (Price/Earnings).

The impairment test supported the amounts recognized in the financial statements.

With regard to the goodwill recognized in the consolidated accounts for Banca Sviluppo (€7 million), the impairment test was conducted using a mixed equity approach with separate valuation of funding, under which the value of a firm or business area is a function of equity at fair value and the value assigned to intangible assets, in this case direct and indirect funding.

More specifically, the value of funding was determined using the goodwill/average market funding multiple, adjusted for the cost/income ratio of the Bank compared with the market average cost/income as applied to the funding of Banca Sviluppo.

The valuation conducted for impairment testing of goodwill was the same as the valuation already conducted in 2016 for the Bank's capital increase pursuant to Article 2441 of the Civil Code, updated to take account of three branch disposal operations carried out following the capital increase.

The impairment test supported the amounts recognized in the financial statements.

Sensitivity analyses

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

SECTION 14 - TAX ASSETS AND LIABILITIES – ITEM 140 130 OF ASSETS AND ITEM 80 OF LIABILITIES

14.1 DEFERRED TAX ASSETS: COMPOSITION

| | Total 2016 | Total 2015 |
|--|----------------|----------------|
| A. Gross deferred tax assets | 239,552 | 232,916 |
| A1. Loans (including securitizations) | 180,667 | 204,219 |
| A2. Other financial instruments | 3,710 | 7,876 |
| A3. Goodwill | 12 | 14 |
| A4. Deferred charges | - | - |
| A5 Property and equipment | 324 | 314 |
| A6. Provisions for risks and charges | 14,613 | 12,285 |
| A7. Entertainment expenses | - | - |
| A8. Personnel costs | 2,094 | 1,024 |
| A9. Tax losses | 18,639 | - |
| A10. Unused tax credits to deduct | 14,552 | 6,284 |
| A11. Other | 4,942 | 900 |
| B. Offsetting with deferred tax liabilities | (6,078) | (7,360) |
| C. Net deferred tax assets | 233,474 | 225,556 |

Under the provisions of Basel 3, deferred tax assets other than those in respect of prepaid taxes under Law 214/2011 (weighted at 100%) are reported net of the associated deferred taxation.¹ The effect of that offsetting amounted to €6 million.

The change in deferred tax assets is mainly attributable to:

- the conversion into tax credits of deferred tax assets generated by the writedown of receivables in the amount of €17.2 million;
- the Economic Growth Aid that could not be used due to insufficient consolidated taxable income, which will be usable in future years, in the amount of €14.5 million;
- the 2016 tax loss for the purposes of consolidated IRES in the amount of €18.6 million.

¹ DTAs and DTLs are offset for taxes of the same nature levied by same tax authority, in compliance with the provisions of Article 38, paragraph 3, of Regulation (EU) 575/2013.

14.2 DEFERRED TAX LIABILITIES: COMPOSITION

| | Total 2016 | Total 2015 |
|---|----------------|----------------|
| A. Gross deferred tax liabilities | 9,849 | 28,409 |
| A1. Capital gains tax in installments | 2,432 | 3,608 |
| A2. Goodwill | 397 | 361 |
| A3. Property and equipment | 230 | 319 |
| A4. Financial instruments | 5,572 | 22,580 |
| A5. Personnel costs | 20 | 10 |
| A6. Other | 1,197 | 1,531 |
| B. Offsetting with deferred tax assets | (6,078) | (7,360) |
| C. Net deferred tax liabilities | 3,771 | 21,049 |

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

Deferred taxes not recognized

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

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

| | Total 2016 | Total 2015 |
|---|----------------|----------------|
| 1. Opening balance | 229,176 | 201,884 |
| 2. Increases | 32,239 | 33,889 |
| 2.1 Deferred tax assets recognized during the period | 29,296 | 33,484 |
| a) in respect of previous period | - | 1,688 |
| b) due to change in accounting policies | - | - |
| c) writebacks | - | - |
| d) other | 29,296 | 31,796 |
| 2.2 New taxes or increases in tax rates | - | - |
| 2.3 Other increases | 2,943 | 405 |
| 3. Decreases | 26,005 | 6,597 |
| 3.1 Deferred tax assets derecognized during the period | 8,762 | 3,438 |
| a) reversals | 7,033 | 2,605 |
| b) writedowns for supervening non-recoverability | - | 203 |
| c) due to changes in accounting policies | - | - |
| d) other | 1,729 | 630 |
| 3.2 Reduction in tax rates | - | - |
| 3.3 Other decreases | 17,243 | 3,159 |
| a) transformation in tax credits pursuant to Law 214/2011 | 17,228 | |
| b) other | 14 | 3,159 |
| 4. Closing balance | 235,410 | 229,176 |

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

| | Total 2016 | Total 2015 |
|-------------------------------------|----------------|----------------|
| 1. Opening balance | 200,040 | 179,078 |
| 2. Increases | - | 22,700 |
| 3. Decreases | 18,935 | 1,738 |
| 3.1 Reversals | 1,192 | - |
| 3.2 Conversion into tax credits | 17,228 | - |
| a) arising from losses for the year | 17,228 | - |
| b) arising from tax losses | | - |
| 3.3 Other decreases | 514 | 1,738 |
| 4. Closing balance | 181,105 | 200,040 |

Decree Law 83/2015 (Articles 16 and 17) modified the rules governing writedowns and losses on loans: as from the 2016 financial year, the entire amount of writedowns and losses on loans to customers is immediately deductible.

14.4 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN INCOME STATEMENT)

| | Total 2016 | Total 2015 |
|---|--------------|--------------|
| 1. Opening balance | 5,696 | 8,574 |
| 2. Increases | 123 | 457 |
| 2.1 Deferred tax liabilities recognized during the period | 86 | 2 |
| a) in respect of previous period | - | 2 |
| b) due to change in accounting policies | - | - |
| c) other | 86 | - |
| 2.2 New taxes or increases in tax rates | - | - |
| 2.3 Other increases | 37 | 455 |
| 3. Decreases | 1,751 | 3,332 |
| 3.1 Deferred tax liabilities derecognized during the period | 1,612 | 3,332 |
| a) reversals | 1,216 | 1,168 |
| b) due to changes in accounting policies | - | - |
| c) other | 396 | 2,164 |
| 3.2 Reduction in tax rates | 21 | - |
| 3.3 Other decreases: | 118 | - |
| 4. Closing balance | 4,068 | 5,699 |

14.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

| | Total 2016 | Total 2015 |
|--|--------------|--------------|
| 1. Opening balance | 3,740 | 3,283 |
| 2. Increases | 1,194 | 1,572 |
| 2.1 Deferred tax assets recognized during the period | 1,181 | 1,566 |
| a) in respect of previous periods | - | - |
| b) due to change in accounting policies | - | - |
| c) other | 1,181 | 1,566 |
| 2.2 New taxes or increases in tax rates | - | - |
| 2.3 Other increases | 13 | 6 |
| 3. Decreases | 864 | 1,115 |
| 3.1 Deferred tax assets derecognized during the period | 47 | 213 |
| a) reversals | 47 | 15 |
| b) writedowns for supervening non-recoverability | - | - |
| c) due to changes in accounting policies | - | - |
| d) other | - | 198 |
| 3.2 Reduction in tax rates | - | - |
| 3.3 Other decreases | 817 | 902 |
| 4. Closing balance | 4,070 | 3,740 |

14.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

| | Total 2016 | Total 2015 |
|---|---------------|---------------|
| 1. Opening balance | 22,710 | 26,121 |
| 2. Increases | 123 | 791 |
| 2.1 Deferred tax liabilities recognized during the period | 2 | 731 |
| a) in respect of previous periods | - | - |
| b) due to change in accounting policies | - | - |
| c) other | 2 | 731 |
| 2.2 New taxes or increases in tax rates | 3 | - |
| 2.3 Other increases | 118 | 60 |
| 3. Decreases | 17,051 | 4,202 |
| 3.1 Deferred tax liabilities derecognized during the period | 17,037 | 3,384 |
| a) reversals | 17,036 | 2,695 |
| b) due to change in accounting policies | - | 658 |
| c) other | 1 | 31 |
| 3.2 Reduction in tax rates | - | - |
| 3.3 Other decreases | 14 | 818 |
| 4. Closing balance | 5,782 | 22,710 |

14.7 OTHER INFORMATION

A) Current tax assets

| | Total 2016 | Total 2015 |
|--|----------------|----------------|
| A. Gross current tax assets | 114,351 | 65,255 |
| A1. Corporate income tax (IRES) payments on account | 33,377 | 33,024 |
| A2. Regional business tax (IRAP) payments on account | 12,803 | 10,069 |
| A3. Other credits and withholdings | 68,171 | 22,162 |
| B. Offsetting with current tax liabilities | 4,654 | (6,883) |
| C. Net current tax assets | 109,697 | 58,372 |

“Other credits and withholdings” mainly reflect the conversion into tax credits of DTAs regarding loan writedowns and IRAP credits from previous arising from acquisitions by Banca Sviluppo S.p.A.

B) Current tax liabilities

| | Total 2016 | Total 2015 |
|--|--------------|----------------|
| A. Gross current tax liabilities | 4,828 | 13,883 |
| A1. IRES liabilities | 37 | 4,593 |
| A2. IRAP liabilities | 4,792 | 9,205 |
| A3. Other current income tax liabilities | - | 85 |
| B. Offsetting with current tax assets | 4,654 | (6,883) |
| C. Net current tax liabilities | 175 | 7,000 |

The composition of current taxes shows the Group’s position in respect of tax authorities in application of the regulations governing the consolidated taxation mechanism. The position in respect of the tax authorities, which this year is a creditor position, is essentially attributable to the payment of greater IRES on account (using the “historical” method) than the estimated tax liability for 2015 owing to the reduction in the Group’s taxable income for the year.

As regards its tax position, Iccrea Banca reports:

- for the financial years 2012, 2013, 2014 e 2015 for which the tax assessment time limit has not expired), no formal notice of assessment has yet been received;
- on November 4, 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. As the Bank believes that the notice of assessment is groundless both in substance and form, it lodged an appeal with the Provincial Tax Commission of Brescia on December 22, 2014. After an initial ruling in favor of the Revenue Agency, the Bank lodged an appeal with the Regional Tax Commission on December 16, 2015. As the Tax Commission ruled in favor of the Revenue Agency on appeal, the Bank decided to appeal to the Court of Cassation.

In 2011, 2012 and early 2013, the Revenue Agency – 2nd Provincial Directorate of Rome – notified BCC Solutions and Iccrea Holding, in its position as the tax consolidating entity, notices of assessment involving IRES in the total amount of €1,9 million for the tax years from 2006 to 2010 associated with an examination report concerning the application of anti-tax-avoidance rules for direct taxes involving a demerger carried out in 2004. The notices were promptly appealed before the Provincial Tax Commission of Rome.

The appeals of the notices of assessment for the 2006 to 2009 tax periods, the jointed hearing for which was held on November 11, 2014, were all decided in Iccrea's favor in a ruling filed on September 28, 2015, which voided the assessments referred to earlier and ordered the tax authorities to pay costs. The latter appealed the ruling in March 2016. The hearing of the case on December 6 ended with the Tax Commission rejecting the appeal. Similarly, the appeal against the notice of assessment for the 2010 tax period, which was argued at a hearing on January 21, 2016, was decided in Iccrea's favor by the Provincial Tax Commission in a ruling filed on March 14, 2016, which voided the notice of assessment and order the tax authorities to pay costs. The latter appealed the ruling in September 2016. The hearing has not been scheduled yet.

In preparing the financial statements at December 31, 2016, the subsidiary, with the assistance of external consultants, determined that it was unlikely that the associated tax liability would arise. Accordingly, no provision was recognized for tax liabilities.

SECTION 15 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 150 OF ASSETS AND ITEM 90 OF LIABILITIES

15.1 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY TYPE

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

15.2 OTHER INFORMATION

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

15.3 DISCLOSURES ON EQUITY INVESTMENTS IN COMPANIES UNDER SIGNIFICANT INFLUENCE NOT ACCOUNTED FOR AT EQUITY

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

SECTION 16 - OTHER ASSETS - ITEM 160

16.1 OTHER ASSETS: COMPOSITION

| | Total 2016 | Total 2015 |
|---|----------------|----------------|
| - Consolidation adjustments | 44,548 | 68 |
| - Tax receivables | 84,828 | 119,617 |
| - Current account checks drawn on third parties held by cashier | | - |
| - Coupons and securities receivable | | - |
| - Security deposits | 564 | 105 |
| - Stamp duty and other valuables | - | - |
| - Gold, silver and precious metals | - | - |
| - Own bills - difference between portfolio account and transferor's account | | - |
| - Third-party bills - difference between portfolio account and transferor's account | | - |
| - Items in transit between branches | | - |
| - Items being processed | 82,945 | 34,212 |
| - Deficits, misappropriation and robbery | | - |
| - Accrued income not attributable to separate line item | 23 | 13 |
| - Prepaid expenses not attributable to separate line item | 10,894 | 15,414 |
| - Leasehold improvements | 656 | 652 |
| - Other | 95,723 | 124,856 |
| Total | 320,181 | 294,937 |

The item "Tax receivables" is mainly composed of:

- VAT credits of €25.3 million
- stamp duty of €32.2 million;
- IRAP credits for which reimbursement has been requested of €6.2 million;
- tax credits from the liquidation of BCC Padovana of €3 million.
- withholding tax on current accounts and certificates of deposit of €6.5 million.

The item "Other" is mainly composed of:

- premiums to be received from derivatives business with customers of €17.5 million;
- receivables due from Deposit Guarantee Fund for the definitive deficit in respect of the extraordinary Banca Romagna Cooperativa transaction as well as the deficits from the acquisition of CrediVeneto and BCC di Brutia of €12.4 million;
- fees and commissions from the electronic money sector in the amount of €22.5 million and €3.3 million from credit cards;
- trade receivables of €34.9 million.

With the exception of trade receivables, the comparative figures for 2015 have been restated as they had been reclassified in "Tax receivables due from State tax authorities and other tax agencies".

At December 31, 2016, the funds from the EIB (€64.7 million at December 31, 2015) had been used for specific loans in compliance with the purposes of the funds and the requirements set out in the Regional Operational Plans.

LIABILITIES

SECTION 1 - DUE TO BANKS - ITEM 10

1.1 DUE TO BANKS: COMPOSITION BY TYPE

| | Total 2016 | Total 2015 |
|--|-------------------|-------------------|
| 1. Due to central banks | 5,500,000 | 6,584,962 |
| 2. Due to banks | 7,222,738 | 6,796,525 |
| 2.1 Current accounts and demand deposits | 3,864,323 | 4,073,486 |
| 2.2 Fixed-term deposits | 2,899,692 | 2,636,649 |
| 2.3 Loans | 433,207 | 64,338 |
| 2.3.1 Repurchase agreements | 421,991 | 51,551 |
| 2.3.2 Other | 11,216 | 12,787 |
| 2.4 Liabilities in respect of commitments to repurchase own equity instruments | - | - |
| 2.5 Other payables | 25,516 | 22,052 |
| Total | 12,722,738 | 13,381,487 |
| Fair Value L1 | 88,201 | - |
| Fair Value L2 | 1,899 | 1,351 |
| Fair Value L3 | 12,693,072 | 13,405,876 |
| Total Fair Value | 12,783,792 | 13,407,227 |

The item “due to central banks” represents financing from the ECB obtained in June and December 2016 (maturing in 2020) under the TLTRO II program and secured by securities owed by Iccrea and the mutual banks. At the same time, the funding obtained under TLTRO I was repaid in full.

“Current accounts and demand deposits” include:

- correspondence accounts amounting to €3,611 million (of which 127 million in foreign currency) and demand deposits of €108 million;
- cash collateral received from bank counterparties securing derivatives exposures supported by Credit Support Annexes (CSA) of €100 million;

The sub-item “Fixed-term deposits” also includes deposits received from the mutual banks amounting to around €859 million for indirect compliance with the reserve requirement.

“Other payables” include:

- €20 million in payables for subscription/maintenance fees to be paid to bank counterparties for placement of own and third-party financial products;
- €3.1 million of cashier’s checks issued and not yet presented.

The fair value is obtained using discounted cash flow techniques.

1.2 BREAKDOWN OF ITEM 10 “DUE TO BANKS”: SUBORDINATED LIABILITIES

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

1.3 BREAKDOWN OF ITEM 10 “DUE TO BANKS”: STRUCTURED LIABILITIES

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

1.4 DUE TO BANKS: LIABILITIES HEDGED SPECIFICALLY

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

1.5 LIABILITIES IN RESPECT OF FINANCE LEASES

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

SECTION 2 - DUE TO CUSTOMERS - ITEM 20

2.1 DUE TO CUSTOMERS: COMPOSITION BY TYPE

| | Total 2016 | Total 2015 |
|---|-------------------|-------------------|
| 1. Current accounts and demand deposits | 1,626,677 | 1,176,857 |
| 2. Fixed-term deposits | 154,242 | 203,905 |
| 3. Loans | 23,713,830 | 25,336,132 |
| 3.1 Repurchase agreements | 23,535,189 | 24,906,079 |
| 3.2 Other | 178,641 | 430,053 |
| 4. Liabilities in respect of commitments to repurchase own equity instruments | - | - |
| 5. Other payables | 1,334,581 | 912,753 |
| Total | 26,829,330 | 27,629,647 |
| Fair Value L1 | - | - |
| Fair Value L2 | 3,138 | - |
| Fair Value L3 | 26,811,388 | 27,643,829 |
| Total Fair Value | 26,814,526 | 27,643,829 |

“Current accounts and demand deposits” include €198 million in savings deposits and cash collateral paid to financial counterparties to secure derivatives exposures supported by Credit Support Annexes (CSA) of €22.5 million;

The sub-item “Repurchase agreements” is composed entirely of transactions with the Clearing and Guarantee Fund.

The sub-item “Loans – other” includes €174 million of sundry loans from Agos-Ducato S.p.A. to the subsidiary BCC Credito Consumo S.p.A.

The item “Other payables” essentially comprises:

- bankers’ drafts issued but not yet presented for settlement in the amount of €543 million;
- liabilities in respect of assets assigned but not derecognized in securitizations by the Group companies in the amount of €548 million;
- third-party funds in administration with Cassa Depositi e Prestiti in the amount of €99.7 million;
- prepaid cards of €88.2 million.

The fair value is obtained using discounted cash flow techniques.

2.2 BREAKDOWN OF ITEM 20 “DUE TO CUSTOMERS”: SUBORDINATED LIABILITIES

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

2.3 BREAKDOWN OF ITEM 20 “DUE TO CUSTOMERS”: STRUCTURED LIABILITIES

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

2.4 DUE TO CUSTOMERS: LIABILITIES HEDGED SPECIFICALLY

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

2.5 LIABILITIES IN RESPECT OF FINANCE LEASES

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

SECTION 3 - SECURITIES ISSUED - ITEM 30

3.1 SECURITIES ISSUED: COMPOSITION BY TYPE

| | Total 2016 | | | | Total 2015 | | | |
|----------------------|------------------|------------------|----------------|----------------|------------------|------------------|----------------|----------------|
| | Carrying amount | Fair Value | | | Carrying amount | Fair Value | | |
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| A. Securities | | | | | | | | |
| 1. Bonds | 4,226,330 | 3,595,607 | 789,777 | - | 4,245,472 | 3,389,347 | 785,977 | 144,671 |
| 1.1 structured | 490,739 | 413,282 | 94,267 | - | 453,174 | 471,612 | 5,945 | - |
| 1.2 other | 3,735,591 | 3,182,325 | 695,510 | - | 3,792,298 | 2,917,735 | 780,032 | 144,671 |
| 2. Other securities | 240,524 | - | - | 243,533 | 157,741 | - | - | 161,148 |
| 2.1 structured | - | - | - | - | - | - | - | - |
| 2.2 other | 240,524 | - | - | 243,533 | 157,741 | - | - | 161,148 |
| Total | 4,466,854 | 3,595,607 | 789,777 | 243,533 | 4,403,213 | 3,389,347 | 785,977 | 305,819 |

The item comprises bonds issued by the Group and hedged against interest rate risk using derivatives, the amount of which is adjusted by changes in fair value attributable to the hedged risk accrued as of the reporting date (see table 3.3 below), as well as unhedged bonds issued measured at amortized cost.

The item "Bonds– structured" mainly regards bonds with structures such as stepped, stepped&callable and floored&capped.

"Other securities – other" include certificates of deposit issued by Banca Sviluppo S.p.A. to customers.

The fair value of securities issued is calculated by discounting future cash flows using the swap yield curve as at the reporting date.

3.2 BREAKDOWN OF ITEM 30 "SECURITIES ISSUED": SUBORDINATED SECURITIES

| | Total 2016 | Total 2015 |
|------------------------|----------------|----------------|
| Opening balance | 469,884 | 363,035 |
| Issues in period | | 132,581 |
| Other changes | (2,626) | (25,732) |
| Closing balance | 467,258 | 469,884 |

Changes in the period are attributable to the combined impact of:

- the increase associated with the CrediVeneto acquisition, with six subordinated issues with a value of €6.3 million;
- the reduction associated with the market making activity of Iccrea Banca on the Hi-Mtf in respect of listed issues and the change in the fair value of the only hedged security, for a total of €8.9 million.

The carrying amount of subordinated loans eligible for inclusion in own funds (Tier II) amounted to €192.5 million.

| ISIN | ISSUE | MATURITY | INTEREST RATE | Value | Currency |
|--------------|------------|------------|----------------------------|---------|----------|
| XS0287516214 | 19/02/2007 | 19/02/2017 | Euribor 3m +0.50% | 40,606 | Euro |
| XS0287519663 | 20/02/2007 | 20/02/2017 | Euribor 3m +0.50% | 45,811 | Euro |
| XS0295539984 | 11/04/2007 | 11/04/2017 | 5.22% | 52,515 | Euro |
| XS1246834169 | 18/06/2015 | 18/06/2025 | Euribor 6m+3.50% | 105,084 | Euro |
| IT0004991995 | 14/03/2014 | 14/03/2021 | 4.75% | 181,300 | Euro |
| IT0005118754 | 29/06/2015 | 29/06/2025 | 3.50% | 11,776 | Euro |
| IT0005123820 | 30/07/2015 | 30/07/2025 | Euribor 6m+350BP | 16,188 | Euro |
| IT0004674773 | 30/12/2010 | 30/12/2020 | Euribor 6m ACT 365 + 0.75% | 5,661 | Euro |
| IT0004785728 | 23/12/2011 | 23/12/2018 | 4.75% | 2,002 | Euro |
| IT0004871957 | 27/11/2012 | 27/11/2017 | 5.05% | 1,306 | Euro |
| IT0004906241 | 19/04/2013 | 19/10/2018 | 5% | 3,030 | Euro |
| IT0004936438 | 15/07/2013 | 15/01/2019 | 5% | 433 | Euro |
| IT0004987431 | 23/01/2014 | 23/01/2021 | 4.1% | 611 | Euro |
| IT0004992852 | 17/02/2014 | 17/08/2021 | 4.5% | 931 | Euro |

3.3 BREAKDOWN OF ITEM 30 "SECURITIES ISSUED": SECURITIES HEDGED SPECIFICALLY

| | Total 2016 | Total 2015 |
|---|----------------|----------------|
| 1. Securities covered by specific fair value hedges: | 522,913 | 574,001 |
| a) interest rate risk | 522,913 | 574,001 |
| b) exchange rate risk | - | - |
| c) multiple risks | - | - |
| 2. Securities covered by specific cash flow hedges: | 80,166 | 48,169 |
| a) interest rate risk | - | - |
| b) exchange rate risk | 80,166 | 48,169 |
| c) other | - | - |
| Total | 603,079 | 622,170 |

The amounts reported regard 5 bonds issued by the Group hedged for interest rate risk using IRSs and IROs.

The amount under point 2.b) regards 4 bonds issued in US dollars by Iccrea Banca S.p.A. and hedged with CCIRs.

SECTION 4 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 40

4.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

| | Total 2016 | | | | | Total 2015 | | | | |
|--|---------------|---------------|----------------|----------|----------------|----------------|----------------|----------------|----------|----------------|
| | NV | FV | | | FV * | NV | FV | | | FV * |
| | | Level 1 | Level 2 | Level 3 | | | Level 1 | Level 2 | Level 3 | |
| A. On-balance-sheet liabilities | | | | | | | | | | |
| 1. Due to banks | 571 | 606 | - | - | 606 | 100 | 116 | - | - | 116 |
| 2. Due to customers | 91,863 | 96,983 | 16 | - | 96,999 | 135,013 | 137,634 | - | - | 137,634 |
| 3. Debt securities | - | - | - | - | - | - | - | - | - | - |
| 3.1 Bonds | - | - | - | - | - | - | - | - | - | - |
| 3.1.1 Structured | - | - | - | - | X | - | - | - | - | X |
| 3.1.2 Other bonds | - | - | - | - | X | - | - | - | - | X |
| 3. Other | - | - | - | - | - | - | - | - | - | - |
| 3.2.1 Structured | - | - | - | - | X | - | - | - | - | X |
| 3.2.2 Other | - | - | - | - | X | - | - | - | - | X |
| Total A | 92,434 | 97,589 | 16 | - | 97,605 | 135,113 | 137,750 | - | - | 137,750 |
| B. Derivatives | | | | | | | | | | |
| 1. Financial derivatives | - | 866 | 311,146 | - | 312,012 | - | 128 | 325,469 | - | - |
| 1.1 Trading | X | 866 | 311,146 | - | 312,012 | X | 128 | 322,796 | - | X |
| 1.2 Associated with fair value option | X | - | - | - | - | X | - | - | - | X |
| 1.3 Other | X | - | - | - | - | X | - | 2,673 | - | X |
| 2. Credit derivatives | - | - | - | - | - | - | - | - | - | - |
| 2.1 Trading | X | - | - | - | - | X | - | - | - | X |
| 2.2 Associated with fair value option | X | - | - | - | - | X | - | - | - | X |
| 2.3 Other | X | - | - | - | - | X | - | - | - | X |
| Total B | X | 866 | 311,146 | - | 312,012 | X | 128 | 325,469 | - | X |
| Total (A+B) | X | 98,455 | 311,162 | - | 409,617 | X | 137,878 | 325,469 | - | X |

Key:

FV = Fair value

FV* = Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

NV = nominal or notional value

Part A of the table reports short positions on debt securities generated by securities trading activities (shown under amounts due to banks or due to customers, depending on the assignor), which were closed in the first few days of January 2016.

The item includes the negative value of trading derivatives entered into by the Group on behalf of mutual banks.

4.2 BREAKDOWN OF ITEM 40 " FINANCIAL LIABILITIES HELD FOR TRADING ": SUBORDINATED LIABILITIES

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

4.3 BREAKDOWN OF ITEM 40 " FINANCIAL LIABILITIES HELD FOR TRADING ": STRUCTURED LIABILITIES

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

SECTION 5 - FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE - ITEM 50

5.1 FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE: COMPOSITION BY TYPE

| | Total 2016 | | | | | Total 2015 | | | | |
|----------------------------|---------------|---------------|--------------|---------|---------------|----------------|----------------|---------|---------|----------------|
| | NV | FV | | | FV * | NV | FV | | | FV * |
| | | Level 1 | Level 2 | Level 3 | | | Level 1 | Level 2 | Level 3 | |
| 1. Due to banks | - | - | - | - | - | - | - | - | - | - |
| 1.1 Structured | - | - | - | - | X | - | - | - | - | X |
| 1.2 Other | - | - | - | - | X | - | - | - | - | X |
| 2. Due to customers | - | - | - | - | - | - | - | - | - | - |
| 2.1 Structured | - | - | - | - | X | - | - | - | - | X |
| 2.2 Other | - | - | - | - | X | - | - | - | - | X |
| 3. Debt securities | 20,580 | 19,469 | 1,920 | - | 21,076 | 427,557 | 437,636 | - | - | 438,333 |
| 3.1 Structured | - | - | - | - | X | 427,557 | 437,636 | - | - | X |
| 3.2 Other | 20,580 | 19,469 | 1,920 | - | X | - | - | - | - | X |
| Total | 20,580 | 19,469 | 1,920 | - | 21,076 | 427,557 | 437,636 | - | - | 438,333 |

Key:

FV = Fair value

FV* = Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issue since the issue date

NV = nominal or notional value

“Financial liabilities at fair value” include three structured bonds (stepped and floored&capped) issued by Banca Sviluppato S.p.A. to avoid the separation of the embedded derivative.

5.2 BREAKDOWN OF ITEM 50 "FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE": SUBORDINATED LIABILITIES

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

SECTION 6 - HEDGING DERIVATIVES - ITEM 60

6.1 HEDGING DERIVATIVES: COMPOSITION BY TYPE OF HEDGE AND LEVEL OF INPUTS

| | Fair Value (2016) | | | NV (2016) | Fair Value (2015) | | | NV (2015) |
|--------------------------------------|-------------------|---------------|----|------------------|-------------------|----------------|----|------------------|
| | L1 | L2 | L3 | | L1 | L2 | L3 | |
| A) Financial derivatives | - | 63,318 | - | 2,189,916 | - | 101,363 | - | 3,595,546 |
| 1) Fair value | - | 59,074 | - | 2,157,317 | - | 97,924 | - | 3,563,104 |
| 2) Cash flows | - | 4,244 | - | 32,599 | - | 3,439 | - | 32,442 |
| 3) Investments in foreign operations | - | - | - | - | - | - | - | - |
| B. Credit derivatives | - | - | - | - | - | - | - | - |
| 1) Fair value | - | - | - | - | - | - | - | - |
| 2) Cash flows | - | - | - | - | - | - | - | - |
| Total | - | 63,318 | - | 2,189,916 | - | 101,363 | - | 3,595,546 |

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

NV = Notional value

These are financial derivatives designated as hedges of the risk of changes in the fair value, caused by the volatility of interest rates, of financial instruments associated with bond issues, financial assets held for sale, the loan portfolio and variable-rate loans with average indexing, as reported in the following table.

6.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

| | Fair Value | | | | | | Cash flows | | Investments in foreign operations |
|--|--------------------|--------------------|-------------|------------|----------------|--------------|--------------|---------|-----------------------------------|
| | Specific | | | | | Generic | Specific | Generic | |
| | interest rate risk | exchange rate risk | credit risk | price risk | multiple risks | | | | |
| 1. Financial assets available for sale | 29,770 | - | - | - | - | X | 4,243 | X | X |
| 2. Loans | 15,675 | - | - | X | - | X | - | X | X |
| 3. Financial assets held to maturity | X | - | - | X | - | X | - | X | X |
| 4. Portfolio | X | X | X | X | X | 2,384 | X | - | X |
| 5. Other transactions | - | - | - | - | X | X | - | X | - |
| Total assets | 45,446 | - | - | - | X | 2,384 | 4,243 | - | - |
| 1. Financial liabilities | 11,244 | - | - | X | - | X | - | X | X |
| 2. Portfolio | X | X | X | X | X | - | X | - | X |
| Total liabilities | 11,244 | - | - | - | - | - | - | - | - |
| 1. Forecast transactions | X | X | X | X | X | X | - | X | X |
| 2. Portfolio of financial assets and liabilities | X | X | X | X | X | - | X | - | - |

The amounts reported in respect of “financial assets available for sale” regard fair value hedges that the Group has established using asset swap derivatives to sterilize the interest rate risk connected with listed debt securities. More specifically, these include inflation-linked and fixed-rate BTPs. This type of instrument essentially makes it possible to synthetically replicate a floating-rate security.

The amounts reported under “loans” regard the negative value of hedging derivatives used to hedge the risk on fixed-rate receivables in lease transactions.

The amount in respect of the specific cash flows hedges under “financial assets available for sale” regards the negative fair value of an asset swap on a BTP indexed to European inflation.

“Loans” hedged against interest rate risk regard a deposit hedged using overnight indexed swaps (OISs).

The amount reported under point 4 regards generic hedges of portfolios of deposits managed by the treasury using OISs.

The item “financial liabilities” includes the negative fair value of IRSs and IROs hedging two bonds issued by the Group.

SECTION 7 - VALUE ADJUSTMENTS OF GENERICALLY HEDGED LIABILITIES - ITEM 70

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

SECTION 8 – TAX LIABILITIES – ITEM 80

See section 14 under assets.

SECTION 9 – LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE – ITEM 90

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

SECTION 10 – OTHER LIABILITIES - ITEM 100

10.1 OTHER LIABILITIES: COMPOSITION

| | Total 2016 | Total 2015 |
|---|----------------|----------------|
| - Tax payables due to tax authorities | 35,428 | 35,949 |
| - Amounts due to social security institutions and employees | 39,615 | 24,279 |
| - Amounts available to customers | 39,303 | 30,120 |
| - Items in transit between branches | - | - |
| - Items being processed | 96,982 | 29,710 |
| - Accrued expenses not attributable to separate line item | 526 | 496 |
| - Deferred income not attributable to separate line item | 5,819 | 8,533 |
| - Liabilities in respect of impaired guarantees | 5,007 | 3,713 |
| - Other | 350,870 | 322,783 |
| Total | 573,550 | 455,583 |

The item “tax payables due to tax authorities” includes €16 million in stamp duty on subscriptions.

The item “amounts due to social security institutions and employees” includes €25.7 million in respect of solidarity funds for early termination incentives.

The item “amounts available to customers” includes:

- €19.8 million for amounts available to third parties for pensions to be disbursed to customers in the first few days of 2017;
- €4.8 million in expired bankers' drafts.

“Items being processed” include €36 million in extraordinary National Resolution Fund contributions (BRRD).

The item “other” includes:

- €95.8 million for failed acquisitions (€9.2 million in 2015);
- €45.4 million in trade items;
- €9.5 million for premiums to be paid for derivatives business with customers;
- €5 million for provisions for risk associated with guarantees granted;
- €13 million in liabilities for the definitive deficit from the acquisition of BCC di Tarsia and BCC dei Due Mari and the disposal of the Finale and Cefalù branches.

At December 31, 2016, the funds from the EIB (€64.7 million at December 31, 2015) had been used for specific loans in compliance with the purposes of the funds and the requirements set out in the Regional Operational Plans.

The comparative figures for 2015 have been restated due to the merger of the items “Amounts due to social security institutions” and “Other amounts due to employees” in the single item “Amounts due to social security institutions and employees”.

SECTION 11 – EMPLOYEE TERMINATION BENEFITS – ITEM 110

This item reports employee termination benefits, estimating the amount due to each employee in relation to the specific time the employment relationship ceases. The amount is calculated on an actuarial basis, considering the future time at which the actual financial outlay will be incurred, in compliance with the criteria established by IAS 19 concerning defined-benefit plans.

11.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

| | Total 2016 | Total 2015 |
|-------------------------------|---------------|---------------|
| A. Opening balance | 29,551 | 28,645 |
| B. Increases | 5,379 | 3,941 |
| B.1 Provisions for the period | 351 | 112 |
| B.2 Other increases | 5,028 | 3,829 |
| C. Decreases | 5,318 | 3,035 |
| C.1 Benefit payments | 4,930 | 2,773 |
| C.2 Other decreases | 388 | 262 |
| D. Closing balance | 29,612 | 29,551 |
| Total | 29,612 | 29,551 |

“Increases – Other increases” mainly include:

- the employee termination benefits from the acquisitions during the year by Banca Sviluppo S.p.A.;
- the effects of the actuarial recalculation of the accrued obligation determined using the projected unit credit method (current service cost, interest cost and actuarial losses).

OTHER INFORMATION

Employee termination benefits cover the entire entitlement accrued as at the reporting date by employees, in conformity with applicable law, the collective bargaining agreement and supplementary company-level contract.

The main actuarial assumptions and reference rates used are:

- mortality rates: ISTAT's 2004 mortality tables;
- annual turnover rates: 2-6.50%;
- discount rate: 1.30%;
- rate of inflation: 1.50%;
- rate of increase in salaries: 2.38% (used only for seniority purposes).

The independent actuary determined the discount rate using as a reference basket the Iboxx Obbligazioni Corporate AA index, with an average duration comparable to the group being assessed.

SECTION 12 - PROVISIONS FOR RISKS AND CHARGES - ITEM 120

12.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

| | Total 2016 | Total 2015 |
|--|---------------|---------------|
| 1. Company pension plans | 1,907 | 1,750 |
| 2. Other provisions for risks and charges | 74,769 | 52,943 |
| 2.1 legal disputes | 45,652 | 37,101 |
| 2.2 personnel expenses | - | - |
| 2.3 other | 29,117 | 15,842 |
| Total | 76,676 | 54,693 |

“Company pension plans” includes employee seniority bonuses.

