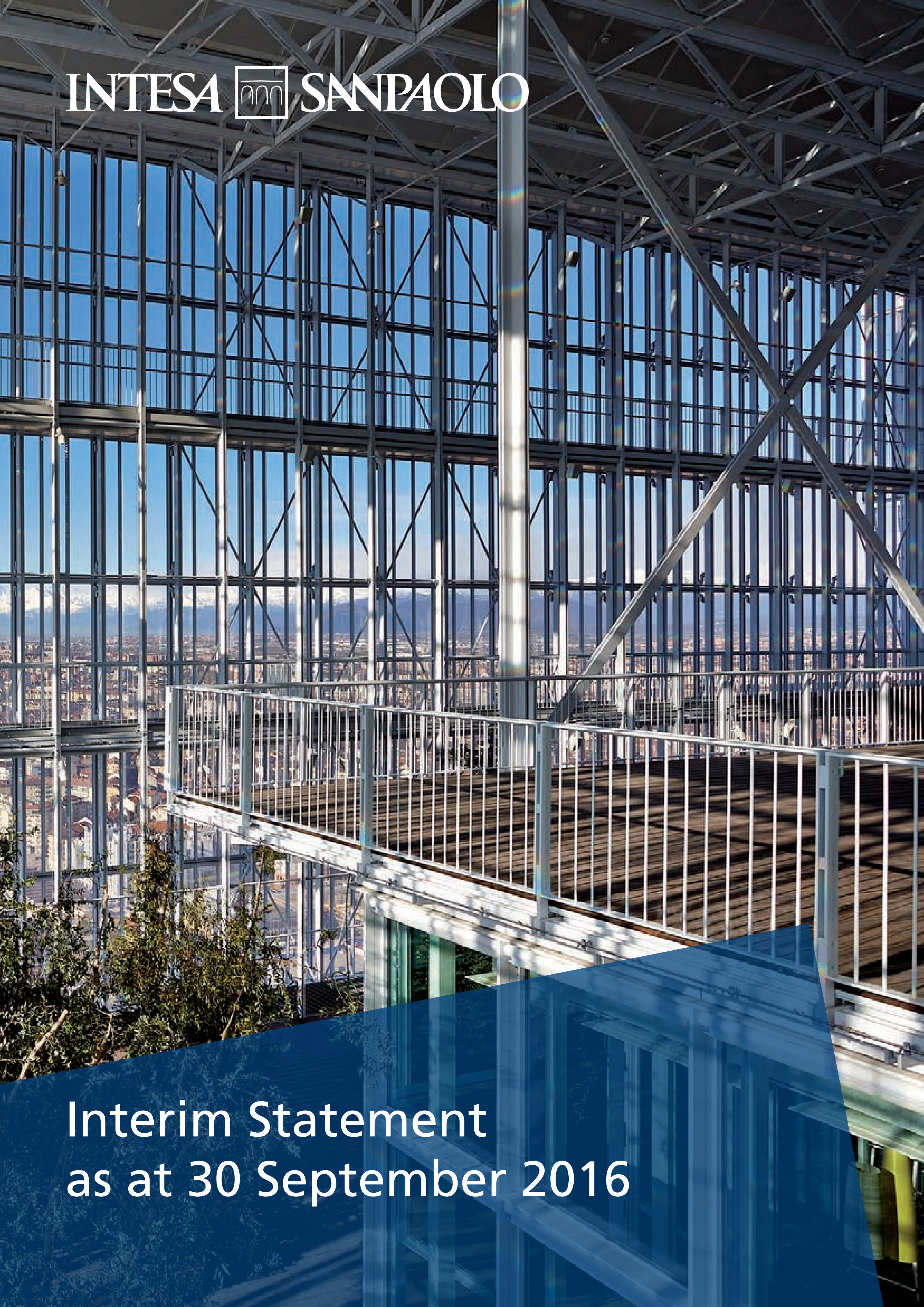

Interim Statement as at 30 September 2016

Interim Statement as at 30 September 2016

Intesa Sanpaolo S.p.A.
Registered office: Piazza San Carlo, 156 10121 Torino Secondary registered office: Via Monte di Pietà, 8 20121 Milano Share capital 8.731.874.498,36 Euro Registration number on the Torino Company Register and Fiscal Code 00799960158 VAT number 10810700152 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund, included in the National Register of Banks No. 5361 and Parent Company of "Intesa Sanpaolo", included in the National Register of Banking Groups.

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BANCA IMI
BANCA PROSSIMA PER LE IMPRESE SOCIALI E LE COMUNITÀ
BANCO DI NAPOLI
CASSA DEI RISPARMI DI FORLÌ E DELLA ROMAGNA
CASSA DI RISPARMIO DEL FRIULI VENEZIA GIULIA
CASSA DI RISPARMIO DEL VENETO
CARISBO
FIDEURAM INTESA SANPAOLO PRIVATE BANKING
MEDIOCREDITO ITALIANO

NORTH WEST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
1,177	Fideuram	89
	Banca Prossima	29
	Mediocredito Italiano	2
	Banca IMI	1

NORTH EAST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
209	CR del Veneto	308
	CR in Bologna	163
	CR del Friuli Venezia Giulia	94
	CR di Forlì e della Romagna	81
	Fideuram	57
	Banca Prossima	16
	Mediocredito Italiano	2

CENTRE

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
406	Banca CR Firenze	399
	Fideuram	42
	Banca Prossima	9
	Banco di Napoli	4
	Mediocredito Italiano	2
	Banca IMI	1

SOUTH

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
94	Banco di Napoli	562
	Fideuram	27
	Banca Prossima	20
	Mediocredito Italiano	2

ISLANDS

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
220	Fideuram	10
	Banca Prossima	9
	Mediocredito Italiano	1

Figures as at 30 September 2016

Product Companies

INTESA SANPAOLO VITA

Bancassurance and Pension Funds

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Banks, Branches and Representative Offices

INTESA SANPAOLO

ALEXBANK | بنك الإسكندرية

BANCA IMI

BANCA INTESA

BANCA INTESA Beograd

BANKA KOPER

CIB BANK

FIDEURAM INTESA SANPAOLO PRIVATE BANKING

INTESA SANPAOLO BANK Albania

INTESA SANPAOLO BANK LUXEMBOURG

INTESA SANPAOLO BANK Romania

INTESA SANPAOLO BANKA Bosna i Hercegovina

INTESA SANPAOLO BANK IRELAND

INTESA SANPAOLO BRASIL SA

INTESA SANPAOLO PRIVATE BANK SUISSE

PRAVEX-BANK

PRIVREDNA BANKA ZAGREB

VÚB BANKA

AMERICA

Direct Branches	Representative Offices
George Town	Santiago
New York	Washington D.C.

Country	Subsidiaries	Branches
Brazil	Intesa Sanpaolo Brasil	1

OCEANIA

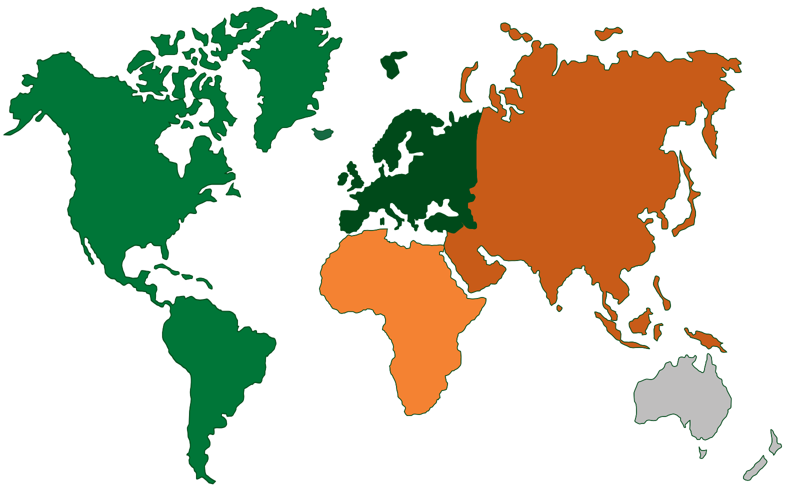
Representative Offices
Sydney

ASIA

Direct Branches	Representative Offices
Abu Dhabi	Beijing
Doha	Beirut
Dubai	Ho Chi Minh City
Hong Kong	Jakarta
Shanghai	Mumbai
Singapore	Seoul
Tokyo	

EUROPE

Direct Branches	Representative Offices
Frankfurt	Brussels(1)
Istanbul	Istanbul
London	Moscow
Madrid	
Paris	
Warsaw	



Country	Subsidiaries	Branches
Albania	Intesa Sanpaolo Bank Albania	32
Bosnia and Herzegovina	Intesa Sanpaolo Banka Bosna i Hercegovina	52
Croatia	Privredna Banka Zagreb	195
Czech Republic	VUB Banka	1
Hungary	CIB Bank	83
Ireland	Intesa Sanpaolo Bank Ireland	1
Luxembourg	Fideuram	1
	Intesa Sanpaolo Bank Luxembourg	1
Romania	Intesa Sanpaolo Bank Romania	45
Russian Federation	Banca Intesa	46
Serbia	Banca Intesa Beograd	168
Slovakia	VUB Banka	233
Slovenia	Banka Koper	52
Switzerland	Intesa Sanpaolo Private Bank (Suisse)	1
The Netherlands	Intesa Sanpaolo Bank Luxembourg	1
Ukraine	Pravex-Bank	97
United Kingdom	Banca IMI	1
	Intesa Sanpaolo Private Banking	1

AFRICA

Representative Offices	Country	Subsidiaries	Branches
Cairo	Egypt	Bank of Alexandria	172
Casablanca			
Tunis			

Figures as at 30 September 2016
(1) International and Regulatory Affairs

Product Companies

CONSUMER FINANCE HOLDING — INTESA SANPAOLO CARD — PBZ CARD

Consumer Credit, E-money and Payment Systems

CIB INVESTMENT FUND MANAGEMENT — Eurizon Capital s.a. — FIDEURAM Asset Management (Ireland) — PBZ INVEST — VÚB ASSET MANAGEMENT

Asset Management

CIB LEASING — INTESA LEASING Beograd — PBZ LEASING — VÚB LEASING

Leasing

VÚB FACTORING — CIB FACTOR

Factoring

INTESA SANPAOLO LIFE

Insurance

Board of Directors, Manager responsible for preparing the Company's financial reports and Independent Auditors

Board of Directors

Chairman	Gian Maria GROS-PIETRO
Deputy Chairperson	Paolo Andrea COLOMBO
Managing Director and Chief Executive Officer	Carlo MESSINA [(a)]
Directors	Gianfranco CARBONATO Franco CERUTI Francesca CORNELLI Giovanni COSTA Edoardo GAFFEO [(*)] Giorgina GALLO Giovanni GORNO TEMPINI Rossella LOCATELLI Marco MANGIAGALLI [(**)] Maria MAZZARELLA Milena Teresa MOTTA [(*)] Bruno PICCA Alberto Maria PISANI [(*)] Livia POMODORO Daniele ZAMBONI Maria Cristina ZOPPO [(*)]

Manager responsible for preparing the company's financial reports	Fabrizio DABBENE
Independent Auditors	KPMG S.p.A.

(a) General Manager
(*) Member of the Management Control Committee
(**) Chairman of the Management Control Committee

Introduction

Legislative Decree 25 of 15 February 2016, implementing the new Transparency Directive (2013/50/EU), removed the obligation to publish an interim statement, previously required under paragraph 5 of Article 154-ter of the Consolidated Law on Finance. The decree also gave Consob the option of requiring disclosures in addition to the annual report and the half-yearly report. By Resolution 19770 dated 26 October 2016, Consob, pursuant to regulatory delegation provided for in said Decree, introduced changes to the Issuers' Regulation, which relate to periodic disclosures of additional information, which shall apply from 2 January 2017.
Intesa Sanpaolo prepared this Statement in continuity with previous years, and will evaluate the contents of its quarterly disclosure for the future.
As illustrated in detail in the chapter "Criteria for the preparation of the Interim Statement", the Interim Statement as at 30 September 2016" has been prepared, in consolidated form, in compliance with the accounting principles issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission as provided for by Community Regulation 1606 of 19 July 2002.
The report contains the Balance sheet, the Income statement, the Statement of comprehensive income for the period, the Changes in shareholders' equity, and the Report on operations. It is also complemented by information on significant events which occurred during the period, and on the main risks and uncertainties to be faced.
In support of the comments on the results, the Report on operations also presents and illustrates reclassified income statement and balance sheet schedules. The reconciliation with the financial statements, as required by Consob in its communication 6064293 of 28 July 2006, is included in the Attachments.
The financial statements are subject to a limited review.

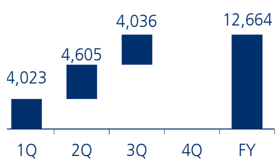
Overview of the nine months of 2016

Income statement figures and alternative performance measures

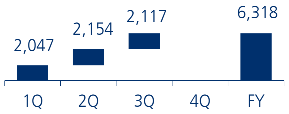
Consolidated income statement figures (millions of euro)	30.09.2016	30.09.2015	**Changes** amount	**Changes** %
Net interest income	5,545	5,791	-246	-4.2
Net fee and commission income	5,269	5,464	-195	-3.6
Profits (losses) on trading	943	977	-34	-3.5
Income from insurance business	829	866	-37	-4.3
Operating income	12,664	13,266	-602	-4.5
Operating costs	-6,318	-6,264	54	0.9
Operating margin	6,346	7,002	-656	-9.4
Net adjustments to loans	-2,534	-2,383	151	6.3
Income (Loss) after tax from discontinued operations	44	44	-	-
Net income (loss)	2,335	2,726	-391	-14.3

Quarterly development of main consolidated income statement figures (millions of euro)

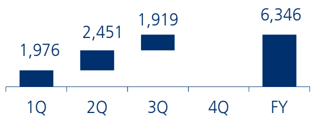
Operating income



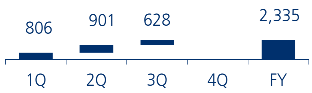
Operating costs



Operating margin



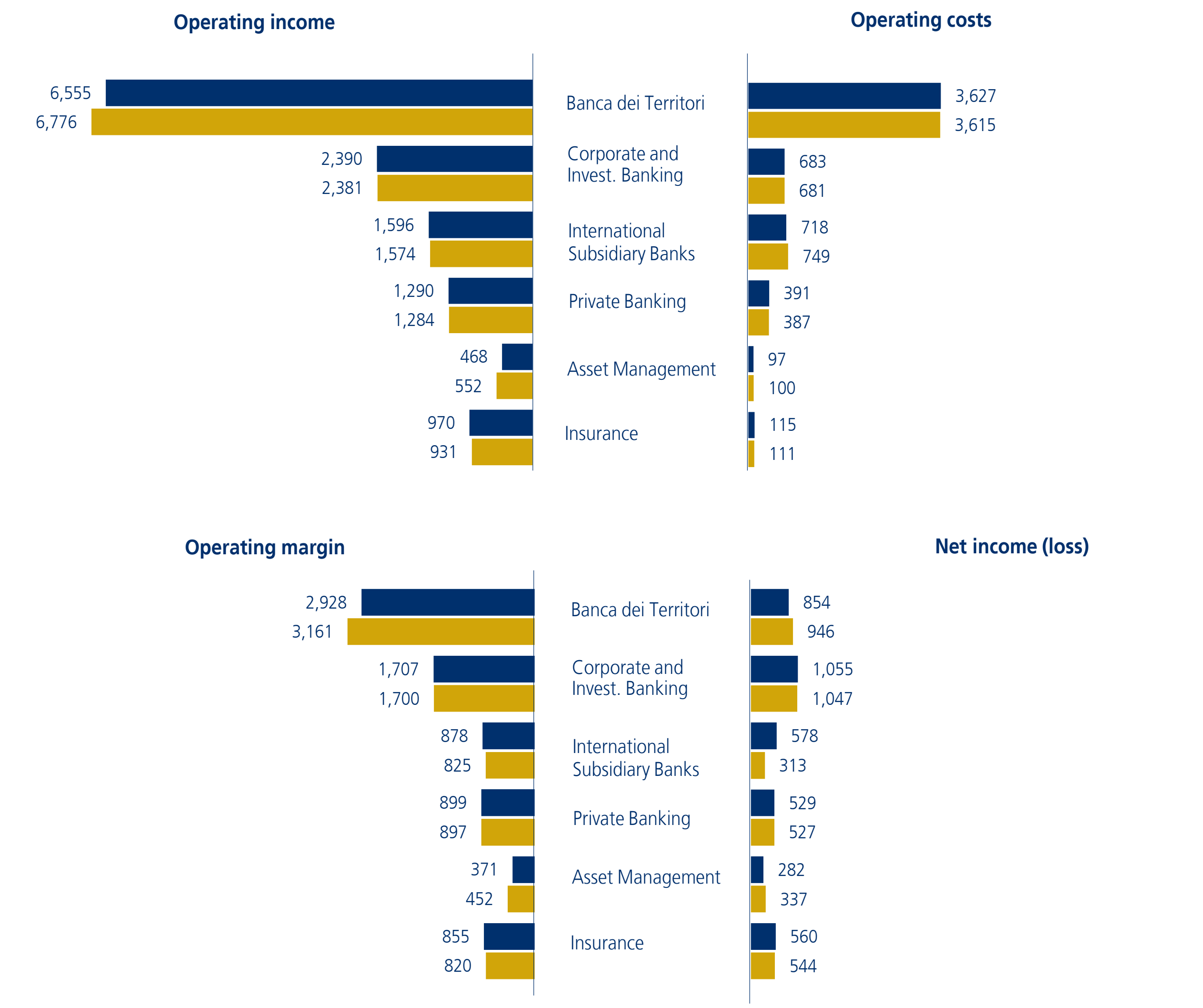
Net income



30.09.2016

30.09.2015

Main income statement figures by business area (millions of euro)



Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

Balance sheet figures and alternative performance measures

Consolidated balance sheet figures (millions of euro)	30.09.2016	31.12.2015	Changes amount	%
Financial assets	259,686	237,980	21,706	9.1
of which: Insurance Companies	*141,503*	*128,893*	*12,610*	*9.8*
Loans to customers	364,836	347,333	17,503	5.0
Total assets	714,397	676,568	37,829	5.6
Direct deposits from banking business	379,620	372,200	7,420	2.0
Direct deposits from insurance business and technical reserves	143,063	132,948	10,115	7.6
Indirect deposits:	463,920	468,425	-4,505	-1.0
of which: Assets under management	*309,408*	*302,514*	*6,894*	*2.3*
Shareholders' equity	48,222	47,776	446	0.9

Main balance sheet figures by business area (millions of euro)

	Loans to customers 30.09.2016	Loans to customers 31.12.2015	Direct deposits from banking business 30.09.2016	Direct deposits from banking business 31.12.2015
Banca dei Territori	186,454	184,522	166,744	159,854
Corporate and Invest. Banking	97,578	89,691	109,214	109,915
International Subsidiary Banks	26,947	25,818	33,986	32,456
Private Banking	9,338	8,971	23,798	20,922
Asset Management	264	372	9	9
Insurance	26	24	221	196

Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

30.09.2016
31.12.2015

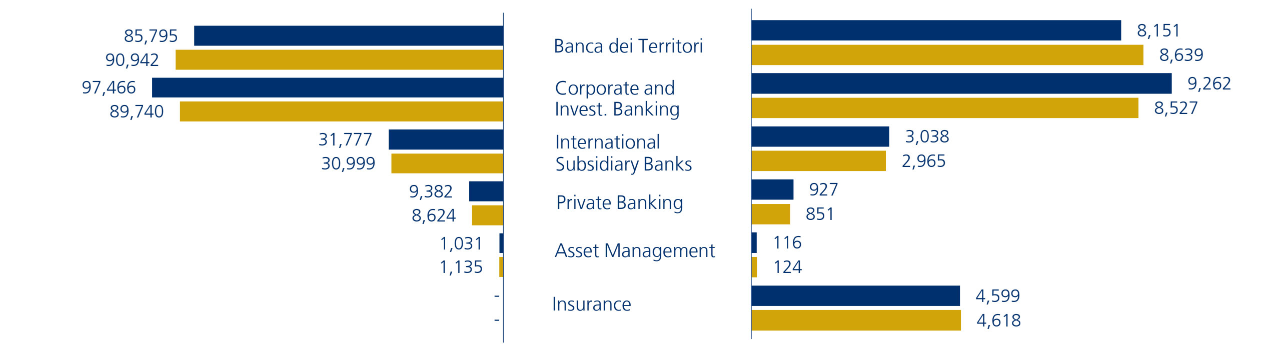
Other alternative performance measures

Consolidated capital ratios (%)

Common Equity Tier 1 capital (CET1) net of regulatory adjustments/Risk-weighted assets (Common Equity Tier 1 capital ratio)	12.8	13.0
TIER 1 Capital / Risk-weighted assets	14.1	13.8
Total own funds / Risk-weighted assets	17.2	16.6
Risk-weighted assets (millions of euro)	286,006	284,319
Absorbed capital (millions of euro)	31,852	31,706

Risk-weighted assets by sector (millions of euro)

Absorbed capital by sector (millions of euro)



Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

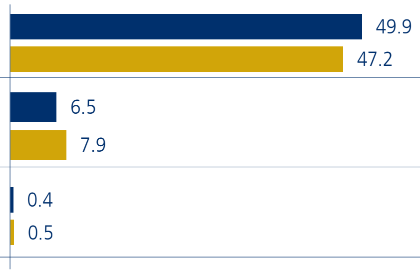
30.09.2016
31.12.2015

Consolidated profitability ratios (%)

Cost / Income

Net income / Average shareholders' equity (ROE) [(a)]

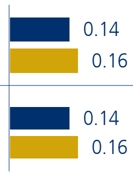
Net income / Total assets (ROA) [(b)]



Earnings per share (euro)

Basic earnings per share (basic EPS) [(c)]

Diluted earnings per share (diluted EPS) [(d)]



Consolidated risk ratios (%)

Net bad loans / Loans to customers

Cumulated adjustments on bad loans / Gross bad loans to customers

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.

(a) Ratio between net income and average of share capital, share premium reserve, reserves and valuation reserves. The figure for the period with the exception of non-recurring components, has been annualised.

(b) The figure for the period has been annualised.

(c) Net income (loss) attributable to holders of ordinary shares compared to the weighted average number of outstanding ordinary shares. The figure for comparison is not restated.

(d) The dilutive effect is calculated with reference to the programmed issues of new ordinary shares.

Operating structure	**30.09.2016**	**31.12.2015**	**Changes amount**
Number of employees	**89,545**	**90,134**	**-589**
Italy	64,297	64,114	183
Abroad	25,248	26,020	-772
Number of financial advisors	**5,059**	**5,050**	**9**
Number of branches [(a)]	**5,235**	**5,386**	**-151**
Italy	4,036	4,144	-108
Abroad	1,199	1,242	-43

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.
(a) Including Retail Branches, SME Branches and Corporate Branches.

Executive summary

The macroeconomic context

The economy and the financial and currency markets

The global economy continued along a path of moderate expansion in 2016. The prices of commodities, including oil, recovered from their collapse in January. The outcome of the referendum in the United Kingdom to decide whether to remain in the European Union caused sterling to fall sharply and prompted the adoption of monetary policy expansionary measures. The feared effects of contagion over the other European markets did not materialise.
Economic growth in the United States was lower than expected in the first half. The indicators improved during the middle of the year, signalling the real possibility of an increase in production in the final part of the year. Employment and income continue to grow.
Contrasting economic indications were seen in the Eurozone. Quarterly GDP growth slowed during the period from April to June, but the annual variation remained practically unchanged, just above 1.5%, a sufficient level to promote gradual improvement in the labour market with progressive absorption of the unemployment rate. Inflation gradually rose again to 0.4% during the third quarter.
There were no significant changes in terms of monetary policy during this quarter. The Federal Reserve kept official interest rates unchanged, while continuing to report its intention to raise them by the end of the year. The ECB continued to implement the measures decided upon at the start of the year, without announcing any changes either in official rates or in its financial asset purchase programme.
In the second quarter the Italian economy's growth ground to a standstill: the change in GDP compared to a year earlier dropped to 0.7%. In the third quarter, the indications were in contrast and overall in line with a very low pace of economic growth. Industrial production returned to growth between July and August. The climate of confidence improved in construction, but worsened in industry and the services sector. Growth in employment, which was robust in 2015 due to reforms and incentives on contributions, lost ground during 2016. Fiscal policy took on a prudent approach, marked by a further reduction in the primary surplus against a faster drop in interest expense than expected. An increase in the debt/GDP ratio is also expected in 2016.
Spreads with German debt yields fell until the middle of August, later returning to growth due also to the uncertainty surrounding the referendum on the 4 December and its political and financial implications. The BTP-Bund spread, on the ten-year maturity, closed the half year at 131 bps, down by 16 bps compared to the end of June. Italian public debt yields fluctuated in the same way as the spread, with minimums of 1.05% on 14 August followed by a rise. The euro fluctuated in a relatively narrow bracket against the dollar, with minimums at 1.095 and maximums at 1.1365.

With regard to the stock market, the first nine months of 2016 generally featured an increased volatility of share prices, together with a rise in risk aversion by investors in the major international markets and, in particular, in the Eurozone and Asia.
In June, equity markets were widely influenced by expectations about the referendum in the United Kingdom, in conditions of high and unusual volatility. The unexpected victory of the Leave camp caused a violent downward adjustment of quoted prices, and a new surge in investor risk aversion.
During the third quarter, stock indices in the Eurozone, with the exception of Italy, gradually returned to pre-Brexit levels, backed as well by a season of half year results that was overall better than prudent market expectations. The domestic market, on the other hand, was held back both by macro factors, such as uncertainty about the political scene (in view of the referendum) and economic growth, which came to a standstill in the second quarter; and by specific factors, such as concerns about the capitalisation of the banking sector and NPLs.
In the final weeks of the quarter, there was a partial reversal of the Eurozone stock indices from the highs for the period touched at the beginning of September, including on concerns caused by the situation of Germany's banking system.
The EuroStoxx index closed the quarter down by 5.6%; the CAC 40 recorded a fall of 4.1%, while the loss of the Dax 30 (-2.2%) was lower; the IBEX 35 index closed the period down by 8%. Outside the Eurozone, the Swiss market index SMI depreciated by 7.7%, while the British market's FTSE 100 index closed the nine months up (+10.5%), notwithstanding the outcome of the referendum, benefiting from the fall of the sterling.
The S&P 500 index ended the period with a rise of 6.1%. The major equity markets in Asia reported generally negative performances: the Chinese benchmark index SSE A-Share closed the nine months down by 15.1%, whereas the Nikkei 225 index decreased by 13.6% at the end of September.
The Italian equity market underperformed the other international benchmarks in the first nine months of 2016. It was affected, on the one hand, by the high incidence in the index of the banking sector and financial institutions in general, which were particularly penalised during the period by investors, and on the other by the increased uncertainties about the political scenario. The FTSE MIB index closed at the end of September in sharp decline (-23.4%), in line with the levels at the end of June (straight after Brexit) and close to the lows recorded on the 11 February (-26.4%); the FTSE Italia All Share index closed the period at -22.4%. Performance of mid-cap stocks was much more defensive, with the FTSE Italia STAR index down 4.2% at the end of the period.

With regard to the corporate bond markets, the central banks' monetary policies are confirmed as the main supporting elements of the bond sector. Specifically, the European corporate markets closed the first nine months of 2016 on a positive note, with investment-grade (IG) "non-financial" securities continuing to be supported by the European Central Bank's purchase program (CSPP). In this scenario, in the month of September, the ECB purchased corporate securities for approximately 9.8 billion euro, the highest monthly figure since the start of the programme, taking the total to approximately 29.7 billion euro. There was also a positive performance by high-yield (HY) securities, supported by the search for yields which pushes investors towards the riskier asset classes.

The "technical support" for prices provided by the presence on the market of a buyer like the ECB also continued in the months of July and August, making it possible to limit the impact of the outcome of the Brexit referendum. The month of September instead witnessed the return of a certain amount of volatility and risk aversion, due mainly to expectations regarding the next monetary policy steps of both the ECB and the Federal Reserve. In fact, the markets were affected, on the one hand, by the possibility of a rise in the near future in interest rates by the US central bank and, on the other, by the lack of new initiatives by the ECB at its September meeting. Moreover, in the final sessions of the quarter, financial securities were negatively affected by the events involving Deutsche Bank. It should be noted how, likewise in the month of September, the British central bank also included corporate securities in its purchase programmes.
From the beginning of the year, in the IG segment, industrial securities outperformed financial securities, which were excluded from the assets eligible for purchase by the ECB, with the former recording a narrowing of spreads of around 38%. On a technical level, the search for yield, in addition to favouring the riskier securities, drove investors towards longer maturities, resulting in a flattening movement of the yield curves of various issuers. The ECB's action also had a positive impact on the primary market, with volumes at good levels even during the summer period, usually typified by low activity.

The emerging economies and markets

In the third quarter the major economic indicators referring to the emerging economies indicate an improvement of the business cycle, which may have overcome its lowest point. For a representative sample of emerging countries the year-on-year growth rate of industrial production accelerated from +1.9% in the first quarter to +2.5% in the second quarter and in August was still rising at a sustained pace (+2.7% year-on-year). In Asia the performance of the economy appears better than expected in China, where the manufacturing PMI (Purchasing manager index) remained above the critical value of 50 throughout the third quarter and the fears at the start of the year of a sharp slowdown seem to have subsided. In India too growth rates are sustained.
In Latin America and Brazil the manufacturing and services PMI, while both remaining below the critical level of 50 (46 and 45.3 respectively in September) are in recovery. Finally, in Europe, the manufacturing PMI rose to 51.1 in September in Russia, favoured by the recovery in oil prices. In the CEE and SEE countries, industrial production showed some signs of slowing in July compared, however, to a particularly sustained trend in the first half of the year.
In September, the annual rate of inflation for a representative sample of 75% of the economy of emerging countries slowed again overall, falling to 3.7% (from 4.8% at the end of 2015). The absence of particular price pressures and the disappearance of tensions on exchange rates left spaces open in several cases for further rate cuts, as in Russia and Ukraine, where from the end of June to the end of September rates fell from 10.5% to 10% and 16.5% to 15% respectively. In Asia, India cut them at the beginning of October (from 6.50% al 6.25%). With regard to the CEE and SEE countries, Turkey brought its highest rate down from 9.5% to 8.25%.
The scenario appears different for the commodity exporting countries in the Middle East and Africa, which due to the effect of lower commodity prices than in the previous year are recording tensions on rates due to the deterioration of public finances and the pressures on exchange rates (Nigeria, Angola). In the Mediterranean area, in Egypt, as a result of the pressures on its currency (the spread between the official exchange rate and the exchange rate on the unofficial market has reached new highs) and inflationary pressures (partly originated by the ongoing reforms of subsidies and indirect taxation), there have been increases in rates (the maximum rate rose from 11.75% to 12.75%).
The search for higher yields on global markets has supported stock quotations on the financial markets of emerging countries. In the third quarter the MSCI emerging markets index gained almost 7%. Amongst the BRIC, the rise in quotations was particularly significant, in Brazil (+13.3%), smaller in India (6%), Russia (6.5%) and China (2.6%). In the same period the EMBI+ spread was reduced by 30bps, thanks above all to trends in Latin America (-60bps) and Africa (-40bps). The expectations for American rates and for commodities have determined the strengthening against the dollar of the currencies of several exporting countries (Russia and South Africa) and also of the euro, followed by the currencies of the major CEE and SEE countries, with the exception of the Ukrainian hryvnia (-4% against the Dollar).

The banking system

Rates and spreads

The reduction in the cost of funding continued during the third quarter of 2016. This trend was affected by the smaller weight of more costly components on the one hand, and the downwards tweaks in the rates on deposits on the other. In the case of overnight deposits, the lows reached by interest rate levels justify the slowdown in the reduction trend. Conversely, the contraction of the average rate on bond stocks became more marked than previously.
Regarding the average rate on new loans to non-financial companies, the decline continued in the summer months although at a slower pace compared to the second quarter. The rates on new mortgage loans to households also reached new historical lows. In this scenario, the reduction of interest rates on amounts of loans continued, with the overall average rate dropping below 3%, on values never seen before.
Due to a sharper decline in the average lending rate than in the cost of funding, the banking spread further decreased in the central months of the year but levelled out over the third quarter (estimated average of 2.09% in the third quarter, from 2.12% in the second and 2.23% the 2015 average).

Loans

The trend in bank lending to the private sector continued at a very modest pace of growth, less than 1%, supported by a resumption in lending to consumers who confirmed a rate of increase of about 1.5% yoy. The recovery in loans to households is still driven by the significant trend in the disbursement of residential mortgages. Specifically, the growth in the disbursement of fixed-rate mortgages continued, justified by the very low levels of interest rates applied and an increasingly smaller spread between the fixed and floating rates. Consumer credit also grew, driven by purchases of durable goods.
Conversely, in the third quarter, as in the first half of the year, total loans to non-financial companies remained stagnant. The growth of medium-term loans continued to be offset by the negative trend of the short-term ones.
The performance of loans to businesses should be seen in the light of a scenario of supply and demand that appeared to be paused while settling in the third quarter, finding selective points from the demand from certain segments, in a competitive scenario that has continued to push towards the reduction of margins. According to the credit survey conducted by the Bank of Italy on banks, demand from businesses was confirmed to be slightly increasing for medium/long term loans, but is seen in decline for short term ones. Expectations for the fourth quarter of 2016 are also more cautious compared to previous periods. Conversely, opinions and expectations have strengthened on the demand for loans from households, indicated as being on a sharper rise compared to previous quarters. Demand remains particularly lively for loans for the purchase of houses and appears to have strengthened for consumer credit. Companies' opinions on credit access conditions also confirmed their improvement.
The growth of the stock of bad loans continued to slow, as a result of disposals and securitisations, and in the second quarter the slowdown of the flow of new non-performing loans as a ratio of the ongoing loans was confirmed.

Direct deposits

As regards funding, previous trends were confirmed, specifically for deposits, which grew, driven by the significant growth in overnight deposits. At the same time, the double digit decline in time deposits continued. The performance of customer deposits was driven by the lively trend in deposits by non-financial companies, though with high variability, and the solidity of household deposits, characterised by a year-on-year change more robust from March onwards compared to what was reported in the previous twelve months. The growth in deposits continued to be offset by the reduction in the stock of bank bonds, the trend of which was affected by customer portfolio reallocation processes. On the whole, customer deposits declined slightly.

Indirect deposits and asset management

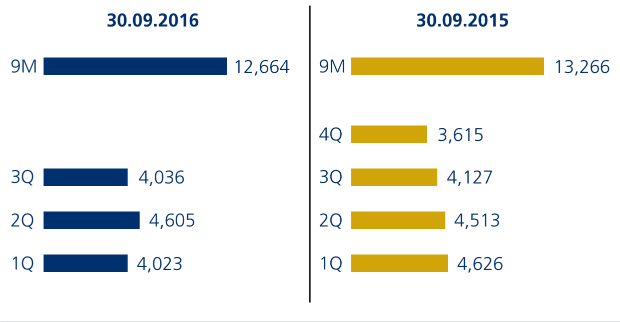
With regard to assets under administration, the sharp decline in debt securities held in custody by banks on behalf of households continued. This performance was also impacted by the constant decline of bank bonds and the limited attractiveness of government bonds in a scenario of negative interest rates.
With regard to the assets under management market, 2016 recorded positive, but more moderate inflows compared to 2015. In the first nine months of the year, both the flows intermediated through management mandates and those managed by mutual funds, were led by banking operators. Portfolio management funding was dominated by institutional portfolios, whilst, among the mutual funds, flexible funds and bond funds drove the sector. Finally, as regards domiciliation of funds, "roundtrip" products recorded the highest net inflows (foreign funds promoted by Italian operators).
Looking at the insurance sector, compared to 2015 there was a turnaround as regards the types of products placed: subscriptions of products with higher financial content (class III) experienced a sharp slowdown, while those of the more traditional products (classes I and V) remained almost stable.

Intesa Sanpaolo in the nine months of 2016

Consolidated results

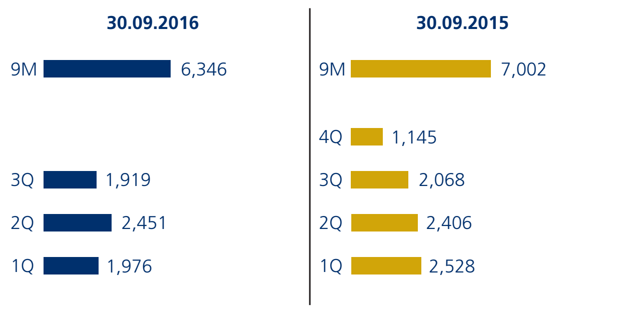
Despite the difficult economic environment characterised by a very modest growth and slowed down by factors of a political nature in the Eurozone, as well as by an accentuated volatility of equity markets, which showed a particularly negative trend in Italy, the Intesa Sanpaolo Group ended the first nine months of 2016 with a net profit of 2,335 million euro, thanks to steady revenues, attentive monitoring of operating costs and overall stability of adjustments and provisions.
The more modest income compared to that of the same period of the previous year, which amounted to 2,726 million euro, is attributable to lower operating income, primarily due to the lower contribution of interest income and fee and commission income, as well as the increase in other operating expenses, in the presence of structural oversight of operating costs.

Operating income
(millions of euro)



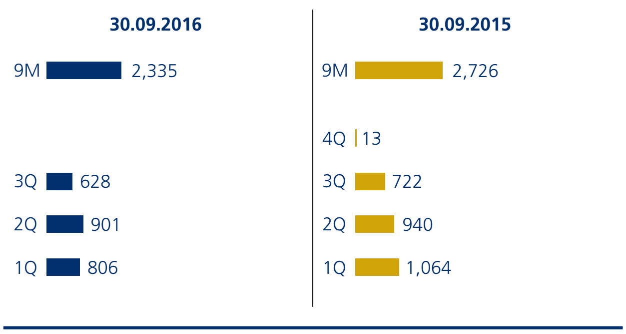
A detailed breakdown of the components of operating income shows that the income statement for the first nine months recorded net interest income of 5,545 million euro, down 4.2% compared to the same period in 2015, as a result of the reduced contribution of relations with customers and lower interest from financial assets.
The contribution of the companies carried at equity was 188 million euro, a significant increase compared to the 95 million euro of the first nine months of 2015. The services segment generated net fee and commission income of 5,269 million euro, down 3.6% on the same period of 2015, mainly due to the performance of the management and dealing activity, which was affected by the favourable market conditions.
In the nine months of the year, trading activities yielded a profit of 943 million euro, 3.5% lower than the same period of 2015, which – as indicated previously – also benefited from more favourable market conditions.
Income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, posted a significant contribution, amounting to 829 million euro, compared to the 866 million euro recorded in the same period of 2015.
Other net operating expenses amounted to a total 110 million euro in the nine months, compared to net income of 73 million euro in the same period of 2015. The caption includes the contributions paid into the resolution fund as part of the new mechanism for managing banking crises (148 million euro), as well as the estimated expense for the deposit guarantee schemes (115 million), both coveringfull-year 2016 and only partially offset by the income of 170 million euro On Visa Europe shares.

Operating margin
(millions of euro)



Operating costs came to 6,318 million euro for a marginal increase compared to the same period of the previous year (+0.9%). In greater detail, personnel expenses increased slightly (+2.9% to 3,919 million euro), due mainly to higher incentives to support growth, while administrative expenses declined (-3.7% to 1,858 million euro) mainly thanks to savings achieved in property management, general expenses, legal and professional fees and advertising and promotional expenses.
Conversely, amortisation and depreciation increased (+2.5%), due to amortisation of intangible assets. The cost-to-income ratio came to 49.9% up from the 47.2% of the first nine months of 2015, mainly as a result of the downward trend in revenues.
In relation to the above dynamics, operating margin amounted to 6,346 million euro, down 9.4% on the corresponding period of 2015.

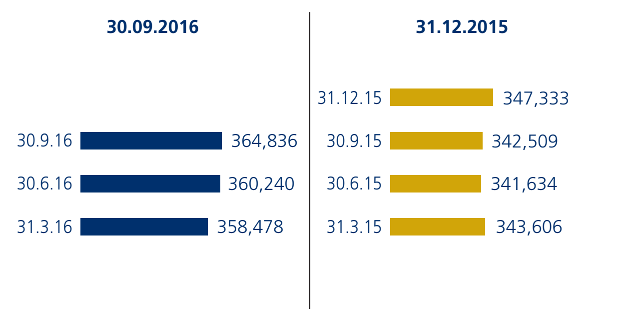
Net income (loss)
(millions of euro)



Adjustments and provisions for risks, as a whole, are in line with the first nine months of 2015. More specifically, the higher adjustments to loans and receivables (+151 million euro) - attributable to bad loans - and to other assets (+24 million euro), were offset by the reduced requirement for provisions for risks and charges (-180 million euro), which in the previous year included charges related to loans in Swiss francs granted by the Croatian subsidiary (172 million euro).
Income before tax from continuing operations thus amounted to 3,542 million euro, compared to the 4,302 million euro recorded in the same period of the previous year (-18% approximately).
After recognition of income tax for the period of 1,001 million euro (1,475 million euro in the first nine months of 2015), charges for integration and exit incentive of 67 million euro and the effects of purchase price allocation of 82 million euro, income on discontinued operations of 44 million euro as well as minority interests of 101 million euro, the Group's income statement for the period closed, as already noted, with a net income of 2,335 million euro, compared to 2,726 million euro for the first nine months of 2015.

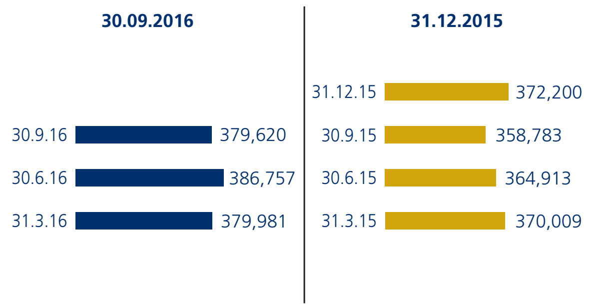
The income statement for the third quarter in comparison to the previous quarter shows a fall in operating income (-12.4% to 4,036 million euro). Specifically, the third quarter's interest margin was higher than the second (+1.5%), due, as well as to the lower interest expense on securities issued, also to the positive contribution of interest at negative rates resulting from the TLTRO II refinancing operation with the ECB. Moreover net fee and commission income was down (-5.6%), including because of the lower contribution of intermediation and placement activities. Trading profits recorded a fall against the second quarter (approximately -47%), which also included the dividend on the stake in the Bank of Italy (121 million euro), while income from insurance business on the other hand posted a growth (+8%). The other net operating expenses include the estimated expense for the deposit guarantee Scheme (103 million euro) covering full-year 2016.
Operating costs for the third quarter were lower than those for the second (-1.7% down to 2,117 million euro), mainly due to lower personnel expenses but also thanks to reduced administrative expenses.
In relation to revenue and cost trends, the operating margin for the third quarter was lower than the margin in the second (-22% approximately to 1,919 million euro).
Overall lower adjustments and provisions compared to the previous quarter (-6% approximately), led to profit before tax of 941 million euro (-31% approximately).
After recognition of income tax, charges for integration and exit incentive, the effects of purchase price allocation, income on discontinued operations as well as minority interests, the income statement for the third quarter closed with net income of 628 million euro compared to 901 million euro for the previous quarter.

Loans to customers
(millions of euro)



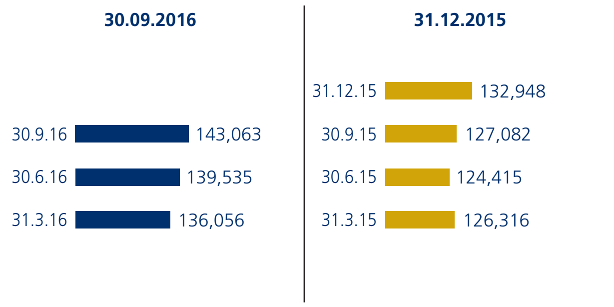
As to balance sheet aggregates, loans to customers amounted to 364 billion euro (+5% compared to the end of 2015). The positive trend in commercial banking loans, up 3.5% overall, due to the positive performance of advances, loans and mortgages, and loans represented by securities (+8.5%) was in addition to the higher amount of short-term financial loans represented by outstanding repurchase agreements (approximately +40%).

Direct deposits from banking business
(millions of euro)



On the funding side, direct deposits from banking business came to approximately 380 billion euro (+2% compared to the end of 2015). The downturn in funding through bonds (approximately -10%) and the fall in certificates of deposit (approximately -24%), was offset by the positive performance of current accounts and deposits (+5%), subordinated liabilities (+5.6%) and other types of funding (+7.6%), in addition to a significant increase (+22%) in repurchase agreements.

Direct deposits from insurance business and technical reserves
(millions of euro)



Direct deposits from insurance business, which include technical reserves, also increased (+7.6% to over 143 billion euro). The overall increase was attributable both to the technical reserves (+3.3%), which represent the amount owed to customers who have bought traditional insurance policies, and to the higher value of financial liabilities of the insurance segment designated at fair value (approximately +16%), particularly of unit-linked products. The new business of Intesa Sanpaolo Vita, Intesa Sanpaolo Life and Fideuram Vita, including pension products, amounted to almost 18 billion euro for the year.

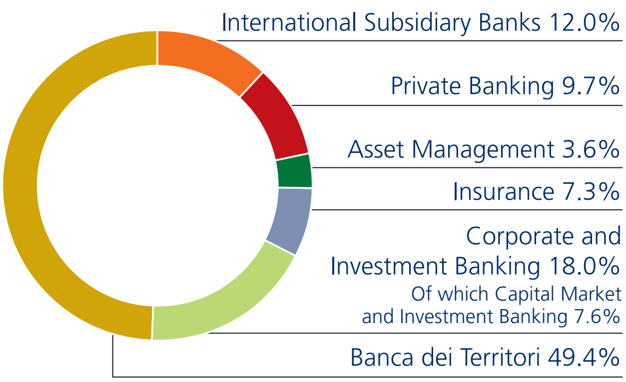
Indirect customer deposits, as at 30 September 2016, amounted to approximately 464 billion euro (-1% compared to the end of 2015), affected by the decline in prices that reduced the value of securities under management and administration.
Specifically, assets under management increased (+6.9 billion euro up to over 309 billion euro), thanks to the net inflows which more than offset the negative performance of the markets. There were increases in particular in life policies, which rose by 7.3 billion euro.
Assets under administration conversely decreased sharply (-11.4 billion euro, down to approximately 155 billion euro), attributable to the heightened market volatility, which had an impact on securities prices and to a decline in operations by both institutional operators and retail customers.

In comparison with 30 June 2016, the balance sheet figures show loans to customers increasing (+1.3%) attributable primarily to repurchase agreements (+4.9 billion euro), as well as to the positive trend in commercial banking loans (+1.1 billion euro), driven by the trend in mortgages.
On the funding side, direct deposits from banking business posted a decrease (-7.1 billion euro) due to the decline in repurchase agreements (-6.1 billion euro), as the drop in outstanding bonds (-6.8 billion euro) was substantially offset by funding through overnight deposits (+6.2 billion euro). Direct deposits from insurance business grew (+3.5 billion euro), in relation to the increasing trend in financial liabilities at fair value (+3 billion euro).

Results of the Business Units

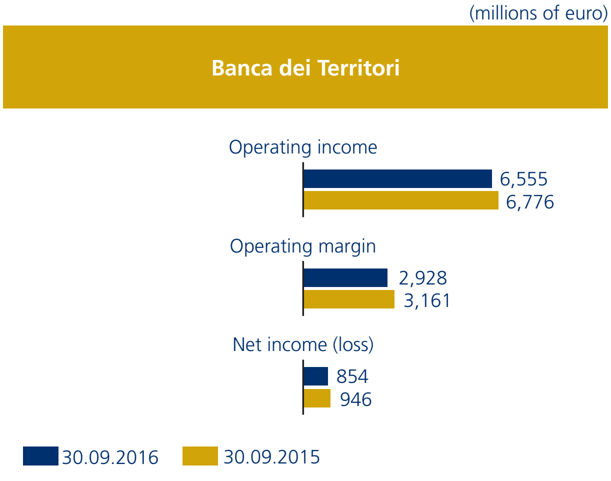
The Intesa Sanpaolo Group organisational structure is based on six business segments: Banca dei Territori, Corporate and Investment Banking, International Subsidiary Banks, Asset Management, Private Banking and Insurance. In addition, there is the Corporate Centre which is responsible for guidance, coordination and control of the entire Group, as well as for the Capital Light Bank (CLB) business unit, the Treasury and ALM operations.
The share of operating income attributable to each business area confirms that commercial banking activities in Italy continue to account for the majority (approximately 49% of the operating income of the business areas), although significant contributions were also provided by corporate and investment banking (approximately 18%), commercial banking activity abroad (approximately 12%), private banking activity (10%), insurance activity (approximately 7%) and asset management (approximately 4%).