The sub-item 2.1 “Legal disputes” mainly includes revocatory actions, litigation and disputes and legal costs for debt collection.

The sub-item 2.3. “Provisions for risks and charges – other” mainly includes provisions for income support solidarity funds for employees in early retirement schemes acquired from BCC Euganea, BCC Due Mari and Banca Romagna Cooperativa in the amount of €24.3 million and provisions for the estimated contingent liability in respect of former tenants of the properties transferred to Fondo Immobiliare Securis Real Estate.

12.2 PROVISIONS FOR RISKS AND CHARGES: CHANGE FOR THE PERIOD

| | Total 2016 | |
|---|-----------------------|------------------|
| | Retirement provisions | Other provisions |
| A. Opening balance | 1,750 | 52,944 |
| B. Increases | 398 | 34,314 |
| B.1 Provisions for the year | 118 | 8,141 |
| B.2 Changes due to passage of time | 10 | 53 |
| B.3 Changes due to changes in the discount rate | - | 33 |
| B.4 Other increases | 270 | 26,087 |
| C. Decreases | 240 | 12,489 |
| C.1 Use during the period | 108 | 12,118 |
| C.2 Changes due to changes in the discount rate | 132 | - |
| C.3 Other decreases | - | 371 |
| D. Closing balance | 1,908 | 74,769 |

“Increases – other increases” mainly include the solidarity funds for income support for employees in early retirement from the mutual banks acquired by Banca Sviluppo S.p.A..

12.3 DEFINED-BENEFIT COMPANY PENSION PLANS

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

2.4 PROVISIONS - OTHER

The information is summarized in the comments to table 12.1 and the changes reported in Table 12.2.

SECTION 13 - TECHNICAL RESERVES - ITEM 130

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

SECTION 14 - REDEEMABLE SHARES - ITEM 150

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

SECTION 15 - SHAREHOLDERS' EQUITY - ITEMS 140, 160, 170, 180, 190, 200 AND 220**15.1 "SHARE CAPITAL" AND "TREASURY SHARES": COMPOSITION**

As at the reporting date, share capital was represented by 22,285,487 ordinary shares with a par value of €51.65 each with a total value of €1,151,045,403.55 fully paid up. The Group held 584,221 Treasury shares.

15.2 SHARE CAPITAL – NUMBER OF SHARES OF THE PARENT COMPANY: CHANGE FOR THE PERIOD

| | Ordinary 2016 | Other 2016 |
|---|-------------------|------------|
| A. Shares at the start of the year | 22,285,487 | - |
| - fully paid | 22,285,487 | - |
| - partially paid | - | - |
| A.1 Treasury shares (-) | (156,160) | - |
| A.2 Shares in circulation: opening balance | 22,129,327 | - |
| B. Increases | 533,956 | - |
| B.1 New issues | - | - |
| - for consideration: | - | - |
| - business combinations | - | - |
| - conversion of bonds | - | - |
| - exercise of warrants | - | - |
| - other | - | - |
| - bonus issues: | - | - |
| - to employees | - | - |
| - to directors | - | - |
| - other | - | - |
| B.2 Sales of own shares | 533,956 | - |
| B.3 Other changes | - | - |
| C. Decreases | (962,017) | - |
| C.1 Cancellation | - | - |
| C.2 Purchase of own shares | (962,017) | - |
| C.3 Disposal of companies | - | - |
| C.4 Other changes | - | - |
| D. Shares in circulation: closing balance | 21,701,266 | - |
| D.1 Treasury shares (+) | 584,221 | - |
| D.2 Shares at the end of the year | 22,285,487 | - |
| - fully paid | 22,285,487 | - |
| - partially paid | - | - |

Changes in the number of shares reflect:

- the sale to third parties of own shares held by the Parent Company (8,495);
- the sale to third parties of own shares held by Banca Sviluppo (276,371), which during the year increased as result of the acquisition of CrediVeneto and BCC Brutia (291,128);
- the repurchase of shares subscribed by mutual banks that exercised the right of withdrawal (569,464).

15.3 SHARE CAPITAL – OTHER INFORMATION

Share capital entirely composed of ordinary shares with a value equal to subscribed share capital, which has been entirely paid in.

15.4 EARNINGS RESERVES: OTHER INFORMATION

Group reserves amount to €420.6 million and include: the legal reserve, the extraordinary reserve, the reserve for treasury shares and other reserves for a total of €392.3 million, as well as the consolidation reserve of €28.3 million. Consolidation reserves are generated by the elimination of the carrying amount of equity investments against the corresponding fraction of shareholders' equity of each investment.

The valuation reserves were a positive €73.8 million and include the reserves from the valuation of assets available for sale of €19.4 million, the reserves on cash flow hedge derivatives of -€2.4 million, the reserves from special revaluation laws of €52.3 million, the negative reserve on actuarial gains (losses) for defined benefit plans of -€3.3 million, and the reserve from the valuation of investments in associated companies of €7.8 million.

15.5 OTHER INFORMATION

For more information, please see section F.

SECTION 16 - NON-CONTROLLING INTERESTS – ITEM 210

16.1 BREAKDOWN OF ITEM 210 “NON-CONTROLLING INTERESTS”

| | Total 2016 | Total 2015 |
|---|---------------|---------------|
| Equity investments in consolidated companies with significant non-controlling interests | | |
| 1. BCC Risparmio & Previdenza S.G.r.p.A. | 8,427 | 9,598 |
| 2. BCC Sistemi Informatici S.p.A. | 2 | 7,599 |
| 3. BCC Credito Consumo S.p.A. | 2,522 | 2,434 |
| 4. Banca Sviluppo S.p.A. | 43,832 | - |
| Other equity investments | 5,437 | 7,258 |
| Total | 60,220 | 26,889 |

The increase in non-controlling interests is mainly attributable to the capital increase subscribed by the mutual banks in Banca Sviluppo S.p.A. for a total of €41.322 million (31.18%).

NON-CONTROLLING INTERESTS: COMPOSITION

| | Total 2016 | Total 2015 |
|--|---------------|---------------|
| 1) Share capital | 51,880 | 17,109 |
| 2) Share premium reserve | 505 | 411 |
| 3) Reserves | 5,704 | 6,360 |
| 4) Treasury shares | (245) | (83) |
| 5) Valuation reserves | 2 | (13) |
| 6) Equity instruments | - | - |
| 7) Gain (loss) pertaining to non-controlling interests | 2,374 | 3,105 |
| Total | 60,220 | 26,889 |

VALUATION RESERVES PERTAINING TO NON-CONTROLLING INTERESTS: COMPOSITION

| | Total 2016 | Total 2015 |
|---|------------|-------------|
| 1. Financial assets available for sale | 50 | 46 |
| 2. Property and equipment | - | - |
| 3. Intangible assets | - | - |
| 4. Hedges of foreign operations | - | - |
| 5. Cash flow hedges | - | - |
| 6. Exchange rate differences | - | - |
| 7. Non-current assets held for sale | - | - |
| 8. Actuarial gain (loss) on defined-benefit plans | (135) | (63) |
| 9. Portion of valuation reserves attributable to equity investments accounted for using equity method | | |
| 10. Special revaluation laws | 87 | 4 |
| Total | 2 | (13) |

16.2 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

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

OTHER INFORMATION

1. GUARANTEES ISSUED AND COMMITMENTS

| | Total 2016 | Total 2015 |
|--|------------------|------------------|
| 1) Financial guarantees issued | 660,426 | 548,883 |
| a) Banks | 32,849 | 207,256 |
| b) Customers | 627,577 | 341,627 |
| 2) Commercial guarantees issued | 109,320 | 115,382 |
| a) Banks | 37,289 | 28,240 |
| b) Customers | 72,031 | 87,142 |
| 3) Irrevocable commitments to disburse funds | 2,022,596 | 1,791,039 |
| a) Banks | 245,499 | 475,403 |
| i) certain use | 82,712 | 308,669 |
| ii) uncertain use | 162,787 | 166,734 |
| b) Customers | 1,777,097 | 1,315,636 |
| i) certain use | 1,576,176 | 1,091,440 |
| ii) uncertain use | 200,921 | 224,196 |
| 4) Commitments underlying credit derivatives: sales of protection | 15,000 | 15,000 |
| 5) Assets pledged as collateral for third-party debts | - | 18,056 |
| 6) Other commitments | 150,713 | 406,562 |
| Total | 2,958,055 | 2,894,922 |

The amount of “guarantees issued” is reported at nominal value net of uses and any impairment losses and regard guarantees with which the Group undertook to discharge or guarantee the commercial/financial obligations of customers.

“Irrevocable commitments to disburse funds” are reported on the basis of the commitment net of amount already disbursed and any impairment losses. “Irrevocable commitments to disburse funds” where use by the applicant is certain and specified include:

- purchases (spot and forward) of securities not yet settled as well as deposits and loans to be disbursed at a future date;
- lease contracts that had yet to be disbursed at the balance sheet date.

“Commitments underlying credit derivatives: sales of protection” regard the notional value net of amounts disbursed and any value adjustments (see CLN classified as at FVTPL).

2. ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

| | Total 2016 | Total 2015 |
|--|------------|------------|
| 1. Financial assets held for trading | 61,035 | - |
| 2. Financial assets at fair value | - | - |
| 3. Financial assets available for sale | 3,523,670 | 5,094,568 |
| 4. Financial assets held to maturity | 4,738,607 | 6,388,273 |
| 5. Due from banks | 258,164 | 204,493 |
| 6. Loans to customers | 3,809,204 | 2,530,245 |
| 7. Property and equipment | - | - |

The item includes:

- Securities for funding operations with the Eurosystem in the amount of €186 million;
- Securities in repurchase agreements with the Clearing and Guarantee Fund in the amount of €7,849 million;
- Securities pledged as collateral with the Bank of Italy for bankers' drafts in the amount of €107 million;
- Securities for operations on the Collateralized Interbank Market in the amount of €179 million;
- Cash collateral in the amount of €258 million for derivatives transactions (C.S.A);
- Cash collateral and margins paid for transactions with the Clearing and Guarantee Fund (Default Fund) in the amount of €1,443 million;
- Loans to customers for funding operations with the Eurosystem in the amount of €1,682 million (A.BA.CO);
- Loans to customers involved in securitizations in the amount of €684 million.

1. INFORMATION ON OPERATING LEASES

There were no such positions at December 31, 2016.

2. COMPOSITION OF INVESTMENTS ASSOCIATED WITH UNIT-LINKED AND INDEX-LINKED POLICIES

At December 31, 2016 there were no investments associated with unit-linked and index-linked policies.

5. MANAGEMENT AND INTERMEDIATION SERVICES

| | Amount |
|--|--------------------|
| 1. Order execution on behalf of customers | 150,865,232 |
| a) Purchases | 79,131,450 |
| 1. settled | <i>78,349,787</i> |
| 2. not settled | <i>781,663</i> |
| b) Sales | 71,733,782 |
| 1. settled | <i>70,835,111</i> |
| 2. not settles | <i>898,671</i> |
| 2. Asset management | 7,366,632 |
| a) Individual | <i>2,634,901</i> |
| b) Collective | <i>4,731,731</i> |
| 3. Securities custody and administration | 281,863,426 |
| a) Third-party securities held as part of custodian bank services (excluding asset management) | <i>81,143</i> |
| 1. Securities issued by reporting entity | - |
| 2. other securities | <i>81,143</i> |
| b) Other third-party securities on deposit (excluding asset management): other | <i>110,422,536</i> |
| 1. Securities issued by reporting entity | <i>4,838,564</i> |
| 2. Other securities i | <i>105,583,972</i> |
| c) Third-party securities deposited with third parties | <i>106,296,311</i> |
| d) Securities owned by bank deposited with third parties | <i>65,063,436</i> |
| 4. Other transactions | - |

"Asset management" reports the total value at market prices of the portfolios managed by the Group asset management company (BCC Risparmio&Previdenza S.G.p.A): portfolio management products of €2,634 million, units in collective investment undertakings of €4,285 million and open-end pension funds of €446 million.

6. FINANCIAL ASSETS OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

This and the following table provide specific disclosures pursuant to IAS 32 concerning financial instruments offset in the accounts or which are potentially offsettable as they are governed by master netting arrangements or similar agreements.

The Iccrea Group has only one netting agreement that meets the requirements established by IAS 32, paragraph 42, for offsetting in the accounts.

With regard to potentially offsettable instruments, in certain circumstances the Group uses bilateral netting agreements that permit, in the case of default by the counterparty, the offsetting of creditor/debtor positions in respect of transactions in financial derivatives (I.S.D.A.).

| | 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 31/12/2016 (f=c-d-e) | Net amount 31/12/2015 |
|--------------------------|---|-------------------------------------|--|------------------------------|---------------------------------|------------------------------------|-----------------------|
| | | | | Financial instruments (d) | Cash collateral received (e) | | |
| 1. Derivatives | 275,695 | 1,473 | 274,222 | 80,662 | - | 193,560 | 188,856 |
| 2. Repurchase agreements | - | - | - | - | - | - | - |
| 3. Securities lending | - | - | - | - | - | - | - |
| 4. Other | - | - | - | - | - | - | - |
| Total 31/12/2016 | 275,695 | 1,473 | 274,222 | 80,662 | - | 193,560 | X |
| Total 31/12/2015 | 299,311 | - | 299,311 | 110,455 | - | X | 188,856 |

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 31/12/2016 (f=c-d-e) | Net amount 31/12/2015 |
|--------------------------|--|--------------------------------|---|------------------------------|---------------------------------|------------------------------------|-----------------------|
| | | | | Financial instruments (d) | Cash collateral received (e) | | |
| 1. Derivatives | 380,377 | 48 | 380,328 | 85,211 | 124,057 | 171,060 | 182,671 |
| 2. Repurchase agreements | - | - | - | - | - | - | - |
| 3. Securities lending | - | - | - | - | - | - | - |
| 4. Other | - | - | - | - | - | - | - |
| Total 31/12/2016 | 380,377 | 48 | 380,328 | 85,211 | 124,057 | 171,060 | X |
| Total 31/12/2015 | 446,459 | - | 446,459 | 121,947 | 141,841 | X | 182,671 |

8. SECURITIES LENDING TRANSACTIONS

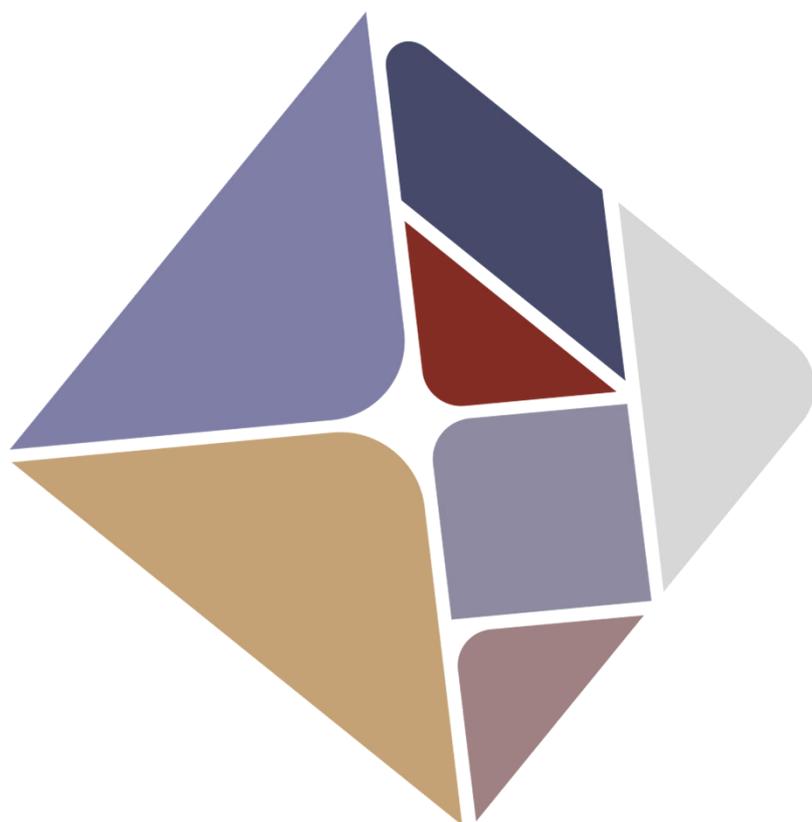
No information to report.

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 2016 | Total 2015 |
|--|-----------------|----------------|--------------------|----------------|----------------|
| 1. Financial assets held for trading | 1,406 | - | 2,602 | 4,008 | 10,706 |
| 2. Financial assets at fair value | 443 | - | - | 443 | 486 |
| 3. Financial assets available for sale | 35,296 | - | - | 35,296 | 60,770 |
| 4. Financial assets held to maturity | 45,808 | - | - | 45,808 | 99,800 |
| 5. Due from banks | 5,064 | 10,098 | - | 16,036 | 28,776 |
| 6. Loans to customers | 1,508 | 382,662 | - | 446,807 | 394,398 |
| 7. Hedging derivatives | X | X | - | - | 12,026 |
| 8. Other assets | X | X | 66,393 | 2,883 | 807 |
| Total | 89,525 | 392,760 | 68,995 | 551,282 | 607,769 |

During the period, interest income recognized under loans to customers in respect of finance leases came to €179 million (€198 million at December 31, 2015).

Other assets includes interest income on financial liabilities in the amount of €66 million, mainly in respect of operations with the Clearing and Guarantee Fund.

1.2 INTEREST AND SIMILAR INCOME: DIFFERENCES ON HEDGING TRANSACTIONS

| | Total 2016 | Total 2015 |
|--|------------|---------------|
| A. Positive differences on hedging transactions: | 16,868 | 22,895 |
| B. Negative differences on hedging transactions: | (16,868) | (10,869) |
| C. Balance (A-B) | - | 12,026 |

1.3 INTEREST AND SIMILAR INCOME: OTHER INFORMATION

1.3.1 INTEREST INCOME ON FOREIGN-CURRENCY FINANCIAL ASSETS

| | Total 2016 | Total 2015 |
|--|------------|------------|
| Interest income on foreign-currency financial assets | 4,650 | 4,062 |

1.3.2 INTEREST INCOME FROM FINANCE LEASES

See the information in the comments to table 1.1.

1.4 INTEREST AND SIMILAR EXPENSE: COMPOSITION

| | Debt | Securities | Other transactions | Total 2016 | Total 2015 |
|--|-----------------|------------------|--------------------|------------------|------------------|
| 1. Due to central banks | (3,657) | X | - | (3,657) | (9,006) |
| 2. Due to banks | (15,585) | X | - | (15,588) | (28,332) |
| 3. Due to customers | (17,807) | X | - | (19,662) | (27,653) |
| 4. Securities issued | X | (118,630) | - | (118,630) | (130,894) |
| 5. Financial liabilities held for trading | (564) | - | - | (565) | (414) |
| 6. Financial liabilities carried at fair value | - | (6,214) | - | (6,215) | (18,282) |
| 7. Other liabilities and provisions | X | X | (42,861)) | (41,004) | (5,101) |
| 8. Hedging derivatives | X | X | (1,321) | (1,321) | - |
| Total | (37,614) | (124,844) | (44,182) | (206,642) | (219,682) |

The item Other liabilities and provisions includes interest expense on financial assets in the amount of €41 million, mainly in respect of collateralized loans with the mutual banks.

1.5 INTEREST AND SIMILAR EXPENSE: DIFFERENCES ON HEDGING TRANSACTIONS

| | Total 2016 | Total 2015 |
|--|----------------|------------|
| A. Positive differences on hedging transactions: | 2,420 | 423 |
| B. Negative differences on hedging transactions: | (3,741) | (423) |
| C. Balance (A-B) | (1,321) | - |

1.6 INTEREST AND SIMILAR EXPENSE: OTHER INFORMATION

1.6.1 INTEREST EXPENSE ON FOREIGN-CURRENCY LIABILITIES

| | Total 2016 | Total 2015 |
|--|------------|------------|
| Interest expense on foreign-currency liabilities | (1,158) | (4,073) |

1.6.2 INTEREST EXPENSE ON LIABILITIES IN RESPECT OF FINANCE LEASES

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

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

| | Total 2016 | Total 2015 |
|--|----------------|----------------|
| a) guarantees issued | 2,484 | 2,293 |
| b) credit derivatives | - | - |
| c) management, intermediation and advisory services: | 135,456 | 99,563 |
| 1. trading in financial instruments | 8,082 | 9,702 |
| 2. foreign exchange | 262 | 256 |
| 3. asset management | 54,985 | 62,477 |
| 3.1. individual | 1,339 | 1,289 |
| 3.2. collective | 53,646 | 61,188 |
| 4. securities custody and administration | 7,753 | 8,438 |
| 5. depository services | - | - |
| 6. securities placement | 2,894 | 4,791 |
| 7. order collection and transmission | 1,537 | 1,609 |
| 8. advisory services | 3,807 | 2,639 |
| 8.1 concerning investments | 296 | 48 |
| 8.2 concerning financial structure | 3,511 | 2,591 |
| 9. distribution of third-party services | 56,136 | 6,540 |
| 9.1. asset management | - | - |
| 9.1.1. individual | - | - |
| 9.1.2. collective | - | - |
| 9.2. insurance products | 7,768 | 9,625 |
| 9.3. other | 48,368 | 26 |
| d) collection and payment services | 46,430 | 48,888 |
| e) servicing activities for securitizations | 117 | 13 |
| f) services for factoring transactions | 4,857 | 4,651 |
| g) tax collection services | - | - |
| h) management of multilateral trading systems | - | - |
| i) holding and management of current accounts | 8,150 | 6,503 |
| j) other services | 313,499 | 353,518 |
| Total | 510,993 | 515,429 |

2.2 FEE AND COMMISSION EXPENSE: COMPOSITION

| | Total 2016 | Total 2015 |
|---|------------------|------------------|
| a) guarantees received | (773) | (960) |
| b) credit derivatives | - | - |
| c) management, intermediation and advisory services: | (42,071) | (45,125) |
| 1. trading in financial instruments | (1,296) | (3,123) |
| 2. foreign exchange | (80) | (84) |
| 3. asset management: | (33,937) | (34,844) |
| 3.1 own portfolio | (33,937) | (34,844) |
| 3.2 third-party portfolio | - | - |
| 4. securities custody and administration | (4,206) | (3,325) |
| 5. securities placement | (2,552) | (3,749) |
| 6. off-premises distribution of securities, products and services | - | - |
| d) collection and payment services | (3,043) | (4,236) |
| e) other services | (272,304) | (276,492) |
| Total | (318,191) | (326,813) |

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES - ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

| | | Total 2016 | | Total 2015 | |
|----|-------------------------------------|--------------|---|--------------|---|
| | | Dividends | Income from units in collective investment undertakings | Dividends | Income from units in collective investment undertakings |
| A. | Financial assets held for trading | 27 | - | 7 | - |
| B. | Financial assets available for sale | 1,908 | - | 2,777 | - |
| C. | Financial assets at fair value | - | - | - | - |
| D. | Equity investments | - | X | - | X |
| | Total | 1,935 | - | 2,784 | - |

Dividends mainly refer to dividends on investments held in ICBPI, Cattolica Assicurazioni S.p.A, Intermonte SIM S.p.A. and SIA SSB S.p.A.

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES - ITEM 80

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

| | Capital gains (A) | Trading profits (B) | Capital losses (C) | Trading losses (D) | Net gain (A+B) - (C+D) |
|--|----------------------|------------------------|-----------------------|-----------------------|------------------------------|
| 1. Financial assets held for trading | 564 | 23,589 | (1,112) | (2,922) | 20,119 |
| 1.1 Debt securities | 538 | 22,800 | (1,099) | (2,603) | 19,636 |
| 1.2 Equity securities | 24 | 666 | (13) | (93) | 584 |
| 1.3 Units in collective investment undertakings | 2 | 32 | - | (138) | (104) |
| 1.4 Loans | - | - | - | - | - |
| 1.5 Other | - | 91 | - | (88) | 3 |
| 2. Financial liabilities held for trading | - | - | (943) | - | (943) |
| 2.1 Debt securities | - | - | - | - | - |
| 2.2 Payables | - | - | (943) | - | (943) |
| 2.3 Other | - | - | - | - | - |
| 3. Financial assets and liabilities: foreign exchange differences | X | X | X | X | (41,423) |
| 4. Derivatives | 99,019 | 135,071 | (31,717) | (212,212) | 33,177 |
| 4.1 Financial derivatives: | 99,019 | 135,071 | (31,317) | (212,211) | 33,177 |
| - on debt securities and interest rates | 91,774 | 124,394 | (26,716) | (200,388) | (10,936) |
| - on equity securities and equity indices | 502 | 356 | (123) | (756) | (21) |
| - on foreign currencies and gold | X | X | X | X | 43,016 |
| - other | 6,743 | 10,321 | (4,878) | (11,068) | 1,118 |
| 4.2 Credit derivatives | - | - | - | - | - |
| Total | 99,583 | 158,660 | (33,772) | (215,134) | 10,930 |

"Financial assets and liabilities: foreign exchange differences" reports, regardless of the original portfolio, the balance of changes in the value of financial assets and liabilities denominated in foreign currency, correlated with the amount under "Financial derivatives on foreign currencies and gold".

The amounts reported under 4.1 regard the income components of derivatives not connected with the fair value option.

SECTION 5 - NET GAIN (LOSS) ON HEDGING ACTIVITIES – ITEM 90

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

| | Total 2016 | Total 2015 |
|---|---------------|-----------------|
| A. Gain on: | | |
| A.1 Fair value hedges | 7,994 | 2,602 |
| A.2 Hedged financial assets (fair value) | 37,395 | 12,404 |
| A.3 Hedged financial liabilities (fair value) | 2,233 | 2,850 |
| A.4 Cash flow hedges | 3,692 | 4,778 |
| A.5 Assets and liabilities in foreign currencies | - | - |
| Total income from hedging activities (A) | 51,314 | 33,024 |
| B. Loss on: | | |
| B.1 Fair value hedges | (38,331) | (13,601) |
| B.2 Hedged financial assets (fair value) | (8,353) | (3,470) |
| B.3 Hedged financial liabilities (fair value) | (582) | (610) |
| B.4 Cash flow hedges | (82) | (177) |
| B.5 Assets and liabilities in foreign currencies | (2,974) | (4,946) |
| Total expense on hedging activities (B) | 50,322 | (33,820) |
| C. Net gain (loss) on hedging activities (A - B) | 992 | (170) |

The amounts regard the following transactions i:

- hedges of fixed-rate and inflation-linked Italian government securities (BTPs) with asset swaps;
- hedges of Italian government securities (CTZs) with overnight indexed swaps;
- hedges of 5 bonds with interest rate swaps and interest rate options;
- hedges of 4 bonds in US dollars with cross currency interest rate swaps;
- hedges of a fixed-rate lease portfolio with interest rate swaps;
- hedges of treasury deposits with overnight indexed swaps;
- hedges of cash flows on inflation-linked Italian government securities (BTPs);
- macro-hedges of portfolios of collateralized loans with overnight indexed swaps;
- hedge of 1 Banca IMI bond using an asset swap.

SECTION 6 - GAIN (LOSS) ON DISPOSAL OR REPURCHASE - ITEM 100

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

| | Total 2016 | | | Total 2015 | | |
|---|----------------|-----------------|-----------------|----------------|-----------------|-----------------|
| | Gains | Losses | Net gain (loss) | Gains | Losses | Net gain (loss) |
| Financial assets | | | | | | |
| 1. Due from banks | 106 | (45) | 61 | 31 | (1) | 30 |
| 2. Loans to customers | 2,489 | (10,515) | (8,026) | 4,083 | (24,533) | (20,450) |
| 3. Financial assets available for sale | 131,402 | (48,910) | 82,492 | 156,059 | (10,893) | 145,166 |
| 3.1 Debt securities | 85,001 | (48,007) | 36,994 | 42,042 | (10,893) | 31,149 |
| 3.2 Equity securities | 46,391 | - | 46,391 | 114,017 | - | 114,017 |
| 3.3 Units in collective investment undertakings | 10 | (903) | (893) | - | - | - |
| 3.4 Loans | - | - | - | - | - | - |
| 4. Financial assets held to maturity | - | - | - | 46 | - | 46 |
| Total assets | 133,997 | (59,470) | 74,527 | 160,220 | (35,428) | 124,792 |
| Financial liabilities | | | | | | |
| 1. Due to banks | - | - | - | - | - | - |
| 2. Due to customers | - | - | - | - | - | - |
| 3. Securities issued | 501 | (4,188) | (3,686) | 334 | (8,716) | (8,381) |
| Total liabilities | 501 | (4,188) | (3,686) | 334 | (8,716) | (8,381) |

The net gain on the disposal of financial assets available for sale (€82.5 million) essentially reflects the gain on the disposal of Visa Europe shares (€45.7 million, including in the gains on equity securities) and the net gain on the disposal of debt securities (€37 million).

The net loss on the disposal of loans to customers (€8 million) represents the effect of the assignment of non-performing loans by Group companies, of which Iccrea Bancalmpresa accounted for €7.4 million. The assignment of performing loans was carried out at book values, meaning it generated no impact on profit or loss.

The overall decrease in item 100 compared with 2015 reflects the gain on the disposal of the equity interest in ICBPI recognized last year in the amount of about €100 million.

SECTION 7 - NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE - ITEM 110

7.1 NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE: COMPOSITION

| | Capital gains (A) | Profits on realization (B) | Capital losses (C) | Trading losses (D) | Net gain (loss) [(A+B) - (C+D)] |
|--|----------------------|-------------------------------|-----------------------|-----------------------|------------------------------------|
| 1. Financial assets | - | - | (419) | - | (419) |
| 1.1 Debt securities | - | - | (419) | - | (419) |
| 1.2 Equity securities | - | - | - | - | - |
| 1.3 Units in collective investment undertakings | - | - | - | - | - |
| 1.4 Loans | - | - | - | - | - |
| 2. Financial liabilities | 376 | 4,579 | - | - | 4,955 |
| 2.1 Debt securities | 376 | 4,579 | - | - | 4,955 |
| 2.2 Due to banks | - | - | - | - | - |
| 2.3 Due to customers | - | - | - | - | - |
| 3. Financial assets and liabilities: foreign exchange differences | X | X | X | X | - |
| 4. Financial and credit derivatives | - | - | (2,401) | - | (2,401) |
| Total | 376 | 4,579 | (2,240) | (581) | 2,133 |

“Financial liabilities – Debt securities– Profits on realization” mainly reflect the financial impact of the redemption of structured bonds at FVTPL.

SECTION 8 - NET LOSSES/RECOVERIES ON IMPAIRMENT - ITEM 130

8.1 NET LOSSES/RECOVERIES ON IMPAIRMENT OF LOANS: COMPOSITION

| | Losses (1) | | | Recoveries (2) | | | | Total 2016 | Total 2015 |
|----------------------------------|-----------------|------------------|----------------|-------------------|----------------|-----------|--------------|------------------|------------------|
| | Specific | | Portfolio | Specific | | Portfolio | | | |
| | Writeoffs | Other | | A | B | A | B | | |
| | | | | | | | | | |
| A. Due from banks | - | - | - | - | 2,923 | - | - | 2,923 | 114 |
| - Loans | - | - | - | - | 2,923 | - | - | 2,923 | 114 |
| - Debt securities | - | - | - | - | - | - | - | - | - |
| B. Loans to customers | (69,952) | (246,057) | (2,234) | 26,115 | 143,511 | - | 3,891 | (144,726) | (251,372) |
| Impaired receivables acquired | - | (668) | - | - | 42 | - | - | (626) | - |
| - Loans | - | (668) | X | - | 42 | X | X | (626) | - |
| - Debt securities | - | - | X | - | - | X | X | - | - |
| Other receivables | (69,952) | (245,389) | (2,234) | 26,115 | 146,469 | - | 3,891 | (144,100) | (251,372) |
| - Loans | (69,952) | (245,389) | (2,234) | 26,115 | 146,469 | - | 3,891 | (144,100) | (251,372) |
| - Debt securities | - | - | - | - | - | - | - | - | - |
| C. Total | (69,952) | (246,057) | (2,233) | 26,115 | 146,434 | - | 3,891 | (141,803) | (251,258) |

Key

A= recoveries from interest

B= other recoveries

Total net losses on loans amounted to €141.8 million. The decline compared with the previous year is mainly due to the effects on the 2015 income statement of the revision of loan valuation criteria in the corporate segment, which increased writedowns by about €100 million. Net of those 2015 effects, net losses were essentially unchanged on previous years.

8.2 NET LOSSES/RECOVERIES ON IMPAIRMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION

| | Losses (1) | | Recoveries (2) | | Total 2016 | Total 2015 |
|--|---------------|-----------------|-------------------|---|-----------------|--------------|
| | Specific | | Specific | | | |
| | Writeoffs | Other | A | B | | |
| A. Debt securities | - | - | - | - | - | - |
| B. Equity securities | - | (3,802) | X | X | (3,802) | (225) |
| C. Units in collective investment undertakings | - | (9,711) | X | - | (9,711) | - |
| D. Due from banks | - | - | - | - | - | - |
| E. Loans to customers | - | - | - | - | - | - |
| F. Total | - | (13,513) | - | - | (13,513) | (225) |

Key

A= recoveries from interest

B= other recoveries

The figures for equity securities and CIUs respectively refer to losses on the Cattolica securities (€3.8 million) and units in Fondo Atlante (€9.7 million).

8.3 NET LOSSES/RECOVERIES ON IMPAIRMENT OF FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION

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

8.4 NET LOSSES/RECOVERIES ON IMPAIRMENT OF OTHER FINANCIAL INSTRUMENTS: COMPOSITION

| | Losses (1) | | | Recoveries (2) | | | | Total 2016 | Total 2015 |
|----------------------------|---------------|----------------|----------------|-------------------|---|-----------|-----------|----------------|----------------|
| | Specific | | Portfolio | Specific | | Portfolio | | | |
| | Writeoffs | Other | | A | B | A | B | | |
| | | | | | | | | | |
| A. Guarantees issued | - | - | (1,038) | - | - | - | - | (1,038) | - |
| B. Credit derivatives | - | - | - | - | - | - | - | - | - |
| C. Commitments to disburse | - | - | - | - | - | - | - | - | (27) |
| D. Other transactions | - | (2,714) | - | - | - | - | 95 | (2,619) | (4,208) |
| E. Total | - | (2,714) | (1,038) | - | - | - | 95 | (3,657) | (4,235) |

Key

A= recoveries from interest

B= other recoveries

“Losses” reports amounts associated with the mutual bank deposit guarantee fund for the division and the commitments relating to the requests for repayment made to the fund and already authorized by the Bank of Italy.

SECTION 9 - NET PREMIUMS - ITEM 150

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

SECTION 10 - NET OTHER INCOME (EXPENSE) FROM INSURANCE ACTIVITIES - ITEM 160

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

SECTION 11 - ADMINISTRATIVE EXPENSES - ITEM 180

11.1 PERSONNEL EXPENSES: COMPOSITION

| | Total 2016 | Total 2015 |
|--|------------------|------------------|
| 1) Employees | (207,823) | (184,045) |
| a) wages and salaries | (122,226) | (126,251) |
| b) social security contributions | (33,021) | (34,130) |
| c) termination benefits | (2,106) | (2,533) |
| d) pensions | (59) | (63) |
| e) allocation to employee termination benefit provision | | (1,570) |
| f) allocation to provision for retirement and similar liabilities: | | (118) |
| - defined contribution | - | - |
| - defined benefit | (75) | (118) |
| g) payments to external pension funds: | (11,953) | (10,597) |
| - defined contribution | (10,488) | (9,113) |
| - defined benefit | (1,465) | (1,484) |
| h) costs in respect of agreements to make payments in own equity instruments | - | - |
| i) other employee benefits | (36,897) | (8,783) |
| 2) Other personnel | (3,058) | (3,083) |
| 3) Board of Directors and members of Board of Auditors | (4,965) | (4,710) |
| 4) Retired personnel | - | - |
| Total | (215,845) | (191,838) |

The net increase in personnel expense over the previous period mainly reflects:

- costs for the solidarity fund of €26 million in respect of 93 employees that voluntarily opted to participate in the solidarity agreement;
- a reduction in personnel costs of about €7 million as a result of savings achieved through reduction in employee bonuses and overtime work;
- an increase due to the acquisition of new branches (Crediveneto).

11.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY: BANKING GROUP

| | |
|----------------------|--------------|
| Employees: | 2,451 |
| a) senior management | 75 |
| b) middle management | 952 |
| c) other employees | 1,423 |
| Other personnel | 38 |

11.3 DEFINED-BENEFIT COMPANY PENSION PLANS: TOTAL COSTS AND REVENUES

The “allocation to provision for retirement and similar liabilities” amounted to €27 thousand.

11.4 OTHER EMPLOYEE BENEFITS

| | 2016 |
|--|-----------------|
| - termination incentives and income support fund | (26,031) |
| - lunch vouchers | (3,265) |
| - insurance policies | (1,013) |
| - medical care | (60) |
| - other benefits | (6,568) |
| Total | (36,937) |

11.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

| | Total 2016 | Total 2015 |
|--|------------------|------------------|
| Information technology | (103,663) | (84,404) |
| Property and movables | (12,516) | (12,582) |
| - rental and fees | (6,808) | (6,691) |
| - ordinary maintenance | (4,948) | (5,038) |
| - security | (760) | (853) |
| Goods and services | (31,843) | (35,395) |
| - telephone and data transmission | (13,182) | (12,647) |
| - postal | (6,787) | (7,553) |
| - asset transport and counting | (2,090) | (620) |
| - electricity, heating and water | (3,318) | (3,386) |
| - transportation and travel | (5,188) | (5,951) |
| - office supplies and printed materials | (1,123) | (4,760) |
| - subscriptions, magazines and newspapers | (155) | (478) |
| Professional services | (55,577) | (51,254) |
| - professional fees (other than audit fees) | (28,470) | (30,269) |
| - audit fees | (1,164) | (827) |
| - legal and notary costs | (9,614) | (6,269) |
| - court costs, information and title searches | (1,475) | (1,946) |
| - insurance | (1,834) | (2,182) |
| - <i>administrative services</i> | (13,020) | (9,761) |
| Promotional, advertising and entertainment expenses | (8,031) | (5,946) |
| Association dues | (6,513) | (7,275) |
| Donations | (20) | (130) |
| Other | (8,969) | (5,640) |
| Indirect taxes and duties | (92,720) | (87,126) |
| - stamp duty | (18,551) | (15,397) |
| - long-term loan tax - Pres. Decree 601/73 | (286) | (119) |
| - municipal property tax | (1,517) | (1,563) |
| - financial transaction tax | (9) | - |
| - other indirect taxes and duties | (72,357) | (70,047) |
| Total | (319,852) | (289,752) |

The item "other indirect taxes and duties" includes contributions to the National Resolution Fund (BRRD) totaling €69.4 million. The contribution includes €23.2 million in respect of the ordinary contribution for 2016 and €46.2 million in respect of two additional extraordinary contributions requested by the Bank of Italy in its notice of December 29, 2016.

Pursuant to Article 2427, paragraph 16-bis of the Italian Civil Code, we set out below the fees paid in 2016 to the audit firm Ernst&Young (and its network) by Iccrea and the Iccrea Group companies:

- statutory audit of the annual accounts (including the auditing of the interim financial statements) for €567 thousand;
- other audit-related services (translations, EMTN, TLTRO program, certification of tax returns, opinion under

Article 2437 of the Civil Code) for €189 thousand;
 - other non-audit services for €461 thousand.
 These amounts are shown net of VAT and expenses.

SECTION 12 - NET PROVISIONS FOR RISKS AND CHARGES - ITEM 190

12.1 NET PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

| | Total 2016 | Total 2015 |
|--|----------------|----------------|
| - Provisions for damages and revocatory actions in bankruptcy | - | (234) |
| - Provisions for litigation | (4,305) | (5,049) |
| - Provisions for other risks and charges | (3,094) | (1,181) |
| - Use of provisions for damages and revocatory actions in bankruptcy | - | 19 |
| - Use of provisions for litigation | 714 | 537 |
| - Use of provisions for other risks and charges | - | 570 |
| Total | (6,685) | (5,338) |

The "provisions for litigation" regard the adjustment of the provision for the "Giacomelli Sport" revocatory action, which involves Iccrea Banca as leader of the lender pool.

The "provisions for other risks and charges" include the adjustment of the provision for contingent liabilities associated with former tenants of buildings sold after the lease contracts had been terminated.

SECTION 13 - NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT - ITEM 200

13.1. NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT: COMPOSITION

| | Depreciation (a) | Writedowns for impairment (b) | Writebacks (c) | Net adjustment (a + b - c) |
|--|------------------|-------------------------------|----------------|----------------------------|
| A. Property and equipment | | | | |
| A.1 owned | (11,522) | (127) | 1 | (11,650) |
| - operating assets | (11,522) | (127) | 1 | (11,650) |
| - investment property | - | - | - | - |
| A.2 acquired under finance leases | | | | |
| - operating assets | (5,553) | - | - | (5,553) |
| - investment property | - | - | - | - |
| Total | (17,075) | (127) | 1 | (17,203) |

The writedowns for impairment regard the writedown of the carrying amount of assets returned from finance leases.

SECTION 14 - NET ADJUSTMENTS OF INTANGIBLE ASSETS - ITEM 210

14.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

| | Amortization (a) | Writedowns for impairment (b) | Writebacks (c) | Net adjustments (a+b-c) |
|--|------------------|-------------------------------|----------------|-------------------------|
| A. Intangible assets | | | | |
| A.1 owned | (13,317) | - | - | (13,317) |
| - generated internally by the Group | (1,661) | - | - | (1,661) |
| - other | (11,656) | - | - | (11,656) |
| A.2 Acquired under finance leases | - | - | - | - |
| Total | (13,317) | - | - | (13,317) |

SECTION 15 - OTHER OPERATING EXPENSES/INCOME - ITEM 220

15.1 OTHER OPERATING EXPENSES: COMPOSITION

| | Total 2016 | Total 2015 |
|---|-----------------|-----------------|
| - Reductions in assets not attributable to separate line item | - | - |
| - Prior-year expenses not attributable to separate line item | (124) | - |
| - Robbery and theft | - | - |
| - Amortization of expenditure for leasehold improvements | (166) | (265) |
| - Settlement of disputes and claims | - | - |
| - Other expenses | (36,979) | (35,437) |
| - Consolidation adjustments | (7,191) | (9,746) |
| Total | (43,678) | (45,448) |

“Other expenses” include charges connected with leasing services of €28 million (advisory, insurance, other taxes and duties). In addition, they also include the charge for the liability in respect of relationships with former tenants undergoing insolvency proceedings following the termination and sale of the buildings.

15.2 OTHER OPERATING INCOME: COMPOSITION

| | Total 2016 | Total 2015 |
|--|----------------|----------------|
| - Reductions in liabilities not attributable to separate line item | 57 | - |
| - Non-recurring income not attributable to separate line item | 1,035 | 894 |
| - Property rental income | 136 | - |
| - Recovery of taxes and duties | 15,757 | 12,966 |
| - Recovery of sundry charges | 6,699 | 5,114 |
| - Other income | 116,487 | 113,418 |
| - Consolidation adjustments | - | - |
| Total | 140,171 | 132,392 |

The recovery of taxes and duties mainly regard current accounts savings passbooks and medium/long-term loans.

“Other income” includes:

- income from the disposal of the Piacenza and Fiorenzuola, Cefalù and Finale branches by Banca Sviluppo S.p.A. in the amount of €3.9 million, part of which was used to offset goodwill recognized under assets in the amount of €1 million;
- income from finance lease operations totaling €27 million;
- income from the invoicing of IT outsourcing services in the amount of €68 million by the subsidiary BCC Sistemi Informatici S.p.A.

SECTION 16 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 240

16.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

| | Total 2016 | Total 2015 |
|--|----------------|--------------|
| 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 | 5,661 | 6,163 |
| 1. Revaluations | 5,661 | 6,163 |
| 2. Gains on disposals | - | - |
| 3. Writebacks | - | - |
| 4. Other income | - | - |
| B. Losses | (1,215) | (84) |
| 1. Writedowns | (1,215) | (84) |
| 2. Impairment | - | - |
| 3. Losses on disposal | - | - |
| 4. Other expenses | - | - |
| Net profit (loss) | 2,817 | 6,079 |
| Total | 4,445 | 6,079 |

The item reports the financial impact of the equity measurement of investments in associates.

SECTION 17 - NET ADJUSTMENT TO FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS - ITEM 250

17.1 NET ADJUSTMENT TO FAIR VALUE (OR REVALUED AMOUNT) OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS: COMPOSITION

| | Revaluations (a) | Writedowns (b) | Exchange rate differences | | Net result (a-b+c-d) |
|------------------------------------|---------------------|-------------------|---------------------------|-----------------|-------------------------|
| | | | Positive (c) | Negative (d) | |
| A. Property and equipment | | | | | |
| A.1 owned: | - | (34,784) | - | - | (34,784) |
| - operating assets | - | - | - | - | - |
| - investment property | - | (34,784) | - | - | (34,784) |
| A.2 acquired under finance leases: | - | - | - | - | - |
| - operating assets | - | - | - | - | - |
| - investment property | - | - | - | - | - |
| B. Intangible assets | - | - | - | - | - |
| B.1 owned: | - | - | - | - | - |
| B.1.1 internally generated | - | - | - | - | - |
| B.1.2 other | - | - | - | - | - |
| B.2 acquired under finance leases | - | - | - | - | - |
| Total | - | (34,784) | - | - | (34,784) |

SECTION 18 - GOODWILL IMPAIRMENT - ITEM 260

There were no such positions as of the balance sheet date.

SECTION 19 - GAINS (LOSSES) FROM DISPOSAL OF INVESTMENTS - ITEM 270

| | Total 2016 | Total 2015 |
|------------------------|-------------|------------|
| A. Property | (19) | - |
| - gains | 7 | |
| - losses | (26) | - |
| B. Other assets | - | - |
| - gains | - | - |
| - losses | - | - |
| Net gain (loss) | (19) | - |

The gains and losses reported here regard the sale of non-current assets in respect of debt collection acquired by Banca Sviluppo S.p.A. from the former mutual banks.

SECTION 20 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS - ITEM 290

20.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

| | Total 2016 | Total 2015 |
|--|---------------|---------------|
| 1. Current taxes (-) | 6,919 | (11,962) |
| 2. Changes in current taxes from previous periods (+/-) | 2,779 | 1,720 |
| 3. Reduction of current taxes for the period (+) | - | - |
| 3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+) | - | - |
| 4. Change in deferred tax assets (+/-) | 22,263 | 27,238 |
| 5. Change in deferred tax liabilities (+/-) | 1,530 | 2,882 |
| 6. Income taxes for the period (-) (-1+/-2+3+3 bis+/-4+/-5) | 19,654 | 19,878 |

20.2 RECONCILIATION OF THEORETICAL TAX LIABILITY AND ACTUAL TAX LIABILITY RECOGNIZED

| | Taxable income | Tax | Tax rate (%) |
|--|----------------|--------------|--------------|
| A) Profit (loss) before tax (item 280 of the income statement): | (41,347) | 11,370 | 27,5 |
| - Temporary differences taxable in subsequent periods | (111) | 30 | |
| - Temporary differences deductible in subsequent periods | 76,821 | (21,126) | |
| - Reversal of taxable temporary differences of previous periods | 4,161 | (1,144) | |
| - Reversal of deductible temporary differences of previous periods | (28,357) | 7,798 | |
| - Permanent taxable differences | 27,682 | (7,612) | |
| - Permanent deductible differences | (79,990) | 21997 | |
| B) IRES – actual tax liability | (41,142) | 11,314 | |
| C) IRAP* - theoretical tax liability with application of nominal rate to value of production | 373,561 | (9,452) | |
| - Temporary differences taxable in subsequent periods | - | - | |
| - Temporary differences deductible in subsequent periods | 247 | (10) | |
| - Reversal of taxable temporary differences of previous periods | (259) | 14 | |
| - Reversal of deductible temporary differences of previous periods | (1,447) | 73 | |
| - Permanent taxable differences | 29,150 | (1,322) | |
| - Permanent deductible differences | (366,013) | 6,303 | |
| D) IRAP - actual tax liability | 35,239 | (4,395) | |
| Total current taxes | | 6,919 | |

*The IRAP figure was calculated by applying the rates in force in the regions in which each company has its registered office and, for those that operate in more than one region, by taking the taxable amount and distributing it among the regions involved in proportion to the number of employees.

SECTION 21 - PROFIT (LOSS) AFTER TAX FROM DISPOSAL GROUPS - ITEM 310

21.1 PROFIT (LOSS) AFTER TAX FROM DISPOSAL GROUPS: COMPOSITION

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

21.2 BREAKDOWN OF INCOME TAXES FOR DISPOSAL GROUPS HELD FOR SALE

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

SECTION 22 - NET PROFIT (LOSS) PERTAINING TO NON-CONTROLLING INTERESTS - ITEM 330

22.1 BREAKDOWN OF ITEM 330 "PROFIT (LOSS) PERTAINING TO NON-CONTROLLING INTERESTS"

| | Total 2016 | Total 2015 |
|---|--------------|--------------|
| Consolidated equity investments with significant non-controlling interests | 2,768 | 3,649 |
| 1. BCC Risparmio & Previdenza S.G.R.p.A. | 2,013 | 3,201 |
| 2. BCC Sistemi Informatici S.p.A. | - | 124 |
| 3. BCC Credito Consumo | 395 | 324 |
| 4. BCC Gestione Crediti | 360 | - |
| Other equity investments | (394) | (544) |
| Total | 2,374 | 3,105 |

SECTION 23 - OTHER INFORMATION

It was not felt necessary to add further information other than that already provided in the previous tables.

SECTION 24 –EARNINGS PER SHARE

The ordinary shares of the Parent Company, Iccrea Banca S.p.A., are not traded on a public market and the company not file its financial statements with CONSOB in order to issue ordinary shares on a public market. Accordingly, IAS 33 does not apply.

24.1 AVERAGE NUMBER OF ORDINARY SHARES IN DILUTED SHARE CAPITAL

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

24.2 OTHER INFORMATION

No further information to report.

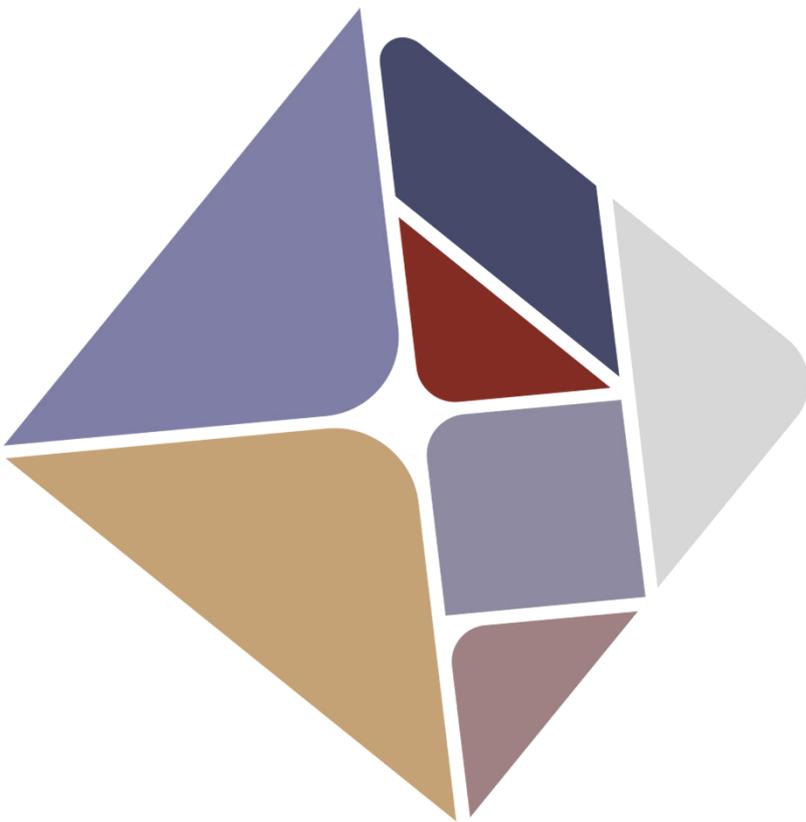
PART D

*Comprehensive
income*



DETAILED STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

| | | Gross amount | Income taxes | Net amount |
|------------|---|--------------|--------------|------------|
| 10. | Net profit (loss) for the period | X | X | (21,693) |
| | Other comprehensive income not recyclable to profit or loss | (1,027) | 236 | (791) |
| 20. | Property and equipment | | | |
| 30. | Intangible assets | | | |
| 40. | Defined-benefit plans | (1,027) | 236 | (791) |
| 50. | Non-current assets held for sale | | | |
| 60. | Valuation reserves of equity investments accounted for with equity method | | | |
| | Other comprehensive income recyclable to profit or loss | (51,493) | 17,297 | (34,196) |
| 70. | Hedging of investments in foreign operations: | | | |
| | a) fair value changes | | | |
| | b) reversal to income statement | | | |
| | c) other changes | | | |
| 80. | Foreign exchange differences: | | | |
| | a) value changes | | | |
| | b) reversal to income statement | | | |
| | c) other changes | | | |
| 90. | Cash flow hedges: | (2,352) | 778 | (1,574) |
| | a) fair value changes | 1,258 | (416) | 842 |
| | b) reversal to income statement | (3,610) | 1,194 | (2,416) |
| | c) other changes | | | |
| 100. | Financial assets available for sale: | (48,059) | 16,184 | (31,875) |
| | a) fair value changes | (6,562) | 2,389 | (4,173) |
| | b) reversal to income statement | (41,535) | 13,801 | (27,734) |
| | - impairment adjustments | 190 | (9) | 181 |
| | - gain/loss on realization | (41,725) | 13,810 | (27,915) |
| | c) other changes | 38 | (6) | 32 |
| 110. | Non-current assets held for sale: | | | |
| | a) fair value changes | | | |
| | b) reversal to income statement | | | |
| | c) other changes | | | |
| 120. | Valuation reserves of equity investments accounted for with equity method (pro rata) | (1,082) | 335 | (747) |
| | a) fair value changes | (1,082) | 335 | (747) |
| | b) reversal to income statement | | | |
| | - impairment adjustments | | | |
| | - gain/loss on realization | | | |
| | c) other changes | | | |
| 130. | Total other comprehensive income | (52,520) | 17,533 | (34,987) |
| 140. | Comprehensive income (item 10+130) | (52,520) | 17,533 | (56,680) |
| 150. | Consolidated comprehensive income pertaining to non-controlling interests | X | X | 2,305 |
| 160. | Consolidated comprehensive income pertaining to shareholders of the Parent Company | X | X | (58,985) |



SECTION 1 – RISKS OF THE BANKING GROUP

INTRODUCTION

The Iccrea Group attaches great importance to controlling risks and to control systems, which are essential to ensuring the reliable and sustainable generation of value, preserving a sound financial position over time, and enabling effective management of assets and liabilities, including in respect of its core business of supporting and providing services to the mutual banks and their customers.

ORGANIZATION OF RISK MANAGEMENT

- ROLES AND RESPONSIBILITIES IN RISK MANAGEMENT

In recent years, the Group has undertaken a gradual process to upgrade its methods and tools for managing credit, financial and operational risks, bringing the system into line with external regulations and operational and internal monitoring needs. In order to increase the effectiveness and efficiency of internal controls and respond to changes in the regulatory environment and the organizational, operational and corporate structure of the Group, in 2016 we completed a review of governance arrangements and the associated structure of the second-level control units (Risk Management, Compliance and Anti-Money Laundering). The main changes involved:

- a revision of the CRO area, which retained its powers and responsibilities in the Risk Management field, including IT risk, but with the reassignment of responsibility for managing risks associated with compliance, money-laundering and terrorist financing to another unit;
- the establishment of the CCO area, reporting directly to the Board of Directors of the Parent Company, to manage compliance risk and money-laundering and terrorist financing risk.

The risk management function is based on the CRO area, which is structured into units that operate within both the Parent Company and at the level of each subsidiary. The organizational implementation of the governance for risk management model takes account of the company structure of the Group, the specialization of business segments within the company structure, the executive effectiveness of the centralized governance approach, the complexity and impact on corporate operations of the functional areas included in the CRO area, compliance with applicable prudential regulations, the effectiveness of second-

level controls in relation to management requirements and the applicable regulatory context.

- STRUCTURE OF THE CRO AREA

At the Parent Company, the CRO area is organized into four units (this is the organizational situation at December 31, 2016, which does not reflect the more recent organizational fine-tuning approved by the Board at its meeting of January 27, 2017):

- *Risk Integration & Capital Adequacy;*
- *Financial Risk Management;*
- *Credit Risk Management;*
- *Operational & IT Risk Management*

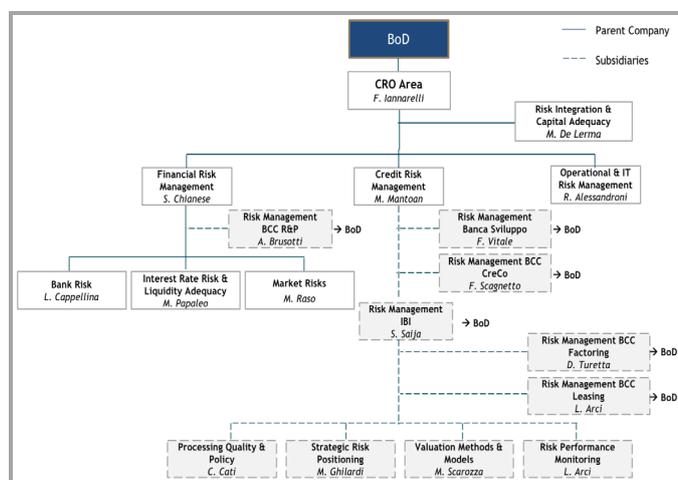
Under the governance arrangements, the units at the subsidiaries, which form part of the staff structure supporting their respective boards of directors, report functionally to the CRO area on the basis of the special characteristics of the operations of each subsidiary, creating segments by main line of business.

More specifically, the Risk Management units of the subsidiaries report functionally to:

- the Credit Risk Management unit of the Parent Company for Iccrea Bancalmpresa SpA, Banca Sviluppo SpA, BCC Credito Consumo SpA, BCC Lease SpA and BCC Factoring SpA;
- the Financial Risk Management unit of the Parent Company for BCC Risparmio e Previdenza SGRpA;

The Operational & IT Risk Management unit operates as a specialized hub for the entire Group, with responsibility for providing guidance and technical support to the risk management units of all Group companies in the area of operational and IT risks.

The following chart sets out the organizational structure of the new CRO area as at December 31, 2016.



MAIN DUTIES OF THE CRO AREA

The responsibilities of the CRO area include participating in the definition, development and any corrective maintenance of the framework for risk assumption and management, developing proposals for the Risk Appetite Framework and its operational manifestation (Risk Appetite Statement), monitoring developments in the exposure to the different types of risk and monitoring capital requirements and prudential ratios on a current and prospective basis in relation to the targets defined by the Risk Appetite Statement and the supervisory authorities. In supporting the operations of the Iccrea Banking Group, the CRO area:

- participates in the definition and development of the framework for the assumption and management of the risks for which it is responsible, ensuring that it is:
 - compliant with applicable regulations, in line with market best practice and consistent with internal requirements;
 - consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the ICAAP and the ILAAP;
- develops the Risk Appetite Framework and its operational implementation, the Risk Appetite Statement, in accordance with applicable internal and external regulations;
- monitors developments in the exposure to the different forms of risk in relation to developments in markets and the operation of the internal management system. In this area, it:
 - develops risk measurement and assessment methods and models;
 - performs second-level controls of the appropriateness, effectiveness and resilience of

the framework for the assumption and management of the risks for which it is responsible;

- identifies any risk developments exceeding the limits set out in the Risk Appetite Statement, in the Risk Governance Policies or in external regulations and, in general, potentially harmful or unfavorable situations in order to assess possible mitigation initiatives to implement;
- analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement;
- identifies any needs for fine tuning/corrective or evolutionary maintenance of the assumption and management framework for the risks for which it is responsible, providing support – within the scope of its duties – in implementing the associated actions;
- assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (capital absorption, ICAAP) and the appropriateness of the Group’s liquidity profile (ILAAP);
- reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining strategic policy and risk policy and the associated implementation of those policies;
- assesses the impact of especially serious events on the Group’s exposure to risk and participates in developing strategies to resolve the issues;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The ICCREA Banking Group devotes special attention to managing risk.

All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Iccrea Banking Group. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies;
- the specification of risk limits;

- the daily/periodic monitoring of exposures (aggregate and others) with verification of compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the companies of the Iccrea Banking Group in the long term, systematic and independent Internal Auditing units, etc.).

RISK MANAGEMENT STRATEGIES AND PROCESSES

The Risk Management Process is a component of the Bank's organizational structure, forming part of all operational sectors in which risk is assumed and managed. For each sector, it provides for the identification, assessment (or measurement), monitoring, prevention and mitigation of those risks, also defining the systems (criteria, methods and means) with which those activities are performed.

The Risk Management Process is structured into five phases, the sequentiality of which is itself an integral part of the macro-process. They represent the general organizational manifestation of the Group's risk assumption and management framework:

- Risk identification (knowledge): this requires that each process and/or operational and business activity that involves the assumption or management of risks on an ongoing basis provide for the identification of the underlying types of risk and the factors that drive them. This phase is especially significant at the start of new initiatives, in implementing new strategies (business, organizational and infrastructural development, etc.) but is also important in existing activities in the present of changes in the surrounding context (market, operational, regulatory, etc.).
- Assessment/measurement of the identified risks (awareness): this requires that the level of risk connected with the activities performed be assessed/measured for each of the various types of identified risk. This phase is especially important in understanding the dynamics of the risks involved and in forecasting (or estimating) their developments in relation to developments in the underlying risk drivers and the possibility of adverse events that could jeopardize achievement of expected results or generate losses. All of this is based on a methodological framework for the assessment/measurement of each type of risk assumed and/or managed. It

must be defined and implemented consistently with the provisions of internal rules and in compliance with the applicable regulatory framework (and for this purpose recall the role played by company control functions, each in their respective area of responsibility).

- Risk prevention and attenuation (strategy): this consists in the ex-ante identification, both at the organization stage and the current execution of operational and business activities, of the possible approaches to preventing and attenuating adverse developments in the risks assumed and/or managed. After a cost/benefit analysis of the risk/return trade-off, this phase involves establishing the actions (or techniques) necessary to prevent the occurrence of adverse internal or external events or to attenuate the impact of an adverse event or development. Such actions are intended to guide the evolution of the possible risk scenarios underlying operations within the risk appetite levels established for the individual operating or business segment.
- Monitoring and reporting (tracking and control): this consists of the set of monitoring and ongoing assessment (measurement) activities tracking the dynamic evolution of the risks underlying operating and business activities in each segment, using methods consistent with the established methodological framework, providing for reporting at the frequency and levels established in the applicable internal rules for the segment, and functionally preliminary in terms of timeliness, accuracy and effectiveness to the decision-making process underlying the subsequent management and mitigation phase and for this purpose (recall the role played by company control functions, each in their respective area of responsibility).
- Risk management and mitigation (reaction and proactivity): this phase comprises the activities and actions that must be established for each operational and business segment to manage the development of the risks assumed, to mitigate any adverse impacts on expected results in the event of unfavorable actual or expected (estimated) developments, also providing for the constant monitoring of the results of the activities performed. The most important operational and business sectors perform entire corporate processes dedicated to these activities, with corresponding organizational arrangements specifically established for their performance. A critical success factor for the effectiveness of risk management and mitigation activities is the presence of a decision-making process to identify the activities themselves and their evolutionary/corrective maintenance that is soundly based

on the results of the monitoring and reporting activities in the previous phase.

For each operational and business segment, the practical implementation of the general model represented by the Risk Management Process is set out in the framework of rules defined and developed within each Group company (rules, policies, procedures, manuals, etc.) and the consequent implementation of infrastructure (organizational, IT, methodological) to support the performance of activities by the organizational units established for that purpose.

1.1 CREDIT RISK

QUALITATIVE DISCLOSURES

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 coordinates and directs the credit risk assumption policies of the individual subsidiaries. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the subsidiaries, in agreement with the Parent Company;
- the CRO area supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the risks for the Group companies.

The procedures for taking on credit risk, which are governed in the systems of powers and delegated authority currently in place at the subsidiaries, are developed within those companies on the basis of the specific characteristics of the activities they perform. The cardinal criterion adopted in structuring delegated powers is the establishment of a lending ceiling by risk class (regarding the various categories of counterparty, technical form of the credit, guarantees) assigned to each decision-making body.

Credit risk management policies

ORGANIZATIONAL ASPECTS

To ensure interaction among all the units and bodies with control and monitoring duties, the Iccrea Group has introduced the following criteria within its organization that characterize the entire credit function:

- processing of loan applications, leading to the formulation of a loan proposal;
- approval of the loan application;

- management of position: this comprises all of the activities involved in monitoring and managing outstanding loans.

In view of the multiple units within the individual Group companies that are responsible for managing credit risk, the management process is based on the following principles:

- attribution of the responsibilities of the body with strategic oversight functions and the body with management functions in the definition, implementation and supervision of the credit governance system and the associated credit risk management processes;
- independence of control functions, with clear separation of responsibilities and elimination of conflicts of interest between control units and business units;
- attribution of responsibilities to all organizational levels, designed to ensure the effective implementation of strategies and governance of the credit and credit risk management system, minimizing organizational inefficiencies.

The credit risk management process is implemented at the operational level in line with the business model that characterizes the internal organization of the Iccrea Group, specifically adopted in relation to the various categories of counterparties with which the Group operates.

MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

- IDENTIFICATION OF RISKS

Lending activities expose the Iccrea Banking Group to default risk, i.e. the risk of incurring a loss owing to the failure of a counterparty to perform its contractual obligations or as a result of a reduction in the credit quality attributed to the counterparty. This type of risk is a function of both the intrinsic solvency of the borrower and, through certain impact transmission mechanisms, the economic conditions of the market within which the borrower operates. Given our lending operations, the emergence of adverse macroeconomic or market conditions expose the Group to a general deterioration in asset quality and a general deterioration in the solvency of borrowers. This latter dynamic translates into an increase in positions classified as non-performing loans (NPLs), the direct impact of which is manifested in profit or loss as an increase in writedowns/impairment losses recognized for accounting purposes.

Depending on the type of counterparty and the sector in which it operates, the Group's operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral). A special process in the lending sector is the management of credit risk mitigation techniques. For regulatory purposes, use of the latter is only permitted subject to specific conditions, which must be complied with for the duration of the guarantees and which determine their eligibility for use in reducing mandatory capital requirements. Accordingly, any inefficiency or ineffectiveness in the collateral management process may expose the Group to what prudential regulations call residual risk. The operations of the Banking Group are also characterized by exposures to financial instruments, such as financial and credit derivatives transacted on unregulated markets, repurchase transactions and transactions settled forward that generate counterparty risk and, consequently, a need to determine any additional capital requirement for such transactions (credit value adjustment – CVA).

- MEASUREMENT AND VALUATION OF RISKS

For the purpose of calculating prudential requirements for credit risk, the Iccrea Banking Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The measurement and valuation of credit risk is the responsibility of the CRO area and involves:

- measuring credit risk at the single entity/business unit level and at the Group level, considering both conditions of normal operations and stress scenarios;
- formalizing credit risk exposure limits for those with delegated powers, verifying the methodological consistency of the overall structure of those limits;
- monitoring the capacity of the risk limits in terms of the associated credit risk metrics at the individual business unit level and for the Group as a whole;
- defining and updating the methods and measurement models for credit risk, dialoguing with the risk control units of the Group companies to agree methodological issues where appropriate.

- RISK PREVENTION AND ATTENUATION

For each business line (Corporate, Financial Institutions, Retail), the Group has adopted a comprehensive system of arrangements and controls set out in the respective corporate policies that are consistent with the overall Risk Appetite Framework established by the Parent Company.

The operational units involved in lending processes are responsible for performing first-level controls, which are designed to assess credit risk in the loan application acceptance stage and to enable monitoring of borrower solvency over time and signal any irregularities.

More specifically, with regard to the following business lines:

- *Corporate*: the integration between the rating model and the front-end system permits extensive automation of the application assessment process and of the approval of operations (electronic loan decision), while at the same time permitting control to be maintained over the process, data quality and the use of delegated powers (tracking every decision/change) The entire segment is governed by comprehensive rules set out in the Credit Handbook;
- *Financial Institutions*: the systematic oversight process performed by the business units involves assessing problem positions, tracking developments to ensure proper classification of exposures, and implementing consequent actions. It uses a specific application: BankAlert. The application generates daily key risk indicators for each segment of operations. These reports are generated with the same frequency (daily) to all business units that operate with banking counterparties.;
- *Retail*: first-level controls are structured into a series of activities performed on an ongoing basis by the branch of the mutual bank proposing the transaction in its capacity as the manager of the credit relationship with the customer, with verification carried out at the territorial level. Loan applications received via electronic channels are checked to ensure the accuracy of the information using the following controls:
 - automated check of correspondence between tax ID number and other personal data of borrowers;
 - automated check of ID documents to ensure they have not been stolen or lost, including through a direct connection with the website of the State Police;
 - possible direct telephone contacts at the customer's home or workplace.

The operating limits defined in the lending process are automatically controlled by the IT system by assigning specific user codes enabled on the basis of the user's category. With regard to loan management at Banca Sviluppo, the Lending department oversees the process of processing applications and managing loans, while impaired loans not classified as bad debts are managed by the Debt Collection department. Bad debts are managed by an external company, BCC Gestione Crediti. All stages of the lending process are governed by the Lending Rules, which provide for the involvement of the various units belonging to both the branch network and headquarters. With the significant expansion of the Bank's loan portfolio in 2015 and 2016, specific projects have been launched with the support of the Parent Company, Iccrea Banca, which has made it possible to achieve significant benefits in terms of rationality, transparency and timeliness in the various phases of the lending process. More specifically, these have included: adoption of the Group rating system (Alvin Rating) to assess the corporate portfolio; re-engineering of the monitoring, recovery, classification and evaluation phases. Second-level controls are conducted by the Risk Management department (with the support of its local units), a unit independent of those that process and manage loans, ensuring effective functional separation and giving the Bank an immediate and objective analysis of situations in which risk levels have increased significantly.

- MONITORING AND REPORTING

The Risk Management unit performs second-level controls in verifying the adequacy, effectiveness and consistency over time of policies (and limits), processes and delegated powers with regard to the assumption and management of credit risk, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management department for RAF purposes and specific analysis of the Group's overall exposure to credit risk. The natural locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives, tolerances and limits (appetite, tolerance and capacity), with compliance ensured by the monitoring and control activities of the CRO area.

Finally, the Internal Audit unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

Monitoring and reporting involves both business units and control units, in accordance with their respective duties. These activities include aggregate portfolio analysis and analysis of developments in individual positions.

For the Corporate business line, operational monitoring involves:

- aggregate analysis and analysis of developments in the overall configuration and risk of the loan portfolio;
- specific analysis through the qualitative monitoring of individual positions. This approach is based on advanced management/operational monitoring of loans, which on the basis of mass analysis of developments supplemented with all other codified information available at the company level, seeks to construct, with the contribution of the various position managers and analysts involved, an overall picture of the situation of the borrower to provide support for the decisions regarding actions to take with regard to the customer concerned.

The operational monitoring framework for the Financial Institutions business line consists of a comprehensive system of warning signals represented by Key Risk Indicators, which are drawn from monitoring indicators (financial indicators and internal company indicators) and thresholds specified using statistical analysis that defines alert status.

For the Retail business line, monitoring of individual loans is conducted, within the scope of collection activities, through the daily observation of past due positions as from the first unpaid instalment, using a classification based on the seriousness of the situation (sound positions, sensitive positions, doubtful positions in collection, doubtful positions in litigation), which is managed using automated procedures in the IT system. The monitoring of credit risk also considers “connected” exposures, i.e. exposures that are not classified as positions in collection or in litigation but are connected with customers who have other positions in collection or in litigation. In addition, periodic monitoring has been introduced for all personal loans that, while not having unpaid instalments, have experienced repeated instances of resubmission of direct debit (RID/SDD) requests.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. ON the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk

policies, respectively. The Risk Management department is also responsible for preparing periodic reports for management and the operating business units.

CREDIT RISK MITIGATION TECHNIQUES

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage doubtful positions, i.e. positions that have been judged unlikely to fully discharge their credit obligations to the Group;
- clear and timely escalation mechanisms accompanied by actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- clear and timely escalation mechanisms accompanied by actions to be taken in the event the limits specified in the risk policies are breached.

With specific regard to the *Financial Institutions* business line, A series of measures have been developed to upgrade the Bank’s organizational and IT resources in order to create effective structural and process arrangements that ensure full compliance with the organizational, financial and legal requirements under the new regulations and govern the entire process of acquiring, assessing, controlling and realizing instruments used to mitigate credit risk. Guarantees eligible for mitigation of credit risk are specified in an “analytic guarantee chart”, which provides a specific description of all the information necessary for correct use of the security. The types of eligible guarantee must be approved by the Board of Directors.