Operating income:
Breakdown by business area [(1)]



[(1)] Excluding Corporate Centre

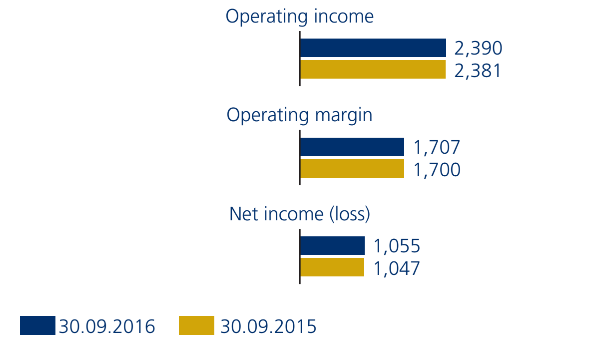
(millions of euro)



In the first nine months of 2016, Banca dei Territori – which oversees the traditional lending and deposit collecting activities in Italy and related financial services – reported operating income of 6,555 million euro, down 3.3% compared to the same period of the previous year. In detail, there was a decrease in net interest income (-5.2%), affected by the scenario of market rates and net fee and commission income (-4.7%), particularly those on asset management and administration products. Profits on trading were essentially stable, while other operating income recorded a significant increase (from 15 to 127 million euro) thanks to revenue resulting from the sale of Visa Europe.
Operating costs were essentially in line with those for the same period of last year (+0.3% at 3,627 million euro).
As a result of the trends described above, operating margin fell (-7.4% to 2,928 million euro) compared to the first nine months of 2015, like income before tax from continuing operations (-13.2% to 1,389 million euro). After allocation to the Division of taxes amounting to 558 million euro (approximately -18%), integration costs (15 million euro), economic effects of purchase price allocation (4 million euro) and income on discontinued operations (42 million euro referring to the forthcoming disposal of Setefi), net income stands at 854 million euro, down by 9.7%.
The balance sheet figures at the end of September 2016 showed loans to customers up (+1% to 186,454 million euro), compared to the end of 2015, thanks to the increase in medium-long term loans to individuals (households and personal loans). Direct deposits from banking business showed a greater increase (+4.3% to 166,744 million euro), attributable to higher liquidity on retail and business customer deposits.

(millions of euro)

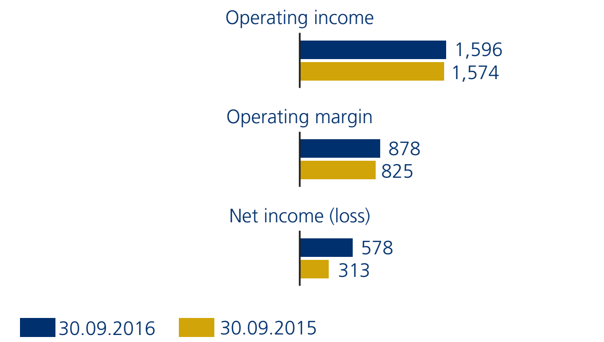
Corporate and Investment Banking



The Corporate and Investment Banking Division – which deals with corporate banking, investment banking and public finance in Italy and abroad – reported substantially stable operating income (+0.4% to 2,390 million euro) compared to the corresponding period of 2015. In detail, net interest income declined (-5.4%), primarily as a result of smaller margins and of a lower contribution from the Luxembourg subsidiary and capital markets activity. Net fee and commission income on the other hand increased (+14.1%) linked to income growth especially in the commercial banking and capital markets sectors. Profits on trading posted a decrease (-1.3%), mainly related to proprietary trading activity. Operating costs were substantially stable (+0.3%).
As a result of the trend in revenues and costs described above, the operating margin was in line with that of the first nine months of 2015 (+0.4% to 1,707 million euro), whilst income before tax from continuing operations increased (+1.4% to 1,529 million euro), like net income (+0.8% to 1,055 million euro).
The Division's intermediated volumes increased compared to the end of 2015 (+3.6%). Loans to customers grew significantly (+8.8% to 97,578 million euro) in relation to increased operations in repurchase agreements and collateral by Banca IMI, while direct deposits from banking business were substantially stable (-0.6% to 109,214 million euro), as the drop in amounts due to customers was largely offset by the positive trend in securities issued.

(millions of euro)

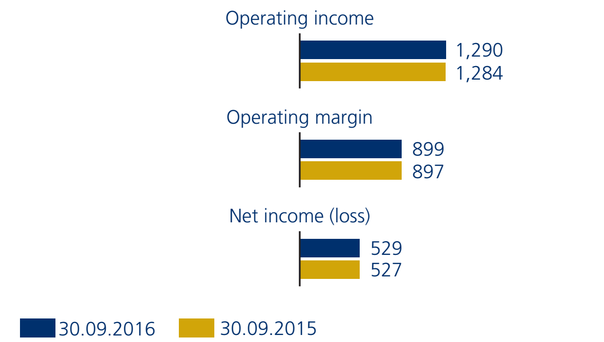
International Subsidiary Banks



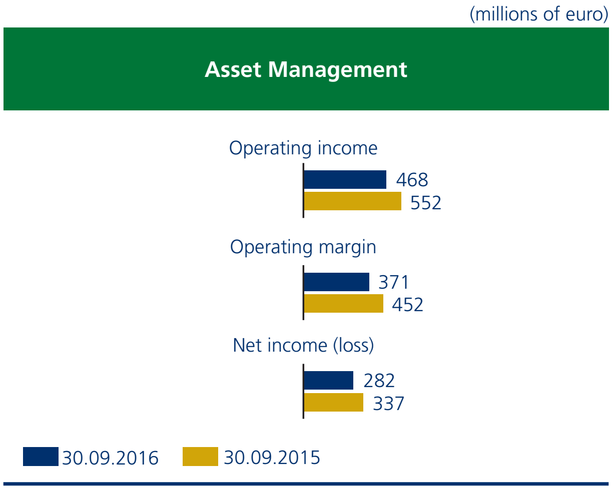
In the first nine months of 2016 operating income of the Division – which oversees the Group's commercial operations on international markets through subsidiary and affiliated banks primarily involved in retail banking operations – stood at 1,596 million euro, up (1.4%) compared to the same period in the previous year, as a result of declining net fee and commission income (-2.1% and -5.8% respectively) and growing profits on trading (+12.3%).
The revenue trends described and the decline in operating costs (-4.1%) led to a 6.4% increase in operating margin. The income before tax from continuing operations showed a higher increase (+76% approximately), also favoured by the reduced requirement for adjustments.
The Division closed the first nine months of 2016 with net result of 578 million euro (+84.7%).
The Division's intermediated volumes grew compared to the end of December 2015 (+4.6%) owing to the positive performance by both loans to customers (+4.4%) and direct deposits from banking business (+4.7%), in the securities issued component.

(millions of euro)

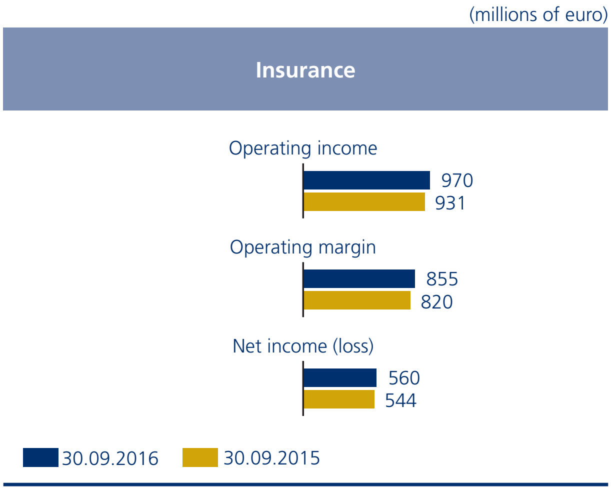
Private Banking



The Private Banking Division serves the top customer segment (Private and High Net Worth Individuals) by offering excellent products and services. The Division coordinates the operations of Fideuram, Fideuram Investimenti, Intesa Sanpaolo Private Banking, Sirefid, Fideuram Fiduciaria, Intesa Sanpaolo Private Bank (Suisse) and Fideuram Asset Management Ireland.
In the nine months of 2016, in a scenario of continuing high market volatility, the Division generated income before tax from continuing operations that was down slightly (-1.1% to 864 million euro) on the same period of 2015, mainly as a result of the increase in operating costs (+4 million euro) and provisions (+17 million euro) largely offset by operating income performance (+6 million euro). This was mainly due to growth in net fee and commission income and profits on trading which largely offset the reduction in the interest margin.
The Division's income statement closed with net income for the period of 529 million euro (+2 million euro, equal to +0.4%).
As at 30 September 2016 assets under administration amounted to 162 billion euro. This downward trend (-0.7 billion euro compared to the end of 2015) is attributable to the negative market performance, which was only partially offset by the positive trend in net inflows.



The Asset Management Division is tasked with developing asset management solutions aimed at the Group's customers, non-Group distribution networks and institutional customers, through the subsidiary Eurizon Capital.
Operating income for the first nine months of 2016 was down (-15.2% to 468 million euro) compared to the same period in 2015, mainly due to the negative performance of net fee and commission income (-15.6%), attributable to the elimination of incentive commissions collected on the products managed.
Operating costs were also lower, thanks to the streamlining of personnel expenses. As a result of the revenue and cost trends, the operating margin fell (-17.9% to 371 million euro).
The Division closed the first nine months of 2016 with net result of 282 million euro (-16.3%).
The total assets managed by the Asset Management Division at the end of September 2016 came to 236 billion euro, growing (+4.2%) since the end of 2015, as a result of net inflows (+6.2 billion euro) and a favourable performance, despite financial market volatility.



The Insurance Division oversees management of the subsidiaries of the insurance group Intesa Sanpaolo Vita, and Fideuram Vita, with the mission of further developing the insurance product mix targeting Group customers.
In the first nine months of 2016 the Division reported an increase in income from insurance business (+4.2% to 973 million euro) compared to the same period of 2015, thanks to an improvement in the technical margin, as well as in the operating margin (+4.3% to 855 million euro), which benefited from higher operating income, compared with a moderate increase in costs. Income before tax from continuing operations also improved (+4.6% to 844 million euro), and also net income, which stood at 560 million euro, an increase of 2.9% compared to the same period in 2015, which moreover had benefited from the capital gain generated by the sale of the equity investment in Union Life.
Direct deposits from insurance business, amounting to 143,064 million euro, increased by 7.6% compared to the end of December 2015, mainly as a result of the development of technical reserves and financial liabilities of the insurance segment designated at fair value.

Highlights

Highlights in the quarter

The significant events that occurred in the third quarter of 2016 are reported below. Please refer to the Report for the half year ended as at 30 June 2016 for a description of the events that affected the first half of the year.

On the 9 May 2016 Intesa Sanpaolo and the other A4 Holding shareholders reached an agreement with the Spanish Abertis Group for the sale of 51.4% of the equity investment at a price of 594 million euro. The agreement concerned, in particular, the transfer of Oldequiter S.p.A. and Reconsult Infrastrutture S.p.A. which respectively hold 6.5% and 44.9% of the share capital of the A4 Holding Group. Oldequiter was 100% controlled by Intesa Sanpaolo while Reconsult Infrastrutture was a jointly controlled interest held by ISP through its subsidiary Infra.
The sale was subject to some conditions precedent which occurred during the month of August 2016. Consequently, on 7 September 2016 the transaction was completed and Intesa Sanpaolo's equity investments in Reconsult and Oldequiter were transferred to the Abertis Infrastructuras Group. In consideration of the above mentioned transfer agreement, the equity investments in Reconsult Infrastrutture and Oldequiter had been reclassified under non-current assets held for sale and discontinued operations, in accordance with IFRS 5, as from the half-yearly report in June 2016.

On 1 July 2016 Eurizon Capital SGR acquired a 65% equity investment in SLJ Macro Partners (SLJMP), a British company primarily engaged in macroeconomic research, currencies and the advisory business on investments and portfolio management. The following 4 July, SLJMP transferred all the assets to SLJ Capital, a newly formed company, subsequently renamed Eurizon SLJ Capital; as a result of the abovementioned transaction and the simultaneous capital increase in favour of the shareholders of the transferring company, Eurizon Capital SGR owns 65% of the capital of Eurizon SLJ Capital. The purchase of the 65% equity investment in SLJMP was made with a payment of approximately GBP 19 million (approximately 23 million euro), on the basis of a valuation of 100% of the company amounting to approximately GBP 29 million (35 million euro).

Following the analyses carried out, no specific intangible assets were identified, other than goodwill, not previously recognised by the target firm. Consequently, the full difference between the cost of the acquisition and the pro-rata shareholders' equity of the company at the date of acquisition (substantially zero considering the adjustments made at the time of contribution from SLJMP to SLJ Capital, subsequently renamed Eurizon SLJ Capital) was allocated to goodwill. Goodwill amounted to approximately 23 million euro and was allocated to the CGU Asset Management.

As already indicated in the Half-yearly Report as at 30 June 2016, in order to overcome the negative stance taken by the European Commission with regard to the use of compulsory contributions in support measures in favour of banks in crisis, the creation of a Voluntary Scheme was launched at the end of 2015 as an additional tool not subject to the constraints of EU legislation and the European Commission.
After the restructuring of the intervention in Tercas, the reinstatement of a provision of the Voluntary Scheme was envisaged for a maximum amount of 700 million euro to use to provide support in favour of small banks in difficulty and subject to extraordinary administration proceedings, if there are real prospects of a turnaround and in order to avoid higher charges for the banking system as a result of winding up or resolution orders.
The resources are not subject to immediate payment by the member banks, which simply assume the commitment to pay them when called upon to do so for specific interventions, up to the established maximum amount.
All the banks in the ISP Group joined the voluntary scheme and consequently had recognised a commitment, in the Half-yearly Report, for their own relevant share of the approved 700 million euro (approximately 150 million euro).
Drawing on this sum, on 15 June 2016 the Management Board of the National Interbank Deposit Guarantee Fund approved the implementation of the recapitalisation of CR Cesena. With a decision of 15 September 2016, the ECB authorised the purchase of the equity investment by the Voluntary Scheme and on the 20 September 2016 all the member banks paid their pro-rata amount of the total sum called up of 281 million euro, including 280 million euro for the capital increase (60 million euro of which was the ISP Group's share) and 1 million for expenses relating to the intervention and to operating the Voluntary Scheme. Consequently, the total commitment in the Voluntary Scheme was brought to the pro-rata amount of the remaining 420 million euro, approximately 90 million euro for ISP Group.

Consistently with the provisions of the DGS Directive on protecting deposits, the Articles of Association of the National Interbank Deposit Guarantee Fund (FITD), provide that the Fund shall establish available financial resources so the target level of 0.8% of the total deposits protected is reached by 3 July 2024, through ordinary contributions of the member banks. The target level of the FITD is estimated at approximately 5 billion euro.
In particular, pursuant to the terms of article 10 of the Appendix to the Articles of Association, the banks belonging to the fund as at 30 September of each year are obliged to pay the annual ordinary contribution. Contribution quotas are calculated by referring to the contributory base recognised as at 30 September of the current year and are adjusted to the risk on the basis of operating indicators referred to the last half-yearly report available.
With reference to the 2016 ordinary contribution for the Italian banks, as the "binding fact" that gives rise to the liability is identified in the fact of having protected deposits as at 30 September, for the purposes of the Interim Report as at 30 September 2016 it was necessary to proceed with the estimation of the contribution.
This estimate was made by taking into account, on the one hand, the target level communicated - albeit informally - by the FITD of 460 million euro at system level for Italy and, on the other hand, the protected deposits in the Group's banks as at 30 June 2016 and estimating their incidence at system level.
The estimate involved recognising a charge of 99 million euro for the Italian banks (approximately 66 million net of tax) to which approximately 16 million euro (13 million net of tax) must be added that is recognised on the international subsidiary banks for a total of 115 million euro gross (79 million net) recognised at Group level.

In August, the international agency DBRS placed the long term A (low) rating assigned to Intesa Sanpaolo under review with negative implications and confirmed the short term R-1 (low) rating with a stable trend. The action followed the similar one concerning the Italian Republic's long term rating, announced by DBRS in early August. The long term rating assigned to the Bank is in line with the sovereign rating assigned to Italy.

The 2014-2017 Business Plan

With the Business Plan approved in March 2014, the Intesa Sanpaolo Group has introduced the 2014-2017 objective to pursue a new growth phase based on an innovative strategy which, focusing on the individuals and adopting a clear and effective business model, aims at increasing profitability in a sustainable manner, optimising capital and liquidity.
The new strategy hinges on a number of priorities that are now part of the inheritance of Intesa Sanpaolo, which aims to become:
- A real-economy bank, which supports households and businesses and, leveraging a strong balance sheet and leadership, matches healthy credit demand and manages the financial wealth of customers with care;
- a Bank with sustainable profitability, in which operational performance, productivity, risk profile, liquidity and solidity/leverage are carefully balanced;
- a leader in retail and corporate banking in Italy and a few other key countries;
- a European leader Bank in a number of high growth/high value businesses (Private banking, Asset management, Insurance);
- a Bank structured according to a divisional model and engaged in strengthening and further simplifying the current business model of the Banca dei Territori Division, taking into account the evolution in customers' demands;
- an international Bank that acts as "Local bank abroad" for Italian companies;
- a simple yet innovative Bank, acting with a truly multi-channel model.

The Plan envisages measures in the following areas:
- "New Growth Bank", to develop revenues with innovative growth engines capable of identifying new market opportunities;
- "Core Growth Bank", to capture untapped revenue potential of existing business, in terms of revenue development, reduction in operating costs, and credit and risk governance;
- "Capital-Light Bank", to optimise the use of capital and liquidity, de-leveraging the bank's "non-core" assets;

– People and Investments as key enablers to maximise the contribution of each of the three “Banks” to the Group’s result.

A number of initiatives were implemented from both the organisational standpoint as well as with regard to product innovation, improvement of customer service and development of Intesa Sanpaolo's human capital.

a) New Growth Bank

The Banca 5® project caters to approximately five million low profitability customers and relies on an ad hoc offer and on a dedicated commercial value chain of approximately 3,600 people. As a result of the commitment to them, these customers have continuously increasing profitability. In addition to the development of targeted products and the launch of commercial initiatives calibrated for their specific needs, particular attention is given to training managers, which is fundamental to continuously improve the service offered. The constant attention to product and process innovation allows competition to be moved to the level of content and services.

The Multichannel Bank Project aims on the one hand to provide customers with a simple, convenient and cheap service and on the other to release managers from the more repetitive tasks so they can devote more time to customer dialogue. The aim is not to create an alternative channel to the branch, but to achieve full integration between the branch office and all the bank's other channels, offering customers a "seamless" multichannel relationship. Over the course of the year the project has undergone developments both in dematerialisation and in online operations. With regard to the first aspect, the dematerialisation of the main forms used in branch has been completed (about 85% of transactions). With regard to online transactions, on the other hand, the Group's new single showcase site and the new home banking site were launched. The dedicated Apps for Banca Prossima, Intesa Sanpaolo Private Banking and Business (Legal Persons) were also created. All the remote channels have been completely redesigned by listening to our customers and are based on principles of simplicity, speed and customisation. The new platforms are based on the most advanced technologies and have been created to ensure the continuous enrichment of our customers' digital experience over time.

With regard to the “new jobs” envisaged in the 2014-17 Business Plan, development continued of Intesa Sanpaolo Casa, a company that operates in residential real estate brokerage between individuals (including non-customers) and between individuals and construction company customers. The new company offers customers an advanced service, with the support of all the soundness and professionalism of Intesa Sanpaolo. Customers registered in the reserved section of the Intesa Sanpaolo Casa website can use the new interior design and renovation services and request quotes from professionals participating in the platforms of the Bank’s partners Cocontest and Habitissimo. During the third quarter, the scope of the innovative accessory services related to the housing need was expanded with the introduction of "2 steps from home", an interactive guide to steer potential customers in all phases of a sale, and with the start of the partnership with CasaClima, for energy check-up services and redevelopment studies. In September 2016, 25 branches were operational, located in Milano, Roma, Torino, Monza, Brescia, Bologna, Firenze, Napoli and Padova. During the third quarter, the pilot project "Online Branch" was also launched to cover the territories not manned by physical agencies. Since the beginning of 2016, approximately 1,000 sales mandates were collected, with 200 agreements completed/in course of completion. Intesa Sanpaolo Casa also provides an opportunity for professional growth for Group employees. The new real estate agencies include agents hired from outside as well as employees of Intesa Sanpaolo, who decided to accept a new challenge by using their experience and professionalism to develop the new business. At the end of September the total headcount numbered approximately 170 staff. Intesa Sanpaolo Casa is an important opportunity for the entire Group, owing to the possibility of developing synergies with the banking business, in line with the principle of separating the real estate business from banking.

Mercato Metropolitano, an investee company of the Intesa Sanpaolo Group, contributes to the development of the homonymous e-commerce site, a showcase for companies of excellence that make the landscape and food and wine traditions of our country the distinctive elements of their businesses.

In September the new start-up "Destination Italia" was formally established, an investee of Intesa Sanpaolo and an ambitious project for Italian tourism, which aims to enhance and promote Italian tourism abroad, both directly to consumers and through foreign operators. As regards the service aimed at consumers, construction work on the B2C platform has already begun.

The SME Finance Hub is aimed at business customers of the Banca dei Territori. The purpose of the project is to supplement the Division's operations with specialised skills in advisory services and loans to SMEs. In the third quarter, the operations in the pipeline continued for the reorganisation of Mediocredito Italiano and for the transfer to the Parent Company and to Intesa Sanpaolo Group Services of the Governance activities of Mediocredito, a transaction which will allow the company to focus on business development. Within the framework of the offer dedicated to "supply chains", the pilot scheme continued on the "Confirming" product, a platform to which the lead company can upload invoices, thus allowing its suppliers to finance the relative accounts receivable.

The project “Insieme per la Crescita” (Together for Growth), consisting of management change measures and new methods of securing employee involvement, including by sharing "best practices", continued over the entire Banca dei Territori Network. The idea of the project is to target commercial behaviour with the aim of improving the network’s performance and increasing customer satisfaction through a stronger focus on relationships. The third quarter was particularly full of initiatives to support the programme and its dissemination. These included the extension of the "Annual check-up" pilot scheme for the Personal Area, the realisation of numerous focus groups and meetings with the network staff on the project's issues, the initiatives to support the management of the "new layout" change for branches and the continuation of the "Awards" initiative for colleagues who distinguish themselves in applying the method. Innovative tools for internal communication and monitoring of the initiative are also provided.

The implementation of the new strategy and commercial initiatives in the field of Global Transaction Banking continued. A single Product Factory pursues the development of better strategic coordination at Group level. Development continues of the organisational model, the product catalogue, specialist support to the networks and the extension of our coverage of geographical priority areas (including through partnerships with international players) with the aim of raising the Group's ambition level to that of a player ready to compete on a global level. A number of initiatives related to the project aimed at extending Banca IMI's product range. The most important include the move to the operational phase of the partnership with the Private Banking Division, as part of the High Net Worth Individual (HNWI) project, which offers that customer segment a complete range of products and services usually reserved for professional investors. This collaboration was strengthened through the secondment of Banca IMI employees within the Private Banking Division, which will make it possible to improve information exchange and to define a more targeted commercial offer. Activity on the multi-originator platform continued for the disposal of NPLs and Settlement by third party banks. The physical Gas Commodity Trading activities continued. On the international front, further

progress was made on the development of the International Network, with a view to strengthening the Group's competitive edge in terms of offering and geographical coverage. In particular, business development projects continued in Turkey and Brazil and the administrative requirements were completed for the start of operations in the Abu Dhabi (United Arab Emirates) and Doha (Qatar) branches. In Indonesia, the Representative Office in Jakarta was opened. The reinforcement of the ISP Bank Luxembourg unit (former SEB) continued, aimed at expanding the effectiveness of commercial coverage on customers in the Benelux market.
The size of the new Fideuram-Intesa Sanpaolo Private Banking Group on the market makes it a leader in Italy and places it at a top position in private banking at European level, allowing it to develop domestic and international markets in the future. In particular, the strengthening continues of the service model dedicated to high net worth individuals, that is customers with financial assets in excess of 10 million euro, with specific requirements both in terms of management, structuring and protection of total assets, as well as advisory services linked to the requirements of the family as a whole, including from an intergenerational viewpoint. Specialised branches are already operating in Roma, Milano, Torino, Bologna and Padova. To allow our professionals to assist customers with an ever more efficient and timely service, new IT tools have been gradually released and new capabilities for advanced advisory services have been launched. In the international field the activities regarding the revitalisation of ISPB Suisse and the finalisation of the London Branch continued.
The Asset Management Division took steps in several areas during the year. Support for the Banca dei Territori, Private Banking and Insurance Divisions has materialised in the development of the offer and of IT tools to support commercial activity, in improving the quality of after-sales support and contributing to sales networks' training programmes on the basis of specific requirements of the individual structures. Improvement of the product catalogue as well as the strengthening of the sales action on extra-captive and institutional customers continued with the acquisition of new customers and the renewal of ongoing mandates (e.g. the Cometa Fund). Finally, work on developing international business was no less intense. The enhancement of the best expertise range and the strengthening of the sales team have allowed the acquisition of new institutional customers in Europe and in Latin America. The work on the reorganisation of the international structures also continues. Specifically, as regards the Hong Kong subsidiary, the approval process was concluded with the local Supervisory Authorities to obtain the necessary licences authorising advisory and investment activities.
With reference to the establishment of the Wealth Management Company in the People's Republic of China (headquartered in Qingdao), the authorisation orders were obtained from Bankit and therefore on 30 September Qingdao YiTsai Wealth Management Co. Ltd. was incorporated. The purpose of the company, which is entirely owned by the ISP Group, is the provision of financial advisory services and the distribution and promotion of Wealth Management products. The operational model for the company's start-up phase is being defined.
Business activities continued for the opening of foreign branches by the subsidiary Eurizon Capital S.A. With regard to the British market, on 4 July a partnership was formed through the company Eurizon SLJ Capital Ltd (65% owned by Eurizon Capital SGR). The company works on developing specific products and has already been entrusted with the management of two new funds promoted by Eurizon Capital. The authorisation process is underway for the opening of two new branches, one in Paris and the other in Frankfurt.
During the year, the Insurance Division moved its commercial offering towards products with greater capital efficiency (Class III and multi-class products).
The action to launch the Information Driven Insurer project continues, aimed at increasing efficiency of use of the information assets of the Division's data. The constant development of insurance products also continues, both in the Non-Life and in the Life segments.

b) Core Growth Bank
With regard to the "Core Growth Bank" initiatives, Banca dei Territori continued three projects aimed at optimising the service model for Retail customers ("Full Potential"), Personal customers ("Investment House") and Business customers ("Business--Entrepreneur"). In detail, as regards the "Full Potential" project, the rationalisation measures for the network and development of the "Counter Service Development" initiative (introduction of branches with counter closures at 1 p.m. and branches fully dedicated to financial advisory services) continue. The transformation of the layout of the branches also continued.
As regards "Investment House", in the third quarter activities focused on developing the product range, the "Advanced Advisory" services, the development of the multi-channel offering in the savings area, the reviewing of the "Recommended Portfolios" and the continuation of investment projects in safe haven assets.
Regarding the "Business-Entrepreneur" project, in addition to continuously finalising the service model and product catalogue, the initiative to increase awareness by and transfer knowledge to customers on the digitalisation and internationalisation of business continued. In the first nine months, more than 200 visits to customers were organised to give advice on internationalisation and more than 30 events were also held on the same subject. In addition, B2B events were promoted to facilitate meetings and the development of business opportunities between our customers and foreign counterparties. The "Sviluppo Filiere" programme has already seen 256 (production) chains launched for commercial development, with a total of approximately 7,000 suppliers involved. Finally a new company was formed to propose non-financial services to businesses. These activities confirm Intesa Sanpaolo increasingly as a key partner in defining the strategic decisions of its customer companies.
Development work continues on the "Commercial Excellence" project, aimed at improving the level of service provided to high added-value customers, through a different organisation of the work, leveraging of leads generated by the multi-channel platform and the use of technologies capable of increasing the effectiveness and efficiency of commercial processes. During the year, work continued on developing the mortgages offering and the offerings relating to dematerialisation and simplification of agreements. Furthermore, the technological upgrade of equipment continues for customer transactions in self-service mode.
The service improvement projects for the various customer segments are supported by the new organisational model of the Banca dei Territori Division: in fact, in each of the seven existing regional governance centres, three specialised "commercial areas" have been identified – Retail, Personal and Business – to maximise the specific skills of personnel.
The Corporate and Investment Banking Division moved ahead at full pace with work on developing an asset light model aimed at making its loan assets marketable. The implementation of the programme aimed at increasing business with international customers continued. The creation, in the month of August, of the International Department guarantees adequate organisational support to the increase in the marketing of a selection of target products and the expansion of the foreign customer base. Furthermore, among the various activities, implementation of the service model by Industry and the development of operations in synergy with the ISP Bank Luxembourg project all continued. In April the registration of Intesa Sanpaolo as a swap-dealer (Dodd-Frank) was completed for full Capital Markets trading in the USA. The selective growth project involving the Italian Corporate

segment is substantiated in a selection of customers based on industrial growth prospects and capital and financial soundness, with the aim of optimising asset allocation and further improving the risk-return profile. During the year, the work of acquiring new customers continued together with the expansion of the offering to existing customers. In this regard the dedicated marketing campaigns continued. With regard to Financial Institutions customers, in addition to the work on commercial development, those aimed at achievement of the factors that will enable the full realisation of the segment's potential continued.
The International Subsidiary Banks Division is engaged in a vast program of reviewing the operational model that envisages the strengthening of governance, the optimisation of monitoring mechanisms, the extension of best practices as well as the harmonisation of the service models, the commercial offering and the IT systems As regards the implementation of the new organisational model of the International Subsidiary Banks during the third quarter, BIB and PBZ completed the adoption of the Parent Company's target model. All the banks have completed the operations relating to the standardisation of the Credit and Risk areas. The Nexus project (aimed at the simplification of Governance and optimisation of the synergies between PBZ and ISP BiH) and the DBE loans programme (agreed with the ECB) are continuing according to the established plans. With reference to the Cooperation project, which provides for the centralisation of the data centres of the international subsidiary banks at the Parma branch, the implementation activities continued according to plan in VUB, ISP Albania and ISP Romania and feasibility studies were launched at Alex Bank and CIB Bank. The implementation of the Small Business model duly continues at the banks within the scope. In BIB the project operations were completed in advance with respect to the plan. The multi-channel platform was further developed in PBZ, CIB and Alex Bank. It should also be noted the progress of the Wealth Management & MiFID II project, aimed at defining and implementing the target model for the Mass/Affluent/Private segments in line with the MiFID II regulations. Finally, the target CRM solution for International Subsidiary Banks was extended further. Finally the migration of customers to the new In-Biz platform at the VUB subsidiary was completed.
The activities regarding pro-active credit management continue. The ongoing monitoring of customer positions, prompt identification of situations at risk and immediate activation of measures to keep or reposition customers in performing status contributed to stemming the deterioration of credit quality. During the year, also owing to these loan management programmes, 17,099 businesses returned their loans to performing status from non-performing status (over 45,600 since 2014), a success that confirms Intesa Sanpaolo’s intention to be a bank that supports the real economy and which is always committed to seeking sustainable growth.
The Business Plan envisages an important simplification in the corporate breakdown of Banca dei Territori. The objective is to achieve a gradual and significant reduction in the number of legal entities, from 17 banks at the end of 2013 to 6 banks.
The first corporate transaction involved the merger of Banca di Credito Sardo and CR Venezia, 100%-owned, into Intesa Sanpaolo (effective for legal purposes from 10 November 2014). The mergers by incorporation of Banca di Trento e Bolzano and Banca Monte Parma into Intesa Sanpaolo took effect on 20 July 2015. The merger by incorporation of Cassa di Risparmio di Rieti, Cassa di Risparmio di Civitavecchia and Cassa di Risparmio della provincia di Viterbo into Intesa Sanpaolo concluded with effect from 23 November 2015. The merger by incorporation of Banca dell’Adriatico into Intesa Sanpaolo was completed (taking legal effect on 16 May 2016). On the 26 July the merger by incorporation of Casse di Risparmio dell’Umbria into Intesa Sanpaolo was approved by the Board of Directors. Finally, it should be noted that the rationalisation of the local presence led to the closure of 104 branches since the start of the year (for a total of 669 closures since 2014).

c) Capital Light Bank

In addition to growth in revenues, reduction in operating costs and optimisation of credit and risk management, the Business Plan is based on a clear strategy for optimisation of capital and liquidity, as well as deleveraging of the Group’s non-core assets, implemented through the Capital Light Bank Division. In particular, the assets contributed with the definition of the 2014-2017 Business Plan were reduced by approximately 5 billion euro compared to the beginning of the year, bringing the total deleveraging since 2013 to over 15 billion euro.
Since the beginning of the year, organisational rationalisation in Ukraine has resulted in a reduction of the workforce by 410, partly due to the closure of 40 branches. In Hungary, the sale of a package of NPLs was finalised for approximately 170 million GBV within the framework of the Bad Bank; meanwhile the collection/sales activity of individual items continued. Again, since the beginning of the year, the business activity of Intesa Sanpaolo REOCO, the Group company whose mission is to extract the most value from repossessed properties and to safeguard the bank's assets, has generated a total benefit for the Group of approximately 12 million euro drawn from approximately 100 properties. During the year, the sale without recourse of approximately 2.6 billion euro of performing consumer loans was carried out through the subsidiary Accedo. Sales operations of non-strategic equity investments continued, among which Reconsult, A4 Holding, Funivie Folgarida and Sotrafin should be noted. Lastly, activities are ongoing to make Provis fully operational.

d) People and investments as key enablers

At the end of 2013, following development of technology and customer trends, the Bank had an excess capacity of about 4,500 people, equal to about 5% of the total employees of the Group. However, there has been a strong desire to involve all colleagues in the new Business Plan right from the beginning, fostering the sense of belonging to the Bank. In line with these values, as opposed to the measures of its main competitors, the Bank decided to maintain the current employment levels, preserving know-how and the professional expertise within the company. To this end, a major project for professional re-allocation has been initiated in order to support development of the new business initiatives under the Plan. In September 2016, almost all of the staff initially identified had been re-allocated to priority initiatives. The Chief Innovation Officer Governance Area has carried out actions to promote and expedite innovation within the Group.
With regard to investments as enablers, the project initiatives that have shown the greatest developments in the third quarter are briefly described in the following chapter, with particular reference to projects with cross-cutting impacts across the Group.

Ongoing projects

Also in the third quarter of the year, the implementation of numerous projects continued through coordination with the structures of ISGS - Intesa Sanpaolo Group Services – the consortium company limited by shares that centralises in a single instrumental entity the structures providing IT, operating, real estate, organisational and other services supporting the Group's business.

Integrated Multi-channel Platform
The aim of the Group's multi-channel strategy is to redefine "customer experience" and offer customers the possibility of choosing which channel to use to interact with the bank, making them simple, immediate and interconnected. The main objectives of the Integrated Multichannel Platform are:
- the redefinition of the role of the channels, distinguishing between "assisted" channels (Branches and Contact Units) and self-service channels (home banking, tablet, mobile and ATMs);
- the enabling of a multi-channel approach, in line with customers' preferences, on selected priority products;
- the exploitation of contact points with customers and data available to the Bank to trigger and take advantage of new commercial opportunities and monitor customer satisfaction.

As part of the dematerialisation process, the new Personal Loans, Portfolio Management processes and a set of policies were released. From June, Retail and Personal Banking operations relating to products in the multichannel area are only carried out electronically, from the displaying of the proposal to the signing of the contract documentation, up to delivery and storage of the signed documents. Interventions have been implemented for transactions at the counter as well, so Customers can use their Digital Signature and a "light" Graphometric Signature.

Digitisation of Group Core Processes
The digitisation of the Core Processes was launched through the "Digital Factory" in the second half of 2015 with the goal of upgrading the operating model, accelerating innovation and digitising processes, disseminating a new way of working based on internal and external cooperation and co-creation, starting from customers. Operations in the first nine months were concentrated on the processes for Granting Mortgages to Individuals, Business & Corporate proactive Lending, Specialist International operations (in the engineering phase), Renegotiations and Inheritance planning (in the target phase), BPO Extranet, on line Branch, Corporate remote banking, retail management and proactive Lending (in the redesign phase).

Big (Financial) Data
The operational phases of the project were launched, with the primary goal of structurally improving the management of all the Bank's data by defining and implementing technological and organisational interventions; it is divided into several phases with a multi-year time frame (conclusion scheduled in late 2018).
As from January a new phase of the project known as Big Data Factory was also launched, which uses innovative processes that require the cooperation of the various corporate functions involved in specific interdepartmental groups in a colocation environment.

Prudent Valuation
EU Regulation no. 575/2013 (CRR), requires that financial institutions apply prudent rules in the valuation of assets and liabilities measured at fair value (Prudent Valuation), with the aim of reaching an appropriate level of certainty in valuation, and, for the purposes of capital requirements, deducting the amount of supplementary value adjustments from Common Equity Tier 1 (CET1). This prudent valuation of regulatory capital aims to incorporate the impact of uncertainty in valuation in the bank's capital. The EBA published the technical standards that define the scope of application, the guidelines for calculating the Additional Value Adjustment (AVA) and the related requirements in terms of documentation, systems and controls in October 2015: a project was thus launched under the Chief Risk Officer for adaptation to the regulatory demands by the Group.

IFRS 9
At the end of 2015 the IFRS 9 project was launched in order to implement the new accounting standard which will replace IAS 39, currently in force, as from 1 January 2018. The new standard will impact the methods of classification and measurement of financial instruments, calculation logics and methods of value adjustments and the hedge accounting model (currently with regard to micro hedging) with effects also on the banking business, specifically on credit management and, presumably, on disbursement activities. The project, coordinated by the Administration and Tax Department, the Credit Risk Management Department and the Financial and Market Risks Department of the Parent Company, is divided into five"vertical" processes: Classification and Measurement; Impairment - Loans; Impairment - Bonds; Hedge Accounting and, lastly, the one that oversees the "roll out" of project choices within the Group. Two "horizontal" processes are also planned: the IT process and the Organisation process, which cross-cut the abovementioned vertical processes. The project choices made to date have been consolidated in these areas and in particular the process architecture has been defined that combines the accounting sphere with the management one. Future developments and adjustments that it may be necessary to make will be included in this design with particular regard to credit management processes.
The project is developed based on the three areas in which the standard is organised:
- Classification and Measurement (C&M);
- Impairment;
- Hedge Accounting.

For each area, the same methodological approach set out in the following macro phases of activity is used:
- analysis and preliminary choices (mainly concerning accounting and the model);
- design of the target operating model and definition of the related IT impacts;
- application and organisational development and impact analysis.

On the basis of the developed plan, the work currently being done relates to identifying and analysing product portfolios, defining and simulating the new C&M rules (SPPI Test and Business Model) and identifying parameters for defining "significant impairment" and, as a result, for staging the credit exposures and calculating "expected loss".

As regards Hedge Accounting, the regulatory changes exclusively regard General Hedging and are strictly linked to the Group's decision to use the opt-in / opt-out (i.e., the option to implement the new IFRS 9 to manage specific hedges in combination with IAS 39 to manage Macro Fair Value Hedges, rather than continuing to adopt IAS 39 for all types of hedges). Analyses of the current management of hedging operations in support of this decision are in progress and will be completed by the end of 2016.
As regards the C&M area, for the analysis on the characteristics of the contractual cash flows of the instruments (SPPI test), analyses were carried out on the Group's securities portfolios as at 31 December 2015. The analyses focused on portfolios classified as L&R and AFS. Specific supporting tools with increasing levels of depth were used for this purpose.
For the loans segment, the project continues the modular analyses that take account of the significance of the portfolios, of their homogeneity and of the business division. As regards the business model, the analyses have been completed for the mapping of the existing business model, prior to the definition of the one in terms of IFRS 9.
In the Impairment area, specific projects have been developed for both lending and securities operations. The analyses conducted concerned the following main issues:

- “staging”, i.e. Elements that can or must result, for performing loans and securities, in transition from stage 1 (on which an adjustment equal to the expected loss at 12 months is envisaged) to stage 2 (on which a value adjustment equal to the lifetime expected loss is envisaged) and vice versa;
- cash flows, in view of the calculation of expected losses, particularly of the "lifetime" variety;
- definition of the model framework to be used in calculating expected loss.

Programma Filiere
Thanks to the building of innovative approaches, the Programma Filiere allows the Bank to support suppliers that are part of production chains through larger loan disbursements, at more favourable conditions and with a dedicated commercial offer. New rules on managing production chains and specific internal regulatory processes for granting loans were also defined during the year.

Cyber Security Program
The program, which develops over the two year period 2016/2017, aims to increase the Group's maturity through more efficient and effective threat management, as well as strengthen the know-how and the structures needed to mitigate the risk induced by cyber attacks. The "Security Maturity Assessment" activities have been completed and the interventions master plan has been defined and started which also takes into account the provisions of both the Cyber Security National Framework and the NIS (Network and Information Security) Directive recently approved by the EU Parliament.

New Group Register
The project stems from the need to guarantee an ever greater alignment with the directives on credit risk management, but also from the desire to align the underlying architectures with the latest technological standards, so as to be able to fully reap the potential arising from the management of multiple channels of customer contact. Therefore its aims are to define a new operating model for the acquisition, management and control of the personal data of customers, economic groups and related parties at Group level, to make a new single infrastructure for the management of customers available with innovative features, actionable in the various companies of the Group, and to enable the unification of the view on a single customer in relation to all the existing contact channels.

Processes Integrated Governance
The Processes Integrated Governance Project was launched in the second quarter of 2016, with the aim of redefining the processes tree from an end-to-end perspective and the management model in terms of being integrated with the risks and related controls, as well as simplifying the current body of regulations to provide end users with products more suited to the new requirements. The aim of the project, which should be finished in the first half of 2018, is also to define a method and implement a tool for measuring the performance of the processes, using three indicators (effectiveness, efficiency and quality) to which specific performance indicators are connected for each process being measured. The aim of the new architecture is to develop the current method of business process management, guaranteeing full exploitation of existing assets (unified processes and activities data base at the domestic banking level, integration with risk management systems and controls, availability of dedicated platforms), making the integrated view more efficient and effective and providing adequate support for a dialogue with the new system of banking supervision.

New Branch Model
The new branch model was created with the aim of optimising space and offering a better welcome and commercial relationship with customers. Moreover the New Concept branches have been structured to integrate the multichannel strategies into the branch experience, steer cash transactions towards self-service systems, create spaces for the "new trades and professions" (for example ISP Casa) and allow the organisation of events. The progressive substitution is also planned in the New Concept branches of the traditional cashier's desks with CSAs (staff-assisted self-service points). The CSAs, with about 800 currently installed, are automatic machines which, in addition to the traditional services, also allow the execution of payments and reservations of F24 authorisations, payments by notice (MAV) and payments of fines/taxes by notice (RAV), through optical reading of documents, and cash payments with any change due being given.

Main risks and uncertainties

The macroeconomic scenario, which remains uncertain, and the high volatility of the financial markets require constant monitoring of the factors that make it possible to pursue sustainable profitability: high liquidity, funding capacity, low leverage, adequate capital base, and prudent asset valuations.

Group liquidity remains high: as at 30 September 2016, both regulatory indicators envisaged by Basel 3 (LCR and NSFR), adopted also as internal liquidity risk measurement metrics, had reached a level well above fully phased-in requirements. At the end of September, the Central Banks eligible liquidity reserves came to 127 billion euro (117 billion euro at the end of December 2015),

of which 76 billion euro, net of haircut, was unencumbered (78 billion euro at the end of December 2015). The loan to deposit ratio at the end of September 2016, calculated as the ratio of loans to customers to direct deposits from banking business, came to 96%.
In terms of funding, the widespread branch network remains a stable, reliable source: 73% of direct deposits from banking business come from retail operations (275 billion euro). Moreover, during the nine months, USD 1.5 billion in Tier 2 subordinated bonds, 1.25 billion euro in bank covered bonds and 1.25 billion euro in Additional Tier 1 instruments were placed on the international wholesale market.
In June, the Group participated with approximately 36 billion euro in the first TLTRO II loan operation (versus a maximum amount that can be requested of approximately 57 billion euro) after the repayment in full of TLTRO I, outstanding at 27.6 billion euro. In September, the Group participated with approximately 5 billion euro in the second TLTRO II operation. As at 30 September, the Group's participation in the conditional lending programme therefore amounted to approximately 41 billion euro.

Intesa Sanpaolo Group leverage (6.7% as at 30 September 2016) continues to be at the top levels recorded in the sector.

The capital base also remains high. Own funds, risk-weighted assets and the capital ratios at 30 September 2016 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation no. 575/2013 (CRR) of 26 June 2013, which transposed the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circulars 285, 286 and 154.
At the end of September, total Own Funds came to 49,167 million euro, against risk-weighted assets of 286,006 million euro, which reflected primarily the credit and counterparty risk and, to a lesser extent, the operational and market risk.
The Total Capital Ratio stood at 17.2%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 14.1%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity Tier 1 ratio) was 12.8%.
Common Equity Tier 1 capital does not include the net income for the period ended 30 September 2016, less the pro-rata dividend for the period, since Intesa Sanpaolo has decided to apply to the ECB for authorisation pursuant to Art. 26 of the CRR to include the net income for the period in own funds during 2016 only when the amount of net income exceeds the total amount of the dividend planned for distribution for the year, equal to 3 billion euro for 2016 on the basis of the 2014-2017 Business Plan.
With reference to the insurance sector, both for the consolidated/aggregate figures of the Companies in the Insurance Division and for the Intesa Sanpaolo Vita Insurance Group referred only to the subsidiaries (excluding Fideuram Life), the Solvency Ratio measurements (Solvency II) as at 30 September 2016 show a ratio higher than 180%.

The Group's risk profile, remained within the limits approved by the Risk Appetite Framework, consistent with the intention to continue to privilege commercial banking operations. The trend in the Group's VaR in 2016, shown in the following chart, was mainly determined by Banca IMI and is attributable in the first quarter to scenarios of volatility in the financial markets that increased VaR absorptions, and to an extension of the portfolio. In the second quarter, it initially decreased as a result of sales and the exclusion of scenarios of volatility, and subsequently it grew slightly as a result of purchases of government securities. In correspondence to the outcome of the referendum in the UK, volatility of credit spreads was then recorded on the markets accompanied by lower interest rates and share prices. The new scenario generated an increase in the Group's VaR towards the end of the period. During the third quarter, in addition to further exclusions of volatile scenarios, there was also a decrease in positions in government and financial securities. Nevertheless, the risk measures remained within the assigned limits and, in the first days of July, decreased slightly.
The Group's average risk profile for the nine months was 101 million euro, compared to an average amount of 93 million euro for the corresponding period in 2015.

Market risks trend:
VaR (millions of euro)

The macroeconomic environment and the persisting financial market volatility heighten the complexity of assessing credit risk and measuring financial assets.

Intesa Sanpaolo has developed a set of instruments which ensure analytical control over the quality of loans to customers and financial institutions, and of exposures subject to country risk.

Risk measurement is performed by means of different rating models according to borrower segment (Corporate, Retail SME, Retail Mortgage, Other Retail, Sovereigns, Italian Public sector entities and Financial institutions). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a uniform scale of reference.
Ratings and credit-risk mitigating factors (guarantees, loan types and covenants) play a key role in the loan granting and managing process.
The methods used to classify non-performing loans and to measure both non-performing and performing loans ensure that the impacts of the deteriorating economic environment on a debtor's position are promptly recognised. The economic crisis has called for constant review of the values of loans that had already shown problematic symptoms and of loans with no obvious signs of impairment. All categories of non-performing loans were assessed using the usual criteria of prudence, as highlighted by the substantial average coverage percentages for bad loans (60.5%) and unlikely to pay loans (26.2%).
With regard to performing loans to customers, the "collective" adjustments, equal to 1,933 million euro, provide a portfolio coverage ratio of 0.6% (0.7% at the end of 2015).

Constant attention has been paid to the valuation of financial items. The majority of financial assets are measured at fair value, since classified as held for trading using the fair value option, under assets available for sale, or represented by hedging derivatives.
The fair value measurement of financial assets was carried out as follows: approximately 79% using level 1 inputs, around 19% using level 2 inputs and only close to 2% using level 3 inputs. Among the financial liabilities designated at fair value through profit and loss, most of the financial instruments (88%) were measured using the level 2 approach.

As regards the Intesa Sanpaolo Group's sovereign debt exposure, at the end of September exposure in securities to the Italian government amounted to a total of approximately 90 billion euro, in addition to receivables for approximately 16 billion euro.
The Group banks' exposure in securities amounted to approximately 36 billion euro, of which approximately 10 billion euro up to 3 years (28%), with a duration of 5.3 years. On the other hand, the duration of the insurance portfolio is longer, at 6.4 years, consistently with that of liabilities.
Investments in structured credit products and hedge funds remain at lower levels. Over the first nine months, the first generated a positive contribution of 10 million euro. For the hedge funds, the economic result of the investments in this segment in the period considered was negative for 42 million euro.

With regard to intangible assets with indefinite useful life, consisting of the goodwill and the brand name, recognised under balance sheet assets at a total residual value of 5,818 million euro (including 3,936 million euro of goodwill), during the first nine months of the year, no indicators impacting the positive conclusions made in the 2015 financial statements about the solidity of assets values were found. The analyses conducted on preparing the Interim Statement as at 30 September 2016 showed no significant changes in the main parameters and macroeconomic aggregates, including following the British referendum, which could have a substantial impact on the Group's expected cash flows.
The update to the discounting rates showed a decrease in the cost of capital considered for the explicit forecasting horizon, specifically due to the decrease in the risk-free rate. With regard to the cost of capital implicit in the Terminal Value, being prudently based on higher parameters estimated as at 2018, considering the extraordinarily low current rates, no evidence emerged such as to require an update.
On the other hand, in relation to the Group's income dynamics, it is emphasised that the results for the first nine months of the year are substantially in line with respect to the budget forecasts for the same period of time and there is no evidence at the moment, from the British referendum, that could substantially affect the Group's income prospects.
In conclusion, in the light of the above, no critical elements have been identified, compared to the indicators already considered in the 2015 impairment test, such as to require recalculation of Value in use in the half-year financial statements, including in view of the sensitivity analyses carried out at that time.
With regard to the values expressed by the market, it should be noted that the listing of the Intesa Sanpaolo (ordinary) shares suffered a decline in the period that brought the value of the shares to 2.0 euro on 30 September 2016, recording a fall of 36% against the values at the end of 2015; the sharp downturn in the share listing in the first half of the year (-45%) was however offset by a recovery during the last quarter. The fall recorded by the Intesa Sanpaolo shares in the period was due to the uncertainty that continues to characterise the financial markets especially with reference to the Italian banking sector, which was particularly influenced by the issue of Non-Performing Loans (NPLs).
An examination of the analysts' assessments shows a reduction in the so-called "target price", due however to exogenous factors linked to the likely effects of Great Britain's exit from the European Union, rather than endogenous factors attributable directly to Intesa Sanpaolo; specifically a picture of uncertainty emerges that has driven analysts to increase the prudence used in their estimations of future profits, reduced on average by 10% regards the two year period 2017-2018, and of the cost of capital. In this regard we note that, on the basis of what emerged from the impairment tests carried out at the time of the 2015 Financial Statements, for the Asset Management, Private Banking and Insurance CGUs, the Value in use was significantly higher than the carrying value. For the Banca dei Territori CGU, on the other hand, this margin was smaller; however, from the sensitivity analyses it emerged as a 10% reduction in the Terminal Value flow translated into a reduction of about 9% of the Value of use, which would however be much higher than the carrying value. The opinions of the analysts, however, still do not appear entirely uniform and this is reflected in the very large range of the target prices (2.1 - 3.1 euro per share); in some cases the variation in the target price has remained unchanged or been reviewed only slightly downwards.
The parameters and the information used to check the recoverability of intangible values with an indefinite useful life are significantly influenced by the macroeconomic framework and the dynamics of the financial markets which could record changes that are at present unpredictable; with regard specifically to the result of the British referendum, the definition of its precise impact will depend on the progress made in the negotiations between the European Union and Great Britain.
In the fourth quarter all indicators will continue to be carefully monitored in order to immediately identify any factors that might modify the positive conclusions outlined in this Interim Report.
For a more detailed description of the methods and parameters used for the impairment test of intangible assets, reference should be made to the Notes to the 2015 Financial Statements - Part B.

The forecast for 2016

The phase of moderate economic growth will extend to the fourth quarter of 2016, which should also be characterised by a further increase in inflation rates. In Italy, GDP growth will remain low, less than 1%. The markets predict a rise in US official interest rates by year-end in all probability, while they are divided about the direction that the ECB's monetary policy will take, which has yet to clarify its intentions on its bond purchase programme. The financial markets' performance will potentially be affected by political events: the Italian ones by the outcome of the referendum on the 4 December, the global ones by the US presidential election.

With regard to the prospects for growth in emerging economies, in its October edition of the World Economic Outlook the IMF raised the 2016 figure slightly bringing it to 4.2% (+0.1% versus its July forecast), a slight acceleration on the 4% in 2015. The upward revision in 2016 is mainly due to the CSI area, where in Russia a smaller decline in GDP is now being forecast, Asia, where growth has been raised in India, and all the CEE and SEE countries, Turkey included, where the changes in GDP expected in 2016 were brought from 3.3% to 3.5%. Downward revisions on the other hand have affected Latin America, particularly Mexico, and Sub-Saharan Africa, in particular Nigeria. Among the BRIC countries, the IMF has confirmed the July forecast both for Brazil (GDP -3.3% in 2016) and China (+6.6% in 2016).

Within the Italian banking system, there continue to be favourable conditions for a gradual recovery of lending activity, thanks to the very expansionary monetary policy stance, the selective availability of supply and the increase in demand in some business segments, in a scenario of consolidation of the economic recovery. For households, which confirmed their financial soundness, the lending scenario remains positive: growth in stocks, will continue at a moderate pace in the rest of 2016, favoured by interest rates at historical lows, the gradual recovery of the real estate market and the improved conditions on the labour market. However, the recovery remains uncertain and sluggish for loans to enterprises, with prospects for a still stagnant end of year.

With regard to funding, the growth of deposits will continue, while the overall trend will continue to be affected by the limited requirements for customer deposits by banks, considering the evolution of loans and the significant liquidity available. These factors will continue to favour the reduction of customer deposit costs. In a context of very low, where not negative, market rates, and favourable credit access conditions, loan rates are expected to remain at lows.

The performance of the Intesa Sanpaolo Group in 2016 – including the exploitation of profits from disposal of non-core assets against the booking of charges and adjustments – is expected to lead to a consolidated net income higher than in 2015 and consistent with the commitment to distribute 3 billion euro cash dividends for 2016, as indicated in the 2014-2017 Business Plan.

Consolidated financial statements

Consolidated balance sheet

(millions of euro)

Assets		30.09.2016	31.12.2015	CHANGES amount	CHANGES %
10.	Cash and cash equivalents	6,895	9,344	-2,449	-26.2
20.	Financial assets held for trading	50,232	51,597	-1,365	-2.6
30.	Financial assets designated at fair value through profit and loss	61,338	53,663	7,675	14.3
40.	Financial assets available for sale	146,885	131,402	15,483	11.8
50.	Investments held to maturity	1,231	1,386	-155	-11.2
60.	Due from banks	37,528	34,445	3,083	9.0
70.	Loans to customers	364,836	350,010	14,826	4.2
80.	Hedging derivatives	7,408	7,059	349	4.9
90.	Fair value change of financial assets in hedged portfolios (+/-)	993	110	883	
100.	Investments in associates and companies subject to joint control	1,387	1,727	-340	-19.7
110.	Technical insurance reserves reassured with third parties	19	22	-3	-13.6
120.	Property and equipment	4,972	5,367	-395	-7.4
130.	Intangible assets	7,136	7,195	-59	-0.8
	of which				
	- goodwill	*3,936*	*3,914*	*22*	*0.6*
140.	Tax assets	14,163	15,021	-858	-5.7
	a) current	*2,799*	*3,626*	*-827*	*-22.8*
	b) deferred	*11,364*	*11,395*	*-31*	*-0.3*
	- of which convertible into tax credit (Law no. 214/2011)	*8,534*	*8,749*	*-215*	*-2.5*
150.	Non-current assets held for sale and discontinued operations	772	27	745	
160.	Other assets	8,602	8,121	481	5.9
Total Assets		**714,397**	**676,496**	**37,901**	**5.6**

Consolidated balance sheet

(millions of euro)

Liabilities and Shareholders' Equity		30.09.2016	31.12.2015	CHANGES amount	%
10.	Due to banks	69,641	59,327	10,314	17.4
20.	Due to customers	271,459	255,258	16,201	6.3
30.	Securities issued	100,913	110,144	-9,231	-8.4
40.	Financial liabilities held for trading	48,143	43,522	4,621	10.6
50.	Financial liabilities designated at fair value through profit and loss	54,373	47,022	7,351	15.6
60.	Hedging derivatives	10,951	8,234	2,717	33.0
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	919	1,014	-95	-9.4
80.	Tax liabilities	2,235	2,367	-132	-5.6
	a) current	*398*	*508*	*-110*	*-21.7*
	b) deferred	*1,837*	*1,859*	*-22*	*-1.2*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	413	-	413	
100.	Other liabilities	14,069	11,566	2,503	21.6
110.	Employee termination indemnities	1,470	1,353	117	8.6
120.	Allowances for risks and charges	3,579	3,480	99	2.8
	a) post employment benefits	*1,254*	*859*	*395*	*46.0*
	b) other allowances	*2,325*	*2,621*	*-296*	*-11.3*
130.	Technical reserves	87,370	84,616	2,754	3.3
140.	Valuation reserves	-1,737	-1,018	719	70.6
150.	Redeemable shares	-	-	-	
160.	Equity instruments	2,118	877	1,241	
170.	Reserves	9,483	9,167	316	3.4
180.	Share premium reserve	27,349	27,349	-	-
190.	Share capital	8,732	8,732	-	-
200.	Treasury shares (-)	-58	-70	-12	-17.1
210.	Minority interests (+/-)	640	817	-177	-21.7
220.	Net income (loss)	2,335	2,739	-404	-14.7
Total Liabilities and Shareholders' Equity		**714,397**	**676,496**	**37,901**	**5.6**

Consolidated income statement

(millions of euro)

	30.09.2016	30.09.2015	CHANGES amount	%
10. Interest and similar income	9,760	10,709	-949	-8.9
20. Interest and similar expense	-3,223	-3,770	-547	-14.5
30. Interest margin	**6,537**	**6,939**	**-402**	**-5.8**
40. Fee and commission income	6,125	6,360	-235	-3.7
50. Fee and commission expense	-1,271	-1,213	58	4.8
60. Net fee and commission income	**4,854**	**5,147**	**-293**	**-5.7**
70. Dividend and similar income	398	334	64	19.2
80. Profits (Losses) on trading	316	238	78	32.8
90. Fair value adjustments in hedge accounting	-48	-51	-3	-5.9
100. Profits (Losses) on disposal or repurchase of	927	1,078	-151	-14.0
a) loans	*-23*	*-53*	*-30*	*-56.6*
b) financial assets available for sale	*941*	*1,273*	*-332*	*-26.1*
c) investments held to maturity	-	-	-	
d) financial liabilities	*9*	*-142*	*151*	
110. Profits (Losses) on financial assets and liabilities designated at fair value	754	613	141	23.0
120. Net interest and other banking income	**13,738**	**14,298**	**-560**	**-3.9**
130. Net losses / recoveries on impairment	-2,099	-1,958	141	7.2
a) loans	*-2,035*	*-1,916*	*119*	*6.2*
b) financial assets available for sale	*-115*	*-96*	*19*	*19.8*
c) investments held to maturity	-	-	-	
d) other financial activities	*51*	*54*	*-3*	*-5.6*
140. Net income from banking activities	**11,639**	**12,340**	**-701**	**-5.7**
150. Net insurance premiums	6,784	8,721	-1,937	-22.2
160. Other net insurance income (expense)	-8,274	-10,270	-1,996	-19.4
170. Net income from banking and insurance activities	**10,149**	**10,791**	**-642**	**-5.9**
180. Administrative expenses	-6,723	-6,509	214	3.3
a) personnel expenses	*-4,005*	*-3,855*	*150*	*3.9*
b) other administrative expenses	*-2,718*	*-2,654*	*64*	*2.4*
190. Net provisions for risks and charges	-164	-345	-181	-52.5
200. Net adjustments to / recoveries on property and equipment	-254	-250	4	1.6
210. Net adjustments to / recoveries on intangible assets	-413	-404	9	2.2
220. Other operating expenses (income)	505	733	-228	-31.1
230. Operating expenses	**-7,049**	**-6,775**	**274**	**4.0**
240. Profits (Losses) on investments in associates and companies subject to joint control	141	121	20	16.5
250. Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
260. Goodwill impairment	-	-	-	
270. Profits (Losses) on disposal of investments	21	43	-22	-51.2
280. Income (Loss) before tax from continuing operations	**3,262**	**4,180**	**-918**	**-22.0**
290. Taxes on income from continuing operations	-936	-1,432	-496	-34.6
300. Income (Loss) after tax from continuing operations	**2,326**	**2,748**	**-422**	**-15.4**
310. Income (Loss) after tax from discontinued operations	121	45	76	
320. Net income (loss)	**2,447**	**2,793**	**-346**	**-12.4**
330. Minority interests	-112	-67	45	67.2
340. Parent Company's net income (loss)	**2,335**	**2,726**	**-391**	**-14.3**
Basic EPS - Euro	**0.14**	**0.16**		
Diluted EPS - Euro	**0.14**	**0.16**		

Statement of consolidated comprehensive income

(millions of euro)

		30.09.2016	30.09.2015	Changes amount	%
10.	**NET INCOME (LOSS)**	**2,447**	**2,793**	**-346**	**-12.4**
	Other comprehensive income (net of tax) that may not be reclassified to the income statement	**-387**	**382**	**-769**	
20.	Property and equipment	-	-	-	
30.	Intangible assets	-	-	-	
40.	Defined benefit plans	-387	382	-769	
50.	Non-current assets held for sale	-	-	-	
60.	Share of valuation reserves connected with investments carried at equity	-	-	-	
	Other comprehensive income (net of tax) that may be reclassified to the income statement	**-388**	**59**	**-447**	
70.	Hedges of foreign investments	-	-	-	
80.	Foreign exchange differences	-29	7	-36	
90.	Cash flow hedges	-205	181	-386	
100.	Financial assets available for sale	-135	-145	-10	-6.9
110.	Non-current assets held for sale	-	-	-	
120.	Share of valuation reserves connected with investments carried at equity	-19	16	-35	
130.	**Total other comprehensive income (net of tax)**	**-775**	**441**	**-1,216**	
140.	**TOTAL COMPREHENSIVE INCOME (CAPTIONS 10 +130)**	**1,672**	**3,234**	**-1,562**	**-48.3**
150.	**Total consolidated comprehensive income pertaining to minority interests**	**56**	**69**	**-13**	**-18.8**
160.	**Total consolidated comprehensive income pertaining to the Parent Company**	**1,616**	**3,165**	**-1,549**	**-48.9**

Statement of changes in consolidated shareholders' equity as at 30 September 2016

(millions of euro)

	30.09.2016											
	Share capital		**Share premium reserve**	**Reserves**		**Valuation reserves**	**Equity instruments**	**Treasury shares**	**Net income (loss)**	**Shareholders' equity**	*Group shareholders' equity*	*Minority interests*
	ordinary shares	savings shares		retained earnings	other							
AMOUNTS AS AT 1.1.2016	**8,804**	**485**	**27,521**	**8,544**	**578**	**-950**	**877**	**-72**	**2,806**	**48,593**	*47,776*	*817*
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR [(a)]												
Reserves				**366**					**-366**	**-**	*-*	*-*
Dividends and other allocations									**-2,440**	**-2,440**	*-2,371*	*-69*
CHANGES IN THE PERIOD												
Changes in reserves										**-**	*-*	*-*
Operations on shareholders' equity												
Issue of new shares								12		**12**	*12*	*-*
Purchase of treasury shares										**-**	*-*	*-*
Extraordinary dividends										**-**	*-*	*-*
Changes in equity instruments							1,241			**1,241**	*1,241*	*-*
Derivatives on treasury shares										**-**	*-*	*-*
Stock options										**-**	*-*	*-*
Changes in equity investmens	7			-7						**-**	*-*	*-*
Other	-139		-93	16						**-216**	*-52*	*-164*
Total comprehensive income for the period						**-775**			**2,447**	**1,672**	*1,616*	*56*
SHAREHOLDERS' EQUITY AS AT 30.09.2016	**8,672**	**485**	**27,428**	**8,919**	**578**	**-1,725**	**2,118**	**-60**	**2,447**	**48,862**	*48,222*	*640*
- Group	**8,247**	**485**	**27,349**	**8,905**	**578**	**-1,737**	**2,118**	**-58**	**2,335**	**48,222**		
- minority interests	**425**	**-**	**79**	**14**	**-**	**12**	**-**	**-2**	**112**	**640**		

[(a)] Includes dividends and amounts allocated to the charity fund of the Parent Company, as well as those relating to consolidated companies, pertaining to minorities.

Statement of changes in consolidated shareholders' equity as at 30 September 2015

(millions of euro)

	30.09.2015											
	Share capital		**Share premium reserve**	**Reserves**		**Valuation reserves**	**Equity instruments**	**Treasury shares**	**Net income (loss)**	**Shareholders' equity**	*Group shareholders' equity*	*Minority interests*
	ordinary shares	savings shares		retained earnings	other							
AMOUNTS AS AT 1.1.2015	**8,510**	**488**	**27,369**	**8,583**	**510**	**-1,631**	**-**	**-77**	**1,310**	**45,062**	*44,683*	*379*
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR [(a)]												
Reserves				**78**					**-78**	**-**	*-*	*-*
Dividends and other allocations									**-1,232**	**-1,232**	*-1,195*	*-37*
CHANGES IN THE PERIOD												
Changes in reserves [(b)]										**-**	*-*	*-*
Operations on shareholders' equity										**-**		
Issue of new shares [(c)]	5							21		**26**	*26*	*-*
Purchase of treasury shares										**-**	*-*	*-*
Extraordinary dividends										**-**	*-*	*-*
Changes in equity instruments							875			**875**	*875*	*-*
Derivatives on treasury shares										**-**	*-*	*-*
Stock options										**-**	*-*	*-*
Changes in equity investmens	56		34							**90**	*-*	*90*
Other	195			-44						**151**	*29*	*122*
Total comprehensive income for the period						**441**			**2,793**	**3,234**	*3,165*	*69*
SHAREHOLDERS' EQUITY AS AT 30.09.2015	**8,766**	**488**	**27,403**	**8,617**	**510**	**-1,190**	**875**	**-56**	**2,793**	**48,206**	*47,583*	*623*
- Group	**8,245**	**485**	**27,349**	**8,629**	**510**	**-1,183**	**875**	**-53**	**2,726**	**47,583**		
- minority interests	**521**	**3**	**54**	**-12**	**-**	**-7**	**-**	**-3**	**67**	**623**		

[(a)] Includes dividends and amounts allocated to the charity fund of the Parent Company, as well as those relating to consolidated companies, pertaining to minorities.

Report on operations

Economic results

General aspects

As usual, a condensed reclassified income statement is prepared to give a more immediate understanding of results. To enable consistent comparison, the figures for previous periods are restated, where necessary, to account for changes in the scope of consolidation.

The restated financial statements are obtained by making appropriate adjustments to historical data to reflect the significant effects of such changes retroactively. Any differences due to the possibility of choosing between different options provided for by IAS/IFRS or arising from the use of different methods or parameters to measure assets and liabilities are not considered, as they are deemed irrelevant. Last, please note that no intragroup relations are netted where their amount is not significant.

Breakdowns of restatements and reclassifications performed are provided in separate tables included in the attachments, as also required by Consob in its Communication 6064293 of 28 July 2006.

Reclassifications and aggregations are as follows:

- Dividends on shares classified as assets available for sale and as assets held for trading have been reallocated to Profits (Losses) on trading;
- the portions of Net interest income, Dividend and similar income, Net fee and commission income and Profits (Losses) on trading related to the insurance business have been recorded under a specific caption, and the effect of the adjustment of the technical reserve – with respect to the component attributable to policyholders – associated with the impairment of securities available for sale held in the portfolios of the Group's insurance companies was also attributed to this caption;
- Differentials on derivatives, classified to the trading portfolio and contracted to hedge transactions in foreign currencies, have been allocated among Net interest income owing to the close correlation;
- Fair value adjustments in hedge accounting (caption 90) have been reallocated to Profits (Losses) on trading;
- Profits and losses on disposal or repurchase of financial assets available for sale and of financial liabilities have been reallocated to Profits (Losses) on trading;
- Profits (Losses) on financial assets and liabilities designated at fair value are reallocated to Profits (Losses) on trading;
- the recoveries of expenses, taxes and duties have been subtracted from Administrative expenses, instead of being included among Other operating income;
- contributions to the Bank Resolution Funds and the Deposit Guarantee Scheme, which were reallocated from other administrative expenses to other operating expenses;
- the profit realised on the sale of the Visa Europe shares, which was recognised among Profits (Losses) on disposal or repurchase of financial assets available for sale (caption 100b) with respect to the portion realised by the Group banks, and among Income (Loss) after tax from discontinued operations (caption 310) with respect to the portion realised by Setefi, was fully reclassified, gross of taxes, to Other net operating income (expenses) and Taxes on income from continuing operations for the tax component. The this was done to ensure a better representation of the results, in consideration of the close correlation of the aforementioned profit with the business generated for the benefit of the circuit;
- Profits and losses on disposal or repurchase of loans are posted in Net adjustments to loans;
- Net impairment losses on other financial activities (caption 130 d), related to guarantees, commitments and credit derivatives, have been recognised under Net adjustments to loans;
- the reversal in time value on loans is recorded in Net interest income instead of being allocated to Net adjustments to loans, since the phenomenon derives directly from the application of the amortised cost criterion in the absence of changes in expected future flows. A consistent approach is used for the time value of Employee termination indemnities and Allowances for risks and charges;
- Net impairment losses on property, equipment and intangible assets (with the exception of impairment losses on intangible assets) have been reclassified from Net adjustments to property, equipment and intangible assets – which therefore solely express adjustments – to Net impairment losses on other assets, which also includes Net impairment losses on financial assets available for sale and investments held to maturity; by contrast, impairment losses on intangible assets have been reclassified, net of the tax effects, to Impairment of goodwill and other intangible assets;
- Impairment losses on property and other assets resulting from the enforcement of guarantees or purchase at auction and intended for sale on the market in the near future, which have been reclassified from Other operating income (expenses) to Net impairment losses on other assets. Accordingly, profits and losses on disposal associated with this type of asset have been reclassified from Other operating income (expenses) to Profits (Losses) on investments held to maturity and on other investments.
- Profits (Losses) on disposal of investments in associates and companies subject to joint control and Profits (Losses) on disposal of investments are recorded in Profits (Losses) on investments held to maturity and on other investments, after the deduction of net income from investments carried at equity which is posted in a specific caption in Operating income;
- Charges (net of tax) for integration and exit incentives, which have been reclassified from Personnel expenses, Administrative expenses and, to a lesser extent, other captions of the income statement to a separate caption;

– the effects of purchase price allocation, net of the tax effect, are indicated in a specific caption. They represent adjustments to and any impairment losses on financial assets and liabilities and property, equipment and intangible assets which were measured at fair value as provided for by IFRS 3;
– Goodwill impairment and impairment losses on other intangible assets, as mentioned above, are shown, net of tax, in a specific caption amongst "non-current" income components.

Reclassified income statement

(millions of euro)

	30.09.2016	30.09.2015	Changes	
			amount	%
Net interest income	5,545	5,791	-246	-4.2
Profits (losses) on investments carried at equity	188	95	93	97.9
Net fee and commission income	5,269	5,464	-195	-3.6
Profits (Losses) on trading	943	977	-34	-3.5
Income from insurance business	829	866	-37	-4.3
Other operating income (expenses)	-110	73	-183	
Operating income	**12,664**	**13,266**	**-602**	**-4.5**
Personnel expenses	-3,919	-3,807	112	2.9
Other administrative expenses	-1,858	-1,929	-71	-3.7
Adjustments to property, equipment and intangible assets	-541	-528	13	2.5
Operating costs	**-6,318**	**-6,264**	**54**	**0.9**
Operating margin	**6,346**	**7,002**	**-656**	**-9.4**
Net provisions for risks and charges	-164	-344	-180	-52.3
Net adjustments to loans	-2,534	-2,383	151	6.3
Net impairment losses on other assets	-84	-60	24	40.0
Profits (Losses) on investments held to maturity and on other investments	-22	87	-109	
Income (Loss) before tax from continuing operations	**3,542**	**4,302**	**-760**	**-17.7**
Taxes on income from continuing operations	-1,001	-1,475	-474	-32.1
Charges (net of tax) for integration and exit incentives	-67	-46	21	45.7
Effect of purchase price allocation (net of tax)	-82	-86	-4	-4.7
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	44	44	-	-
Minority interests	-101	-13	88	
Net income (loss)	**2,335**	**2,726**	**-391**	**-14.3**

Figures restated, where necessary, considering the changes in the scope of consolidation.

Quarterly development of the reclassified income statement

(millions of euro)

	2016			2015			
	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	1,859	1,831	1,855	1,926	1,887	1,954	1,950
Profits (losses) on investments carried at equity	30	84	74	1	41	15	39
Net fee and commission income	1,745	1,848	1,676	1,878	1,748	1,941	1,775
Profits (Losses) on trading	248	467	228	57	1	380	596
Income from insurance business	258	239	332	131	241	282	343
Other operating income (expenses)	-104	136	-142	-378	209	-59	-77
Operating income	**4,036**	**4,605**	**4,023**	**3,615**	**4,127**	**4,513**	**4,626**
Personnel expenses	-1,306	-1,338	-1,275	-1,479	-1,249	-1,263	-1,295
Other administrative expenses	-625	-638	-595	-791	-632	-668	-629
Adjustments to property, equipment and intangible assets	-186	-178	-177	-200	-178	-176	-174
Operating costs	**-2,117**	**-2,154**	**-2,047**	**-2,470**	**-2,059**	**-2,107**	**-2,098**
Operating margin	**1,919**	**2,451**	**1,976**	**1,145**	**2,068**	**2,406**	**2,528**
Net provisions for risks and charges	-51	-97	-16	-55	-222	-68	-54
Net adjustments to loans	-917	-923	-694	-923	-769	-847	-767
Net impairment losses on other assets	-28	-36	-20	-108	-20	-31	-9
Profits (Losses) on investments held to maturity and on other investments	18	-35	-5	51	21	38	28
Income (Loss) before tax from continuing operations	**941**	**1,360**	**1,241**	**110**	**1,078**	**1,498**	**1,726**
Taxes on income from continuing operations	-278	-340	-383	-60	-339	-502	-634
Charges (net of tax) for integration and exit incentives	-16	-38	-13	-37	-15	-25	-6
Effect of purchase price allocation (net of tax)	-26	-27	-29	-33	-27	-33	-26
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-
Income (Loss) after tax from discontinued operations	16	15	13	15	15	14	15
Minority interests	-9	-69	-23	18	10	-12	-11
Net income (loss)	**628**	**901**	**806**	**13**	**722**	**940**	**1,064**

Figures restated, where necessary, considering the changes in the scope of consolidation.

Despite the modestly expanding economic environment, slowed down by political factors in the Eurozone and a heightened volatility in stock prices, which showed a particularly negative trend in Italy, the Intesa Sanpaolo Group ended the first nine months of 2016 with net income of 2,335 million euro. This result was achieved thanks to the strength of revenues, an attentive monitoring of operating costs and the overall stability of adjustments and provisions.
Net income was lower than in the same period of the previous year mostly due to the lower operating income.

Operating income

Operating income amounted to 12,664 million euro, down 4.5% compared to the first nine months of 2015, primarily as a result of the reduction in net interest income (-4.2%), net fees and commission income (-3.6%) as well as the growth of other operating expenses. Revenues in the third quarter of 2016 are in line with those of the first quarter, while they recorded a drop of 12.4% compared to the second quarter, attributable to the increase in other operating expenses related to the charges for the National Interbank Deposit Guarantee Fund and the lower contribution from trading activities and fees. In the second quarter, the caption other operating income benefited from the revenues related to the disposal of Visa Europe.

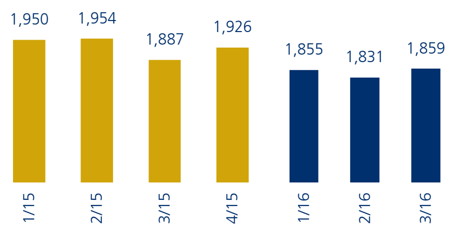
Net interest income

(millions of euro)

	30.09.2016	30.09.2015	Changes amount	Changes %
Relations with customers	5,625	6,251	-626	-10.0
Securities issued	-2,464	-2,905	-441	-15.2
Differentials on hedging derivatives	397	591	-194	-32.8
Customer dealing	**3,558**	**3,937**	**-379**	**-9.6**
Financial assets held for trading	115	177	-62	-35.0
Investments held to maturity	42	39	3	7.7
Financial assets available for sale	569	631	-62	-9.8
Financial assets	**726**	**847**	**-121**	**-14.3**
Relations with banks	**64**	**-4**	**68**	
Non-performing assets	**1,143**	**1,013**	**130**	**12.8**
Other net interest income	**54**	**-2**	**56**	
Net interest income	**5,545**	**5,791**	**-246**	**-4.2**

Figures restated, where necessary, considering the changes in the scope of consolidation.

Quarterly development Net interest income



Net interest income amounted to 5,545 million euro, down 4.2% compared to the same period of the previous year due to the trend of customer dealing and, to a lesser extent, the decline in interest on financial assets.
With the spread at historically very low levels, customer dealing stood at 3,558 million euro, down 9.6% compared to the same period of 2015. The decline in interest related to relations with customers was essentially due to the further reduction of the spread, only partly offset by a recovery of intermediated volumes. Hedging derivative differentials had a negative effect, declining by 194 million euro.
Interest on financial assets fell by 14.3%, due to the decline in interest on assets held for trading and available for sale (both -62 million euro).
Net interest income on the interbank market came to 64 million euro compared to the expense of 4 million euro in the first nine months of 2015, due to the reduction in interest expense on interbank funding. Interest and similar income on the exposure to the ECB, which amounted to an average of 30.6 billion euro in the first nine months of 2016, were included among other net interest income.

(millions of euro)

	2016 Third quarter (A)	2016 Second quarter (B)	2016 First quarter (C)	Changes % (A/B)	Changes % (B/C)
Relations with customers	1,873	1,874	1,878	-0.1	-0.2
Securities issued	-789	-835	-840	-5.5	-0.6
Differentials on hedging derivatives	118	141	138	-16.3	2.2
Customer dealing	**1,202**	**1,180**	**1,176**	**1.9**	**0.3**
Financial assets held for trading	37	36	42	2.8	-14.3
Investments held to maturity	15	13	14	15.4	-7.1
Financial assets available for sale	173	195	201	-11.3	-3.0
Financial assets	**225**	**244**	**257**	**-7.8**	**-5.1**
Relations with banks	**35**	**19**	**10**	**84.2**	**90.0**
Non-performing assets	**349**	**384**	**410**	**-9.1**	**-6.3**
Other net interest income	**48**	**4**	**2**		
Net interest income	**1,859**	**1,831**	**1,855**	**1.5**	**-1.3**

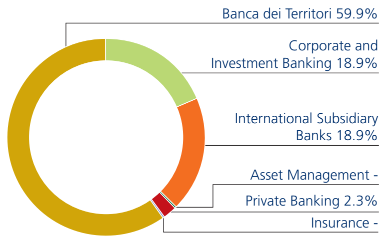
Figures restated, where necessary, considering the changes in the scope of consolidation.

The quarter's interest margin stands at a higher level than the second quarter, thanks to the lower interest expense on securities issued, and is in line with the value of the first quarter; in the third quarter, a positive contribution was recognised (about 37 million euro) from interest at negative rates deriving from the ECB's refinancing (TLTRO II), recognised according to the effective interest rate method required by the international accounting standards in relation to the growth expected in loans in the 1.2.2016 - 31.1.2018 period.

(millions of euro)

	30.09.2016	30.09.2015	Changes	
			amount	%
Banca dei Territori	3,476	3,666	-190	-5.2
Corporate and Investment Banking	1,094	1,157	-63	-5.4
International Subsidiary Banks	1,095	1,118	-23	-2.1
Private Banking	132	149	-17	-11.4
Asset Management	-	1	-1	
Insurance	-	-	-	-
Total business areas	**5,797**	**6,091**	**-294**	**-4.8**
Corporate Centre	-252	-300	-48	-16.0
Intesa Sanpaolo Group	**5,545**	**5,791**	**-246**	**-4.2**

Business areas



Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

The Banca dei Territori Division, which accounts for 60% of business area results, recorded a decline of 5.2% in net interest income, which was affected by the market scenario featuring negative rates. Interest attributable to the Corporate and Investment Banking Division declined (-5.4%), primarily as a result of smaller margins as well as the lower contribution from the Luxembourg subsidiary and capital market activities. Net interest income of the international subsidiary banks decreased by 2.1%, whereas that of Private Banking - which has a smaller relative impact on consolidated net income - declined by 11.4%.

Profits on investments carried at equity

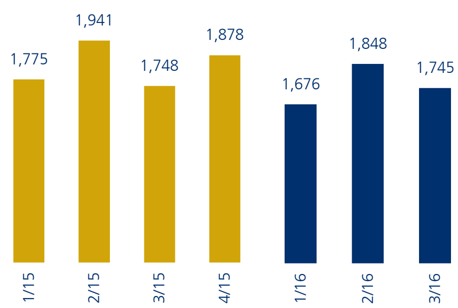
For the first nine months of 2016, this aggregate totalled 188 million euro, twice the 95 million euro posted for the same period of 2015, thanks to the stronger contributions from the companies consolidated at equity, markedly the subsidiaries in China and Luxembourg.

Net fee and commission income

(millions of euro)

	30.09.2016	30.09.2015	Changes	
			amount	%
Guarantees given / received	256	258	-2	-0.8
Collection and payment services	266	270	-4	-1.5
Current accounts	753	777	-24	-3.1
Credit and debit cards	282	288	-6	-2.1
Commercial banking activities	**1,557**	**1,593**	**-36**	**-2.3**
Dealing and placement of securities	381	537	-156	-29.1
Currency dealing	30	33	-3	-9.1
Portfolio management	1,509	1,656	-147	-8.9
Distribution of insurance products	1,024	900	124	13.8
Other	126	135	-9	-6.7
Management, dealing and consultancy activities	**3,070**	**3,261**	**-191**	**-5.9**
Other net fee and commission income	**642**	**610**	**32**	**5.2**
Net fee and commission income	**5,269**	**5,464**	**-195**	**-3.6**

Quarterly development Net fee and commission income



Figures restated, where necessary, considering the changes in the scope of consolidation.

Net fee and commission income for the first nine months of the year, which make up more than 40% of operating income, came to 5,269 million euro, down 3.6% compared to the same period of 2015, mainly as a result of the performance of the management and dealing activity, which was affected by the unfavourable market conditions.
Fee and commission income on commercial banking activities amounted to 1,557 million euro, down 2.3% as a result of the moderate decline in fees and commissions on current accounts, debit card and credit card services and collection and payment services.
Management, dealing and financial consultancy activities, which provided the greatest contribution, generated net fee and commission income of 3,070 million euro, down 5.9% compared to the first nine months of 2015.
The significant commercial effort devoted by the Group's distribution network to asset management products, and in particular in the policies with financial content, the fees and commissions on which are partially included in income from insurance business, were undermined by the significant decline in equity prices, which was especially heavy on Italian stocks. This trend affected trading volumes, thereby reducing security dealing and placement commissions and completely eliminating performance commissions on asset management products. Conversely, there was a sharp increase in fees and commissions on insurance products (+13.8%), which match the financial content to some hedging of risks; also the other net fee and commission income contributed positively, up 5.2%.

(millions of euro)

	2016			Changes %	
	Third quarter (A)	**Second quarter** (B)	**First quarter** (C)	(A/B)	(B/C)
Guarantees given / received	90	83	83	8.4	-
Collection and payment services	90	91	85	-1.1	7.1
Current accounts	251	255	247	-1.6	3.2
Credit and debit cards	98	94	90	4.3	4.4
Commercial banking activities	**529**	**523**	**505**	**1.1**	**3.6**
Dealing and placement of securities	137	153	91	-10.5	68.1
Currency dealing	10	10	10	-	-
Portfolio management	504	512	493	-1.6	3.9
Distribution of insurance products	335	362	327	-7.5	10.7
Other	47	38	41	23.7	-7.3
Management, dealing and consultancy activities	**1,033**	**1,075**	**962**	**-3.9**	**11.7**
Other net fee and commission income	**183**	**250**	**209**	**-26.8**	**19.6**
Net fee and commission income	**1,745**	**1,848**	**1,676**	**-5.6**	**10.3**

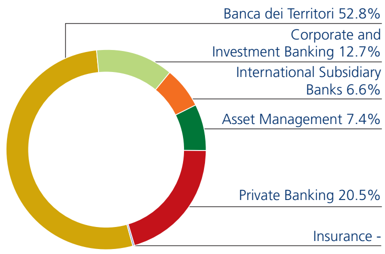
Figures restated, where necessary, considering the changes in the scope of consolidation.

In the third quarter of 2016, net fee and commission income declined compared to the second quarter of the year, as a result of the lower contribution of the other net fee and commission income and the reduced activity in terms of security dealing and placement, though recovering compared to the amount recorded in the first quarter.

(millions of euro)

	30.09.2016	30.09.2015	Changes	
			amount	%
Banca dei Territori	2,904	3,046	-142	-4.7
Corporate and Investment Banking	698	612	86	14.1
International Subsidiary Banks	360	382	-22	-5.8
Private Banking	1,128	1,111	17	1.5
Asset Management	407	482	-75	-15.6
Insurance	-	-	-	-
Total business areas	**5,497**	**5,633**	**-136**	**-2.4**
Corporate Centre	-228	-169	59	34.9
Intesa Sanpaolo Group	**5,269**	**5,464**	**-195**	**-3.6**

Business areas



Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

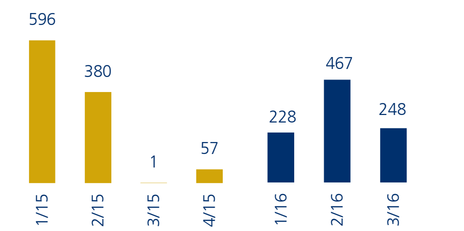
With regard to business areas, the Banca dei Territori Division, which accounts for 53% of the fee and commission income of the business units, recorded a decline (-4.7%, or -142 million euro), specifically for asset management and administration products, only partly offset by the development of fees and commissions from the bancassurance and protection products. Decreases were also recorded by the Asset Management Division (-15.6%), due to the elimination of incentive commissions collected on the products managed, only partly absorbed by the increase in management fees related to the development of average assets under management, and by the International Subsidiary Banks (-5.8%). Conversely, an increase was reported by the Corporate and Investment Banking Division (+14.1%), due to the rise in fee and commission income, recorded above all in the commercial banking sector (which includes loans, guarantees and interbank services) and the capital markets sector and by the Private Banking Division (+1.5%).

Profits (Losses) on trading

(millions of euro)

	30.09.2016	30.09.2015	Changes	
			amount	%
Interest rates	26	51	-25	-49.0
Equity instruments	72	133	-61	-45.9
Currencies	178	164	14	8.5
Structured credit products	15	-2	17	
Credit derivatives	39	-57	96	
Commodity derivatives	17	22	-5	-22.7
Trading result	**347**	**311**	**36**	**11.6**
Trading on AFS securities and financial liabilities	**596**	**666**	**-70**	**-10.5**
Profits (Losses) on trading	**943**	**977**	**-34**	**-3.5**

Quarterly development Profits (losses) on trading



Figures restated, where necessary, considering the changes in the scope of consolidation.

In the first nine months of 2016, trading activities yielded a profit of 943 million euro, down from the 977 million euro recognised in the first nine months of 2015, which had benefited from the launch of quantitative easing and more favourable market conditions, markedly in the first quarter, when significant capital gains were realised on portfolios of financial assets available for sale. The decrease was attributable to trading of AFS securities and financial liabilities, only partially offset by the positive result in profits on trading.

(millions of euro)

	2016			Changes %	
	Third quarter (A)	Second quarter (B)	First quarter (C)	(A/B)	(B/C)
Interest rates	-6	-2	34		
Equity instruments	40	56	-24	-28.6	
Currencies	7	117	54	-94.0	
Structured credit products	10	6	-1	66.7	
Credit derivatives	26	-4	17		
Commodity derivatives	-3	9	11		-18.2
Trading result	**74**	**182**	**91**	**-59.3**	
Trading on AFS securities and financial liabilities	**174**	**285**	**137**	**-38.9**	
Profits (Losses) on trading	**248**	**467**	**228**	**-46.9**	

Figures restated, where necessary, considering the changes in the scope of consolidation.

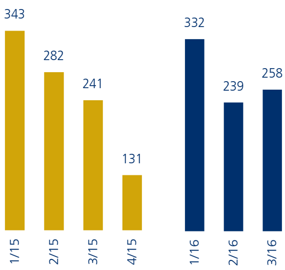
There was a better result in the third quarter of the current year compared to the first quarter, though lower than the 467 million euro in revenues of the second quarter which included the collection of the dividend on the stake held in the Bank of Italy (121 million euro).
It should be noted that the sub-caption "Trading on AFS securities and financial liabilities" incorporates, in addition to dividends and proceeds on the trading of securities classified as available for sale, the effects of the measurement at fair value of financial liabilities issued associated with an assessment of creditworthiness in accordance with the fair value option.

Income from insurance business

(millions of euro)

Captions (a)	**30.09.2016**			**30.09.2015**			**Changes**	
	Life	Non-life	**Total**	Life	Non-life	**Total**	**amount**	**%**
Technical margin	**13**	**59**	**72**	**17**	**39**	**56**	**16**	**28.6**
Net insurance premiums (b)	6,565	222	6,787	8,545	180	8,725	-1,938	-22.2
Net charges for insurance claims and surrenders (c)	-6,120	-64	-6,184	-7,148	-67	-7,215	-1,031	-14.3
Net charges for changes in technical reserves (d)	-1,401	-	-1,401	-2,505	-	-2,505	-1,104	-44.1
Gains (losses) on investments pertaining to insured parties on insurance products (e)	1,164	-	1,164	1,322	-	1,322	-158	-12.0
Net fees on investment contracts (f)	187	1	188	137	-	137	51	37.2
Commission expenses on insurance contracts (g)	-386	-72	-458	-366	-48	-414	44	10.6
Other technical income and expense (h)	4	-28	-24	32	-26	6	-30	
Net investment result	**877**	**24**	**901**	**851**	**26**	**877**	**24**	**2.7**
Operating income from investments	2,782	24	2,806	1,786	26	1,812	994	54.9
Net interest income	*1,494*	*5*	*1,499*	*1,527*	*6*	*1,533*	*-34*	*-2.2*
Dividends	*178*	*2*	*180*	*131*	*2*	*133*	*47*	*35.3*
Gains/losses on disposal	*410*	*17*	*427*	*1,456*	*18*	*1,474*	*-1,047*	*-71.0*
Valuation gains/losses	*756*	-	*756*	*-1,260*	-	*-1,260*	*2,016*	
Portfolio management fees paid (i)	*-56*	-	*-56*	*-68*	-	*-68*	*-12*	*-17.6*
Gains (losses) on investments pertaining to insured parties	-1,905	-	-1,905	-935	-	-935	970	
Insurance products (j)	*-1,120*	-	*-1,120*	*-1,258*	-	*-1,258*	*-138*	*-11.0*
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*-44*	-	*-44*	*-64*	-	*-64*	*-20*	*-31.3*
Investment products (l)	*-741*	-	*-741*	*387*	-	*387*	*-1,128*	
Income from insurance business gross of consolidation effects	**890**	**83**	**973**	**868**	**65**	**933**	**40**	**4.3**
Consolidation effects	*-141*	*-3*	*-144*	*-63*	*-4*	*-67*	*77*	
Income from insurance business	**749**	**80**	**829**	**805**	**61**	**866**	**-37**	**-4.3**

Quarterly development Income from insurance business



Figures restated, where necessary, considering the changes in the scope of consolidation.

(a) The table illustrates the economic components of the insurance business broken down into those regarding:
- products considered to be insurance products according to IAS/IFRS, which include contracts where the risk insured is considered significant or in which the decision of the return on the contracts is not market-based but depends on the insurance company's choices;
- investment products, which include financial products without a significant insurance risk. The latter are accounted for in the consolidated financial statements as financial movements.

(b) The caption includes premiums issued only for products considered to be insurance products according to IAS/IFRS, net of the portions ceded to reinsurers. For the non-life insurance business, the change in the premiums reserve is also included.

(c) The caption includes the amounts paid (claims, surrenders and maturities) and the change in claims reserves and reserves for amounts to be paid, net of portions ceded to reinsurers.

(d) The caption includes the change in technical reserves, net of the portions ceded to reinsurers.

(e) The caption includes the portion of the profit/loss from investments (for insurance products) pertaining to insured parties, including the impact of shadow accounting.

(f) The caption includes net fees on investment products; specifically, charges paid by customers, management fees received by the financial units and fee expenses reversed by the insurance companies to the sales network and management companies.

(g) The caption includes commission expenses on insurance products (including unit and index-linked insurance products and pension funds) paid to the sales network.

(h) Residual caption comprising fee income on insurance product management fee income (unit and index-linked insurance products and pension funds), rebates, net interest income on current accounts of the insurance company and on subordinated loans and other income and technical charges.

(i) The caption includes fees paid to management companies for the management of traditional insurance products (separate management) portfolios and pension funds. This also includes fees from consolidated funds underlying insurance units.

(j) The caption includes the portion of the profit/loss from investments (for insurance products) pertaining to insured parties, without the impact of shadow accounting.

(k) The caption includes the portion of unrealized capital gains/losses pertaining to insured parties on insurance products (shadow accounting).

(l) The caption refers to the valuation of financial liabilities designated at fair value which represent the amount payable to insured parties for investment products.

During the first nine months of 2016, income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, was 829 million euro, compared to the 866 million euro recorded in the same period of 2015. The life business benefited from the higher net investment result, attributable to the improvement in valuation gains; conversely, the technical margin dropped slightly, though with marginal volumes.
The non-life business recorded an increase, thus reaching profits of 80 million euro (61 million euro recorded in the first half of 2015). This performance was entirely due to the increase in the technical margin.

(millions of euro)

Captions (a)	2016			Changes %	
	Third quarter (A)	**Second quarter** (B)	**First quarter** (C)	(A/B)	(B/C)
Technical margin	**-6**	**48**	**30**		**60.0**
Net insurance premiums (b)	1,643	2,044	3,100	-19.6	-34.1
Net charges for insurance claims and surrenders (c)	-1,873	-2,255	-2,056	-16.9	9.7
Net charges for changes in technical reserves (d)	-56	-91	-1,254	-38.5	-92.7
Gains (losses) on investments pertaining to insured parties on insurance products (e)	366	446	352	-17.9	26.7
Net fees on investment contracts (f)	72	57	59	26.3	-3.4
Commission expenses on insurance contracts (g)	-147	-149	-162	-1.3	-8.0
Other technical income and expense (h)	-11	-4	-9		-55.6
Net investment result	**304**	**259**	**338**	**17.4**	**-23.4**
Operating income from investments	1,554	1,162	90	33.7	
Net interest income	*500*	*516*	*483*	*-3.1*	*6.8*
Dividends	*56*	*83*	*41*	*-32.5*	
Gains/losses on disposal	*175*	*105*	*147*	*66.7*	*-28.6*
Valuation gains/losses	*841*	*477*	*-562*	*76.3*	
Portfolio management fees paid (i)	*-18*	*-19*	*-19*	*-5.3*	*-*
Gains (losses) on investments pertaining to insured parties	-1,250	-903	248	38.4	
Insurance products (j)	*-394*	*-394*	*-332*	*-*	*18.7*
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*28*	*-52*	*-20*		
Investment products (l)	*-884*	*-457*	*600*	*93.4*	
Income from insurance business gross of consolidation effects	**298**	**307**	**368**	**-3**	**-16.6**
Consolidation effects	-40	-68	-36	-41	*88.9*
Income from insurance business	**258**	**239**	**332**	**8**	**-28.0**

Figures restated, where necessary, considering the changes in the scope of consolidation.

For notes, see the previous table.

In the third quarter of 2016, income from insurance business, inclusive of both the life and non-life businesses, was 8% higher than that of the second quarter of 2016, as a result of the higher net investment result and the lower impact of consolidation effects.

(millions of euro)

	30.09.2016				30.09.2015
	Periodic premiums	**Single premiums**	**Total**	*of which new business*	
Life insurance business	**128**	**6,438**	**6,566**	***6,438***	**8,546**
Premiums issued on traditional products	111	6,073	6,184	*6,073*	8,238
Premiums issued on unit-linked products	7	8	15	*8*	23
Premiums issued on capitalisation products	-	-	-	-	1
Premiums issued on pension funds	10	357	367	*357*	284
Non-life insurance business	**49**	**176**	**225**	***71***	**182**
Premiums issued	49	240	289	*193*	201
Change in premium reserves	-	-64	-64	*-122*	-19
Premiums ceded to reinsurers	**-4**	**-3**	**-7**	***-2***	**-7**
Net premiums from insurance products	**173**	**6,611**	**6,784**	***6,507***	**8,721**
Business on index-linked contracts	-	-	-	-	-
Business on unit-linked contracts	69	11,355	11,424	*11,358*	11,255
Total business from investment contracts	**69**	**11,355**	**11,424**	***11,358***	**11,255**
Total business	**242**	**17,966**	**18,208**	***17,865***	**19,976**

Figures restated, where necessary, considering the changes in the scope of consolidation.