Iccrea Banca also acquired financial guarantees in respect of “collateral pool” operations backing credit facilities for mutual banks. Pursuant to the provisions of Legislative Decree 170/2004, these guarantees are included, under the rules set out in supervisory instructions, among eligible credit risk mitigation techniques (see Bank of Italy Circular no. 285/2013, Part 2, Chapter 5).

Re-examination has begun of mortgage guarantees already acquired by the Bank covering existing real estate loans, and an electronic database containing

their details is being prepared in order to enable for systematic monitoring of their value. A similar effort is being made for all lien security already acquired by the Bank.

Within the context of over-the-counter derivative transactions, Iccrea Banca uses a “close-out netting” mechanism with mutual banks providing for the right to terminate pending relationships immediately with the offsetting of reciprocal positions and payment of the net balance in the event of the counterparty’s default or bankruptcy. This netting technique is also used for the purposes of calculating capital requirements, in accordance with prudential supervision regulations (see Regulation (EU) no. 575/2013, Title II, Part 3, Chapter 6, Section 7, Article 296).

In compliance with the provisions of law governing the cancellation of mortgages on extinguished mortgage loans, the Loans Technical Secretariat uses electronic systems for operating with the government office responsible for cancelling encumbrances in respect of repaid loans.

In order to mitigate the credit risk associated with trading in financial derivative instruments with bank counterparties (counterparty risk), Iccrea Banca uses bilateral netting arrangements that in the event of counterparty default enable offsetting of creditor and debtor positions in financial derivatives transactions, as well as for securities financing transactions (SFTs).

On the operational front, risk mitigation is implemented with the use of ISDA agreements for derivatives transactions and Global Master Repurchase Agreements (GMRAs) for direct repurchase transactions with market counterparties. Both of these protocols are used to manage and mitigate credit risk and, in compliance with the conditions established under supervisory regulations, enable the reduction of capital requirements.

As regards OTC derivatives business, the Bank continued to enter into Credit Support Annex (CSA) arrangements with its main financial counterparties. At December 31, 2016 credit exposures in respect of transactions in derivatives were covered by 199 margin agreements (CSA), of which 65 with market counterparties and 134 with mutual bank industry counterparties. As for repos, 10 GRMAs were entered into, of which 6 are active and operational with two counterparties.

IMPAIRED FINANCIAL ASSETS

- PROCEDURES FOR CLASSIFYING ASSETS BY DEBTOR QUALITY

The Bank is equipped with regulatory/IT structures and procedures for loan management, classification and control.

In line with the provisions of the IASs/IFRSs, at every reporting date the presence of objective evidence of impairment is assessed for every instrument or group of financial instruments.

Objective evidence of the impairment of a financial asset or group of financial assets consists of observable data regarding the following events:

- significant financial difficulties of the debtor;
- breach of contractual agreements, such as default or delinquency in paying interest or principal;
- the lender, for economic or legal reasons associated with the borrower’s financial difficulties, grants the debtor concessions that the lender would not otherwise have considered;
- a high probability of the debtor’s entering bankruptcy or other financial reorganization;
- the disappearance of an active market for the financial asset as a result of the debtor’s financial difficulties (a case not relevant for the current types of loans to banks/customers);
- the existence of evidence indicating a quantifiable decrease in estimated future cash flows for a group of assets, after initial recognition, even if such decrease cannot yet be ascribed to the individual position:
 - a reduction in the debtor’s ability to discharge its liability in respect of the group of assets it holds;
 - international, national or local conditions that could give rise to default in respect of a group of receivables.

The above assessment is conducted with the support of special IT screening procedures on the basis of information from internal and external sources.

Within the scope of testing for the existence of objective evidence of impairment, non-performing loans are classified in the following categories:

- bad debts: loans to borrowers in a state of insolvency (even if bankruptcy has not been declared by a court) or in substantially equivalent situations, regardless of any expectations of loss formulated by the company;
- positions unlikely to be repaid: credit exposures other than bad debts to borrowers that the Bank believes are unlikely to discharge their credit obligations in full (principal and/or interest) without

recourse to actions such as enforcement of guarantees;

- impaired past due/overlimit exposures: exposures other than bad debts or positions likely to be unpaid that as of the reporting date are past due/overlimit by more than 90 days and exceed a specified materiality threshold.

- FORBORNE EXPOSURES

An additional classification is made for credit exposures that have been granted some form of forbearance, which are divided into:

- non-performing exposures with forbearance measures: depending on the circumstances, these represent a subset of bad debts, positions unlikely to be repaid or impaired past due/overlimit exposures; they do not represent a separate category of impaired assets;
- other exposures with forbearance measures, which correspond to forbore performing exposures and are therefore classified under performing exposures.

- FACTORS ENABLING RECLASSIFICATION OF IMPAIRED EXPOSURES TO PERFORMING STATUS

Only the return to full solvency of the debtor permits restoration of performing status. This comprises:

- elimination of the entire exposure or repayment of arrears;
- regularization of the exposure.

- ASSESSMENT OF THE ADEQUACY OF WRITEDOWNS

Loans are recognized at estimated realizable value. This value is obtained by deducting specific and general writedowns of principal and interest, net of any repayments, from the total amount disbursed.

Calculation of expected loss is based on analytical and statistical methodologies. The latter are used for personal loans classified as bad debts and for calculating normal risk.

The analytical assessment of non-performing positions is based on standard criteria approved by the Board of Directors that incorporate prudential assessments of any guarantees securing repayment.

In particular, impaired exposures are analytically evaluated on the basis of:

- forecast of future recovery of the credit position – with the exclusion of future losses that have not yet emerged – using different procedures depending on the type of loan:
 - for personal loans classified as bad debts the recovery forecast is determined using a statistical method based on stratification based on the age of the position, considering amounts collected and losses on past cases from which, with appropriate calculations, an estimated loss percentage can be determined for application to the entire existing portfolio;
 - for other loans, general writedowns based on statistical techniques that, using the values calculated for rates of default and non-recoverability, contribute to the calculation of a prudential coverage ratio;
- recovery times;
- expected realization of any guarantees, taking account of estimated collection/liquidation expenses, which must be incorporated into the expected future cash flows.

The writedown is recognized in the income statement as the difference between the initial carrying amount of the asset and the present value of the estimated recoverable cash flows, discounted at the original effective interest rate of the financial asset at the moment of classification as non-performing.

The original value of the receivable is written back in subsequent years if the reasons for the writedown no longer obtain.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 IMPAIRED AND UNIMPAIRED EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR AND GEOGRAPHICAL AREA

A.1.1 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (CARRYING AMOUNT)

| | Bad debts | Unlikely to be repaid | Impaired past due exposures | Unimpaired past due positions | Other unimpaired positions | Total 2016 |
|--|----------------|-----------------------|-----------------------------|-------------------------------|----------------------------|-------------------|
| 1. Financial assets available for sale | - | - | - | - | 5,151,513 | 5,151,513 |
| 2. Financial assets held to maturity | - | - | - | - | 4,738,609 | 4,738,609 |
| 3. Due from banks | - | - | 17 | 50 | 21,152,127 | 21,152,194 |
| 4. Loans to customers | 501,871 | 846,963 | 70,660 | 808,702 | 11,446,060 | 13,674,256 |
| 5. Financial assets at fair value | - | - | - | - | 14,559 | 14,559 |
| 6. Financial assets held for sale | - | - | - | - | - | - |
| Total (2016) | 501,871 | 846,963 | 70,677 | 808,752 | 42,502,868 | 44,731,131 |

DISTRIBUTION OF UNIMPAIRED PAST-DUE CREDIT EXPOSURES BY PORTFOLIO AND TIME PAST DUE (NET VALUES)

| Loans to customers | Up to 3 months | From more than 3 months to 6 months | From more than 6 months to 1 year | More than 1 year |
|----------------------------------|----------------|-------------------------------------|-----------------------------------|------------------|
| d) Unimpaired past-due exposures | 733,128 | 42,420 | 24,977 | 8,177 |
| - of which: forborne exposures | 27,875 | 1,306 | 13 | - |

The value of assets past due by more than 90 days regard loans that do not meet the conditions for classification as impaired past-due exposures (below the 5% materiality threshold).

A.1.2 DISTRIBUTION OF CREDIT EXPOSURES BY PORTFOLIO AND CREDIT QUALITY (GROSS AND NET VALUES)

| | Impaired assets | | | Unimpaired assets | | | Total 2016 (net exposure) |
|--|------------------|----------------------|------------------|-------------------|----------------------|-------------------|------------------------------|
| | Gross exposure | Specific adjustments | Net exposure | Gross exposure | Specific adjustments | Net exposure | |
| 1. Financial assets available for sale | - | - | - | 5,151,513 | - | 5,151,513 | 5,151,513 |
| 2. Financial assets held to maturity | - | - | - | 4,738,609 | - | 4,738,609 | 4,738,609 |
| 3. Due from banks | 56 | 39 | 17 | 21,152,177 | - | 21,152,177 | 21,152,194 |
| 4. Loans to customers | 2,569,190 | 1,149,696 | 1,419,494 | 12,361,846 | 107,084 | 12,254,762 | 13,674,256 |
| 5. Financial assets at fair value | - | - | - | X | X | 14,559 | 14,559 |
| 6. Financial assets held for sale | - | - | - | - | - | - | - |
| Total (2016) | 2,569,246 | 1,149,735 | 1,419,510 | 43,404,145 | 107,084 | 43,311,620 | 44,731,131 |

| | Assets with evidently poor credit quality | | Other assets |
|--------------------------------------|---|--------------|----------------|
| | Cumulative losses | Net exposure | Net exposure |
| 1. Financial assets held for trading | 7,518 | 56 | 391,127 |
| 2. Hedging derivatives | - | - | 17,773 |
| Total (2016) | 7,518 | 56 | 408,900 |

A.1.3 BANKING GROUP - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS VALUES, NET VALUES AND TIME PAST DUE

| | Gross exposure | | | | | Unimpaired assets | Specific writedowns | Portfolio writedowns | Net exposure 2016 |
|---------------------------------------|-----------------|-------------------------------------|-----------------------------------|------------------|-------------------|-------------------|---------------------|----------------------|-------------------|
| | Impaired assets | | | | | | | | |
| | Up to 3 months | From more than 3 months to 6 months | From more than 6 months to 1 year | More than 1 year | | | | | |
| A. ON-BALANCE-SHEET EXPOSURES | | | | | | | | | |
| a) Bad debts | - | - | - | - | X | - | X | - | |
| - of which: forborne exposures | - | - | - | - | X | - | X | - | |
| b) Unlikely to be repaid | - | - | - | - | X | - | X | - | |
| - of which: forborne exposures | - | - | - | - | X | - | X | - | |
| c) Impaired past due exposures | - | - | - | 56 | X | 39 | X | 17 | |
| - of which: forborne exposures | - | - | - | - | X | . | X | - | |
| d) Unimpaired past due exposures | X | X | X | X | 50 | X | - | 50 | |
| - of which: forborne exposures | X | X | X | X | - | X | - | - | |
| e) Other unimpaired assets | X | X | X | X | 21,169,627 | X | - | 21,169,627 | |
| - of which: forborne exposures | X | X | X | X | - | X | - | - | |
| Total A | - | - | - | 56 | 21,169,677 | 39 | - | 21,169,694 | |
| B. OFF-BALANCE-SHEET EXPOSURES | | | | | | | | | |
| a) Impaired | - | - | - | - | X | - | X | - | |
| b) Unimpaired | X | X | X | X | 539,284 | X | - | 539,284 | |
| Total B | - | - | - | - | 539,284 | - | - | 539,284 | |
| TOTAL (A+B) | - | - | - | 56 | 21,708,961 | 39 | - | 21,708,978 | |

A.1.4 BANKING GROUP - ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS IMPAIRED POSITIONS

| | Bad debts | Unlikely to be repaid | Past due exposures |
|---|------------|-----------------------|--------------------|
| A. Opening gross exposure | 115 | 54 | - |
| - of which: exposures assigned but not derecognized | - | - | - |
| B. Increases | - | - | 56 |
| B.1 from performing credit exposures | - | - | - |
| B.2 transfers from other categories of impaired positions | - | - | 55 |
| B.3 other increases | - | - | 1 |
| C. Decreases | 115 | 54 | - |
| C.1 to performing credit exposures | - | - | - |
| C.2 writeoffs | - | - | - |
| C.3 collections | 115 | - | - |
| C.4 gains on disposal | - | - | - |
| C.5 losses on disposal | - | - | - |
| C.6 transfers to other categories of impaired positions | - | 54 | - |
| C.7 other decreases | - | - | - |
| D. Closing gross exposure 2016 | - | - | 56 |
| - of which: exposures assigned but not derecognized | - | - | - |

A.1.4 BIS BANKING GROUP - ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS FORBORNE EXPOSURES BY CREDIT QUALITY

There were no such positions as of the balance sheet date.

A.1.5 BANKING GROUP - ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN TOTAL ADJUSTMENTS OF LOANS

| | Bad debts | | 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 | - | - | - |
| - of which: exposures assigned but not derecognized | - | - | - | - | - | - |
| B. Increases | - | - | - | - | - | - |
| B.1 writedowns | - | - | - | - | - | - |
| B.2 losses on disposal | - | - | - | - | - | - |
| B.3 transfers from other categories of impaired positions | - | - | - | - | 39 | - |
| B.4 other increases | - | - | - | - | - | - |
| C. Decreases | - | - | - | - | - | - |
| C.1 writebacks from valuations | - | - | - | - | - | - |
| C.2 writebacks from collections | - | - | - | - | - | - |
| C.3 gains on disposal | - | - | - | - | - | - |
| C.4 writeoffs | - | - | - | - | - | - |
| C.5 transfers to other categories of impaired positions | - | - | 39 | - | - | - |
| C.6 other decreases | - | - | - | - | - | - |
| D. Total closing adjustments 2016 | - | - | - | - | 39 | - |
| - of which: exposures assigned but not derecognized | - | - | - | - | - | - |

A.1.6 BANKING GROUP - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS VALUES, NET VALUES AND TIME PAST DUE

| | Gross exposure | | | | | Unimpaired assets | Specific writedowns | Portfolio writedowns | Net exposure 2016 |
|---------------------------------------|-----------------|-------------------------------------|-----------------------------------|------------------|-------------------|-------------------|---------------------|----------------------|-------------------|
| | Impaired assets | | | | | | | | |
| | Up to 3 months | From more than 3 months to 6 months | From more than 6 months to 1 year | More than 1 year | | | | | |
| A. ON-BALANCE-SHEET EXPOSURES | | | | | | | | | |
| a) Bad debts | 496 | 254 | 46,569 | 1,204,646 | X | 750,095 | X | 501,871 | |
| - of which: forborne exposures | - | - | 2,665 | 70,511 | X | 48,314 | X | 24,862 | |
| b) Unlikely to be repaid | 392,537 | 97,679 | 191,557 | 555,319 | X | 390,129 | X | 846,963 | |
| - of which: forborne exposures | 245,055 | 68,976 | 83,156 | 172,749 | X | 171,585 | X | 398,351 | |
| c) Impaired past due exposures | 24,642 | 32,275 | 11,001 | 12,215 | X | 9,472 | X | 70,661 | |
| - of which: forborne exposures | 1,406 | 383 | 142 | 1,683 | X | 369 | X | 3,246 | |
| d) Unimpaired past due exposures | X | X | X | X | 817,510 | X | 8,808 | 808,702 | |
| - of which: forborne exposures | X | X | X | X | 30,004 | X | 811 | 29,193 | |
| e) Other unimpaired exposures | X | X | X | X | 21,513,842 | X | 98,277 | 21,415,565 | |
| - of which: forborne exposures | X | X | X | X | 217,709 | X | 6,050 | 211,660 | |
| Total A | 417,675 | 130,208 | 249,127 | 1,772,180 | 22,331,352 | 1,149,696 | 107,085 | 23,643,762 | |
| B. OFF-BALANCE-SHEET EXPOSURES | | | | | | | | | |
| a) Impaired | 43,481 | - | - | - | X | 1,325 | X | 42,155 | |
| b) Unimpaired | X | X | X | X | 2,635,168 | X | 6,247 | 2,628,922 | |
| Total B | 43,481 | - | - | - | 2,635,168 | 1,325 | 6,247 | 2,671,077 | |
| TOTAL (A+B) | 461,156 | 130,208 | 249,127 | 1,772,179 | 24,966,520 | 1,151,021 | 113,332 | 26,314,839 | |

A.1.7 BANKING GROUP - ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS IMPAIRED POSITIONS

| | Bad debts | Unlikely to be repaid | Impaired past due exposures |
|---|------------------|-----------------------|-----------------------------|
| A. Opening gross exposure | 1,058,459 | 1,250,324 | 78,369 |
| - of which: exposures assigned but not derecognized | 42,352 | 68,955 | 1,857 |
| B. Increases | 386,907 | 434,727 | 68,577 |
| B.1 from performing credit exposures | 39,118 | 288,782 | 55,753 |
| B.2 transfers from other categories of impaired positions | 281,906 | 26,566 | 285 |
| B.3 other increases | 65,883 | 119,379 | 12,539 |
| C. Decreases | 193,399 | 447,959 | 66,815 |
| C.1 to performing credit exposures | 28 | 41,519 | 15,028 |
| C.2 writeoffs | 13,030 | 5,930 | 397 |
| C.3 collections | 93,224 | 125,186 | 13,793 |
| C.4 assignments | 14,247 | 44 | - |
| C.5 losses on disposal | 71,641 | 1,982 | 58 |
| C.6 transfers to other categories of impaired positions | 244 | 272,295 | 36,217 |
| C.7 other decreases | 984 | 1,003 | 1,322 |
| D. Closing gross exposure 2016 | 1,251,967 | 1,237,092 | 80,131 |
| - of which: exposures assigned but not derecognized | 37 | 2,111 | 557 |

A.1.7 BIS BANKING GROUP - 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 | 359,205 | 239,314 |
| - of which: exposures assigned but not derecognized | 22,235 | 14,293 |
| B. Increases | 367,676 | 120,216 |
| B.1 from performing credit exposures without forbearance | 84,924 | 80,255 |
| B.2 from performing credit exposures with forbearance | 81,258 | X |
| B.3 from impaired exposures with forbearance | X | 18,938 |
| B.4 other increases | 20,494 | 21,023 |
| C. Decreases | 80,152 | 111,815 |
| C.1 to performing credit exposures without forbearance | X | 7,354 |
| C.2 to performing credit exposures with forbearance | 19,043 | X |
| C.3 to impaired exposures with forbearance | X | 83,088 |
| C.4 writeoffs | 1,723 | 2,456 |
| C.5 collections | 58,583 | 18,775 |
| C.6 realization from disposal | - | - |
| C.7 losses on disposal | 40 | - |
| C.8 other decreases | 761 | 142 |
| D. Closing gross exposure 2016 | 646,729 | 247,715 |
| - of which: exposures assigned but not derecognized | 591 | 16,546 |

A.1.8 BANKING GROUP - ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN TOTAL ADJUSTMENTS OF LOANS

| | Bad debts | | 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 | 602,586 | 5,349 | 384,481 | 112,000 | 8,951 | 528 |
| - of which: exposures assigned but not derecognized | 19,905 | 401 | 13,559 | 3,046 | 152 | - |
| B. Increases | 265,380 | 43,384 | 166,005 | 119,433 | 8,111 | 351 |
| B.1 writedowns | 108,690 | 5,978 | 68,217 | 42,711 | 4,792 | 7 |
| B.2 losses on disposal | 12,096 | - | 167 | - | - | - |
| B.3 transfers from other categories of impaired positions | 100,062 | 34,789 | 2,186 | 266 | 77 | - |
| B.4 other increases | 44,532 | 2,617 | 95,435 | 76,456 | 3,242 | 344 |
| C. Decreases | 117,871 | 419 | 160,356 | 59,848 | 7,591 | 510 |
| C.1 writebacks from valuations | 18,261 | 414 | 23,794 | 11,640 | 132 | 13 |
| C.2 writebacks from collections | 76,626 | 2 | 30,607 | 11,356 | 1,569 | 231 |
| C.3 gains on disposal | 4,957 | - | 1,124 | 40 | 59 | - |
| C.4 writeoffs | 17,592 | 3 | 6,001 | 1,840 | 251 | - |
| C.5 transfers to other categories of impaired positions | 35 | - | 97,154 | 34,790 | 5,136 | 266 |
| C.6 other decreases | 400 | - | 1,676 | 182 | 444 | - |
| D. Total closing adjustments 2016 | 750,095 | 48,314 | 390,130 | 171,585 | 9,471 | 370 |
| - of which: exposures assigned but not derecognized | 6 | - | 250 | 88 | 32 | - |

A.2 CLASSIFICATION OF EXPOSURES ON THE BASIS OF EXTERNAL AND INTERNAL RATINGS

A.2.1 BANKING GROUP - DISTRIBUTION OF ON-BALANCE-SHEET CREDIT EXPOSURES AND OFF-BALANCE-SHEET EXPOSURES BY EXTERNAL RATING GRADES

| | External rating grades | | | | | | Not rated | Total 2016 |
|---------------------------------|------------------------|---------------|-------------------|---------------|---------------|--------------|-------------------|-------------------|
| | Class 1 | Class 2 | Class 3 | Class 4 | Class 5 | Class 6 | | |
| A. On-balance-sheet exposures | 133,951 | 3,967 | 22,692,175 | 13,431 | 160 | 1,093 | 22,447,268 | 45,292,045 |
| B. Derivatives | 27,500 | 5,932 | 160,304 | - | - | 8 | 28,952 | 222,696 |
| B.1 Financial derivatives | 27,500 | 5,932 | 160,304 | - | - | 8 | 13,952 | 207,696 |
| B.2 Credit derivatives | - | - | - | - | - | - | 15,000 | 15,000 |
| C. Guarantees issued | 29,455 | 888 | 488,294 | - | 39,060 | - | 211,845 | 769,542 |
| D. Commitment to disburse funds | 1,558 | 121 | 222,328 | 18 | 160 | 3,401 | 1,961,441 | 2,189,027 |
| E. Other | - | - | - | - | - | - | 42,672 | 42,672 |
| Total 2016 | 192,464 | 10,908 | 25,563,101 | 13,449 | 39,380 | 4,502 | 24,692,178 | 48,515,982 |

The distribution of the exposures in the table shows the breakdown by rating grade of the borrowers referred to in the prudential regulations of the Bank of Italy. The information has been provided by the Fitch rating agency as the External Credit Assessment Institution (ECAI).

The following table maps the risk grades to the ratings of the reference ECAI (Fitch):

| | |
|---------------|----------------|
| Class 1 | AAA |
| | AA+ |
| | AA |
| | AA- |
| Class 2 | A+ |
| | A |
| | A- |
| Class 3 | BBB+ |
| | BBB |
| | BBB- |
| Class 4 | BB+ |
| | BB |
| | BB- |
| Class 5 | B+ |
| | B |
| | B- |
| Other classes | CCC+ and lower |

A.2.2 BANKING GROUP - DISTRIBUTION OF ON-BALANCE-SHEET EXPOSURES AND OFF-BALANCE-SHEET EXPOSURES BY INTERNAL RATING GRADES

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

A.3 DISTRIBUTION OF SECURED CREDIT EXPOSURES BY TYPE OF GUARANTEE

Exposures are classified as “fully secured” or “partially secured” by comparing the value of the gross exposures with the values of the contractually determined guarantees.

The columns “collateral” and “uncollateralized guarantees” report the fair value of the guarantees estimated as at the reporting date. That value may not exceed the carrying amount of the secured exposures.

A.3.1 BANKING GROUP - SECURED CREDIT EXPOSURES TO BANKS

| | Value of net exposure | Collateral (1) | | | | Uncollateralized guarantees (2) | | | | | | | | Total 2016 (1)+(2) | |
|---|-----------------------|---------------------------|--------------------------------|------------|--------------|---------------------------------|-------------------------------|---------------------------|-------|-------------------------------|---------------------------|-------|-------|-----------------------|-------------------|
| | | Properties - mortgages | Properties - finance leases | Securities | Other assets | Credit derivatives | | | | Guarantees | | | | | |
| | | | | | | CLN | Other derivatives | | | Governments and central banks | Other government agencies | Banks | Other | | |
| | | | | | | | Governments and central banks | Other government agencies | Banks | | | | | | Other |
| 1. Secured on-balance-sheet credit exposures: | | | | | | | | | | | | | | | |
| 1.1 fully secured | 19,696,233 | 273 | 8,885 | 19,654,524 | 19,369 | - | - | - | - | - | - | - | 3,795 | 67 | 19,686,613 |
| - of which: impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1.2 partially secured | 1,716 | 1,500 | - | 127 | - | - | - | - | - | - | - | - | - | - | 1,627 |
| - of which: impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2. Secured off-balance-sheet credit exposures: | | | | | | | | | | | | | | | |
| 2.1 fully secured | 11,296 | - | - | 4,823 | - | - | - | - | - | - | - | - | 6,471 | - | 11,294 |
| - of which: impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.2 partially secured | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - of which: impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

A.3.2 BANKING GROUP - SECURED CREDIT EXPOSURES TO CUSTOMERS

| | Value of net exposure | Collateral (1) | | | | Uncollateralized guarantees (2) | | | | | | | | Total 2016 (1)+(2) | |
|---|-----------------------|---------------------------|--------------------------------|------------|--------------|---------------------------------|-------------------------------|---------------------------|-------|-------------------------------|---------------------------|---------|--------|--------------------------|------------------|
| | | Properties - mortgages | Properties - finance leases | Securities | Other assets | Credit derivatives | | | | Guarantees | | | | | |
| | | | | | | CLN | Other derivatives | | | Governments and central banks | Other government agencies | Banks | Other | | |
| | | | | | | | Governments and central banks | Other government agencies | Banks | | | | | | Other |
| 1. Secured on-balance-sheet credit exposures: | | | | | | | | | | | | | | | |
| 1.1 fully secured | 9,142,908 | 2,566,281 | 3,595,053 | 943,655 | 1,152,472 | - | - | - | - | - | 17,176 | 124,320 | 69,443 | 524,022 | 8,992,422 |
| - of which: impaired | 1,271,794 | 531,603 | 591,196 | 651 | 50,248 | - | - | - | - | - | 1,249 | 1,249 | 18,055 | 69,249 | 1,263,500 |
| 1.2 partially secured | 274,900 | 36,796 | 50,127 | 194 | 9,425 | - | - | - | - | - | 21,346 | 29,567 | 23,429 | 15,652 | 186,536 |
| - of which: impaired | 38,615 | 19,102 | 3,079 | - | 1,231 | - | - | - | - | - | 271 | 2,948 | 582 | 4,206 | 31,419 |
| 1.3 unsecured credit exposures | 2,667,354 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2. Secured off-balance-sheet credit exposures: | | | | | | | | | | | | | | | |
| 2.1 fully secured | 188,927 | 1,134 | - | 1,093 | 2,018 | - | - | - | - | - | 12 | 5,339 | 12,312 | 142,993 | 164,901 |
| - of which: impaired | 22,045 | 194 | - | - | 380 | - | - | - | - | - | - | - | 5,197 | 15,957 | 21,729 |
| 2.2 partially secured | 29,522 | - | - | 6 | 1,483 | - | - | - | - | - | - | 4,507 | 3,956 | 10,208 | 20,160 |
| - of which: impaired | 9,470 | - | - | - | - | - | - | - | - | - | - | - | 2,100 | 6,338 | 8,438 |
| 2.3 unsecured credit exposures | 33,825 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 BANKING GROUP - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY SECTOR (CARRYING AMOUNT)

| | Governments | | | Other government agencies | | | Financial companies | | |
|---------------------------------|-------------------|---------------------|----------------------|---------------------------|---------------------|----------------------|---------------------|---------------------|----------------------|
| | Net exposure | Specific writedowns | Portfolio writedowns | Net exposure | Specific writedowns | Portfolio writedowns | Net exposure | Specific writedowns | Portfolio writedowns |
| A. On-balance-sheet | | | | | | | | | |
| A.1 Bad debts | - | - | X | 2 | 3 | X | 1,810 | 14,420 | X |
| - of which: forborne exposures | - | - | X | - | - | X | - | - | X |
| A.2 Unlikely to be repaid | - | - | X | 19 | 6 | X | 3,998 | 2,640 | X |
| - of which: forborne exposures | - | - | X | - | - | X | 703 | 64 | X |
| A.3 Impaired past due exposures | 3 | - | X | 1,394 | 19 | X | 1,792 | 207 | X |
| - of which: forborne exposures | - | - | X | - | - | X | 7 | - | X |
| A.4 Unimpaired exposures | 9,957,591 | - | - | 151,176 | X | 1,016 | 2,786,686 | X | 4,255 |
| - of which: forborne exposures | - | X | - | 6,477 | X | 85 | 11 | X | - |
| Total A | 9,957,594 | - | - | 152,591 | 28 | 1,016 | 2,794,286 | 17,267 | 4,255 |
| B. Off-balance-sheet | | | | | | | | | |
| B.1 Bad debts | - | - | X | - | - | X | - | - | X |
| B.2 Unlikely to be repaid | - | - | X | - | - | X | - | - | X |
| B.3 Other impaired assets | - | - | X | - | - | X | - | - | X |
| B.4 Unimpaired exposures | 97,538 | X | - | 76,732 | X | 98 | - | - | 371 |
| Total B | 97,538 | - | - | 76,732 | - | 98 | - | - | 371 |
| Total (A+B) (2016) | 10,055,132 | - | - | 229,323 | 28 | 1,114 | 4,041,399 | 17,267 | 4,626 |
| Total (A+B) (2015) | 13,774,135 | - | - | 183,467 | 152 | 735 | 3,489,135 | 18,136 | 1,348 |

| | Insurance undertakings | | | Non-financial companies | | | Other | | |
|---------------------------------|------------------------|------------------------|-------------------------|-------------------------|------------------------|-------------------------|------------------|------------------------|-------------------------|
| | Net exposure | Specific writedowns | Portfolio writedowns | Net exposure | Specific writedowns | Portfolio writedowns | Net exposure | Specific writedowns | Portfolio writedowns |
| A. On-balance-sheet | | | | | | | | | |
| A.1 Bad debts | | | X | 460,471 | 655,995 | X | 39,589 | 79,676 | X |
| - of which: forborne exposures | | | X | 24,334 | 46,697 | X | 528 | 1,617 | X |
| A.2 Unlikely to be repaid | 3 | 5 | X | 802,920 | 366,627 | X | 40,023 | 20,850 | X |
| - of which: forborne exposures | | | X | 384,469 | 163,771 | X | 13,180 | 7,751 | X |
| A.3 Impaired past due exposures | | | X | 48,277 | 3,240 | X | 19,194 | 6,006 | X |
| - of which: forborne exposures | | | X | 2,570 | 289 | X | 669 | 79 | X |
| A.4 Unimpaired exposures | 61,865 | X | 106 | 7,535,596 | X | 66,088 | 1,731,351 | X | 35,619 |
| - of which: forborne exposures | | X | | 218,114 | X | 6,342 | 16,251 | X | 433 |
| Total A | 61,868 | 5 | 106 | 8,847,264 | 1,025,862 | 66,088 | 1,830,158 | 106,533 | 35,619 |
| B. Off-balance-sheet | | | | | | | | | |
| B.1 Bad debts | - | - | X | 605 | 12 | X | 27 | - | X |
| B.2 Unlikely to be repaid | - | - | X | 40,474 | 1,313 | X | 588 | - | X |
| B.3 Other impaired assets | - | - | X | 388 | - | X | 47 | - | X |
| B.4 Unimpaired exposures | 17 | X | - | 1,120,905 | X | 3,402 | 53,233 | x | 2,376 |
| Total B | 17 | - | - | 1,162,373 | 1,325 | 3,402 | 53,894 | - | 2,376 |
| Total (A+B) (2016) | 61,886 | 5 | 106 | 10,009,637 | 1,027,188 | 69,490 | 1,884,053 | 106,533 | 37,995 |
| Total (A+B) (2015) | 63 | 4 | 103 | 9,705,448 | 890,352 | 64,424 | 1,686,966 | 87,553 | 30,001 |

B.2 BANKING GROUP - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY GEOGRAPHICAL AREA (CARRYING AMOUNT)

| | Italy | | Other European countries | | Americas | | Asia | | Rest of the world | |
|---------------------------------|-------------------|------------------|--------------------------|------------------|---------------|------------------|---------------|------------------|-------------------|------------------|
| | Net exposure | Total Writedowns | Net exposure | Total Writedowns | Net exposure | Total Writedowns | Net exposure | Total Writedowns | Net exposure | Total Writedowns |
| A. On-balance-sheet | | | | | | | | | | |
| A.1 Bad debts | 501,871 | 747,813 | - | - | - | 2,281 | - | - | - | - |
| A.2 Unlikely to be repaid | 843,869 | 384,758 | 668 | 5,031 | 229 | 45 | 2,152 | 258 | 45 | 37 |
| A.3 Impaired past due exposures | 70,209 | 9,467 | 1 | 1 | 9 | - | 440 | 5 | - | - |
| A.4 Unimpaired exposures | 22,054,126 | 106,317 | 133,451 | 611 | 24,652 | 75 | 8,553 | 48 | 3,486 | 33 |
| Total A | 23,470,076 | 1,248,355 | 134,120 | 5,642 | 24,890 | 2,402 | 11,145 | 311 | 3,531 | 69 |
| B. Off-balance-sheet | | | | | | | | | | |
| B.1 Bad debts | 633 | 12 | - | - | - | - | - | - | - | - |
| B.2 Unlikely to be repaid | 34,838 | 1,313 | 690 | - | - | - | 5,560 | - | - | - |
| B.3 Other impaired assets | 435 | - | - | - | - | - | - | - | - | - |
| B.4 Unimpaired exposures | 2,529,543 | 5,829 | 47,989 | 339 | 17,764 | 78 | - | - | 234 | - |
| Total B | 2,565,449 | 7,155 | 48,679 | 339 | 17,764 | 78 | 5,560 | - | 234 | - |
| Total (2016) | 26,035,524 | 1,255,510 | 182,799 | 5,981 | 42,654 | 2,480 | 16,705 | - | 3,765 | - |
| Total (2015) | 28,734,775 | 1,084,271 | 137,846 | 5,301 | 17,374 | 3,061 | 10,436 | 174 | 1,342 | 2 |

B.3 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS BY GEOGRAPHICAL AREA (CARRYING AMOUNT)

| | Italy | | Other European countries | | Americas | | Asia | | Rest of the world | |
|---------------------------------|-------------------|------------------|--------------------------|------------------|---------------|------------------|--------------|------------------|-------------------|------------------|
| | Net exposure | Total Writedowns | Net exposure | Total Writedowns | Net exposure | Total Writedowns | Net exposure | Total Writedowns | Net exposure | Total Writedowns |
| A. On-balance-sheet | | | | | | | | | | |
| A.1 Bad debts | - | - | - | - | - | - | - | - | - | - |
| A.2 Unlikely to be repaid | - | - | - | - | - | - | - | - | - | - |
| A.3 Impaired past due exposures | 17 | 39 | - | - | - | - | - | - | - | - |
| A.4 Unimpaired exposures | 20,938,584 | 1 | 212,770 | - | 14,836 | - | 1,229 | - | 2,045 | - |
| Total A | 20,938,601 | 40 | 212,770 | - | 14,836 | - | 1,229 | - | 2,045 | - |
| B. Off-balance-sheet | | | | | | | | | | |
| B.1 Bad debts | - | - | - | - | - | - | - | - | - | - |
| B.2 Unlikely to be repaid | - | - | - | - | - | - | - | - | - | - |
| B.3 Other impaired assets | - | - | - | - | - | - | - | - | - | - |
| B.4 Unimpaired exposures | 455,490 | - | 60,278 | - | 539 | - | 3,025 | - | 10,672 | - |
| Total B | 455,490 | - | 60,278 | - | 539 | - | 3,025 | - | 10,672 | - |
| Total (2016) | 21,394,091 | 40 | 273,047 | - | 15,375 | - | 4,255 | - | 12,717 | - |
| Total (2015) | 20,670,755 | 39 | 282,986 | - | 16,511 | - | 3,541 | - | 1,326 | - |

B.4 LARGE EXPOSURES

The rules governing the concentration of exposures define a large exposure as one to a customer or group of connected customers that (regardless of the weighted position) is equal to or greater than 10% of a bank's own funds. It is no longer possible to use favorable weightings for interbank exposures and new methods have been introduced for calculating exposures in the presence of investment schemes.

In the light of these changes, the following reports positions that, in exceeding 10% of own funds, represent large exposures. Of these, none

represents a weighted exposure that exceeds the supervisory limit of 25% of consolidated own funds.

The following represents the situation for 2016:

- a) Number of positions: 43
- b) Carrying amount: €49,681 million
- c) Weighted amount: €1,699 million

The 43 positions mainly regard transactions with bank counterparties in the mutual banking industry.

C. SECURITIZATIONS

C.1 SECURITIZATIONS

QUALITATIVE DISCLOSURES

The Iccrea Banking Group operates in the securitization market as both an originator and investor. The main objectives pursued through securitization can be summarized as follows:

- diversifying the sources of funding and reducing its cost;
- strengthening the liquidity position by creating eligible assets for refinancing operations with the ECB (so-called self-securitizations).

In all of these transactions, the Group companies have retained first losses by subscribing the junior notes. The senior notes have been placed with institutional investors (with the exception of the self-securitizations in which the originator subscribes all of the securities issued by the special purpose vehicle).

The following section details the main securitizations by originator.

- ICCREA BANCA IMPRESA S.P.A.

In June 2016, the Iccrea Bancalmpresa S.p.A. exercised the repurchase option for the portfolios of securitized receivables pertaining to the four securitizations AGRI#4, AGRI#5, AGRI#6 and AGRI#7 discussed in the notes to the 2015 consolidated financial statements. Following the operation, the vehicles began the full early redemption of all classes of notes and the termination of the hedges established by the vehicles and all other associated transactions.

The early termination was carried out to ensure the appropriate sizing of the portfolio of the new securitization of lease receivables that the Bank carried out in the second half of 2016, as detailed below.

ICCREA SME CART 2016 (AGRI#9)

On August 10, 2016, the Agri#9 securitization was finalized, with the assignment of future receivables in an initial portfolio of €1,364,760,850.25 of performing lease contracts originated by Iccrea Bancalmpresa and the issue of the associated securities by ICCREA SME CART 2016 S.r.l. (the "special purpose entity"), with the concomitant payment of the assignment price of €1,364,622,200.00, including €617,460,000.00 of the Class D (junior) notes subscribed by Iccrea Bancalmpresa.

The operation, in line with those carried out in 2007, 2009 and 2011 through the special-purpose entities Agricart 4 Finance S.r.l. and Iccrea Sme Cart S.r.l. (Agri#4, Agri#6 and Agri#7), was carried out to acquire new funding for lease financing and loans to small and medium-sized enterprises, or projects sponsored by mid-caps, thereby diversifying funding sources and at the same time obtaining new funding (with an expected average life of about 4 years) with an attractive maturity and cost, especially in view of current market conditions. The transaction did not pursue capital objectives, as under the provisions of the relevant supervisory regulations the characteristics of the transaction do not permit any reduction in capital requirements for the assignor bank.

FEATURES OF THE OPERATION

The transaction involved Iccrea Banca as Sole Arranger.

SECURITIES

As part of the transaction, on August 10, 2016, ABSs amounting to €1,374,160,000.00 were issued by the special purpose entity. The Class A1, A2 and B notes are listed on the Irish Stock Exchange. The issue has the following characteristics:

| Class | Rating (Moody's/S&P) | Amount (€/millions) | Amount (%) | Interest rate | Expected maturity |
|-------|----------------------|---------------------|------------|-----------------------|-------------------|
| A1 | Aa2/AAA | 202.3 | 14.7% | 3M Euribor + 0.10% | 1/06/2019 |
| A2 | Aa2/AA (low) | 480 | 35% | 3M Euribor + 0.85% | 1/06/2021 |
| B | A1/A | 65 | 4.7% | 3M Euribor + 1.15% | 1/12/2021 |
| C | NR – LOW MEZZANINE | 9.4 | 0.7% | 3M Euribor + 1.20% | 1/12/2018 |
| D | NR - JUNIOR | 617.5 | 44.9% | Residual remuneration | 1/03/2022 |

The Class A1 and A2 are ranked pari passu for payment of interest but are amortized on a different schedule except in the case of post enforcement, in which case amortization will also be pari passu and have priority with respect to all other notes.

Redemption of the Class A1 notes will begin at the end of the two-year revolving period. Accordingly, the first redemption is scheduled for December 2018.

Redemption of the Class C notes will begin in December 2018 only if and to the extent that the special purpose entity has sufficient funds, exclusively for interest, to use for that purpose after having paid all costs in the interest payment ranking that have priority over redemption.

ASSIGNED PORTFOLIO

The contract assigning the portfolio of performing leasing receivables to the special purpose entity was executed on July 20, 2016. The portfolio also includes the receivables, which meet the requirements for assignment in the new operation, that were repurchased by the Bank as part of the early extinguishment of the previous securitizations. The portfolio was selected on the basis of criteria agreed with the Arranger and the investors, in an amount essentially equal to the value of the Class A1, A2, B and D securities issued, broken down into four pools. At the assignment date, they had the following composition:

| Pool | Amount (€) | Amount (%) |
|--------------------------|-------------------------|------------|
| 1) – Industrial vehicles | 85,720,330.26 | 6.28 |
| 2) – Equipment | 329,175,688.94 | 24.12 |
| 3) – Real estate | 925,077,135.78 | 67.78 |
| 4) – Auto | 24,787,695.27 | 1.82 |
| Total | 1,364,760,850.25 | 100 |

Revolving operations will be conducted on a quarterly basis and end in September 2018, providing for 8 subsequent assignments of portfolios. The first revolving operation was carried out in December 2016. The selection criteria for the subsequent portfolios are essentially analogous to those used for the initial portfolio.

In line with the most recent securitizations originated by Iccrea Bancalmpresa and with recent market trends, the value of the bargain purchase option was not assigned.

REPURCHASE OPTION

The assignment contract gives Iccrea Bancalmpresa an option for the repurchase of the entire portfolio, which can be exercised on a quarterly basis as from the interest payment date following that on which the Class A and B notes are redeemed in full, as long as the purchase price of the receivables, determined in accordance with the procedures set out in the assignment contract, enables full redemption of the outstanding securities and priority payment of all expenses ranking prior to the latter and Iccrea Bancalmpresa has obtained any necessary authorizations required by law or regulations governing the repurchase option, in conformity with the provisions of Article 58 of the Banking Act. In concomitance with the exercise of the repurchase option, the special purpose entity will carry out the early redemption of the securities.

TRIGGER EVENTS

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

SERVICING

Servicing activities are performed by Iccrea BancaImpresa, which carries out monitoring, collection and recovery activities using the same procedures adopted for the company portfolio. The contract provides for the termination of servicer activities by Iccrea BancaImpresa and the transfer of the Servicer role to the Back-Up Servicer where Iccrea BancaImpresa:

- is in material breach of the provisions of the Servicing agreement; or
- becomes insolvent; or
- is not, or ceases to be, an entity resident in or with its registered office in a country of the European Union, or that status should apply to the Parent Company of the banking group to which Iccrea BancaImpresa belongs.

The role of Back-Up Servicer has been entrusted to Iccrea Banca under the provision of the Back-Up Servicing Agreement signed at the start of the securitization.

CREDIT ENHANCEMENT

Redemption of the notes is secured by the cash flow expected from the assigned portfolio. The operation also provides for the excess spread to cover first losses and for a Debt Service Reserve, which will be made available to the special purpose entity on a quarterly basis. That reserve will be equal to 2% of the rated notes outstanding on a quarter to quarter basis, with a floor of €3,000,000. Until amortization of the notes begins, the reserve will therefore be equal to €14,948,745.04 and was entirely financed at the Issue Date – in the amount of €9,400,000 – with the subscription of the Class C notes by Iccrea BancaImpresa and with collections of interest – in the amount of the remaining €5,548,745.04 – generated on the assigned portfolio for the lease instalment for August 2016.

- BANCA SVILUPPO S.P.A.

Banca Sviluppo operates in the securitization market as a result of the acquisition of Banca Romagna Cooperativa and CrediVeneto. The main objectives pursued through securitization can be summarized as follows:

- diversifying the sources of funding and reducing its cost;
- strengthening the liquidity position by creating eligible assets for refinancing operations with the ECB (so-called self-securitizations).

In all of these transactions, the bank has retained first losses by subscribing the junior notes. The senior notes have been placed with institutional investors (with the exception of the self-securitizations in which the originator subscribes all of the securities issued by the special purpose vehicle).

Banca Sviluppo has 7 outstanding “own” securitizations (2 securitizations and 5 self-securitizations) of performing loans, acquired from Banca Romagna Cooperativa (hereinafter BRC) and Banca Credito Cooperativo Interprovinciale Veneto (hereinafter Crediveneto). The transactions are multi-originator securitizations with the involvement of multiple mutual banks, structured as follows:

- assignment without recourse “en bloc” by the originator of a loan portfolio;
- acquisition of the loans by the assignor/issuer, special purpose vehicle and issue by the latter of notes in tranches with different repayment characteristics in order to raise funds;
- subscription of the Senior and Mezzanine notes by intermediaries acting as placement agents;
- subscription by the mutual banks (assignors) of the Class C – Junior notes.

The Class notes were broken down into various series, each proportionate to the amount of the loans assigned by the individual banks, which then subscribed the notes in full. Although the individual operations have the same structure, the parts of each assignor mutual bank remain separate (segregated asset pools). This means that despite the unitary nature of the operation, the cash flows are separate. The transaction would be managed as a single operation only in extraordinary circumstances (i.e. default events).

The following section details the individual transactions.

“CREDITI IN BONIS 2005” SECURITIZATION – CREDICO FINANCE 4 SRL (CLOSED IN 2016)

On April 27, 2005, BRC assigned without recourse performing residential mortgage loans to Credico Finance 4 Srl (SPV) with a nominal value of €16,730,609, while Crediveneto assigned a nominal amount of €25,532,678.24, for a total of €42,262,987.15.

During 2016 the originator banks in the securitization agreed to exercise the clean-up call option provided for in the securitization rules (the repurchase option could be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio), thereby terminating the securitization. Banca Sviluppo repurchased 96 assigned loans for a total of €3.319 million.

“CREDITI IN BONIS 2006” SECURITIZATION – CREDICO FINANCE 6 SRL

On June 1, 2006, BRC assigned without recourse performing residential mortgage loans to Credico Finance 6 Srl (SPV) with a nominal value of €13,784,187.

Features of the operation

The transaction involved Società Generale as arranger and Iccrea Banca S.p.A. as co-arranger.

Securities

The Senior and Mezzanine notes were placed with institutional investors and have been rated as follows:

| Class | Rating (Moody's/S&P) | Amount (€/millions) | Amount (%) | Interest rate | Expected maturity |
|-------|----------------------|---------------------|------------|-------------------------|-------------------|
| A | Aa2/BBB- | 563.9 | 94% | 3-month Euribor + 0.16% | 2038 |
| B | Aa2/BBB- | 24 | 4% | 3-month Euribor + 0.46% | 2038 |
| C | NR - JUNIOR | 11.8 | 2% | Residual remuneration | 2038 |

The Class C notes were subdivided into 25 series, each in an amount proportionate to the amount of the loans assigned by the individual participating banks, which subscribed those notes in full. Each subscribed only the series of subordinated securities pertaining to them, with payment of the price at par. The structure of the transaction enables the Bank to benefit from any return on the assigned portfolio that exceed the amount paid to the subscribers of the Senior and Mezzanine notes.

The amount of the Class C – Junior notes subscribed by the Bank was €297,187.

Assigned portfolio

The purchase price for the portfolio of assigned loans was equal to €13,784,187, corresponding to the carrying amount of the loans at the assignment date. The assigned portfolio meets a number of criteria common to all of the participating mutual banks (more specifically, performing loans from mortgage transactions secured by first mortgages) as well as the specific criteria determined by our Bank.

Repurchase option

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

Trigger events

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

Servicing

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

In this securitization, each assignor mutual bank acts as servicer. Although no longer owner of the assigned loans, as they were assigned without recourse, each mutual bank handles the ordinary management (collection of payments, issuing receipts of payment, certification of interest, etc.) and extraordinary management (management of irregularities, dunning in the event of payment arrears, management of substandard positions and bad debts) in the name and on behalf of the SPV as if the loan portfolio had never been transferred.

Credit enhancement

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

In order to hedge interest rate risk, the SPV subscribed a basis swap with Société Générale in order to mitigate any rate mismatching between the securitized assets and the interest paid on the notes issued. Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that at a payment date the available funds from collections were not sufficient to pay interest on the notes in the payment priority order. The assignors also acted as limited-recourse loan providers. Accordingly, each assignor made government securities (or other securities in accordance with the contractual terms, specifying the type of security and the amounts) available to the SPV in order to provide a form of liquidity support, replacing the resources available through the line of liquidity. This form of guarantee can only be enforced if it is not possible to use the line of liquidity and can be activated up to the entire amount of the liquidity line. This enables the SPV to pay promptly any amounts due to the holders of the Senior and Mezzanine notes in respect of principal and interest, in accordance with the rules governing the Notes, as well as to meet the costs of the securitization. Following the downgrade of Italian government securities, the securities pledged to secure the line of liquidity were no longer considered sufficient. This prompted the SPV to request, in 2011, the establishment of a cash reserve for the line of liquidity, amending the contract documentation appropriately.

The cash reserve amounts to €546 thousand and is represented in the financial statements as a reduction in the exposure to the SPV. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.20 bps.

“CREDITI IN BONIS 2006” SECURITIZATION– CREDICO FINANCE 7 SRL

On December 19, 2006, BRC assigned without recourse performing residential mortgage loans to Credico Finance 7 Srl (SPV) with a nominal value of €37,318,807.

Features of the operation

The transaction involved Società Generale as arranger and Iccrea Banca S.p.A. as co-arranger.

Securities

The Senior and Mezzanine notes were placed with institutional investors and have been rated as follows:

| Class | Rating (Moody's/S&P) | Amount (€/millions) | Amount (%) | Interest rate | Expected maturity |
|-------|----------------------|---------------------|------------|-------------------------|-------------------|
| A | Aa2/BBB- | 449.2 | 94% | 3-month Euribor + 0.16% | 31/03/2039 |
| B | Aa2/BBB- | 19.1 | 4% | 3-month Euribor + 0.55% | 31/03/2039 |
| C | NR - JUNIOR | 9.5 | 2% | Residual remuneration | 31/03/2039 |

The Class C notes were subdivided into 16 series, each in an amount proportionate to the amount of the loans assigned by the individual participating banks, which subscribed those notes in full.

Each subscribed only the series of subordinated securities pertaining to them, with payment of the price at par. The structure of the transaction enables the Bank to benefit from any return on the assigned portfolio that exceed the amount paid to the subscribers of the Senior and Mezzanine notes.

The amount of the Class C – Junior notes subscribed by the Bank was €746,807.

Assigned portfolio

The purchase price for the portfolio of assigned loans was equal to €37,318,807, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The assigned portfolio meets a number of criteria common to all of the participating mutual banks (more specifically, performing loans from mortgage transactions secured by first mortgages) as well as the specific criteria determined by our Bank.

Repurchase option

Banca Sviluppò holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

Trigger events

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

Servicing

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

Credit enhancement

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

In order to hedge interest rate risk, the SPV subscribed a basis swap with Royal Bank of Scotland in order to mitigate any rate mismatching between the securitized assets and the interest paid on the notes issued. Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that at a payment date the available funds from collections were not sufficient to pay interest on the notes in the payment priority order. The assignors also acted as limited-recourse loan providers: each assignor made the government securities CCT 1/11/2012 IT0003993158, in the amount of €1,062,000, available to the SPV in order to provide a form of liquidity support, replacing the support already provided with the line of liquidity (this guarantee can therefore only be enforced if it is not possible to use the liquidity and can only be activated up to the entire amount of the liquidity line). This enables the SPV to pay promptly any amounts due to the holders of

the Senior and Mezzanine notes in respect of principal and interest, in accordance with the rules governing the Notes, as well as to meet the costs of the securitization.

In 2011, following the downgrade of Italy by Standard&Poor's and Moody's, the Italian government securities (CCTs) pledged to secure the line of liquidity through the establishment of a limited-recourse loan no longer met the criteria of the rating agencies and were replaced with a cash reserve created by fully drawing down the line of liquidity in the amount of €1,445 thousand. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.20 bps.

“CREDITI IN BONIS 2011” SECURITIZATION – CREDICO FINANCE 9 SRL

On June 30, 2011, BRC assigned without recourse performing residential mortgage loans to Credico Finance 9 Srl (SPV) with a nominal value of €35,471,478.

Features of the operation

The transaction involved Iccrea Banca S.p.A. as arranger.

Securities

The Senior notes have been rated as follows:

| Class | Rating (Moody's/DBRS) | Amount (€/millions) | Amount (%) | Interest rate | Expected maturity |
|-------|-----------------------|---------------------|------------|-------------------------|-------------------|
| A | Aa2/AAA- | 554.4 | 87% | 3-month Euribor + 0.30% | 15/11/2050 |
| B | NR - JUNIOR | 82.8 | 13% | Residual remuneration | 15/11/2050 |

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

Assigned portfolio

The purchase price for the portfolio of assigned loans was equal to €35,471,478, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 18 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by the Bank was €4,571,478.

Trigger events

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

Repurchase option

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

Servicing

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

Credit enhancement

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

In order to hedge interest rate risk, the SPV subscribed a basis swap in order to mitigate any rate mismatching between the securitized assets and the interest paid on the notes issued. Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The assignors also acted as limited-recourse loan providers. Accordingly, each assignor made government securities (or other securities in accordance with the contractual terms, specifying the type of security and the amounts) available to

the SPV in order to provide a form of liquidity support, replacing the resources available through the line of liquidity. This form of guarantee can only be enforced if it is not possible to use the line of liquidity and can be activated up to the entire amount of the liquidity line. This enables the SPV to pay promptly any amounts due to the holders of the Senior in respect of principal and interest, in accordance with the rules governing the Notes, as well as to meet the costs of the securitization. The enduring recession and recent market turbulence, which among other things have led to a downgrade of the Italian State, made it advisable to review the collateral forms of guarantee provided for securitizations initiated by the Bank in previous years.

In this context, in 2011 a number of amendments were made to the transaction contracts: in particular, the liquidity contract and the limited-recourse loan contract were amended to enable substitution of the government securities where necessary. As a result of these changes, the Bank, subject to notification of the SPV, replaced the limited-recourse loan in government securities with a cash reserve, established by the SPV by fully drawing down the liquidity line. The cash reserve amounts to €1,533 thousand. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.10 bps.

“CREDITI IN BONIS 2012” SECURITIZATION – CREDICO FINANCE 10 SRL

On April 23, 2012, BRC assigned without recourse performing residential mortgage loans to Credico Finance 9 Srl (SPV) with a nominal value of €36,668,028. At the same time, Crediveneto assigned performing residential mortgage loans with a nominal value of €34,275,649.58, for a total of €70,943,677.27

Features of the operation

The transaction involved Iccrea Banca S.p.A. as arranger.

Securities

The Senior notes have been rated as follows:

| Class | Rating (Moody's/DBRS) | Amount (€/millions) | Amount (%) | Interest rate | Expected maturity |
|-------|-----------------------|---------------------|------------|-------------------------|-------------------|
| A | Aa2/AA- | 1,333.2 | 84.25% | 3-month Euribor + 0.30% | 31/10/2050 |
| B | NR - JUNIOR | 249.2 | 15.75% | Residual remuneration | 31/10/2050 |

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

Assigned portfolio

The purchase price for the portfolio of assigned loans was equal to €70,943,677, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 30 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by BRC was €5,769,000, while Crediveneto subscribed €5,376,000.

Trigger events

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

Repurchase option

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

Servicing

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

Credit enhancement

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The liquidity was deposited on a current account in the name of the SPV (the cash reserve). The cash reserve amounts to €3,562 thousand.

The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.10 bps.

“CREDITI IN BONIS 2013” SECURITIZATION– CREDICO FINANCE 14 SRL

On October 17, 2013, BRC assigned without recourse performing residential mortgage loans to Credico Finance Srl (SPV) with a nominal value of €22,831,016.

Features of the operation

The transaction involved Iccrea Banca S.p.A. as arranger.

Securities

The Senior notes have been rated as follows:

| Class | Rating (S&P/DBRS) | Amount (€/millions) | Amount (%) | Interest rate | Expected maturity |
|-------|-------------------|---------------------|------------|-------------------------|-------------------|
| A | BBB-/A high | 219.4 | 72% | 3-month Euribor + 0.20% | 31/07/2052 |
| B | NR - JUNIOR | 85.4 | 28% | Residual remuneration | 31/07/2052 |

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

Assigned portfolio

The purchase price for the portfolio of assigned loans was equal to €22,831,016, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 10 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by the Bank was €6,432,000.

Trigger events

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

Repurchase option

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

Servicing

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

Credit enhancement

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The liquidity was deposited on a current account in the name of the SPV (the cash reserve). The cash reserve amounts to €656 thousand. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.10 bps.

“CREDITI IN BONIS 2009” SECURITIZATION– CREDICO FINANCE 8 SRL

On February 23, 2009, Crediveneto assigned without recourse performing residential mortgage loans to Credico Finance 8 Srl (SPV) with a nominal value of €39,835,432.

Features of the operation

The transaction involved Iccrea Banca S.p.A. as arranger.

Securities

The Senior notes have been rated as follows:

| Class | Rating (Moody's/DBRS) | Amount (€/millions) | Amount (%) | Interest rate | Expected maturity |
|-------|-----------------------|---------------------|------------|-------------------------|-------------------|
| A | Aa2/AAA | 369.25 | 90.5% | 3-month Euribor + 0.30% | 31/07/2046 |
| B | NR - JUNIOR | 38.77 | 9.5% | Residual remuneration | 31/07/2046 |

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

Assigned portfolio

The purchase price for the portfolio of assigned loans was equal to €39,835,432, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 14 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by the bank was €3,785,432.

Trigger events

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

Repurchase option

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

Servicing

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.30% on the outstanding and 6% on collections on defaulted positions.

Credit enhancement

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The liquidity was deposited on a current account in the name of the SPV (the cash reserve). The cash reserve amounts to €1,255 thousand. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.10 bps.

“CREDITI IN BONIS 2012” SECURITIZATION– CREDICO FINANCE 11 SRL

On July, 25, 2012, Crediveneto assigned without recourse performing residential mortgage loans to Credico Finance 11 Srl (SPV) with a nominal value of €51,880,270.

Features of the operation

The transaction involved Iccrea Banca S.p.A. as arranger.

Securities

The Senior notes have been rated as follows:

| Class | Rating (Moody's/DBRS) | Amount (€/millions) | Amount (%) | Interest rate | Expected maturity |
|-------|-----------------------|---------------------|------------|-------------------------|-------------------|
| A | Aa2/AA | 916.4 | 88% | 3-month Euribor + 0.20% | 31/12/2052 |
| B | NR - JUNIOR | 125.029 | 12% | Residual remuneration | 31/12/2052 |

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

Assigned portfolio

The purchase price for the portfolio of assigned loans was equal to €51,880,270, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 22 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by the bank was €15,081,000.

Trigger events

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

Repurchase option

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

Servicing

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

Credit enhancement

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The liquidity was deposited on a current account in the name of the SPV (the cash reserve). The cash reserve amounts to €2,024 thousand. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.10 bps.

THIRD-PARTY SECURITIZATIONS

On December 31, 2016 the Group subscribed Senior notes from the Lucrezia Securitisation in the amount of €8.683 million.

The assets underlying the securitization are represented by impaired receivables of BCC Irpina (today in voluntary liquidation) and BCC Padovana in compulsory liquidation. As of the date of the creation of the portfolio, the two mutual banks delivered bad debts of €31.787 million and €178.019 million respectively (net value).

The notes are scheduled to mature in 2026 and have been classified by the Bank in the L&R portfolio and reported under item 70 – Loans to customers in the financial statements.

QUANTITATIVE DISCLOSURES

The following tables do not report exposures in respect of securitizations in which the Group companies, acting as originators, subscribed the ABSs issued by the SPV at issue: Agrisecurities 2008 (Agri#5), Credico Finance 9, Credico Finance 10, and Credico Finance 14. For more details on these operations, please see the qualitative disclosures earlier in this section.

C.1 BANKING GROUP - 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 | Carrying amount | Writedowns / writebacks | Carrying amount | Writedowns / writebacks | Carrying amount | Writedowns / writebacks | Carrying amount | Writedowns / writebacks | Carrying amount | Writedowns / writebacks | Carrying amount | Writedowns / writebacks |
| A. Fully derecognized | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B. Partially derecognized | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C. Not derecognized | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.1 AGRI 9 | | | | | | | | | | | | | | | | | | |
| - Lease receivables | 202,300 | - | 9,400 | - | 617,460 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.7 CREDICO FINANCE 6 | | | | | | | | | | | | | | | | | | |
| - Mortgage loans | - | - | - | - | 11 | 3 | - | - | - | - | - | - | - | - | - | - | - | - |
| C.8 CREDICO FINANCE 7 | | | | | | | | | | | | | | | | | | |
| - Mortgage loans | - | - | - | - | 36 | 7 | - | - | - | - | - | - | - | - | - | - | - | - |

C.2 BANKING GROUP - 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 | Carrying amount | Writedowns / writebacks | Carrying amount | Writedowns / writebacks | Carrying amount | Writedowns / writebacks | Carrying amount | Writedowns / writebacks | Carrying amount | Writedowns / writebacks | Carrying amount | Writedowns / writebacks |
| CREDICO FINANCE 6 | - | - | - | - | 287 | 94 | - | - | - | - | - | - | - | - | - | - | - | - |
| - Performing | | | | | 286 | 96 | | | | | | | | | | | | |
| - Unlikely to repay | | | | | | | | | | | | | | | | | | |
| - Impaired past due | | | | | 1 | 2 | | | | | | | | | | | | |
| CREDICO FINANCE 7 | - | - | - | - | 709 | 154 | - | - | - | - | - | - | - | - | - | - | - | - |
| - Performing | | | | | 708 | 133 | | | | | | | | | | | | |
| - Unlikely to repay | | | | | 1 | 21 | | | | | | | | | | | | |
| LUCRETIA SECURISATION | 8,683 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

This table reports the exposure in respect of the third-part assets as a proportion of the total securitized assets, as the securitizations are multi-originator operations.

C.3 BANKING GROUP - INVOLVEMENT IN SPECIAL PURPOSE SECURITIZATION VEHICLES

| Vehicle/securitization name | Registered office | Consolidation | Assets | | | Liabilities | | |
|-----------------------------|-----------------------------|---------------|-------------|-----------------|-------|-------------|-----------|--------|
| | | | Receivables | Debt securities | Other | Senior | Mezzanine | Junior |
| CREDICO FINANCE 6 S.r.l. | Via Barberini 47 00187 Rome | NO | 546 | 297 | | | | 2,877 |
| CREDICO FINANCE 7 S.r.l. | Via Barberini 47 00187 Rome | NO | 1,445 | 747 | | | | 4,138 |

C.4 BANKING GROUP - INVOLVEMENT IN UNCONSOLIDATED SPECIAL PURPOSE SECURITIZATION VEHICLES

| Vehicle/securitization name | Registered office | Consolidation | Assets | | | Liabilities | | |
|-----------------------------|-----------------------------|---------------|-------------|-----------------|-------|-------------|-----------|--------|
| | | | Receivables | Debt securities | Other | Senior | Mezzanine | Junior |
| CREDICO FINANCE 4 S.r.l. | Via Barberini 47 00187 Rome | NO | 49,487 | | | 24,072 | 16,000 | 7,997 |
| CREDICO FINANCE 6 S.r.l. | Via Barberini 47 00187 Rome | NO | 99,252 | | | 61,804 | 24,000 | 11,885 |
| CREDICO FINANCE 7 S.r.l. | Via Barberini 47 00187 Rome | NO | 98,161 | | | 72,966 | 16,700 | 9,589 |

C.5 BANKING GROUP - SERVICER ACTIVITIES - COLLECTIONS ON SECURITIZED ASSETS AND REDEMPTION OF SECURITIES ISSUED BY SECURITIZATION VEHICLE

| Servicer | Vehicle | Securitized assets (end-period figure) | | Loan collections in the year | | Percentage of notes redeemed | | | | | |
|----------|-------------------------------------|--|------------|------------------------------|------------|------------------------------|------------|-----------|------------|----------|------------|
| | | Impaired | Performing | Impaired | Performing | Senior | | Mezzanine | | Junior | |
| | | | | | | Impaired | Performing | Impaired | Performing | Impaired | Performing |
| IBI | AGRI 9 - ICCREA SME CART 2016 S.r.l | | | 207 | 147,104 | | | | | | |
| BS | CREDICO FINANCE 6 S.r.l | 51 | 2,835 | - | 24 | | | | | | |
| BS | CREDICO FINANCE 7 S.r.l | 165 | 3,956 | - | 52 | | | | | | |

C.6 BANKING GROUP – CONSOLIDATED SPECIAL PURPOSE SECURITIZATION VEHICLES

A summary of the main features of the securitizations (type of assets, asset quality, tranching of notes issued, etc.) of the subsidiary special purpose vehicle Iccrea SME cart 2016 srl is provided in the qualitative disclosures provided earlier.

D. DISCLOSURES ON STRUCTURED ENTITIES (OTHER THAN SECURITIZATION VEHICLES)

A structured entity is an entity that has 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:

- a. restricted activities;
- b. 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;
- a. insufficient equity to permit the structured entity to finance its activities without subordinated financial support;
- b. financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Iccrea Banking 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 consolidated notes to the financial statements.

D.1 CONSOLIDATED STRUCTURED ENTITIES

A structural entity is consolidated in the presence of a contractual/non-contractual involvement that gives rise to control over the relevant activities of the entity and exposes the Group to variability of returns from the performance of that entity. More specifically, structured entities consolidated by the Iccrea Group are:

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

The following table summarizes the on-and off-balance-sheet exposures held by Group companies in respect of the consolidated structured entities noted above.

These exposures are eliminated in consolidation: in order to fully represent the involvement in the real estate risk underlying the investment in the funds, it was decided to recognize the underlying real estate portfolio rather than the units subscribed.

| Structured entity | Total assets | Off-balance-sheet exposures |
|-------------------------------|--------------|-----------------------------|
| Securfondo | 38,044 | - |
| Fondo Securis Real Estate I | 176,863 | - |
| Fondo Securis Real Estate II | 155,038 | - |
| Fondo Securis Real Estate III | 109,660 | - |

D.2 STRUCTURED ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES

D.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.

D.2.2 OTHER STRUCTURED ENTITIES

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). The following table reports a summary of the on- and off-balance-sheet exposure of the Group to this type of structure entity (by accounting category).

| Accounting category | Total assets | Off-balance-sheet exposures |
|---------------------------|--------------|-----------------------------|
| Assets held for trading | 100 | - |
| Assets available for sale | 37,053 | 22,708 |

The off-balance-sheet exposure regards the Group's commitment to subscribe new units in the following funds:

- the social housing fund denominated "Iccrea Bancalmpresa" in the amount of 9.1 million;
- Atlante in the amount of €7.6 million;
- Idea Taste of Italy in the amount of €5.944 million.

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 BANKING GROUP - FINANCIAL ASSETS ASSIGNED BUT NOT DERECOGNIZED: CARRYING AMOUNTS AND FULL VALUES

| | Financial assets held for trading | | | Financial assets at fair value | | | Financial assets available for sale | | | Financial assets held to maturity | | | Amounts due from banks | | | Loans to customers | | | Total | |
|--|-----------------------------------|---|---|--------------------------------|---|---|-------------------------------------|---|---|-----------------------------------|---|---|------------------------|---|------------------|--------------------|---|---|------------------|--------------------|
| | A | B | C | A | B | C | A | B | C | A | B | C | A | B | C | A | B | C | 2016 | 2015 |
| A. On-balance- | 61,035 | - | - | - | - | - | 3,058,257 | - | - | 4,738,609 | - | - | - | - | 1,368,696 | - | - | - | 9,226,597 | 10,323,9122 |
| 1. Debt securities | 61,035 | - | - | - | - | - | 3,058,257 | - | - | 4,738,609 | - | - | - | - | - | - | - | - | 7857,901 | 9,368,257 |
| 2. Equity securities | - | - | - | - | - | - | - | - | - | x | x | x | x | x | x | x | x | x | - | - |
| 3. Units in collective investment undertakings | - | - | - | - | - | - | - | - | - | x | x | x | x | x | x | x | x | x | - | - |
| 4. Loans | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,368,696 | - | - | - | 1,368,696 | 955,655 |
| B. Derivatives | - | - | - | x | x | x | x | x | x | x | x | x | x | x | x | x | x | x | - | - |
| Total (2016) | 61,035 | - | - | - | - | - | 3,058,257 | - | - | 4,738,609 | - | - | - | - | 1,368,696 | - | - | - | 9,226,597 | X |
| <i>of which: impaired</i> | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,417 | - | - | - | 2,417 | x |
| Total (2015) | - | - | - | - | - | - | 3,253,140 | - | - | 6,115,117 | - | - | - | - | 955,655 | - | - | - | X | - |
| <i>of which: impaired</i> | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 77,997 | - | - | - | x | - |

Key:

A= Assigned financial assets fully recognized (carrying amount)

B= Assigned financial assets partially recognized (carrying amount)

C=Assigned financial assets partially recognized (full value)

E.2 BANKING GROUP - FINANCIAL LIABILITIES IN RESPECT OF FINANCIAL ASSETS ASSIGNED BUT NOT DERECOGNIZED: CARRYING AMOUNTS

| | Financial assets held for trading | Financial assets at fair value | Financial assets available for sale | Financial assets held to maturity | Amounts due from banks | Loans to customers | Total 2016 |
|--|-----------------------------------|--------------------------------|-------------------------------------|-----------------------------------|------------------------|--------------------|------------------|
| 1. Due to customers | 61,166 | - | 2,990,658 | 1,620,371 | - | 547,049 | 5,219,244 |
| a) in respect of assets fully recognized | 61,166 | - | 2,990,658 | 1,620,371 | - | 547,049 | 5,219,244 |
| b) in respect of assets partially recognized | - | - | - | - | - | - | - |
| 2. Due to banks | - | - | 68,541 | - | 3,482 | - | 72,023 |
| a) in respect of assets fully recognized | - | - | 68,541 | - | 3,482 | - | 72,023 |
| b) in respect of assets partially recognized | - | - | - | - | - | - | - |
| 3. Securities issued | - | - | - | - | - | - | - |
| a) in respect of assets fully recognized | - | - | - | - | - | - | - |
| b) in respect of assets partially recognized | - | - | - | - | - | - | - |
| Total (2016) | 61,166 | - | 3,059,199 | 1,620,371 | 3,482 | 547,049 | 5,291,267 |
| Total (2015) | - | - | 3,496,720 | 5,621,918 | - | 229,258 | 9,354,032 |

E.3 BANKING GROUP – DISPOSALS INVOLVING LIABILITIES WITH RECOURSE ONLY ON DIVESTED ASSETS: FAIR VALUE

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

B. FINANCIAL ASSETS ASSIGNED AND DERECOGNIZED WITH RECOGNITION OF CONTINUING INVOLVEMENT

At December 31, 2016 [GLC1] there were no financial assets assigned and derecognized with recognition of continuing involvement.

F. BANKING GROUP - MODELS FOR MEASURING CREDIT RISK

The Group does not use internal models for measuring credit risk.

1.2 BANKING GROUP - MARKET RISKS

1.2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS

Market risk is defined as the risk of incurring losses generated by operations in markets for financial instruments, foreign exchange and commodities (see Bank of Italy Circular 263/2006, Title II, Chapter 4, Part One). At the Iccrea Banking Group level, operational management of finance activities is centralized with Iccrea Banca, which is responsible for funding and the assumption and management at the individual and consolidated levels of interest rate, exchange rate and liquidity risk in order to ensure the essential sterilization and optimization of overall funding and hedging costs for Group companies.

Intermediation for the mutual banks is the main strategic objective of Iccrea Banca. This is pursued by seeking to ensure that the breadth and content of the financial portfolios are consistent with the needs of the mutual banks and in line with the evolution of the markets. Position activities are carried out using standard financial instruments as well as derivative contracts. In all cases, the management of maturity transformation both at medium/long-term and within the context of treasury operations is carried out in compliance with a financial risk containment policy.

B. MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK

A. Governance and organizational model

The market risk management and governance framework of the Iccrea Banking Group adopts a “centralized” approach. The Parent Company is responsible for the overall governance of financial operations and the associated market risks at the Group level because:

- it is responsible for setting the Group’s market risk policies;
- it monitors the exposure to market risks at the centralized level;
- it manages market risks at the Parent Company level.

Within these organizational arrangements, the assumption/identification of market risks is the responsibility of the business units, which with the support of Risk Management monitor and analyze new risk components for risk positions already held, new types of business, developments in the financial market and the various combinations of financial instruments and markets in which the Group may be operating.

Risks positions are taken on by the trading and investment desks and are actively managed by them during the working day using appropriate position-keeping applications.

Front office staff operate with the various units and risk positions are assumed in compliance with the portfolio tree and the associated risk limits.

Coordination of the trading and investment desks is performed through the unit heads, each at his or her level in the hierarchy, who are responsible for ensuring compliance with the assigned limits.

The operational model for managing market risks at both the consolidated and individual levels is the responsibility of the Finance department, within which exposures are assumed and managed by the following units:

- *Proprietary Finance and Trading*, which is tasked with managing activities connected with the trading book and identifying funding needs at the individual and consolidated level, monitoring the interest-rate, exchange-rate and liquidity risks of the banking book. The unit also manages interest-rate and liquidity risks at medium and long term. It acts as a market maker on multilateral trading systems, and as a specialist and primary dealer, as well as handling the structuring and own-account trading of OTC financial derivatives. It operates in accordance with the policies defined and the guidelines set for the management of the portfolios within the established risk limits and seeking to achieve profit targets;
- *Treasury and Foreign Exchange*, which uses derivatives on interest rates and exchange rates in order to manage the short-term interest rate and exchange rate risk profile in respect of trading on the interbank money market and intercompany transactions.

B. Risk management processes

- Identification of risks

Operations in financial market, especially positions in the trading book, expose the Iccrea Banking Group to market risks and other subcategories of risk. The identification of risks is mainly carried out in the process of specifying and updating risk models and metrics for market risks, and involves the following activities:

- the specification and updating of risk metrics, i.e. the evolution by the Risk Management department of measurement and monitoring methods on the basis of developments in markets, regulations and best practice;
- the approval process, conducted before the start of operations in a new financial instrument and the associated definition of the procedures for measuring fair value and risks.

Market risks are managed using advanced measurement and monitoring methods. The Risk Management unit is responsible for the development, use and maintenance of these measurement procedures.

- Risk measurement and assessment

Risk Management, acting through the Market Risks unit, is the main actor within the Group in the processes for development and using measurement models and metrics for market risk.

Updates of the models and metrics are identified by Risk Management in the performance of its duties, including analysis of regulatory requirements, market best practices and input from the business units involved (Finance in particular).

The Group uses the standardized approach for the purpose of calculating capital requirements for market risks, in accordance with the applicable supervisory regulations.

Measurement is centralized with the Risk Management unit and involves:

- verification and validation of the market and price parameters used as inputs in the front office and market risk management applications;
- verification of the quality of the identifying information of the financial instruments;

- validation of the fair value of the financial instruments held by the Group;
- oversight and validation of the production of all risk metrics.

At the operational level, the Iccrea Banking Group uses internal models for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- **Probabilistic metrics:**
 - **Value at Risk (VaR) approach**, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- **Deterministic metrics:**
 - **Level metrics** (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
 - **Analysis of sensitivity and Greeks**, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
 - **Stress testing and scenario analysis**, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
 - **Loss**, which represents the negative financial performance in a specified period of time of both closed and open positions.

Probabilistic metrics

Value at Risk (VaR)

To calculate VaR, the Iccrea Banking Group uses the so-called Delta Gamma parametric approach (confidence level of 99% and holding period of 1 day), in which the risk factors and the financial instruments in the portfolio have a normal distribution.

Measuring VaR therefore involves calculating (i) the sensitivity of the individual positions to changes in market parameters, summarized in the so-called VaRMap; and (ii) the variance/covariance matrix of the market parameters. The model currently covers the following risk factors:

- interest rates;
- exchange rates;
- interest rate volatility.

The current model can calculate VaR both for more detailed portfolios and for larger aggregates, permitting

considerable granularity in the analysis, control and management of risk profiles and the effects of diversification. The possibility for calculating VaR at multiple levels of synthesis (consistent with the operating strategies of the portfolios and the organizational hierarchy of Finance) and the ability of the model to decompose VaR into different risk determinants make it possible to create an effective system of comparable cross-risk and cross-business limits.

Deterministic metrics

Sensitivity and Greeks of options

Sensitivity measures the risk associated with changes in the theoretical value of a financial position in response to changes in a defined amount of the associated risk factors. It captures the breadth and direction of the change in the form of multiples or monetary changes in the theoretical value without explicit assumptions about the holding period or correlations between risk factors. The main sensitivity indicators currently used are:

- PV01: the change in market value in response to a change of 1 basis point in the zero coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- IL01 (*sensitivity to inflation*): the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- Vega sensitivity to inflation: a change of 1 percentage point in implied volatilities on forward inflation rates;
- CS01: a change of 1 basis point in credit spreads;
- Delta: the ratio between the expected change in the price of options and a small change in the prices of the underlying financial assets;
- Delta1%: the change in market value in response to a change of 1% in equity prices;
- Delta Cash Equivalent: the product of the value of the underlying financial asset and the delta;
- Vega1%: the change in market value in response to a change of 1% in the implied volatility of equity prices/indices;
- Correlation sensitivity: the change in the market value in response to a 10% change in implied correlations.

Level metrics

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile.

The nominal position (or equivalent) is determined through the identification of:

- the notional value;
- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);
- the FX open position.

At Iccrea Banca, the approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements. These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures.

Stress testing and scenarios

Stress tests measure the change in the value of instruments or portfolios in response to unexpected (i.e. extreme) changes in the intensity or correlation of risk factors. Scenario analyses measure the change in the value of instruments or portfolios in response to changes in risk factors in circumstances that reflect actual past situations or expectations of future developments in market variables.

Stress tests and scenario analysis are carried out by measuring the change in the theoretical value of positions in response to changes in the risk factors. The change can be calculated both through the use of linear sensitivity relationships (e.g. deltas) and through the revaluation of positions by applying the specified variations to the risk factors.

Loss

Loss is a risk metric representing the negative financial performance achieved on closed and open positions over a specified period of time.

Loss is determined by identifying, with the specified time interval:

- the component of realized profits and losses;
- the component of latent (unrealized) profits and losses calculated using the mark-to-market/mark-to-model value of open positions.

Loss is equal to the algebraic sum of the two components indicated above, if negative.

In determining loss, foreign currency positions still open are measured at the ECB end-of-day exchange rate.

The metric makes it possible to measure losses connected with the general risk profile of outstanding positions and the management of the portfolio, identifying any deterioration in the profitability of financial operations.

It is helpful in monitoring the performance of the portfolio, given the risk profile assumed, when:

- more sophisticated measurement systems are not present;
- it is impossible to capture all risk factors;
- timely control and management of limits is required.

- Risk prevention and attenuation

Risk Management conducts backtesting of operational measurement models on an ongoing basis. The effectiveness of the calculation model is monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. In order to ensure greater effectiveness of the overall risk management system, Iccrea Banca conducts backtesting using management P&L. This approach makes it possible to:

- strengthen the effectiveness of the dialogue between Risk Management and the front office;
- enhance awareness of the actual performance dynamics of the portfolios;
- break down and interpret the sources and causes of daily changes in P&L;
- capture and monitor any risk factors that are not fully captured by the calculation models adopted.

The daily P&L series used in the comparison with the VaR series is estimated using the total effective P&L achieved by the various desks, adjusted for components that are not pertinent to the estimation of risk (such as, for example, intraday operations).

The comparison highlights potential but functional differences due to details and measurement periods that are not always perfectly matched between front office measurements and Risk Management measurements. The measurements of P&L are conducted by Risk Management on a daily basis by individual desk.

In addition to the backtesting noted earlier, the effectiveness management of market risk is ensured using a comprehensive system of limits, which is a key

tool for the management, control and attenuation of risks. The development of this system, which is a key element of the Risk Management Framework, took account of the nature, objectives and operational complexity of the Group.

The overall system of market risk indicators comprises indicators included in and governed by the RAS and more strictly operational indicators set out in the risk governance policies.

At the operational process level, the Group has a complete system of arrangements and controls that help define the overall control model, which is set out and formalized in the risk management policy.

The controls established to manage market risks break down into:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the market risk profile and ensure the correct activation of escalation mechanisms;
- Level III controls, which are intended to verify compliance with rules and procedures as well as internal and external regulations.

- Monitoring and reporting

The second-level controls, carried out by Risk Management, are aimed at monitoring the Group's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators defined for managing financial risk. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of market risk indicators has been provided for.

Monitoring risk indicators is a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds.

These activities therefore perform an "ex post" control function in relation to the continuous monitoring of all indicators that signal breaches of assigned risk levels, but they also serve an "ex ante" function in signaling the approach of risk profiles towards the threshold/limit/tolerance levels. Therefore,

the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/Risk Limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the “magnitude” of the over-limit position.

The market risk control and monitoring activities are governed within a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.

At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the Parent Company’s General Manager. In this context, a thorough discussion of risk developments increases awareness of the risks assumed (in line with defined profit targets) and therefore facilitates the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the Group Finance Committee, operating units, top management and boards of directors.

- Risk management and mitigation

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage any irregularities;
- the actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- the actions to be taken in the event the limits specified in the risk policies are breached.

QUANTITATIVE DISCLOSURES

1. SUPERVISORY TRADING BOOK: DISTRIBUTION BY RESIDUAL MATURITY (REPRICING DATE) OF ON-BALANCE-SHEET FINANCIAL ASSETS AND LIABILITIES AND FINANCIAL DERIVATIVES

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. SUPERVISORY TRADING BOOK: DISTRIBUTION OF EXPOSURES IN EQUITY SECURITIES AND EQUITY INDICES BY MAIN COUNTRIES OF LISTING

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

3. SUPERVISORY TRADING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

With regard to market risks on the trading book, which are managed at the Group level by Iccrea Banca, a risk tolerance of €2 million in 1-day VaR calculated using a parametric method has been established. From the start of the year, the risk profile of all trading operations has never breached the RAS limit. The Market Risk Policy sets consistent VaR limits in terms of total operations and in terms of sub-limits for the various books, measured using the same VaR method. In the last 250 trading days, the average VaR has been €0.67 million, with a minimum of €0.24 million and a maximum of €1.799 million (registered on June 24, 2016), which is below the limit for that specific category of operations, which was €1.8 million for the head of Finance at Iccrea Banca and €2 million for the General Manager of Iccrea Banca. At December 31, 2016, the VaR was €0.91 million.

| DAILY VAR ON TRADING BOOK | NOTIONAL | | VAR |
|---------------------------|---------------|-------|--------------|
| | DEC. 31, 2016 | LIMIT | RISK PROFILE |
| Iccrea Banca | 13,909 | 2.00 | 0.91 |

Figures in millions of euros at December 31, 2016

2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK MANAGEMENT

A. Governance and organizational model

In order to comply both with regulatory requirements and management needs, the Iccrea Banking Group began updating and evolving Group policy for managing interest rate risk on the banking book, which sets out guidelines, principles for prudent management, the roles and responsibilities of corporate bodies and operating units and control processes for interest rate risk on the banking book. The framework for managing and governing interest rate risk on the Iccrea Banking Group's banking book is based on a centralized model. The Parent Company is responsible for overall governance of financial operations and risk at the Group level since:

- it is responsible for setting the Group's policies for managing interest rate risk on the banking book;
- it measures and monitors the exposure to such risk at the centralized level;
- it manages such risk at the Group level;
- it defines and governs the internal transfer pricing system.

In order to insure uniform management of interest rate risk on the banking book at the Group level, risk management has been centralized with the Parent Company and performed by the **Asset & Liability Management** (ALM) function, performed by the Finance unit of the Parent Company, which in turn operates in two lines of business:

- **Capital Market operations**, which are performed by the Proprietary Finance and Trading unit of the Parent Company. The latter is responsible for managing interest rate risk on the medium/long-term banking book originated by unsecured operations;
- **Money Market operations**, which are performed by the Treasury and Foreign Exchange unit of the Parent Company. The latter is responsible for managing interest rate risk on the short-term banking book (up to 12 months) originated by unsecured operations and interest rate risk originated by secured operations.

The management of mismatching of interest rate risk generated by operations conducted by subsidiaries with customers is transferred to the Parent Company using intercompany funding/lending transactions with comparable maturities whose characteristics hedge the exposure to interest rate risk, in compliance with the risk limits set by the Parent Company.

A. Risk management processes

- Identification of risks

The ability to identify sources of interest rate risk and manage the short and medium/long-term exposure to such risk, while at the same time limiting potential declines in interest income, is crucial to ensuring profitability in line with the targets established in strategic planning.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, the Group identifies sources of interest rate risk to which it is exposed, classifying them in the following risk sub-categories: repricing risk, yield curve risk, basis risk and option risk.

- Risk measurement and assessment

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- **Current earnings approach:** this seeks to assess the potential effects of adverse interest rate variations on an income variable, i.e. net interest income. In this perspective, the analysis is conducted using a dynamic "going-concern" approach, with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged, or a "dynamic balance sheet" view, developing projections for new business that are consistent with the hypotheses defined in strategic planning.
- **Economic value approach:** this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book, construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis. In this perspective, the analysis is conducted using a static "gone concern" approach, which assumes the run-

off of positions at maturity, with no substitution or rollover of items at maturity.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.

The metrics used by the Iccrea Banking Group in the 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 subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income.
- **NII sensitivity:** the potential impact on net interest margin of hypothetical changes in risk-free rates is calculated using a "full revaluation" method that compares, over a selected time horizon, expected prospective net interest income in the event of changes in interest rates with expected net interest income in a "base" scenario of no variations. This approach is also used to quantify the impact on net interest income of possible variations in credit spreads (CSRBBs).

The metrics adopted by the Iccrea Banking Group in the 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").

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The stress tests adopted by the Group are conducted for the two metrics:

- **EVE sensitivity:** using a full revaluation approach with the adoption of risk-free yield curves. The analysis uses a static “gone concern” approach, which assumes the run-off of positions at maturity, with no substitution or rollover of items at maturity. The sensitivity of economic value is calculated as the difference between the present values of cash flows in the base scenario and those values recalculated in the assessment scenarios;
- **NI Sensitivity:** using a full revaluation approach with the adoption of risk-free yield curves. The analysis uses a dynamic “going concern” approach with a “constant balance sheet” view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged. The metric quantifies the impact of changes in reference rates and/or spread components on net interest income.

The measures seek to quantify the exposure to interest rate risk attributable to each identified source of such risk in the banking book.

The scenarios used in the stress testing are based on both regulatory shocks and shocks defined internally by the Group.

Sample scenarios used for IRRBB stress testing include:

- **Parallel shocks:** parallel shocks to the yield curve in order to assess the impact on economic value and net interest income. based on various degrees of severity (e.g. changes of +/- 200 bps in the curve);
- **Non-parallel shocks:** non-parallel shocks to different notes of the yield curve shock in order to assess the impact on economic value and net interest income. based on various degrees of severity (steepening and flattening shocks);
- **Historical:** shocks defined internally on the basis of prudential assessments and historical analyses of observed rate variations.

- Risk prevention and attenuation

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework. The definition of this system, which distinguishes the Risk Management Framework, took account of the nature, objectives and complexity

of operations of the Group and the individual subsidiaries.

The system of limits is defined by the Parent Company, taking due account of RAS and Risk Limit indicators consistent with the policy-setting and coordination role attributed to it and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the interest rate risk management model adopted.

The RAS explicates and specifies the “Delta Economic Value/Total Capital² indicator representing the interest rate on the banking book at the level of the individual legal entities. That indicator in the RAS is accompanied by operating indicators determined with the Risk Policy. The current policy provides for setting risk limits for exposures in terms of the sensitivity of economic value and net interest income at both the consolidated and individual levels. The policy review currently under way also provides for the introduction of limits for the business lines responsible for managing interest rate risk on the banking book, namely Capital Market and Money Market, which come under the ALM function.

In addition to the above system of limits, the Group also has a comprehensive system of arrangements and controls that contribute to defining the overall control model set out and formalized in the risk management policy.

The controls established to manage interest rate risk on the banking book break down as follows:

- **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**, 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 Group’s exposure to interest rate risk on a daily basis, in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators. Risk Management, with the support of the respective decentralized organizational units, continuously

coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of indicators has been provided for.

Monitoring risk indicators is a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds.

These activities therefore perform a control function for the continuous monitoring of all indicators with respect to assigned risk levels, signaling when risk profiles approach or breach the threshold/limit/tolerance levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/Risk Limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the “magnitude” of the over-limit position.

The interest rate risk control and monitoring activities are performed through a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.¹ At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the General Manager of the Parent Company.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the Group Finance Committee, operating units, top management and boards of directors.

- Risk management and mitigation

The management and mitigation of risk seek to reconcile profitability with management of the risk to which the Group companies, and thus the Group, are exposed. The system is based on the following principles:

- Managing the overall profitability of the Group: the centralized management and control of developments in net interest income represent a key requirement of the Iccrea Banking Group’s overall control system. That role is played by the Parent Company in exercising its functions of setting the strategic policy of the Group and coordinating the individual Group companies;
- Managing interest rate risk: funding and lending with supervised intermediaries, financial and intercompany activities involve normal parameter mismatches at the various maturities. The Group’s ability to manage short and long-term mismatches, while at the same time limiting potential decreases in net interest income, is of fundamental importance in ensuring that profitability is in line with the targets set in the strategic planning stage. Within the Group, the function of pooling parameters and managing rate mismatches is the responsibility of the Parent Company, which handles the centralized management of the exposure to interest rate risk by selecting market parameters (e.g. 3-month Euribor rather than 6-month Euribor) that appropriately reflect the actual risk associated with the products placed by the Group.

B. FAIR VALUE HEDGING

Positions exposed to interest rate risk are hedged in accordance with the IAS rules for fair value hedges.

More specifically, at December 31, 2016 the following positions were hedged:

- 3 fixed-rate loans issued by the Group and hedged by means of an interest rate swap (IRS) with a nominal value of €110 million;
- 1 mixed-rate bond issued by the Group and hedged with an IRS and an interest rate option (floor) with a nominal value of €385.1 million;

¹ See. “Interest Rate Risk in the Banking Book Policy (IRBB Policy)”;

- 1 mixed-rate bond issued by the Bank and hedged with an IRS with a nominal value of €35 million;
- 1 treasury bond (BTP) linked to European inflation hedged with IRSs and options with a nominal value of €100 million;
- 1 treasury bond (BTP) linked to Italian inflation hedged with IRSs and options with a nominal value of €25 million;
- 3 fixed-rate treasury bonds (BTPs) with a value of €242 million;
- 2 Treasury Credit Certificates (CTZs) hedged with an overnight indexed swap (OIS) with a value of €600 million;
- 1 IMI Banca step-up bond hedged with an IRS with a nominal value of €72 million;
- 11 fixed-rate deposits hedged with overnight indexed swaps (OISs) with a nominal value of €824 million;
- 1 fixed-rate lease portfolio hedged with IRSs with a total nominal value of €86.5 million.

In addition, during the period the Group also undertook the following macro-hedging transaction: hedging of portfolios (collateralized loans to the mutual banks) with a value of €2,822 million.

Effectiveness tests were carried out using the dollar offset method for the retrospective profile and the scenario method for the prospective profile.

C. CASH FLOW HEDGING

- 1 Italian government bond (BTP) linked to European inflation using asset swaps with a nominal value of €28 million;
- 4 dollar-denominated bonds hedged using cross currency interest rate swaps (CCIRS) with a nominal value of €80.7 million.

Quantitative disclosures

1. BANKING BOOK: DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY (REPRICING DATE)

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. BANKING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

The interest rate risk on the banking book used for management purposes with regard to sensitivity indicators for economic value and net interest income is reported below. The analysis of the exposure to the risk is monitored on a monthly basis by the Group Finance Committee.

| SCENARIO | IMPACT ON ECONOMIC VALUE | | IMPACT ON NET INTEREST INCOME AT 12 MONTHS | |
|----------|--------------------------|---------|--|---------|
| | - 100 bp | +100 bp | - 100 bp | +100 bp |
| | 89.5 | -7.1 | -5.2 | 7.7 |

Figures in millions of euros at December 31, 2016

1.2.3 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF EXCHANGE RATE RISK

Exchange rate risk is managed in a centralized manner by the Treasury and Foreign Exchange Unit. The Bank constantly scales the positions it assumes in the various currencies in relation to the support it provides to the foreign exchange requirements of the mutual banks and other Group companies.

Operations are mainly concentrated in major currencies. The Bank adopts a system of daily operating limits on the overall foreign exchange exposure, as well as the net foreign exchange positions in respect of individual currencies. The overall limit is segmented into partial ceilings on the basis of the importance of the various currencies.

B. HEDGING EXCHANGE RATE RISK

Operations are largely executed in currencies with deep markets. Iccrea has adopted a system of daily operational limits on the overall composition of foreign currency positions and on the net positions in the individual currencies, with partial use of the overall position limit, appropriately graduated by the importance of the currencies.

QUANTITATIVE DISCLOSURES

1. DISTRIBUTION BY CURRENCY OF ASSETS, LIABILITIES AND DERIVATIVES

| | Currency | | | | | |
|---------------------------------|------------------|----------------|---------------|-----------------|---------------|----------------|
| | US dollar | Pound sterling | Japanese yen | Canadian dollar | Swiss franc | Other |
| A. Financial assets | 91,148 | 7,342 | 17,378 | 2,141 | 42,312 | 9,478 |
| A.1 Debt securities | 556 | 40 | - | - | - | 652 |
| A.2 Equity securities | 12,640 | 1,465 | - | - | - | - |
| A.3 Loans to banks | 61,137 | 5,837 | 15,872 | 2,141 | 37,009 | 8,826 |
| A.4 Loans to customers | 16,815 | - | 1,506 | - | 5,304 | - |
| A.5 Other financial assets | - | - | - | - | - | - |
| B. Other assets | 7,624 | 4,145 | 368 | 664 | 3,192 | 1,290 |
| C. Financial liabilities | 242,146 | 9,914 | 1,901 | 5,978 | 28,292 | 10,817 |
| C.1 Due to banks | 160,869 | 9,892 | 1,901 | 5,890 | 28,159 | 10,447 |
| C.2 Due to customers | 1,111 | 22 | - | 87 | 133 | 370 |
| C.3 Debt securities | 80,166 | - | - | - | - | - |
| C.4 Other financial liabilities | - | - | - | - | - | - |
| D. Other liabilities | 40 | - | - | - | - | - |
| E. Financial derivatives | 4,725,701 | 384,854 | 40,411 | 11,005 | 89,916 | 159,460 |
| - Options | 4,786 | - | 1,599 | - | 954 | 1,678 |
| + Long positions | 2,677 | - | 33 | - | - | 839 |
| + Short positions | 2,108 | - | 1,566 | - | 954 | 839 |
| - Other derivatives | 4,720,915 | 384,854 | 38,811 | 11,005 | 88,962 | 157,782 |
| + Long positions | 2,435,388 | 192,441 | 13,018 | 7,057 | 36,114 | 78,558 |
| + Short positions | 2,285,527 | 192,414 | 25,794 | 3,947 | 52,848 | 79,224 |
| Total assets | 2,536,838 | 203,928 | 30,797 | 9,863 | 81,619 | 90,165 |
| Total liabilities | 2,529,822 | 202,327 | 29,261 | 9,925 | 82,094 | 90,881 |
| Difference (+/-) | 7,016 | 1,600 | 1,537 | 63 | 475 | 715 |

2. INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODS

There is no other information to report.

1.2.4 DERIVATIVES

A. FINANCIAL DERIVATIVES

A.1 SUPERVISORY TRADING BOOK: END-PERIOD NOTIONAL AMOUNTS

| | Total 2016 | | Total 2015 | |
|--|-------------------|------------------------|-------------------|------------------------|
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| 1. Debt securities and interest rates | 12,822,807 | - | 13,881,238 | 29,400 |
| a) Options | 2,543,351 | - | 3,226,966 | - |
| b) Swaps | 10,026,088 | - | 10,636,901 | - |
| c) Forwards | 16,169 | - | 17,371 | - |
| d) Futures | 178,800 | - | - | 29,400 |
| e) Other | 58,399 | - | - | - |
| 2. Equity securities and equity indices | 22,688 | - | 17,479 | 100 |
| a) Options | 12,119 | - | 7,679 | - |
| b) Swap | - | - | - | - |
| c) Forwards | 9,133 | - | 9,800 | 100 |
| d) Futures | 1,436 | - | - | - |
| e) Other | - | - | - | - |
| 3. Foreign currencies and gold | 4,630,676 | - | 926,725 | - |
| a) Options | 15,761 | - | - | - |
| b) Swaps | - | - | - | - |
| c) Forwards | 4,614,915 | - | 926,725 | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| 4. Commodities | - | - | - | - |
| 5. Other underlyings | - | - | - | - |
| Total | 17,476,171 | - | 14,825,442 | 29,500 |

A.2 BANKING BOOK: END-PERIOD NOTIONAL AMOUNTS

A.2.1 HEDGING

| | Total 2016 | | Total 2015 | |
|--|------------------|------------------------|------------------|------------------------|
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| 1. Debt securities and interest rates | 6,260,145 | - | 5,844,166 | - |
| a) Options | 538,100 | - | 1,319,420 | - |
| b) Swaps | 5,722,045 | - | 4,524,746 | - |
| 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 | 90,124 | - | 50,525 | - |
| a) Options | - | - | - | - |
| b) Swaps | 90,124 | - | 50,525 | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| 4. Commodities | - | - | - | - |
| 5. Other underlyings | - | - | - | - |
| Total | 6,350,270 | - | 5,894,691 | - |

A.2.2 OTHER DERIVATIVES

| | Total 2016 | | Total 2015 | |
|--|------------------|------------------------|------------------|------------------------|
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| 1. Debt securities and interest rates | 32,411 | - | 2,307,234 | - |
| a) Options | 32,411 | - | 393,798 | - |
| b) Swaps | - | - | 1,913,436 | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| 2. Equity securities and equity indices | 18,475 | - | 6,932 | - |
| a) Options | - | - | - | - |
| b) Swaps | - | - | - | - |
| c) Forwards | 18,475 | - | 6,932 | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| 3. Foreign currencies and gold | - | - | - | - |
| a) Options | - | - | - | - |
| b) Swaps | - | - | - | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| 4. Commodities | - | - | - | - |
| 5. Other underlyings | - | - | - | - |
| Total | 50,886 | - | 2,314,166 | - |

A.3 FINANCIAL DERIVATIVES: GROSS POSITIVE FAIR VALUE - BREAKDOWN BY PRODUCT

| | Positive fair value | | | |
|--|---------------------|------------------------|------------------|------------------------|
| | Total 2016 | | Total 2015 | |
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| A. Supervisory trading book | 301,537 | - | 304,486 | 30 |
| a) Options | 8,937 | - | 12,340 | - |
| b) Interest rate swaps | 266,080 | - | 287,416 | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | 26,463 | - | 4,730 | - |
| f) Futures | 56 | - | - | 30 |
| g) Other | 1 | - | - | - |
| B. Banking book – hedging | 10,365 | - | 14,806 | - |
| a) Options | - | - | 39 | - |
| b) Interest rate swaps | 10,365 | - | 9,501 | - |
| c) Cross currency swaps | - | - | 5,266 | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| C. Banking book – Other derivatives | 2,152 | - | 8,150 | - |
| a) Options | 2,152 | - | 2,884 | - |
| b) Interest rate swaps | - | - | 5,266 | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| Total | 314,054 | - | 327,442 | 30 |

A.4 FINANCIAL DERIVATIVES: GROSS NEGATIVE FAIR VALUE– BREAKDOWN BY PRODUCT

| | Negative fair value | | | |
|--|---------------------|------------------------|------------------|------------------------|
| | Total 2016 | | Total 2015 | |
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| A. Supervisory trading book | 313,512 | - | 322,830 | 94 |
| a) Options | 10,254 | - | 13,120 | - |
| b) Interest rate swaps | 286,632 | - | 303,945 | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | 15,839 | - | 5,765 | 1 |
| f) Futures | 787 | - | - | 93 |
| g) Other | - | - | - | - |
| B. Banking book – hedging | 63,339 | - | 101,363 | - |
| a) Options | - | - | - | - |
| b) Interest rate swaps | 63,339 | - | 101,363 | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| C. Banking book – Other derivatives | - | - | 2,673 | - |
| a) Options | - | - | - | - |
| b) Interest rate swaps | - | - | 2,673 | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| Total | 376,851 | - | 426,866 | 94 |

A.5 OVER-THE-COUNTER FINANCIAL DERIVATIVES – SUPERVISORY TRADING BOOK: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS NOT COVERED BY NETTING ARRANGEMENTS

| | Governments and Central banks | Other government agencies | Banks | Financial companies | Insurance undertakings | Non-financial companies | Other |
|--|-------------------------------|---------------------------|---------|---------------------|------------------------|-------------------------|---------|
| 1) Debt securities and interest rates | | | | | | | |
| - notional value | - | - | 218,049 | 7,258 | - | 962,747 | 165,974 |
| - positive fair value | - | - | 1,641 | 286 | - | 29,630 | 170 |
| - negative fair value | - | - | 1,667 | 10 | - | 3,229 | 1,159 |
| - future exposure | - | - | 212 | 28 | - | 4,770 | 17 |
| 2) Equity securities and equity indices | | | | | | | |
| - notional value | 113 | - | 3,031 | 9,133 | - | - | 848 |
| - positive fair value | 8 | - | 38 | - | - | - | - |
| - negative fair value | - | - | 87 | - | - | - | 57 |
| - future exposure | - | - | 134 | - | - | - | - |
| 3) Foreign currencies and gold | | | | | | | |
| - notional value | - | - | 597,750 | 1,211,529 | - | - | - |
| - positive fair value | - | - | 3,857 | 10,382 | - | - | - |
| - negative fair value | - | - | 433 | 1,102 | - | - | - |
| - future exposure | - | - | 1,030 | 12,115 | - | - | - |
| 4) Other assets | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - future exposure | - | - | - | - | - | - | - |

A.6 OVER-THE-COUNTER FINANCIAL DERIVATIVES – SUPERVISORY TRADING BOOK: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS COVERED BY NETTING ARRANGEMENTS

| | Governments and Central banks | Other government agencies | Banks | Financial companies | Insurance undertakings | Non-financial companies | Other |
|--|-------------------------------|---------------------------|------------|---------------------|------------------------|-------------------------|-------|
| 1) Debt securities and interest rates | | | | | | | |
| - notional value | - | - | 10,702,611 | 766,167 | - | - | - |
| - positive fair value | - | - | 220,576 | 22,263 | - | - | - |
| - negative fair value | - | - | 286,264 | 5,107 | - | - | - |
| 2) Equity securities and equity indices | | | | | | | |
| - notional value | 292 | - | 9,270 | - | - | - | - |
| - positive fair value | 19 | - | 136 | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| 3) Foreign currencies and gold | | | | | | | |
| - notional value | - | - | 2,783,951 | 37,446 | - | - | - |
| - positive fair value | - | - | 12,215 | 316 | - | - | - |
| - negative fair value | - | - | 14,395 | - | - | - | - |
| 4) Other assets | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |

A.7 OVER-THE-COUNTER FINANCIAL DERIVATIVES – BANKING BOOK: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS NOT COVERED BY NETTING ARRANGEMENTS

| | Governments and Central banks | Other government agencies | Banks | Financial companies | Insurance undertakings | Non-financial companies | Other |
|--|-------------------------------|---------------------------|--------|---------------------|------------------------|-------------------------|--------|
| 1) Debt securities and interest rates | | | | | | | |
| - notional value | - | - | 50,000 | 10 | - | 19,947 | 12,455 |
| - positive fair value | - | - | 2,447 | - | - | 1,250 | 902 |
| - negative fair value | - | - | - | - | - | - | - |
| - future exposure | - | - | - | - | - | 234 | 145 |
| 2) Equity securities and equity indices | | | | | | | |
| - notional value | - | - | - | 18,475 | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - future exposure | - | - | - | - | - | - | - |
| 3) Foreign currencies and gold | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - future exposure | - | - | - | - | - | - | - |
| 4) Other assets | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - future exposure | - | - | - | - | - | - | - |

A.8 OVER-THE-COUNTER FINANCIAL DERIVATIVES – BANKING BOOK: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS COVERED BY NETTING ARRANGEMENTS

| | Governments and Central banks | Other government agencies | Banks | Financial companies | Insurance undertakings | Non- financial companies | Other |
|--|--|---------------------------------|-----------|------------------------|---------------------------|--------------------------------|-------|
| 1) Debt securities and interest rates | | | | | | | |
| - notional value | - | - | 6,180,145 | 30,000 | - | - | - |
| - positive fair value | - | - | 7,918 | - | - | - | - |
| - negative fair value | - | - | 63,239 | 100 | - | - | - |
| 2) Equity securities and equity indices | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| 3) Foreign currencies and gold | | | | | | | |
| - notional value | - | - | 23,717 | 66,407 | - | - | - |
| - positive fair value | - | - | 1,879 | 5,551 | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| 4) Other assets | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |

A.9 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. Supervisory trading book | 9,028,484 | 4,405,553 | 4,042,135 | 17,476,172 |
| A.1 Financial derivatives on debt securities and interest rates | 4,380,739 | 4,400,340 | 4,041,729 | 12,822,807 |
| A.2 Financial derivatives on equity securities and equity indices | 17,164 | 5,118 | 406 | 22,688 |
| A.3 Financial derivatives on exchange rates and gold | 4,630,581 | 95 | - | 4,630,676 |
| A.4 Financial derivatives on other assets | - | - | - | - |
| B. Banking book | 4,746,735 | 1,470,175 | 184,246 | 6,401,156 |
| B.1 Financial derivatives on debt securities and interest rates | 4,734,204 | 1,374,106 | 184,246 | 6,292,556 |
| B.2 Financial derivatives on equity securities and equity indices | 12,531 | 5,944 | - | 18,475 |
| B.3 Financial derivatives on exchange rates and gold | - | 90,125 | - | 90,125 |
| B.4 Financial derivatives on other assets | - | - | - | - |
| Total (2016) | 13,775,219 | 5,875,727 | 4,226,381 | 23,877,327 |
| Total (2015) | 10,583,137 | 8,349,442 | 4,101,720 | 23,034,299 |

A.10 OVER-THE-COUNTER FINANCIAL DERIVATIVES: COUNTERPARTY RISK/FINANCIAL RISK – INTERNAL MODELS

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

B. CREDIT DERIVATIVES

B.1 CREDIT DERIVATIVES: END-PERIOD NOTIONAL AMOUNTS

| | Supervisory trading book | | Banking book | |
|-----------------------------------|--------------------------|--------|---------------|--------|
| | Single name | Basket | Single name | Basket |
| 1. Purchases of protection | - | - | - | - |
| a) Credit default products | - | - | - | - |
| b) Credit spread products | - | - | - | - |
| c) Total rate of return swaps | - | - | - | - |
| d) Other | - | - | - | - |
| Total 2016 | - | - | - | - |
| Total 2015 | - | - | - | - |
| 2. Sales of protection | - | - | 15,000 | - |
| a) Credit default products | - | - | - | - |
| b) Credit spread products | - | - | - | - |
| c) Total rate of return swaps | - | - | - | - |
| d) Other | - | - | 15,000 | - |
| Total 2016 | - | - | 15,000 | - |
| Total 2015 | - | - | 15,000 | - |

B.2 OVER-THE-COUNTER CREDIT DERIVATIVES: GROSS POSITIVE FAIR VALUE -BREAKDOWN BY PRODUCT

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

B.3 OVER-THE-COUNTER CREDIT DERIVATIVES: NEGATIVE FAIR VALUE – BREAKDOWN BY PRODUCT

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

B.4 OVER-THE-COUNTER CREDIT DERIVATIVES: GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS NOT COVERED BY NETTING ARRANGEMENTS

| | Governments and Central banks | Other government agencies | Banks | Financial companies | Insurance undertakings | Non-financial companies | Other |
|-----------------------------------|-------------------------------|---------------------------|--------|---------------------|------------------------|-------------------------|-------|
| Supervisory trading book | | | | | | | |
| 1) Purchases of protection | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - future exposure | - | - | - | - | - | - | - |
| 2) Sales of protection | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - future exposure | - | - | - | - | - | - | - |
| Banking book | | | | | | | |
| 1) Purchases of protection | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| 2) Sales of protection | | | | | | | |
| - notional value | - | - | 15,000 | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |

B.5 OVER-THE-COUNTER CREDIT DERIVATIVES: GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS COVERED BY NETTING ARRANGEMENTS

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

B.6 RESIDUAL LIFE OF CREDIT DERIVATIVES: NOTIONAL VALUES

| | Up to 1 year | More than 1 year and up to 5 years | More than 5 years | Total |
|---|-----------------|--|----------------------|---------------|
| A. Supervisory trading book | - | - | - | - |
| A.1 Credit derivatives with qualifying reference obligation | - | - | - | - |
| A.2 Credit derivatives with non-qualifying reference obligation | - | - | - | - |
| B. Banking book | - | - | 15,000 | 15,000 |
| B.1 Credit derivatives with qualifying reference obligation | - | - | - | - |
| B.2 Credit derivatives with non-qualifying reference obligation | - | - | 15,000 | 15,000 |
| Total (2016) | - | - | 15,000 | 15,000 |
| Total (2015) | - | - | 15,000 | 15,000 |

B.7 CREDIT DERIVATIVES: COUNTERPARTY RISK/FINANCIAL RISK – INTERNAL MODELS

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

C. FINANCIAL AND CREDIT DERIVATIVES

C.1 OVER-THE-COUNTER FINANCIAL AND CREDIT DERIVATIVES: NET FAIR VALUE AND FUTURE EXPOSURE BY COUNTERPARTY

| | Governments and Central banks | Other government agencies | Banks | Financial companies | Insurance undertakings | Non-financial companies | Other |
|--|-------------------------------|---------------------------|----------------|---------------------|------------------------|-------------------------|-------|
| 1) Bilateral agreements – financial derivatives | - | - | 461,581 | 31,685 | - | - | - |
| - positive fair value | - | - | 131,155 | 23,955 | - | - | - |
| - negative fair value | - | - | 257,889 | 1,903 | - | - | - |
| - future exposure | - | - | 72,537 | 5,827 | - | - | - |
| - net counterparty risk | - | - | - | - | - | - | - |
| 2) Bilateral agreements – credit derivatives | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - future exposure | - | - | - | - | - | - | - |
| - net counterparty risk | - | - | - | - | - | - | - |
| 3) Cross-product agreements | - | - | 1,518 | - | - | - | - |
| - positive fair value | - | - | 1,474 | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - future exposure | - | - | 44 | - | - | - | - |
| - net counterparty risk | - | - | - | - | - | - | - |

1.3 BANKING GROUP: LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

Liquidity risk for the Iccrea Banking Group is the risk of not being able to discharge one's payment obligations and can take different forms depending on the source of that risk, which can be caused by:

- the inability to raise funds or efficiently discharge one's payment obligations at market prices (expected and unexpected outlays), i.e. incurring high funding costs, without jeopardizing the daily operations of the bank or its financial position (funding liquidity risk);
- the existence of limitations on the liquidation of assets or incurring capital losses (owing to insufficient liquidity in the market or disruption of the market) following their liquidation (market liquidity risk).