In the first nine months of 2016, business in the insurance segment remained at high levels, although lower than those of the corresponding period in 2015, where premiums of almost 20 billion euro were deposited. In 2016 a larger component of unit-linked investment contracts was recorded, against a reduction in life business traditional policies, which represent a mature market where the group achieved very high penetration levels.

New business was approximately 17.9 billion euro, confirming the fact that the premiums of the Group's insurance companies relate almost entirely to new single-premium contracts.

Other operating income (expenses)

Other operating income (expenses) is a caption comprising various types of income and expenses that cannot be recognised in other operating income captions, except expense, tax and duty recoveries that have been directly deducted from the corresponding sub-captions of administrative expenses. This item includes expenses of 148 million euro for the contributions paid into the resolution fund and 115 million euro for the deposit guarantee schemes, covering full-year 2016.

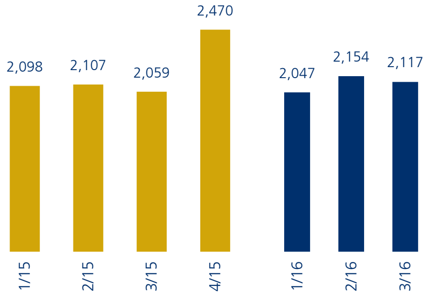
In the first nine months of 2016 other operating expenses amounted to 110 million euro, due to the greater costs incurred for the European Single Resolution Fund and the Deposit Guarantee Fund, partly offset by the profits from the disposal of Visa Europe (170 million euro) and compared with the other income of the same period of 2015, which amounted to 73 million euro.

Operating costs

(millions of euro)

	30.09.2016	30.09.2015	Changes	
			amount	%
Wages and salaries	2,690	2,617	73	2.8
Social security charges	683	672	11	1.6
Other	546	518	28	5.4
Personnel expenses	**3,919**	**3,807**	**112**	**2.9**
Information technology expenses	451	441	10	2.3
Management of real estate assets expenses	401	436	-35	-8.0
General structure costs	295	308	-13	-4.2
Professional and legal expenses	276	288	-12	-4.2
Advertising and promotional expenses	75	87	-12	-13.8
Indirect personnel costs	66	68	-2	-2.9
Other costs	242	243	-1	-0.4
Indirect taxes and duties	654	667	-13	-1.9
Recovery of expenses and charges	-602	-609	-7	-1.1
Administrative expenses	**1,858**	**1,929**	**-71**	**-3.7**
Property and equipment	249	259	-10	-3.9
Intangible assets	292	269	23	8.6
Adjustments	**541**	**528**	**13**	**2.5**
Operating costs	**6,318**	**6,264**	**54**	**0.9**

Quarterly development Operating costs



Figures restated, where necessary, considering the changes in the scope of consolidation.

Operating costs amounted to 6,318 million euro, slightly up compared to the same period of the previous year. Personnel expenses, equal to 3,919 million euro, showed an increase (+2.9%, equal to 112 million euro), mainly due to the greater incentives in support of growth. Administrative expenses amounted to 1,858 million euro, down 3.7% compared to the first nine months of the previous year, thanks to the savings achieved on property management, general structure costs, legal and professional fees and advertising and promotional expenses.
Adjustments equalled 541 million euro, up 2.5% compared with the same period of 2015, with a greater incidence of amortisation of intangible assets.
The cost/income ratio for the period amounted to 49.9%, up on the 47.2% recorded in the first nine months of 2015 due to the downtrend in revenues and, to a lesser extent, the increase in expenses.

(millions of euro)

	2016			Changes %	
	Third quarter (A)	Second quarter (B)	First quarter (C)	(A/B)	(B/C)
Wages and salaries	897	919	874	-2.4	5.1
Social security charges	229	236	218	-3.0	8.3
Other	180	183	183	-1.6	-
Personnel expenses	**1,306**	**1,338**	**1,275**	**-2.4**	**4.9**
Information technology expenses	152	152	147	-	3.4
Management of real estate assets expenses	133	134	134	-0.7	-
General structure costs	93	102	100	-8.8	2.0
Professional and legal expenses	106	93	77	14.0	20.8
Advertising and promotional expenses	28	27	20	3.7	35.0
Indirect personnel costs	19	27	20	-29.6	35.0
Other costs	75	84	83	-10.7	1.2
Indirect taxes and duties	212	231	211	-8.2	9.5
Recovery of expenses and charges	-193	-212	-197	-9.0	7.6
Administrative expenses	**625**	**638**	**595**	**-2.0**	**7.2**
Property and equipment	85	81	83	4.9	-2.4
Intangible assets	101	97	94	4.1	3.2
Adjustments	**186**	**178**	**177**	**4.5**	**0.6**
Operating costs	**2,117**	**2,154**	**2,047**	**-1.7**	**5.2**

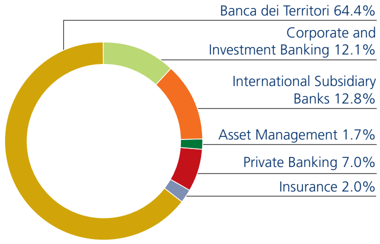
Figures restated, where necessary, considering the changes in the scope of consolidation.

At the level of quarterly analysis, operating costs in the third quarter were 1.7% lower than in the second quarter of the year. The improvement is mostly attributable to personnel expenses and, to a lesser extent, to administrative expenses, specifically those on services provided by third parties and structure costs.

(millions of euro)

	30.09.2016	30.09.2015	Changes	
			amount	%
Banca dei Territori	3,627	3,615	12	0.3
Corporate and Investment Banking	683	681	2	0.3
International Subsidiary Banks	718	749	-31	-4.1
Private Banking	391	387	4	1.0
Asset Management	97	100	-3	-3.0
Insurance	115	111	4	3.6
Total business areas	**5,631**	**5,643**	**-12**	**-0.2**
Corporate Centre	687	621	66	10.6
Intesa Sanpaolo Group	**6,318**	**6,264**	**54**	**0.9**

Business areas



Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

The performance of Group operating costs was the result of a differentiated dynamic amongst the business units. The Banca dei Territori Division, which accounts for 64% of all costs for the business areas, showed substantial stability (+0.3%): the moderate increase in personnel expenses, related to the growth incentives, was largely offset by the reduction in administrative expenses. Also the Corporate and Investment Banking Division showed operating costs in line with those of the corresponding period of 2015 (+0.3%). The Insurance and Private Banking Divisions recorded growth (+3.6% and +1%, respectively), attributable to higher personnel and administrative expenses. Conversely, savings were reported by the International Subsidiary Banks (-31 million euro or -4.1%), due to the reduction in all expense captions, and by Asset Management (-3%), as a result of lower personnel expenses.

Operating margin

The operating margin was 6,346 million euro in the first nine months of 2016, down 9.4% compared to the same period of 2015, as a result of the revenue performance and a moderate increase in costs. At the quarterly level, the operating margin recorded in the third quarter was lower than in the second quarter (-21.7%).

Adjustments to/write-backs on assets

Net provisions for risks and charges

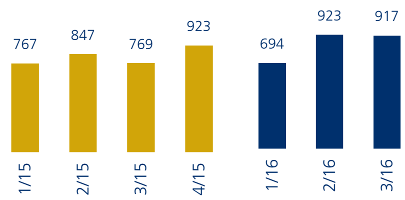
In the first nine months of 2016, net provisions for risks and charges stood at 164 million euro, down compared to 344 million euro of the same period of 2015, which included the expenses connected to the loans in Swiss francs of the Croatian subsidiary bank.

Net adjustments to loans

(millions of euro)

	30.09.2016	30.09.2015	Changes	
			amount	%
Bad loans	-1,488	-1,159	329	28.4
Unlikely to pay	-955	-973	-18	-1.8
Past due loans	-199	-269	-70	-26.0
Performing loans	57	-36	93	
Net losses/recoveries on impairment of loans	**-2,585**	**-2,437**	**148**	**6.1**
Net adjustments to/recoveries on guarantees and commitments	**51**	**54**	**-3**	**-5.6**
Net adjustments to loans	**-2,534**	**-2,383**	**151**	**6.3**

Quarterly development Net adjustments to loans



Figures restated, where necessary, considering the changes in the scope of consolidation.

Against an increase in adjustments to loans in the first nine months of 2016, the annualised cost of credit, expressed as the ratio of net adjustments to net loans, remained at the same levels of the first nine months of 2015 (93 bps).
In particular, net adjustments to loans amounted to 2,534 million euro, with an increase of 6.3% compared to the same period of 2015; the increase in adjustments to bad loans was offset by lower adjustments to other non-performing loans and recoveries on the portfolio of performing loans related to the reduction of the incurred loss. Those adjustments ensure adequate coverage of both performing and non-performing loans. Bad loans required total net adjustments of 1,488 million euro, with an average coverage ratio of 60.5%. Net impairment losses on unlikely to pay exposures, totalling 955 million euro, decreased by 1.8% compared to the same period of the previous year, with a coverage ratio of 26.2%. Net impairment losses on past due loans declined to 199 million euro (-26%). The coverage ratio for forborne positions within the non-performing loans category was 29.8% at the end of September 2016.
Lastly, within the performing loan portfolio, the generic reserve offers a stable coverage ratio for the physiological risk inherent in the portfolio of 0.6%.

(millions of euro)

	2016			Changes %	
	Third quarter (A)	**Second quarter** (B)	**First quarter** (C)	(A/B)	(B/C)
Bad loans	-515	-468	-505	10.0	-7.3
Unlikely to pay	-370	-412	-173	-10.2	
Past due loans	-56	-69	-74	-18.8	-6.8
Performing loans	21	9	27		-66.7
Net losses/recoveries on impairment of loans	**-920**	**-940**	**-725**	**-2.1**	**29.7**
Net adjustments to/recoveries on guarantees and commitments	**3**	**17**	**31**	**-82.4**	**-45.2**
Net adjustments to loans	**-917**	**-923**	**-694**	**-0.7**	**33.0**

Figures restated, where necessary, considering the changes in the scope of consolidation.

The flow of adjustments in the third quarter of 2016 is in line with that of the second quarter and higher compared to the first quarter, especially following the adjustments to unlikely to pay exposures.

Net impairment losses on other assets
In the first nine months of 2016, impairment losses on assets other than loans (financial assets available for sale, investments held to maturity, property and equipment and intangible assets) amounted to 84 million euro, compared to 60 million euro in the first nine months of 2015.

Profits (Losses) on investments held to maturity and on other investments
Investments held to maturity and other investments generated a loss of 22 million euro, compared to a profit of 87 million euro in the same period of 2015.

Income before tax from continuing operations

Income before tax from continuing operations came to 3,542 million euro, compared to the 4,302 million euro recorded in the same period of the previous year.

Other income and expense captions

Taxes on income from continuing operations
Current and deferred taxes came to 1,001 million euro, corresponding to a tax rate of 28.3%.

Charges (net of tax) for integration and exit incentives
This caption amounted to 67 million euro, compared to 46 million euro reported for the first nine months of 2015.

Effect of purchase price allocation (net of tax)
This caption comprises amounts attributable to the revaluation of loans, debts, real estate and the recognition of new intangible assets, in application of IFRS 3, upon recognition of acquisition transactions. In the first nine months of 2016, these costs amounted to 82 million euro, confirming the structural decline that began in previous periods.

Income (Loss) from discontinued operations (net of tax)
During the period, a profit of 44 million euro was recognised, referring to ordinary net income recorded by Setefi, a subsidiary for which a sale agreement was signed.

Minority interests
Net income attributable to minority interests was 101 million euro.

Net income (loss)

As a result of the events described above, the Group ended the first nine months of 2016 with net income of 2,335 million euro, showing a decline over the last quarter compared to an excellent second quarter in 2016, also in relation to the typical summer seasonal effect and the expenses for the deposit guarantee scheme.

Balance sheet aggregates

General aspects

A condensed balance sheet is prepared to permit a more immediate understanding of the Group's assets and liabilities. Where necessary, comparative figures are restated to account for discontinued operations and changes in the scope of consolidation. As usual, certain captions have been aggregated with respect to the model provided in Circular 262/05 of the Bank of Italy.

The restated financial statements are obtained by making appropriate adjustments to historical data to reflect the significant effects of such changes retroactively. Any differences due to the possibility of choosing between different options provided for by IAS/IFRS or arising from the use of different methods or parameters to measure assets and liabilities are not considered, as they are deemed irrelevant. Last, please note that no intragroup relations are netted where their amount is not significant.

Breakdowns of restatements and aggregations of captions are provided in separate tables included in the attachments to the consolidated financial statements, as also required by Consob in its Communication 6064293 of 28 July 2006.

Aggregations of captions refer to:

– the inclusion of Cash and cash equivalents in the residual caption Other assets;
– the inclusion of Hedging derivatives and Fair value change of financial assets/liabilities in hedged portfolios in Other assets/liabilities;
– the inclusion of the technical insurance reserves reassured with third parties under Other assets;
– the aggregation in one single caption of Property and equipment and Intangible assets;
– the aggregation of Due to customers and Securities issued into one caption;
– the aggregation into one caption of allowances for specific purpose (Employee termination indemnities and Allowances for risks and charges);
– the presentation of Reserves as an aggregate and net of any treasury shares.

Again, to provide a more effective presentation of the composition of aggregates, derivatives recorded in Financial assets/liabilities held for trading and Due from/Due to banks are presented on a net basis in the tables and in the relative comments.

Reclassified balance sheet

(millions of euro)

Assets	**30.09.2016**	**31.12.2015**	**Changes amount**	**%**
Financial assets held for trading	50,232	51,597	-1,365	-2.6
of which: Insurance Companies	*524*	*728*	*-204*	*-28.0*
Financial assets designated at fair value through profit and loss	61,338	53,663	7,675	14.3
of which: Insurance Companies	*60,187*	*52,519*	*7,668*	*14.6*
Financial assets available for sale	146,885	131,334	15,551	11.8
of which: Insurance Companies	*80,792*	*75,646*	*5,146*	*6.8*
Investments held to maturity	1,231	1,386	-155	-11.2
Due from banks	37,528	34,445	3,083	9.0
Loans to customers	364,836	347,333	17,503	5.0
Investments in associates and companies subject to joint control	1,387	1,383	4	0.3
Property, equipment and intangible assets	12,108	12,536	-428	-3.4
Tax assets	14,163	15,007	-844	-5.6
Non-current assets held for sale and discontinued operations	772	3,431	-2,659	-77.5
Other assets	23,917	24,453	-536	-2.2
Total Assets	**714,397**	**676,568**	**37,829**	**5.6**

Liabilities and Shareholders' Equity	**30.09.2016**	**31.12.2015**	**Changes amount**	**%**
Due to banks	69,641	59,327	10,314	17.4
Due to customers and securities issued	372,372	365,419	6,953	1.9
of which: Insurance Companies	*1,320*	*1,310*	*10*	*0.8*
Financial liabilities held for trading	48,143	43,522	4,621	10.6
of which: Insurance Companies	*117*	*144*	*-27*	*-18.8*
Financial liabilities designated at fair value through profit and loss	54,373	47,022	7,351	15.6
of which: Insurance Companies	*54,373*	*47,022*	*7,351*	*15.6*
Tax liabilities	2,235	2,351	-116	-4.9
Liabilities associated with non-current assets held for sale and discontinued operations	413	116	297	
Other liabilities	25,939	20,773	5,166	24.9
Technical reserves	87,370	84,616	2,754	3.3
Allowances for specific purpose	5,049	4,829	220	4.6
Share capital	8,732	8,732	-	-
Reserves	36,774	36,446	328	0.9
Valuation reserves	-1,737	-1,018	719	70.6
Equity instruments	2,118	877	1,241	
Minority interests	640	817	-177	-21.7
Net income (loss)	2,335	2,739	-404	-14.7
Total Liabilities and Shareholders' Equity	**714,397**	**676,568**	**37,829**	**5.6**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.

In the first nine months of 2016, Intesa Sanpaolo's consolidated assets and liabilities increased by 5.6%. With regard to assets, growth was posted in both loans to customers and total financial assets. In detail, financial assets available for sale increased by 15.6 billion euro, financial assets designated at fair value by 7.7 billion euro, while financial assets held for trading recorded a decline of 1.4 billion euro; loans to customers increased by 17.5 billion euro, driven by the recovery of commercial banking loans, and loans to banking counterparties were up 3.1 billion euro. Liabilities showed increases in almost all components: +7 billion euro for amounts due to customers and securities issued, +10.3 billion euro for amounts due to banks, +5.2 billion euro for other liabilities, +4.6 billion euro for financial liabilities held for trading, +7.4 billion euro for financial liabilities designated at fair value and +2.8 billion euro to the technical reserves, both attributable to the Group's insurance companies.

Quarterly development of the reclassified balance sheet

(millions of euro)

Assets	2016			2015			
	30/9	30/6	31/3	31/12	30/9	30/6	31/3
Financial assets held for trading	50,232	52,499	54,786	51,597	52,391	51,996	62,257
of which: Insurance Companies	*524*	*648*	*721*	*728*	*775*	*754*	*823*
Financial assets designated at fair value through profit and loss	61,338	57,948	54,480	53,663	49,998	49,407	48,620
of which: Insurance Companies	*60,187*	*56,908*	*53,358*	*52,519*	*48,877*	*48,203*	*47,361*
Financial assets available for sale	146,885	152,465	142,816	131,334	133,353	135,430	138,066
of which: Insurance Companies	*80,792*	*80,379*	*78,393*	*75,646*	*72,548*	*71,463*	*74,813*
Investments held to maturity	1,231	1,246	1,317	1,386	1,379	1,426	1,470
Due from banks	37,528	36,879	33,540	34,445	33,994	31,147	34,942
Loans to customers	364,836	360,240	358,478	347,333	342,509	341,634	343,606
Investments in associates and companies subject to joint control	1,387	1,400	1,407	1,383	1,448	1,413	1,596
Property, equipment and intangible assets	12,108	12,116	12,114	12,536	12,112	12,185	12,259
Tax assets	14,163	14,398	14,583	15,007	14,809	14,946	14,366
Non-current assets held for sale and discontinued operations	772	966	3,545	3,431	3,294	3,206	3,134
Other assets	23,917	27,135	23,297	24,453	23,044	25,720	23,169
Total Assets	**714,397**	**717,292**	**700,363**	**676,568**	**668,331**	**668,510**	**683,485**

Liabilities and Shareholders' Equity	2016			2015			
	30/9	30/6	31/3	31/12	30/9	30/6	31/3
Due to banks	69,641	67,656	60,343	59,327	64,118	62,493	58,312
Due to customers and securities issued	372,372	379,643	373,224	365,419	352,998	358,870	364,309
of which: Insurance Companies	*1,320*	*1,362*	*1,361*	*1,310*	*1,460*	*1,319*	*1,303*
Financial liabilities held for trading	48,143	49,340	48,936	43,522	44,189	43,221	54,398
of which: Insurance Companies	*117*	*104*	*95*	*144*	*169*	*138*	*234*
Financial liabilities designated at fair value through profit and loss	54,373	51,360	48,031	47,022	43,657	43,451	42,088
of which: Insurance Companies	*54,373*	*51,360*	*48,031*	*47,022*	*43,657*	*43,451*	*42,088*
Tax liabilities	2,235	2,186	2,564	2,351	3,386	2,967	3,354
Liabilities associated with non-current assets held for sale and discontinued operations	413	336	350	116	101	121	98
Other liabilities	25,939	26,798	25,181	20,773	25,013	26,825	25,983
Technical reserves	87,370	86,813	86,664	84,616	81,965	79,645	82,925
Allowances for specific purpose	5,049	4,987	4,792	4,829	4,698	4,588	5,276
Share capital	8,732	8,732	8,732	8,732	8,730	8,725	8,725
Reserves	36,774	36,830	39,184	36,446	36,435	36,415	37,545
Valuation reserves	-1,737	-1,860	-1,387	-1,018	-1,183	-1,449	-1,147
Equity instruments	2,118	2,118	2,118	877	875	-	-
Minority interests	640	646	825	817	623	634	555
Net income (loss)	2,335	1,707	806	2,739	2,726	2,004	1,064
Total Liabilities and Shareholders' Equity	**714,397**	**717,292**	**700,363**	**676,568**	**668,331**	**668,510**	**683,485**

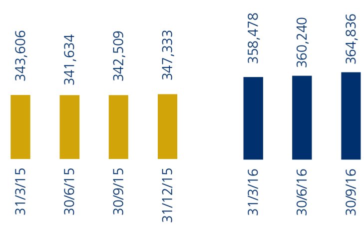
Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.

Loans to customers

(millions of euro)

	30.09.2016	% breakdown	31.12.2015	% breakdown	Changes amount	Changes %
Current accounts	23,072	6.3	24,535	7.1	-1,463	-6.0
Mortgages	144,089	39.5	138,036	39.7	6,053	4.4
Advances and other loans	121,978	33.4	116,843	33.6	5,135	4.4
Commercial banking loans	**289,139**	**79.2**	**279,414**	**80.4**	**9,725**	**3.5**
Repurchase agreements	**30,137**	**8.3**	**21,449**	**6.2**	**8,688**	**40.5**
Loans represented by securities	**14,516**	**4.0**	**13,384**	**3.9**	**1,132**	**8.5**
Non-performing loans	**31,044**	**8.5**	**33,086**	**9.5**	**-2,042**	**-6.2**
Loans to customers	**364,836**	**100.0**	**347,333**	**100.0**	**17,503**	**5.0**

Quarterly development Loans to customers



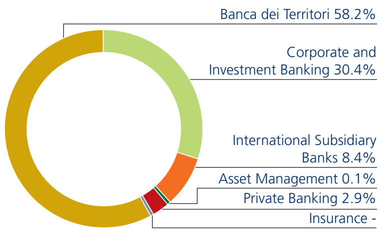
Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.

As at 30 September 2016, Intesa Sanpaolo Group loans to customers reached 365 billion euro, up 5% compared to the end of the previous year.
The positive performance of loans was due to both the rise in commercial banking loans (+9.7 billion euro or +3.5%) and reverse repurchase agreements, which rose by 8.7 billion euro (+40.5%). The recovery in commercial banking loans, which benefited from the improved outlook for the economy, was driven by the expansion of mortgages (+6.1 billion euro or +4.4%) and the development of advances and loans (+5.1 billion euro or +4.4%). In the presence of advantageous market conditions for customers, credit was directed above all to retail customers in the form of consumer credit products and mortgage loans for home purchases, in most cases secured by collateral.
In the domestic medium-/long-term loan market, in the first nine months of 2016 disbursements to households (including the small business accounts having similar needs to family businesses) exceeded 14 billion euro, while disbursements to businesses under the Banca dei Territori scope (including customers with turnover of up to 350 million euro) came to 10.6 billion euro. During the same period, medium-/long-term disbursements to segments included in the scope of the Corporate Division amounted to 8.4 billion euro. Including the extra-captive activities of Mediocredito, disbursements within Italy exceeded 34 billion euro. On the whole, medium-/long-term disbursements for the Group in the first nine months of 2016 were close to 40 billion euro.
As at 30 September 2016, the Group's share of the domestic market (calculated on the harmonised time-series established for countries in the Eurozone) was estimated at 15.8% for total loans. The estimate was based on the sample deriving from the ten-day report of the Bank of Italy as the global banking system figure for the end of September is not yet available.

(millions of euro)

	30.09.2016	31.12.2015	Changes amount	Changes %
Banca dei Territori	186,454	184,522	1,932	1.0
Corporate and Investment Banking	97,578	89,691	7,887	8.8
International Subsidiary Banks	26,947	25,818	1,129	4.4
Private Banking	9,338	8,971		
Asset Management	264	372	-108	-29.0
Insurance	26	24	2	8.3
Total business areas	**320,607**	**309,398**	**11,209**	**3.6**
Corporate Centre	44,229	37,935	6,294	16.6
Intesa Sanpaolo Group	**364,836**	**347,333**	**17,503**	**5.0**

Business areas



Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

In the analysis of loans by business area, the Banca dei Territori Division, which accounts for approximately 60% of the aggregate of the Group's business areas, recorded a slight increase (+1.9 billion euro, or +1%) compared to the end of the previous year, due essentially to long/medium-term loans to individuals (households and personal loans). The most significant contribution in absolute terms was provided by the Corporate and Investment Banking Division (+7.9 billion euro or +8.8%), driven by the increased business in repurchase agreements and collateral by Banca IMI, and by the new financing operations undertaken by the Luxembourg subsidiary. There was also an increase in International Subsidiary Bank loans (+4.4%), primarily those of the Slovak subsidiary, as well as in Private Banking loans, which increased by 4.1%, as a result of the increase in loans involving debt securities and the rise in lending to customers. Conversely, there were decreases in Asset Management loans (-29%) representing the management fees to be collected, the overall volume of which is small. The growth in Corporate Centre loans (+16.6%) is largely attributable to an increase in reverse repurchase agreement transactions with Cassa di Compensazione e Garanzia, which more than offset the decline in the stock of bad loans managed by the Capital Light Bank.

Loans to customers: credit quality

(millions of euro)

	30.09.2016		31.12.2015		Change
	Net exposure	% breakdown	Net exposure	% breakdown	Net exposure
Bad loans	15,014	4.1	14,973	4.3	41
Unlikely to pay	15,480	4.2	17,091	4.9	-1,611
Past due loans	550	0.2	1,022	0.3	-472
Non-performing loans	**31,044**	**8.5**	**33,086**	**9.5**	**-2,042**
of which forborne	***8,069***		**7,705**		**364**
Performing loans	319,276	87.5	300,863	86.6	18,413
of which forborne	*7,791*		*7,699*		*92*
Loans represented by performing securities	14,516	4.0	13,384	3.9	1,132
of which forborne	*92*		*135*		*-43*
Loans to customers	**364,836**	**100.0**	**347,333**	**100.0**	**17,503**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.

As at 30 September 2016, the Group's non-performing loans, net of adjustments, came to 31 billion euro, below the levels of the end of 2015 (-6.2%), confirming that the gradual decrease shown in the previous quarters of the current year continues. Compared to the end of December 2015, there was a significant decrease in non-performing assets as a percentage of total loans to customers (to 8.5%).
In further detail, bad loans came to 15 billion euro, net of adjustments, in the first nine months of 2016, slightly up (+0.3%) from the beginning of the year, and represented 4.1% of total loans (4.3% at the end of 2015). During the same period, the coverage ratio was 60.5% (61.8% in December 2015). Loans included in the unlikely to pay category amounted to 15.5 billion euro, down by 9.4%, accounting for 4.2% of total loans to customers, with a coverage ratio of 26.2%. Past due loans totalled 550 million euro, down 46.2% compared to the beginning of the year, with a coverage ratio of 19.8%. Forborne exposures are generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, according to the definition introduced by the European Banking Authority with the aim of harmonising the classification of the definitions of non-performing loans and forbearance practices (renegotiation due to financial difficulty by the debtor) at the European level: within the non-performing loan category, they amounted to 8.1 billion euro, with an average coverage ratio of 29.8%, whereas those in the performing loan category were slightly lower (7.8 billion euro).
The coverage ratio of performing loans was 0.6%.

Customer financial assets

(millions of euro)

	30.09.2016		31.12.2015		Changes	
		% breakdown		% breakdown	amount	%
Direct deposits from banking business	379,620	44.9	372,200	44.2	7,420	2.0
Direct deposits from insurance business and technical reserves	143,063	16.9	132,948	15.8	10,115	7.6
Indirect customer deposits	463,920	54.9	468,425	55.6	-4,505	-1.0
Netting [(a)]	-141,743	-16.7	-131,638	-15.6	10,105	7.7
Customer financial assets	**844,860**	**100.0**	**841,935**	**100.0**	**2,925**	**0.3**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.

[(a)] Netting refers to components of indirect deposits which are also included in direct customer deposits (financial liabilities of the insurance business designated at fair value, technical reserves).

As at 30 September 2016, customer financial assets amounted to approximately 845 billion euro, with an increase of 0.3% compared to the beginning of the year, attributable to the positive performances of direct deposits from the banking business, growing 7.4 billion euro (+2%), and from the insurance business, up 10.1 billion euro (+7.6%). This trend was partly offset by the negative performance of indirect customer deposits (-1%), penalised by the extreme volatility of financial markets and the reduction of assets under administration.

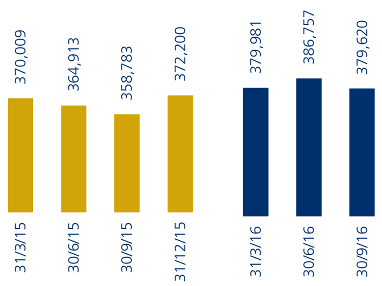
Direct deposits from banking business

The table below sets out amounts due to customers, securities issued, including those designated at fair value, and capital-protected certificates.

(millions of euro)

	30.09.2016		31.12.2015		Changes	
		% breakdown		% breakdown	amount	%
Current accounts and deposits	236,546	62.3	225,340	60.5	11,206	5.0
Repurchase agreements and securities lending	24,903	6.6	20,416	5.5	4,487	22.0
Bonds	78,078	20.6	87,147	23.4	-9,069	-10.4
of which designated at fair value (*)	-	-	-	-	-	-
Certificates of deposit	4,621	1.2	6,076	1.6	-1,455	-23.9
Subordinated liabilities	14,082	3.7	13,336	3.6	746	5.6
Other deposits	21,390	5.6	19,885	5.4	1,505	7.6
of which designated at fair value (**)	*8,568*	*2.3*	*8,091*	*2.2*	*477*	*5.9*
Direct deposits from banking business	**379,620**	**100.0**	**372,200**	**100.0**	**7,420**	**2.0**

Quarterly development
Direct deposits from banking business



Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.

(*) Figures included in the Balance sheet under Financial liabilities designated at fair value through profit and loss.

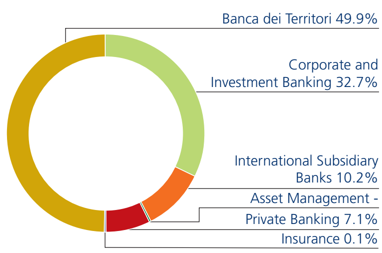
(**) Figures included in the Balance sheet under Financial liabilities held for trading.

The total of direct deposits from banking business, nearly 380 billion euro, was up (+2%) compared to the end of December 2015, with diverging performances by the main deposit types.
The increase in direct deposits was primarily the result of the considerable increase in current accounts and deposits (+11.2 billion euro, or +5%) due to the positive performance of the demand component, attributable in part to new customers and in part to the maturity of savings deposits as well as the increase in repurchase agreements (+4.5 billion euro or +22%), mostly attributable to the institutional counterparties. There were also increases in other deposits (+1.5 billion euro or +7.6%), the growth of which is primarily attributable to capital protected certificates issued by Banca IMI and designated at fair value, as well as to business in commercial paper and subordinated liabilities (+0.7 billion euro or +5.6%). Conversely there was a worsening of the downtrend - already observed in the previous year - in bonds (-9.1 billion euro during the period, or -10.4%), and in certificates of deposit (-1.5 billion euro, or -23.9%), to be attributed to the operations of international branches.
At the end of September 2016, the market share of the Group's direct deposits on the harmonised domestic market, consisting of deposits and bonds, according to the ECB definition, was estimated to have increased by 16.4%. As already described above in reference to loans, this estimate is based on figures from the sample deriving from the ten-day report produced by the Bank of Italy.

(millions of euro)

	30.09.2016	31.12.2015	Changes	
			amount	%
Banca dei Territori	166,744	159,854	6,890	4.3
Corporate and Investment Banking	109,214	109,915	-701	-0.6
International Subsidiary Banks	33,986	32,456	1,530	4.7
Private Banking	23,798	20,922	2,876	13.7
Asset Management	9	9	-	-
Insurance	221	196	25	12.8
Total business areas	**333,972**	**323,352**	**10,620**	**3.3**
Corporate Centre	45,648	48,848	-3,200	-6.6
Intesa Sanpaolo Group	**379,620**	**372,200**	**7,420**	**2.0**

Business areas



Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

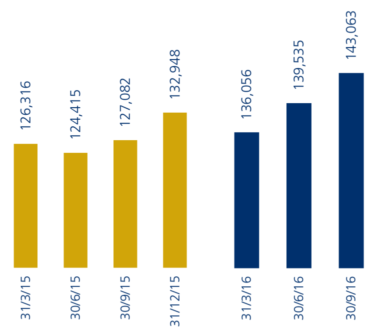
The breakdown by Group business areas shows that the direct deposits of the Banca dei Territori Division, which accounts for one-half of the aggregate attributable to the Group's total business areas, increased by 4.3% compared to the end of December 2015, due to the increase in cash held in deposits by retail and corporate customers. The Corporate and Investment Banking Division remained substantially stable (-0.6%): the decrease in amounts due to customers of the International Network & Global Industries and Financial Institutions Departments was largely absorbed by the positive trend in securities issued by Intesa Sanpaolo Bank Luxembourg and Banca IMI certificates. There were improvements in the funding of Private Banking (+13.7%), primarily as a result of current account deposits, and of the International Subsidiary Banks (+4.7%), in the securities issued segment. The decrease recorded on the Corporate Centre (-6.6%) is to be interpreted in relation to the decrease in wholesale securities issued, which exceeded the increase in repurchase agreements by institutional counterparties.

Direct deposits from insurance business and technical reserves

(millions of euro)

	30.09.2016	% breakdown	31.12.2015	% breakdown	Changes amount	Changes %
Financial liabilities of the insurance business designated at fair value (*)	**54,373**	**38.0**	**47,022**	**35.4**	**7,351**	**15.6**
Index-linked products	*1*	*-*	*276*	*0.2*	*-275*	*-99.6*
Unit-linked products	*54,372*	*38.0*	*46,746*	*35.2*	*7,626*	*16.3*
Technical reserves	**87,370**	**61.1**	**84,616**	**63.6**	**2,754**	**3.3**
Life business	86,800	60.7	84,112	63.2	2,688	3.2
Mathematical reserves	*73,549*	*51.5*	*72,415*	*54.4*	*1,134*	*1.6*
Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds	*5,357*	*3.7*	*5,300*	*4.0*	*57*	*1.1*
Other reserves	*7,894*	*5.5*	*6,397*	*4.8*	*1,497*	*23.4*
Non-life business	570	0.4	504	0.4	66	13.1
Other insurance deposits (***)	**1,320**	**0.9**	**1,310**	**1.0**	**10**	**0.8**
Direct deposits from insurance business and technical reserves	**143,063**	**100.0**	**132,948**	**100.0**	**10,115**	**7.6**

Quarterly development
Direct insurance deposits and technical reserves



Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.

(*) Figures included in the Balance sheet under Financial liabilities designated at fair value through profit and loss.

(**) This caption includes unit- and index-linked policies with significant insurance risk.

(***) Figures included in the Balance sheet under Due to customers and securities issued.

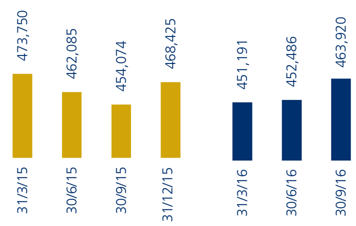
Direct deposits from insurance business came to 143.1 billion euro at the end of September 2016, up 7.6% compared to 31 December 2015. The more performing component is represented by the financial liabilities of the insurance business designated at fair value, which grew by 7.4 billion euro (+15.6%), thanks to the contribution from unit-linked products. Technical reserves, which represent the amounts owed to customers subscribing to traditional policies or policies with significant insurance risk, increased by 3.3% compared to the beginning of the year, due to the increase in mathematical and other life insurance business reserves, as well as the non-life business reserves, which, however, are contained in absolute terms.

Indirect customer deposits

(millions of euro)

	30.09.2016	% breakdown	31.12.2015	% breakdown	Changes amount	Changes %
Mutual funds [(a)]	104,634	22.6	103,876	22.2	758	0.7
Open-ended pension funds and individual pension plans	6,547	1.4	6,258	1.3	289	4.6
Portfolio management [(b)]	56,306	12.1	59,582	12.7	-3,276	-5.5
Life technical reserves and financial liabilities	130,020	28.0	122,700	26.2	7,320	6.0
Relations with institutional customers	11,901	2.6	10,098	2.2	1,803	17.9
Assets under management	**309,408**	**66.7**	**302,514**	**64.6**	**6,894**	**2.3**
Assets under administration and in custody	**154,512**	**33.3**	**165,911**	**35.4**	**-11,399**	**-6.9**
Indirect customer deposits	**463,920**	**100.0**	**468,425**	**100.0**	**-4,505**	**-1.0**

Quarterly development
Indirect deposits



Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.

(a) The caption includes mutual funds established and managed by Eurizon Capital, Fideuram - Intesa Sanpaolo Private Banking (former Banca Fideuram) and several international companies. The caption does not include funds held by Group insurance companies and managed by Eurizon Capital, whose values are included in technical reserves, or the contribution of funds established by third parties and managed by Fideuram - Intesa Sanpaolo Private Banking, whose value is included in assets under administration and in custody.

(b) As at 30 September 2016 the entry does not include stocks of unit-linked policies of Intesa Sanpaolo Vita, the value of which is included in the technical reserves and financial insurance liabilities. Relative data as at 31.12.2015 were restated consistently.

As at 30 September 2016, indirect customer deposits were approximately 464 billion euro, down 1% compared to the beginning of the year, affected by the decline in prices that reduced the value of securities under management and administration. Positive growth in asset management was observed in the period, driven by insurance products.

Asset management, which accounts for two-thirds of the total aggregate, grew 6.9 billion euro in the first nine months of the year (+2.3%), as a result of the net inflows achieved by the distribution networks, which more than offset the negative performance of the markets. The investment funds and pension funds remained solidly in positive territory (respectively +0.7% and +4.6%), while there was a drop in portfolio management (-3.3 billion euro or -5.5%). There were increases in life policies, which rose by 7.3 billion euro (+6%), and relations with institutional customers (+1.8 billion euro or +17.9%). In the insurance business, the new life business of Intesa Sanpaolo Vita (including Intesa Sanpaolo Life) and Fideuram Vita, including pension products, amounted to 17.8 billion euro in the first nine months of the year.

Assets under administration decreased sharply (-11.4 billion euro, or -6.9%), due to the heightened market volatility, which had an impact on securities prices, and to the decline in operations by both institutional operators and retail customers.

Financial assets and liabilities

(millions of euro)

	30.09.2016		31.12.2015		Changes	
		of which Insurance Companies		*of which Insurance Companies*	amount	%
Financial assets held for trading	50,232	*524*	51,597	*728*	-1,365	-2.6
of which derivatives at fair value	*33,821*	*15*	*30,894*	*4*	*2,927*	*9.5*
Financial assets designated at fair value through profit and loss	61,338	*60,187*	53,663	*52,519*	7,675	14.3
Financial assets available for sale	146,885	*80,792*	131,334	*75,646*	15,551	11.8
Investments held to maturity	1,231		1,386		-155	-11.2
Total financial assets	**259,686**	***141,503***	**237,980**	***128,893***	**21,706**	**9.1**
Financial liabilities held for trading (*)	**-39,575**	***-117***	**-35,431**	***-144***	**4,144**	**11.7**
of which derivatives at fair value	*-35,539*	*-117*	*-31,715*	*-144*	*3,824*	*12.1*

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.

(*) The amount of the item does not include capital protected certificates which are included in the direct customer deposits table.

The table above illustrates the breakdown of financial assets and the financial liabilities held for trading. Financial liabilities designated at fair value, referring to insurance business and capital-protected certificates, are not represented as these are included in the direct deposits aggregates.
Total financial assets rose by 9.1% as a result of increases in all components except for investments held to maturity and financial assets held for trading. Financial assets available for sale showed a significant increase of 15.6 billion euro (+11.8%), mostly attributable to the Parent Company. Financial assets designated at fair value also recorded an increase (+7.7 billion euro, or 14.3%), entirely attributable to equities and units of UCI attributable to insurance companies. The increase in trading derivatives alone (+2.9 billion euro, or +9.5%) - also growing in the component included among liabilities - was not able to stop the decrease in overall financial assets held for trading (-1.4 billion euro or -2.6%). Financial liabilities held for trading also increased in parallel since the beginning of the year (+4.1 billion euro or +11.7%).

Financial instrument reclassification

The table below shows the stock of securities subject to reclassification, as permitted by the amendments to IAS 39 made in October 2008, included in the portfolio as at 30 September 2016, together with the effects on the income statement and shareholders' equity reserves of the transfer from designation at fair value to measurement at amortised cost or from designation at fair value through profit and loss to fair value through shareholders' equity.

(millions of euro)

Type of financial instrument	Previous portfolio	New portfolio	Book value at 30.09.2016	Fair value at 30.09.2016	Income components in case of no transfer (before tax)		Income components for the period (before tax)	
					Valuation	Other	Valuation	Other
Debt securities	Financial assets held for trading	Loans	476	443	-15	3	-	5
Debt securities	Financial assets available for sale	Loans	5,373	4,460	57	80	286	75
Loans	Financial assets available for sale	Loans	7	7	-	-	-	-
TOTAL			**5,856**	**4,910**	**42**	**83**	**286**	**80**

Had the Group not reclassified the above financial assets, a total of 244 million euro in negative mark-to-market income components and about 3 million euro in other positive components would have been recognised during the first three months. No reclassifications were made in 2016.

Net interbank position

The net interbank position as at 30 September 2016 came to a negative 32.1 billion euro, an increase on the figure recorded at the end of 2015 (-24.9 billion euro), as a result of an increase in interbank debt that exceeded the increase in loans. The liability side was affected by participation in the new TLTRO 2 refinancing operations, which brought the Group's total exposure to the ECB to 41 billion euro as at 30 September 2016.

Exposure to sovereign risk by country of residence of the counterparty as at 30 September 2016

The following table illustrates the value of the main exposures of the Intesa Sanpaolo Group to sovereign risk.

(millions of euro)

	DEBT SECURITIES							LOANS
	BANKING GROUP					INSURANCE COMPANIES (**)	TOTAL	
	Loans and Receivables	Financial assets available for sale	Investments held to maturity	Financial assets designated at fair value through profit and loss	Financial assets held for trading (*)			
EU Countries	**6,961**	**47,643**	**964**	**745**	**4,726**	**56,470**	**117,509**	**17,734**
Austria	-	-	4	-	-	3	7	-
Belgium	-	903	-	-	16	8	927	-
Bulgaria	-	-	-	-	-	60	60	-
Croatia	95	156	2	745	67	61	1,126	997
Cyprus	-	-	-	-	-	-	-	-
Czech Republic	-	-	-	-	-	-	-	9
Denmark	-	18	-	-	-	-	18	-
Estonia	-	-	-	-	-	-	-	-
Finland	-	144	-	-	5	9	158	7
France	103	3,240	-	-	119	149	3,611	14
Germany	-	5,186	-	-	1,325	1,097	7,608	-
Greece	-	-	-	-	-	-	-	-
Hungary	37	453	-	-	136	38	664	174
Ireland	-	78	-	-	-1	101	178	-
Italy	6,422	26,740	355	-	3,123	53,437	90,077	15,869
Latvia	-	14	-	-	-	-	14	52
Lithuania	-	97	-	-	-	-	97	-
Luxembourg	-	-	-	-	-	-	-	-
Malta	-	-	-	-	-	-	-	-
Netherlands	-	550	-	-	85	126	761	-
Poland	32	51	-	-	-	20	103	-
Portugal	17	-	-	-	-	-	17	25
Romania	-	118	-	-	-1	140	257	2
Slovakia	-	386	603	-	-	-	989	132
Slovenia	-	242	-	-	-	8	250	172
Spain	255	9,267	-	-	-135	1,213	10,600	281
Sweden	-	-	-	-	-1	-	-1	-
United Kingdom	-	-	-	-	-12	-	-12	-
North African Countries	**-**	**1,325**	**-**	**-**	**-**	**-**	**1,325**	**-**
Algeria	-	-	-	-	-	-	-	-
Egypt	-	1,325	-	-	-	-	1,325	-
Libya	-	-	-	-	-	-	-	-
Morocco	-	-	-	-	-	-	-	-
Tunisia	-	-	-	-	-	-	-	-
Japan	**-**	**-**	**-**	**-**	**707**	**-**	**707**	**-**

(*) Taking into consideration on-balance sheet positions.

(**) Debt securities of insurance companies are classified almost entirely to the available-for-sale portfolio.

As illustrated in the table, the exposure to Italian government securities totalled approximately 90 billion euro (approximately 88 billion euro at the end of 2015), in addition to around 16 billion euro represented by loans (approximately 17 billion euro at the end of 2015). With regard to exposure towards EU countries, in the first nine months of 2016 the Group invested in Spanish Government bonds, bringing the total exposure towards this country from approximately 7 billion euro in December 2015 to approximately 10 billion euro.

Shareholders' equity

As at 30 September 2016, the Group's shareholders' equity, including net income for the period, came to 48,222 million euro compared to the 47,776 million euro at the end of the previous year. The increase in shareholders' equity was primarily due to the net income for the period (2.3 billion euro) and to the issue of the new AT1 equity instrument (1.2 billion euro) against the distribution of dividends for 2.4 billion euro, taking place in May. No changes in share capital occurred in the first nine months of the year.

Valuation reserves

(millions of euro)

	Valuation reserves as at 31.12.2015	Change in the period	Valuation reserves as at 30.09.2016	
				% breakdown
Financial assets available for sale	899	-90	809	-46.6
of which: Insurance Companies	*682*	*24*	*706*	*-40.6*
Property and equipment	-	-	-	-
Cash flow hedges	-1,145	-199	-1,344	77.4
Legally-required revaluations	352	-2	350	-20.1
Other	-1,124	-428	-1,552	89.3
Valuation reserves	**-1,018**	**-719**	**-1,737**	**100.0**

As at 30 September 2016, the negative balance of the Group's valuation reserves came to -1,737 million euro, marking a deterioration compared to the end of December 2015 (-1,018 million euro). Performance for the period was affected by nearly all components: other reserves (-428 million euro), cash flow hedge reserves (-199 million euro), and reserves for financial assets available for sale (-90 million euro). The change recorded in the caption "Other reserves" is largely to be attributed to the reserve for actuarial gains or losses, due to the change in the discount rate on the basis of interest rate performance during the period.

Own funds and capital ratios

(millions of euro)

Own funds and capital ratios	30.09.2016	31.12.2015
Own funds		
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	36,702	36,908
Additional Tier 1 capital (AT1) net of regulatory adjustments	3,546	2,302
TIER 1 CAPITAL	**40,248**	**39,210**
Tier 2 capital net of regulatory adjustments	8,919	8,089
TOTAL OWN FUNDS	**49,167**	**47,299**
Risk-weighted assets		
Credit and counterparty risks	244,176	245,793
Market and settlement risk	19,232	16,582
Operational risks	21,117	20,653
Other specific risks [(a)]	1,481	1,291
RISK-WEIGHTED ASSETS	**286,006**	**284,319**
% Capital ratios		
Common Equity Tier 1 capital ratio	12.8%	13.0%
Tier 1 capital ratio	14.1%	13.8%
Total capital ratio	17.2%	16.6%

[(a)] The caption includes all other elements not contemplated in the foregoing captions that are considered when calculating total capital requirements.

Own Funds, risk-weighted assets and the capital ratios as at 30 September 2016 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of the related Bank of Italy Circulars.
Regulatory provisions governing own funds envisage the gradual introduction of the new regulatory framework, through a transitional period generally lasting until 2017 during which several elements that will be eligible for full inclusion in, or deduction from, Common Equity when the framework is fully effective, only have a partial percentage effect on Common Equity Tier 1 capital. Generally, the residual percentage, after the applicable portion, is included in/deducted from Additional Tier 1 capital (AT1) or Tier 2 capital (T2), or is considered among risk-weighted assets.