The framework for governing and managing liquidity risk within the Iccrea Banking Group is designed to ensure the sound and prudent management of liquidity and the associated risk, and has the following objectives:

- to enable the Bank to remain solvent in both "the normal course of business" and in a liquidity crisis;
- to ensure that the Bank constantly holds an appropriate amount of liquid assets in relation to the limits it has set and with respect to internal and external constraints;
- to ensure the compliance, in accordance with the principal of proportionality, of the system for the governance and management of liquidity risk with applicable supervisory regulations.

The framework for managing liquidity and governing liquidity risk within the Iccrea Banking Group is based on the centralization of those activities. The Parent company is responsible for overall governance of liquidity and liquidity risk at the Group level, as it:

- is responsible for defining Group liquidity risk management policies;
- monitors the exposure to liquidity risk (operational and structural) on a centralized basis;
- manages liquidity risk at the consolidated level with the preparation of a funding plan that is consistent with current and prospective operations;

- defines and governs the internal transfer pricing system.

More specifically, the liquidity risk management model establishes that:

- operating liquidity is managed on a centralized basis by the Parent Company, which performs the following functions:
 - managing liquid assets and funding in euros and foreign currencies over a time horizon of 12 months for all the Group companies included within the scope of liquidity risk management activities;
 - managing operations in repurchase transactions and pooling with the central bank, market counterparties and the mutual banks;
 - funding the securities portfolio at the Group level;
 - managing the reserve requirements (on its own behalf and for Group companies subject to reserve requirements as well as centralized management of the requirement for mutual banks who request that service);
 - managing open market operations with the ECB.
- the management of structural liquidity is centralized with the Parent Company, which takes corrective action to ensure that medium/long-term assets and liabilities are balanced appropriately at both the individual and consolidated level, while at the same time seeking to optimize the cost of funding and:
 - performing transactions with subsidizing entities or national/supranational entities (CDP, EIB, etc.);
 - structuring and issuing debt instruments on the market.

All the Group companies included within the scope of liquidity risk management activities have direct access to the interbank market in accordance with the procedures established by the Parent Company. They contribute to creating short-term liquidity imbalances in their transactions with customers and transfer them to Iccrea Banca through reciprocal current accounts, time deposits, bond issues and other technical forms.

Liquidity risk is identified and monitored by defining and monitoring the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of

the overall Liquidity Risk Framework and the indicator system with specific developments in the Group and market conditions.

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- **operational liquidity** – which is divided into two complementary levels:
 - *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.

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, the Group develops two maturity curves: operational and structural.

The operating maturity ladder is constructed in accordance with the rules issued by the Bank of Italy as part of its periodic monitoring and it comprises a time horizon of up to 12 months. The Group's liquidity profile is represented in five main sections:

- transactions with institutional counterparties, which includes positions with the central bank, market counterparties and the interbank market, assuming no roll over of maturing positions;
- transactions with Corporate/Large Corporate customers;
- treasury forecasts;
- securities and finance operations;
- counterbalancing capacity.

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 used by the Group in monitoring the medium/long-term liquidity position is designed to monitor the balance of the funding profile and control maturity transformation (also on the basis of the strategic instructions issued by management). This tool is essential for obtaining a view of Group funding requirements and an understanding of the liquidity risk associated with execution of the funding plan, thereby preventing the emergence of future liquidity strains. In addition, the structural maturity ladder makes it possible to control:

- the management of maturity transformation in accordance with the guidelines established by management;
- support for the funding decisions in the funding plan.

The intraday liquidity position is measured with metrics aimed at monitoring the maximum use of liquidity on an intraday basis, the reserves available at the beginning of each business day to meet liquidity requirements, gross payments sent and received and "time-specific" bonds.

The money market position is measured on a daily basis by quantifying the liquidity reserves and covering any deficit in the prospective liquidity balance at 1 and 30 days with those reserves.

The overall system of limits and liquidity risk monitoring indicators was recently revised as part of the updating of the Group's RAS and the adjustment of the Liquidity Policy to the RAS.

The process of monitoring the liquidity indicators defined by the Group is structured and supplemented with the liquidity risk governance and management model adopted by the Group and the subsidiaries. Liquidity risk is monitored by the Risk Management unit of the Parent Company. This activity is based on assessing and measuring the risk profile against the RAS, Risk Policies and Contingency indicators established for managing liquidity risk, consistent with the RAF and the system of limits, as well as on measuring additional metrics.

The Risk Management unit of the Parent Company, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities

associated with the individual subsidiaries (where these have been specifically allocated liquidity risk indicators). As part of the liquidity risk management and monitoring activities carried out by Risk Management, a reporting process has been defined for reporting to corporate boards, top management and operational units, in accordance with the rules on corporate control reporting. The data and information used in the reporting support the effectiveness and efficiency of communication, using terminology and references that are understandable to the recipients to whom it is addressed.

STRESS TEST FRAMEWORK

The Group liquidity position is monitored in the normal course of business and under stress conditions. For the latter, the Group has defined a stress test framework on the basis of the indicators that characterize the Liquidity Risk Framework. In accordance with the rules established by the supervisory authorities, that framework has been defined at the methodological level with the intention of extending it to other processes on the basis of a differentiated calendar and with severity levels connected to the main related processes (RAF, ILAAP, Recovery Plan).

The stress test analyses are used to measure the degree to which the liquidity position can deteriorate in the event of especially adverse market conditions, thereby enabling verification of its robustness.

Accordingly, the objectives of the stress testing are:

- to verify the Group's capacity to cope with unexpected liquidity crises in the first period in which they occur, before activating initiatives to modify the structure of assets or liabilities;
- to calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits determines the maintenance of sufficient liquidity reserves to enable the Group to discharge planned obligations over the time horizon envisaged in the stress scenario.

The types of stress test that characterize the framework provide for the occurrence of severe but plausible events (scenarios) that can be classified into three categories:

- **stress scenarios caused by a systemic event**, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy and, consequently, the Iccrea Banking Group;
- **stress scenarios caused by specific events (idiosyncratic)**, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves

highly adverse consequences for the Iccrea Banking Group. In defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Group;

- **stress scenarios generated by a combination of specific and systemic events**, i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimate inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Group to cope with any liquidity strains.

For each scenario, the Group has incorporated shocks generated by the main risk variables, which have been identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

The stress scenarios do not take account of the effects of exchange rates on currencies, as exchange rate risk is assumed to be negligible and/or essentially offset at the Group level.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of assets to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

The stress tests are performed using a static or dynamic approach depending on the type of indicator being stressed. On the basis of the approach selected, assumptions that modify the maturity structure of

assets and/or liabilities or the composition of funding are introduced (dynamic approach) or are not introduced (static approach) within the time horizon considered.

QUANTITATIVE DISCLOSURES

Distribution of financial assets and liabilities by residual maturity

CURRENCY 242 - EURO

| | On demand | More than 1 day to 7 days | More than 7 days to 15 days | More than 15 days to 1 month | More than 1 month to 3 months | More than 3 months to 6 months | More than 6 months to 1 year | More than 1 year to 5 years | More than 5 years | Unspecified maturity |
|---|------------------|---------------------------|-----------------------------|------------------------------|-------------------------------|--------------------------------|------------------------------|-----------------------------|-------------------|----------------------|
| On-balance-sheet assets | 3,290,196 | 2,391,908 | 617,607 | 2,342,295 | 6,641,153 | 5,775,193 | 5,522,567 | 14,356,787 | 4,755,782 | 153,077 |
| A.1 Government securities | 4 | - | 2,591 | 48,390 | 1,453,640 | 2,008,025 | 2,741,189 | 2,824,440 | 1,119,631 | - |
| A.2 Other debt securities | 1,124 | - | 53 | 367 | 9,879 | 18,091 | 61,175 | 251,658 | 34,185 | - |
| A.3 Units in collective investment undertakings | 478,703 | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 2,810,364 | 2,391,908 | 614,963 | 2,293,537 | 5,177,634 | 3,749,076 | 2,720,203 | 11,280,690 | 3,601,966 | 153,077 |
| - banks | 817,395 | 1,571,985 | 584,186 | 2,162,920 | 4,579,827 | 3,152,693 | 1,728,272 | 5,967,293 | 16,904 | 152,734 |
| - customers | 1,992,968 | 819,923 | 30,777 | 130,617 | 597,807 | 596,383 | 991,931 | 5,313,397 | 3,585,062 | 344 |
| On-balance-sheet liabilities | 6,924,082 | 9,128,213 | 1,854,697 | 3,416,576 | 4,746,218 | 4,783,421 | 2,370,241 | 10,443,864 | 374,888 | 4,912 |
| B.1 Deposits | 6,267,148 | 148,088 | 6,359 | 368,098 | 284,203 | 150,983 | 320,060 | 820,809 | - | - |
| - banks | 4,595,012 | 145,021 | 2,021 | 356,171 | 262,753 | 121,157 | 277,079 | 799,100 | - | - |
| - customers | 1,672,136 | 3,067 | 4,338 | 11,927 | 21,451 | 29,826 | 42,981 | 21,709 | - | - |
| B.2 Debt securities | 4,506 | 6,761 | 9,131 | 9,352 | 178,196 | 262,532 | 328,536 | 3,538,879 | 162,467 | - |
| B.3 Other liabilities | 652,428 | 8,973,365 | 1,839,207 | 3,039,125 | 4,283,818 | 4,369,906 | 1,721,645 | 6,084,176 | 212,421 | 4,912 |
| Off-balance-sheet transactions | - | - | - | - | - | - | - | - | - | - |
| C.1 Financial derivatives with exchange of principal | - | - | - | - | - | - | - | - | - | - |
| - long positions | 17 | 2,043,215 | 187,685 | 194,126 | 421,895 | 20,706 | 11,962 | 38,242 | 42,327 | - |
| - short positions | 17 | 1,036,433 | 38,439 | 192,668 | 1,236,418 | 114,659 | 107,367 | 123,212 | 212,321 | - |
| C.2 Financial derivatives without exchange of principal | - | - | - | - | - | - | - | - | - | - |
| - long positions | 280,230 | 846 | 53 | 97 | 1,947 | 2,248 | 1,594 | - | - | - |
| - short positions | 313,550 | 53 | 81 | 72 | 2,161 | 4,652 | 15,091 | - | - | - |
| C.3 Deposits and loans to receive | - | - | - | - | - | - | - | - | - | - |
| -- long positions | - | (7,937,447) | (389,611) | - | (354,664) | (250,976) | (80,005) | - | - | - |
| - short positions | - | 6,441,327 | - | 21,771 | 554,239 | 907,919 | 802,486 | 284,962 | - | - |
| C.4 Irrevocable commitments to disburse funds | - | - | - | - | - | - | - | - | - | - |
| - long positions | 297,425 | 1,176,572 | 7 | 370 | 239 | 669 | 1,193 | 98,646 | 279,926 | 14,433 |
| - short positions | 660,091 | 1,176,652 | - | - | - | - | - | - | - | 14,433 |
| C.5 Financial guarantees issued | - | - | - | - | - | - | - | - | - | - |
| C.6 Financial guarantees received | - | - | - | - | - | - | - | - | - | - |
| C.7 Credit derivatives with exchange of principal | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - | - |
| C.8 Credit derivatives without exchange of principal | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - | - |

CURRENCY 999 – OTHER

| | On demand | More than 1 day to 7 days | More than 7 days to 15 days | More than 15 days to 1 month | More than 1 month to 3 months | More than 3 months to 6 months | More than 6 months to 1 year | More than 1 year to 5 years | More than 5 years | Unspecified maturity |
|---|----------------|---------------------------|-----------------------------|------------------------------|-------------------------------|--------------------------------|------------------------------|-----------------------------|-------------------|----------------------|
| On-balance-sheet assets | 31,510 | 15,872 | 12,828 | 33,574 | 22,885 | 13,786 | 3,443 | 19,932 | 4,227 | - |
| A.1 Government securities | - | - | - | - | - | 12 | 10 | 148 | 84 | - |
| A.2 Other debt securities | - | - | - | - | 15 | 211 | 93 | 407 | 281 | - |
| A.3 Units in collective investment undertakings | 100 | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 31,410 | 15,872 | 12,828 | 33,574 | 22,870 | 13,562 | 3,340 | 19,378 | 3,863 | - |
| - banks | 30,812 | 15,872 | 12,828 | 33,472 | 22,258 | 12,542 | 1,290 | 1,929 | - | - |
| - customers | 599 | - | - | 102 | 612 | 1,020 | 2,050 | 17,448 | 3,863 | - |
| On-balance-sheet liabilities | 129,192 | 16,630 | 5,914 | 38,051 | 14,644 | 8,249 | 7,082 | 80,686 | 840 | - |
| B.1 Deposits | 129,192 | 16,630 | 5,914 | 27,131 | 13,957 | 7,645 | 6,108 | - | - | - |
| - banks | 128,097 | 16,630 | 5,914 | 27,131 | 13,957 | 7,645 | 6,108 | - | - | - |
| - customers | 1,094 | - | - | - | - | - | - | - | - | - |
| B.2 Debt securities | - | - | - | - | 372 | 603 | 974 | 80,340 | - | - |
| B.3 Other liabilities | - | - | - | 10,920 | 315 | - | - | 347 | 840 | - |
| Off-balance-sheet transactions | - | - | - | - | - | - | - | - | - | - |
| C.1 Financial derivatives with exchange of principal | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | 973,375 | 37,987 | 219,025 | 1,233,222 | 117,729 | 105,781 | 96,947 | 1,960 | - |
| - short positions | - | 1,969,194 | 192,265 | 220,394 | 241,214 | 23,114 | 9,311 | 6,916 | 1,620 | - |
| C.2 Financial derivatives without exchange of principal | - | - | - | - | - | - | - | - | - | - |
| - long positions | 1,754 | - | - | - | - | - | - | - | - | - |
| - short positions | 2,059 | - | - | - | - | - | - | - | - | - |
| C.3 Deposits and loans to receive | - | - | - | - | - | - | - | - | - | - |
| -- long positions | - | (4,597) | - | - | - | - | - | - | - | - |
| - short positions | - | 4,597 | - | - | - | - | - | - | - | - |
| C.4 Irrevocable commitments to disburse funds | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | 2,595 | - | - | - | - | - | - | - | - |
| - short positions | - | 2,595 | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees issued | - | - | - | - | - | - | - | - | - | - |
| C.6 Financial guarantees received | - | - | - | - | - | - | - | - | - | - |
| C.7 Credit derivatives with exchange of principal | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - | - |
| C.8 Credit derivatives without exchange of principal | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - | - |

1.4 BANKING GROUP: OPERATIONAL RISKS

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISK

In view of the operations that characterize the Iccrea Banking Group, it is exposed to operational risks across the entire organization.

Within the regulatory framework, the deregulation and the globalization of financial services, together with the progressive refinement of the financial technology supporting transactions, are making the Group's activities, and thus the associated operational risk engendered, increasingly complex.² In the absence of appropriate controls, the growing use of highly automated technology under way in the Group can transform the risk of manual errors and data processing errors into system malfunctions, given the expanding adoption of integrated IT infrastructures and applications.

In addition, the growing use of electronic money and e-commerce generates other potential risks (or example, internal and external fraud, system security, customer data processing and IT risks) whose comprehensive governance and mitigation represents a strategic factor in the development of the Group's business.

In addition, the presents of banks and financial companies in the Group, delivering services on a mass scale (the mutual banking system) to the public makes it necessary to constantly maintain internal controls and backup systems, with the risk of rules violations, incurring penalties, etc.

The various types of operational risk to which the Iccrea Banking Group is structurally exposed therefore include IT risk and reputational risk. This is associated with the banking activities carried out with the public and financial and institutional counterparties, as well as the countless national and international regulations to which the Group is subject.

A. GOVERNANCE AND ORGANIZATIONAL MODEL

The organizational model adopted in 2016 by the Iccrea Banking Group to supervise and manage operational risk is structured as follows:

- an Operational & IT Risk Management unit was established at the Parent Company, reporting to the CRO area, which handles operational and IT risks at the Group level, acting as a specialized hub responsible for providing guidance, coordination and technical support to the various Risk Management units of the companies in the Banking Group;
- the Risk Management units of the banking/financial subsidiaries report to their boards of directors and are responsible, among other duties, for monitoring and managing developments in the exposure to operational and IT risks.

The choice of this model is attributable to the need to make the overall governance structure of second-level controls consistent with both the findings of the ECB inspection on governance and related thematic review and the recent evolution of the Parent Company following the merger of Iccrea Holding into Iccrea Banca.

The organizational review focused on the segregation of the second-level control functions by transferring the Compliance unit from the CRO area to the newly established CCO Area. Operational risk management duties were transferred to Risk Management function with the establishment of the "Operational & IT Risk Management" unit.

With regard current governance arrangements, the Risk Committee of the Board of Directors provides support to that body, engaging in strategic supervision of risks and the internal control system, including the frameworks for operational risk and IT risk. The responsibilities of the Committee now also include duties previously allocated to the former Operational Risk, Compliance and Anti-Money Laundering Committee.

In particular, the Risk Committee:

- supports activities to verify the correct implementation of Group strategy, compliance with policies for the governance and management of operational risk and IT risk, requesting any appropriate technical analyses and

² See BIS, "Sound practices for the management and supervision of operational risk", February 2003;

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.

A. OPERATIONAL RISK MANAGEMENT POLICIES

Consistent with the "Risk Management Process", the framework is structured into the following phases:

1. **Identification of risks (knowledge):** a set of processes, methods and tools to identify operational risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (i.e. operational loss data) and potential risk (assessed through the collection of business expert opinion).
2. **Evaluation/measurement of identified risks (awareness):** processes, methods and tools for assessing/measuring Group operational risks.
3. **Risk prevention and mitigation (strategy):** processes, methods and tools for the ex-ante identification of the possible ways of preventing and mitigating unfavorable developments in the dynamics of operational risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational risks, and the implementation of measures to ensure that possible operational risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.
4. **Monitoring and reporting (tracking and control):** processes, methods and tools to monitor the Group's risk profile and deliver comprehensive reporting to provide timely, accurate and appropriate support to the decision-making process underlying "Risk Prevention and Mitigation" and "Risk Management and Mitigation".
5. **Risk management and mitigation (reaction and proactivity):** processes, methods and tools to support the management of developments in operational risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to operational risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments (operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

- Identification, measurement and assessment of risks

For the purpose of calculating capital requirements for operational risk, the Iccrea Banking Group uses the Basic Indicator Approach (BIA), 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.

For the purpose of the internal operational risk management process, in November 2016 the Board of Directors of Iccrea Banca approved an evolutionary revision of the operational risk management framework in order to transition from an "event driven" approach to a "risk factor driven" framework. This approach seeks to direct risk analysis primarily towards the identification of vulnerabilities that can be used more immediately in the management of risks and the identification of mitigation interventions. The project was launched in December 2016 and will also take account of the new Standardized Measurement Approach for determining capital requirements published in the paper of the Basel Committee on Banking Supervision, the consultation for which ended on June 3, 2016.

The operational risk assessment framework outlined above also includes legal risk and specifically provides for IT risk, in line with the relevant regulations.

- 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 this risk within the Group's internal control systems. These include the Operational Risks, Compliance and Anti-Money-Laundering units of the Parent Company and the individual subsidiaries. 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 (an indicator measured at the consolidated level and subject to a monitoring threshold);
- minimum acceptable level in respect of the findings of controls of individual relationships with regard to compliance risk (an indicator measured at the consolidated level and specified for the entire scope of application of the RAF);
- minimum acceptable level in respect of the findings of controls of individual relationships with regard to money-laundering risk (an indicator specified for the entire scope of application of the RAF);
- minimum acceptable level in respect of the findings of controls of individual relationships with regard to operational risk (an indicator specified for the entire scope of application of the RAF).

- *Risk management and mitigation*

Operational risk management and mitigation activities are governed by a set of codified and formalized rules that include:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in the risks assumed;
- the adoption of a set of measures for managing the problems found as part of the risk assessment framework;
- the actions to be taken in the event of breaches of monitoring thresholds or risk tolerances and the risk limits set out in the Risk Appetite Statement;
- the actions to be taken in the event of breaches of the limits defined in risk policies.

- *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.

The Operational & IT Risk Management unit prepares the necessary reporting in this area, bringing it to the attention of the various internal users (Board of Directors, senior management, operating units).

QUANTITATIVE DISCLOSURES

As provided for in Circular no. 285/2013 of the Bank of Italy as updated, for reporting purposes the Bank calculates 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 “gross income”.

In particular, the capital requirement, equal to 15% of the average of the last three observations of gross income at the end of the year, amounted to €90,524 thousand.

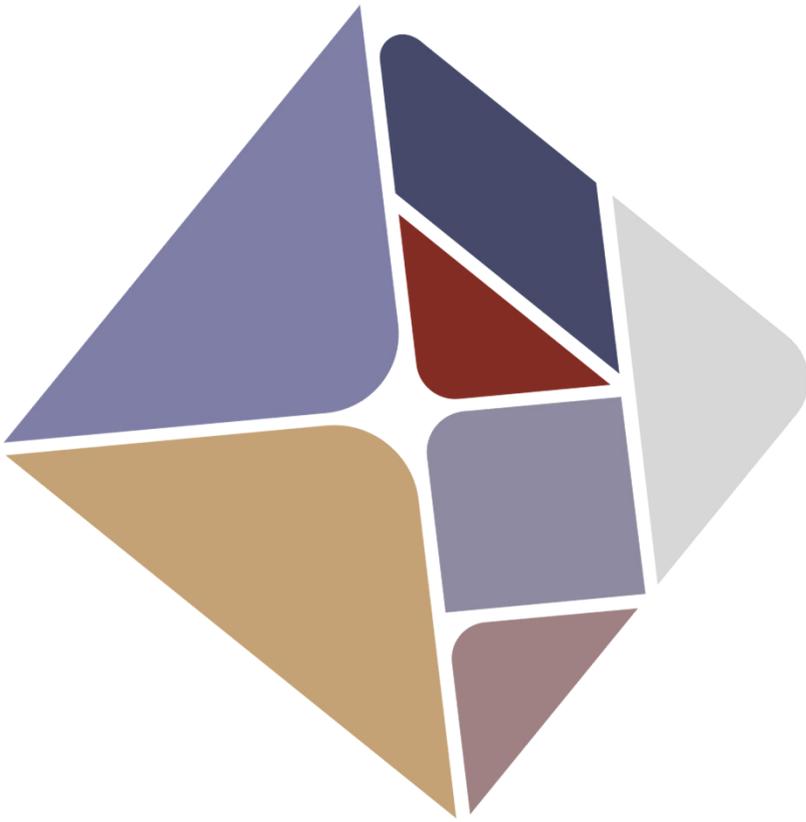
| RELEVANT INDICATOR | PERIOD | VALUE |
|-----------------------------------|---------------|----------------|
| - at December 31, 2016 | T | 599,447 |
| - at December 31, 2015 | T-1 | 640,517 |
| - at December 31, 2014 | T-2 | 570,516 |
| Relevant indicator average | | 603,493 |
| Regulatory coefficient | | 15% |
| Capital requirement | | 90,524 |

SECTION 2 – RISKS OF INSURANCE UNDERTAKINGS

No information to report.

SECTION 3 – 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.



SECTION 1 – CONSOLIDATED CAPITAL

A. Qualitative disclosures

Consolidated capital is managed by centralized units of Iccrea Banca, through the definition of a set of internal policies and processes that ensure dynamic equilibrium and appropriate consistency between the Group's overall capital resources, the range of risks the Group has assumed or intends to assume, and the targets for growth in size and profitability as specified in the strategic planning process.

With a view to achieving sustainable and balanced growth, the Iccrea Banking Group continues to pursue capital adequacy through careful management of both regulatory requirements (First Pillar) and operational constraints (Second Pillar – ICAAP). In particular, the Group's compliance with capital adequacy requirements is ensured:

- for the First Pillar, through the management and monitoring of regulatory capital, so as to ensure compliance with the minimum statutory

capitalization limits, so as to be able to handle with the risks typical of the banking business;

- for the Second Pillar, through a process that controls current and prospective capital adequacy, which in addition to First Pillar risks also considers other material risks that affect or could affect the Group's operations, in order to determine an adequate level of internal capital in relation to the overall risk exposure.

Accordingly, management of financial soundness at the consolidated level is structured in a dynamic process, which is managed on both an ongoing basis in accordance with the corporate objectives set out in the strategic planning process (annual budget, three-year business plan) and on a non-recurring basis in conjunction with extraordinary transactions (acquisitions, mergers, asset disposals) that modify the composition or scope of the Group's operations.

B. Quantitative disclosures

B.1 CONSOLIDATED EQUITY: BREAKDOWN BY TYPE OF ENTITY

| | Banking Group | Insurance undertakings | Other entities | Consolidation eliminations and adjustments | Total 2016 |
|---|------------------|------------------------|----------------|--|------------------|
| Share capital | 2,078,491 | - | 36,128 | (911,694) | 1,202,925 |
| Share premium reserve | 22,746 | - | 810 | (18,305) | 5,251 |
| Reserves | 451,328 | - | 5,503 | (30,558) | 426,273 |
| Equity instruments | - | - | - | - | - |
| (Treasury shares) | (30,834) | - | - | - | (30,834) |
| Valuation reserves: | | | | | |
| - Financial assets available for sale | 20,830 | - | - | (1,293) | 19,537 |
| - Property and equipment | | | | | |
| - Intangible assets | | | | | |
| - Hedging of investments in foreign operations | | | | | |
| - Cash flow hedges | (2,405) | - | - | - | (2,405) |
| - Foreign exchange differences | - | - | - | - | - |
| - Non-current assets held for sale | - | - | - | - | - |
| - Actuarial gains (losses) on defined benefit plans | (3,261) | | (194) | | (3,455) |
| - Share of valuation reserves of equity investments accounted for using equity method | 7,842 | - | - | - | 7,842 |
| - Special revaluation laws | 52,334 | - | - | - | 52,334 |
| Net profit (loss) for the period | 21,189 | - | (2,260) | (40,623) | (21,694) |
| Shareholders' equity | 2,618,260 | - | 39,987 | (1,002,473) | 1,655,774 |

The table above reports the components of shareholders' equity at carrying amount, adding the Group's equity to that pertaining to non-controlling interests, broken down by the type of consolidated entity. More specifically:

- the column, "Banking Group" reports the amount resulting from consolidation of the companies belonging to the banking group, gross of the financial effects of any transactions that may have been performed with other companies included within the scope of consolidation; fully-consolidated subsidiaries, other than those in the

"Banking Group", are measured using the equity method here;

- the column "Other entities" reports the amounts resulting from consolidation, including financial effects deriving from transactions carried out with companies that are part of the banking group;
- the column "Consolidation eliminations and adjustments" shows the adjustments necessary to obtain the figures reported in the financial statements.

B.2 VALUATION RESERVES FOR FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION

| | Banking Group | | Insurance undertakings | | Other entities | | Consolidation eliminations and adjustments | | Total (2015) | |
|--|------------------|------------------|------------------------|------------------|------------------|------------------|--|------------------|------------------|------------------|
| | Positive reserve | Negative reserve | Positive reserve | Negative reserve | Positive reserve | Negative reserve | Positive reserve | Negative reserve | Positive reserve | Negative reserve |
| 1. Debt securities | 9,324 | (3,720) | | | | | (1,277) | - | 8,047 | (3,720) |
| 2. Equity securities | 14,627 | - | | | | | - | - | 14,627 | - |
| 3. Units in collective investment undertakings | 892 | (292) | | | | | (16) | - | 876 | (292) |
| 4. Loans | - | - | | | | | - | - | - | - |
| Total (2016) | 24,842 | (4,013) | | | | | (1,293) | - | 23,550 | (4,013) |
| Total (2015) | 56,884 | (5,300) | | | | | (1,651) | 1,468 | 55,233 | (3,832) |

B.3 VALUATION RESERVES FOR FINANCIAL ASSETS AVAILABLE FOR SALE: CHANGE FOR THE PERIOD

| | Debt securities | Equity securities | Units in collective investment undertakings | Loans |
|--|-----------------|-------------------|---|-------|
| 1. Opening balance | 36,917 | 13,696 | 788 | - |
| 2. Increases | 9,373 | 1,086 | 82 | - |
| 2.1 Fair value gains | 5,941 | 902 | 64 | - |
| 2.2. Reversal to income statement of negative reserves | 3,432 | 184 | - | - |
| - from impairment | - | 184 | - | - |
| - from realization | 3,432 | - | - | - |
| 2.3 Other changes | - | - | 18 | - |
| 3. Decreases | (41,963) | (155) | (287) | - |
| 3.1 Fair value losses | (10,604) | (155) | (287) | - |
| 3.2 Impairment adjustments | - | - | - | - |
| 3.3 Reversal to income statement of positive reserves | (31,359) | - | - | - |
| 3.4 Other changes | - | - | - | - |
| 4. Closing balance | 4,327 | 14,627 | 583 | - |

B.4 VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

| | TOTAL AT 31/12/2016 | |
|--|---------------------|------------------|
| | POSITIVE RESERVE | NEGATIVE RESERVE |
| 1. Gain (loss) from changes in financial assumptions | - | - |
| 2. Gain (loss) from passage of time | 162 | 880 |
| TOTAL | 162 | 880 |

SEZIONE 2 – OWN FUNDS AND CAPITAL RATIOS

2.1 SCOPE OF APPLICATION

As from January 1, 2014, the new regulatory framework for banks and investment firms is composed of:

- Regulation (EU) no. 575/2013 (“Capital Requirement Regulation”): the regulation, which took immediate effect in the EU Member States, establishes new rules concerning own funds, minimum capital requirements, counterparty risk, liquidity risk, leverage and disclosure;
- Directive no. 2013/36/EU (“Capital Requirement Directive”): the directive has been transposed into national law and contains provisions for determining capital reserves, the prudential control process, corporate governance rules and remuneration, and administrative penalties.

In implementing the Directive, the Bank of Italy issued Circular no. 285/2013 “Provisions for the prudential supervision of banks”, which is divided into three parts:

- i) the first part contains secondary provisions for which the Bank of Italy is responsible that are necessary for the transposition of Directive 2013/36/EU;
- ii) the second part contains measures implementing Regulation (EU) no. 575/2013, specifically through the exercise of national discretion;
- iii) the third part sets out provisions that, while not harmonized at the European level, are needed to align the Italian supervisory system with the best practices and requirements established by international bodies, include the Core Principles of the Basel Committee.

The primary changes introduced with the new regulatory framework are:

- with regard to the first pillar, steps have been taken to improve the quality of regulatory capital and raise the minimum capital requirements. More specifically, with regard to capital quality, the new framework defines the concept of Common Equity Tier 1, which essentially corresponds to ordinary shares and earnings reserves. Furthermore, additional reserves were introduced, relating to capital conservation, countercyclical buffers and buffers for systematically important banks (G-SII

buffer or O-SII buffer). A limit was placed on leverage (including off-balance-sheet exposures) to restrict the growth in system-wide leverage. Finally, Basel III contains new requirements and systems for monitoring liquidity risk centering around a short-term liquidity requirement (Liquidity Coverage Ratio – LCR) and a longer-term structural stability rule (Net Stable Funding Ratio – NSFR);

- with regard to the second pillar, emphasis was placed on the importance of the following in terms of the adequacy of the prudential supervision process:
 - corporate governance structure: the regulatory requirements concerning the role, qualification and composition of the management bodies were strengthened. These bodies and senior management are required to have a more informed understanding of the adequacy of the organizational structure and the overall risk exposure of the bank and/or the related banking group;
 - the internal control systems of intermediaries: company control functions play a decisive role in ensuring the stability of individual institutions and the banking system as a whole. More specifically, special provisions have been issued concerning: the recognition of risks associated with off-balance-sheet assets and securitizations, the independence of the heads of the function, the valuation of assets and stress testing, and remuneration and incentive systems.
- with regard to the third pillar, the new rules introduce:
 - enhanced transparency requirements regarding securitization exposures, information on the composition of regulatory capital and on the methods used by the bank to calculate the capital ratios;
 - a requirement for annual disclosure of information concerning profit/loss before taxes, the amount of tax on such profit/loss and government support received.
 - an obligation to disclose the leverage ratio.

Within the scope of the discretion granted national governments by the new CRR, the Iccrea Banking Group notified the Bank of Italy that it has chosen to exercise the option to not include unrealized gains and losses on exposures to central government departments classified under “financial assets available for sale” (IAS 39) in the calculation of own funds.

Articles 14 and 15 of Regulation (EU) no. 445 of March 14, 2016 on the exercise of options and discretions available in Union law¹ established as from October 1, entities shall also include unrealized gains and losses in respect of exposures to central governments classified in the “available for sale” category in the calculation of own funds in the following percentages:

- unrealized losses: 60% until December 31, 2016 and 80% until December 31, 2017;
- unrealized gains: removal of 40% until December 31, 2016 and 20% until December 31, 2017.

2.2 OWN FUNDS

A. Qualitative disclosures

Total own funds are calculated as the algebraic sum of a number of positive and negative components that are allowed, with or without restrictions as the case may be, depending on the capital quality of each. Specifically, the total own funds of an institution are the sum of its Tier 1 capital (Common Equity Tier 1 + Additional Tier 1) and its Tier 2 capital. The components that make up the various categories are described below.

1. Common Equity Tier 1 (CET1)

Common Equity Tier 1 of the Iccrea Group consists primarily of the following positive components:

- Fully paid-up capital instruments;
- Share premium accounts related to the above instruments;
- Other reserves including retained earnings;
- Accumulated other comprehensive income: this item includes reserves in respect of assets available for sale, actuarial loss reserves, cash flow hedge reserve, revaluation reserve and the portion of the valuation reserves of equity investments accounted for using the equity method.
- Permitted non-controlling interests.