Specific transitional provisions (i.e. grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from Own Funds (over a period of eight years).
Accordingly, the prudential ratios as at 30 September 2016 take account of the adjustments envisaged by the transitional provisions for 2016.
As at 30 September 2016, total Own Funds came to 49,167 million euro, against risk-weighted assets of 286,006 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
In January 2016 Intesa Sanpaolo launched a second Additional Tier 1 (AT1) issue of 1.25 billion euro, targeted at the international markets (a first AT1 issue of 1 billion dollars had been launched in September 2015). This issue has characteristics in line with the provisions of CRD IV and the CRR, is perpetual (with a maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and can be redeemed in advance by the issuer after 5 years from the issue date and on every coupon payment date thereafter. The coupon, payable semi-annually in arrears on 19 January and 19 July of each year, with first payment on 19 July 2016, is equal to 7.00% per annum. If the early redemption option is not exercised on 19 January 2021, a new fixed-rate coupon will be determined for the following five years (until the next recalculation date). As envisaged in the regulations applicable to the Additional Tier 1 issues, coupon payment is discretionary and subject to certain limitations.
In addition, on 22 April 2016, Intesa Sanpaolo received authorisation for the early repayment of an AT1 instrument with a nominal value of approximately 478 million euro. The subordinated instrument in question, issued in October 2010 and subject to grandfathering following the introduction of the Basel 3 framework, since it did not comply with the new regulations, called for the possibility of early repayment from 1 June 2016.
It should be emphasised that Common Equity Tier 1 capital does not include the net income for the period ended 30 September 2016, less the pro-rata dividend for the period, since Intesa Sanpaolo has decided to apply to the ECB for authorisation pursuant to Art. 26 of the CRR to include the net income for the period in Own Funds only when the amount of net income exceeds the total amount of the dividend planned for distribution for the year, equal to 3 billion euro for 2016 on the basis of the 2014-2017 Business Plan.
Based on the foregoing, the Total capital ratio stood at 17.2%, while the ratio of the Group’s Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 14.1%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity ratio) was 12.8%.
The ECB's final decision concerning the capital requirements to be observed with effect from 1 January 2016, in light of the results of the Supervisory Review and Evaluation Process (SREP), imposed a consolidated capital requirement on Intesa Sanpaolo of 9.5% in terms of the CET1 ratio.
Finally, in accordance with Article 467 (2) of the CRR, adopted by the Bank of Italy in Circular 285, the Intesa Sanpaolo Group has opted to exclude unrealised gains or losses on exposures to central administrations classified among financial assets available for sale (AFS) from its Own Funds. The effect on Common Equity Tier 1 capital as at 30 September 2016 was 1 basis point positive.

Reconciliation of Shareholders’ equity and Common Equity Tier 1 capital

(millions of euro)

Captions	30.09.2016	31.12.2015
Group Shareholders' equity	48,222	47,776
Minority interests	640	817
Shareholders' equity as per the Balance Sheet	**48,862**	**48,593**
Dividends and other expected charges [(a)]	-	-2,383
Shareholders' equity following presumed distribution to shareholders	**48,862**	**46,210**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Capital of savings shares eligible for inclusion in AT1	-485	-485
- Other equity instruments eligible for inclusion in AT1	-2,121	-871
- Minority interests eligible for inclusion in AT1	-7	-8
- Minority interests eligible for inclusion in T2	-5	-6
- Ineligible minority interests on full phase-in	-579	-763
- Ineligible net income for the period [(b)]	-2,335	-
- Treasury shares included under regulatory adjustments	84	68
- Other ineligible components on full phase-in	-39	-11
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**43,375**	**44,134**
Regulatory adjustments (including transitional adjustments)	**-6,673**	**-7,226**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**36,702**	**36,908**

[(a)] The figure at 31 December 2015 takes account of the dividends paid on 2015 profit, the portion of the remuneration on the AT1 instrument issued on 17 September 2015 and the portion of the 2015 profit allocated to charity, net of the tax effect.
[(b)] Common Equity Tier 1 capital does not take account of the profit accrued during the period ended on 30 September 2016, after deducting the pro-rated share of the dividend on that profit, since Intesa Sanpaolo has decided to request authorisation from the ECB pursuant to Art. 26 of the CRR to include profit for the period in own funds solely if the amount of such profit exceeds the total amount of the dividend that is expected to be distributed for the year, i.e., 3 billion euro for 2016, on the basis of the 2014-2017 Business Plan.

Breakdown of consolidated results by business area

The Intesa Sanpaolo Group organisational structure is based on six Business Units. In addition there is the Corporate Centre, which is charged with providing guidance, coordination and control for the entire Group.

The Intesa Sanpaolo Group's segment reporting is based on the elements that management uses to make its own operating decisions (the "management approach") and is therefore consistent with the disclosure requirements of IFRS 8.
In addition to reflecting the operating responsibilities assigned according to the Group's organisational structure, the business areas are an aggregation of business lines similar in the type of products and services they sell.

The table below shows the main data summarising the trend of the business areas of the Intesa Sanpaolo Group in the first nine months of 2016.
The following itemised analysis of the business areas contains a description of the products and services offered, the type of customers served and the initiatives carried out in the third quarter; it also illustrates income statement figures and the main balance sheet aggregates. Finally, for each business area, the capital absorbed based on Risk Weighted Assets (RWAs) was also calculated, determined in accordance with the provisions in force (Circulars 285 and 286, both issued during 2013, and the update to Circular 154 of 22 November 1991) issued by the Bank of Italy following the implementation of Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws; for asset management and private banking, business risk was also taken into consideration, and for the insurance segment reference was made to the capital absorbed by insurance risk.

Division figures for the comparative periods have been restated to reflect the changes in scope of the Business Units, where necessary.

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre	Total
Operating income								
30.09.2016	6,555	2,390	1,596	1,290	468	970	-605	12,664
30.09.2015	6,776	2,381	1,574	1,284	552	931	-232	13,266
% change [(a)]	-3.3	0.4	1.4	0.5	-15.2	4.2		-4.5
Operating costs								
30.09.2016	-3,627	-683	-718	-391	-97	-115	-687	-6,318
30.09.2015	-3,615	-681	-749	-387	-100	-111	-621	-6,264
% change [(a)]	0.3	0.3	-4.1	1.0	-3.0	3.6	10.6	0.9
Operating margin								
30.09.2016	2,928	1,707	878	899	371	855	-1,292	6,346
30.09.2015	3,161	1,700	825	897	452	820	-853	7,002
% change [(a)]	-7.4	0.4	6.4	0.2	-17.9	4.3	51.5	-9.4
Net income (loss)								
30.09.2016	854	1,055	578	529	282	560	-1,523	2,335
30.09.2015	946	1,047	313	527	337	544	-988	2,726
% change [(a)]	-9.7	0.8	84.7	0.4	-16.3	2.9	54.1	-14.3
Loans to customers								
30.09.2016	186,454	97,578	26,947	9,338	264	26	44,229	364,836
31.12.2015	184,522	89,691	25,818	8,971	372	24	37,935	347,333
% change [(b)]	1.0	8.8	4.4	4.1	-29.0	8.3	16.6	5.0
Direct deposits from banking business								
30.09.2016	166,744	109,214	33,986	23,798	9	221	45,648	379,620
31.12.2015	159,854	109,915	32,456	20,922	9	196	48,848	372,200
% change [(b)]	4.3	-0.6	4.7	13.7	-	12.8	-6.6	2.0
Risk-weighted assets								
30.09.2016	85,795	97,466	31,777	9,382	1,031	-	60,555	286,006
31.12.2015	90,942	89,740	30,999	8,624	1,135	-	62,879	284,319
% change [(b)]	-5.7	8.6	2.5	8.8	-9.2	-	-3.7	0.6
Absorbed capital								
30.09.2016	8,151	9,262	3,038	927	116	4,599	5,759	31,852
31.12.2015	8,639	8,527	2,965	851	124	4,618	5,982	31,706
% change [(b)]	-5.6	8.6	2.5	8.9	-6.5	-0.4	-3.7	0.5

Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

[(a)] The change expresses the ratio between 30.09.2016 and 30.09.2015.

[(b)] The change expresses the ratio between 30.09.2016 and 31.12.2015.

BUSINESS AREAS

Banca dei Territori

(millions of euro)

Income statement	30.09.2016	30.09.2015	Changes	
			amount	%
Net interest income	3,476	3,666	-190	-5.2
Profits (losses) on investments carried at equity	-	-	-	-
Net fee and commission income	2,904	3,046	-142	-4.7
Profits (Losses) on trading	48	49	-1	-2.0
Income from insurance business	-	-	-	-
Other operating income (expenses)	127	15	112	
Operating income	**6,555**	**6,776**	**-221**	**-3.3**
Personnel expenses	-2,257	-2,208	49	2.2
Other administrative expenses	-1,369	-1,406	-37	-2.6
Adjustments to property, equipment and intangible assets	-1	-1	-	-
Operating costs	**-3,627**	**-3,615**	**12**	**0.3**
Operating margin	**2,928**	**3,161**	**-233**	**-7.4**
Net provisions for risks and charges	-40	-48	-8	-16.7
Net adjustments to loans	-1,499	-1,512	-13	-0.9
Net impairment losses on other assets	-	-	-	-
Profits (Losses) on investments held to maturity and on other investments	-	-	-	-
Income (Loss) before tax from continuing operations	**1,389**	**1,601**	**-212**	**-13.2**
Taxes on income from continuing operations	-558	-679	-121	-17.8
Charges (net of tax) for integration and exit incentives	-15	-17	-2	-11.8
Effect of purchase price allocation (net of tax)	-4	-1	3	
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	42	42	-	-
Minority interests	-	-	-	-
Net income (loss)	**854**	**946**	**-92**	**-9.7**

(millions of euro)

	30.09.2016	31.12.2015	Changes	
			amount	%
Loans to customers	186,454	184,522	1,932	1.0
Direct deposits from banking business	166,744	159,854	6,890	4.3
Risk-weighted assets	85,795	90,942	-5,147	-5.7
Absorbed capital	8,151	8,639	-488	-5.6

Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

Banca dei Territori's operating income was 6,555 million euro in the first nine months of 2016, equal to over half of the Group's consolidated operating income, down 3.3% on the same period of the previous year. In further detail, there was a decrease in net interest income (-5.2%), as a result of the market scenario featuring negative rates, and net fee and commission income (-4.7%), mostly on asset management products, only partly offset by the development of fee and commission income on bancassurance and protection products. Among the other revenue components, which nevertheless provide a marginal contribution to the Division's income, profits on trading were essentially stable (48 million euro) while other operating income recorded a significant increase (from 15 to 127 million euro) thanks to earnings coming from the sale of the investment in Visa Europe. Operating costs, equal to 3,627 million euro, remained essentially in line with the same period of the previous year (+0.3%): the moderate increase in personnel expenses, related to the growth incentives, was largely offset by the reduction in administrative expenses. The operating margin amounted to 2,928 million euro, down 7.4% on the first nine months of 2015. A similar trend was recorded in income before tax from continuing operations, equal to 1,389 million (-13.2%). Lastly, after the allocation to the Division of income on discontinued operations of 42 million euro, referring to the ordinary income earned by Setefi, a subsidiary for which a sale

agreement was signed, integration charges of 15 million euro and the economic effects of the purchase price allocation of 4 million euro, net income stands at 854 million euro, down 9.7%.
At the quarterly level, revenues declined in the third quarter, primarily due to the absence of the extraordinary income earned in the second quarter.

The balance sheet figures at the end of September 2016 showed loans to customers of 186,454 million euro, up (+1.9 billion euro, or +1%) compared to the beginning of the year, essentially as a result of the increase in medium-long term loans to individuals (households and personal loans). Direct deposits from banking business, amounting to 166,744 million euro were up 4.3%, as a result of greater cash held in deposits of retail and business customers.

Business

Traditional lending and deposit collection operations in Italy and associated financial services.

Mission

To serve Retail, Personal, Small Business, and Small and Medium Enterprise customers, creating value through:
- widespread local coverage;
- focus on the characteristics of local markets, and the needs of customer segments serviced;
- development of service levels to customers using different channels in order to improve the efficiency of the commercial offering;
- exploitation of the brands of banks and the centrality of the roles of the officers responsible for the Regional Governance Centres, Area Governance Centres, banks and branches as points of reference for the Group at local level;
- exploitation of the companies specialised in medium-term lending, leasing, factoring, agribusiness and the management of electronic payments, reporting to the Business Unit.

Organisational structure

Marketing and Multichannel Integration Departments

Overseeing the Retail sector, which consists of the following segments: Base (individual customers with financial assets of up to 10,000 euro), Households (individual customers with financial assets of between 10,000 euro to 100,000 euro) and Retail Businesses (businesses with less complex requirements); the Personal area (individual customers with financial assets of between 100,000 euro to 1 million euro); and the SME area (enterprises with group turnover of 350 million euro or less) as well as multi-channel services for customers and the Network.

Product companies

Specialised in medium-term credit, leasing, factoring and agribusiness (Mediocredito Italiano), and management of electronic payments (Setefi), to be sold in the near future.

Banca Prossima

Serves non-profit organisations.

Distribution structure

Approximately 3,800 branches, including Retail and Business branches, distributed broadly throughout Italy. The network structure consists of 7 Regional Governance Centres, each of which directly reports to the Regional Manager. There are three Commercial Managers (one specialist for each business area, i.e. Retail, Personal and SME) in each Centre, coordinating around 400 commercial areas, in order to improve commercial focus and ensure the best possible service levels.

On 1 January 2016 the partial demerger of Setefi in favour of Intesa Sanpaolo, with the transfer to the latter of the business line regarding the acquisition of payment instruments (acquiring) towards captive customers, came into effect.
The activity of Setefi, simultaneously renamed Setefi Services (in abbreviated form Setefi) remains predominantly focused on the servicing and processing activities (to support the operations of the demerged business line). At the beginning of May 2016 Intesa Sanpaolo announced a sale-and-purchase agreement in respect of the sale of the total share capital of its subsidiaries Setefi and Intesa Sanpaolo Card to a wholly-owned subsidiary of Mercury UK Holdco Limited (Mercury). Since the completion of the sale is set for the end of this year, the accounting balances attributable to the company are reclassified under the specific captions relating to discontinued operations until the transaction is completed, as required by IFRS 5.
On 30 September 2016 the sale to Intesa Sanpaolo of a business unit responsible for acquiring payment instruments from non-captive customers was finalised, with effect from 1 October 2016.

Marketing and Multichannel Integration Department

Investment

During the third quarter of 2016, the diversification of customer portfolios continued according to customer needs (spending, reserves, investment and pension) and the Recommended Portfolios.
The range of investment product was expanded by the launch of 17 new placement windows for mutual funds and the placement of two bonds and nine certificates.

Protection

In a scenario of growing demand for integration of health services, Intesa Sanpaolo expanded its innovative health and welfare range to include the new "Serious Illness" policy, which covers unforeseen expenses relating to serious illnesses and safeguards the family's economic stability. The product, also intended for companies, as a benefit for their shareholders and employees, pays an indemnity that may be customised when the policy is contracted, of an amount ranging from 70,000 to 300,000 euro, in cases of serious illnesses, and also provides additional services, such as second opinions and nursing and physical therapy care at home.

Transactional products

At the end of September "Conto PerMe" became available. This new current account, offered by Intesa Sanpaolo to individual customers, transforms the concept of a current account from a single product to an enabler of products and services for day-to-day budget management, allowing custom services to be provided and developed to meet the needs of customers and their immediate family. Conto PerMe is a customisable, flexible solution that, thanks to an innovative sales process, allows the customer to identify with a profile that reflects the customer's lifestyle, needs and passions, and thus choose between three product and service packages.

Young people

With the aim of becoming the preferred bank of younger customers, by following them throughout all of the most important stages of their lives and combining products and services specifically conceived for customers up to 35 years of age and engagement initiatives, during the quarter Intesa Sanpaolo expanded its presence on social channels to include Instagram and Snapchat, in addition to Facebook and Twitter, with communication based on three types of content: products and services (including Mutuo Giovani, personal loans, Carta Flash, Carta Flash La Statale, NextCard, Jiffy Pay, MotoConMe and ViaggiaConMe), music and events, and innovation and start-ups. In particular, in order to become the closest bank to young customers' plans and dreams, Intesa Sanpaolo is the main sponsor of the tenth edition of X-Factor, the Sky talent show that puts the spotlight on the top musical talents, promoting the "*Vinci X Factor*" competition within the framework of its sponsorship. In addition, with regard to "PerTe Prestito Con Lode", a product aimed at particularly deserving students, a new agreement was signed with the Bologna Business School, the postgraduate management school of Bologna University, to allow its students access to credit, thus supporting them during their education.

Intesa Sanpaolo Casa

As part of the process of developing and expanding the services offered to customers, aimed at achieving an increasingly broader presence and meeting customers' comprehensive home needs, the development plan continued for Intesa Sanpaolo Casa, a Group company whose mission is to buy and sell residential real estate. At the end of the quarter, there were 25 real-estate agencies operating in Italy, managed by employees and positioned as a shop-in-shop inside the Bank's branches, providing qualified advice and innovative design and renovation services, such as Cocontest and Habitissimo, in addition to a dedicated blog, "A 2 Passi da Casa", accessible through the Intesa Sanpaolo Casa website, to provide helpful information relating to looking for and selling a home, using immediate, simple language familiar to users.

Multichannel Project

As part of the document dematerialisation process, during the quarter the range of dematerialised products (which included the main accounting documents at the counter, all investment products, the subscription of line I, line III and multi-line policies, payment cards, personal loans and the main regulatory documents) was extended to the opening of the new "Conto PerMe" bank account, deposits under administration and after-sales support for line I, line III and multi-line policies.
The new website, which enhances the digital experience, while also increasing the visibility of the online bank's products and services, has been operational for the Intesa Sanpaolo Group's customers since mid-July. Simplicity, clarity, speed, customisation and proximity are the basic principles and distinctive elements aimed at encouraging the use of the new website by less experienced customers as well. Thanks to the integration between physical and digital channels customers are free to interact with the Bank the way they deem fit: at the branch, on the phone with online managers or on the digital channels.
In addition, the Single Toll-Free Number, active for all network banks, which consolidates operating, assistance and commercial information support services into a single point of contact, in view of "first call resolution", has been available since September.

Agreements

The Intesa Sanpaolo Group banks present in the region of Emilia Romagna renewed the Investiagricoltura protocol, the purpose of which is to foster access to credit for agricultural sector companies. In this framework, a specific agreement was renewed with con AGREA, the Regional Agency for Agricultural Aid for Emilia Romagna, governing the granting by participating banks (Carisbo, Cariroromagna and Intesa Sanpaolo) of advances against European aid for agricultural enterprises within the framework of the Single Payment Scheme and grants under the Rural Development Plan.

Sviluppo Filiere

The "Sviluppo Filiere" programme continued. This is an innovative project launched by Intesa Sanpaolo with the aim of supporting the growth of production chains of excellence in the Italian entrepreneurial system. The initiative, which focuses on relationships between companies and their suppliers, improves credit access conditions and offers custom-tailored products for companies that have production arrangements with one another. The participating lead companies are more than 330, for a potential credit ceiling of approximately 20 billion, involving about 15,000 suppliers when finalised.

Loans

In response to the environmental emergencies that occurred in Italy during the period, the Intesa Sanpaolo Group confirmed its concrete commitment by launching a variety of initiatives.
In particular, for families and businesses in the provinces of Rieti, Ascoli Piceno, Perugia, Macerata and Fermo damaged by the earthquake, Intesa Sanpaolo set aside up to 250 million euro for loans intended for the restoration of damaged structures (homes, stores, offices, workshops and businesses). In addition, payments of all mortgages, personal loans, financing, and leases owed by individuals and legal entities residing in or with their registered office and/or place of business in the affected municipalities were automatically suspended, at no charge, and charges on withdrawals and new loans were eliminated. In further protective efforts, a series of initiatives were launched for customers residing in the affected municipalities, including an investment policy benefiting minors who lost one or both parents in the event, free renewal for casualty and motor policies expiring in the following twelve months and the extension of the duration of insurance coverage for policies linked to loans for which payments were suspended by the Bank, to bring them into line with the new term of the related loans.

Agriculture

Agrifood continues to represent a strategic sector to which the Intesa Sanpaolo Group confirms its concrete, tangible commitment through a dedicated structure. Activities also continued with the aim of implementing the three-year partnership agreement signed with the Ministry of Agricultural, Food and Forestry Policies, which made available an annual ceiling of two billion euro. To facilitate access to credit by Italian agricultural and agrifood companies and support the competitiveness of the industry, specific initiatives were taken with the aim of making payment of European grants relating to the Common Agricultural Policy (CAP) available in advance and supporting projects relating to tenders under the Rural Development Programmes (RDP) 2014-2020.

Internationalisation

Through a dedicated structure, which supports enterprise managers and specialists at Banca dei Territori in providing qualified, timely advice to companies, in the third quarter approximately 15 meetings were held in support of customer firms for projects relating to internationalisation and nine events were organised.

Services

In order to promote small producers and "food artisans" by creating opportunities for companies to generate new business and for individuals to taste and experience fine Italian food products, in July Mercato Metropolitano inaugurated a new store in London, occupying a space of 5,000 square metres dedicated to food and wine specialty products of small producers, with a fruit and vegetable market, street food restaurants and initiatives aimed at raising awareness of fine Italian products. Intesa Sanpaolo has been collaborating on the project at the operational level for more than a year, by making available its e-commerce platform CreatedinItalia.com, subsequently renamed MercatoMetropolitano.com.

Training and layout

The open and flexible branch model launched in 2015 has been extended to other branches during the quarter. The model features spaces for listening, hosting and developing customer relations, thus making it possible to improve the customer experience, quality of service and specialised advice and to integrate the customer experience at the branch in the multi-channel strategy of the Bank.

Product companies

In the first nine months of 2016, **Mediocredito Italiano** recorded a sales volume of medium- and long-term products of approximately 3.8 billion euro, up 3% (+112 million euro) compared with the same period in 2015, whilst factoring turnover was 41.5 billion euro, up 4.1% (+1.6 million euro).
Mediocredito Italiano disbursed loans totalling 2.8 billion euro, increasing by 9% compared to the same period of 2015 (+230 million euro). With 2.5 million euro of loans disbursed (+14% compared to the same period of the previous year), the Banca dei Territori Division accounts for 89% of total volumes, whilst the Corporate and Investment Banking Division represents 11% of disbursed loans (319 million euro, -14%).
The Specialist Desks dedicated to the principal economic sectors generated medium-/long-term loan disbursements of 617 million euro (equal to 22% of the total disbursed during the period), up by 32% (+149 million euro) compared with the same period in 2015.
According to a selective strategy for leasing products, in the first three quarters of 2016 Mediocredito Italiano entered into new contracts with a value of 970 million euro (-11% compared to the first nine months of the previous year, or -124 million euro). Contracts entered into by customers of the Banca dei Territori Division amounted to 874 million euro (-1%), representing more than 90% of total volumes. Customers in the Corporate Division signed contracts totalling 72 million euro, equal to 7% of volumes, marking a decrease (-59%) compared to the same period of 2015.

Turning to the commercial performance of the factoring business, in the first three quarters of 2016 Mediocredito reported a turnover of 41.5 billion euro, a 4% increase on the same period of 2015, retaining its position as the number-one domestic factoring provider by turnover, with a market share close to 30%. Non-recourse factoring accounted for a greater share of factoring business (89%), unchanged compared to the same period of 2015. Compared with 30 September 2015, outstanding receivables, equal to 12.8 billion euro, posted a decline (-3%) and period-end loans amounted to 10.6 billion euro (-4%). The international activities related to the import and export factoring segments (both directly and intermediated through the correspondent bank members of Factors Chain International) and the foreign-on-foreign operations, predominantly conducted under the freedom to provide services in other European Union countries. The volumes generated, equal to 10.7 billion euro, represent 26% of the total turnover, up compared to the first nine months of 2015 (+4%).

Setefi specialises in managing electronic payment systems, and is registered in the Payment Institutes Registry kept by the Bank of Italy. In order to achieve a different configuration of the provision of payment services within the Group, in line with the prevailing business model at major national and international competitors, on 1 January 2016 the partial demerger of the business unit of Setefi in favour of the Parent Company, regarding the acquisition of payment instruments (acquiring) towards captive customers, entered into effect. As described previously, the demerger serves the subsequent sale of the entire capital of the subsidiary. In addition, the sale to Intesa Sanpaolo of a business unit responsible for acquiring payment instruments from non-captive customers became effective on 1 October 2016.

Banca Prossima

In the third half of the year, Banca Prossima, which operates in the non-profit sector with 83 local branches (80 of which are authorised by the Bank of Italy) and approximately 290 specialists distributed across the country, continued to acquire new customers for the Group. As at the end of September 2016 the Bank had a customer base numbering over 57,000. Financial assets amounted to 7.5 billion euro, of which 3 billion euro in direct customer deposits while lending operations had achieved an approved amount of 2.4 billion euro (of which 1.6 billion euro had been used).
To consolidate and further strengthen the leading role for the non-profit sector, commercial operations concentrated on acquiring new customers as well as developing existing customers. Implementation of the commercial plan continued in the quarter, with specific initiatives aimed at developing relations with non-profit organisations and best meeting their needs, by prioritising financial needs not yet adequately met.
In addition, the new "Effetto Iva" (VAT Effect) range was developed. This line of financial solutions was conceived to stabilise the financial balance of non-profit organisations that operate with the public administration, for which the split payment mechanism causes financial imbalances, and an agreement was signed between Società Nazionale di Mutuo Soccorso Cesare Pozzo, Intesa Sanpaolo and Banca Prossima to offer members of the Cesare Pozzo organisation access to personal loans at favourable conditions, to be applied for with any Group bank, in support of family expenses. Cesare Pozzo established a guarantee fund with Banca Prossima for this purpose.

Corporate and Investment Banking

(millions of euro)

Income statement	30.09.2016	30.09.2015	Changes	
			amount	%
Net interest income	1,094	1,157	-63	-5.4
Profits (losses) on investments carried at equity	6	6	-	-
Net fee and commission income	698	612	86	14.1
Profits (Losses) on trading	592	600	-8	-1.3
Income from insurance business	-	-	-	-
Other operating income (expenses)	-	6	-6	
Operating income	**2,390**	**2,381**	**9**	**0.4**
Personnel expenses	-258	-249	9	3.6
Other administrative expenses	-422	-430	-8	-1.9
Adjustments to property, equipment and intangible assets	-3	-2	1	50.0
Operating costs	**-683**	**-681**	**2**	**0.3**
Operating margin	**1,707**	**1,700**	**7**	**0.4**
Net provisions for risks and charges	-1	2	-3	
Net adjustments to loans	-195	-190	5	2.6
Net impairment losses on other assets	-2	-4	-2	-50.0
Profits (Losses) on investments held to maturity and on other investments	20	-	20	-
Income (Loss) before tax from continuing operations	**1,529**	**1,508**	**21**	**1.4**
Taxes on income from continuing operations	-470	-461	9	2.0
Charges (net of tax) for integration and exit incentives	-4	-	4	-
Effect of purchase price allocation (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**1,055**	**1,047**	**8**	**0.8**

(millions of euro)

	30.09.2016	31.12.2015	Changes	
			amount	%
Loans to customers	97,578	89,691	7,887	8.8
Direct deposits from banking business [a]	109,214	109,915	-701	-0.6
Risk-weighted assets	97,466	89,740	7,726	8.6
Absorbed capital	9,262	8,527	735	8.6

Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

[a] The item includes capital protected certificates.

In the first nine months of 2016, the Corporate and Investment Banking Division recorded operating income of 2,390 million euro (representing 19% of the Group's consolidated total), essentially stable (+0.4%) compared to the same period of 2015.
In detail, net interest income, equal to 1,094 million euro, declined (-5.4%) primarily as a result of smaller margins and of a lower contribution from the Luxembourg subsidiary and capital markets activity. Net fee and commission income of 698 million euro increased (+14.1%) due to the growth of fee and commission income especially in the commercial banking (including loans, guarantees and interbank services) and capital markets sector. Profits on trading, equal to 592 million euro, declined by 1.3%, mainly due to the negative performance of the proprietary trading activity. Operating costs amounted to 683 million euro, at the same levels as at the end of the same period of 2015 (+0.3%). As a result of the trend in revenues and costs described above, the operating margin, amounting to 1,707 million euro, was in line with the first nine months of 2015 (+0.4%). Income before tax from continuing operations, amounting to 1,529 million euro, increased by 1.4%, while net income amounted to 1,055 million euro (+0.8%).
As already seen for the Banca dei Territori Division, the Corporate and Investment Banking Division showed a deterioration in income results in the third quarter compared to the second.

The Division's intermediated volumes increased compared to the end of December 2015 (+3.6%). In detail, loans to customers of 97,578 million euro showed significant growth (+8.8%) as a result, in particular, of increased operations in repurchase agreements and collateral by Banca IMI and of the new financing transactions undertaken by the Luxembourg subsidiary. Direct customer deposits from banking business, amounting to 109,214 million euro remained substantially stable (-0.6%): the decrease in amounts due to customers of the International Network & Global Industries and Financial Institutions Departments was largely absorbed by the positive trend in securities issued by Intesa Sanpaolo Bank Luxembourg and Banca IMI certificates.

Business

Corporate, Investment Banking and Public Finance, in Italy and abroad.

Mission

To act as a global partner in supporting companies and financial institutions in achieving balanced, sustainable growth, including at the international level, through a specialised network of branches, representation offices and subsidiaries that engage in corporate banking operations.
To foster collaboration between the public and private sectors with the aim of supporting the creation of infrastructure and the modernisation of the public administration by pursuing international growth opportunities in countries of strategic interest to the Group.

Organisational structure

International Network & Global Industries Department

The Department develops and manages relations with Italian and foreign industrial groups, which have a high degree of complexity and international presence, and operate in eight key sectors with strong growth potential: Automotive & Industrial; Basic Resources & Diversified; Consumer, Retail & Luxury; Healthcare & Chemicals; Infrastructures & Construction; Oil & Gas; Power & Utilities; Telecom, Media & Technology. Using the International Network, which comprises branches, representative offices and international corporate banks and through the cooperation with the International Subsidiary Banks Division, the Department manages the relationship with international counterparties and provides specialist assistance in supporting the internationalisation of Italian businesses, developing their exports. The synergy with Banca IMI ensures coverage as well as developing investment banking (ECM, DCM, M&A) and structured finance activities, whilst leasing, factoring and subsidised financing business is carried out by the Department in partnership with Mediocredito Italiano.

Corporate and Public Finance Department

The Department is responsible for servicing individual companies and large and medium national groups, by means of a global and integrated offer of products and services provided by all the Divisions and Group product companies. It also serves Public counterparties consisting of Central State Administrations, Local Entities and the so called "public corporate entities".

Financial Institutions Department

The Department is responsible for servicing Italian and international financial institutions according to a dedicated, global commercial model. Its particularly sophisticated approach to relations with such customers is amply diversified and oriented towards integrated solutions that promote the cross-selling of capital markets and investment banking products.

Global Transaction Banking Department

The Department is responsible for transaction banking products and services for the entire Group.

Proprietary Trading

The Sub-Department is responsible for management of the proprietary portfolio and/or risk through direct access to markets or indirect access, via relevant internal functions, in order to carry out trading, arbitrage and long/short positions on capital markets products, cash and derivatives.

Global Markets and Corporate & Strategic Finance

The scope of the Division also includes the M&A, capital markets, structured finance and primary markets (equity and debt capital market) activities performed by Banca IMI.

Distribution structure

In Italy, the Corporate and Investment Banking Division draws on a total of 44 branches dedicated to corporate customers and public customers. At the international level, it operates in 29 countries in support of the cross-border operations of its customers through a specialised network of branches, representative offices and subsidiaries that engage in corporate banking activity.

International Network & Global Industries Department

In the third quarter of 2016, the International Network & Global Industries Department confirmed its role as financial partner to its customers, participating with Banca IMI in a number of investment banking and structured finance transactions to the benefit of Italian and international customers operating across all business segments.
Attention should be drawn to the role of Mandate Lead Arranger and Bookrunner in syndicated loans to the Campari group and Terna group and the role of Bookrunner and Global Coordinator in project financing transactions for the Acciona group.
Acquisition financing transactions were concluded, and in particular supporting activity was performed for the customer Dell Inc. in the acquisition of EMC Corp., with the bank also acting as Mandate Lead Arranger in a transaction aimed at the acquisition of Pirelli by ChemChina.
Worth mentioning are also the refinancing transactions for Beni Stabili and Equate Petrochemical, and the project financing transactions for the consortium formed by Vinci Airports, Aéroports de Paris and Astaldi, which was awarded the concession for Arturo Benitez International Airport in Santiago de Chile.
During the quarter, the Department continued to act as financial advisor in merger and acquisition deals, noteworthy among which was that for A2A involving the acquisition of a majority of Linea Group Holding.
In the Debt Capital Markets business, the Department participated in the issues by the customers Telecom Italia, Cellnex, Bulgarian Electricity Holding, FCE Bank plc (Ford Motor group), ENI Saipem group, Saint-Gobain group and Salini Impregilo.
Within the framework of initiatives aimed at developing the international network and increasing the presence and support for customers in areas of strategic interest, in the third quarter the final formalities were completed for the commencement of operations of two new branches in the United Arab Emirates and Qatar, in Abu Dhabi and Doha, respectively, and activities continued with the aim of promoting the development of the representative office recently opened in Jakarta. At the end of September 2016, the Department's international network ensured direct coverage in 29 countries with a network of 15 wholesale branches, 15 representative offices and three subsidiary banks (Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg and Intesa Sanpaolo Brasil S.A.).

Corporate and Public Finance Department

In the third quarter of 2016 the Corporate and Public Finance Department continued supporting activity for both corporate customers, consisting of individual companies or national groups with over 350 million euro in turnover, and public customers consisting of Central State Administrations, Local Entities and the so-called “public corporate entities” (companies with public participation of strategic importance in the services and infrastructure sectors).
In particular, the Department continued to offer loans at favourable economic terms to its customers, to transfer to the real economy the liquidity made available by the ECB to the European banks during the second edition of the TLTRO.
Concurrently, the service model by industry ensured effective, timely commercial action, allowing support for industrial development initiatives for the customers served.
In particular, the Department supported the Agrati group with the acquisition of Continental Midland Group USA and the Zanetti Beverage group with the acquisition of Nutricafés. In addition, it participated in the financing for ACS Dobfar and the acquisitions of an equity interest in Demetra by Cemsight and of Gimatic by the private-equity fund AGIC.
The Department also participated in a syndicated loan to the Conad group and a loan to the EOS Investment Management group, in addition to acting as Lender and Advisor in the takeover and exchange bid by Cairo Communication for RCS.
In the Public Finance segment, the Department took part in financing transactions for Ferrovie dello Stato and Finanziaria Sviluppo Utilities.
The constant synergy with Banca IMI allowed the conclusion of structured finance transactions, merger and acquisition and advisory activities and, at the same time, the continuation of the marketing of products for hedging market risks (interest rates, currencies and commodities).
The Department continued to monitor the development activity aimed at the internationalisation of Italian customers, participating in the financing for the construction of the new Leitner ropeway in Berlin.

Financial Institutions Department

In the third quarter of 2016, the international banking sector continued to focus on recovering efficiency and adjusting its service model. The need to face a scenario of persistent near-zero, if not negative, rates, and the approach taken by regulators, increasingly attentive to banks' capitalisation levels, required banks to identify innovative, more effective avenues of strategic development. The Italian financial sector continued to be torn between the need for concentration and the need for restructuring and recapitalisation, driven in part by the well-known presence of enormous amounts of problem assets.
In the Emerging Markets segment, the Department implemented a gradual reduction of its exposures to Turkey and Brazil, due to the continuation of the uncertain political situations in these countries. In order to continue to support the countries in question, which are considered strategic to the Group's operations and customers, supporting activities relating to commercial operations nonetheless continued.
In view of increasing cross-selling, several ISDA agreements were concluded in cooperation with other Group companies. The Department participated in two bank club deals in Dubai, a crucial step to be considered a partner bank for financial products.
Strong demand for financial support for Italian exports abroad continued, both from large industry and small and medium enterprises, in both cases a result of recognised technological leadership in various sectors, such as energy, infrastructure and transport. Such support took the form of both simple transactions involving the exportation of goods and services and more complex activities in the field of project finance.
The Department also did solid business in the Commodities Financing segment during the quarter, acting as Arranger and Agent in the finalisation of the first shipping finance transaction with coverage from a Chinese export credit agency (Sinosure).

Sub-Saharan Africa continued to represent a geographical area of particular interest, while the increasing demand for support for operations in Gulf states was constant. Other countries of strong interest to Italian exporters were Iran, Argentina and Cuba.
In the Asset Management & Insurance business, many institutional investors decreased their operations on the market during the quarter, in particular following the Brexit referendum, with effects on intermediated volumes. Large institutional investors also continued to show interest in the non-performing loans sector and the purchase of performing loans.

Global Transaction Banking Department

In the third quarter of 2016, the Global Transaction Banking Department continued to participate in innovative projects aimed at conferring distinctive elements on its range of products in new segments (SWIFT digital signature and SWIFT and EBA instant payment), in addition to taking part in the Group's strategic projects and focusing on initiatives aimed at creating global offerings throughout the Division's international network (foreign branches and banks).
Actions and commercial campaigns involving specific customer segments and innovative products in the cash and trade segment were also identified.
In the Commercial Acquiring segment, the Department expanded its e-commerce operations and received increasing requests for support for operation on international markets.
Finally, it took part in market repositioning initiatives, participating in events such as the SIBOS (dedicated to financial services) and AITI (the Italian Association of Company Treasuries) conferences.

Proprietary Trading

During the first nine months of 2016, Proprietary Trading recorded a negative contribution to the income statement in terms of revenues, down compared with the same period of 2015.
Overall, as at 30 September 2016, the risk exposure to structured credit products (financial assets designated at fair value), funded and unfunded ABSs/CDOs at the Group level amounted to 2 billion euro, in line with the value as at 31 December 2015.
The hedge fund portfolio held for trading as at 30 September 2016 totalled 448 million euro, compared to 758 million euro recorded in December 2015. The reduction in the portfolio is mainly due to the decrease in the value of the units underwritten during the first quarter, and to the significant distributions and redemptions in the second quarter, which continued in the third quarter, for the purpose of reducing risk levels.

Global Markets and Corporate & Strategic Finance

In a scenario of volatility on European equity markets, managers' investment decisions focused on ETF (Exchange Traded Fund) products and equity derivatives, to the detriment of individual securities. Positive signs were seen in the bond segment on the ETLX market and an uptrend was witnessed for listed derivatives, due primarily to investors' interest in the US and UK markets. In the Solutions area, the focus on NPLs (non-performing loans) led institutional customers to focus on both asset-based financing and the sale of non-core assets, in addition to analysing and managing the sale of NPL portfolios of greatest interest to specialised investors. The Commodities segment continued to develop physical gas business, whereas there were declines in gold lending and derivatives business. International commercial development efforts continued, with a significant number of initiatives tied to customers' extraordinary transactions (project financing, acquisitions and bond issues), whereas in the Commodities segment the Department consolidated its leadership position in Italy and improved its competitiveness in major European countries.

In the Equity Capital Markets business, Banca IMI acted as Joint Bookrunner in the Enav IPO and in the capital increase by Air Liquide and as intermediary responsible for coordinating subscriptions to the takeover bid for Italcementi. In addition, it acted as financial advisor in the mandatory conversion of Italmobiliare savings shares into ordinary shares.
With reference to the M&A activity, the Bank supported A2A in the acquisition of Linea Group Holding, Tesar in the sale to the R&S group, the Tosto group in the acquisition of Belleli Energy, Ibersol in the acquisition of Eat Out and the Cairo Communication group in the takeover and exchange bid for RCS shares.
With reference to Debt Capital Markets, Banca IMI continued to play a leading role on the domestic market, by participating in a number of issues by major Italian issuers, such as ENI and Saipem, and by important international corporate customers, such as Iberdrola, Alstom, Total, Air Liquide, Peugeot, ASF, APRR, Groupe Fnac, Deutsche Telekom, HeidelbergCement, Kraft, General Motors, Eaton and Adient. In the Emerging Markets segment, Banca IMI acted as Bookrunner in issues by Bulgarian Energy Holding and Tengizchevroil, whereas in the Financial Institutions segment it acted as Joint Lead Manager in issues by Goldman Sachs, Wells Fargo, Bank of America, Crédit Agricole, BNP Paribas and UBS Group. In the Asset Backed Securities business, it acted as Arranger and Lead Manager in the Siena Lease 2016-2, Towers CQ and Globaldrive Auto Receivables 2016-B transactions.

With reference to Structured Finance, worth mentioning are some projects in the oil and gas sector, such as that in favour of Dakota Access Pipeline and, in the real-estate sector, those carried out in London (Brookfield 100 Bishopsgate) and New York (720 Fifth Avenue).
The Bank also continued to support the Group's customers by engaging in significant activity in the fields of leveraged finance (Pirelli, Tecres, Caffitaly and Farnese Vini), corporate lending (FNAC, Terna, De Agostini, Davide Campari, Astaldi, FFSS, Calzedonia, Ynap, Rina, CordenPharma and Aboca) and real estate (Beni Stabili, Savills and Eurocommercial).

International Subsidiary Banks

(millions of euro)

Income statement	30.09.2016	30.09.2015	Changes	
			amount	%
Net interest income	1,095	1,118	-23	-2.1
Profits (losses) on investments carried at equity	38	51	-13	-25.5
Net fee and commission income	360	382	-22	-5.8
Profits (Losses) on trading	91	81	10	12.3
Income from insurance business	-	-	-	-
Other operating income (expenses)	12	-58	70	
Operating income	**1,596**	**1,574**	**22**	**1.4**
Personnel expenses	-401	-409	-8	-2.0
Other administrative expenses	-250	-269	-19	-7.1
Adjustments to property, equipment and intangible assets	-67	-71	-4	-5.6
Operating costs	**-718**	**-749**	**-31**	**-4.1**
Operating margin	**878**	**825**	**53**	**6.4**
Net provisions for risks and charges	17	-178	195	
Net adjustments to loans	-147	-222	-75	-33.8
Net impairment losses on other assets	-2	-1	1	
Profits (Losses) on investments held to maturity and on other investments	4	1	3	
Income (Loss) before tax from continuing operations	**750**	**425**	**325**	**76.5**
Taxes on income from continuing operations	-155	-111	44	39.6
Charges (net of tax) for integration and exit incentives	-20	-3	17	
Effect of purchase price allocation (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	3	3	-	-
Minority interests	-	-1	-1	
Net income (loss)	**578**	**313**	**265**	**84.7**

(millions of euro)

	30.09.2016	31.12.2015	Changes	
			amount	%
Loans to customers	26,947	25,818	1,129	4.4
Direct deposits from banking business	33,986	32,456	1,530	4.7
Risk-weighted assets	31,777	30,999	778	2.5
Absorbed capital	3,038	2,965	73	2.5

Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

The **International Subsidiary Banks Division** is responsible for the Group’s activities in foreign markets through commercial banking subsidiaries and associates, mainly active in retail banking.

It bears noting that the income statement figures presented above and commented upon below do not include the results of the Ukrainian Pravex Bank, as well as the FUT business unit into which the non-performing assets of CIB Bank have been injected. Both these assets have been included in the Capital Light Bank's scope of responsibility.
Furthermore, starting from the Half-Yearly Report as at 30 June 2016 and until the transaction is completed, the accounting balances attributable to ISP Card, a subsidiary with which a sale agreement has been signed, are reclassified under the specific captions relating to discontinued operations, as required by IFRS 5.

In the first nine months of 2016, the Division’s operating income came to 1,596 million euro, growing by 1.4% compared to the same period of the previous year. A detailed analysis shows that net interest income came to 1,095 million euro, compared to 1,118 million euro in the first nine months of 2015 (-2.1%), mainly due to the trends reported by Banca Intesa - Russia (-19 million euro), Banca Intesa Beograd (-10 million euro), VUB Banka (-6 million euro) and Banka Koper (-5 million euro), which were partly offset by PBZ (+12 million euro) and Bank of Alexandria (+7 million euro). Net fee and commission income, amounting to 360 million euro, was down compared to the first nine months of 2015 (-5.8%). Profits on trading, amounting to 91 million euro, increased by 12.3%

due to increased contributions from CIB Bank (+9 million euro), PBZ (+7 million euro) and VUB Banka (+5 million euro), only partly absorbed by the decline of Banca Intesa Beograd (-7 million euro) and Banca Intesa - Russia (-6 million euro).
Operating costs, amounting to 718 million euro, were down compared to the first nine months of 2015 (-4.1%). As a result of the above revenue and cost trends, the operating margin came to 878 million euro, up 6.4%. Income before tax from continuing operations, amounting to 750 million euro, was up significantly compared to 425 million euro in the same period of the previous year (+76.5%), benefiting from lower net adjustments and the release of provisions for risks and charges. The Division closed the first nine months of 2016 with net result of 578 million euro (+84.7%).
The third quarter reported a lower operating margin and net income than in the second quarter.

The Division's intermediated volumes grew compared to the end of December 2015 (+4.6%) owing to positive performance by both loans to customers (+4.4%) and direct deposits from banking business (+4.7%), in the securities issued component.

Business	It is responsible for the Group's operations on the international markets through commercial bank subsidiaries and associates.
Mission	Guidance, coordination and support for international subsidiaries, which engage primarily in retail banking operations. The Division is responsible for setting the Group's strategic development guidelines in terms of its direct presence on international markets, involving systematic exploration and analysis of new growth opportunities on markets already served and new markets, the coordination of international subsidiary banks' operations and the management of the relationships between international subsidiary banks and the Parent Company's central units and the branches and other foreign offices of the Corporate and Investment Banking Division.
Organisational structure	
South-Eastern Europe	Presence in Albania, Bosnia-Herzegovina, Croatia, Romania and Serbia.
Central-Eastern Europe	Presence in Slovakia, Slovenia and Hungary
Commonwealth of Independent States & South Mediterranean	Presence in Egypt, and the Russian Federation
Other companies	ISP Card, which supports banks in the Division in the payment services segment
Distribution structure	1,079 branches in 11 countries.

South-Eastern Europe

In the first nine months of 2016, the operating income of the **Privredna Banka Zagreb** Group amounted to 369 million euro (+12.9% compared to the same period of the previous year), thanks to the favourable performance of all the components. Operating costs, amounting to 143 million euro, decreased (-1.2%) due to savings in all cost captions. The operating margin came to 226 million euro, up +24.1% on the first nine months of the previous year. Income before tax from continuing operations stood at 193 million euro, benefiting from the release of allowances for risks and charges. Lastly, net income came to 152 million euro.

Banca Intesa Beograd, including Intesa Leasing Beograd, generated operating margin of 92 million euro, down 16.5% on the first nine months of 2015. Operating income decreased by 10.2%, primarily due to the performance of net interest income and profits on trading. Operating costs were essentially in line with those of the same period of the previous year. Income before tax from continuing operations amounted to 72 million euro, up compared to the first nine months of the previous year (+17.1%), following the lower adjustments to loans, while net income was 61 million euro (+17.2%).

Intesa Sanpaolo Banka Bosna i Hercegovina closed the first nine months of 2016 with an operating margin of 15 million euro, up on the same period of last year (+2.7%). This performance is attributable to the increase in operating income, which more than offset the growing operating costs. Income before tax from continuing operations, amounting to 12 million euro, increased by 7.3%, while net income amounted to 10 million euro (+3%).

Intesa Sanpaolo Bank Albania reported an operating margin of 17 million euro, down on the first nine months of 2015 (-16.6%), mainly due to the decrease in revenues. Income before tax from continuing operations came to 16 million euro, down on the same period of the previous year (-6.9%) despite the recoveries on loans. Net income was 14 million euro, down by 8%.

Intesa Sanpaolo Bank Romania recorded an operating margin of 11 million euro, down slightly (-3%) compared to the first nine months of 2015: the decline in operating income (-8.6%), primarily attributable to lower interest, was almost entirely offset by the decline in operating costs (-11.9%). The company reported net income of 9.4 million euro, compared to 6.9 million of the same period in 2015, essentially improving due to lower net adjustments to loans.

Central-Eastern Europe

Banka Koper generated operating income of 64 million euro, up 3.3% compared with the first nine months of the previous year as a result of the positive performance of other operating income and profits on trading. Operating costs were down compared to the same period of 2015 (-2.9%). Net income, amounting to 15 million euro, was up 58.8%, also due to lower net adjustments to loans.

The **VUB Banka** Group reported an operating margin of 227 million euro, down slightly (-0.9%) compared to the same period of the previous year: this performance was due to the increase in operating costs (+1.7%) and the essential stability of operating income (+0.2%). On the revenue side, the decline in fees and commissions and net interest income was offset by the growth of profits on trading and other operating income. Income before tax from continuing operations, amounting to 167 million euro, increased by 2.9%, while net income amounted to 126 million euro (+0.9%).

The **CIB Bank** Group (excluding the FUT business unit, which now houses the non-performing loans managed by the Capital Light Bank) recorded operating income of 139 million euro, up 15.7% compared to the first nine months of 2015, mainly due to the increase in other operating income and profits on trading. Operating costs were down (-16.6%) mostly due to lower administrative expenses. Net income showed a positive balance of 40 million euro, compared to a net loss of 13 million euro posted in the same period of the previous year.

Commonwealth of Independent States & South Mediterranean

Banca Intesa - Russia closed the first nine months of 2016 with a small net loss of -0.2 million euro, compared to a net loss of 13 million euro in the same period of 2015. Operating income decreased (-34.3%) due to the decline in net interest income and profits on trading. Operating costs were down 15.5%. Net adjustments to loans amounted to 8.5 million euro, down considerably compared to the same period in 2015.

Bank of Alexandria reported an operating margin of 158 million euro, essentially in line with the first nine months of 2015. Operating income of 278 million euro declined (-3%), mainly as a result of the lower contribution of commission income. Operating costs declined (-7%), essentially due to administrative and personnel expenses. Net income came to 112 million euro, up 21.2% on the same period of 2015.

Private Banking

(millions of euro)

Income statement	30.09.2016	30.09.2015	Changes amount	Changes %
Net interest income	132	149	-17	-11.4
Profits (losses) on investments carried at equity	9	9	-	-
Net fee and commission income	1,128	1,111	17	1.5
Profits (Losses) on trading	22	20	2	10.0
Income from insurance business	-	-	-	-
Other operating income (expenses)	-1	-5	-4	-80.0
Operating income	**1,290**	**1,284**	**6**	**0.5**
Personnel expenses	-215	-211	4	1.9
Other administrative expenses	-165	-164	1	0.6
Adjustments to property, equipment and intangible assets	-11	-12	-1	-8.3
Operating costs	**-391**	**-387**	**4**	**1.0**
Operating margin	**899**	**897**	**2**	**0.2**
Net provisions for risks and charges	-40	-23	17	73.9
Net adjustments to loans	5	-	5	-
Net impairment losses on other assets	-	-	-	-
Profits (Losses) on investments held to maturity and on other investments	-	-	-	-
Income (Loss) before tax from continuing operations	**864**	**874**	**-10**	**-1.1**
Taxes on income from continuing operations	-249	-261	-12	-4.6
Charges (net of tax) for integration and exit incentives	-23	-23	-	-
Effect of purchase price allocation (net of tax)	-63	-63	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**529**	**527**	**2**	**0.4**

(millions of euro)

	30.09.2016	31.12.2015	Changes amount	Changes %
Assets under management [(1)]	101,322	98,691	2,631	2.7
Risk-weighted assets	9,382	8,624	758	8.8
Absorbed capital	927	851	76	8.9

[(1)] Figures restated in accordance with the consolidated indirect funding reporting criteria.
Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

The **Private Banking Division** serves the top customer segment (Private and High Net Worth Individuals), creating value by offering excellent products and services. The Division coordinates the operations of Fideuram, Fideuram Investimenti, Intesa Sanpaolo Private Banking, Sirefid, Fideuram Fiduciaria, Intesa Sanpaolo Private Bank (Suisse) and Fideuram Asset Management Ireland.

In the first nine months of 2016, in a scenario of continuing high market volatility, the Division achieved income before tax from continuing operations of 864 million euro, down slightly (-10 million euro or -1.1%) on the same period of 2015, mainly as a result of the increase in operating costs (+4 million euro) and provisions (+17 million euro). Operating income increased (+6 million euro), along with the profits on disposals of bonds in the loan portfolio (+5 million euro).
The operating income performance was essentially attributable to the increase in net fee and commission income (+17 million euro) and profits on trading (+2 million euro), largely offset by the reduction in the interest margin (-17 million euro). Operating costs increased by 4 million euro and provisions by 17 million euro, mainly due to the discounting of the provisions for risks, which, for the declining trend of interest rates, led to a higher charge to the income statement. Net income was 529 million euro (+2 million euro or +0.4%).
The values of assets under administration have been restated in accordance with the reporting criteria for indirect customer deposits used in the Intesa Sanpaolo Group's consolidated financial statements, involving in particular the elimination of customer current accounts correlated with investment transactions, bonds and certificates that, despite being part of customers' assets, are already included in direct customer deposits. In addition, third-party products were reallocated from assets under management to assets under administration.

As at 30 September 2016, assets under administration, which also include the contribution of the trust mandates for Sirefid, amounted to 162.2 billion euro (-714 million euro compared to the end of 2015). This trend is attributable to the unfavourable market performance (-2.5 billion), which was partially offset by the positive performance of net inflows (+1.8 billion). The assets under management component amounted to 101.3 billion euro, up by 2.6 billion euro, primarily due to the strong performance of life insurance.

Business	Generating new inflows of assets and managing them, using a network of financial advisors and in-house private bankers serving a customer base with high savings potential.
Mission	Improve and broaden the product portfolio and increase the service levels by allowing the customers to choose the network which best satisfies their needs; assist customers in the informed management of their wealth, based on a detailed analysis of their real requirements and risk profile; and offering fully transparent financial and pensions advice in accordance with the regulations.
Organisational structure	
Fideuram	Dedicated to the production, management and distribution of financial products and services to high profile customers, using a network of more than 5,000 Fideuram and Sanpaolo Invest financial advisors.
Intesa Sanpaolo Private Banking	Bank dedicated to private customers (with over 1 million euro in financial assets), providing financial services which are designed to preserve and increase wealth and provide continuity, using a network of over 800 in-house private bankers.
SIREFID	Company specialised in the provision of fiduciary services.
Distribution structure	Network of 225 branches in Italy, three branches abroad and 5,879 financial advisors and private bankers.

Asset Management

(millions of euro)

Income statement	30.09.2016	30.09.2015	Changes	
			amount	%
Net interest income	-	1	-1	
Profits (losses) on investments carried at equity	53	66	-13	-19.7
Net fee and commission income	407	482	-75	-15.6
Profits (Losses) on trading	8	1	7	
Income from insurance business	-	-	-	-
Other operating income (expenses)	-	2	-2	
Operating income	**468**	**552**	**-84**	**-15.2**
Personnel expenses	-42	-45	-3	-6.7
Other administrative expenses	-55	-55	-	-
Adjustments to property, equipment and intangible assets	-	-	-	-
Operating costs	**-97**	**-100**	**-3**	**-3.0**
Operating margin	**371**	**452**	**-81**	**-17.9**
Net provisions for risks and charges	-	-1	-1	
Net adjustments to loans	-	-	-	-
Net impairment losses on other assets	-	-	-	-
Profits (Losses) on investments held to maturity and on other investments	-	-	-	-
Income (Loss) before tax from continuing operations	**371**	**451**	**-80**	**-17.7**
Taxes on income from continuing operations	-81	-108	-27	-25.0
Charges (net of tax) for integration and exit incentives	-	-	-	-
Effect of purchase price allocation (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-8	-6	2	33.3
Net income (loss)	**282**	**337**	**-55**	**-16.3**

(millions of euro)

	30.09.2016	31.12.2015	Changes	
			amount	%
Assets under management	236,365	226,885	9,480	4.2
Risk-weighted assets	1,031	1,135	-104	-9.2
Absorbed capital	116	124	-8	-6.5

Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

The **Asset Management Division** pursues the mission of developing the best asset management solutions aimed at the Group's customers and its presence on the open market segment through the subsidiary Eurizon Capital and its investees.

Overall, the total assets managed by the Asset Management Division at the end of September 2016 came to 236.4 billion euro, growing (+4.2% equal to +9.5 billion euro) since the beginning of the year, as a result of net inflows and a favourable performance, despite financial market volatility. During the first nine months, net inflows came to 6.2 billion euro (of which 2.4 billion euro in the third quarter), mainly due to the contribution from mutual funds (2.2 billion euro, of which 1.8 billion euro in the third quarter) and institutional mandates (7 billion euro of which 1.1 billion euro in the third quarter), mostly concentrated in insurance contracts, which more than offset the outflows relating to the retail sale of portfolio management schemes (-3 billion euro of which -0.5 billion euro in the third quarter).
As at 30 September 2016, Eurizon Capital’s market share of assets under management was 14.6% (gross of duplications), up compared to the end of December 2015. Excluding the closed-end funds segment, in which the company does not operate, the share of assets under management at the end of September 2016 rose to 15%.
Operating income for the first nine months of 2016, amounting to 468 million euro, decreased by 15.2% compared to the same period of the previous year, mainly in relation to the negative performance of net fee and commission income (-15.6%). Net fee and commission income performance is due to the elimination of incentive commissions collected on the products managed, compared to the 103 million euro in the same period of 2015, only partly absorbed by the increase in management fees related to the development of average assets under management, which considerably exceeded the level for the first three quarters of 2015

(+10.7 billion euro). Operating costs fell on the same period of the previous year (-3%) thanks to the streamlining of personnel expenses and administrative expenses; on the latter the benefit was nevertheless offset by the impact of the increase in assets under management on costs related to the products, and in particular on the Fund Administration services. As a result of the above revenue and cost trends, the operating margin came to 371 million euro, down 17.9%. The Division closed the first nine months of 2016 with net income of 282 million euro, down compared to the same period of the previous year (-16.3%).

Significant corporate events included the finalisation on 4 July 2016 of the transaction that, within the framework of the international development initiatives envisaged in the 2014-2017 Business Plan, led Eurizon Capital SGR to control (65%) Eurizon SLJ Capital Limited, based in London.
The company is engaged in research, providing investment and consultancy services with a macroeconomic/top down approach, and in currency management (active FX overlay).

Business	Asset management.
Mission	To provide collective and individual asset management products to the Group's internal banking networks and develop its presence on the open market through specific distribution agreements with other networks and institutional investors.
Organisational structure	
Eurizon Capital SGR	Specialised in asset management on behalf of both retail customers (mutual funds and portfolio management schemes) and institutional customers, to which it offers a wide range of investment products and services.
Epsilon Associati SGR	Specialised in active portfolio management, and in particular in quantitative and multi-strategy management, with total return investment objectives. It is 51% owned by Eurizon Capital SGR, with the remaining 49% held by Banca IMI.
Eurizon Capital SA (Luxembourg)	The company manages and distributes Luxembourg UCI products aimed at retail and institutional customers and offers a wide range of services dedicated to institutional investors. It specialises in limited tracking error (LTE) management.
Eurizon Capital (HK) Ltd (Hong Kong)	A company wholly owned by Eurizon Capital SA, established to develop consulting activities on financial instruments and portfolio management in the Asian market.
VUB Asset Management (Slovakia)	A Slovak asset management company, 50.12% owned by Eurizon Capital SA, which heads up the Hungarian CIB IFM and the Croatian PBZ Invest (Eastern European asset management hub).
Penghua Fund Management Company Limited	Chinese fund manager 49% owned by Eurizon Capital SGR.
Allfunds Bank S.A.	A multimanager distribution platform of mutual funds intended for institutional investors, 50% owned by Eurizon Capital SGR and 50% by AFB SAM Holdings S.L. (Santander Group).
Eurizon SLJ Capital Ltd (U.K.)	An English company controlled by Eurizon Capital SGR through a 65% interest that conducts research and provides investment and advisory services.

Insurance

(millions of euro)

Income statement	30.09.2016	30.09.2015	Changes	
			amount	%
Net interest income	-	-	-	-
Profits (losses) on investments carried at equity	-	-	-	-
Net fee and commission income	-	-	-	-
Profits (Losses) on trading	-	-	-	-
Income from insurance business	973	934	39	4.2
Other operating income (expenses)	-3	-3	-	-
Operating income	**970**	**931**	**39**	**4.2**
Personnel expenses	-49	-47	2	4.3
Other administrative expenses	-64	-62	2	3.2
Adjustments to property, equipment and intangible assets	-2	-2	-	-
Operating costs	**-115**	**-111**	**4**	**3.6**
Operating margin	**855**	**820**	**35**	**4.3**
Net provisions for risks and charges	-2	-	2	-
Net adjustments to loans	-	-	-	-
Net impairment losses on other assets	-9	-13	-4	-30.8
Profits (Losses) on investments held to maturity and on other investments	-	-	-	-
Income (Loss) before tax from continuing operations	**844**	**807**	**37**	**4.6**
Taxes on income from continuing operations	-265	-238	27	11.3
Charges (net of tax) for integration and exit incentives	-3	-3	-	-
Effect of purchase price allocation (net of tax)	-16	-22	-6	-27.3
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**560**	**544**	**16**	**2.9**

(millions of euro)

	30.09.2016	31.12.2015	Changes	
			amount	%
Assets under management	143,064	132,948	10,116	7.6
Risk-weighted assets	-	-	-	-
Absorbed capital	4,599	4,618	-19	-0.4

Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

The **Insurance Division** oversees management of the subsidiaries of the insurance group Intesa Sanpaolo Vita, and Fideuram Vita, with the mission of further developing the insurance product mix targeting Group customers.

In the first nine months of 2016, the Insurance Division reported income from insurance business of 973 million euro, up 39 million euro (+4.2%) compared to the same period of 2015, due to the improvement in the technical margin. The first nine months of the previous year had benefited from the extraordinary contribution of 58 million euro deriving from the sale of the equity interest in the insurance company Union Life. Net of that component, the increase in income from insurance business was +11.1%.
Income before tax from continuing operations was 855 million euro, up 35 million euro (+4.3%) as a result of higher operating income (+39 million euro) and moderate growth of costs (+4 million euro).
The cost/income ratio (11.9%) was in line with that of the same period of the previous year.
Income before tax from continuing operations, amounting to 844 million euro, increased by 37 million euro (+4.6%), while net income amounted to 560 million euro (+16 million euro or +2.9%). If the capital gain on the above sale of the equity interest in Union Life of approximately 50 million euro, after taxes, is excluded, net income increased by 15%.

Direct deposits from insurance business, amounting to 143,064 million euro, increased by 7.6% compared to the end of December 2015, mainly as a result of the development of technical reserves and financial liabilities of the insurance segment designated at fair value.
Collected premiums for life policies in the first nine months of 2016 amounted to 18 billion euro, lower than in the same period of 2015, but at high levels in any case when considering financial market volatility. During the period, the offer range continued to be

repositioned towards multi-line and unit-linked protected capital products distributed by the Banca dei Territori and Private Banking Divisions. During the quarter, the life business offer was expanded with the launch of the new product designed to meet the investment needs of minors and/or wards declared by a guardianship judge who have capital to invest and require prior authorisation from the guardianship judge.
Deposits from the non-life business, amounting to 0.3 billion euro in the first nine months of 2016, recorded a favourable performance on the same period of the previous year, with growth in all product lines. The product range also continued to be diversified in this business, with the marketing of new products in the healthcare and small and medium enterprise segments.

Business	Life and Non-Life Insurance.
Mission	Develop the offering of insurance products for the Group's customers.
Organisational structure	
Intesa Sanpaolo Vita	Insurance parent company specialised in offering insurance, pension and personal and asset protection services within Banca dei Territori. The Company owns 100% of Intesa Sanpaolo Life, specialising in the area of unit-linked products, Intesa Sanpaolo Assicura, dedicated to the non-life business, and Intesa Sanpaolo Smart Care, a company specialising in the creation of innovative digital solutions to combine with insurance products.
Fideuram Vita	Specialised in offering insurance, pension and personal and asset protection products in service of the Private Banking Division.

Corporate Centre

The Corporate Centre is responsible for direction, coordination and control of the whole Group, as well as for the Capital Light Bank business unit, Treasury and ALM.

The Corporate Centre Departments generated operating loss of 605 million euro in the first nine months of 2016, compared to operating loss of -232 million euro for the same period of the previous year. This performance was largely due to charges for contributions to the resolution fund and the National Interbank Deposit Guarantee Fund. The revenue performance was reflected in all of the main income statement items and the net loss, which came to 1,523 million euro, compared to -988 million euro reported in the same period of 2015. This result was also penalised by the greater loan adjustments applied within the scope of the Capital Light Bank.

Capital Light Bank

The process of reducing the assets attributable to the Capital Light Bank continued in the third quarter of 2016. In particular, the assets contributed with the definition of the 2014-2017 Business Plan were reduced by approximately 5 billion euro compared to the beginning of the year, bringing the total deleveraging since 2013 to over 15 billion euro. In addition, on the assets contributed in the first half of 2015 (the former merchant banking investments and funds and Accedo, the product company specialised in extra-captive consumer credit), a deleverage of about 3 billion euro in the first nine months should be noted. This reduction is almost entirely attributable to the sale without recourse, finalised in May, of a portfolio of performing consumer loans of approximately 2.6 billion euro, included among Accedo's assets.
With regard to the bad loan portfolio under management, the recovery activity continued, both internally and through external servicers, with collections of approximately 900 million euro in the first nine months, that confirm the ongoing improvement trend (approximately +25% on the same period of the previous year), also thanks to the benefits obtained from the latest reorganisations of the Loan Recovery Department. During the quarter, the bad leasing positions managed by Provis continued to be subject to both ordinary monitoring of repossessed assets, and of moveable assets in particular, and extraordinary monitoring aimed at identifying potentially saleable portfolios. Projects to integrate IT systems, defined when the assets were contributed to the company, continue. During the third quarter, Re.O.CO. carried out activities with the intention of managing real estate collateral in a more pro-active manner. This entails both direct involvement in auctions and "auction support" whereby external investors are encouraged to intervene. Cases for intervention were chosen carefully so as to reconcile the objective of maximising the recovery of bad positions secured by real-estate assets with the goal of minimising the investment of additional capital. In the first nine months, driven by supporting action and direct participation in auctions for approximately one hundred properties, approximately 3 million euro of properties were sold. Concerning the international subsidiaries, the deleveraging activities involving the Ukrainian Pravex bank continued, in line with the Bank’s business plan and given the country’s dramatic political and economic situation, with a further rationalisation of the branch network and headcount. In the third quarter, the FUT Division of the Hungarian subsidiary CIB Bank positively continued its deleveraging activities, involving in particular the sale of packages of non-performing loans. With regard to non-strategic equity investments, the sale of an interest in a company operating in the infrastructure sector was finalised in September, resulting in a significant reduction of assets, while other minor equity interests were also sold during the quarter.

Treasury services

The Treasury Department includes treasury services in euro and foreign currencies, and the integrated management of liquidity requirements/surpluses, financial risks and settlement risks.

During the third quarter, Intesa Sanpaolo maintained stable market share on the settlement platforms Target2 and Target2 Securities and was also notified by the ECB of its continuing inclusion among Target2 Critical Participants for 2017. In terms of project activity, the banks in France, Belgium and Holland, belonging to the third migration window, successfully entered Target2 Securities. The process that will bring the remaining European countries (including Germany and Spain) to operate on the T2S platform in the final two migration windows (February and September 2017) continued. With regard to other settlement-related projects, Intesa Sanpaolo continued to collaborate in European roundtables (EBA and SWIFT) aimed at creating new market infrastructure for the settlement of instant payments, with operations set to commence in November 2017.

Concerning money markets, in the third quarter of 2016 the Eurozone showed considerable resilience to the Brexit shock. After the abrupt bear market following the referendum, a confidence scenario was gradually re-established, supported by action by the British central bank, which approved a substantial package of stimulus measures, including a rate cut, the re-opening of the government bond purchasing programme and a new funding scheme for banks. The ECB did not take action, but authorised its technical committees to assess new measures aimed at facilitating the linear continuation of its purchasing programmes. After discounting further imminent cuts by the ECB, short-term rates returned to their pre-Brexit levels as market sentiment improved. The spread between German and Italian ten-year bonds, which widened following the referendum, returned to the levels of the previous quarter on average. The excess liquidity present in the Eurosystem averaged 970 billion euro during the quarter and exceeded 1,000 billion euro in September, rising stably above the peaks reached in 2012. The second auction in the TLTRO II programme conducted by the ECB was held at the end of the quarter, resulting in the participation of 249 banks requesting funds of 45.3 billion euro (compared to 399.3 billion euro awarded to 514 banks in the first June tranche), a figure that exceeded market expectations. Intesa Sanpaolo participated for 5 billion euro, in addition to the 36 billion euro obtained in the first TLTRO II auction. The approach in the U.S. of the new money market funds legislation caused moderate tension on the short-term dollar funding market in the summer, in particular amongst banks that made significant use of the USCP channel (Yankee CDs). This resulted in a gradual increase in Libor parameters, although the Federal Reserve showed significant caution concerning a further rate increase, now scheduled for year-end. The Intesa Sanpaolo Group's dependence on the U.S. money market is currently very limited. The amount of Intesa Sanpaolo's short-term securities funding programmes declined slightly compared to the end of June, due in part to the preference shown by some investors for the Bank's longer-term securities, which continue to offer positive yields.

For the government bond portfolio, investment strategies in the third quarter aimed at partially reducing the exposure on the long end of government curves, following the aforementioned compression of spreads. There was a further decline in the volumes, credit sensitivity and residual life of the non-government portfolio, which benefited from the quantitative easing policies implemented by the ECB. On the repo market, the third quarter continued to witness a widening of spreads between govies repo rates in core countries and in Italy, on the basis of the measures implemented by the ECB in the context of the QE programme. The phenomenon usually tends to intensify at the end of the quarter, due to the greater focus on the positions represented in the financial statements. The spread declined compared to the second quarter due to the effect of Italian repo rates, which always traded at depo levels. This performance is mainly explained by the significant surplus liquidity on the market.

Medium/long-term funding recorded a slight decrease in deposits compared to the previous quarter.
In the retail market, the total issues of Group securities placed in the first nine months of the year through own and third-party networks amounted to 4.2 billion euro: of which 61% consisted of structured bonds (primarily represented by index-linked structures) and 39% of plain vanilla issues. A breakdown by average maturity shows a concentration ranging between 5- and 7-year maturities (with a weight of 73%), whilst 27% is constituted by securities with maturities in the interval of 8-10 years (12%) and 2-4 years (15%).
On the international markets, unsecured institutional deposits totalled 5.7 billion euro as a result of the transactions concluded during the first half of the year.
Regarding collateralised funding, the 21st and 22nd series were issued under the multi-originator issue programme guaranteed by ISP OBG, for an amount of 1.75 billion euro, retained and subscribed by the Parent Company.

As regards management of the collateral eligible for refinancing operations at central banks, Intesa Sanpaolo uses the A.Ba.Co. (Collateralised Bank Assets) procedure, which allows bank loans disbursed to non-financial companies to be used to secure loan transactions with the Bank of Italy. This procedure is implemented in compliance with the Bank of Italy regulations "Eurosystem Monetary Policy Instruments - Guide for Operators". At the end of September 2016, the outstanding amount of loans lodged as pledge by the Group, gross of the applicable haircuts, was 11.8 billion euro.

Active Value Management (AVM)

With regard to Asset & Liability Management, operational management of the interest rate risks of the Group’s banking book – in the segment over 18 months – is handled by the ALM structures under the supervision of the Financial and Market Risk Department. Interest rate risk is monitored and managed mainly by examining the sensitivity of the market value of the various positions in the banking book to parallel shifts in the interest rate curve at the various maturities; moreover specific scenario analysis techniques on rate developments are used, as well as performance scenarios for specific positions. The strategic choices on interest rate risk are made by the Group’s Financial Risks Committee, within the limits established by the Management Body. The ALM structure actively supports the Committee’s decision-making activity by formulating analyses and proposals. The structural liquidity risk is managed by identifying expected liquidity mismatches by maturity bands, on the basis of internal liquidity policies defined by the Group.

Risk management

BASIC PRINCIPLES

The Intesa Sanpaolo Group's risk acceptance policies are defined by the Board of Directors and the Management Control Committee, with management and control functions respectively. The Board of Directors carries out its activity through specific internal committees, among which the Risk Committee. The Corporate Bodies are assisted by the action of managerial committees, among which mention should be made of the Group Risk Governance Committee, as well as the support of the Chief Risk Officer, reporting directly to the Chief Executive Officer.
The Chief Risk Officer is responsible for proposing the Risk Appetite Framework, setting the Group's risk management guidelines and policies in accordance with company strategies and objectives and coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments. The Chief Risk Officer ensures management of the Group's overall risk profile by establishing methods and monitoring exposure to the various types of risk and reporting the situation periodically to the corporate bodies.
The Parent Company is in charge of overall direction, management and control of risks. Group companies that generate credit and/or financial risks are assigned autonomy limits and each has its own control structure. A service agreement governs the risk control activities performed by the Parent Company's functions on behalf of the main subsidiaries. These functions report directly to the subsidiaries' Management Bodies.
The risk measurement and management tools contribute to defining a risk-monitoring framework at Group level, capable of assessing the risks assumed by the Group from a regulatory and economic point of view. The level of absorption of economic capital, defined as the maximum "unexpected" loss that could be borne by the Group over a period of one year, is a key measure for determining the Group's financial structure, risk appetite and for guiding operations, ensuring a balance between risks assumed and shareholder returns. It is estimated on the basis of the current situation and also as a forecast, based on the Budget assumptions and projected economic scenario under ordinary and stress conditions. The assessment of capital is included in business reporting and is submitted quarterly to the Group Risk Governance Committee, the Risk Committee and the Board of Directors, as part of the Group's Risks Tableau de Bord. Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures.

BASEL 3 REGULATIONS AND THE INTERNAL PROJECT

In view of compliance with the reforms of the previous accord by the Basel Committee ("Basel 3"), the Intesa Sanpaolo Group has undertaken adequate project initiatives, expanding the objectives of the Basel 2 Project in order to improve the measurement systems and the related risk management systems.

With respect to credit risks, the Group received authorisation to use internal ratings-based approaches effective from the report as at 31 December 2008 on the Corporate portfolio for a scope extending to the Parent Company, network banks in the Banca dei Territori Division and the main Italian product companies.
Progressively, the scope of application has been gradually extended to include the SME Retail and Retail Mortgage portfolios, as well as other Italian and international Group companies.

Dedicated rating approaches have been developed for the Banks and Public Entities Portfolio according to the type of counterparty to be assessed. This was the subject of a pre-validation inspection by the Supervisory Authority conducted in December 2013, followed by an additional validation visit in March 2015. In the same month an AIRB authorisation request was presented to the Supervisory Authority for this portfolio.
The Group is also proceeding with development of the IRB systems for the other segments and the extension of the scope of companies for their application in accordance with a plan presented to the Supervisory Authority.
For OTC derivatives, with reference to the Parent Company Intesa Sanpaolo and to Banca IMI, the Bank of Italy granted the authorisation to use the internal counterparty risk model for regulatory purposes, starting from the first quarter of 2014. For the Banks in the Banca dei Territori Division, an application for authorisation to use the internal model for regulatory purposes was submitted to the Supervisory Authority in 2015, while for management purposes, the advanced risk estimate measures were implemented in November 2014.
In 2015 an application for authorisation to use internal models for regulatory purposes was also submitted for Securities Financing Transactions (SFT - Repos and securities lending) products. For management purposes, the advanced risk measurement methods were implemented for SFT in May 2015.

With regard to Operational Risk, the Group obtained authorisation to use the Advanced Measurement Approach (AMA – internal model) to determine the associated capital requirement for regulatory purposes, with effect from the report as at 31 December 2009.

There were no changes in the scope of application of the models compared to 31 December 2015.

The adequacy of the internal control system for risks is also illustrated in the annual Internal Capital Adequacy Assessment Process Report, based on the extensive use of internal approaches for the measurement of risks and for the calculation of internal capital and total capital available. The document was approved and sent to the Supervisor in April 2016.

The Intesa Sanpaolo Group participated in the 2016 EU-wide stress test, the exercise conducted by the European Banking Authority on the financial statements of European banks as at 31 December 2015.
The test consisted of the simulation of the impact of two scenarios – baseline and adverse – and covers a time horizon of three years (2016-2018). The 2016 EU-wide stress test provides crucial information as part of the prudential review process of 2016. The results thus allowed the competent authorities to assess banks' ability to comply with the established minimum and additional own funds requirements in stress scenarios based on shared methodology and assumptions.
Intesa Sanpaolo acknowledges the results of the 2016 EU-wide stress test announced by the EBA on 29 July 2016, which were extremely positive for the Group. The Common Equity Tier 1 ratio (CET1 ratio) resulting from the stress test for 2018, the final year considered in the exercise, was 12.8% for Intesa Sanpaolo in the baseline scenario and 10.2% in the adverse scenario, compared to the starting-point figure of 13% recorded as at 31 December 2015, and includes a 50 basis-point reduction - in both scenarios - for the transition from the calculation criteria applicable in 2015 to those in force for 2018.

As part of its adoption of Basel 3, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled “Basel 3 - Pillar 3” or simply “Pillar 3”.
The document is published on the website (group.intesasanpaolo.com) on a quarterly basis.

CREDIT RISK

The Group's strategies, powers and rules for the granting and managing of loans are aimed at:
- achieving the goal of sustainable growth consistent with the Group's risk appetite and value creation objectives, whilst guaranteeing and improving the quality of its lending operations;
- diversifying the portfolio, limiting the concentration of exposures to counterparties/groups, economic sectors or geographical areas;
- efficiently selecting economic groups and individual borrowers through a thorough analysis of their creditworthiness aimed at limiting the risk of insolvency and mitigating potentially associated losses;
- given the current economic climate, favouring lending business aimed at supporting the real economy and production system and at developing relationships with customers;
- constantly monitoring relationships and the related exposures, through the use of both IT procedures and systematic surveillance of positions that show irregularities with the aim of detecting any symptoms of deterioration in a timely manner.

The Intesa Sanpaolo Group has developed a set of techniques and tools for credit risk measurement and management which ensures analytical control over the quality of loans to customers and financial institutions, and loans subject to country risk.
In particular, with respect to loans to customers, risk is measured using internal rating models which change according to the counterparty's operating segment.

Credit quality

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.
The overall watch-list and non-performing loan portfolio is subject to a specific management process which, inter alia, entails accurate monitoring through a control system and periodic managerial reporting. In particular, this activity is performed using measurement methods and performance controls that allow the production of synthetic risk indicators. The quality of the loan portfolio is pursued through specific operating checks for all the phases of loan management, through the use of both IT procedures and systematic supervision of positions with the aim of detecting any symptoms of difficulty and promote corrective measures to prevent possible deterioration of credit risk.
Positions are detected and automatically entered in the credit management processes by way of daily and monthly checks using objective risk indicators that allow timely assessments when any anomalies arise or persist and interact with processes and procedures for loan management and monitoring.
Within the Group, in accordance with pre-set rules, positions which are attributed a persistent high-risk rating are intercepted (manually or automatically) and classified to the following categories based on their risk profile, in accordance with the regulatory provisions on credit quality:
- Bad loans: the set of "on-" and "off-balance sheet" exposures towards borrowers in default or similar situations;
- Unlikely to pay: "on-" and "off-balance sheet" exposures which the bank, based on its opinion, deems unlikely to be completely (as principal and/or interest) repaid by the borrowers without the implementation of actions such as enforcement of guarantees. This assessment is irrespective of the presence of any amounts (or instalments) due and unpaid.

The category of non-performing loans also includes past due positions that cannot be considered mere delays in reimbursements, as established by the Bank of Italy.
Lastly, non-performing exposures also include the individual forborne exposures which comply with the definition of "Non-performing exposures with forbearance measures" envisaged by the EBA ITS (European Banking Authority - Implementing Technical Standards), which are not a separate category of non-performing assets, but rather a sub-category. Similarly, exposures characterised by "forbearance measures" are also included among performing loans.
The management process for such exposures, in close accordance with regulatory provisions concerning classification times and methods, is assisted by automatic mechanisms that ensure pre-established, autonomous and independent management procedures.

(millions of euro)

	30.09.2016			31.12.2015			Changes
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure
Bad loans	38,028	-23,014	15,014	39,150	-24,177	14,973	41
Unlikely to pay	20,981	-5,501	15,480	22,725	-5,634	17,091	-1,611
Past due loans	686	-136	550	1,239	-217	1,022	-472
Non-performing loans	**59,695**	**-28,651**	**31,044**	**63,114**	**-30,028**	**33,086**	**-2,042**
of which forborne	***11,502***	***-3,433***	***8,069***	***10,856***	***-3,151***	***7,705***	***364***
Performing loans	321,209	-1,933	319,276	302,875	-2,012	300,863	18,413
of which forborne	*8,049*	*-258*	*7,791*	*7,917*	*-218*	*7,699*	*92*
Performing loans represented by securities	14,750	-234	14,516	13,633	-249	13,384	1,132
of which forborne	*92*	*-*	*92*	*137*	*-2*	*135*	*-43*
Loans to customers	**395,654**	**-30,818**	**364,836**	**379,622**	**-32,289**	**347,333**	**17,503**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.

As at 30 September 2016, the Group's non-performing loans, net of adjustments, came to 31 billion euro, below the levels of the end of 2015 (-6.2%), continuing the gradual decline witnessed in the previous quarters of the current year. Compared to the end

of December 2015, there was a significant decrease in non-performing assets as a percentage of total loans to customers (to 8.5%).
In further detail, bad loans came to 15 billion euro, net of adjustments, in the first nine months of 2016, slightly up (+0.3%) from the beginning of the year, and represented 4.1% of total loans (4.3% at the end of 2015). During the same period, the coverage ratio was 60.5% (61.8% in December 2015). Loans included in the unlikely to pay category amounted to 15.5 billion euro, down by 9.4%, accounting for 4.2% of total loans to customers, with a coverage ratio of 26.2%. Past due loans totalled 550 million euro, down 46.2% compared to the beginning of the year, with a coverage ratio of 19.8%. Forborne exposures are generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, according to the definition introduced by the European Banking Authority with the aim of harmonising the classification of the definitions of non-performing loans and forbearance practices (renegotiation due to financial difficulty by the debtor) at the European level: within the non-performing loan category, they amounted to 8.1 billion euro, with an average coverage ratio of 29.8%, whereas those in the performing loan category were slightly lower (7.8 billion euro).
The coverage ratio of performing loans was 0.6%.

MARKET RISKS

TRADING BOOK

The quantification of trading risks is based on daily and periodic VaR of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors:

- interest rates;
- equities and market indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABSs);
- commodities.

Other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 2% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading books are local government bonds, positions in interest rates, and foreign exchange rates relating to linear pay-offs.
For some of the risk factors indicated above, the Supervisory Authority has validated the internal models for the reporting of the capital absorptions of both Intesa Sanpaolo and Banca IMI.
Effective from the report as at 30 September 2012, both banks have received authorisation from the Supervisory Authority to extend the scope of the model to specific risk on debt securities. The model was extended on the basis of the current methodological framework (a historical simulation in full evaluation), and required the integration of the Incremental Risk Charge into the calculation of the capital requirement for market risks.

Effective from June 2014, market risks are to be reported according to the internal model for capital requirements for the Parent Company's hedge fund portfolios (the full look-through approach).
The risk profiles validated are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI, (iii) position risk on dividend derivatives and (iv) position risk on commodities for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.

The requirement for stressed VaR is included when determining capital absorption effective from 31 December 2011. The requirement derives from the determination of the VaR associated with a market stress period. This period was identified considering the following guidelines, on the basis of the indications presented in the Basel document "Revision to the Basel 2 market risk framework":
- the period must represent a stress scenario for the portfolio;
- the period must have a significant impact on the main risk factors for the portfolios of Intesa Sanpaolo and Banca IMI;
- the period must allow real historical series to be used for all portfolio risk factors.

In keeping with the historical simulation approach employed to calculate VaR, the latter point is a discriminating condition in the selection of the holding period. In fact, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.
As at the date of preparation of this document, the period relevant to the measurement of stressed VaR had been set as 1 January to 31 December 2011 for Intesa Sanpaolo and as 1 July 2011 to 30 June 2012 for Banca IMI.

The analysis of market risk profiles relative to the trading book uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).
VaR estimates are calculated daily based on simulations of historical time-series, with a 99% confidence level and 1-day holding period.
The following paragraphs provide the estimates and evolution of VaR, defined as the sum of VaR and of the simulation on illiquid parameters, for the trading book of Intesa Sanpaolo and Banca IMI.

During the third quarter of 2016, the market risks generated by Intesa Sanpaolo and Banca IMI increased compared to the average values of the second quarter of 2016. The average VaR for the period totalled 102.2 million euro compared to 97 million euro in the second quarter of 2016.

Daily VaR of the trading book for Intesa Sanpaolo and Banca IMI[(a)]

(millions of euro)

	2016					2015			
	average 3rd quarter	minimum 3rd quarter	maximum 3rd quarter	average 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	11.5	9.8	14.6	11.5	14.9	13.2	11.6	13.8	12.1
Banca IMI	90.6	60.1	125.6	85.5	90.0	85.0	104.7	71.1	64.6
Total	**102.2**	**71.9**	**137.9**	**97.0**	**104.9**	**98.3**	**116.3**	**84.9**	**76.7**

(a) Each line in the table sets out past estimates of daily VaR calculated on the quartely historical time-series respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for the two companies are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

In the first nine months of 2016, the Group's average VaR was 101.3 million euro, up from 93.1 million euro in the same period of 2015.

(millions of euro)

	2016			2015		
	average 30.09	minimum 30.09	maximum 30.09	average 30.09	minimum 30.09	maximum 30.09
Intesa Sanpaolo	12.6	9.8	17.5	12.5	6.0	18.5
Banca IMI	88.7	60.1	125.6	80.6	54.0	116.3
Total	**101.3**	**71.9**	**137.9**	**93.1**	**64.5**	**125.7**

(a) Each line in the table sets out past estimates of daily VaR calculated on the historical time-series of the first nine months of the year respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for the two companies are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

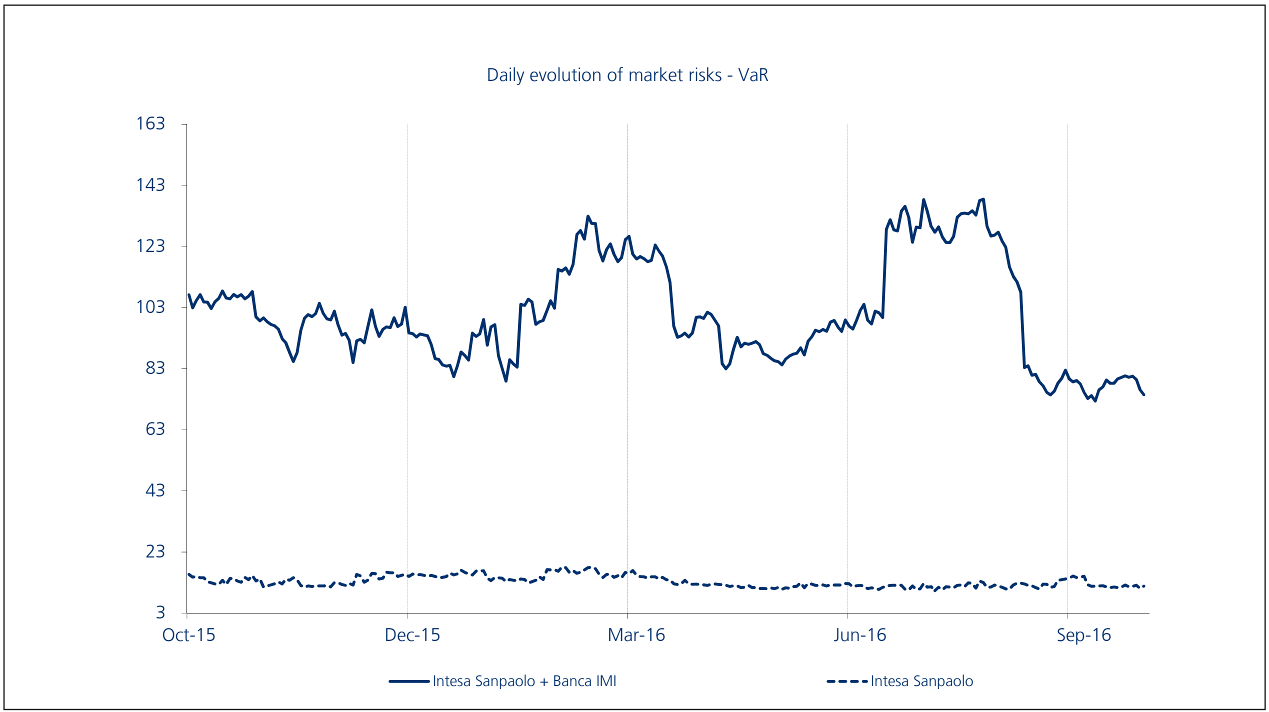
For Intesa Sanpaolo the breakdown of the risk profile in the third quarter of 2016, with regard to the various factors, shows the prevalence of the risk generated by foreign exchange, which accounted for 47% of total VaR (primarily linked to hedge positions of banking book entries, excluding which, the component relating to credit spread risk is the main one); for Banca IMI, credit spread risk was the most significant, representing 83% of total VaR.

Contribution of risk factors to total VaR[(a)]

3rd quarter 2016	Shares	Hedge funds	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	8%	10%	13%	19%	47%	3%	0%
Banca IMI	3%	0%	8%	83%	1%	2%	3%
Total	**4%**	**1%**	**8%**	**77%**	**5%**	**2%**	**3%**

(a) Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the third quarter of 2016, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall capital at risk.

The trend in VaR is mainly attributable to Banca IMI. In the second quarter of 2016, a decrease in VaR was initially recorded as a result of sales and exiting scenarios of volatility; then, subsequently, from mid-May onwards, the measures recorded a slight increase as a result of purchases of government securities (within the limits approved for 2016). On 24 June 2016, in correspondence to the outcome of the referendum in the UK (Leave victory), volatility of credit spreads was then recorded on the markets accompanied by lower interest rates and share prices. The new scenario generated an increase in the Group's VaR, which at the end of the period recorded a peak of 134 million euro. Risk measures continued to be contained within the assigned limits. During the third quarter, in addition to further exclusions of volatile scenarios, there was also a decrease in positions in government and financial securities.



Risk control with regard to the trading activity of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. The impact on the income statement of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads and foreign exchange rates as at the end of September is summarised in the following table: The shocks applied to the portfolio were updated by the Financial and Market Risks Department.

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-10%	+10%	Crash	Bullish
Total	-3	30	-49	32	236	-227	26	-25	15	-5

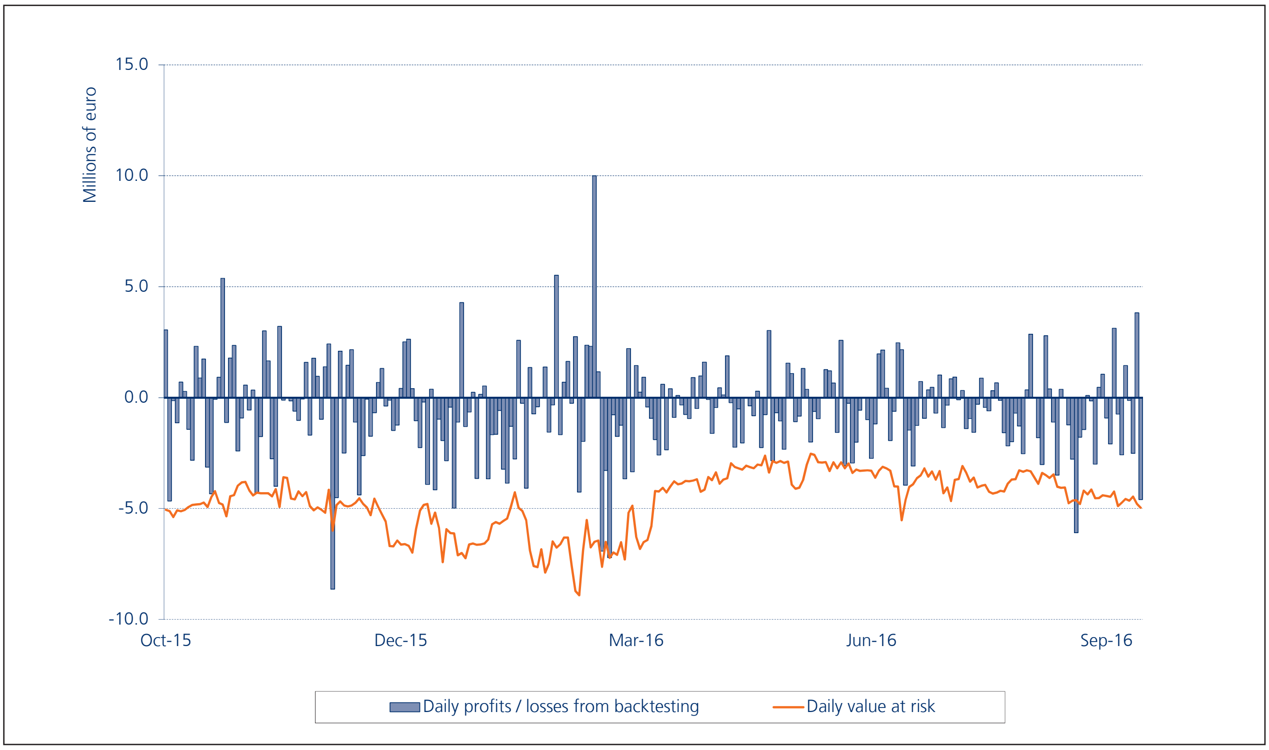
In particular:
- for positions on equity markets, there would be a theoretical loss of 3 million euro in the event of a market crash (decline in prices of 15% on the European market and of 10% on the U.S. market and increase in volatility of 25%);
- for positions in interest rates, there would be a loss of 49 million euro in the event of an increase in rate curves of 40 basis points;
- for positions in credit spreads, a widening of credit spreads of 25 bps would entail a loss of 227 million euro;
- for positions in foreign exchange, there would be losses in the event of a 10% increase in the EUR-USD exchange rate;
- finally, for positions in commodities, an increase in commodity prices of 20% (accompanied by a reduction in the price of gold of 15%) would entail a loss of 5 million euro.

Backtesting

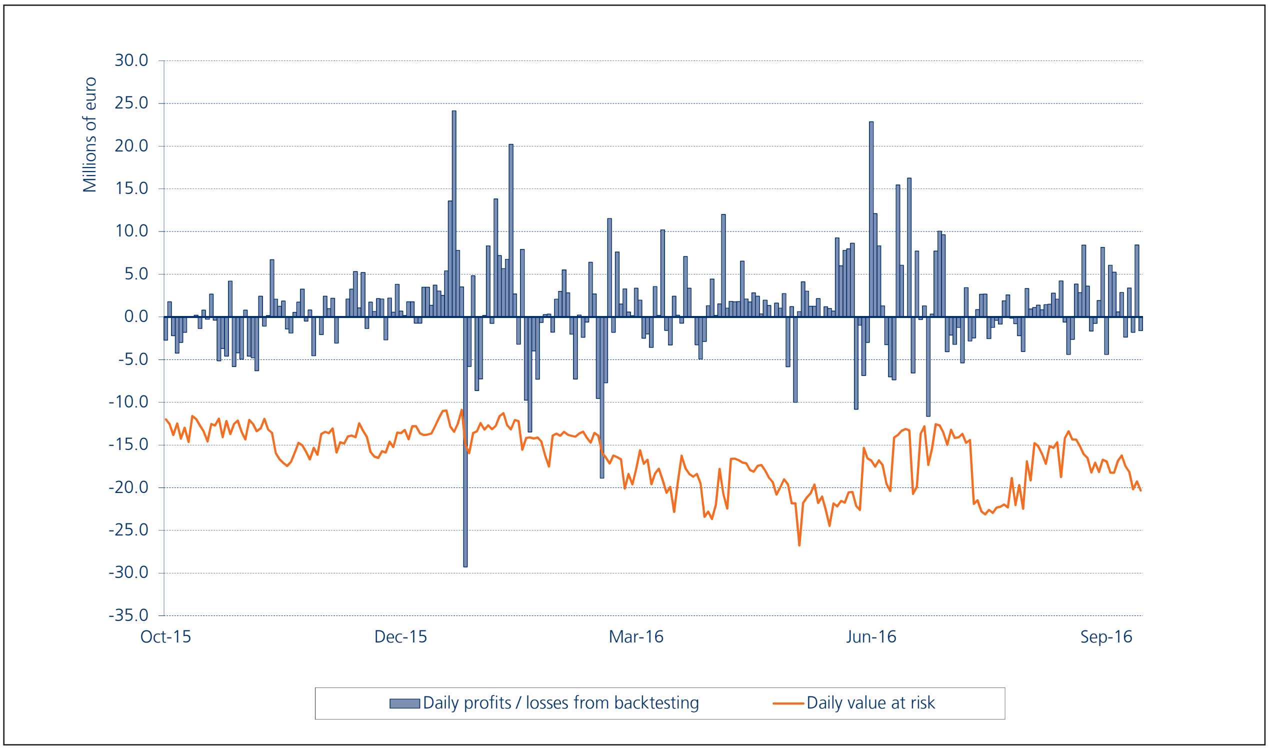
The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:
- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting such as commissions and intraday activities.

Backtesting allows verification of the model’s capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the Internal Model are represented by situations in which daily profits/losses based on backtesting highlight more than three occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate. Current regulations require that backtesting is performed by taking into consideration both the actual P&L series recorded and the theoretical series. The latter is based on valuation of the portfolio value through the use of pricing models adopted for the VaR measurement calculation. The number of significant backtesting exceptions is determined as the maximum between those for actual P&L and theoretical P&L.

Backtesting in Intesa Sanpaolo
In the past year, there have been two effective backtesting exceptions tied to interest rate movements.



Backtesting in Banca IMI
Banca IMI's two backtesting exceptions are to be attributed to the increase in volatility of financial spreads recorded during the first quarter of 2016.



BANKING BOOK

Market risk originated by the banking book arises primarily in the Parent Company and in the other main Group companies involved in retail and corporate banking. The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated, mostly held by the Parent Company and IMI Investimenti.
The following methods are used to measure financial risks of the Group's banking book:
- Value at Risk (VaR);
- Sensitivity Analysis.