Negative CET1 components mainly include:

¹ As part of the national discretionality provided for in the CRR in force since January 1, 2014, the Iccrea Group had notified the Bank of Italy that it was exercising the option of not including unrealized gains and losses on exposures to central government classified in the “financial assets available for sale” category of IAS 39.

- Direct, indirect or synthetic holdings in CET1 equity instruments;
- Loss for the period;
- Goodwill net of the associated deferred tax liabilities;
- Other intangible assets net of the associated deferred tax liabilities;
- Deduction of deferred tax assets relying on future profitability and not arising from temporary differences (unused tax credits for ACE benefit and tax losses);

The CET1 above is adjusted by applying the following prudential filters:

- Filters connected with the cash flow hedge reserve for financial instruments that are not measured at fair value;
- Filters connected with the net cumulative unrealized gain of financial liabilities measured at fair value that result from changes in its credit risk;
- Filters associated with additional value adjustments..

Transitional adjustments to CET1 include:

- the exclusion of the unrealized gains on AFS securities;
- the positive filter for negative actuarial reserves (IAS 19);
- the filter for the inclusion of non-controlling interests subject to transitional provisions;
- the filter for the deduction of deferred tax assets relying on future profitability and not arising from temporary differences.

2. Additional Tier 1

Additional Tier 1 capital is represented by non-controlling interests in T1 instruments of the subsidiary Banca Sviluppo, included in consolidated own funds, to meet the prudential requirements for the individual subsidiary pursuant to Article 85 of the CRR.

3. Tier 2

Tier 2 capital is composed of subordinated liabilities issued by the Parent Company, Iccrea Banca S.p.A., and

the non-controlling interests in T2 instruments issued by Iccrea Banca and Banca Sviluppo. The relative amount, calculated net of the Iccrea Group's direct, indirect or synthetic holdings in these instruments, is reduced by the theoretical amortization calculated pursuant to Article 64 of Regulation (EU) no. 575/2013.

This item includes the following transitional adjustments:

- a national positive filter introduced by Bank of Italy Circular no. 285 equal to 40% of 50% of the unrealized profits on AFS securities other than debt instruments issued by the central governments of EU countries;
- a positive filter for including non-controlling interests in T2 instruments issued by subsidiaries subject to transitional provisions.

B. Quantitative disclosures

| OWN FUNDS | 31.12.2016 | 31.12.2015 |
|--|-------------------|-------------------|
| A. Common Equity Tier 1 (CET1) capital before application of prudential filters | 1,584,954 | 1,636,481 |
| of which CET1 instruments affected by transitional provisions | | |
| B. CET 1 prudential filters (+/-) | (3,058) | (1,838) |
| C. CET1 gross of deductible elements and the effects of the transitional provisions (A +/- B) | 1,581,896 | 1,634,643 |
| D. Elements to be deducted from CET1 | 33,229 | - |
| E. Transitional provisions - Impact on CET1 (+/-), including non-controlling interests affected by transitional provisions | 6,672 | (47,572) |
| F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E) | 1,555,339 | 1,587,071 |
| G. Additional Tier 1 (AT1) capital gross of deductible elements and the effects of the transitional provisions | 5,837 | - |
| of which AT1 instruments affected by transitional provisions | | |
| H. Elements to be deducted from AT1 | | |
| I. Transitional provisions - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 as a result of the transitional provisions | | |
| L. Total Additional Tier 1 (AT1) capital (G - H +/- I) | 5,837 | - |
| M. Tier 2 (T2) capital gross of deductible elements and the effects of the transitional provisions | 138,569 | 71,096 |
| of which Tier 2 instruments affected by transitional provisions | | |
| N. Elements to be deducted from T2 | | |
| O. Transitional provisions - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 as a result of the transitional provisions | 3,030 | 53,524 |
| P. Total Tier 2 (T2) capital (M - N +/- O) | 141,599 | 124,620 |
| Q. Total own funds (F + L + P) | 1,702,775 | 1,711,691 |

TRANSITIONAL PROVISIONS

The transitional adjustments of CET1 can be summarized as follows:

- gains on the debt securities of EU governments classified as AFS were sterilized in the amount of €4.9 million (of which €2.8 million attributable to companies accounted for using the equity method);
- gains on securities other than those of EU governments classified as AFS were sterilized in the amount of €6 million (mainly equity securities and units in CIUs);
- actuarial losses on defined benefit plans were neutralized in the amount of €1.783 million (see CRR, Part Ten, Transitional provisions, Section 3, Art. 473);
- minority interests in consolidated subsidiaries not subject to the CRR, recognized pursuant to CRR, Part Ten, Transitional provisions, Section 4, Art. 479, amounted to €2.5 million;
- the deduction of deferred tax assets relying on future profitability and not arising from temporary differences was sterilized in the amount of €13.2 million (see Article 469, paragraph 1.a) and Article 478, paragraph 1 of the CRR).

Transitional adjustments of T2 mainly regard positive valuation reserves on non-EU government securities or on equity securities and units in CIUs were recognized in T2 capital in the amount of €3 million pursuant to Art. 481 of the CRR and Part Two, Chapter 14, of Bank of Italy Circular no. 285.

PRUDENTIAL FILTERS

Tier 1 capital was adjusted by the amount of the following prudential filters:

- €1.670 million to exclude from the cash flow hedge reserve the amount in respect of asset/liability positions not measured at fair value;
- €(309) thousand to sterilize the distortive effects of the fair value measurement of our own liabilities with regard to the component attributable to changes in our credit standing;
- €(4.4) million in additional value adjustments (CRR Art. 34 and Part Two, Section 3, Art. 105): the latter were calculated using the simplified approach set out in EBA/RTS/2014/06 of March 31, 2014; for entities for which the sum of the absolute value of

fair valued assets/liabilities² is less than €15 billion, the additional value adjustments are equal to 0.1% of that aggregate.

DEDUCTIONS WITH THRESHOLD EXEMPTIONS

The Iccrea Group did not make any deductions with threshold exemptions;³ accordingly, the elements indicated above were risk weighted as follows:

- deferred tax assets and significant investments in the equity instruments of other financial sector entities: a risk weight of 250%;
- non-significant investments in the equity instruments of other financial sector entities: a risk weight of 100%.

² This does not include assets and liabilities measured at fair value whose change in value is not included in the calculation of CET1.

³ The regulations provide for threshold exemptions for certain deductions:

- deductions with a threshold of exemption 10% of CET1 calculated in accordance with Art. 48, paragraph 1, point a, of the CRR:
 - a. deferred tax assets that are dependent on future profitability and arise from temporary differences;
 - b. significant investments in the equity instruments of other financial sector entities;
- deductions with a threshold exemption of 17.65% of CET1 calculated in accordance with Art. 48, paragraph 2, point b, of the CRR: the aggregate of the above elements below the first threshold of 10%;
- deductions with a threshold exemption of 10% of CET1 calculated in accordance with Art. 46 of the CRR: non-significant investments in the equity instruments of other financial sector entities.

2.3 CAPITAL ADEQUACY

A. Qualitative disclosures

Under the provisions of prudential supervisory regulations (Circular no. 285 of December 17, 2013 as updated), the Banking Group must constantly maintain the following minimum capital to meet the risks typical of banking and financial activity (credit and counterparty risk, market risk and operational risk):

- a CET 1 Ratio of 4.5%;
- a Tier 1 Ratio of 6%;
- a Total Capital Ratio of 8%.

The capital ratios are calculated by setting the various levels of regulatory capital against the overall exposure to risk: the consolidated requirement is made up of the sum of the individual requirements of the Banking Group companies, excluding exposures arising from intragroup transactions used in calculating credit, counterparty and regulatory risks.

The minimum requirements are supplemented by additional capital buffers, which have been imposed to give banks high quality capital to be used in moments of market strains in order to prevent malfunctions in the banking system and interruptions in the supply of credit. These buffers include:

- the Capital Conservation Buffer (CCB): consisting of CET 1, it represents an additional requirement of 2.5%;⁴
- the Countercyclical Capital Buffer: also consisting of common equity, it must be accumulated in periods of economic growth to cope with possible future losses, using a specific ratio established on a national basis. On September 23, 2016, the Bank of Italy, in its capacity as the designated authority, issued a notice maintaining the countercyclical capital buffer ratio for the fourth quarter of 2016 at 0% for exposures to Italian counterparties, unchanged on previous quarters. The specific countercyclical capital buffer ratio for the Bank is equal to the weighted average of the countercyclical ratios applicable in the various countries in which the Bank has significant credit exposures;

- the buffers for Global & Other Systemically Important Institutions (G-SII & O-SII): both consist of CET 1 and directly regard Global & Other Systemically Important Institutions as identified by the Bank of Italy in Italy. The buffer for G-SIIs can range from a minimum of 1% and a maximum of 3.5%, while that for O-SIIs has a non-binding maximum threshold of 2%.

Accordingly, given the predominantly national nature of the Group's operations, the capital requirements including the capital buffers for 2016 were: a Common Equity Tier 1 ratio of 7%, a Tier 1 ratio of 8.5% and a Total Capital Ratio of 10.5%.

At December 31, 2016, the Iccrea Group easily exceeded the regulatory minimums:

- the CET1 ratio was 12.04% (12.36% in 2015);
- the Tier 1 ratio was 12.08% (12.36% in 2015);
- the Total Capital ratio was 13.18% (13.33% in 2015).

In addition, following the Supervisory Review and Evaluation Process (SREP), as announced by the ECB in November 2015, the Iccrea Group is required to maintain a Common Equity Tier 1 capital ratio for 2016 of 9.25% (this was confirmed for 2017 as well, with a TCR target of 10.75%).

⁴ With the publication of the 18th update of Circular n. 285, the Bank of Italy modified the rules governing the Capital Conservation Buffer to bring the national regulations into line with those in the majority of euro-area countries and ensure equality of treatment among intermediaries from different countries. The change established that banks at the individual and consolidated levels are no longer required to apply a minimum ratio of 2.5% but instead shall use the following progression: 1.25% as from January 1, 2017 to December 31, 2017, 1.875% as from January 1, 2018 to December 31, 2018 and 2.5% as from January 1, 2019.

B. Quantitative disclosures

| | Unweighted amounts | | Weighted amounts/requirements | |
|---|--------------------|-------------------|-------------------------------|-------------------|
| | 2016 | 2015* | 2016 | 2015 |
| A. EXPOSURES | | | | |
| A. 1 Credit and counterparty risk | 28,719,365 | 29,601,976 | 11,428,782 | 11,466,764 |
| 1. Standardized approach | 28,710,676 | 29,601,039 | 11,420,094 | 11,462,750 |
| 2. IRB approach | | | | |
| 2.1 Foundation | | | | |
| 2.2 Advanced | | | | |
| 3. Securitizations | 8,688 | 937 | 8,688 | 3,924 |
| B. CAPITAL REQUIREMENTS | | | | |
| B.1 Credit and counterparty risk | | | 914,303 | 917,334 |
| B.2 Risk of adjustment of credit rating | | | 8,665 | 6,833 |
| B.3 Settlement risk | | | | |
| B.4 Market risks | | | 20,364 | 13,593 |
| 1. Standardized approach | | | 20,364 | 13,593 |
| 2. Internal models | | | | |
| 3. Concentration risk | | | | |
| B.5 Operational risk | | | 90,524 | 89,300 |
| 1. Basic indicator approach | | | 90,524 | 89,300 |
| 2. Standardized approach | | | | |
| 3. Advanced measurement approach | | | | |
| B.6 Other components | | | | |
| B.7 Total prudential requirements | | | 1,033,856 | 1,027,060 |
| C. EXPOSURES AND CAPITAL ADEQUACY RATIOS | | | | |
| C.1 Risk-weighted assets | | | 12,923,194 | 12,838,247 |
| C.2 CET 1 capital ratio | | | 12.04% | 12.36% |
| C.3 Tier 1 capital ratio | | | 12.08% | 12.36% |
| C.4 Total capital ratio | | | 13.18% | 13.33% |

* The unweighted amounts for 2015 have been restated to align them with the most recent notice issued by the Bank of Italy: more specifically, it was decided to present the overall exposure to credit/counterparty risk net of eliminations for intercompany transactions.

In the standardized approach, the unweighted amounts in the different categories of assets exposed to credit and counterparty risk (on-balance-sheet exposures, off-balance-sheet exposures, SFTs, LSTs, derivatives) correspond to the carrying amount net of prudential filters, the effects of risk mitigation techniques (full method for secured financial transactions) and credit conversion factors.⁵

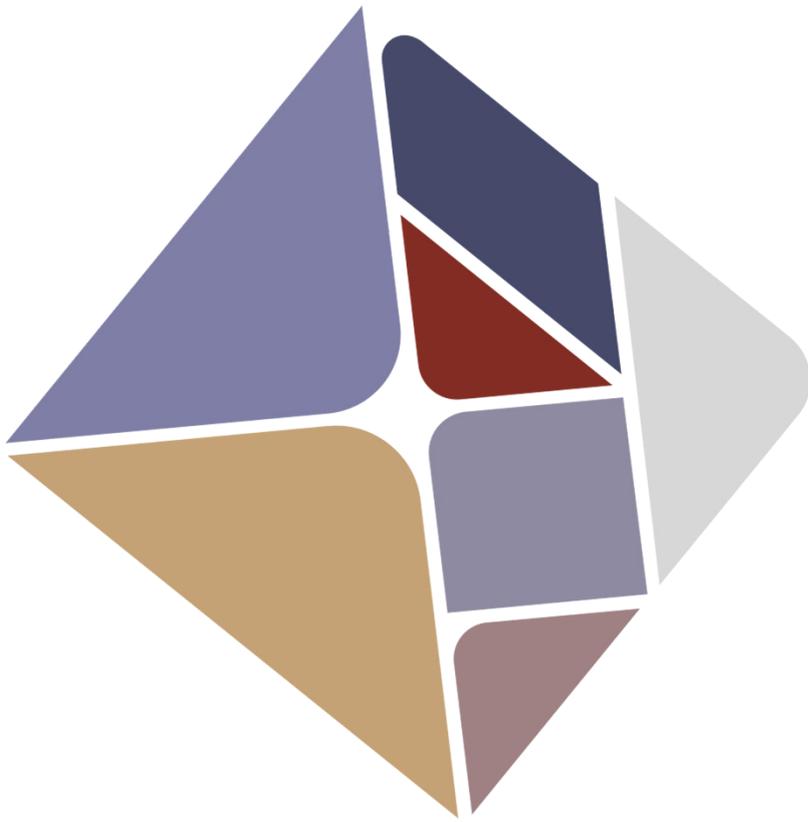
⁵ For off-balance-sheet transactions (guarantees granted and commitments), the credit conversion factor approximates the probability that a transaction will give rise to an on-balance-sheet credit exposure, for which the size of the exposure is estimated: the credit exposure equivalent is calculated by multiplying the nominal value of the commitment by the corresponding conversion factor (full, medium and low risk).

SECTION 3 – INSURANCE REGULATORY CAPITAL AND RATIOS

The section has not been completed because there were no such positions as of the end of the reporting period.

SECTION 4 – CAPITAL ADEQUACY OF FINANCIAL CONGLOMERATE

The section has not been completed because there were no such positions as of the end of the reporting period.



SECTION 1 – TRANSACTIONS CARRIED OUT DURING THE YEAR

1.1 ACQUISITION OF MUTUAL BANKS BY BANCA SVILUPPO

During 2016, Banca Sviluppo acquired the assets and liabilities of two mutual banks in compulsory liquidation, BCC Brutia and Crediveneto.

These acquisitions were accounted for in compliance with the provisions of IFRS 3, which was applicable to these transactions, and there were no differences between the total net fair value of the assets and liabilities acquired and the associated prices for the acquisitions.

- ASSETS AND LIABILITIES OF BCC BRUTIA IN LIQUIDATION

| Assets | | 19/02/2016 |
|--|-------------------------------------|-------------------|
| 10. | Cash and cash equivalents | 263,708 |
| 40. | Financial assets available for sale | 12,076,574 |
| 50. | Financial assets held to maturity | |
| 60. | Due from banks | 1,767,006 |
| 70. | Loans to customers | 13,891,506 |
| 80. | Hedging derivatives | |
| 110. | Property and equipment | 220,483 |
| 130. | Tax assets | 1,135,384 |
| | a) current | 81,519 |
| | b) deferred | 1,053,865 |
| | of which pursuant to Law 214/2011 | |
| 150. | Other assets | 1,081,527 |
| Total assets | | 30,436,188 |
| Difference between assets and liabilities | | 2,353,802 |

| Liabilities and shareholders' equity | | 19/02/2016 |
|---|--|-------------------|
| 10. | Due to banks | 10,005,054 |
| 20. | Due to customers | 15,988,800 |
| 30. | Securities issued | 4,909,113 |
| 80. | Tax liabilities | |
| | a) current | |
| | b) deferred | |
| 100. | Other liabilities | 968,288 |
| 110. | Employee termination benefits | 36,422 |
| 120. | Provisions for risks and charges | 882,313 |
| | a) post-employment benefits | |
| | b) other provisions | 882,313 |
| 200. | Net profit (loss) for the period (+/-) | - |
| Total liabilities and shareholders' equity | | 32,789,990 |

- ASSETS AND LIABILITIES OF CREDIVENETO (PROVISIONAL FIGURES):

| Assets | | 07/05/2016 | Liabilities and shareholders' equity | | 07/05/2016 |
|--|---|----------------------|---|---|----------------------|
| 10. | Cash and cash equivalents | 2,503,561 | 10. | Due to banks | 284,433,484 |
| 20. | Financial assets held for trading | 1,067,582 | 20. | Due to customers | 447,309,089 |
| 30. | Financial assets at fair value through profit or loss | | 30. | Securities issued | 356,965,539 |
| 40. | Financial assets available for sale | 389,340,474 | 40. | Financial liabilities held for trading | |
| 50. | Financial assets held to maturity | | 50. | Financial liabilities at fair value through profit or loss | 27985273 |
| 60. | Due from banks | 38,170,972 | 60. | Hedging derivatives | 26115 |
| 70. | Loans to customers | 551,434,729 | 70. | Value adjustments of financial assets hedged specifically (+/-) | |
| 80. | Hedging derivatives | 1,427,165 | 80. | Tax liabilities | |
| 100. | Equity investments | | | a) current | |
| 110. | Property and equipment | 33,292,359 | | b) deferred | |
| 120. | Intangible assets | 1,675 | 90. | Liabilities associated with assets held for sale | |
| | of which: | | 100. | Other liabilities | 14,755,525 |
| | - goodwill | | 110. | Employee termination benefits | 3,240,191 |
| 130. | Tax assets | 4,954,858 | 120. | Provisions for risks and charges | 20,633,853 |
| | a) current | 4,954,858 | | Total liabilities and shareholders' equity | 1,155,349,069 |
| | b) deferred | | | | |
| | of which pursuant to Law 214/2011 | | | | |
| 140. | Non-current assets and disposal groups held for sale | | | | |
| 150. | Other assets | 12,376,727 | | | |
| Total assets | | 1,034,570,102 | | | |
| Difference between assets and liabilities | | 120,778,967 | | | |

1.2 MERGER WITH ICCREA HOLDING

In February 2016, the project for the reverse merger of the former Iccrea Holding into Iccrea Banca got under way. The project was drafted pursuant to and for the purposes of Article 2501 ter of the Italian Civil Code.

The merger of Iccrea Banca and Iccrea Holding led to the creation of a Parent Company authorized to engage in banking. The operation, however, took place in the broader context of the reorganization of the mutual banking system, in implementation of the provisions of Decree Law 18 of February 14, 2016, published in *Gazzetta Ufficiale – serie generale* no. 37 – of February 15, 2016) ratified with Law 49 of April 8, 2016. This approach enabled Iccrea to continue operating on domestic and international markets based on Iccrea Banca's existing banking license.

The reverse merger of the Parent Company Iccrea Holding into the subsidiary Iccrea Banca was carried out using the "simplified procedure" envisaged under Article 2505 of the Civil Code, as the operation involved a merger between companies in which one held the entire share capital of the other. The share capital of the new Parent Company, Iccrea Banca, is

equal to the value of the share capital of the merged entity (Iccrea Holding), or €1,151,045,403.55.

In view of the fact that the share capital, par value and number of shares of the merged entity (Iccrea Holding) are equal to those of the new post-merger Parent Company (Iccrea Banca), 1 (one) ordinary share of the new Parent Company (Iccrea Banca) has been assigned for each share of Iccrea Holding held.

Having obtained the required authorizations from the European Central Bank, the Bank of Italy and IVASS, on July 12, 2016 the Extraordinary Shareholders' Meetings of the companies involved authorized the merger of Iccrea Holding into Iccrea Banca.

On September 15, 2016 the instrument for the merger of Iccrea Holding Spa into Iccrea Banca Spa was notarized, taking effect as from the first day of the month following that of registration of the merger instrument in the Company Register pursuant to Article 2504-bis of the Civil Code. Following registration, the merger instrument took effect as from October 1, 2016.

SECTION 2 – TRANSACTIONS AFTER THE CLOSE OF THE PERIOD

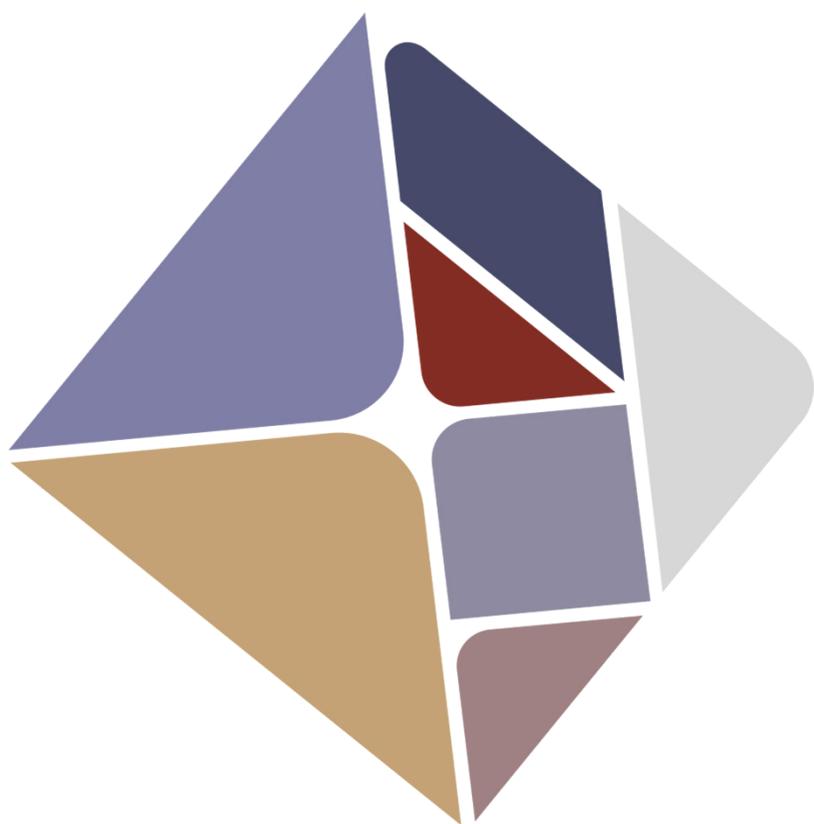
The section has not been completed because there were no such positions as of the balance sheet date.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

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

PART H

*Transactions with
related parties*



1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table reports information concerning the remuneration paid in the first half of 2016 to members of the Board of Directors, the Board of Auditors and key management personnel of the Parent Company who can be considered “related parties”.

| | Short-term benefits | Post-employment benefits | Other long-term benefits | Loans and guarantees | Share-based payments | Total 2016 |
|--|---------------------|--------------------------|--------------------------|----------------------|----------------------|------------|
| Members of the Board of Directors and the Board of Auditors and key management personnel | 3,099 | - | - | 900 | - | 3,999 |

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

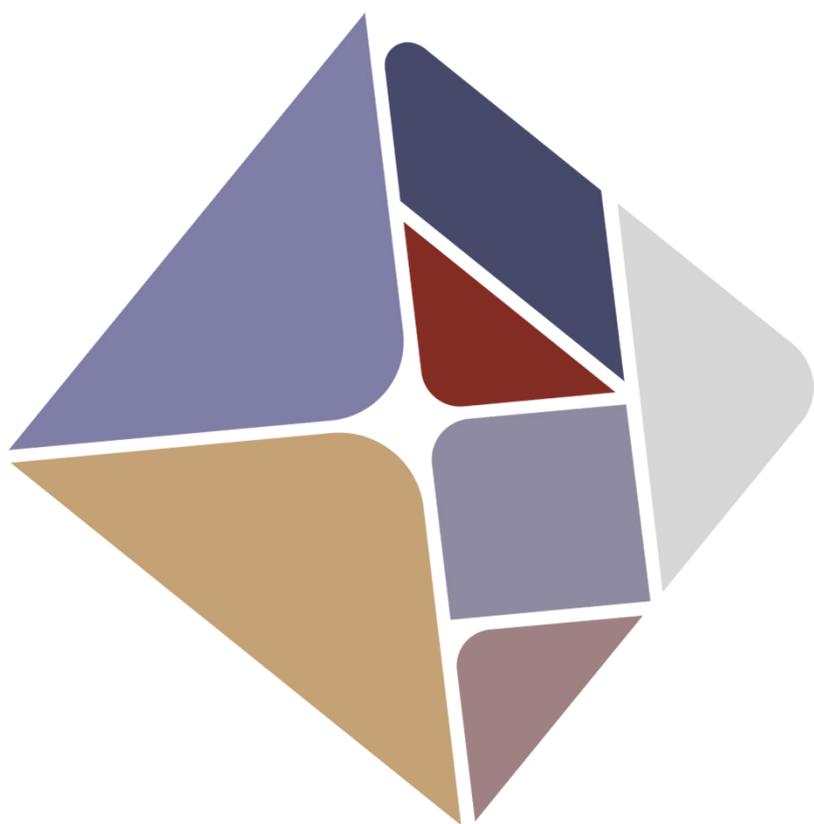
In December 2011, the Bank of Italy issued regulations governing on related party transactions contained in Circular no. 263/2006 with the aim of strengthening arrangements to ensure that close ties with the decision-makers of a bank cannot compromise the impartiality and objectivity of decisions relating to the granting of loans and other transactions involving them, with possible distortions in the resource allocation process, the exposure of the bank to risks that are not measured or monitored appropriately and the generation of losses for deposit holders and shareholders.

The individual companies of the Iccrea Banking Group, and therefore the Group as a whole, have adopted a document governing the principles and rules applicable to related party transactions in compliance with the supervisory regulations.

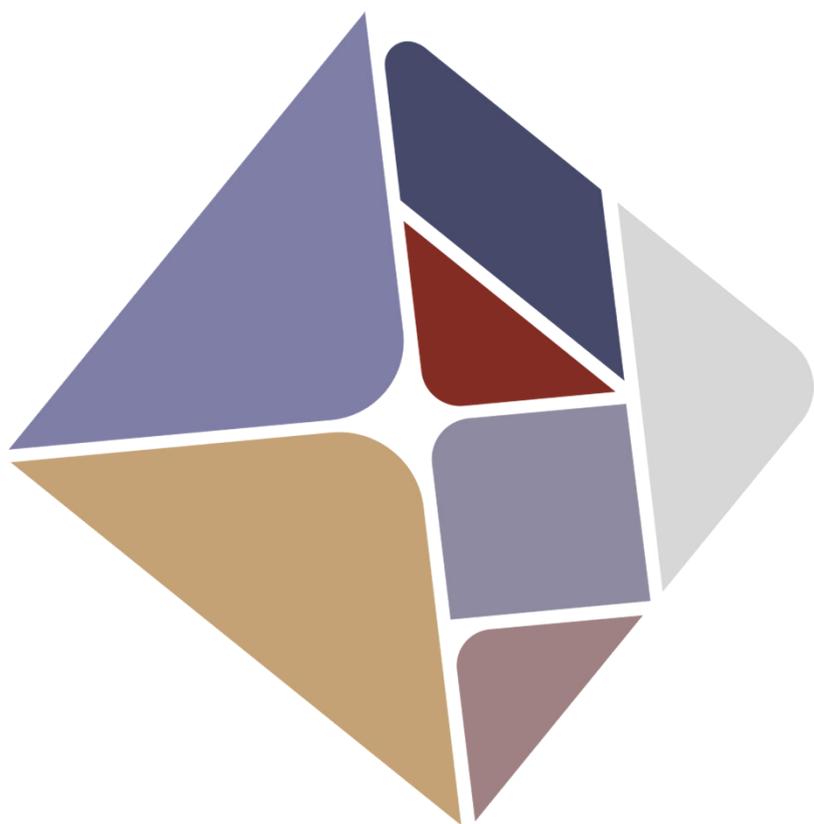
Transactions between the Iccrea Banking Group and corporate officers regard ordinary Group operations. They are undertaken in accordance with agreements applicable to all employees, where the necessary conditions are met. Transactions with corporate officers, their immediate family and entities controlled by them amounted to €1.6 million.

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. These transactions amounted to €98.6 million and included guarantees issued in the amount of €26.7 million. At December 31, 2016, the Group companies had no exposures to the National Pension Fund for employees of the mutual banks.

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.



No information is reported in this section.



A. PRIMARY REPORTING BASIS

For segment reporting, a summary income statement and key financial aggregates are prepared and presented. The companies within the Group mainly operate exclusively in individual operating segments, which, as noted in Section 5 of Part A.1 of these notes to the financial statements, are as follows:

- **Institutional:** business conducted with institutional counterparties (mutual banks, other banks and public institutions), such as payment services, financial intermediation (trading and capital markets), and foreign activities, as well as additional support services for member banks;
- **Corporate:** business focused mainly on financing small and medium-sized companies that are customers of the mutual banks;
- **Retail:** mainly asset management activities on an individual and collective basis for retail customers;
- **Corporate Center:** internal Group activities of an administrative and support nature, as well as all intercompany eliminations.

For additional information regarding the criteria used to identify and measure the individual operating segments, please see Part A – Accounting policies.

A.1 DISTRIBUTION BY BUSINESS SEGMENT: INCOME STATEMENT

| | CORPORATE | INSTITUTIONAL | RETAIL | CORPORATE CENTER | INTER-SEGMENT TRANSACTIONS | TOTAL |
|--|-----------------|-----------------|---------------|------------------|----------------------------|-----------------|
| Net interest income | 218,877 | 78,906 | 41,408 | (1,091) | 6,539 | 344,639 |
| Net fee and commission income | 9,876 | 157,117 | 31,050 | (1) | (5,240) | 192,802 |
| Other financial expense and income | (12,330) | 125,966 | (357) | - | (25,546) | 87,733 |
| Gross income | 216,422 | 361,989 | 72,101 | (1,093) | (24,246) | 625,174 |
| Net value adjustments | (132,699) | (12,809) | (13,464) | - | - | (158,973) |
| Net gains (losses) on financial operations | 83,723 | 349,180 | 58,637 | (1,093) | (24,246) | 466,201 |
| Operating expenses | (100,858) | (350,617) | (33,184) | 4,100 | 3,369 | (477,190) |
| Other costs and revenues | (15,035) | (20,710) | - | - | 5,387 | (30,358) |
| Profit/(loss) from continuing operations before tax | (32,169) | (22,147) | 25,453 | 3,007 | (15,490) | (41,347) |
| Income tax for the period on continuing operations | 8,913 | 21,079 | (8,534) | (1,674) | (131) | 19,654 |
| Profit/(loss) for the period | (23,256) | (1,068) | 16,919 | 1,333 | (15,621) | (21,693) |
| Profit/(loss) for the period pertaining to non-controlling interests | 155 | (533) | (1,995) | - | (1) | (2,374) |
| Profit/(loss) for the period pertaining to shareholders of the Parent Company | (23,100) | (1,601) | 14,925 | 1,333 | (15,622) | (24,067) |

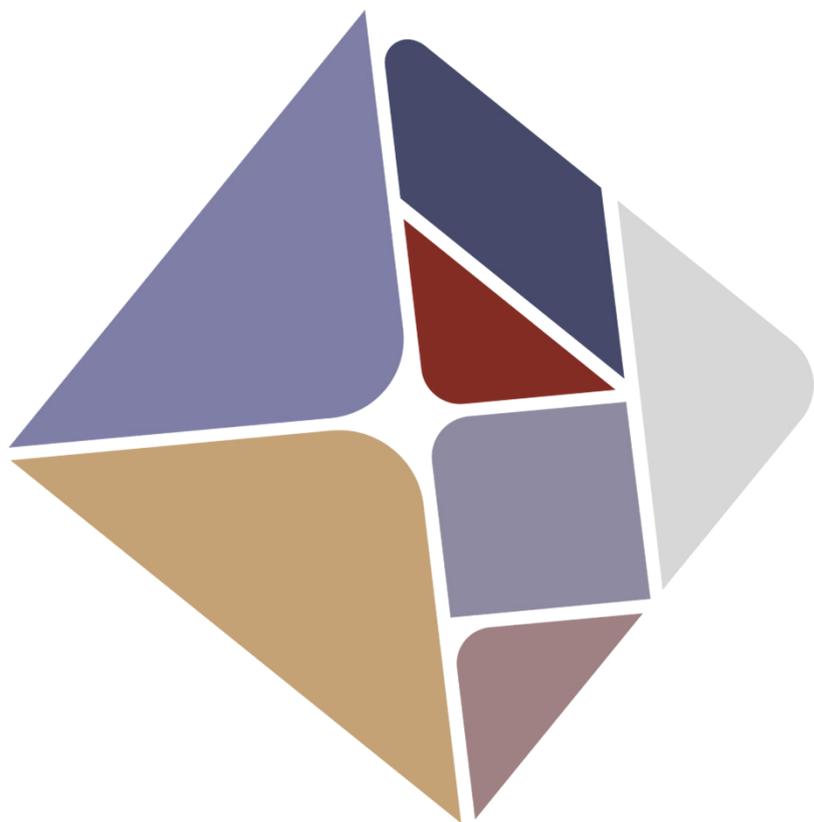
A.2 DISTRIBUTION BY BUSINESS SEGMENT: BALANCE SHEET

| | CORPORATE | INSTITUTIONAL | RETAIL | CORPORATE CENTER | INTER-SEGMENT TRANSACTIONS | TOTAL |
|---|-----------|---------------|---------|------------------|-------------------------------|------------|
| Financial assets | 2,379,540 | 8,089,347 | 6,812 | 2 | (66,199) | 10,409,501 |
| Due from banks | 212,837 | 30,164,512 | 28,594 | 5,549 | (9,259,309) | 21,152,184 |
| Loans to customers | 8,755,559 | 5,464,399 | 935,107 | - | (1,480,809) | 13,674,256 |
| Funding from banks | 5,507,313 | 12,762,608 | 693,217 | 29,005 | (6,269,405) | 12,722,738 |
| Funding from customers | 700,379 | 25,973,658 | 177,475 | - | (22,182) | 26,829,330 |
| Securities and other financial liabilities | 4,622,314 | 4,822,263 | - | - | (4,483,400) | 4,961,177 |

B. SECONDARY REPORTING BASIS

As regards the secondary reporting basis, please note that the Group operates almost exclusively in Italy.

*Report
of the audit firm*





EY S.p.A.
Via Po, 32
00198 Roma

Tel: +39 06 324751
Fax: +39 06 32475504
ey.com

INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N. 39, DATED JANUARY 27, 2010
(Translation from the original Italian text)

To the Shareholders of
Iccrea Banca S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Iccrea Banca S.p.A. and its subsidiaries (the "Iccrea Banking Group"), which comprise the balance sheet as at December 31, 2016, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement for the year then ended, and the relevant explanatory notes.

Directors' responsibility for the consolidated financial statements

The Directors are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n. 136, dated August 18, 2015.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated January 27, 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 2.950.000,00 i.v.
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Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Iccrea Banking Group as at December 31, 2016, 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 article 9 of Legislative Decree n. 38, dated February 28, 2005 and art.43 of Legislative Decree n.136, dated August 18, 2015.

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure with the consolidated financial statements

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure as provided for for by article 123-bis, paragraph 2), letter b) of Legislative Decree n. 58, dated February 24, 1998, with the consolidated financial statements. The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information of the Report on Corporate Governance and the Company's Ownership Structure are consistent with the consolidated financial statements of the Iccrea Banking Group as at December 31, 2016.

Rome, June 5, 2017

EY S.p.A.

Signed by: Wassim Abou Said, partner

This report has been translated into the English language solely for the convenience of international readers.