Value at Risk is calculated as the maximum potential loss in the portfolio's market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR).
The Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the main risk factors (interest rate, foreign exchange, equity). For interest rate risk, an adverse movement is defined as a parallel and uniform shift of +100 basis points of the interest rate curve. The measurements include an estimate of the prepayment effect and of the risk originated by customer demand loans and deposits. Furthermore, interest margin sensitivity is measured by quantifying the impact on net interest income of a parallel and instantaneous shock in the interest rate curve of ±100 basis points, over a period of 12 months. This measure highlights the effect of variations in interest rates on the portfolio that is being measured, excluding assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a forecast indicator of the future levels of the interest margin.

Hedging of interest rate risk is aimed at (i) protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve or (ii) reducing the volatility of future cash flows related to a particular asset/liability. The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates entered into with third parties or with other Group companies. The latter, in turn, cover risk in the market so that the hedging transactions meet the criteria to qualify as IAS-compliant for consolidated financial statements.
Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods. A first method refers to the fair value hedge of specifically identified assets or liabilities (micro hedging), mainly consisting of bonds issued or acquired by Group companies and loans to customers. On the basis of the carved-out version of IAS 39, fair-value hedging is also applied for the macro hedging of the stable portion of demand deposits (core deposits) and on the already fixed portion of floating-rate loans.
Moreover, since the end of 2015 the Group has extended the use of macro hedging to a portion of fixed-rate loans, adopting an open-portfolio macro hedging model for a portion of fixed-rate loans according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics.

Another hedging method used is the cash flow hedge, which has the purpose of stabilising interest flow on both floating-rate funding, to the extent that the latter finances fixed-rate investments, and on floating-rate investments to cover fixed-rate funding (macro cash flow hedges).
The Financial and Market Risks Department is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting.

In the first nine months of 2016, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, recorded an average value of 885 million euro settling at 1,153 million euro at the end of September 2016, almost entirely concentrated on the euro currency; this figure compares with 547 million euro at the end of 2015.
Interest margin sensitivity – assuming a 100 basis point change in interest rates – amounted to 1,010 million euro at the end of September 2015 (535 million euro at the end of 2015).
Interest rate risk, measured in terms of VaR, recorded an average of 66 million euro in the first nine months of 2016 (139 million euro at the end of 2015), with a maximum value of 85 million euro and a minimum value of 40 million euro; that figure is compared to the value of 68 million euro at the end of September 2016. Price risk generated by minority stakes in listed companies, mostly held in the AFS (available for sale) category and measured in terms of VaR, recorded an average level of 83 million euro in the first nine months of 2016 (27 million euro at the end of 2015), with a minimum value of 16 million euro and a maximum value of 146 million euro; that figure compares with a value of 132 million euro at the end of September.
Lastly, an analysis of banking book sensitivity to price risk, measuring the impact on Shareholders' Equity of a price shock on the above quoted assets recorded in the AFS category shows sensitivity to a 10% negative shock equal to 6.6 million euro at the end of September 2016.

LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).
The arrangement of a suitable control and management system for that specific risk has a fundamental role in maintaining stability, not only at the level of each individual bank, but also of the market as a whole, given that imbalances within a single financial institution may have systemic repercussions. Such a system must be integrated into the overall risk management system and provide for incisive controls consistent with developments in the context of reference.
During 2016 the corporate bodies of Intesa Sanpaolo approved the update of the "Guidelines for Group Liquidity Risk Management", implementing the latest regulatory provisions. These Guidelines illustrate the tasks of the various company functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. The key principles underpinning the Liquidity Policy of the Intesa Sanpaolo Group are:

- the existence of liquidity management guidelines approved by senior management and clearly disseminated throughout the Bank;
- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- the constant availability of adequate liquidity reserves in relation to the pre-determined liquidity risk tolerance threshold;
- the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time and the quantitative and qualitative adequacy of liquidity reserves;
- the adoption of an internal fund transfer pricing system that accurately incorporates the cost/benefit of liquidity, on the basis of the Intesa Sanpaolo Group's funding conditions.

From an organisational standpoint, a detailed definition is prepared of the tasks assigned to the strategic and management supervision bodies and reports are presented to the senior management concerning certain important formalities such as the approval of measurement methods, the definition of the main assumptions underlying stress scenarios and the composition of early warning indicators used to activate emergency plans.
The departments of the Parent Company that are in charge of ensuring the correct application of the Guidelines are, in particular, the Treasury Head Office Department, the Planning and Active Value Management Head Office Department, responsible for liquidity management, and the Financial and Market Risks Head Office Department, directly responsible for measuring liquidity risk on a consolidated basis.
With regard to liquidity risk measurement metrics and mitigation tools, in addition to defining the methodological system for measuring short-term and structural liquidity indicators, the Group also formalises the maximum tolerance threshold (risk appetite) for liquidity risk, the criteria for defining liquidity reserves and the rules and parameters for conducting stress tests.
The short-term Liquidity Policy is aimed at ensuring an adequate, balanced level of cash inflows and outflows the timing of which is certain or estimated to fall within a period of 12 months, in order to respond to periods of tension, including extended periods, on the various funding sourcing markets, also by establishing adequate liquidity reserves in the form of liquid securities on private markets and securities eligible for refinancing with Central Banks. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of two short-term indicators for holding periods of one week (cumulative projected imbalance in wholesale operations) and of one month (Liquidity Coverage Ratio) respectively.
The cumulative projected wholesale imbalances indicator measures the Bank's independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. The Liquidity Coverage Ratio (LCR) is aimed at strengthening the short-term liquidity risk profile, ensuring the holding of sufficient unencumbered high quality liquid assets (HQLA) that can be easily and immediately converted into cash in the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by the regulations. Delegated Regulation (EU) 2015/61 calls for a gradual introduction of the regulatory framework of LCR according to the following schedule: from 1 October 2015 to 31 December 2015 = 60%; from 1 January to 31 December 2016 = 70%; from 1 January to 31 December 2017 = 80%; from 1 January 2018 = 100%.
The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. The NSFR's regulatory requirement is still subject to a period of observation: the European Commission is required to present a legislative proposal that will come into force from 2018.
The Guidelines for Group Liquidity Risk Management also envisage the time extension of the stress scenario for the LCR indicator, provided by the new regulatory framework, measuring, for up to 3 months, the effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis. The internal management guidelines also envisage a minimum limit on the LCR indicator up to 3 months, with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions.
The Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and the intervention measures for the resolution of emergencies. The early warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Financial and Market Risks Department.
In the first nine months of 2016, the Group's liquidity position remained within the risk limits provided for in the Group's Liquidity Policy: both the LCR and NSFR indicators were largely respected, as they reached a level well above the phased-in requirements.

As at 30 September 2016, the eligible liquidity reserves for the Central Banks, considering cash components, came to 127 billion euro (117 billion euro at the end of December 2015), of which 76 billion euro, net of haircut, was unencumbered (78 billion euro at the end of December 2015).
Also the stress tests, when considering the high availability of liquidity reserves (liquid or eligible), yielded results in excess of the target threshold for the Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.
Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the main risk factors.

INFORMATION ON FINANCIAL PRODUCTS

In line with the requests for utmost transparency made by supranational and national Supervisory Authorities, the following information is provided on the fair value measurement methods adopted, structured credit products, activities performed through Special Purpose Entities (SPE), leveraged finance transactions, hedge fund portfolios and transactions in derivatives with customers.

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

General principles

This chapter summarises the criteria used by the Group to measure the fair value of financial instruments. These criteria are substantially unchanged with respect to those illustrated in detail in the Annual Report 2015, to which reference is made for more information.
The Intesa Sanpaolo Group governs and defines the fair value measurement of financial instruments through the Group's Fair Value Policy, prepared by the Financial and Market Risks Department and also applied to the Parent Company and to all consolidated subsidiaries.
The 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 (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single bank. Underlying the definition of fair value is the assumption that the Bank is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.
A bank has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market participants when pricing an asset or liability, presuming that they act with a view to satisfying their own economic interest in the best way possible. Measurement at fair value presumes that the asset is sold or the liability transferred:
a. in the principal active market for the asset or liability;
b. in the absence of a major active market, in the most advantageous market for the asset or liability.
The Group considers a market to be active when transactions in an asset or liability occur with sufficient frequency and volume to provide useful information for determining price on an ongoing basis. An instrument is considered listed on an active market if prices reflecting normal market transactions are promptly and regularly available from stock exchanges, brokers, intermediaries, principal-to-principal markets, listing services or authorised entities and such prices are representative of effective, regular market transactions.
The Intesa Sanpaolo Group considers the principal market of a financial asset or liability to be the market in which the Group generally operates.
In the event of a significant reduction in the volume or level of operations compared to normal operations for the asset or liability (or for similar assets or liabilities) highlighted by a number of indicators (number of transactions, limited significance of market prices, significant increase in implicit premiums for liquidity risk, expansion or increase of the bid-ask spread, reduction or total lack of market for new issues, limited publicly-available information), analyses of the transactions or of the quoted prices are carried out.

Fair value hierarchy

IFRS 13 establishes a fair value hierarchy in which inputs to fair value measurement techniques are divided into three levels. That hierarchy assigns top priority to (unadjusted) quoted prices on active markets for identical assets or liabilities (level 1 data) and the lowest priority to unobservable inputs (level 3 data). In particular:
– Fair value level 1 applies when an instrument is measured directly on the basis of (unadjusted) quoted prices on active markets for identical assets or liabilities to which the entity has access on the measurement date.
– Fair value level 2 applies when a price has not been found on an active market and the instrument is measured according to valuation techniques, on the basis of observable market parameters, or of the use of parameters that are not observable but are supported and confirmed by market evidence, such as prices, spreads or other inputs (the comparable approach).
– Fair value level 3 applies when fair value is measured using various inputs, not all of which are directly drawn from observable market parameters, and which thus entail estimates and assumptions by the valuator.

If various inputs are used to measure the fair value of an asset or liability, classification in the hierarchy is determined on the basis of the lowest-level input used in measurement. When assigning a level in the fair value hierarchy, priority is given to the inputs of the valuation techniques rather than the valuation techniques themselves.
The document "Fair Value Hierarchy Rules" defines, with regard to the respective financial instrument valuation models/inputs, the basic rules that market inputs must comply with in order to be classified as Level 2, and the significance thresholds which, when overrun, result in the assignment of Level 3.
For level 1 financial instruments, the current bid price is used for financial assets and the current ask price for financial liabilities, struck on the principal active market at the close of the reference period.
For financial instruments with a scarcely significant bid-ask spread or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.
When no listing on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-ask spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.
Such techniques include:
– the use of market values that are indirectly linked to the instrument to be measured, deriving from products with the same risk profile (level 2 inputs);
– valuations performed using – in whole or in part but primarily – inputs not identified from parameters observed on the market, for which estimates and assumptions made by the valuator are used (level 3 inputs).

In case of level 2 inputs, the valuation is based on prices or credit spreads presumed from the official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (valuation model). The use of this approach requires the

identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured.
In case of instruments classified as level 3, the calculation of the fair value of certain types of financial instruments is based on valuation models based on specific hypotheses regarding the development of future cash-flows, which consider input parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator.

Valuation of financial instruments and Model Risk Management
The valuation process of financial instruments entails the following phases:
- Identification of the measurement sources: for each asset class, the Fair Value Policy and Market Data Reference Guide establish the processes necessary to identify market parameters and the means according to which such data must be extracted and used.
- Certification and treatment of market data for periodic measurements: this stage consists of the accurate verification, at each accounting measurement date, of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.
- Certification of valuation models and Model Risk Assessment: this phase is aimed at verifying the consistency with and the adherence to current market practice of the various measurement techniques used, at highlighting any critical aspects in the valuation models used and at determining any adjustments necessary for measurement.
- Periodic monitoring of the consistency of the measurement models over time: the monitoring consists in checking the adherence to the market of the measurement model in order to promptly discover any gaps and start the necessary verifications and interventions.

In general, Model Risk is represented by the possibility that the price of a financial instrument is materially influenced by the valuation approach chosen. In the case of complex financial instruments, for which there is no standard valuation method in the market, or during periods when new valuation methods are being established in the market, it is possible that different methods may consistently value the elementary instruments of reference, but provide differing valuations for exotic instruments. The model risk is monitored through a series of analyses and checks carried out at different stages, aimed at certifying the various valuation methods used by the Parent Company ("Model Validation"), at regularly monitoring the performance of the models in operation to promptly identify any deviation from the market ("Model Risk Monitoring") and at identifying any adjustments to be made to the valuations ("Model Risk Adjustment", see the section below "Adjustments adopted to reflect model risk and other uncertainties related to the valuation").

Adjustments adopted to reflect model risk and other uncertainties related to the valuation
If problems are found by the Model Validation process or the Model Risk Monitoring process in the calculation of the fair value of particular financial instruments, the appropriate Mark-to-Market Adjustments to be made to the valuations are identified. These adjustments are regularly reviewed, also considering market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to significant changes in selected models and their implementation.
In addition to the adjustments relating to the abovementioned factors, also other types of adjustments ("Mark-to-Market Adjustment") relating to other factors capable of influencing the valuation are included. These factors essentially involve:
- high and/or complex risk profile;
- position illiquidity determined by temporary or structural market conditions or in relation to the entity of exchange values held (in case of excessive concentration);
- valuation difficulties due to the lack of liquid and observable market parameters.

The management of the Mark-to-Market Adjustment process is formalised with appropriate calculation methodologies on the basis of the different configurations of the points set out above. Calculation of the adjustments depends on the dynamics of the factors indicated above and is disciplined by the Financial and Market Risks Head Office Department. For new products, the decision to apply Mark-to-Market Adjustment processes is taken during the process for the approval of new products, upon the proposal of the Financial and Market Risks Head Office Department.
Following the crisis of 2007, the market progressively introduced a series of adjustments linked to the credit and liquidity risk, with impacts on both the income statement and the capital, collectively shown as XVA. In line with market practices, in the past the Intesa Sanpaolo Group introduced the Credit/Debt Value Adjustment (bCVA), and, starting from 31 March 2016, it implemented the Funding Value Adjustment (FVA) in the valuation of OTC derivatives. The latter assessment component takes into consideration the liquidity risk premium, connected to the costs of funding the cash flows generated by an OTC derivative portfolio (coupons, dividends, collateral, etc.). Like the bCVA, the FVA depends on the probability of default of the counterparties and considers any netting and collateralisation agreements (CSA).

Fair value hierarchy

The table below shows financial assets and liabilities designated at fair value through profit and loss broken down by fair value hierarchy levels.

(millions of euro)

Financial assets / liabilities at fair value	30.09.2016			31.12.2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	14,138	35,215	879	17,994	32,546	1,057
2. Financial assets designated at fair value through profit or loss	59,734	1,151	453	51,847	1,200	616
3. Financial assets available for sale	136,843	7,004	3,038	120,864	8,152	2,318
4. Hedging derivatives	-	7,382	26	-	7,039	20
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**210,715**	**50,752**	**4,396**	**190,705**	**48,937**	**4,011**
1. Financial liabilities held for trading	12,935	34,964	244	11,217	31,972	333
2. Financial liabilities designated at fair value through profit or loss	-	54,373	-	-	47,022	-
3. Hedging derivatives	-	10,949	2	-	8,228	6
Total	**12,935**	**100,286**	**246**	**11,217**	**87,222**	**339**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.

As shown in the table, level 3 instruments, which allow for more discretion in fair value measurement, still account for a limited portion of the financial instruments portfolio: 1.7% for financial assets and 0.2% for financial liabilities.
The growth of level 3 financial assets available for sale is primarily due to the investment in the Atlante fund (504 million euro) and the contribution (60 million euro) paid into the Voluntary Scheme established within the framework of the National Interbank Deposit Guarantee Fund, representing the ISP Group's share of the recapitalisation of CR Cesena.
Approximately 79% of financial assets measured at fair value are determined based on market prices, and therefore without any discretion by the valuator.

The sensitivity analysis performed on level 3 structured credit products highlights a negative change in fair value of 139,581[1] euro, referring to complex credit derivatives, when the following parameters change:

– risk-neutral probability of default derived from market spreads (10%);
– recovery rate (from 5% to 25%, based on the type of risk of the underlying product);
– correlation between the value of collaterals present in the structure (from 25% to 80%, based on the type of risk of the underlying product);
– expected residual life of the contract (one-year increase over the expected term).

[1]This amount is shown net of the adjustments to valuations relating to the main input parameters which were already considered to measure the fair value of financial instruments (see paragraph "Fair value measurement" above).

STRUCTURED CREDIT PRODUCTS

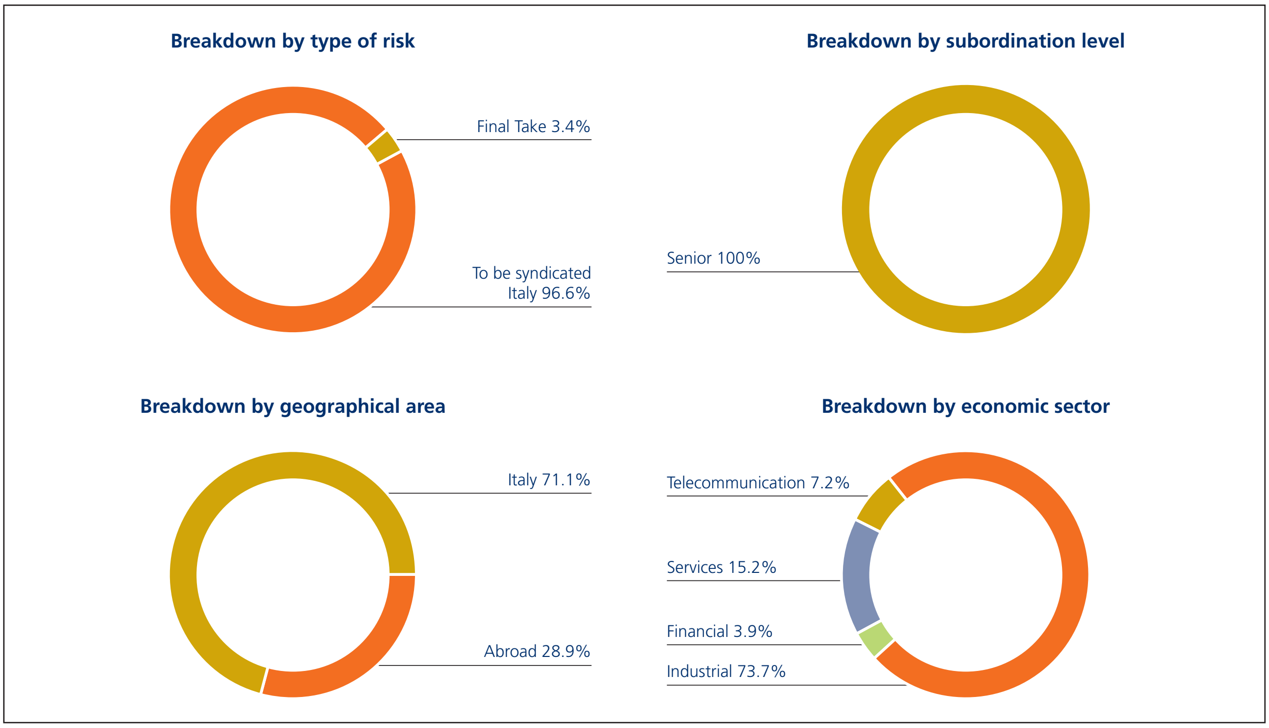
The risk exposure to structured credit products reached 2,363 million euro as at 30 September 2016 with respect to funded and unfunded ABS/CDOs, compared to 2,429 million euro as at 31 December 2015, in addition to an exposure of 1 million euro with respect to structured packages, which compares with the 2 million euro as at 31 December 2015.
The strategy regarding the portfolio in question in 2016 focused on investments to exploit market opportunities, on the one hand, and on disposing of the portfolio hard hit by the financial crisis, which is now managed by Capital Light Bank, on the other.
The decrease in exposure to funded and unfunded ABS/CDOs designated at fair value (from 1,988 million euro in December 2015 to 1,981 million euro in September 2016) is attributable to sales and redemptions of ABS by Banca IMI and of European ABS/CDOs by the Parent Company, only partially offset by investments in ABS of Banca IMI (part of which were classified to the available-for-sale portfolio) and to European ABS/CDOs acquired by the Parent Company and classified to the trading portfolio.
Banca IMI's investments mainly consist of securities with underlying residential mortgages and CLOs with mainly AA ratings. The Parent Company confirmed its transactions in European RMBS with mainly Aaa ratings, aimed at seizing market opportunities, with sales that are only partially offset by new investments.
With regard to the exposure represented by securities classified under the loan portfolio, on the other hand, a decrease was recorded (from 441 million euro in December 2015 to 382 million euro in September 2016), attributable to the sales and redemptions that concerned the portfolio of the Parent Company and Banca IMI, only partially offset by minor higher investments.
The decrease in the exposure of structured packages is attributable to expiries during the period.
From an income statement perspective, a result of 11 million euro was recorded in the first nine months of 2016, compared to -1 million euro for 2015.
As at 30 September 2016 the "Profits (losses) on trading – caption 80" of the exposure to funded and unfunded ABS/CDOs came to +11 million euro (-1 million euro in 2015), generated by the positions in funded European and U.S. ABS/CDOs, while positions in U.S. subprime and Multisector CDOs had a nil result (+1 million in 2015).
The exposure to funded and unfunded ABS/CDOs in securities classified by the subsidiary Banca IMI in the available-for-sale portfolio recorded a net increase in fair value of 5 million euro, accounted for in the specific Shareholders' Equity Reserve, and an impact on the income statement for sales made in the period of +4 million euro. The securities reclassified in the Loan portfolio recorded an impact of -5 million euro as at 30 September 2016, to be attributed to the Parent Company, which posted negative adjustments due to the impairment of several securities in the portfolio (-1 million euro in 2015).
The "Monoline risk" and "Non-monoline packages" made a contribution to "Profits (Losses) on trading – caption 80" of +1 million euro as at 30 September 2016, compared with the nil contribution as at 31 December 2015.

INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPES)

For the purpose of this analysis, legal entities established to pursue a specific, clearly defined and limited objective are considered Special Purpose Entities (raising funds on the market, acquiring/selling/managing assets both for asset securitisations, acquisition of funding through self-securitisations and the issue of covered bonds, developing and/or financing specific business initiatives, undertaking leveraged buy-out transactions, or managing credit risk inherent in an entity's portfolio).
The sponsor of the transaction is normally an entity which requests the structuring of a transaction that involves the SPE for the purpose of achieving certain objectives. In some cases, the Bank is the sponsor and establishes a SPE to achieve one of the objectives cited above.
For the SPE categories identified as not consolidated structured entities, no amendments are recorded to the criteria based on which the Intesa Sanpaolo Group decides on whether to include the companies in the scope of consolidation, compared to the information already provided in the 2015 financial statements.
In issuance in the third quarter, within the framework of the bank covered bond programme guaranteed by ISP CB Ipotecario, a variable-rate bond was issued for 1.25 billion euro, maturing in four years, listed on the Luxembourg Stock Exchange, rated Aa2 by Moody's, subscribed by the Parent Company and eligible with the Eurosystem.
Under the multi-originator issuance programme guaranteed by ISP OBG, two variable-rate bonds were issued for 1.75 billion euro each, maturing in eight and nine years, respectively, listed on the Luxembourg Stock Exchange and rated A High by DBRS. The securities were subscribed by the Parent Company and are also eligible with the Eurosystem.

LEVERAGED FINANCE TRANSACTIONS

Since there is no univocal and universally agreed-upon definition of leveraged finance transactions, Intesa Sanpaolo decided to include in this category the exposures (loans granted and disbursed in relation to structured financing operations, normally medium/long term) to legal entities, in which the majority of share capital is held by private equity funds.
These are mainly positions in support of Leveraged Buy Out projects (therefore with high financial leverage), i.e. linked to the full or partial acquisition of companies through recourse to SPEs created for this purpose. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.
None of these SPEs is consolidated, since the guarantees to support the transaction are solely instrumental for the granting of the financing and are never directed to the acquisition of direct or indirect control over the vehicle.
As at 30 September 2016, 109 transactions for a total amount granted of 3,319 million euro met the above definition.
These exposures are classified under the loans portfolio. They also include the portions of syndicated loans underwritten or under syndication. In line with disclosure requirements, breakdown of exposures by geographical area, economic sector and by level of subordination is set out below.



INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The hedge fund portfolio held for trading as at 30 September 2016, totalled 448 million euro, compared to 758 million euro recorded in December 2015. The reduction in the portfolio is mainly due to the decrease in the value of the units underwritten during the first quarter, and to the significant distributions and redemptions in the second quarter, which continued in the third quarter, for the purpose of reducing risk levels.

As at the same date, the economic result of the investments in this segment was negative for -42 million euro (-44 million euro at 30 June 2016), compared to the positive 8 million euro of “Profits (Losses) on trading – caption 80” in the third quarter of 2015. The 42-million-euro net loss recorded at 30 September 2016 is almost entirely attributable to a decline in the NAV of several funds witnessed in the first quarter.

More specifically, the greatest losses were recorded on the Paulson fund (16 million euro), which is heavily exposed to the healthcare sector, which was affected by idiosyncratic events and is at the centre of the US electoral campaign on the price of drugs, and on the Eurizon Penghua fund (4 million euro), focusing on the Asian equity market, and the Chinese one in particular; several losses also concerned funds on the Map 12, Map 10 and Map 6 platforms, focused on financials and the Italian banking system.

The portfolio's overall strategy remains oriented towards benefiting from the occurrence of specific corporate events, largely independent of the general trend, and the reduction of risk through a general downwards revision of individual funds in response to market uncertainty. Portfolio adjustments continued in the third quarter. In particular, the period saw distributions by the Map 14 fund of 2 million euro, the liquidation of the Map 13 fund for approximately 10 million euro and a further reduction of the exposure to the Chinese equity market, of approximately 2 million euro, through the fund Penghua Equity China.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 30 September 2016, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 8,946 million euro (7,670 million euro as at 31 December 2015). The notional value of these derivatives totalled 49,544 million euro (45,855 million euro as at 31 December 2015). The positive fair value of the structured contracts in existence with the 10 customers with the highest exposures was 6,150 million euro.

Conversely, negative fair value determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 1,826 million euro as at 30 September 2016 (1,929 million euro as at 31 December 2015). The notional value of those derivatives was 18,308 million euro (20,304 million euro as at 31 December 2015).

The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 30 September 2016, this led to a negative effect of 17 million euro being recorded under “Profits (Losses) on trading” in the income statement.

As regards the means of calculation, for the various methodologies used in the determination of the fair value of financial instruments, see the specific paragraphs in this chapter.

Please note that contracts made up of combinations of several elementary derivative instruments have been considered "structured" and that the aforesaid figures do not include fair value of derivatives embedded in structured bond issues as well as the relative hedges agreed by the Group.

OPERATIONAL RISK

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual or out-of-contract liability or other disputes, ICT (Information and Communication Technology) risk and model risk. Strategic and reputational risks are not included.

The Intesa Sanpaolo Group has for some time defined the overall operational risk management framework by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

With regard to operational risk, on 31 December 2009, the Group adopted the Advanced Measurement Approach (AMA - internal model), in partial use with the standardised (TSA) and basic approaches (BIA) to determine the associated capital requirement for regulatory purposes. The AMA approach was adopted by the leading banks and companies in the Banca dei Territori, Corporate and Investment Banking, Private Banking and Asset Management Divisions, by the Intesa Sanpaolo Group Services consortium, by VUB Banka (including Consumer Financial Holding and VUB Leasing) and PBZ Banka.

The control of the Group's operational risk was attributed to the Board of Directors, which identifies risk management policies, and to the Management Control Committee, which is in charge of their approval and verification, as well as of the guarantee of the functionality, efficiency and effectiveness of the risk management and control system.

Moreover, the tasks of the Intesa Sanpaolo Group Internal Control Coordination and Operational Risk Committee include periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies.

The Group has a centralised function within the Enterprise Risk Management Department for management of the Group’s operational risk. This function is responsible for the definition, implementation, and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.

In compliance with current requirements, the individual organisational units are responsible for identifying, assessing, managing and mitigating risks. Specific officers and departments have been identified within these business units to be responsible for Operational Risk Management (structured collection of information relative to operational events, scenario analyses and evaluation of the business environment and internal control factors).

The Self-diagnosis process, conducted on an annual basis, allows the Group to:

- identify, measure, monitor and mitigate operational risk through identification of the main operational problem issues and definition of the most appropriate mitigation actions;
- analyse exposure to ICT risk;
- create significant synergies with the Information Security and Business Continuity Sub-department, which supervises the planning of operational processes and business continuity issues, with Administrative and Financial Governance and with control functions (Compliance and Internal Auditing) that supervise specific regulations and issues (Legislative Decree 231/01, Law 262/05) or conduct tests of the effectiveness of controls of company processes.

The Self-diagnosis process identified a good overall level of control of operational risks and contributed to enhancing the diffusion of a business culture focused on the ongoing control of these risks.

The process of collecting data on operational events (in particular operational losses, obtained from both internal and external sources) provides significant information on the exposure. It also contributes to building knowledge and understanding of the exposure to operational risk, on the one hand, and assessing the effectiveness or potential weaknesses of the internal control system, on the other hand. The internal model for calculating capital absorption is conceived in such a way as to combine all the main sources of quantitative (operational losses) and qualitative (Self-diagnosis) information.

The quantitative component is based on an analysis of historical data concerning internal events (recorded by the organisational units, appropriately verified by the Head Office Department and managed by a dedicated IT system) and external events (by the Operational Riskdata eXchange Association).

The qualitative component (scenario analysis) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by management (subsidiaries, Parent Company’s business areas, the Corporate Centre) with the objective of assessing the potential economic impact of particularly severe operational events.

Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case); Capital-at-risk is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%; the methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the business environment (Business Environment Evaluation), to take into account the effectiveness of internal controls in the various organisational units.

Operational risks are monitored by an integrated reporting system, which provides management with support information for managing and/or mitigating the operational risk.

In order to support the operational risk management process on a continuous basis, a structured training programme was implemented for employees actively involved in this process.

In addition, the Group activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft and damage, cash and valuables in transit losses, computer fraud, forgery, cyber-crimes, earthquake and fire, and third-party liability), which contributes to mitigating exposure to operational risk. At the end of June 2013, in order to allow optimum use of the available operational risk transfer tools and to take advantage of the capital benefits, pursuant to applicable regulations the Group subscribed an insurance coverage policy named Operational Risk Insurance Programme, which offers additional coverage to traditional policies, significantly increasing the limit of liability, transferring the risk of significant operational losses to the insurance market.

The internal model’s insurance mitigation component was approved by the Bank of Italy in June 2013 with immediate effect of its benefits on operations and on the capital requirements.

To determine its capital requirements, the Group employs a combination of the methods allowed under applicable regulations. The capital absorption resulting from this process amounts to 1,689 million euro as at 30 September 2016, up by 37 million euro compared to 31 December 2015 (1,652 million euro).

In addition, with respect to risks relating to real property and infrastructure, with the aim of containing the impacts of phenomena such as catastrophic environmental events, situations of international crisis, and social protest events, the Group may activate its business continuity solutions.

Legal risks

Legal risks are thoroughly analysed by the Parent Company and Group companies. Provisions are made to the Allowances for risks and charges in the event of litigations for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated.
As at 30 September 2016 a total of about 17,000 disputes were pending (excluding Risanamento S.p.A., which is not subject to management and coordination by Intesa Sanpaolo) with a total remedy sought of 6.9 billion euro and provisions of about 785 million euro. Of these disputes, approximately 1.6 billion euro regarded claims concerning loan positions, 1.3 billion euro regarded civil and administrative disputes, 0.9 billion euro regarded anatocism, 0.5 billion euro regarded bankruptcy revocatory actions and 0.6 billion euro regarded insolvency compensation.
No particularly significant disputes arose in the third quarter. The following is a discussion of the main developments during the period relating to the disputes disclosed in the notes to the 2015 Financial Statements and the Half-yearly Report as at 30 June 2016, to which reference should be made for a description of the disputes in question.

Angelo Rizzo lawsuit – The judgment whereby in April 2016 the Court of Appeal upheld the decision of the first instance, which was favourable to Intesa Sanpaolo, was not appealed before the Court of Cassation and thus became final.

I Viaggi del Ventaglio Group lawsuit - The judgment (filed in February 2016) of the first instance of the suit brought by the Ventaglio International Bankruptcy trustee, which rejected all of the claims made on the merits, was appealed. The first hearing is scheduled for January 2017.

Alis Holding lawsuit – Negotiations between the parties to reach a settlement continue. The hearing on the admission of evidence submitted by the parties was continued until 24 January 2017.

IMI/SIR lawsuit - At the end of the first hearing of 19 July 2016, the Court of Appeal, by order filed on 25 July 2016, stayed the enforcement of the judgment of the first instance for the amount exceeding 130 million euro, in addition to accessory amounts and expenses, and continued the case for the entry of pleadings at the hearing of 12 June 2018. As a result of the order, the unfavourable appealed judgment remains immediately enforceable up to that limit. Intesa Sanpaolo is therefore entitled, in the absence of spontaneous compliance by the obligated parties, to proceed with enforced collection of the claim in question.

Administrative proceedings involving the New York Branch

During the first nine months of the year, the discussions with the Fed and the New York State Department for Financial Services (DFS) - the financial services supervisory body of the State of New York – regarding the proceedings, launched in 2007, concerning the status of anti-money laundering controls at the New York Branch and the methods used for clearing payments in US dollars continued. In particular, in recent weeks, following completion of the analysis conducted by an independent consultant, the process of reviewing the evidence with DFS begun, and it is currently not possible to predict the outcome of the discussions.

Tax litigation

The Group's tax litigation risks are covered by adequate provisions to allowances for risks and charges.

As at 30 September 2016 the Parent Company had 305 pending litigation proceedings (319 as at 30 June 2016) for a total amount of 302 million euro (338 million euro as at 30 June 2016), calculated considering proceedings in both administrative and judicial venues at various instances. The actual risks at issue in such litigation have been quantified at 91 million euro as at 30 September 2016 (in line with 30 June 2016 and 31 December 2015, net of litigation being settled).
The following is an account of the most significant developments in the third quarter in the ongoing tax litigation and the related risks and provisions disclosed in the notes to the Half-yearly Report as at 30 June 2016.
The most significant aspect relates to recoveries of registry tax on company contributions and the subsequent sale of equity investments, which the revenue authorities have treated as transfers of business units. In this framework, eleven disputes are currently pending, for a total of 59.5 million euro of additional taxes, in addition to interest of 11.2 million euro, without the application of penalties. Six cases (for a total value of 48.3 million euro, plus interest) are currently pending before the Court of Cassation, five by appeal by the revenue authorities and one by appeal by the Bank. The risks associated with litigation have been adequately assessed on the basis of the recent negative case law of the higher courts and, the recurring discrepancies between the cases in which Intesa Sanpaolo is involved and the contractual schemes considered previously by Italy's Supreme Court and the joint and several liability with various counterparties involved in the transactions.
In respect of those same contributions, the Italian Revenue Agency has assessed a greater value of the companies than indicated in the purchase and sale agreements for the equity interests, also for the purposes of registry tax. In this context, there are two pending disputes with a total value of approximately 32.5 million euro, in which the risk of an unfavourable outcome is considered remote.
On 30 June 2016 Intesa Sanpaolo was served a payment notice of 1.7 million euro for tax periods 1986 and 1988, by way of administrative penalties due as a result of the unfavourable conclusion of the litigation against the IRPEG and ILOR tax assessment notices for those same years. The notice was appealed before the Tax Commission, on the basis of arguments according to which the unfavourable judgment is void due to the prior resolution of the dispute pursuant to the old amnesty law no. 413 of 1991 and another trial, prior to that invoked by the revenue authority, which resulted in a favourable outcome for the Bank for those same years.

In addition, four cases of litigation with a total value of approximately 22.2 million euro (taxes, interest and penalties) were brought to a positive conclusion. The cases concerned registry tax paid on certain rulings of the judicial authority rendered in favour of a number of financial institutions in respect of pool loans to the Costanzo Group. The judgments of the Provincial Tax Commission of Catania, which acknowledged that the Bank was not liable for the tax claimed, became definitive when they failed to be appealed by the Revenue Agency within the allotted terms.
The assessment concerning tax period 2011 served on 29 March 2016 on the merged company Neos Finance was resolved by tax settlement proposal on 3 August 2016. The claim, concerning IRES and penalties of about 1.8 million euro, in addition to interest, concerned the determination criteria of the threshold under which the impairment of loans could be immediately deducted. In particular, citing the letter of Art. 106, paragraph 3, of the Combined Tax Regulations, the Agency denied that receivables subject to insurance cover contracted by customers should also be included in the immediately deductible 0.30% base amount. Since the effects of the tax claim were strictly temporary, as it concerned an issue of timing only, the effective amount of penalties and interest was 0.4 million euro.
Within the framework of the resolution of all litigation concerning tax period 2005, which entailed the reduction of the revenue authority's claims from 376 million euro to approximately 6 million euro, the quarter also saw the final conclusion - without any outlay by the Bank - of the case concerning IRES (total amount of tax, penalties and interest of approximately 13 million euro) relating to the disputed non-deductibility of losses deriving from the assignment without recourse of non-performing receivables to Castello Finance S.r.l. (a vehicle controlled by Fortress and Merrill Lynch) by Banca Intesa, Intesa Gestione Crediti and Mediocredito, on the basis of the alleged lack of "certain, precise elements" required by the legislation of reference. This result was reached through cancellation in an internal review process, by the Lombardy Regional Department, on the basis of a concurring opinion by the Central Assessment Department, of the above charge concerning losses on the assignment of receivables, on the assumption that the Bank had nonetheless discharged its evidentiary obligations according to the practice that was established in the course of the proceedings (i.e., Circular No. 26/E of 1 August 2013), which expressly considered as transactions capable of generating deductible losses on receivables those undertaken with supervised bank and financial counterparties who are in any event independent of both the assignor and assigned debtor. Following settlement before the court, the Provincial Tax Commission ruled that the case should be dropped. The risk of liabilities in this dispute had been deemed remote, and thus no provision had been recognised.
As regards the tax audits under way at Intesa Sanpaolo, worthy of note are those being conducted by the local tax authorities on the international branches of London and Frankfurt, currently with no findings.

The following is an account of the salient events during the quarter concerning the other Group companies, as compared to the situation as at 30 June 2016, amounting to total claims of 743 million euro and provisions of 44 million euro.
In the tax dispute of greatest amount (alone accounting for 530 million euro), concerning the charge of illegal use of an offshore tax structure brought by the Italian tax authorities against the Luxembourg subsidiary Eurizon Capital S.A., the Large Taxpayers Office of the Lombardy Regional Department of the Revenue Agency, in consultation with the Luxembourg company and Eurizon Capital SGR, served a questionnaire on the latter concerning tax periods 2011, 2012, 2013 and 2014 with the aim of inquiring further into the relationships between the two companies. Eurizon Capital SGR responded in a timely manner.
Discussions continued with the Italian Revenue Agency, Emilia Romagna Regional Office, to settle the claims concerning the tax treatment by Group banks based in the region (Cariromagna, Carisbo and the merged Banca Monte Parma) of the losses related to the transfer of loans to customers out of the performing category, subject to lump-sum write-downs, to positions subject to individual impairment testing, as a consequence of their involvement in insolvency procedures.
In audit-related developments, Banca CR Firenze received a request for clarification, for the years 2011 to 2013, concerning the VAT deductibility regime applied to purchases of goods and services by the merged Immobiliare Nuova Sede s.r.l., the builder of a property complex intended for use as the Bank's new headquarters. The Revenue Agency is believed to be considering charges of abuse of the law, on the assumption that, had the Bank undertaken the construction directly, it would not have been able to deduct the VAT paid on the construction costs. The Bank has provided all of the requested documentation and, in an extensive illustrative brief, believes that it has proved that there are no factual or legal grounds for a case for abuse of the law. At present, no assessment notices have been served.
For Intesa Sanpaolo Group Services, the general audit by the Guardia di Finanza, which began on 26 November 2015, continued, concerning IRES, IRAP, VAT, other indirect taxes and labour regulations for the 2013 tax period and following. Clarification has been requested concerning the transfer prices applied with Group counterparties residing abroad, and the Company has submitted a thorough brief illustrating the criteria adopted.
For Banca IMI, the inspection by the Guardia di Finanza, Milan Tax Police Squad, conducted on 10 May 2016, concluded with an auditors' report served on 20 July 2016. The audit, which concerns tax periods 2011 and 2012, relates to transactions on regulated markets in securities and single stock futures, reclassified by the tax authorities as repurchase agreements. After having redetermined the tax treatment for the purposes of income taxes and withholdings accordingly, the auditors charged the Bank with: i) for 2011, total unpaid withholding taxes of 11.2 million euro (on presumed manufactured dividends implicit in the transactions of 41.5 million euro) and a greater tax base for IRAP purposes of 19.5 million euro; and ii) for 2012, total unpaid withholdings of 18.5 million euro (on presumed "manufactured dividends" of 68.5 million euro) and a greater tax base for IRAP purposes of 32.2 million euro. The unpaid withholdings (a total of 30 million euro for the two years) were calculated by assuming categorically that the recipients of the manufactured dividends all resided in countries with privileged tax regimes and thus that the rate of 27% should apply to the dividends paid, instead of the 1.375% applicable to cases in which the recipients are companies residing in the European Union (as is instead the case in most of the situations considered). If this latter argument were to be upheld, as occurred (in the tax settlement procedure) in the disputes involving previous tax periods, the unpaid withholdings would be reduced to 1.5 million euro. The greater IRAP due would come to approximately 2.8 million euro (on a greater total tax base of 51.7 million euro). The above amounts are not inclusive of penalties and interest. If the Revenue Agency serves the assessment notices, the Bank will consider the appropriate initiatives to reach a settlement through alternative dispute resolution mechanisms.
On 29 July 2016, HMRC concluded its audit of Banca IMI's London branch, which resulted in charges of approximately 350,000 GBP (0.38 million euro), presumably subject to recovery in Italy as a foreign tax credit.
On 22 January 2016, the Italian Revenue Agency began a general audit of Casse del Veneto relating to the 2013 tax period. The audit process continued during the quarter, and on 21 September 2016 the audit was extended to tax periods 2011, 2012

and 2014 (as limited to the 50,000,000 euro lower tier 2 subordinated loan, 28 September 2007 - 28 September 2017, callable 28 September 2013, granted by Intesa Sanpaolo Bank Ireland PLC). No charges had been brought as at 30 September.
On 6 September 2016, the Turin Revenue Agency began a general audit of Oldequiter S.p.A. (formerly Equiter S.p.A.) concerning, IRES, IRAP, VAT and withholdings in tax period 2012.

Also considering the absence of significant changes compared to 30 June 2016, the Group's tax litigation risks are deemed covered by adequate provisions to allowances for risks and charges.

INSURANCE RISKS

Life business

The typical risks of a life insurance portfolio may be divided into three main categories: premium risks, actuarial and demographic risks and reserve risks.
Premium risks are managed initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities).
Actuarial and demographic risks are monitored by means of systematic statistical analysis of the evolution of liabilities in its own contract portfolio, divided by risk type, and through simulations of expected profitability of the assets hedging technical reserves.
Reserve risk is monitored through the exact calculation of mathematical reserves, with a series of detailed checks as well as overall verifications, by comparing results with the estimates produced on a monthly basis.
The mathematical reserves are calculated on almost the entire portfolio, on a contract-by-contract basis, and the methodology used to determine the reserves takes account of all the future commitments of the company.

Non-life business

The risks of the non-life insurance portfolio are essentially premium risk and reserve risk.
Premium risks are managed initially during definition of the technical features and product pricing and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities).
Reserve risk is monitored through the exact calculation of technical reserves.

Financial risks

In line with the growing focus in the insurance sector on the issues of value, risk and capital in recent years, a series of initiatives has been launched with the objective of both strengthening risk governance and managing and controlling financial risks.
With reference to investment portfolios, set up both as coverage of obligations with the insured and in relation to free capital, the Investment Framework Resolution is the main control and monitoring instrument for market and credit risks.
The Resolution defines the goals and the operating limits that are needed to distinguish the investments in terms of eligible assets and asset allocation, breakdown by rating classes and credit risk, concentration risk by issuer and sector, and market risks, in turn measured in terms of sensitivity to variations in risk factors and Value at Risk (VaR).

Investment portfolios

The investments of the insurance companies of Intesa Sanpaolo Group (Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Intesa Sanpaolo Life and Fideuram Vita) are made with their free capital and to cover contractual obligations with customers. These refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.
As at 30 September 2016, the investment portfolios of Group companies, recorded at book value, amounted to 146,278 million euro. Of these, a part amounting to 86,387 million euro relates to traditional revaluable life policies - the financial risk of which is shared with the policyholders by virtue of the mechanism whereby the returns on assets subject to segregated management are determined - non-life policies and free capital. The other component, whose risk is borne solely by the policyholders, consists of investments related to Index-linked policies, Unit-linked policies and pension funds and amounted to 59,891 million euro.
Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the assets held to cover traditional revaluable life policies, non-life policies and free capital.
In terms of breakdown by asset class, net of derivative financial instruments, 87.4% of assets, i.e. approximately 75,634 million euro, were bonds, whereas assets subject to equity risk represented 2.0% of the total and amounted to 1,706 million euro. The remainder (9,155 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (10.6%).
The carrying value of derivatives came to approximately -108 million euro, entirely relating to effective management derivatives.[2].
Hedging derivatives are currently not present in the portfolio.
At the end of the first nine months of 2016, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 1,637 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 52 million euro.
The breakdown of the bond portfolio in terms of fair value sensitivity to interest rate changes showed that a +100 basis points parallel shift in the curve leads to a decrease of approximately 4,471 million euro.
The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented approximately 4.8% of total investments and A bonds approximately 5.2%. Low investment grade securities (BBB) were approximately 87.3% of the total and the portion of speculative grade or unrated was minimal (approximately 2.7%).
A considerable portion of the BBB area is made up of securities issued by the Italian Republic.
The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by Governments and Central Banks approximately made up 76.6% of the total investments, while financial companies (mostly banks) contributed almost 13.2% of exposure and industrial securities made up approximately 10.2%.

At the end of the third quarter of 2016, the fair value sensitivity of bonds to a change in issuer credit rating, intended as a market credit spread shock of +100 basis points, was 4,565 million euro, with 3,578 million euro due to government issuers and 987 million euro to corporate issuers (financial institutions and industrial companies).

[2] ISVAP Regulation 36 of 31 January 2011 on investments defines "effective management derivatives" as all derivatives aimed at achieving pre-established investment objectives in a faster, easier, more economical or more flexible manner than would have been possible acting on the underlying assets.

Accounting policies

Criteria for the preparation of the Interim statement

General preparation principles

Legislative Decree 25 of 15 February 2016, implementing the new Transparency Directive (2013/50/EU), removed the obligation to publish an interim statement, previously required under paragraph 5 of Article 154-ter of the Consolidated Law on Finance. The decree also gave Consob the option of requiring disclosures in addition to the annual report and the half-yearly report. By Resolution 19770 dated 26 October 2016, Consob, pursuant to regulatory delegation provided for in said Decree, introduced changes to the Issuers' Regulation, which relate to periodic disclosures of additional information, which shall apply from 2 January 2017.
Intesa Sanpaolo prepared this Statement in continuity with previous years, and will evaluate the contents of its quarterly disclosure for the future.
The "Interim Statement as at 30 September 2016" has been prepared, in consolidated form, in compliance with the accounting principles issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission as provided for by Community Regulation 1606 of 19 July 2002.
The accounting principles adopted in preparation of the Consolidated interim report on operations, with regard to the classification, recognition, measurement and derecognition of asset and liability captions, and the recognition methods for revenues and costs, have remained substantially unchanged with respect to those adopted for the Intesa Sanpaolo Group Annual Report 2015 – to which reference should be made for further details – with the exception of the entry into force, starting from 2016, of some amendments to some international accounting standards, none of which are significant for the Intesa Sanpaolo Group.
The Interim Statement as at 30 September 2016, drawn up in euro as the functional currency, contains the Balance sheet, the Income statement, the Statement of comprehensive income for the period, the Changes in shareholders' equity, and the Explanatory notes. They are also complemented by information on significant events which occurred in the period, and on the main risks and uncertainties to be faced in the remaining months of the year.
The amounts indicated in the financial statements and Explanatory notes are expressed in millions of euro, unless otherwise specified.
In addition to amounts for the reporting period, the financial statements also indicate the corresponding comparison figures as at 30 September 2015 for the Income statement and as at 31 December 2015 for the Balance sheet.
Moreover, as already known, an agreement was reached in May with a third party company – completion of which is expected by the end of 2016 – for the disposal of the entire share capital of the Setefi and Intesa Sanpaolo Card subsidiaries. In this regard and taking into account, pursuant to IFRS 5, the classification of the assets involved in disposals as non-current assets held for sale and discontinued operations (or, more specifically, in the case in instance, as "discontinued operations", in line with the condensed half-yearly report), in the specific consolidated captions in this Interim Statement, the income statement and balance sheet totals for the period referred to the assets being disposed of have been reclassified and the comparison balances for the previous period have been restated.
As from March 2016, therefore, also in this Interim Statement, some properties of Risanamento S.p.A., a company controlled by Intesa Sanpaolo pursuant to IFRS 10, were reclassified among non-current assets held for sale and discontinued operations according to IFRS 5. However, for the Intesa Sanpaolo Group the properties in question do not represent a "discontinued operation". As a consequence, based on the indications of the standard in question, the reclassification only concerned the balance sheet totals, and not also the related economic effects, and did not lead to the restatement of the comparison balances of the previous year. Furthermore, the related liabilities associated to the non-current assets held for sale were also subject to reclassification under the specific item of the liabilities in the Balance sheet.
The Interim Statement as at 30 September 2016 is complemented by certification of the Manager responsible for preparing the Company's financial reports pursuant to Article 154-bis of the Consolidated Law on Finance and are subject to limited review.

Scope of consolidation and consolidation methods

Scope of consolidation

The Consolidated Interim Statement includes Intesa Sanpaolo and the companies that it directly and indirectly controls, jointly controlled or subject to significant influence, also including – as specified by IAS/IFRS – companies operating in sectors different from that of the Parent Company and private equity investments. Similarly, special purpose entities/vehicles (SPE/SPV) are included when the requisite of effective control recurs, even if there is no stake in the company.
Compared to the 2015 Annual Report, please note, in particular, the consolidation with the equity method of Equiter S.p.A. following the loss of control of the company, the disposal of Oldequiter S.p.A., which in any case had already been reclassified among non-current assets held for sale starting from the Half-Yearly Report as at 30 June 2016, and the inclusion in the scope of consolidation of the British company Eurizon SLJ Capital Ltd, for which a majority shareholding (65%) was purchased during the third quarter of 2016.
With reference to the latter, in accordance with IFRS 3, the cost of purchasing the identifiable assets and liabilities of the purchased company, measured at their fair value at the purchase date, was allocated. Following the analyses carried out, the entire difference between the cost incurred for the purchase and the proportional share of equity of the company at the date when the majority stake was purchased, was allocated to goodwill. At the purchase date, the goodwill was equal to GBP 19 million, corresponding to about EUR 23 million.
Intragroup company transactions, during the first nine months of 2016, included:

- the contribution of the business line represented by the Amsterdam branch from Intesa Sanpaolo to Intesa Sanpaolo Bank Luxembourg;
- the partial demerger of Setefi (the “commercial acquiring” line towards captive customers) into Intesa Sanpaolo;
- the merger by incorporation of Banca dell'Adriatico into Intesa Sanpaolo;
- the partial proportional demerger of Oldequiter into Intesa Sanpaolo;
- the partial proportional demerger of Mediocredito Italiano into Intesa Sanpaolo;
- the partial proportional demerger of Mediocredito Italiano into Intesa Sanpaolo Group Services;
- the merger by incorporation of Euro Trésorerie into Financière Fideuram.

Companies for which the shares have been received as pledges with voting rights exceeding 20% are not consolidated, in consideration of the substance underlying the pledge, which has the purpose of guaranteeing loans and not of exercising control and direction over financial and economic policies in order to benefit from the economic return on the shares.
Finally, it should be noted that Intesa Sanpaolo does not perform management and coordination activity over Risanamento S.p.A. and its subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.

Consolidation methods

The methods used for line-by-line consolidation of subsidiaries and consolidation by the equity method of associates and companies subject to joint control have remained unchanged with respect to those adopted for the 2015 Intesa Sanpaolo Group Annual Report to which reference should therefore be made.
The financial statements of the Parent Company and of other companies used to prepare the Interim Report as at 30 September 2016 refer to the same date. In certain limited cases, for subsidiaries which are not material, the latest official figures are used. Where necessary – and only in wholly marginal cases – the financial statements of consolidated companies which are drawn up using different accounting criteria are restated to be compliant with the standards used by the Group.

The financial statements of non-Eurozone companies are translated into euro by applying the spot exchange rate at period-end to assets and liabilities in the Balance sheet, and the average exchange rate for the period to Income statement captions.

The Board of Directors

Milan, 4 November 2016

Declaration of the Manager responsible for preparing the Company's financial reports

Pursuant to art. 154-bis, subsection 2 of the Italian Consolidated Law on Finance, the Manager responsible for preparing the Company's financial reports, Fabrizio Dabbene, hereby declares that the accounting information contained in this Interim Statement as at 30 September 2016 corresponds to corporate records, books and accounts.

Milan, 4 November 2016

Fabrizio Dabbene
Manager responsible for preparing
the Company's financial reports

Attachments

Reconciliation between published consolidated financial statements and adjusted consolidated financial statements

Reconciliation between the published consolidated balance sheet as at 31 December 2015 and the adjusted consolidated balance sheet as at 31 December 2015

Reconciliation between published consolidated income statement as at 30 September 2015 and the adjusted consolidated income statement as at 30 September 2015

Reconciliation between adjusted/published consolidated financial statements and restated consolidated financial statements

Reconciliation between published consolidated balance sheet as at 31 December 2015 and the restated consolidated balance sheet as at 31 December 2015

Reconciliation between adjusted consolidated income statement as at 30 September 2015 and the restated consolidated income statement as at 30 September 2015

Reconciliation between consolidated balance sheet as at 30 September 2016 and the restated consolidated balance sheet as at 30 September 2016

Reconciliation between consolidated income statement as at 30 September 2016 and the restated consolidated income statement as at 30 September 2016

Restated consolidated financial statements

Restated consolidated balance sheet

Restated consolidated income statement

Reconciliation between restated consolidated financial statements and reclassified consolidated financial statements

Reconciliation between restated consolidated balance sheet and reclassified consolidated balance sheet

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

Reconciliation between published consolidated financial statements and adjusted consolidated financial statements

Reconciliation between published consolidated balance sheet as at 31 December 2015 and adjusted consolidated balance sheet as at 31 December 2015

The published consolidated balance sheet as at 31 December 2015 did not require any adjustments.

Reconciliation between the published consolidated income statement as at 30 September 2015 and the adjusted consolidated income statement as at 30 September 2015

(millions of euro)

	30.09.2015 Published (*)	**Effects of IFRS 5 application** (a)	**Effects of the reclassification of bank resolution funds** (b)	**30.09.2015** Adjusted
10. Interest and similar income	10,709	-	-	10,709
20. Interest and similar expense	-3,770	-	-	-3,770
30. Interest margin	**6,939**	**-**	**-**	**6,939**
40. Fee and commission income	6,499	-139	-	6,360
50. Fee and commission expense	-1,238	25	-	-1,213
60. Net fee and commission income	**5,261**	**-114**	**-**	**5,147**
70. Dividend and similar income	334	-	-	334
80. Profits (Losses) on trading	238	-	-	238
90. Fair value adjustments in hedge accounting	-51	-	-	-51
100. Profits (Losses) on disposal or repurchase of	1,078	-	-	1,078
a) loans	*-53*	-	-	*-53*
b) financial assets available for sale	*1,273*	-	-	*1,273*
c) investments held to maturity	-	-	-	-
d) financial liabilities	*-142*	-	-	*-142*
110. Profits (Losses) on financial assets and liabilities designated at fair value	613	-	-	613
120. Net interest and other banking income	**14,412**	**-114**	**-**	**14,298**
130. Net losses / recoveries on impairment	-1,958	-	-	-1,958
a) loans	*-1,916*	-	-	*-1,916*
b) financial assets available for sale	*-96*	-	-	*-96*
c) investments held to maturity	-	-	-	-
d) other financial activities	*54*	-	-	*54*
140. Net income from banking activities	**12,454**	**-114**	**-**	**12,340**
150. Net insurance premiums	8,721	-	-	8,721
160. Other net insurance income (expense)	-10,270	-	-	-10,270
170. Net income from banking and insurance activities	**10,905**	**-114**	**-**	**10,791**
180. Administrative expenses	-6,426	57	-140	-6,509
a) personnel expenses	*-3,878*	*23*	-	*-3,855*
b) other administrative expenses	*-2,548*	*34*	*-140*	*-2,654*
190. Net provisions for risks and charges	-485	-	140	-345
200. Net adjustments to / recoveries on property and equipment	-253	3	-	-250
210. Net adjustments to / recoveries on intangible assets	-406	2	-	-404
220. Other operating expenses (income)	747	-14	-	733
230. Operating expenses	**-6,823**	**48**	**-**	**-6,775**
240. Profits (Losses) on investments in associates and companies subject to joint control	121	-	-	121
250. Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	-
260. Goodwill impairment	-	-	-	-
270. Profits (Losses) on disposal of investments	43	-	-	43
280. Income (Loss) before tax from continuing operations	**4,246**	**-66**	**-**	**4,180**
290. Taxes on income from continuing operations	-1,453	21	-	-1,432
300. Income (Loss) after tax from continuing operations	**2,793**	**-45**	**-**	**2,748**
310. Income (Loss) after tax from discontinued operations	-	45	-	45
320. Net income (loss)	**2,793**	**-**	**-**	**2,793**
330. Minority interests	-67	-	-	-67
340. Parent Company's net income (loss)	**2,726**	**-**	**-**	**2,726**

(*) Figures originally published in the Interim Report as at 30 September 2015

(a) Profit and loss results for the period ended 30 September 2015 of the subsidiaries Setefi and Intesa Sanpaolo Card, the sale agreement for which was signed in the second quarter of 2016

(b) Reclassification of contributions to resolution funds, as required by Bank of Italy Bulletin of 19 January 2016.

Reconciliation between adjusted/published consolidated financial statements and restated consolidated financial statements

Reconciliation between published consolidated balance sheet as at 31 December 2015 and restated consolidated balance sheet as at 31 December 2015

(millions of euro)

Assets		31.12.2015 Published (*)	Discontinued operations (a)	31.12.2015 Restated
10.	Cash and cash equivalents	9,344	-	9,344
20.	Financial assets held for trading	51,597	-	51,597
30.	Financial assets designated at fair value through profit and loss	53,663	-	53,663
40.	Financial assets available for sale	131,402	-68	131,334
50.	Investments held to maturity	1,386	-	1,386
60.	Due from banks	34,445	-	34,445
70.	Loans to customers	350,010	-2,677	347,333
80.	Hedging derivatives	7,059	-	7,059
90.	Fair value change of financial assets in hedged portfolios (+/-)	110	-	110
100.	Investments in associates and companies subject to joint control	1,727	-344	1,383
110.	Technical insurance reserves reassured with third parties	22	-	22
120.	Property and equipment	5,367	-9	5,358
130.	Intangible assets	7,195	-17	7,178
	of which			
	- goodwill	*3,914*	-	*3,914*
140.	Tax assets	15,021	-14	15,007
	a) current	*3,626*	*-13*	*3,613*
	b) deferred	*11,395*	*-1*	*11,394*
	- of which convertible into tax credit (Law no. 214/2011)	*8,749*	-	*8,749*
150.	Non-current assets held for sale and discontinued operations	27	3,404	3,431
160.	Other assets	8,121	-203	7,918
Total Assets		**676,496**	**72**	**676,568**

(*) Figures originally published in the Annual Report 2015.

(a) Restatement of discontinued operations, in accordance with the reclassification in the income statement pursuant to IFRS 5. In particular, reference is made to the sale of the subsidiaries Setefi and Intesa Sanpaolo Card, the sale agreement for which was signed in the second quarter of 2016. In addition, there were the sales of Re.consult and A4 Holding and the sale of the portfolio of performing salary-backed loans and consumer credit loans, finalised in May 2016 by the subsidiary ACCEDO.

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2015 Published (*)	Discontinued operations (a)	31.12.2015 Restated
10.	Due to banks	59,327	-	59,327
20.	Due to customers	255,258	17	255,275
30.	Securities issued	110,144	-	110,144
40.	Financial liabilities held for trading	43,522	-	43,522
50.	Financial liabilities designated at fair value through profit and loss	47,022	-	47,022
60.	Hedging derivatives	8,234	-	8,234
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	1,014	-	1,014
80.	Tax liabilities	2,367	-16	2,351
	a) current	*508*	*-12*	*496*
	b) deferred	*1,859*	*-4*	*1,855*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	-	116	116
100.	Other liabilities	11,566	-41	11,525
110.	Employee termination indemnities	1,353	-2	1,351
120.	Allowances for risks and charges	3,480	-2	3,478
	a) post employment benefits	*859*	*-2*	*857*
	b) other allowances	*2,621*	*-*	*2,621*
130.	Technical reserves	84,616	-	84,616
140.	Valuation reserves	-1,018	-	-1,018
150.	Redeemable shares	-	-	-
160.	Equity instruments	877	-	877
170.	Reserves	9,167	-	9,167
180.	Share premium reserve	27,349	-	27,349
190.	Share capital	8,732	-	8,732
200.	Treasury shares (-)	-70	-	-70
210.	Minority interests (+/-)	817	-	817
220.	Net income (loss)	2,739	-	2,739
Total Liabilities and Shareholders' Equity		**676,496**	**72**	**676,568**

(*) Figures originally published in the Annual Report 2015.

(a) Restatement of liabilities associated with discontinued operations, in accordance with the reclassification of the income statement pursuant to IFRS 5. In particular, reference is made to the sale of the subsidiaries Setefi and Intesa Sanpaolo Card, the sale agreement for which was signed in the second quarter of 2016.

Reconciliation between adjusted consolidated income statement as at 30 September 2015 and the restated consolidated income statement as at 30 September 2015

(millions of euro)

	30.09.2015 Adjusted	**Changes in the scope of consolidation** Risanamento Group consolidation (a)	**Non-current assets held for sale** (b)	**30.09.2015** Restated
10. Interest and similar income	10,709	-	-68	10,641
20. Interest and similar expense	-3,770	-11	-	-3,781
30. Interest margin	**6,939**	**-11**	**-68**	**6,860**
40. Fee and commission income	6,360	-	-	6,360
50. Fee and commission expense	-1,213	-2	-	-1,215
60. Net fee and commission income	**5,147**	**-2**	**-**	**5,145**
70. Dividend and similar income	334	-	-	334
80. Profits (Losses) on trading	238	-	-	238
90. Fair value adjustments in hedge accounting	-51	-	-	-51
100. Profits (Losses) on disposal or repurchase of	1,078	-	-	1,078
a) loans	*-53*	-	-	*-53*
b) financial assets available for sale	*1,273*	-	-	*1,273*
c) investments held to maturity	-	-	-	-
d) financial liabilities	*-142*	-	-	*-142*
110. Profits (Losses) on financial assets and liabilities designated at fair value	613	-	-	613
120. Net interest and other banking income	**14,298**	**-13**	**-68**	**14,217**
130. Net losses / recoveries on impairment	-1,958	-	-	-1,958
a) loans	*-1,916*	-	-	*-1,916*
b) financial assets available for sale	*-96*	-	-	*-96*
c) investments held to maturity	-	-	-	-
d) other financial activities	*54*	-	-	*54*
140. Net income from banking activities	**12,340**	**-13**	**-68**	**12,259**
150. Net insurance premiums	8,721	-	-	8,721
160. Other net insurance income (expense)	-10,270	-	-	-10,270
170. Net income from banking and insurance activities	**10,791**	**-13**	**-68**	**10,710**
180. Administrative expenses	-6,509	-8	-	-6,517
a) personnel expenses	*-3,855*	*-3*	-	*-3,858*
b) other administrative expenses	*-2,654*	*-5*	-	*-2,659*
190. Net provisions for risks and charges	-345	-	-	-345
200. Net adjustments to / recoveries on property and equipment	-250	-3	-	-253
210. Net adjustments to / recoveries on intangible assets	-404	-	-	-404
220. Other operating expenses (income)	733	7	-	740
230. Operating expenses	**-6,775**	**-4**	**-**	**-6,779**
240. Profits (Losses) on investments in associates and companies subject to joint control	121	11	-	132
250. Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	-
260. Goodwill impairment	-	-	-	-
270. Profits (Losses) on disposal of investments	43	-	-	43
280. Income (Loss) before tax from continuing operations	**4,180**	**-6**	**-68**	**4,106**
290. Taxes on income from continuing operations	-1,432	-1	22	-1,411
300. Income (Loss) after tax from continuing operations	**2,748**	**-7**	**-46**	**2,695**
310. Income (Loss) after tax from discontinued operations	45	-1	-	44
320. Net income (loss)	**2,793**	**-8**	**-46**	**2,739**
330. Minority interests	-67	8	46	-13
340. Parent Company's net income (loss)	**2,726**	**-**	**-**	**2,726**

[a] Profit and loss results for the period ended 30 June 2015 of the line-by-line consolidation of Gruppo Risanamento instead of the previously applied equity method.

[b] Profit and loss results for the period ended 30 June 2015 of the portfolio of performing loans subject to the sale finalised in May 2016 by the subsidiary ACCEDO.

Reconciliation between the consolidated balance sheet as at 30 September 2016 and the restated consolidated balance sheet as at 30 September 2016

The consolidated balance sheet as at 30 September 2016 did not require any restatement.

Reconciliation between the consolidated income statement as at 30 September 2016 and the restated consolidated income statement as at 30 September 2016

(in millions of euro)

	30.09.2016	Changes in the scope of consolidation (a)	30.09.2016 Restated
10. Interest and similar income	9,760	-18	9,742
20. Interest and similar expense	-3,223	-	-3,223
30. Interest margin	**6,537**	**-18**	**6,519**
40. Fee and commission income	6,125	-	6,125
50. Fee and commission expense	-1,271	-	-1,271
60. Net fee and commission income	**4,854**	**-**	**4,854**
70. Dividend and similar income	398	-	398
80. Profits (Losses) on trading	316	-	316
90. Fair value adjustments in hedge accounting	-48	-	-48
100. Profits (Losses) on disposal or repurchase of	927	-	927
a) loans	*-23*	-	*-23*
b) financial assets available for sale	*941*	-	941
c) investments held to maturity	-	-	-
d) financial liabilities	*9*	-	9
110. Profits (Losses) on financial assets and liabilities designated at fair value	754	-	754
120. Net interest and other banking income	**13,738**	**-18**	**13,720**
130. Net losses / recoveries on impairment	-2,099	-	-2,099
a) loans	*-2,035*	-	-2,035
b) financial assets available for sale	*-115*	-	-115
c) investments held to maturity	-	-	-
d) other financial activities	*51*	-	51
140. Net income from banking activities	**11,639**	**-18**	**11,621**
150. Net insurance premiums	6,784	-	6,784
160. Other net insurance income (expense)	-8,274	-	-8,274
170. Net income from banking and insurance activities	**10,149**	**-18**	**10,131**
180. Administrative expenses	-6,723	-	-6,723
a) personnel expenses	*-4,005*	-	-4,005
b) other administrative expenses	*-2,718*	-	-2,718
190. Net provisions for risks and charges	-164	-	-164
200. Net adjustments to / recoveries on property and equipment	-254	-	-254
210. Net adjustments to / recoveries on intangible assets	-413	-	-413
220. Other operating expenses (income)	505	-	505
230. Operating expenses	**-7,049**	**-**	**-7,049**
240. Profits (Losses) on investments in associates and companies subject to joint control	141	-	141
250. Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-
260. Goodwill impairment	-	-	-
270. Profits (Losses) on disposal of investments	21	-	21
280. Income (Loss) before tax from continuing operations	**3,262**	**-18**	**3,244**
290. Taxes on income from continuing operations	-936	7	-929
300. Income (Loss) after tax from continuing operations	**2,326**	**-11**	**2,315**
310. Income (Loss) after tax from discontinued operations	121	-	121
320. Net income (loss)	**2,447**	**-11**	**2,436**
330. Minority interests	-112	11	-101
340. Parent Company's net income (loss)	**2,335**	**-**	**2,335**

[a] Profit and loss results for the first five months of 2016 of the portfolio of performing loans subject to the sale finalised at the end of May 2016 by the subsidiary ACCEDO.

Restated consolidated financial statements

Restated consolidated balance sheet

(millions of euro)

Assets		30.09.2016	31.12.2015 Restated	Changes amount	%
10.	Cash and cash equivalents	6,895	9,344	-2,449	-26.2
20.	Financial assets held for trading	50,232	51,597	-1,365	-2.6
30.	Financial assets designated at fair value through profit and loss	61,338	53,663	7,675	14.3
40.	Financial assets available for sale	146,885	131,334	15,551	11.8
50.	Investments held to maturity	1,231	1,386	-155	-11.2
60.	Due from banks	37,528	34,445	3,083	9.0
70.	Loans to customers	364,836	347,333	17,503	5.0
80.	Hedging derivatives	7,408	7,059	349	4.9
90.	Fair value change of financial assets in hedged portfolios (+/-)	993	110	883	
100.	Investments in associates and companies subject to joint control	1,387	1,383	4	0.3
110.	Technical insurance reserves reassured with third parties	19	22	-3	-13.6
120.	Property and equipment	4,972	5,358	-386	-7.2
130.	Intangible assets	7,136	7,178	-42	-0.6
	of which				
	- goodwill	*3,936*	*3,914*	*22*	*0.6*
140.	Tax assets	14,163	15,007	-844	-5.6
	a) current	*2,799*	*3,613*	*-814*	*-22.5*
	b) deferred	*11,364*	*11,394*	*-30*	*-0.3*
	- of which convertible into tax credit (Law no. 214/2011)	*8,534*	*8,749*	*-215*	*-2.5*
150.	Non-current assets held for sale and discontinued operations	772	3,431	-2,659	-77.5
160.	Other assets	8,602	7,918	684	8.6
Total Assets		**714,397**	**676,568**	**37,829**	**5.6**

(millions of euro)

Liabilities and Shareholders' Equity		30.09.2016	31.12.2015	Changes	
			Restated	amount	%
10.	Due to banks	69,641	59,327	10,314	17.4
20.	Due to customers	271,459	255,275	16,184	6.3
30.	Securities issued	100,913	110,144	-9,231	-8.4
40.	Financial liabilities held for trading	48,143	43,522	4,621	10.6
50.	Financial liabilities designated at fair value through profit and loss	54,373	47,022	7,351	15.6
60.	Hedging derivatives	10,951	8,234	2,717	33.0
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	919	1,014	-95	-9.4
80.	Tax liabilities	2,235	2,351	-116	-4.9
	a) current	*398*	*496*	*-98*	*-19.8*
	b) deferred	*1,837*	*1,855*	*-18*	*-1.0*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	413	116	297	
100.	Other liabilities	14,069	11,525	2,544	22.1
110.	Employee termination indemnities	1,470	1,351	119	8.8
120.	Allowances for risks and charges	3,579	3,478	101	2.9
	a) post employment benefits	*1,254*	*857*	*397*	*46.3*
	b) other allowances	*2,325*	*2,621*	*-296*	*-11.3*
130.	Technical reserves	87,370	84,616	2,754	3.3
140.	Valuation reserves	-1,737	-1,018	719	70.6
150.	Redeemable shares	-	-	-	
160.	Equity instruments	2,118	877	1,241	
170.	Reserves	9,483	9,167	316	3.4
180.	Share premium reserve	27,349	27,349	-	-
190.	Share capital	8,732	8,732	-	-
200.	Treasury shares (-)	-58	-70	-12	-17.1
210.	Minority interests (+/-)	640	817	-177	-21.7
220.	Net income (loss)	2,335	2,739	-404	-14.7
Total Liabilities and Shareholders' Equity		**714,397**	**676,568**	**37,829**	**5.6**

Restated consolidated income statement

(millions of euro)

	30.09.2016 Restated	30.09.2015 Restated	Changes amount	%
10. Interest and similar income	9,742	10,641	-899	-8.4
20. Interest and similar expense	-3,223	-3,781	-558	-14.8
30. Interest margin	**6,519**	**6,860**	**-341**	**-5.0**
40. Fee and commission income	6,125	6,360	-235	-3.7
50. Fee and commission expense	-1,271	-1,215	56	4.6
60. Net fee and commission income	**4,854**	**5,145**	**-291**	**-5.7**
70. Dividend and similar income	398	334	64	19.2
80. Profits (Losses) on trading	316	238	78	32.8
90. Fair value adjustments in hedge accounting	-48	-51	-3	-5.9
100. Profits (Losses) on disposal or repurchase of	927	1,078	-151	-14.0
a) loans	*-23*	*-53*	*-30*	*-56.6*
b) financial assets available for sale	*941*	*1,273*	*-332*	*-26.1*
c) investments held to maturity	-	-	-	
d) financial liabilities	*9*	*-142*	*151*	
110. Profits (Losses) on financial assets and liabilities designated at fair value	754	613	141	23.0
120. Net interest and other banking income	**13,720**	**14,217**	**-497**	**-3.5**
130. Net losses / recoveries on impairment	-2,099	-1,958	141	7.2
a) loans	*-2,035*	*-1,916*	*119*	*6.2*
b) financial assets available for sale	*-115*	*-96*	*19*	*19.8*
c) investments held to maturity	-	-	-	
d) other financial activities	*51*	*54*	*-3*	*-5.6*
140. Net income from banking activities	**11,621**	**12,259**	**-638**	**-5.2**
150. Net insurance premiums	6,784	8,721	-1,937	-22.2
160. Other net insurance income (expense)	-8,274	-10,270	-1,996	-19.4
170. Net income from banking and insurance activities	**10,131**	**10,710**	**-579**	**-5.4**
180. Administrative expenses	-6,723	-6,517	206	3.2
a) personnel expenses	*-4,005*	*-3,858*	*147*	*3.8*
b) other administrative expenses	*-2,718*	*-2,659*	*59*	*2.2*
190. Net provisions for risks and charges	-164	-345	-181	-52.5
200. Net adjustments to / recoveries on property and equipment	-254	-253	1	0.4
210. Net adjustments to / recoveries on intangible assets	-413	-404	9	2.2
220. Other operating expenses (income)	505	740	-235	-31.8
230. Operating expenses	**-7,049**	**-6,779**	**270**	**4.0**
240. Profits (Losses) on investments in associates and companies subject to joint control	141	132	9	6.8
250. Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
260. Goodwill impairment	-	-	-	
270. Profits (Losses) on disposal of investments	21	43	-22	-51.2
280. Income (Loss) before tax from continuing operations	**3,244**	**4,106**	**-862**	**-21.0**
290. Taxes on income from continuing operations	-929	-1,411	-482	**-34.2**
300. Income (Loss) after tax from continuing operations	**2,315**	**2,695**	**-380**	**-14.1**
310. Income (Loss) after tax from discontinued operations	121	44	77	
320. Net income (loss)	**2,436**	**2,739**	**-303**	**-11.1**
330. Minority interests	-101	-13	88	
340. Parent Company's net income (loss)	**2,335**	**2,726**	**-391**	**-14.3**

Reconciliation between restated consolidated financial statements and reclassified consolidated financial statements

Reconciliation between restated consolidated balance sheet and reclassified consolidated balance sheet

(millions of euro)

Captions of the reclassified consolidated balance sheet - Assets	Captions of the consolidated balance sheet - Assets	30.09.2016	31.12.2015 Restated
Financial assets held for trading		50,232	51,597
	Caption 20 - Financial assets held for trading	*50,232*	*51,597*
Financial assets designated at fair value through profit and loss		61,338	53,663
	Caption 30 - Financial assets designated at fair value through profit and loss	*61,338*	*53,663*
Financial assets available for sale		146,885	131,334
	Caption 40 - Financial assets available for sale	*146,885*	*131,334*
Investments held to maturity		1,231	1,386
	Caption 50 - Investments held to maturity	*1,231*	*1,386*
Due from banks		37,528	34,445
	Caption 60 - Due from banks	*37,528*	*34,445*
Loans to customers		364,836	347,333
	Caption 70 - Loans to customers	*364,836*	*347,333*
Investments in associates and companies subject to joint control		1,387	1,383
	Caption 100 - Investments in associates and companies subject to joint control	*1,387*	*1,383*
Property, equipment and intangible assets		12,108	12,536
	Caption 120 - Property and equipment	*4,972*	*5,358*
	+ Caption 130 - Intangible assets	*7,136*	*7,178*
Tax assets		14,163	15,007
	Caption 140 - Tax assets	*14,163*	*15,007*
Non-current assets held for sale and discontinued operations		772	3,431
	Caption 150 - Non-current assets held for sale and discontinued operations	*772*	*3,431*
Other assets		23,917	24,453
	Caption 10 - Cash and cash equivalents	*6,895*	*9,344*
	+ Caption 160 - Other assets	*8,602*	*7,918*
	+ Caption 110 - Technical insurance reserves reassured with third parties	*19*	*22*
	+ Caption 80 - Hedging derivatives	*7,408*	*7,059*
	+ Caption 90 - Fair value change of financial assets in hedged portfolios	*993*	*110*
Total Assets	**Total Assets**	**714,397**	**676,568**

Captions of the reclassified consolidated balance sheet Liabilities and Shareholders' Equity	Captions of the consolidated balance sheet - Liabilities and Shareholders' Equity	30.09.2016	31.12.2015 Restated
Due to banks		69,641	59,327
	Caption 10 - Due to banks	*69,641*	*59,327*
Due to customers and securities issued		372,372	365,419
	Caption 20 - Due to customers	*271,459*	*255,275*
	+ Caption 30 - Securities issued	*100,913*	*110,144*
Financial liabilities held for trading		48,143	43,522
	Caption 40 - Financial liabilities held for trading	*48,143*	*43,522*
Financial liabilities designated at fair value through profit and loss		54,373	47,022
	Caption 50 - Financial liabilities designated at fair value through profit and loss	*54,373*	*47,022*
Tax liabilities		2,235	2,351
	Caption 80 - Tax liabilities	*2,235*	*2,351*
Liabilities associated with non-current assets held for sale and discontinued operations		413	116
	Caption 90 - Liabilities associated with non-current assets held for sale and discontinued operations	*413*	*116*
Other liabilities		25,939	20,773
	Caption 100 - Other liabilities	*14,069*	*11,525*
	+ Caption 60 - Hedging derivatives	*10,951*	*8,234*
	+ Caption 70 - Fair value change of financial liabilities in hedged portfolios	*919*	*1,014*
Technical reserves		87,370	84,616
	Caption 130 - Technical reserves	*87,370*	*84,616*
Allowances for specific purpose		5,049	4,829
	Caption 110 - Employee termination indemnities	*1,470*	*1,351*
	Caption 120 - Allowances for risks and charges	*3,579*	*3,478*
Share capital		8,732	8,732
	Caption 190 - Share capital	*8,732*	*8,732*
Reserves (net of treasury shares)		36,774	36,446
	Caption 170 - Reserves	*9,483*	*9,167*
	Caption 180 - Share premium reserve	*27,349*	*27,349*
	– Caption 200 - Treasury shares	*-58*	*-70*
Valuation reserves		-1,737	-1,018
	Caption 140 - Valuation reserves	*-1,737*	*-1,018*
Equity instruments		2,118	877
	Caption 160 - Equity instruments	*2,118*	*877*
Minority interests		640	817
	Caption 210 - Minority interests	*640*	*817*
Net income (loss)		2,335	2,739
	Caption 220 - Net income (loss)	*2,335*	*2,739*
Total Liabilities and Shareholders' Equity	**Total Liabilities and Shareholders' Equity**	**714,397**	**676,568**

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

(millions of euro)

Captions of the reclassified consolidated income statement	Captions of the consolidated income statement	30.09.2016 Restated	30.09.2015 Restated
Net interest income		**5,545**	**5,791**
	Caption 30 Interest margin	*6,519*	*6,860*
	- Caption 30 (partial) Contribution of insurance business	*-1,464*	*-1,514*
	- Caption 30 (partial) Interest margin (Effect of purchase price allocation)	*5*	*14*
	+ Caption 80 (partial) Components of the profits (losses) on trading relating to net interest	*-1*	*-2*
	+ Caption 100 a) (partial) Components of the profits (losses) on disposal of loans relating to net interest income	*-*	*-*
	+ Caption 130 a) (partial) Net losses/recoveries on impairment of loans (Time value loans)	*527*	*467*
	+ Caption 180 a) (partial) Personnel expenses (Time value employee termination indemnities and other)	*-41*	*-33*
	+ Caption 190 (partial) Net provisions for risks and charges (Time value allowances for risks and charges)	*-*	*-1*
Profits (losses) on investments in associates and companies subject to joint control (carried at equity)		**188**	**95**
	Caption 70 Dividend and similar income	*398*	*334*
	- Caption 70 (partial) Contribution of insurance business	*-179*	*-133*
	- Caption 70 (partial) Dividend and similar income on shares available for sale and held for trading	*-218*	*-201*
	+ Caption 240 (partial) Profits (Losses) on investments in associates and companies subject to joint control (carried at equity)	*187*	*95*
Net fee and commission income		**5,269**	**5,464**
	Caption 60 Net fee and commission income	*4,854*	*5,145*
	- Caption 60 (partial) Contribution of insurance business	*408*	*336*
	- Caption 60 (partial) Components of net fee and commission income relating to profits (losses) on trading	*25*	*-*
	+ Caption 180 b) (partial) Other administrative expenses (Recovery of other expenses)	*-18*	*-17*
	+ Caption 80 (partial) Components of the profits (losses) on trading relating to net fee and commission interest	*-*	*-*
Profits (Losses) on trading		**943**	**977**
	Caption 80 Profits (Losses) on trading	*316*	*238*
	+ Caption 90 Fair value adjustments in hedge accounting	*-48*	*-51*
	+ Caption 100 b) Profits (Losses) on disposal or repurchase of financial assets available for sale	*941*	*1,273*
	+ Caption 100 d) Profits (Losses) on disposal or repurchase of financial liabilities	*9*	*-142*
	+ Caption 110 Profits (Losses) on financial assets and liabilities designated at fair value	*754*	*613*
	+ Caption 60 (partial) Components of net fee and commission income relating to profits (losses) on trading	*-25*	*-*
	+ Caption 70 (partial) Dividend and similar income on shares available for sale and held for trading	*218*	*201*
	- Caption 80 (partial) Components of the profits (losses) on trading relating to net interest	*1*	*2*
	- Caption 80 (partial) Components of the profits (losses) on trading relating to net fee and commission interest	*-*	*-*
	- Caption 80 (partial) Contribution of insurance business	*-1,130*	*-1,157*
	- Caption 100 b) (partial) Visa Europe Transaction	*-87*	*-*
	+ Caption 180 b) (partial) Other administrative expenses (stocking costs)	*-6*	*-*
Income from insurance business		**829**	**866**
	Caption 150 Net insurance premiums	*6,784*	*8,721*
	+ Caption 160 Other net insurance income (expense)	*-8,274*	*-10,270*
	+ Caption 30 (partial) Contribution of insurance business	*1,464*	*1,514*
	+ Caption 60 (partial) Contribution of insurance business	*-408*	*-336*
	+ Caption 70 (partial) Contribution of insurance business	*179*	*133*
	+ Caption 80 (partial) Contribution of insurance business	*1,130*	*1,157*
	- Caption 160 (partial) Other net insurance income (expense)-changes in technical reserves due to impairm. of securities AFS	*-46*	*-53*
Other operating income (expenses)		**-110**	**73**
	Caption 220 Other operating income (expenses)	*505*	*740*
	+ Caption 100 b) (partial) Visa Europe Transaction	*87*	*-*
	+ Caption 180 (partial) Other administrative expenses (Resolution fund and deposit guarantee scheme)	*-263*	*-140*
	- Caption 220 (partial) Other operating income (expenses) (Recovery of expenses)	*-5*	*-8*
	- Caption 220 (partial) Other operating income (expenses) (Recovery of indirect taxes)	*-527*	*-519*
	- Caption 220 (partial) Other operating income (expenses) (Impairment losses on repurchased property and equipment)	*12*	*6*
	- Caption 220 (partial) Other operating income (expenses) (Profits (losses) on disposal of repurchased property and equipment)	*-2*	*-6*
	+ Caption 310 (partial) Income (Loss) after tax from discontinued operations (Visa Europe Transaction)	*83*	*-*
Operating income		**12,664**	**13,266**
Personnel expenses		**-3,919**	**-3,807**
	Caption 180 a) Personnel expenses	*-4,005*	*-3,858*
	- Caption 180 a) (partial) Personnel expenses (Charges for integration and exit incentives)	*45*	*18*
	- Caption 180 a) (partial) Personnel expenses (Time value employee termination indemnities and other)	*41*	*33*
Administrative expenses		**-1,858**	**-1,929**
	Caption 180 b) Other administrative expenses	*-2,718*	*-2,659*
	- Caption 180 b) (partial) Other administrative expenses (Charges for integration)	*41*	*46*
	- Caption 180 b) (partial) Other administrative expenses (Resolution fund and deposit guarantee scheme)	*263*	*140*
	- Caption 180 b) (partial) Other administrative expenses (stocking costs)	*6*	*-*
	+ Caption 180 b) (partial) Other administrative expenses (Recovery of other expenses)	*18*	*17*
	+ Caption 220 (partial) Other operating income (expenses) (Recovery of indirect taxes)	*527*	*519*
	+ Caption 220 (partial) Other operating income (expenses) (Recovery of expenses)	*5*	*8*
Adjustments to property, equipment and intangible assets		**-541**	**-528**
	Caption 200 Net adjustments to/recoveries on property and equipment	*-254*	*-253*
	+ Caption 210 Net adjustments to/recoveries on intangible assets	*-413*	*-404*
	- Caption 210 (partial) Net adjustments to/recoveries on intangible assets (Charges for integration)	*9*	*5*
	- Caption 200 (partial) Net adjustments to/recoveries on property and equipment (Impairment)	*3*	*4*
	- Caption 210 (partial) Net adjustments to/recoveries on intangible assets (Impairment)	*-*	*7*
	- Caption 210 (partial) Net adjustments to/recoveries on intangible assets (Impairment - Intangible assets)	*-*	*-*
	- Caption 200 (partial) Net adjustments to/recoveries on property and equipment (Effect of purchase price allocation)	*-3*	*-14*
	- Caption 210 (partial) Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	*117*	*127*
Operating costs		**-6,318**	**-6,264**
Operating margin		**6,346**	**7,002**

(millions of euro)

Captions of the reclassified consolidated income statement		Captions of the consolidated income statement	30.09.2016 Restated	30.09.2015 Restated
Operating margin			**6,346**	**7,002**
Net provisions for risks and charges			**-164**	**-344**
	Caption 190	*Net provisions for risks and charges*	*-164*	*-345*
	- Caption 190 (partial)	*Net provisions for risks and charges (Time value allowances for risks and charges)*	*-*	*1*
	- Caption 190 (partial)	*Net provisions for risks and charges (tax charges)*	*-*	*-*
Net adjustments to loans			**-2,534**	**-2,383**
	Caption 100 a)	*Profits (Losses) on disposal or repurchase of loans*	*-23*	*-53*
	+ Caption 130 a)	*Net losses/recoveries on impairment of loans*	*-2,035*	*-1,916*
	- Caption 130 a) (partial)	*Net losses/recoveries on impairment of loans (Time value loans)*	*-527*	*-467*
	+ Caption 130 d)	*Net losses/recoveries on impairment of other financial activities*	*51*	*54*
	- Caption 100 a) (partial)	*Components of the profits (losses) on disposal of loans relating to net interest income*	*-*	*-*
	- Caption 100 a) (partial)	*Profits (Losses) on disposal or repurchase of loans (Effect of purchase price allocation)*	*-*	*-1*
Net impairment losses on other assets			**-84**	**-60**
	+ Caption 130 b)	*Net losses/recoveries on impairment of financial assets available for sale*	*-115*	*-96*
	+ Caption 130 c)	*Net losses/recoveries on impairment of investments held to maturity*	*-*	*-*
	+ Caption 160 (partial)	*Other net insurance income (expense) - changes in technical reserves due to impairment of securities AFS*	*46*	*53*
	+ Caption 200 (partial)	*Net adjustments to/recoveries on property and equipment (Impairment)*	*-3*	*-4*
	- Caption 200 (partial)	*Net adjustments to/recoveries on property and equipment (Impairment - Effect of purchase price allocation)*	*-*	*-*
	+ Caption 210 (partial)	*Net adjustments to/recoveries on intangible assets (Impairment)*	*-*	*-7*
	+ Caption 220 (partial)	*Other operating income (expenses) (Impairment losses on repurchased property and equipment)*	*-12*	*-6*
Profits (Losses) on investments held to maturity and on other investments			**-22**	**87**
	Caption 100 c)	*Profits (Losses) on disposal or repurchase of investments held to maturity*	*-*	*-*
	+ Caption 220 (partial)	*Other operating income (expenses) (Profits (losses) on disposal of repurchased property and equipment)*	*2*	*6*
	+ Caption 240	*Profits (Losses) on investments in associates and companies subject to joint control*	*141*	*132*
	- Caption 240 (partial)	*Profits (Losses) on investments in associates and companies subject to joint control (carried at equity)*	*-187*	*-95*
	+ Caption 270	*Profits (Losses) on disposal of investments*	*21*	*43*
	- Caption 270 (partial)	*Profits (Losses) on disposal of investments (Effect of purchase price allocation)*	*1*	*1*
Income (Loss) before tax from continuing operations			**3,542**	**4,302**
Taxes on income from continuing operations			**-1,001**	**-1,475**
	Caption 290	*Taxes on income from continuing operations*	*-929*	*-1,411*
	+ Caption 190 (partial)	*Net provisions for risks and charges (tax charges)*	*-*	*-*
	- Caption 290 (partial)	*Taxes on income from continuing operations (Goodwill impairment)*	*-*	*-*
	- Caption 290 (partial)	*Taxes on income from continuing operations (Charges for integration)*	*-28*	*-23*
	- Caption 290 (partial)	*Taxes on income from continuing operations (Effect of purchase price allocation)*	*-38*	*-41*
	+ Caption 310 (partial)	*Income (Loss) after tax from discontinued operations (Visa Europe Transaction)*	*-6*	*-*
Charges (net of tax) for integration and exit incentives			**-67**	**-46**
	+ Caption 180 a) (partial)	*Personnel expenses (Charges for integration and exit incentives)*	*-45*	*-18*
	+ Caption 180 b) (partial)	*Other administrative expenses (Charges for integration)*	*-41*	*-46*
	+ Caption 210 (partial)	*Net adjustments to/recoveries on intangible assets (Charges for integration)*	*-9*	*-5*
	+ Caption 290 (partial)	*Taxes on income from continuing operations (Charges for integration)*	*28*	*23*
Effect of purchase price allocation (net of tax)			**-82**	**-86**
	+ Caption 30 (partial)	*Interest margin (Effect of purchase price allocation)*	*-5*	*-14*
	+ Caption 200 (partial)	*Net adjustments to/recoveries on property and equipment (Effect of purchase price allocation)*	*3*	*14*
	- Caption 200 (partial)	*Net adjustments to/recoveries on property and equipment (Impairment - Effect of purchase price allocation)*	*-*	*-*
	+ Caption 210 (partial)	*Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)*	*-117*	*-127*
	+ Caption 100 a) (partial)	*Profits (Losses) on disposal or repurchase of loans (Effect of purchase price allocation)*	*-*	*1*
	+ Caption 270 (partial)	*Profits (Losses) on disposal of investments (Effect of purchase price allocation)*	*-1*	*-1*
	+ Caption 290 (partial)	*Taxes on income from continuing operations (Effect of purchase price allocation)*	*38*	*41*
Impairment (net of tax) of goodwill and other intangible assets			**-**	**-**
	Caption 260	Goodwill impairment	-	-
	+ Caption 210 (partial)	*Net adjustments to/recoveries on intangible assets (Impairment - Intangible assets)*	*-*	*-*
	+ Caption 290 (partial)	*Taxes on income from continuing operations (Goodwill impairment)*	*-*	*-*
Income (Loss) after tax from discontinued operations			**44**	**44**
	Caption 310	*Income (Loss) after tax from discontinued operations*	*121*	*44*
	- Caption 310 (partial)	*Income (Loss) after tax from discontinued operations (Visa Europe Transaction)*	*-83*	*-*
	- Caption 310 (partial)	*Income (Loss) after tax from discontinued operations (Taxes for Visa Europe Transaction)*	*6*	*-*
Minority interests			**-101**	**-13**
	Caption 330	*Minority interests*	*-101*	*-13*
Net income (loss)	**Caption 340**	**Parent Company's net income (loss)**	**2,335**	**2,726**

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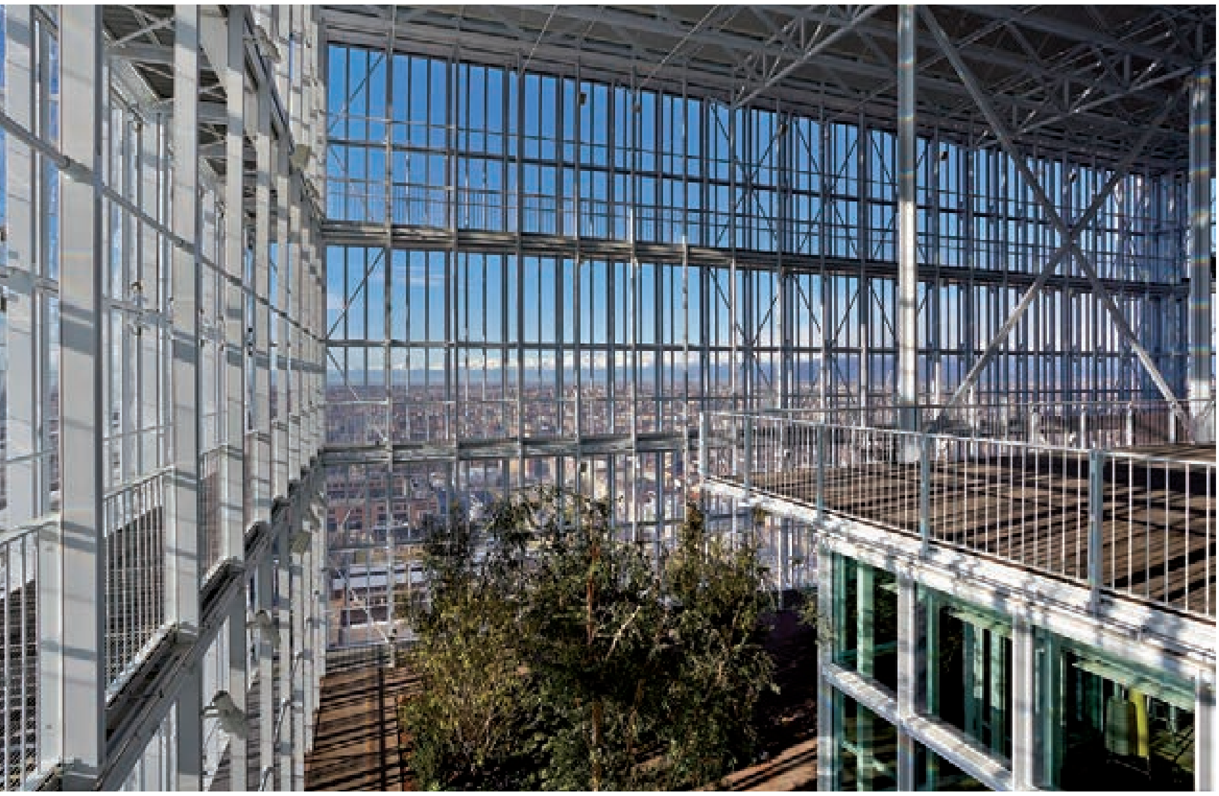
The Intesa Sanpaolo skyscraper.
Innovation and reinvention in the Bank and the city.

Designed to bring together the central offices and the main management departments of the Bank in a single location, the Intesa Sanpaolo skyscraper is a new meeting point in the city of Turin. Built in a strategic position, at the edge of the city centre in a high traffic area, the building is an original example of "relational architecture". Designed by Renzo Piano Building Workshop and constructed by the most qualified Italian companies at the global level, the skyscraper embodies the values of growth, architectural innovation, social and environmental sustainability and integration between workspaces and areas open to the public. The base and the top of the building have areas that can be accessed by the public, such as the Auditorium and the bioclimatic greenhouse with a restaurant, an exhibition room and a panoramic café. These spaces make the skyscraper a public attraction, contribute to integrating the building in the social fabric of the city, and consolidate the historic bond between the Bank and the territory, which has been innovating and reinventing itself since 1563.



166.26 *m high*
7,000 *m^2 basement surface area*
38 *floors above ground (27 devoted to offices)*
1,600 *m^2 photovoltaic panels*
15,000 *m^3 greenhouse*
175 *new trees to redevelop the "Grosa" public garden*
364 *seats in the multi-purpose Auditorium*
49 *children cared for in the company crèche*
500 *workers and technicians employed to construct the tower*
30 *specialist studios involved in the planning phases*
35 *young graduates involved at the worksite*

ENVIRONMENTAL CERTIFICATION

Thanks also to the "double skin" facade, the use of geothermal energy and the LED lighting system, the skyscraper manages, controls and optimises its overall energy consumption. For this reason it was the first tall building in Europe to be awarded LEED (Leadership in Energy & Environmental Design) Platinum, the highest level of certification awarded by the Green Building Council, the most authoritative international body for the environmental assessment of buildings.

Cover: ***Intesa Sanpaolo skyscraper Turin*** *- Bioclimatic greenhouse - detail*
Photos: ***Enrico Cano, Andrea Cappello, Fabio Polosa***